

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 11, 2012

Volume 5 Issue 237

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

## Tonight's Research Points

- The rising VIX on Monday could spell trouble over the next day or two.
- Wednesday's Fed Day prospects depend largely on how Tuesday closes.

## *Short-term Outlook*

### *The Bottom Line*

Evidence seems to be suggesting a quick pullback here. The downside edge does not appear likely to last long though. So I am staying sidelined and not looking to get short at this point.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
December 11, 2012	VIX up SPX 10-high Monday	1-2 days	Bearish	
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
December 5, 2012	1st 5 day low in 10 days	1-4 days	Bullish	1.60%
December 4, 2012	3-high outside day dn	1-5 days	Bullish	2.20%

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

**The Evidence**

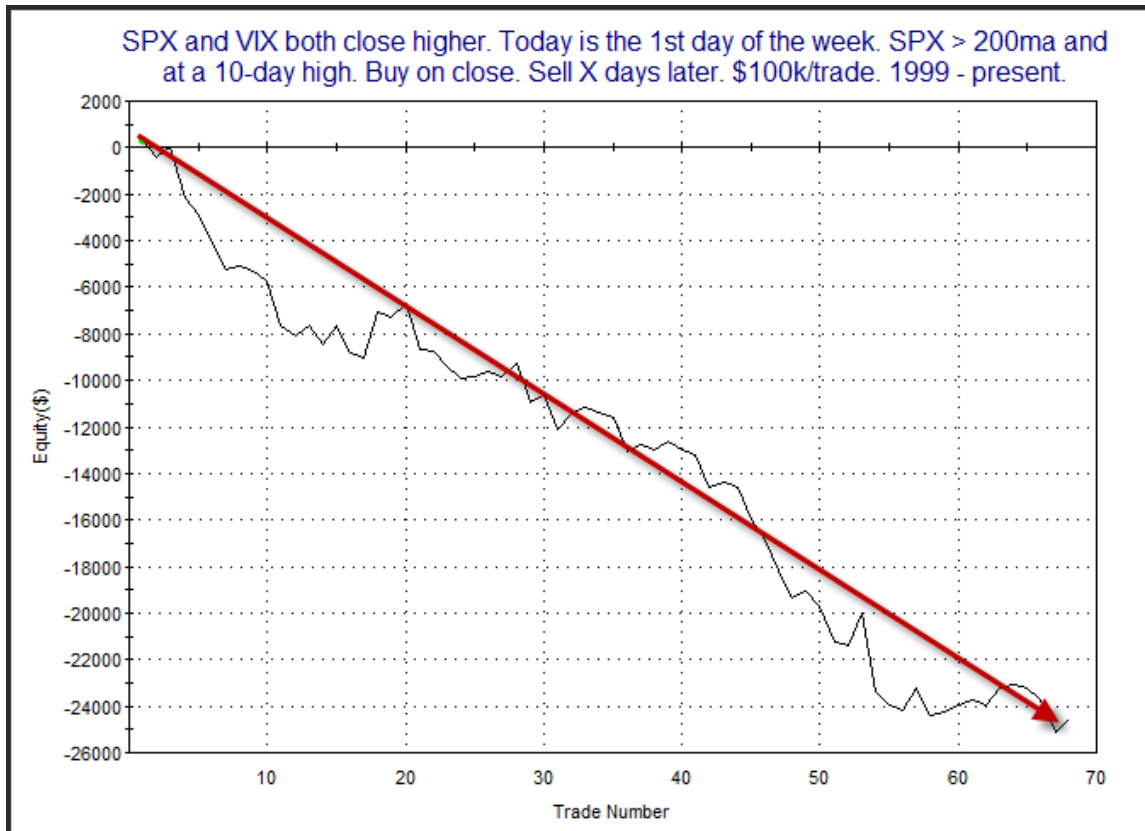
Action was quiet on Monday as most of the indices drifted higher. The SPX gained a mere 0.03%, the NASDAQ rose 0.3%, and the Russell 2000 rallied 0.5%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 53%. Total NYSE volume again came in at the lightest level since just after Thanksgiving.

The most compelling Quantifinder study was the one below. It looks at times during long-term uptrends that the VIX closes up on the first day of the week while the SPX is closing at a 10-day high. Most of the time the VIX and SPX will trade in opposite directions. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Due to this, Monday is the most common day of the week to see VIX rise in conjunction with SPX. The study was last seen in the 12/28/11 letter and all stats have been updated.

SPX and VIX both close higher. Today is the 1st day of the week. SPX > 200ma and at a 10-day high. 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	-20,696.17	64	28	36	43.75	1,154.74	3,260.25	-1,473.02	-5,048.68	0.78	0.61	-323.38
4	-21,193.12	68	29	39	42.65	916.64	2,953.65	-1,225.02	-4,271.52	0.75	0.56	-311.66
3	-24,486.29	68	26	42	38.24	774.91	2,641.80	-1,062.71	-3,887.84	0.73	0.45	-360.09
2	-24,548.82	68	25	43	36.76	496.35	1,981.72	-859.48	-3,372.16	0.58	0.34	-361.01
1	-16,938.67	68	21	47	30.88	343.04	1,004.25	-513.67	-1,580.04	0.67	0.30	-249.10

**88% of instances posted at least 1 close below the entry price at some point in the next week.**

Results here certainly appear to suggest a day or two of weakness. Using a 2-day holding period, I also produced a profit curve.



This is a very steady downslope, especially considering the 200ma filter. It seems to confirm the downside edge suggested by the stats table.

One thing to keep in mind as we approach the close on Tuesday is that Wednesday is a Fed Day. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 10/23/12 letter. Below are the 4 quartiles from highest to lowest in the daily range.

SPY closes in top 25% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary

Collapse ^

All Trades

Total Net Profit	\$10,668.70	Profit Factor	1.61
Gross Profit	\$28,181.69	Gross Loss	(\$17,512.99)
Total Number of Trades	61	Percent Profitable	50.82%
Winning Trades	31	Losing Trades	28
Even Trades	2		
Avg. Trade Net Profit	\$174.90	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	\$909.09	Avg. Losing Trade	(\$625.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

SPY closes > 50% and <= 75% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary

Collapse ^

All Trades

Total Net Profit	\$12,892.90	Profit Factor	2.01
Gross Profit	\$25,714.89	Gross Loss	(\$12,821.99)
Total Number of Trades	36	Percent Profitable	55.56%
Winning Trades	20	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$358.14	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	\$1,285.74	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

SPY closes > 25% and <= 50% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

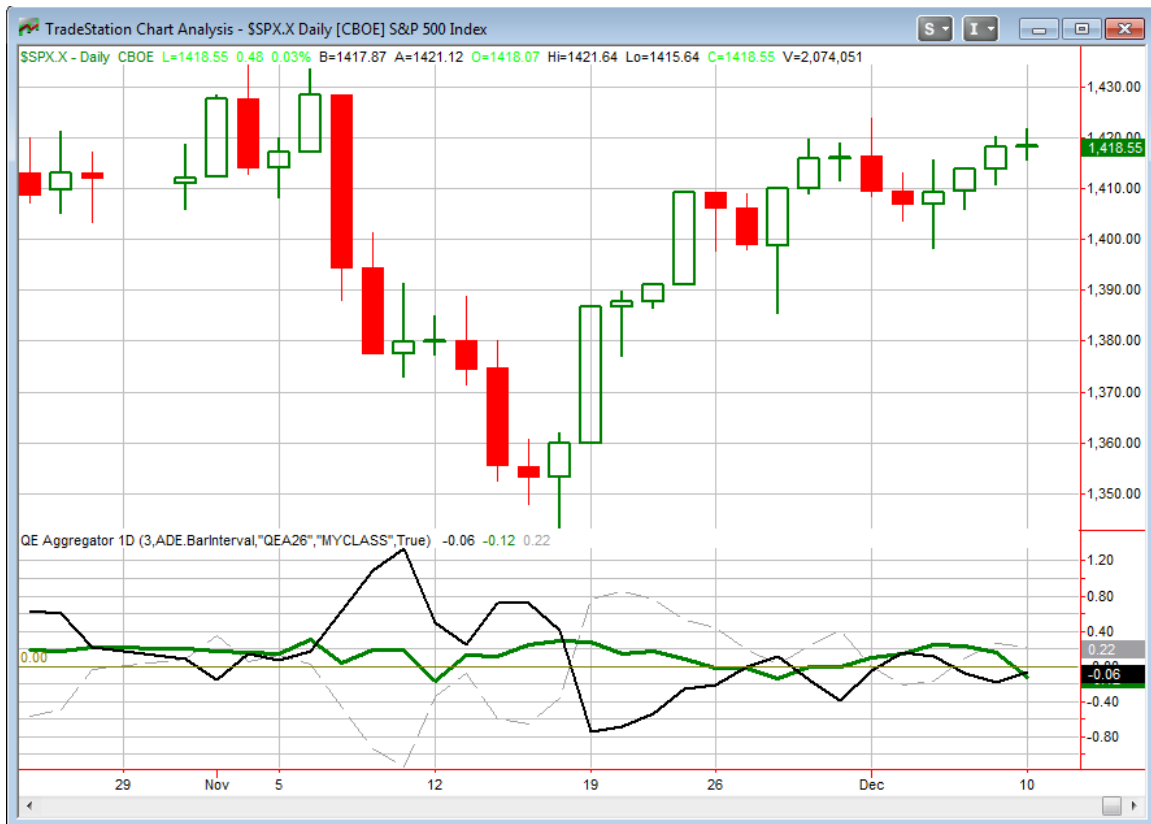
TradeStation Performance Summary				Collapse 
All Trades				
Total Net Profit	\$10,501.80	Profit Factor		2.60
Gross Profit	\$17,070.96	Gross Loss		(\$6,569.16)
Total Number of Trades	25	Percent Profitable		72.00%
Winning Trades	18	Losing Trades		7
Even Trades	0			
Avg. Trade Net Profit	\$420.07	Ratio Avg. Win:Avg. Loss		1.01
Avg. Winning Trade	\$948.39	Avg. Losing Trade		(\$938.45)
Largest Winning Trade	\$2,943.00	Largest Losing Trade		(\$2,066.62)

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 2003 - 9/30/2012

TradeStation Performance Summary				Collapse 
All Trades				
Total Net Profit	\$20,552.27	Profit Factor		4.08
Gross Profit	\$27,234.96	Gross Loss		(\$6,682.69)
Total Number of Trades	35	Percent Profitable		74.29%
Winning Trades	26	Losing Trades		9
Even Trades	0			
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss		1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade		(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade		(\$2,945.28)

What was true 2 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out *prior* to the actual Fed announcement. I believe Wednesday's announcement is set for 12:30pm EST. Traders that may look to trade the Fed Day edge could consider taking profits ahead of that.

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



With the bearish VIX study tonight the green Aggregator line dipped back below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still in negative territory. This means the SPX is overbought versus recent expectations. So net expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to turn from flat to short at the close.

Based on the current studies, expectations are set to remain bearish on Tuesday. Of course this could easily change with the Fed Day on tap. The Differential Pivot will be *inverted* at 1,422.65 on Tuesday. An inverted pivot means the Differential line will cross through 0 on a flat close. So to remain overbought SPX will need to rise about 0.3% on Tuesday. Otherwise it will flip to oversold

There appears to be a downside edge, but it isn't much of one. We really only have one bit of short-term evidence pointing down. And with the inverted pivot the short signal will close out tomorrow if the position is profitable. This means there is not much opportunity for a short position to profit. With all that in mind, and the fact that the intermediate-term outlook is bullish, I don't feel an attempt at a short trade is worth it here. I'm going to wait for a better setup.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 12/10– bullish**

The intermediate-term outlook was last updated in the 12/10 Letter. Link below:

[2012-12-10 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
XIV(1/2)	12/5/2012	\$18.48	\$18.98	2.71%		hold for now

*I've gone back and forth on whether to sell the XIV position. Normally an Aggregator short signal would have me quickly exiting. But with the Differential Pivot inverted and Wednesday being a Fed Day I'm inclined to try and hold through the next few days. Fed Days carry uncertainty, so VIX futures tend to rise into them and fall after them. And if the SPX gets the typical Fed Day boost, that could really help XIV out. So I am aggressively holding here. More conservative traders could look to take profits or partial profits at this point.*

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.