

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 29, 2012

Volume 5 Issue 229

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

Tonight's Research Points

- Consistent closes in the upper part of the daily range are signaling the SPY is overbought and due for a pullback.
- Mega-outside days with the open & close beyond the previous day's low & high have often led to a short-term pullback on the past.

Short-term Outlook

The Bottom Line

Evidence remains bearish and the SPX is still a little oversold. So no strong edge. I closed out the last of my Catapult positions on Wednesday and am now waiting for a more substantial edge to put money back to work.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 27, 2012	1 day dn after 5 up	1-9 days	Bullish	2.10%
November 27, 2012	Unfill gap dn after unfill gap up > 200	1-3 days	Bearish	
November 23, 2012	Tight closes after big move day	1-5 days	Bearish	-2.30%
Active - Long Term				
November 26, 2012	90% up vol studies.	1-15 days	Bullish	
November 19, 2012	CBI >= 11	1-20 days	Bullish	
October 15, 2012	Breadth not diverging at top	int term	Bullish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
November 23, 2012	Bounce from low then narrow range	1-3 days	Bullish	2.10%
November 21, 2012	RSI jumps 85 points in 4 days	1-4 days	Bullish	

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

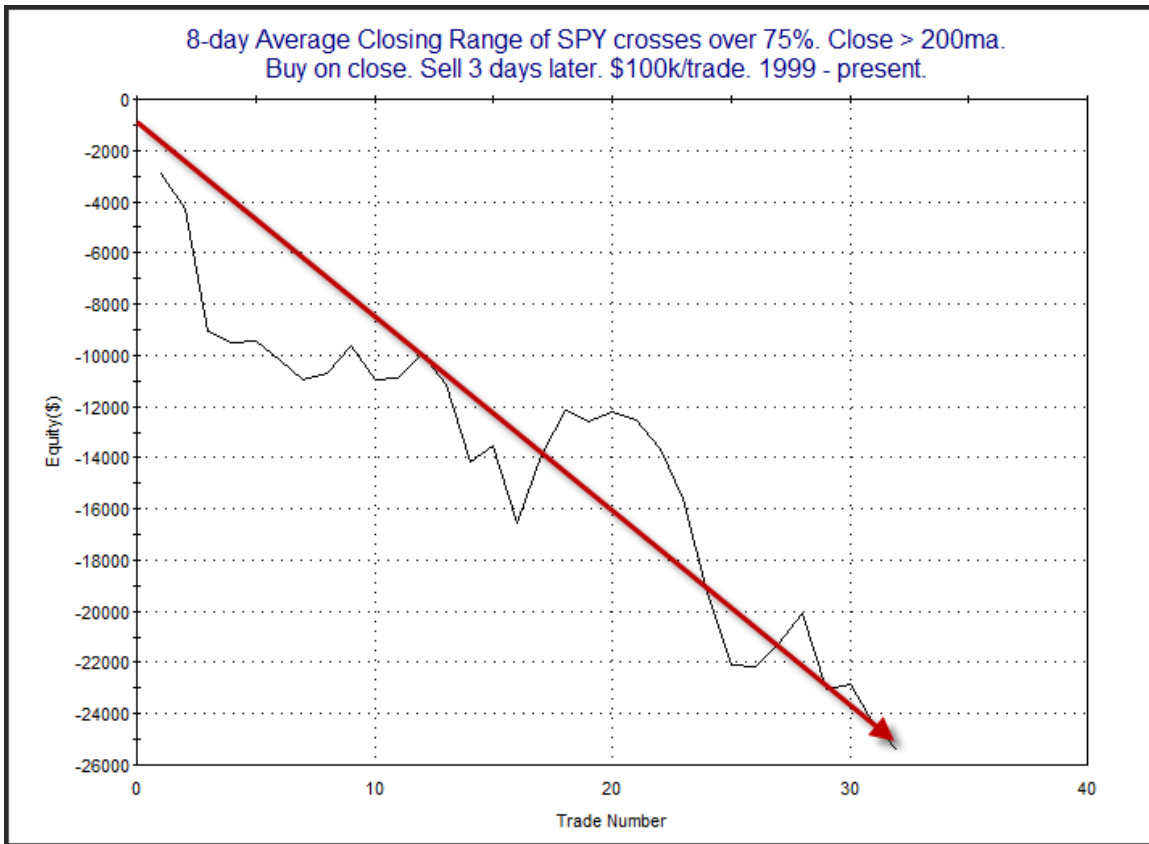
What looked like another day of selling in the morning turned into a decent rally in the afternoon. The SPX and Nasdaq both rose 0.8% while the Russell 2000 rallied 0.9%. Breadth was solidly positive as the NYSE Up Issues % was 66% and the Up Volume % came in at 79%. Total NYSE volume rose for the third day in a row

The Quantifinder showed a mix of studies tonight, but as you'll see, they leaned more bearish than bullish. The most compelling and noteworthy ones I will discuss below.

The market has seen a lot of finishes near the top of its daily range lately. When the market consistently closes near the high of the day it suggests optimism on the part of traders. This end-of-day optimism is now at a level that suggests it is a bit overdone and there is a good chance of a pullback. The study below was last seen in the 8/21/12 subscriber letter and it exemplifies this concept. I have updated all of the statistics.

8-day Average Closing Range of SPY crosses over 75%. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: /Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-27,523.71	31	14	17	45.16	949.66	2,426.72	-2,401.12	-6,169.86	0.40	0.33	-887.86
4	-21,743.76	31	13	18	41.94	997.68	2,907.88	-1,928.53	-4,637.61	0.52	0.37	-701.41
3	-25,428.90	32	12	20	37.50	833.67	2,604.54	-1,771.64	-4,807.86	0.47	0.28	-794.65
2	-20,018.49	35	11	24	31.43	810.21	2,186.14	-1,205.45	-3,990.40	0.67	0.31	-571.96
1	-9,062.65	35	15	20	42.86	332.24	1,029.30	-702.31	-2,738.12	0.47	0.35	-258.93

While the downside edge appears to remain in place for a full week, most of the edge has been realized over the 1st 2-3 days. Below is an equity curve showing how the edge has played out using a 3-day exit strategy.



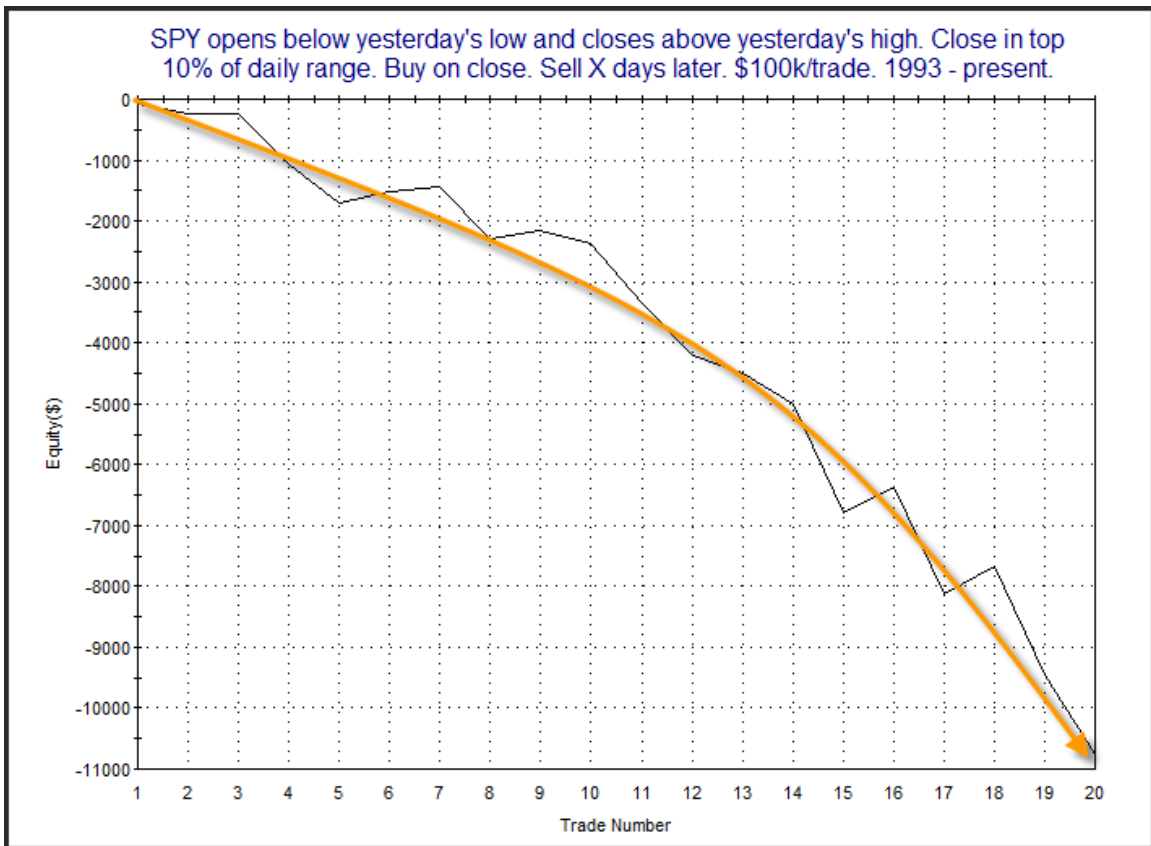
The strong downslope appears to confirm the bearish edge.

The wide price action in SPY also triggered some interesting studies. Wednesday's action had the characteristics of what I have referred to in the past as a "mega-outside day". This means that not only did it make a lower low and a higher high, but it opened below the low of yesterday, and closed above yesterday's high. In the past I have shown that mega-outside up days have often led to a move lower the following day. This inclination has been even stronger when SPY closes near the top of its daily range. This is something I last showed in the 7/21/10 subscriber letter. I have updated the statistics table below.

SPY opens below yesterday's low and closes above yesterday's high. Close in top 10% of daily range. Buy on close. Sell X days later. 1993 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	7,399.54	20	12	8	60.00	2,093.39	7,599.20	-2,215.15	-4,991.73	0.95	1.42	369.98
4	-526.72	20	11	9	55.00	2,056.99	7,339.60	-2,572.63	-7,084.40	0.80	0.98	-26.34
3	-4,822.55	20	11	9	55.00	1,487.22	5,959.00	-2,353.55	-4,312.93	0.63	0.77	-241.13
2	-10,973.63	20	9	11	45.00	677.60	1,038.40	-1,552.00	-4,314.32	0.44	0.36	-548.68
1	-10,752.75	20	5	14	25.00	260.71	461.68	-861.17	-1,784.85	0.30	0.11	-537.64

The numbers suggest a fairly strong inclination to close lower the following day. Here's a look at the profit curve.

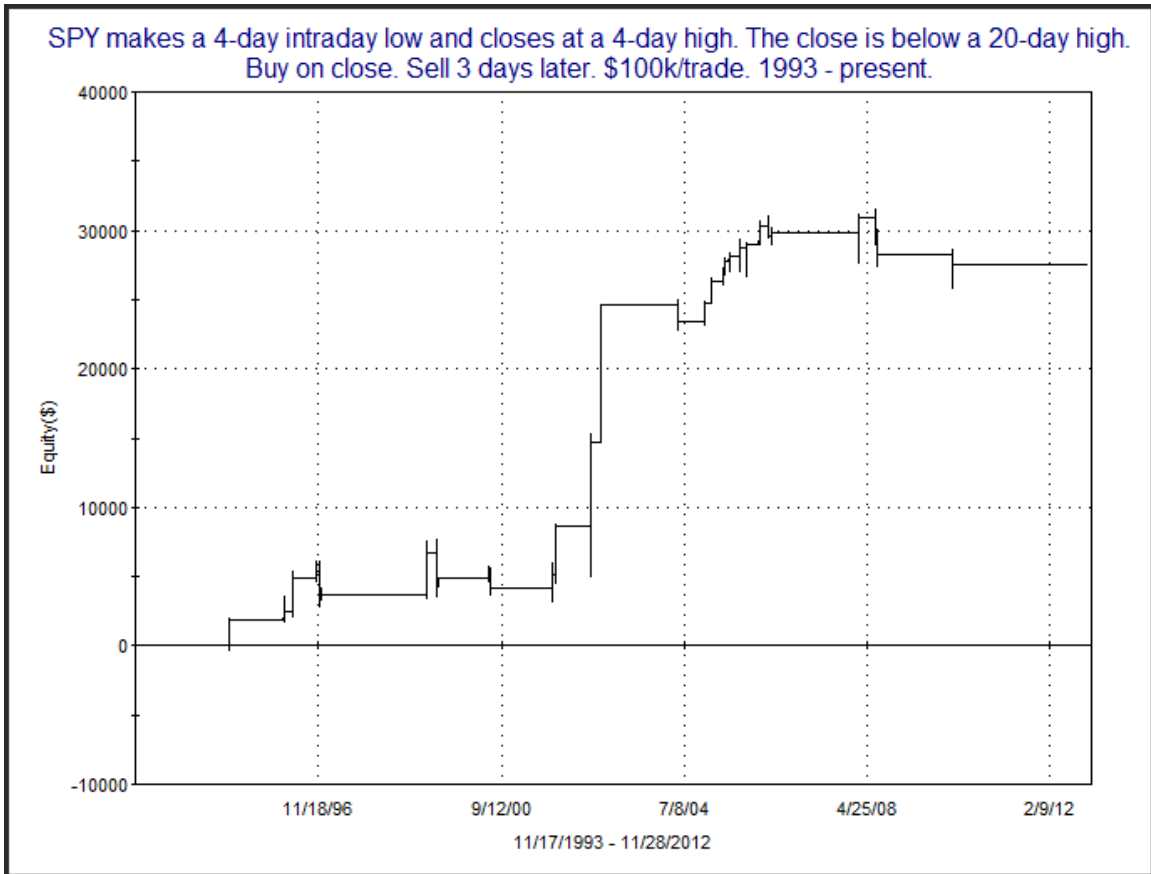


While the bearish edge appears evident throughout the whole chart, it has been even stronger as of late.

But there was also a seemingly bullish study that looked at today's wide reversal. It hasn't been seen since the 12/17/10 subscriber letter, so I took a fresh look tonight. It looked at times where SPY made a 4-day intraday low and then closed at a 4-day high, but below a 20-day high. Below is the results table.

SPY makes a 4-day intraday low and closes at a 4-day high. The close is below a 20-day high. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	27,216.57	25	16	8	64.00	2,367.13	9,473.60	-1,332.18	-2,793.02	1.78	3.55	1,088.66
4	29,831.12	25	18	7	72.00	2,031.48	7,340.80	-962.22	-2,286.36	2.11	5.43	1,193.24
3	27,564.10	25	18	7	72.00	2,061.73	10,006.80	-1,363.87	-2,614.08	1.51	3.89	1,102.56
2	12,631.82	25	17	8	68.00	1,321.28	4,960.00	-1,228.75	-2,220.40	1.08	2.29	505.27
1	1,452.14	25	14	11	56.00	772.79	4,377.20	-851.54	-1,759.74	0.91	1.16	58.09
22 of 25 instances (88%) closed above the entry price at some point in the next week.												

The table appears to suggest a strong bullish edge. But a closer look at the profit curve tonight gave me pause.



The y-axis here is time-based, rather than normal instance based. I did this to more clearly drive home the point that most of the gains occurred in a very short time period. In fact, it was just three trades during 2001-2002 that generated most of the profits. After a fair amount of consideration, I decided to leave this study off the active list tonight.

I have updated the [Aggregator](#) chart below.



The green Aggregator line tonight dipped a little lower below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still positive. This means the SPX is oversold versus recent expectations. So net expectations are bearish but the SPX is already oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator system to remain flat at the close.

Based on the current studies, expectations are set to close at nearly breakeven on Thursday. So Thursday's action and the studies that emerge will have a large impact on whether expectations finish positive or negative. The Differential Pivot will be *slightly inverted* at 1,409.53 on Thursday. An inverted pivot simply means that a flat close would cause the differential line to cross through zero (in this case into negative territory). The inversion here is only slight because the pivot is less than $\frac{1}{2}$ point below Wednesday's close. So just about any lower close would leave the market oversold, while any close higher would push it into overbought territory.

Not much excitement right now. Mixed studies and choppy action simply don't seem to be creating much of an edge. Of course that won't last forever. So I'll just wait until a more favorable edge appears before putting money back to work.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/26– bullish

The intermediate-term outlook was last updated in the 11/26 letter. Link below:

[2012-11-26 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

none

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>ETR(1/3)</i>	<i>11/20/2012</i>	<i>\$62.55</i>	<i>\$62.31</i>	<i>-0.38%</i>		<i>sold on open</i>
<i>ETR(1/3)</i>	<i>11/21/2012</i>	<i>\$62.49</i>	<i>\$62.31</i>	<i>-0.29%</i>		<i>sold on open</i>
<i>ETR(1/3)</i>	<i>11/23/2012</i>	<i>\$62.28</i>	<i>\$62.31</i>	<i>0.05%</i>		<i>sold on open</i>

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