

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 18, 2012

Volume 5 Issue 241

Market Overview



Signals Overview

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

Tonight's Research Points

- Quick moves from a short-term low to a short-term high often pullback over the next 1-2 days.

Short-term Outlook

The Bottom Line

Evidence shown the last few days played out as it typically has in the past and the market rallied on Monday. In fact it rallied so much that it went from squarely oversold to now overbought. I entered a swing long position in SPY on Friday at the close. Evidence is still pointing up, but now that the market is overbought risk/reward is not as favorable. So it appears an opportune time to take profits and I will look to do so on Tuesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
December 18, 2012	5-low to 10-high	1-2 days	Bearish	
December 17, 2012	December OpEx	1-5 days	Bullish	1.80%
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%
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.

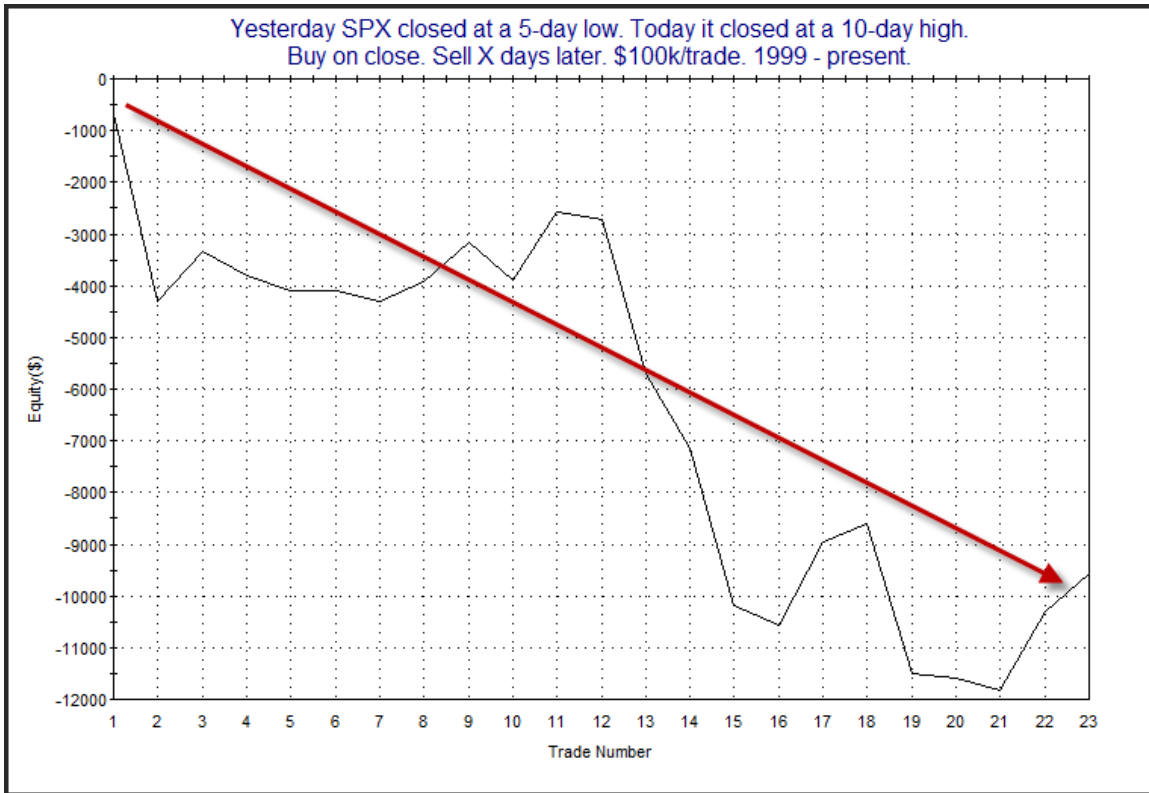
The Evidence

Monday saw a strong move higher across the board. The SPX gained 1.2% the NASDAQ rose 1.3%, and the Russell 2000 rallied 1.4%. Breadth was squarely positive as the NYSE Up Issues % was 67% and the Up Volume % came in at 81%. Total NYSE volume was higher than the last few days.

With the strong move higher the SPX posted its highest close since October. But not much appeared in the Quantifinder. There was one study that triggered tonight that was last shown in the 12/2/10 Subscriber Letter. It looked at moves from a 5-day low to a 10-day high in 1 day. I've updated the results below.

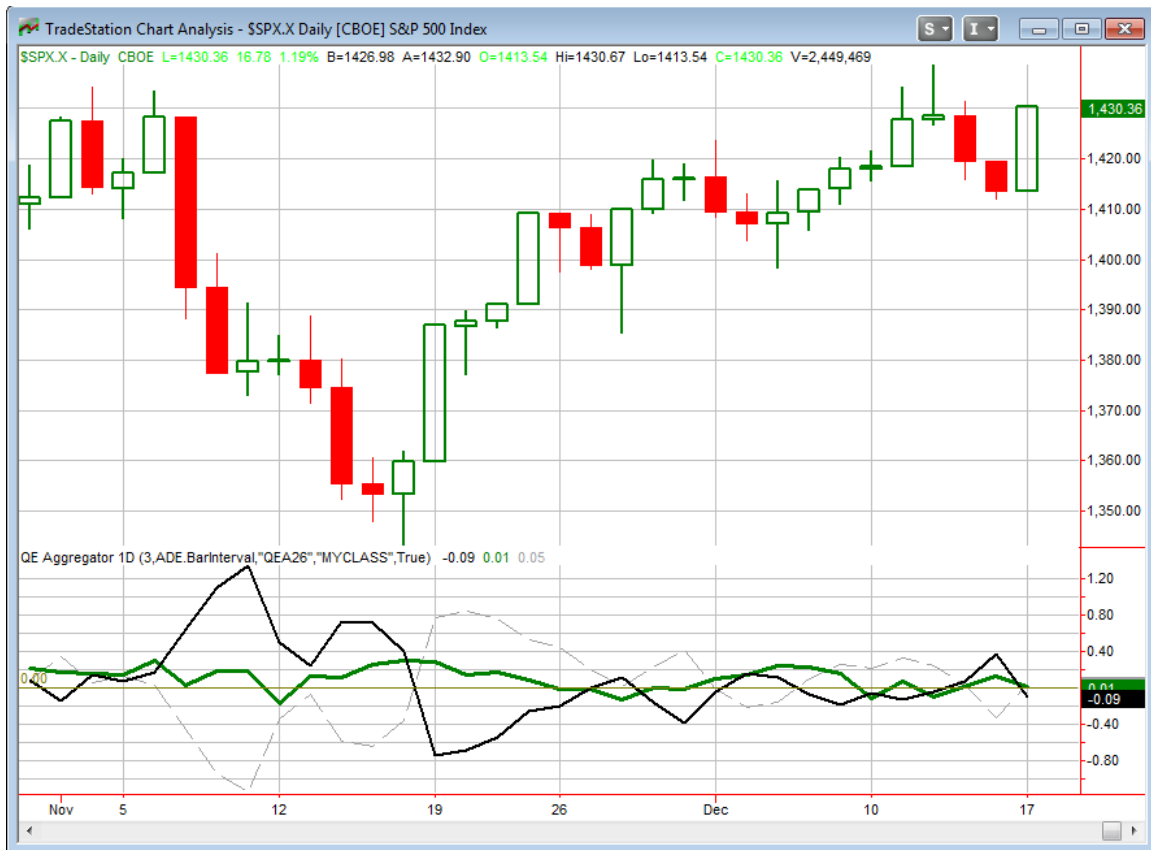
Yesterday SPX closed at a 5-day low. Today it closed at a 10-day high. Buy on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-15,081.31	23	12	11	52.17	1,164.55	3,750.69	-2,641.45	-5,452.18	0.44	0.48	-655.71
4	-11,601.28	23	11	12	47.83	1,351.31	3,546.86	-2,205.48	-4,865.63	0.61	0.56	-504.40
3	-7,942.44	23	14	9	60.87	971.00	2,074.32	-2,392.93	-5,028.42	0.41	0.63	-345.32
2	-9,558.31	23	8	15	34.78	957.74	1,603.88	-1,148.02	-3,630.44	0.83	0.44	-415.58
1	-2,627.21	23	13	10	56.52	585.55	1,512.48	-1,023.94	-3,094.18	0.57	0.74	-114.23

Not a huge edge but worth a peek at the equity curve. Here it is using a 2-day exit.



Very choppy but generally lower. I have included this study on the Active List, though it is certainly borderline. I'll keep a close eye on it going forward.

With nothing else triggering tonight I have updated the [Aggregator](#) chart below.



Tonight's study caused the green Aggregator line to dip a bit but it still remains above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell into negative territory amid the strong move up. This means the SPX is now overbought versus recent expectations. So net expectations are positive but the SPX is now 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 turn flat at the close.

Based on the current studies, expectations are set to remain bullish on Tuesday. Of course this could change if more bearish studies emerge. The Differential Pivot will be 1,419.23 on Tuesday. This is about 0.8% below Monday's close. So the SPX will need to close down at least this much in order to move from overbought to oversold.

Intermediate-term highs can often be good times to exit swing long positions and wait for another pullback. I rarely hold swing long positions in overbought environments, and now is no exception. I will look to exit my SPY position on Tuesday and wait for the next favorable setup to put money back to work.

Intermediate-term Outlook (2 weeks – 2 months)– updated 12/17– bullish

The intermediate-term outlook was last updated in the 12/17 letter. Link below:

[2012-12-17 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
SPY(1/4)	12/14/2012	\$142.11	\$143.77	1.17%		sell @ \$143.77 limit

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