

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 14, 2012

Volume 5 Issue 240

Market Overview



Signals Overview

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

Tonight's Research Points

- After seeing SPX rise 6 days in a row it pulled back today. Historically the 1st pullback after a persistent move like this has been brief.

Short-term Outlook

The Bottom Line

Thursday's pullback flipped everything. Evidence is now pointing higher and the SPX is no longer overbought. I'm looking to get long if we close down again on Friday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
December 13, 2012	10-Day Hig on Fed Day	1-2 days	Bearish	
December 12, 2012	5 days up > 200ma & < 50-high	1-10 days	Bullish	2.00%
Active - Long Term				
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	
Dropped Tonight				
December 13, 2012	VIX up SPX 10-high MidWeek	1 day	Bearish	

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

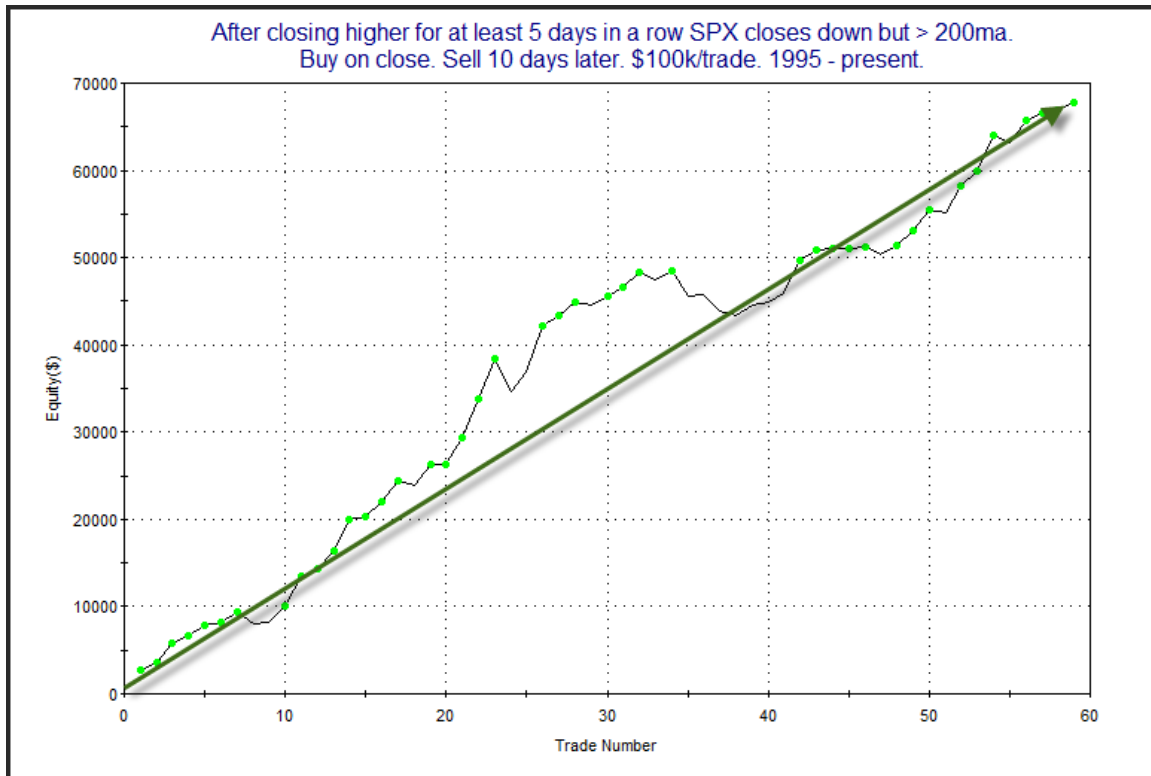
The Evidence

The market saw some selling on Thursday. The SPX and Russell 2000 declined 0.6% and the NASDAQ fell 0.7%. Breadth was weak as the NYSE Up Issues % was 29% and the Up Volume % came in at 28%. Total NYSE volume declined from the level of the last couple of days.

Thursday's decline triggered some studies that looked at pullbacks after at least 5 consecutive up days. The study below was last seen in the 7/6/11 Subscriber Letter. I have updated the results.

After closing higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	67,836.94	59	48	11	81.36	1,714.75	5,131.35	-1,315.56	-3,672.90	1.30	5.69	1,149.78
9	66,889.42	64	53	11	82.81	1,636.28	5,196.49	-1,803.04	-4,151.40	0.91	4.37	1,045.15
8	58,959.16	65	45	20	69.23	1,876.00	4,878.08	-1,273.05	-4,874.10	1.47	3.32	907.06
7	44,939.54	66	46	20	69.70	1,569.92	3,874.76	-1,363.84	-3,970.62	1.15	2.65	680.90
6	44,123.75	69	47	22	68.12	1,504.41	4,307.20	-1,208.35	-3,637.71	1.25	2.66	639.47
5	34,463.99	69	46	23	66.67	1,244.95	4,252.50	-991.46	-3,188.16	1.26	2.51	499.48
4	32,831.94	69	44	25	63.77	1,224.11	3,843.00	-841.15	-3,003.39	1.46	2.56	475.83
3	19,329.01	69	44	25	63.77	977.64	2,797.08	-947.49	-2,852.01	1.03	1.82	280.13
2	13,019.35	69	44	25	63.77	823.87	2,480.28	-929.23	-2,614.95	0.89	1.56	188.69
1	6,073.02	69	42	26	60.87	525.89	1,751.19	-615.93	-2,531.86	0.85	1.38	88.01
61 of 69 instances (88%) closed above the entry price at some point in the next week.												

Initially there appears to be a moderate inclination for a move higher. Once you get out 9-10 days the upside edge appears very substantial. Below is an equity curve using a 10-day exit strategy.



There's some wiggle here but the periods of pullback have been short and mild. This appears to confirm the bullish edge.

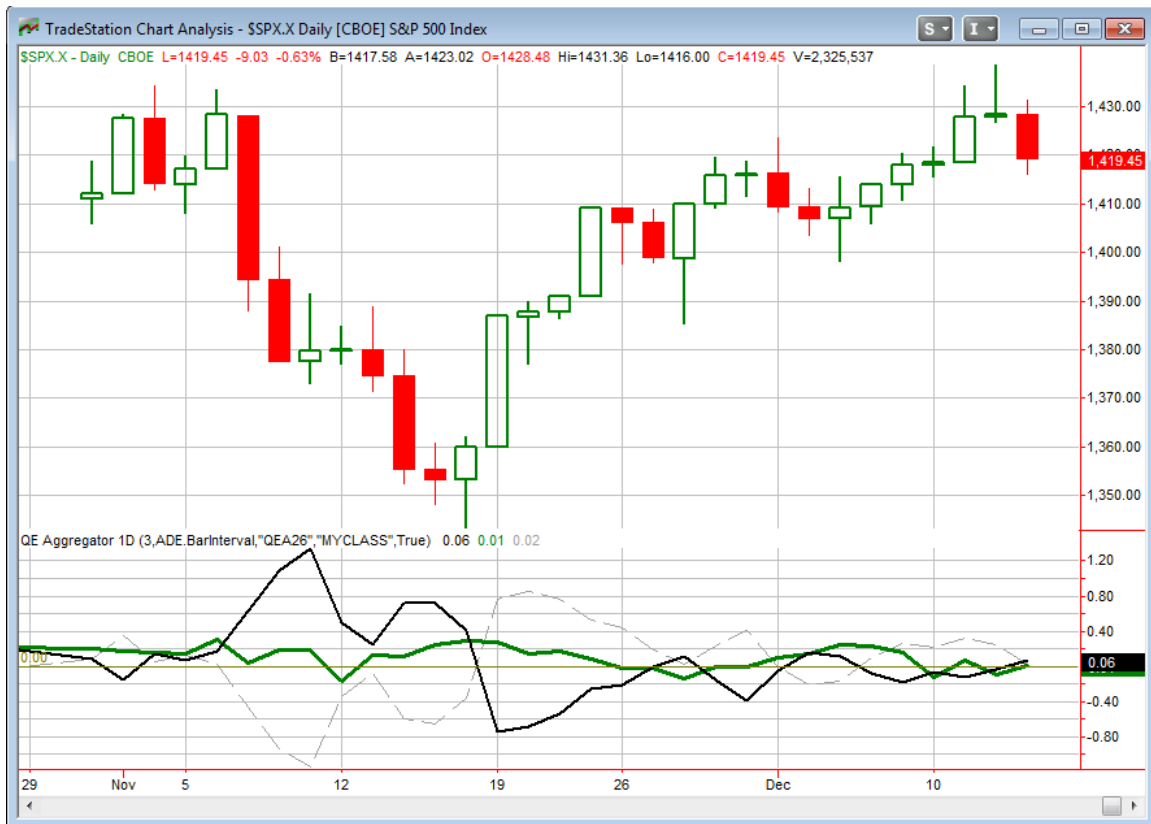
In that 7/6/11 letter I also filtered results for times the market had not closed at a 50-day high the day before. Those results are also updated below.

After closing higher for at least 5 days in a row but not at a 50-day high SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	22,943.90	15	12	3	80.00	2,255.16	4,644.11	-1,372.67	-2,964.60	1.64	6.57	1,529.59
9	21,039.71	15	13	2	86.67	2,053.20	5,196.49	-2,825.95	-3,251.34	0.73	4.72	1,402.65
8	19,912.33	15	12	3	80.00	2,142.34	4,770.49	-1,931.92	-4,038.66	1.11	4.44	1,327.49
7	13,323.31	15	13	2	86.67	1,495.44	3,335.92	-3,058.68	-3,970.62	0.49	3.18	888.22
6	12,126.31	15	12	3	80.00	1,607.24	2,736.52	-2,386.86	-3,388.23	0.67	2.69	808.42
5	9,711.39	15	12	3	80.00	1,269.76	2,590.50	-1,841.93	-3,188.16	0.69	2.76	647.43
4	8,586.97	15	11	4	73.33	1,165.77	2,600.40	-1,059.13	-2,494.80	1.10	3.03	572.46
3	5,368.78	15	10	5	66.67	1,172.00	2,797.08	-1,270.24	-2,852.01	0.92	1.85	357.92
2	-1,128.21	15	8	7	53.33	865.83	2,480.28	-1,150.69	-2,455.11	0.75	0.86	-75.21
1	-2,157.88	15	9	6	60.00	356.51	654.48	-894.41	-2,531.86	0.40	0.60	-143.86

The 1st couple of days are iffy, but after that the upside edge appears even stronger. Of course the number of instances is a bit low, but the market position doesn't appear to raise any red flags.

These studies are very similar to the 5 Up Days study already active from 2 nights ago. Therefore, while they do act as nice confirmation of those bullish results, I feel they would just serve as duplication if incorporated into the Aggregator. So I have elected not to do so.

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



Even without new studies being added the green Aggregator line moved 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 also moved into positive territory. This means the SPX is oversold versus recent expectations. So net expectations are positive 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 flip from short to long at the close.

Based on the current studies, expectations are set to remain bullish on Friday. Of course this could change if more bearish studies emerge. The Differential Pivot will be 1,429.32 on Friday. This is about 0.7% above Thursday's close. So the SPX will need to close up at least this much in order to move from oversold to overbought.

We are seeing more evidence that the persistent move higher of late is strong enough to continue further over the next couple of weeks. And now the market is no longer overbought. We are also about to enter a very strong seasonal period. (More on that this weekend, but there is a preview [here](#) and [here](#).) Still, the pullback is only 1 day so far, the level of oversold is minimal and the Aggregator is only barely in positive territory. So I am going to look to take on some long exposure tomorrow, but only on a lower close. Details are in the Trade Ideas section.

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.

SPY – buy ¼ index position @ \$142.62 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
<i>XIV(1/2)</i>	<i>12/5/2012</i>	<i>\$18.48</i>	<i>\$19.17</i>	<i>3.73%</i>		<i>sold on open</i>

Please note that I will be out of the office again on Friday. It is unlikely that I will be able to update the Quantifinder and System pages during the trading day.

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