

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 7, 2012

Volume 5 Issue 235

Market Overview



Signals Overview

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

Tonight's Research Points

- The inside day, rising VIX, and upcoming Employment Day all failed to suggest strong directional edges.

Short-term Outlook

The Bottom Line

Thursday's quiet action did not provide any strong clues. It did move the SPX into mildly overbought territory though. I took profits on my SPY index position at the close, but am still holding some XIV. With expectations still positive a down day Friday would likely move me back to a bullish bias.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
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 6, 2012	Down 2 days then up < 0.2%	1 day	Bearish	

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

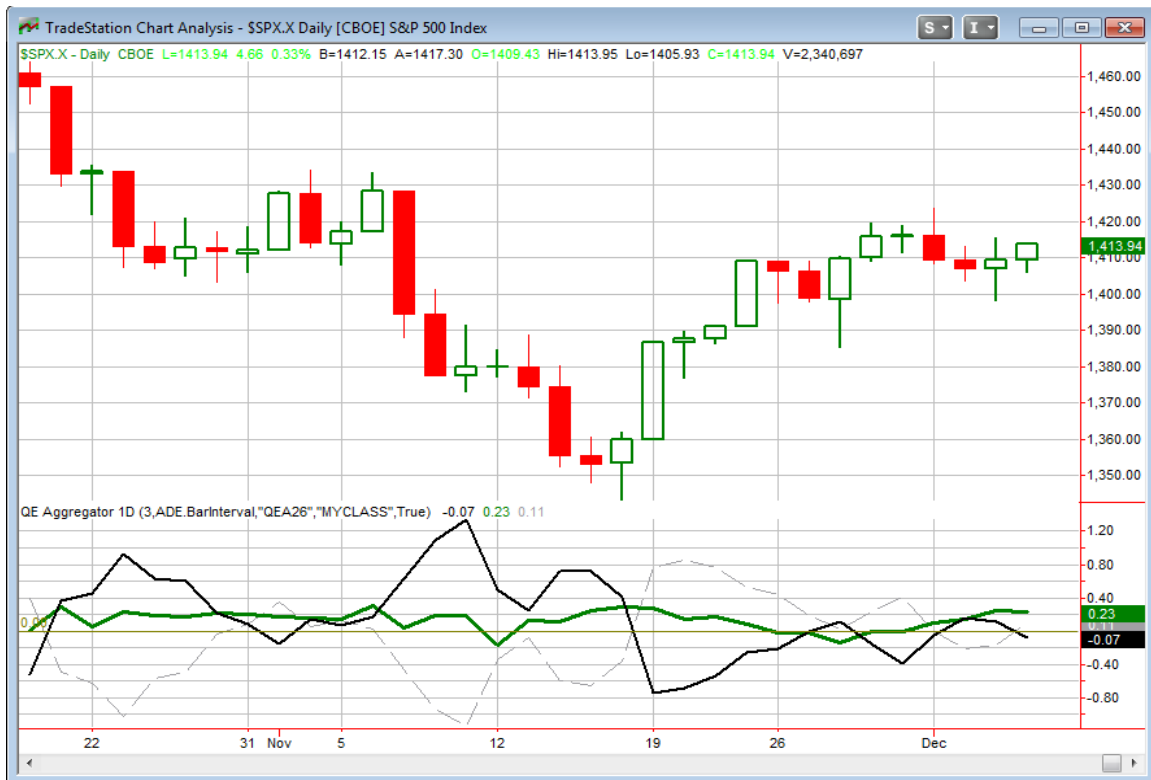
The Evidence

The market chopped around in a fairly tight range on Thursday, finishing with mild gains. The SPX gained 0.3%, the NASDAQ rose 0.5%, and the Russell 2000 rallied 0.2%. Breadth was positive as the NYSE Up Issues % was 52% and the Up Volume % came in at 55%. Total NYSE volume came in lighter than the last few days.

I'm going to keep it short and sweet tonight. The Quantifinder identified several studies but they all had neutral outlooks. While neutral studies may not always seem helpful, they often are. In this case it alerted me to the fact that several of my observations were not worse examining closely. The fact that it was an inside day (just after an outside day and above the 200ma), that the VIX rose along with the SPX (midweek above the 200ma), and that Friday is an Employment Day all seemed notable. But none suggested a significant directional edge. I'm not going to bother going into detail on these neutral studies tonight. But if traders want to take a look, you can always check out the Quantifinder, and that will link to them.

<http://www.quantifiableedges.com/members/quantifinder.php>

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 dipped into negative territory. 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 change from long to flat at the close.

Based on the current studies, expectations are set to remain positive on Friday. Of course this could change if bearish studies emerge. The Differential Pivot will be 1,410.41 on Friday. This is just 0.25% below Thursday's close. So SPX won't need to close much lower to move from overbought to oversold versus expectations.

I'm ok with having taken quick profits on the SPY trade Thursday. It was up 2 days in a row, and Friday's employment report could easily cause a quick dip. If it does then I will likely look at that as an opportunity to go long again. I have an XIV position from a few days ago, and I am still comfortable holding it. It suffered a bit Thursday as VIX futures rose heading into Friday's report. We should see a decline tomorrow once the uncertainty is out of the way, as long as there is not a strong market selloff. The combined positive market expectations, upcoming strong seasonality, and 7.65% current contango still suggest a bullish edge for XIV. I will probably try and ride this one for a little while rather than look for a quick exit.

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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>12/4/2012</i>	<i>\$141.25</i>	<i>\$141.98</i>	<i>0.52%</i>		<i>sold on close</i>
XIV(1/2)	12/5/2012	\$18.48	\$18.56	0.43%		Aggressive VIX

SPY was sold on the close as stated in last night's letter.

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