

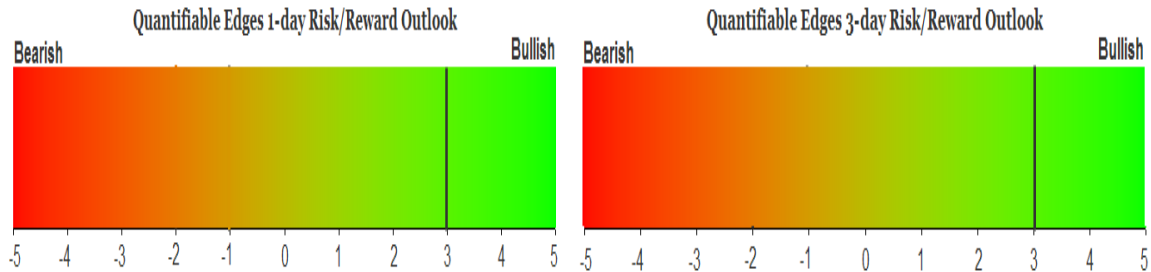
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 6, 2012

Volume 5 Issue 234

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- The very mild up close on Wednesday hurts Thursday's chances.
- 1st 5 day closing low in QQQ in over 10 days is typically bullish below 200ma.

Short-term Outlook

The Bottom Line

Wednesday was mixed. Fortunately, my positions (SPY and XIV) moved higher. I still think there is more upside, but I am looking to a more oversold to QQQ to fill my next index lot. If I can get a favorable fill on Thursday, then I will do so.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
December 6, 2012	Down 2 days then up < 0.2%	1 day	Bearish	
December 5, 2012	1st 5 day low in 10 days	1-4 days	Bullish	1.60%
December 4, 2012	1 day dn after 5 up	1-5 days	Bullish	2.20%
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	VIX up SPX up Friday	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

Wednesday saw some very mixed action. The SPX was strong for most of the day, though it only finished up 0.2%. The NASDAQ was weak, falling 0.8%, and the Russell 2000 declined as well with a 0.2% drop. Breadth was mixed as the NYSE Up Issues % was 52% and the Up Volume % came in at 45%. Total NYSE volume rose from Tuesday's levels.

One study that triggered from the 10/23/12 letter was interesting. In that letter I looked to see whether there was a substantial difference in performance following a small move *down* after two down days versus a small move *up* after two down days. I have revisited the whole study below.

First let's consider what happens after two down days are followed by a third lower close, but that third close is a drop of less than 0.2%. (Not updated)

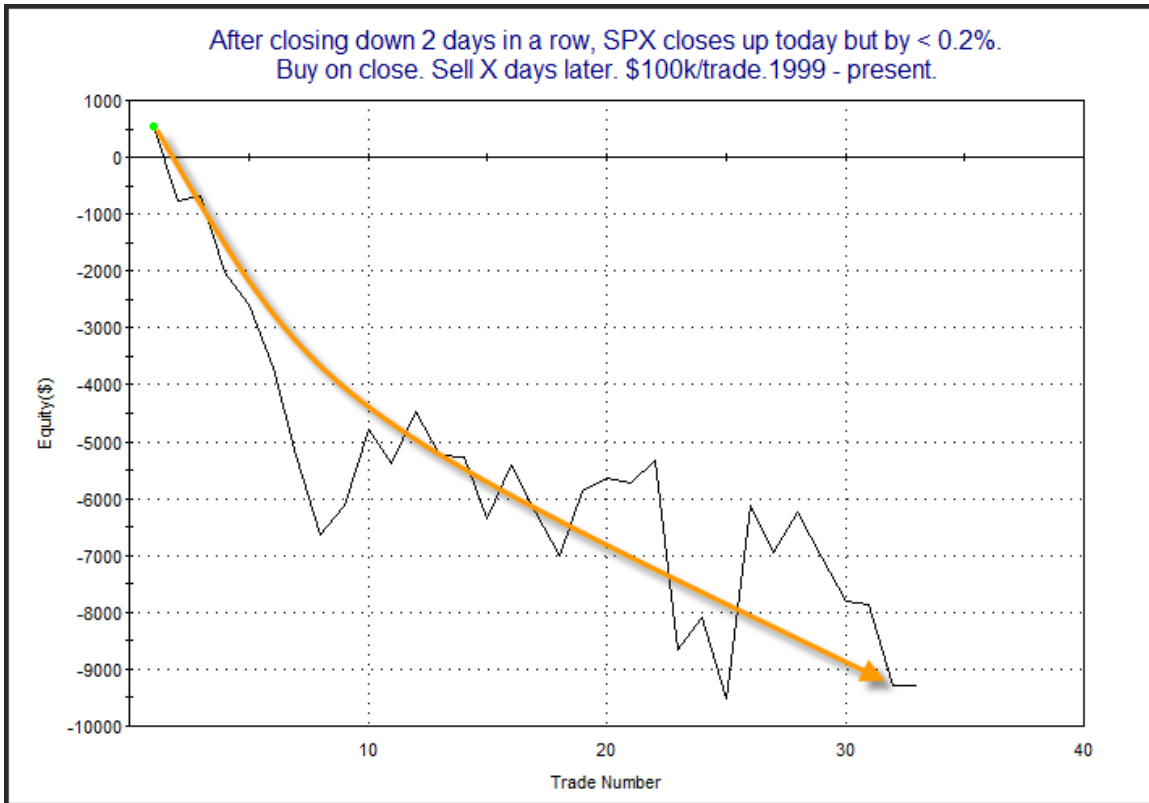
SPX declines for the 3rd day in a row. Today's drop is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: /Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	9,021.99	33	15	18	45.45	2,225.93	5,379.66	-1,353.72	-2,963.52	1.64	1.37	273.39
4	7,965.86	33	17	16	51.52	1,957.16	5,553.52	-1,581.61	-4,672.36	1.24	1.31	241.39
3	-6,661.21	33	18	15	54.55	1,488.32	4,047.64	-2,230.06	-6,686.40	0.67	0.80	-201.85
2	9,371.39	33	21	12	63.64	1,468.86	4,123.60	-1,789.55	-4,296.24	0.82	1.44	283.98
1	9,851.02	33	23	10	69.70	898.22	2,286.08	-1,080.80	-2,452.26	0.83	1.91	298.52

Results here are a bit mixed, but at least day one appears to suggest a bit of an upside edge.

Now let's look at times like the present where two down days were followed by an up day, but that up day rose less than 0.2%.

After closing down 2 days in a row, SPX closes up today but by < 0.2%. 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	4,376.59	33	16	17	48.48	2,254.86	7,590.88	-1,864.78	-5,506.23	1.21	1.14	132.62
4	-12,215.58	33	14	19	42.42	1,717.35	4,662.24	-1,908.34	-7,588.98	0.90	0.66	-370.17
3	-11,984.31	33	13	20	39.39	1,569.86	3,939.79	-1,619.63	-5,685.45	0.97	0.63	-363.16
2	-5,414.76	33	13	20	39.39	1,423.32	4,732.64	-1,195.89	-3,197.70	1.19	0.77	-164.08
1	-9,279.86	33	13	20	39.39	826.60	3,390.64	-1,001.28	-3,325.38	0.83	0.54	-281.21

As you can see, results here suggest a small down day is substantially different than a small up day. While not overwhelming, the edge in this case would appear to be for more downside, most of which is realized on day one. Lastly, I decided to show a profit curve assuming a 1-day holding period.



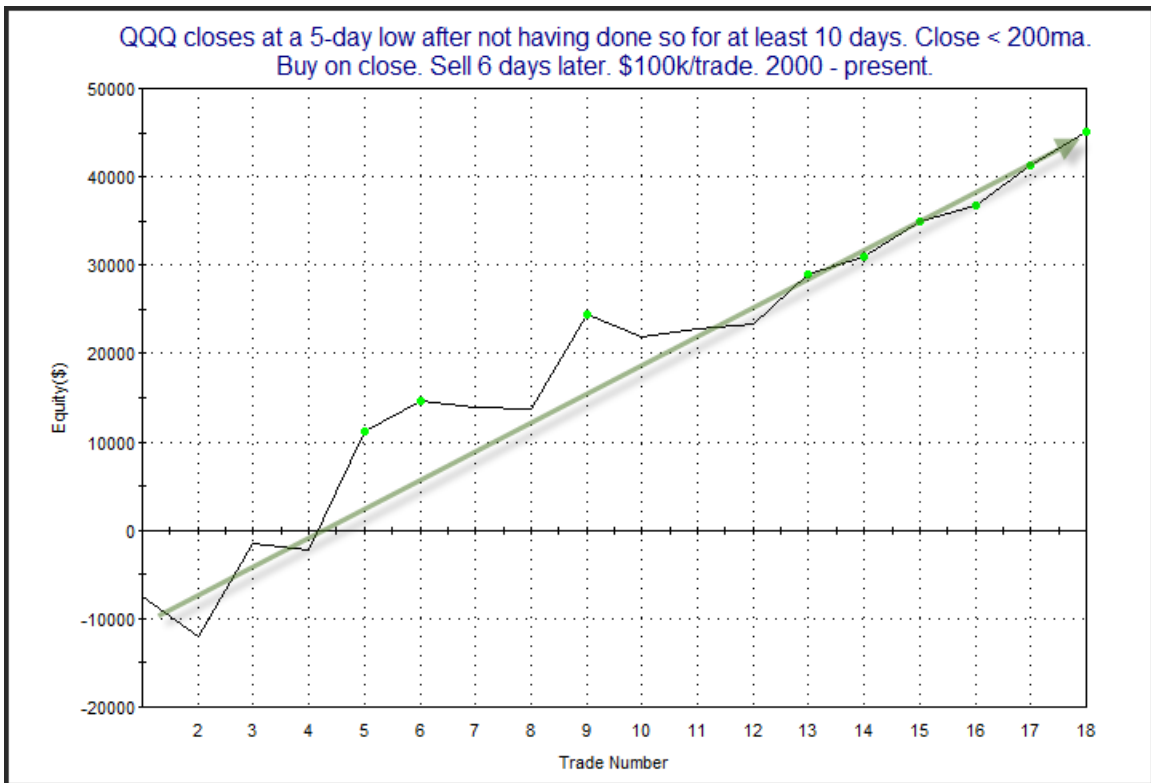
I don't love this curve, but I suppose it is good enough to merit some small consideration, and have therefore listed the study on the Short-Term Active List above.

Interestingly, after seeing SPY trigger the study last night where it made the 1st 5-day low in over 2 weeks, QQQ triggered its own version on Wednesday. I showed the QQQ version last in the 11/12/10 subscriber letter. There I found that the edge played out favorably below the 200ma but above it the edge was not apparent. QQQ is below the 200ma, so here are the results from that 2010 study (not updated as they remain the same).

QQQ closes at a 5-day low after not having done so for at least 10 days. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

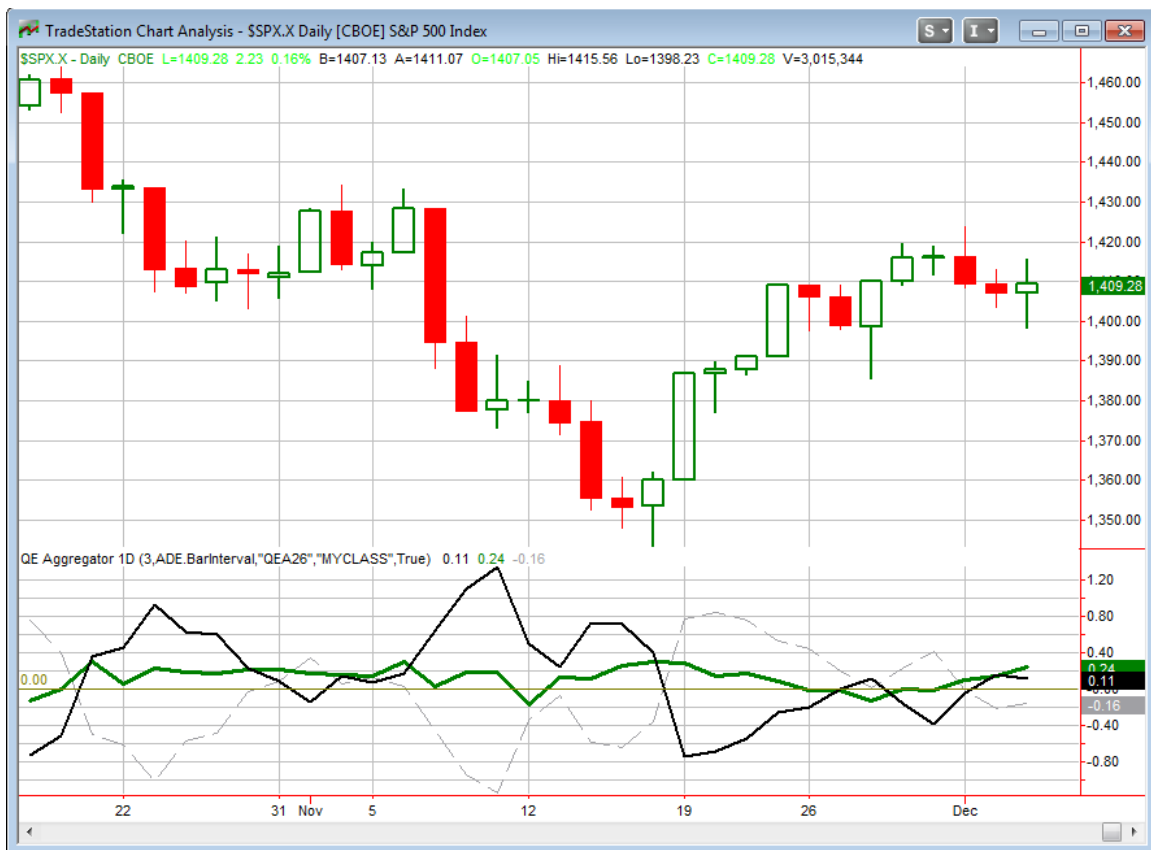
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: /Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	37,269.88	18	13	5	72.22	5,163.71	10,951.47	-5,971.68	-10,703.00	0.86	2.25	2,070.55
9	36,845.63	18	13	5	72.22	4,513.33	9,412.58	-4,365.52	-6,045.00	1.03	2.69	2,046.98
8	44,237.21	18	12	6	66.67	5,158.46	9,578.88	-2,944.04	-5,840.78	1.75	3.50	2,457.62
7	39,648.17	18	12	6	66.67	5,137.68	10,968.36	-3,667.33	-6,880.50	1.40	2.80	2,202.68
6	45,159.04	18	12	6	66.67	5,118.42	13,402.35	-2,710.33	-7,461.52	1.89	3.78	2,508.84
5	27,868.48	18	14	4	77.78	3,607.63	9,112.40	-5,659.58	-14,250.28	0.64	2.23	1,548.25
4	16,784.43	18	12	6	66.67	3,611.22	8,276.40	-4,425.04	-14,770.14	0.82	1.63	932.47
3	17,364.58	18	13	5	72.22	3,103.86	6,162.00	-4,597.11	-9,556.25	0.68	1.76	964.70
2	12,947.21	18	12	6	66.67	1,768.47	3,875.00	-1,379.08	-3,313.44	1.28	2.56	719.29
1	4,253.01	18	12	6	66.67	1,106.08	2,711.28	-1,503.33	-4,141.80	0.74	1.47	236.28

The numbers here appear very strong. Below is an equity curve that assumes a 6-day holding period.



After the 1st 2 losers this curve looks terrific. Straight and strong. With the now oversold nature of QQQ and the evidence shown above, it appears QQQ may provide higher potential reward than SPY over the next few days. I did not include this study in the Aggregator since it is basically a repeat of the one we had yesterday for SPX.

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



The green Aggregator line tonight again closed well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained positive as well. This means the SPX is oversold versus recent expectations. So net expectations are bullish and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator system to remain long at the close.

Based on the current studies, expectations are set to remain positive on Thursday. Of course this could change if bearish studies emerge. The Differential Pivot will be 1,410.79 on Thursday. This is just 0.1% above Wednesday's close. So SPX won't need to close much higher to move from oversold to overbought versus expectations.

I think we should see some more upside in the next few days. SPY is not terribly oversold here though. From an index trading standpoint, I believe QQQ offers a better opportunity. So I will add my second 1/4 sized index lot using QQQ if I can get a favorable entry. Details are in the trade ideas section below.

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.

QQQ buy 1/4 index position @ \$64.39 LIMIT ON OPEN. If not filled on open, then cancel order and look to buy the position @ \$64.89 LIMIT ON CLOSE. Based on the short-term outlook above.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	12/4/2012	\$141.25	\$141.50	0.18%		sell @ \$141.70 limit on close
XIV(1/2)	12/5/2012	\$18.48	\$18.80	1.73%		bought at limit

I will look to exit the SPY position if it closes up \$.20 or higher on Thursday. I don't anticipate doing the same with XIV. I will probably hold that until at least either contango weakens or expectations turn negative.

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