

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 12, 2012

Volume 5 Issue 238

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 5 higher closes in an uptrend that is not making new 50-day highs has historically suggested a strong market that is likely to continue higher over the next few weeks.
- While tomorrow is a Fed Day, the setup appears less bullish than most Fed Days.

## *Short-term Outlook*

### *The Bottom Line*

Today's strong move higher left the market somewhat overbought but actually shifted expectations from bearish to bullish. I'm still holding on to the XIV (inverse VIX) position. I am not looking to add more exposure immediately, but will evaluate again tomorrow night.

**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 12, 2012	5 days up > 200ma & < 50-high	1-10 days	Bullish	2.00%
December 11, 2012	VIX up SPX 10-high Monday	1-2 days	<b>Bearish</b>	
<b>Active - Long Term</b>				
December 12, 2012	5 days up > 200ma & < 50-high	1-15 days	Bullish	2.80%
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	

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

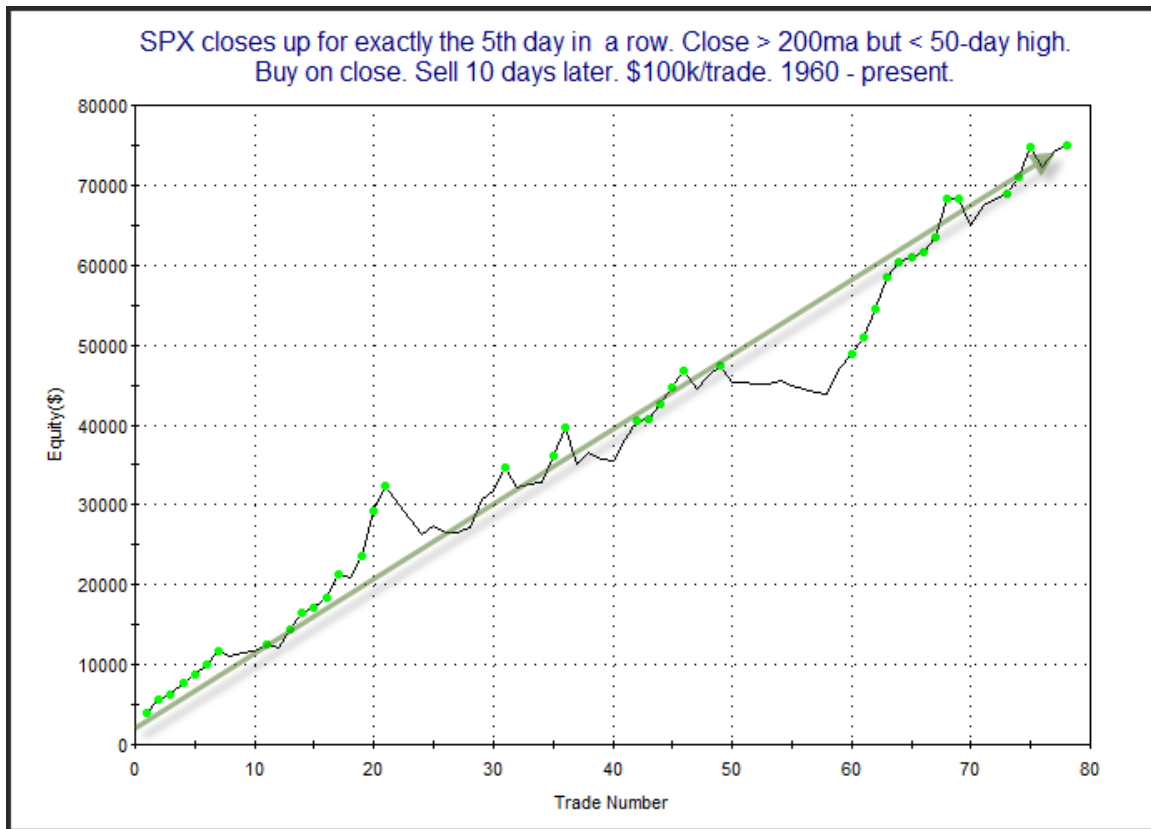
**The Evidence**

Tuesday saw a gap up and a strong move higher. The SPX gained 0.7%, the NASDAQ rose 1.2%, and the Russell 2000 rallied 1.1%. Breadth was solidly positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 70%. Total NYSE volume rose from the low level seen the last few days.

When the market begins to get overbought it will often suggest a pullback is likely. When overbought gets powered through then odds will sometimes shift from a pullback to a continuation of that move. Below is a study that demonstrates the continuation concept. It was last seen in the 12/28/11 subscriber letter.

SPX closes up for exactly the 5th day in a row. Close > 200ma but < 50-day high. Buy on close. Sell X days later. \$100k/trade. 1960 - 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: Profit Factor	All: Avg Trade
15	108,806.76	75	51	24	68.00	2,853.13	8,288.00	-1,529.28	-4,879.10	1.87	3.96	1,450.76
14	95,398.36	75	50	25	66.67	2,688.27	8,272.60	-1,560.61	-4,738.50	1.72	3.45	1,271.98
13	94,800.82	75	55	20	73.33	2,423.55	6,401.50	-1,924.72	-3,773.44	1.26	3.46	1,264.01
12	86,896.53	76	55	21	72.37	2,243.49	5,925.50	-1,737.88	-3,661.77	1.29	3.38	1,143.38
11	73,568.27	78	53	25	67.95	2,078.38	6,110.00	-1,463.44	-4,887.00	1.42	3.01	943.18
10	75,052.86	78	56	22	71.79	1,857.70	5,675.25	-1,317.19	-4,684.28	1.41	3.59	962.22
9	70,105.29	78	52	26	66.67	1,925.17	5,228.75	-1,153.99	-4,910.55	1.67	3.34	898.79
8	62,492.01	79	55	24	69.62	1,624.59	5,146.50	-1,119.20	-3,376.64	1.45	3.33	791.04
7	54,471.46	79	51	28	64.56	1,668.52	5,698.75	-1,093.68	-3,500.70	1.53	2.78	689.51
6	46,552.32	79	56	23	70.89	1,385.73	5,134.75	-1,349.94	-3,359.36	1.03	2.50	589.27
5	38,894.86	79	55	24	69.62	1,226.01	4,476.75	-1,189.00	-3,716.53	1.03	2.36	492.34
4	28,876.20	79	53	26	67.09	1,047.35	3,983.25	-1,024.35	-3,494.78	1.02	2.08	365.52
3	25,840.74	79	52	27	65.82	1,002.81	2,796.50	-974.27	-3,359.36	1.03	1.98	327.10
2	12,522.14	79	50	29	63.29	773.77	2,479.25	-902.28	-3,748.50	0.86	1.48	158.51
1	7,059.82	79	48	31	60.76	517.98	2,211.54	-574.29	-2,193.72	0.90	1.40	89.36

These results appear to suggest a pretty consistent upside edge over the next 1-3 weeks. Below is an equity curve using the highlighted 10-day hold that shows how this edge has played out over time.



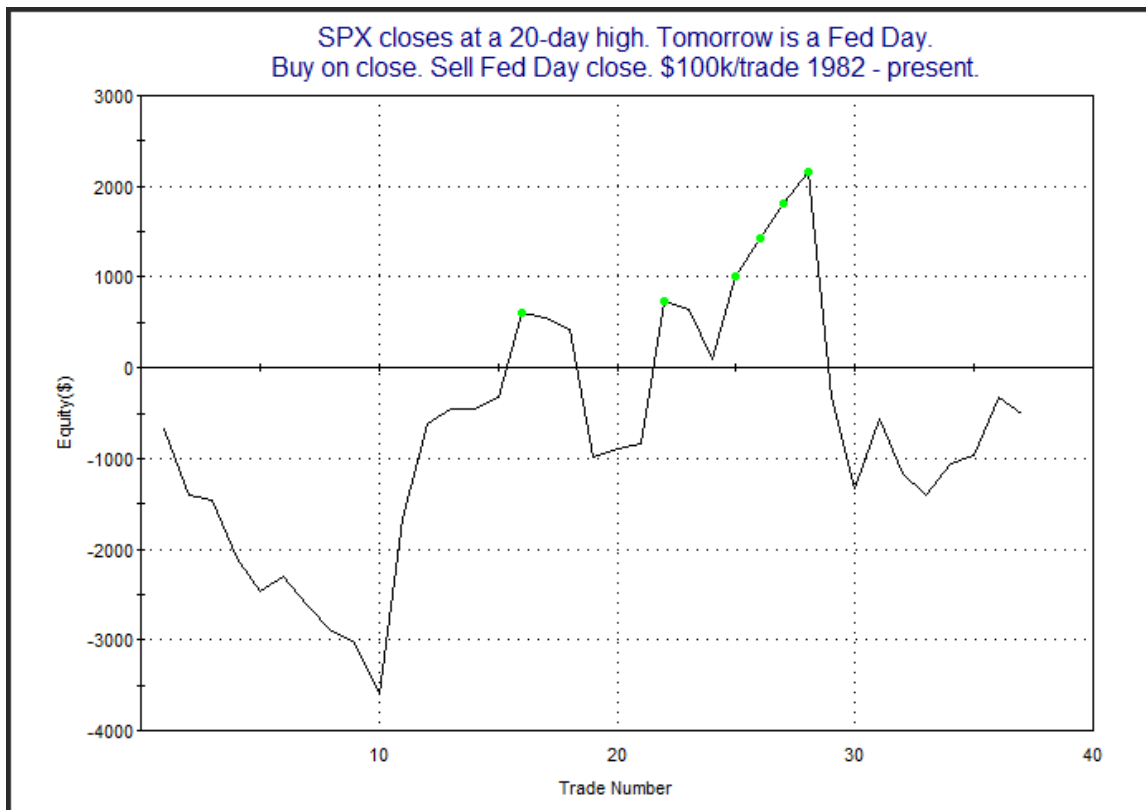
This appears to be quite a consistent curve and makes the study even more compelling. I have also added it to the intermediate-term list since the bullish impact appears to persist for up to 3 weeks.

As I have mentioned the last couple of days, Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. I have documented this tendency in great detail over the last few years, with the most complete documentation coming in [The Quantifiable Edges Guide to Fed Days](#). Based on what the market did today, this does not seem to be the most favorable Fed Day setup. A big reason for this is that SPX closed at a 20-day high on Tuesday. Fed Day bullishness has often occurred when a Fed announcement has helped to alleviate market stress. When the market closes at a 20-day high, it typically means there isn't a lot of worry present. Under these circumstances, the

upside inclination has also not been present. I last showed this in the 6/20/12 subscriber letter, and have updated the study below.

SPX closes at a 20-day high. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade 1982 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	(\$502.53)	Profit Factor	0.95
Gross Profit	\$9,998.75	Gross Loss	(\$10,501.28)
Total Number of Trades	37	Percent Profitable	45.95%
Winning Trades	17	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	(\$13.58)	Ratio Avg. Win:Avg. Loss	1.12
Avg. Winning Trade	\$588.16	Avg. Losing Trade	(\$525.06)
Largest Winning Trade	\$1,934.04	Largest Losing Trade	(\$2,492.10)



Neither the stats table nor the profit curve suggest any consistency or tradable edge.

Ironically, in a way that only the market can contradict itself, another study today suggested the move higher over the last few days may actually improve Wednesday's outlook. The study below uses SPY, and it requires at least three up days.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$14,865.90	Profit Factor	34.88
Gross Profit	\$15,304.71	Gross Loss	(\$438.81)
Total Number of Trades	20	Percent Profitable	80.00%
Winning Trades	16	Losing Trades	3
Even Trades	1		
Avg. Trade Net Profit	\$743.29	Ratio Avg. Win:Avg. Loss	6.54
Avg. Winning Trade	\$956.54	Avg. Losing Trade	(\$146.27)
Largest Winning Trade	\$3,383.38	Largest Losing Trade	(\$161.92)

The average trade shown here is about twice as strong as the average Fed Day. Below is a list of all instances for those who are interested.

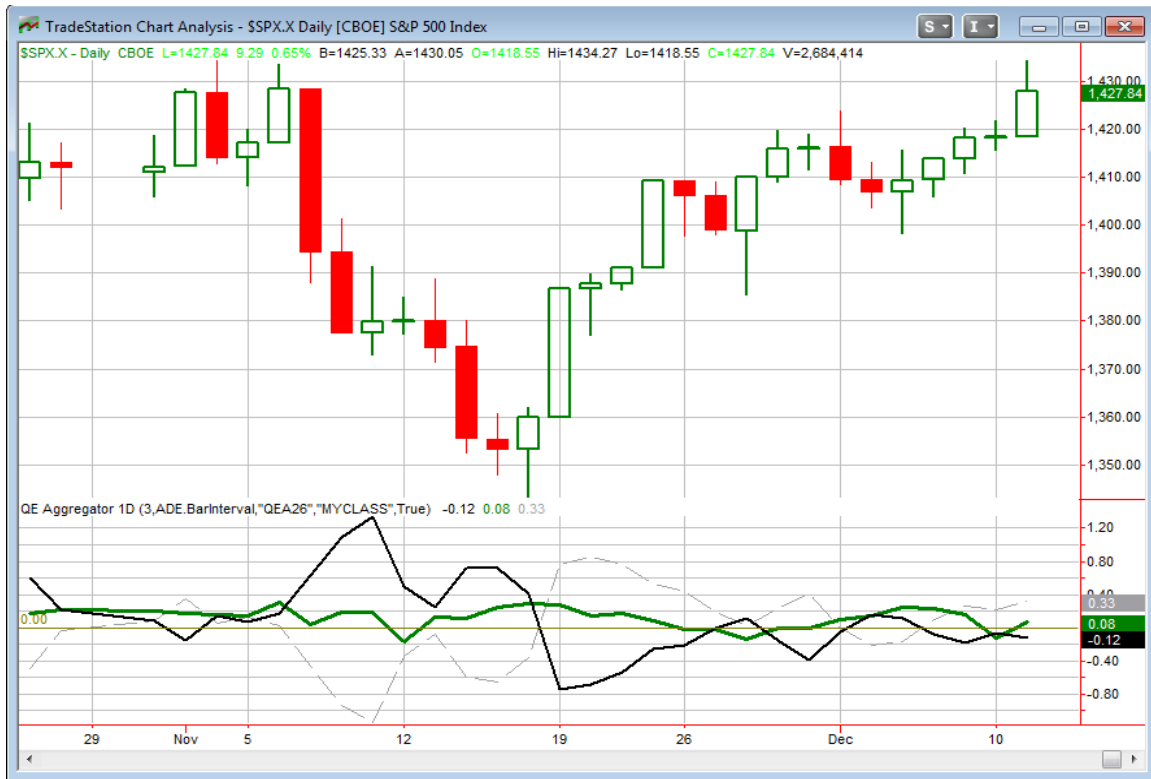
Tomorrow is a Fed Day. SPY closes up for at least the 3rd day in a row.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/27/95	Buy	\$50.42	0.00%	\$0.00
03/28/95	Sell	\$50.42		(\$356.94)
01/30/96	Buy	\$63.03	1.03%	\$1,062.62
01/31/96	Sell	\$63.68		(\$79.30)
05/20/96	Buy	\$67.65	(0.15%)	\$339.94
05/21/96	Sell	\$67.55		(\$221.70)
02/03/98	Buy	\$100.69	(0.13%)	\$466.71
02/04/98	Sell	\$100.56		(\$744.75)
12/21/98	Buy	\$120.16	0.44%	\$881.92
12/22/98	Sell	\$120.69		(\$807.04)
11/15/99	Buy	\$140.08	0.97%	\$2,081.96
11/16/99	Sell	\$141.44		\$0.00
05/15/00	Buy	\$145.28	0.97%	\$1,678.72
05/16/00	Sell	\$146.69		\$0.00
11/05/01	Buy	\$110.68	1.55%	\$1,625.40
11/06/01	Sell	\$112.40		(\$749.49)
11/05/02	Buy	\$91.85	1.30%	\$1,327.36
11/06/02	Sell	\$93.04		(\$1,153.28)
03/17/03	Buy	\$86.78	0.59%	\$656.64
03/18/03	Sell	\$87.29		(\$576.00)
08/11/03	Buy	\$98.65	0.91%	\$952.22
08/12/03	Sell	\$99.55		(\$232.99)
12/13/04	Buy	\$120.37	0.35%	\$489.70
12/14/04	Sell	\$120.79		(\$157.70)
10/24/06	Buy	\$137.88	0.34%	\$384.25
10/25/06	Sell	\$138.35		(\$268.25)
01/27/09	Buy	\$84.53	3.38%	\$4,045.86
01/28/09	Sell	\$87.39		\$0.00
03/15/10	Buy	\$115.49	0.80%	\$890.95
03/16/10	Sell	\$116.41		\$0.00
11/02/10	Buy	\$119.47	0.40%	\$460.35
11/03/10	Sell	\$119.95		(\$853.74)
12/13/10	Buy	\$124.56	0.09%	\$537.34
12/14/10	Sell	\$124.67		(\$216.54)
01/25/11	Buy	\$129.17	0.39%	\$681.12
01/26/11	Sell	\$129.67		\$0.00
03/12/12	Buy	\$137.58	1.80%	\$1,851.30
03/13/12	Sell	\$140.06		\$0.00
06/19/12	Buy	\$135.70	(0.16%)	\$294.40
06/20/12	Sell	\$135.48		(\$1,052.48)

Interestingly, if I use SPX instead of SPY the results aren't quite as strong. All of the instances marked with a green arrow also closed at a 20-day high. With the Fed studies in a bit of conflict I'm inclined to just throw leave them off the active list. It wouldn't

matter either way. Being just one-day studies, the influence wouldn't do much to the net expectations.

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



The strong momentum study tonight helped the green Aggregator line cross back above 0. Positive readings mean net expectations from the Active List are for upside 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 positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close below 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 bullish on Wednesday. Of course this could easily change if bearish studies emerge. The Differential Pivot will be 1,426.92 on Wednesday. This is only 0.1% below Tuesday's close. So it won't take much of a pullback to move the SPX from overbought to oversold.

A pullback tomorrow could easily trigger an Aggregator long signal. I'm not going to jump the gun on this one, though. Instead I will let it play out and see how things look

tomorrow night before considering any more long exposure. I was glad that I decided to hold XIV through yesterday's weak short signal. It is now testing new highs and has moved up enough that I will place a stop below the recent lows. Should it break out to new highs I may move the stop up to breakeven. Details are in the Trade Ideas section at the bottom of the Letter.

***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	\$19.61	6.11%	\$18.00	stop below recent pullback

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.