

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 19, 2012

Volume 5 Issue 242

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- When the SPX hits a new high on strong breadth and strong volume that is typically a positive sign for the short-term.

## *Short-term Outlook*

### *The Bottom Line*

The market is now strongly overbought on a short-term basis. But evidence continues to point higher so it may be a difficult time to short. I'm inclined to wait patiently until we see evidence turn bearish or the market pulls back to allow for a more favorable long entry.

**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 19, 2012	10-high on strong breadth & vol	1 day	Bullish	
December 18, 2012	5-low to 10-high	1-2 days	<b>Bearish</b>	
December 12, 2012	5 days up > 200ma & < 50-high	1-10 days	Bullish	2.00%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
<b>December 17, 2012</b>	<b>December OpEx</b>	<b>1-5 days</b>	<b>Bullish</b>	<b>1.80%</b>

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

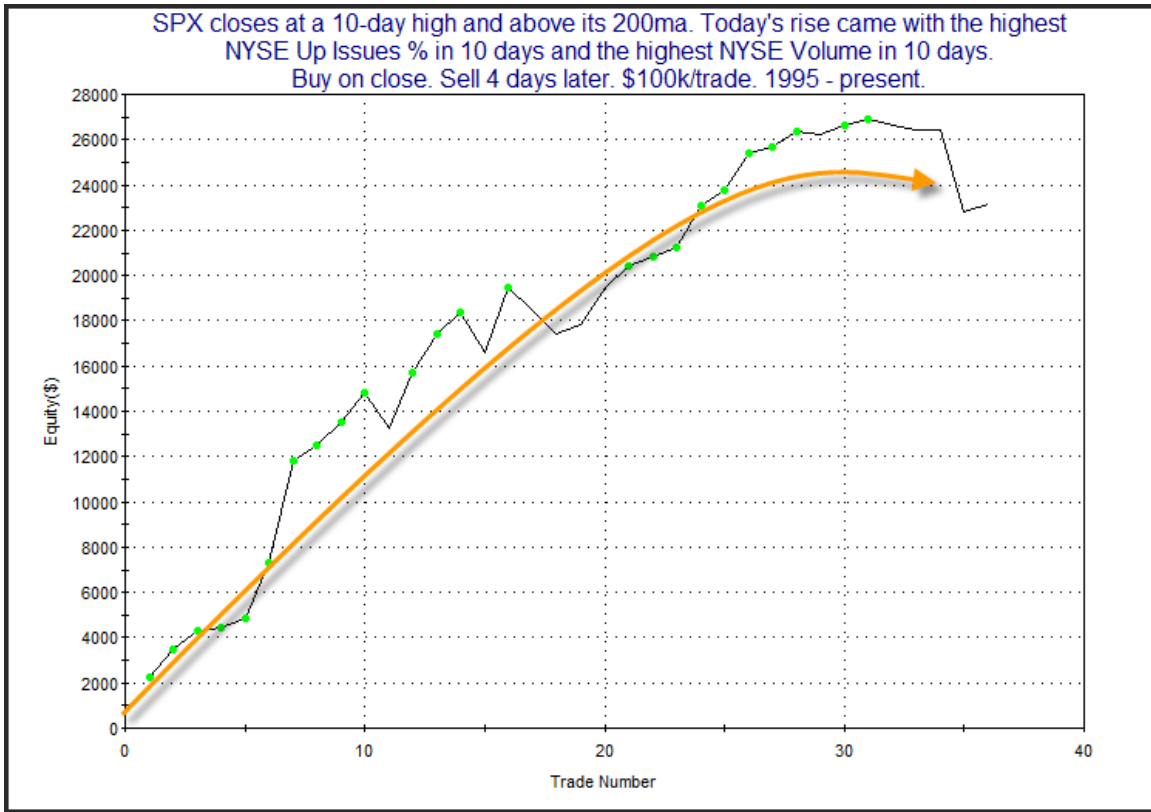
**The Evidence**

The strong move on Monday saw some nice continuation on Tuesday. The SPX gained another 1.2% while the NASDAQ and the Russell 2000 rallied 1.5%. Breadth was squarely positive as the NYSE Up Issues % was 72% and the Up Volume % came in at 85%. Total NYSE volume was relatively high.

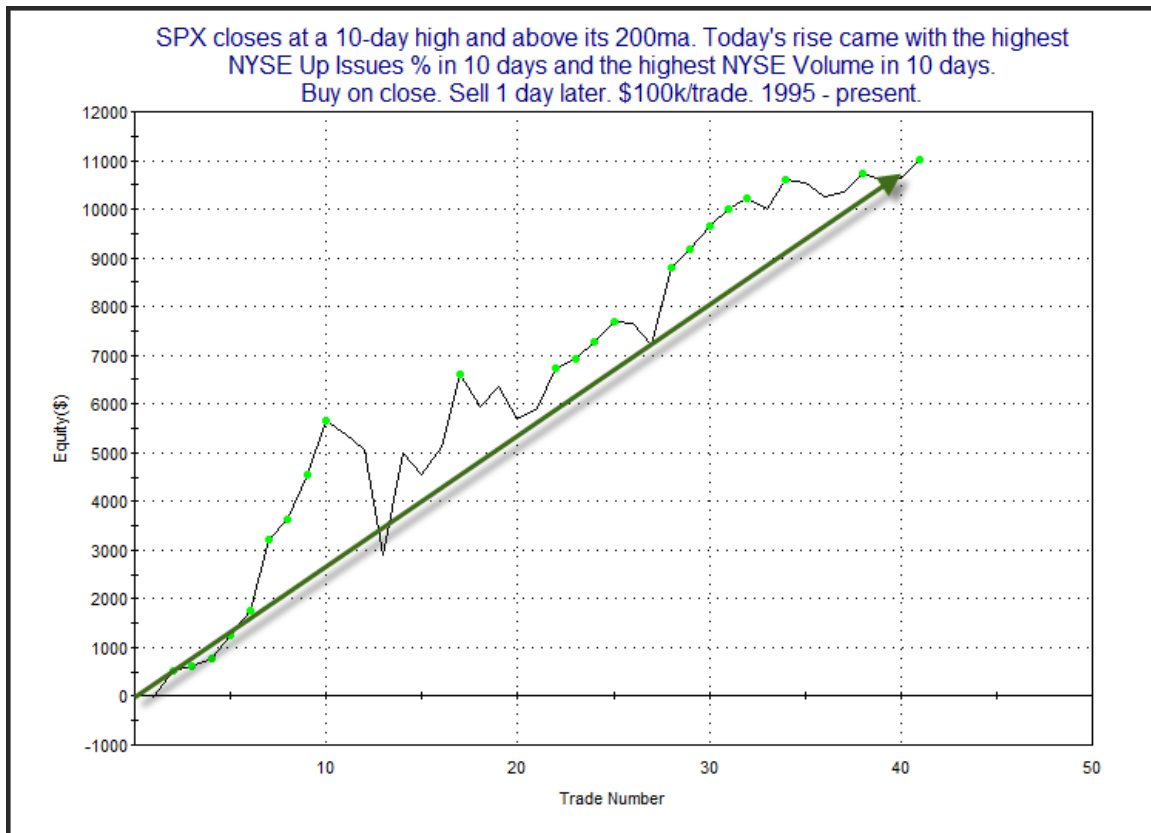
Strong breadth and volume on a day where the SPX is hitting a new high has often been a positive sign. This was discussed in a study in the 1/4/11 Subscriber Letter. In this study I looked for both volume and breadth to come in at the highest levels in 10 days while the SPX was making a 10-day high. I have updated that study tonight.

SPX closes at a 10-day high and above its 200ma. Today's rise came with the highest NYSE Up Issues % in 10 days and the highest NYSE Volume in 10 days. 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
5	21,961.66	36	25	11	69.44	1,375.37	4,683.84	-1,129.32	-4,561.65	1.22	2.77	610.05
4	23,143.20	36	27	9	75.00	1,212.41	4,518.75	-1,065.77	-3,595.13	1.14	3.41	642.87
3	12,954.40	38	28	10	73.68	973.42	2,403.80	-1,430.15	-5,105.87	0.68	1.91	340.91
2	3,959.42	38	23	15	60.53	643.80	1,998.39	-723.20	-2,409.33	0.89	1.36	104.20
1	11,032.45	41	28	13	68.29	599.50	2,096.10	-442.58	-2,176.20	1.35	2.92	269.08
<b>38 of 41 instances (93%) closed above the entry price at some point in the next week.</b>												

We have a good sample size here and the results appear strong. But in looking at the 4-day equity curve the picture does not appear as bright.



Recent instances have failed to show gains, calling into question the strength of the edge. But while the 4-day curve is questionable, the 1-day still appears strong.



The persistent upslope here convinced me to add this study to the Active List as a 1-day edge.

The December OpEx study from Sunday night has been removed from the active list since it has already hit its target.

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



Tonight's evidence caused the green Aggregator line to rise a bit further 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 now squarely in negative territory thanks to the strong move up the last 2 days. This means the SPX is overbought versus recent expectations. So net expectations are positive but the SPX is well 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 remain flat at the close.

Based on the current studies, expectations are set to remain bullish on Wednesday. Of course this could change if more bearish studies emerge. The Differential Pivot will be 1,413.77 on Wednesday. This is about 2.3% below Tuesday's close. That would quite a decline for 1 day. A more likely way to wear off the overbought condition would be a multi-day pullback or consolidation.

I'm flat. While expectations are bullish the strong overbought nature of the market has me waiting for a more favorable risk/reward setup. I'll re-evaluate nightly as I always do.

***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
<i>SPY(1/4)</i>	<i>12/14/2012</i>	<i>\$142.11</i>	<i>\$144.00</i>	<i>1.33%</i>		<i>sold on open</i>

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.