

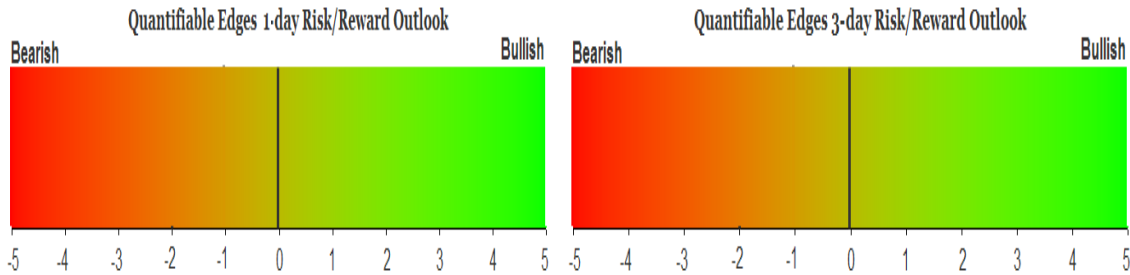
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 4, 2012

Volume 5 Issue 232

Market Overview



Signals Overview

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

Tonight's Research Points

- Key reversal days near short-term highs are often only temporary setbacks.

Short-term Outlook

The Bottom Line

Expectations have turned positive but the market is still overbought. But unless it rises a bit on Tuesday it won't remain overbought. Another day lower and I'll begin to scale in to a long.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
December 4, 2012	1 day dn after 5 up	1-5 days	Bullish	2.20%
December 3, 2012	VIX up SPX up Friday	1-3 days	Bearish	
November 27, 2012	1 day dn after 5 up	1-9 days	Bullish	2.10%
Active - Long Term				
December 3, 2012	Nasdaq leading SPX	int term	Bullish	
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				
December 3, 2012	1st of month	1 day	Bullish	
November 29, 2012	8-day closing range > 75	1-3 days	Bearish	

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

The Evidence

A big gap up to start the month got sold quickly and the indices finished lower. The SPX lost 0.5%, the Nasdaq fell 0.3%, and the Russell 2000 declined 0.1%. Breadth was negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 45%. Total NYSE volume fell quite a bit from Friday's level.

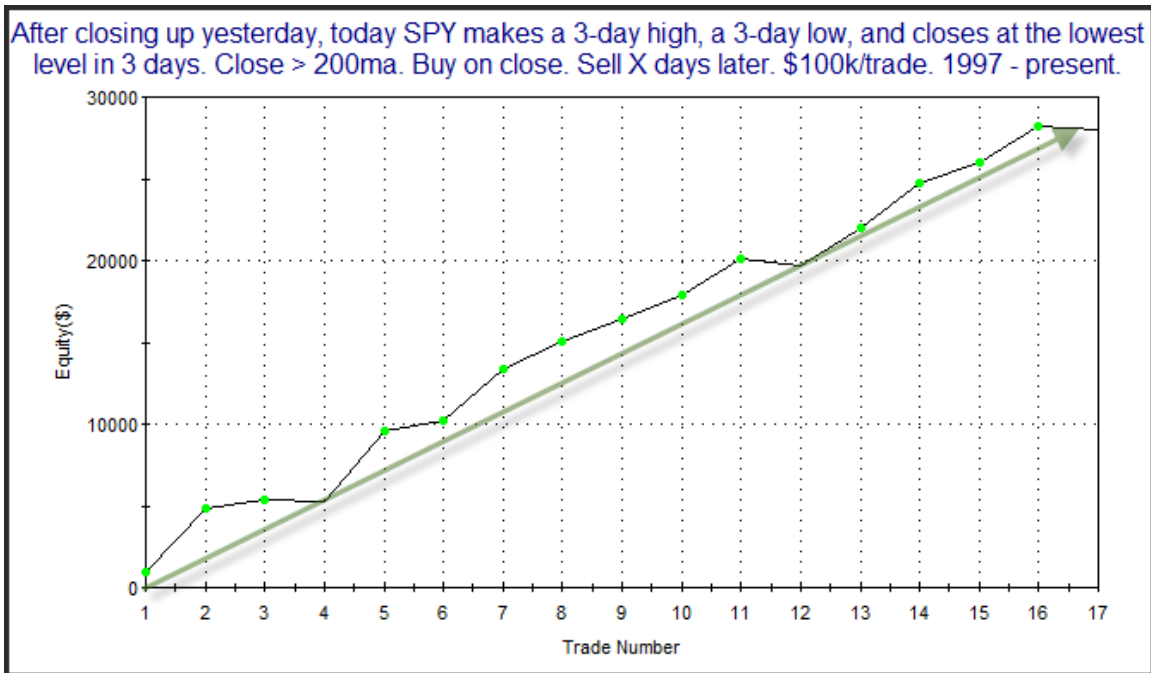
When price makes a new short-term high as it did Monday, and then reverses down to form an outside day and closes negative that is considered a "key reversal". I looked at reversals like this in number of times in the past. For the very short-term there rarely appears to be a substantial edge. Often test results will show churn or very mildly bearish numbers. But when you look out 1 to 2 weeks what you often see is that the uptrend most of the time will reassert itself. Let's look at two studies from the Quantifinder that exemplify this.

The study below was last shown in the 8/22/12 subscriber letter. It looks for the reversal day to engulf both of the last two days, close at a three day low, and still be above the 200ma. All results are updated.

After closing up yesterday, today SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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
12	34,961.07	16	14	2	87.50	2,760.14	7,684.16	-1,840.44	-2,350.04	1.50	10.50	2,185.07
11	32,346.85	16	14	2	87.50	2,697.74	5,982.90	-2,710.78	-3,624.25	1.00	6.97	2,021.68
10	32,380.41	16	12	4	75.00	2,992.16	6,438.74	-881.38	-1,808.31	3.39	10.18	2,023.78
9	32,569.65	17	13	4	76.47	2,871.32	6,845.74	-1,189.39	-3,430.00	2.41	7.85	1,915.86
8	25,258.60	17	12	4	70.59	2,815.44	5,456.88	-2,131.67	-7,031.50	1.32	3.96	1,485.80
7	31,103.65	17	12	5	70.59	2,960.42	6,365.48	-884.27	-1,272.32	3.35	8.03	1,829.63
6	31,373.15	17	14	3	82.35	2,316.29	5,193.32	-351.64	-502.36	6.59	30.74	1,845.48
5	27,991.95	17	14	3	82.35	2,060.17	4,273.50	-283.49	-489.14	7.27	33.91	1,646.59
4	15,762.73	17	11	6	64.71	1,924.79	4,533.98	-901.67	-2,123.52	2.13	3.91	927.22
3	8,319.18	17	10	7	58.82	1,851.97	3,903.34	-1,457.21	-3,386.88	1.27	1.82	489.36
2	6,327.91	17	10	7	58.82	1,524.77	3,244.78	-1,274.25	-3,521.52	1.20	1.71	372.23
1	3,780.57	17	12	5	70.59	620.79	2,359.84	-733.79	-1,774.08	0.85	2.03	222.39

After the first three days or so, there appears to be a strong and consistent upside edge. Below is a profit curve that assumes a 5-day holding period.



Equity curves don't get much straighter than this. It appears to be a nice confirmation of the bullish suggestion by the stats table.

The other key reversal study required a 10 day high, but it only needed to engulf the last one day. It was last seen in the 9/11/12 letter. All results are updated.

After closing at a 10-day high SPY posts an outside day with a down close. Close > 200ma. 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
12	58,430.96	45	36	9	80.00	2,334.34	8,494.78	-2,845.01	-8,389.36	0.82	3.28	1,298.47
11	52,419.66	45	36	9	80.00	2,065.35	6,726.11	-2,437.00	-9,630.04	0.85	3.39	1,164.88
10	42,837.60	46	34	11	73.91	1,869.42	5,990.24	-1,883.87	-5,992.40	0.99	3.07	931.25
9	34,968.65	47	32	15	68.09	1,883.75	5,267.28	-1,687.42	-5,764.17	1.12	2.38	744.01
8	41,870.35	48	32	16	66.67	2,052.67	7,603.99	-1,488.43	-4,587.23	1.38	2.76	872.30
7	36,034.95	49	31	18	63.27	1,981.56	7,694.36	-1,410.74	-4,962.72	1.40	2.42	735.41
6	33,175.13	50	33	17	66.00	1,774.61	5,189.82	-1,493.34	-4,591.36	1.19	2.31	663.50
5	23,516.02	54	33	21	61.11	1,493.07	4,428.81	-1,226.44	-4,346.17	1.22	1.91	435.48
4	3,920.85	54	27	27	50.00	1,500.78	3,915.78	-1,355.56	-4,228.43	1.11	1.11	72.61
3	-3,257.54	54	26	28	48.15	1,172.30	2,930.57	-1,204.90	-3,561.68	0.97	0.90	-60.32
2	-7,692.30	55	24	31	43.64	877.26	2,361.64	-927.30	-2,698.50	0.95	0.73	-139.86
1	-3,817.12	55	29	26	52.73	543.90	1,601.91	-753.48	-2,183.72	0.72	0.81	-69.40

The story here is similar. After some short-term choppiness the upside edge appears to exert itself in a consistent way.

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



The green Aggregator line moved up through zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still negative. This means the SPX is overbought versus recent expectations. So net expectations are bullish but the SPX is overbought. 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 turn from short to flat at the close.

Based on the current studies, expectations are set to remain positive on Tuesday. Of course this could change if bearish studies emerge. The Differential Pivot will be *inverted* at 1,413.86 on Tuesday. An inverted pivot means the Differential Line will cross through 0 on a flat close. So for the SPX to remain overbought it will need to rise a little over 0.3%.

The Aggregator is neutral but it now appears to be setting up for a possible long entry. A decline on Tuesday would leave it oversold and would also likely keep expectations bullish. That's where I would be interested in beginning to scale in to an index position.

Intermediate-term Outlook (2 weeks – 2 months)– updated 12/3– bullish

The intermediate-term outlook was last updated in the 12/3/12 letter. Link below:

[2012-12-03 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.

SPY buy ¼ index position @ \$141.44 LIMIT ON CLOSE. Base on the short-term outlook. I'll begin scaling in to a long if the market pulls back again on Tuesday.

Current Open Trade Ideas

None

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2012 Hanna Capital Management, LLC.