

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 20, 2012

Volume 5 Issue 243

Market Overview



Signals Overview

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

Tonight's Research Points

- Another seasonal strength study is set to kick in at the close on Thursday.

Short-term Outlook

The Bottom Line

Evidence remains bullish and the overbought condition could easily wear off as early as Thursday. We are also entering a seasonally favorable time period. If the market continues to decline on Thursday I will likely be looking to take a long position Friday morning.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
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	
Dropped Tonight				
December 19, 2012	10-high on strong breadth & vol	1 day	Bullish	
December 18, 2012	5-low to 10-high	1-2 days	Bearish	

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

The Evidence

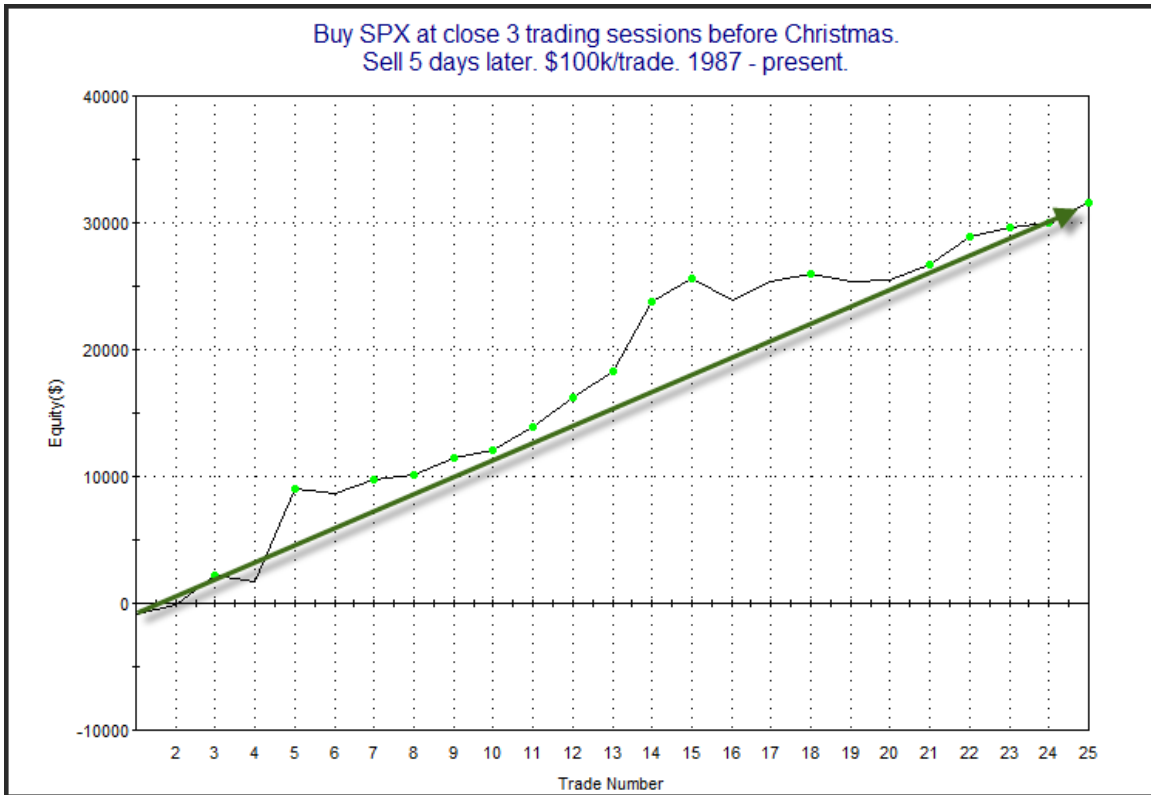
After 2 strong days of buying the market gave back some of its gains on Wednesday. The SPX lost 0.8% and the NASDAQ fell 0.3%, but the Russell 2000 finished just above breakeven, with a 0.2% gain. Breadth was negative as the NYSE Up Issues % was 49% and the Up Volume % came in at 35%. Total NYSE volume fell some from Tuesday's high level.

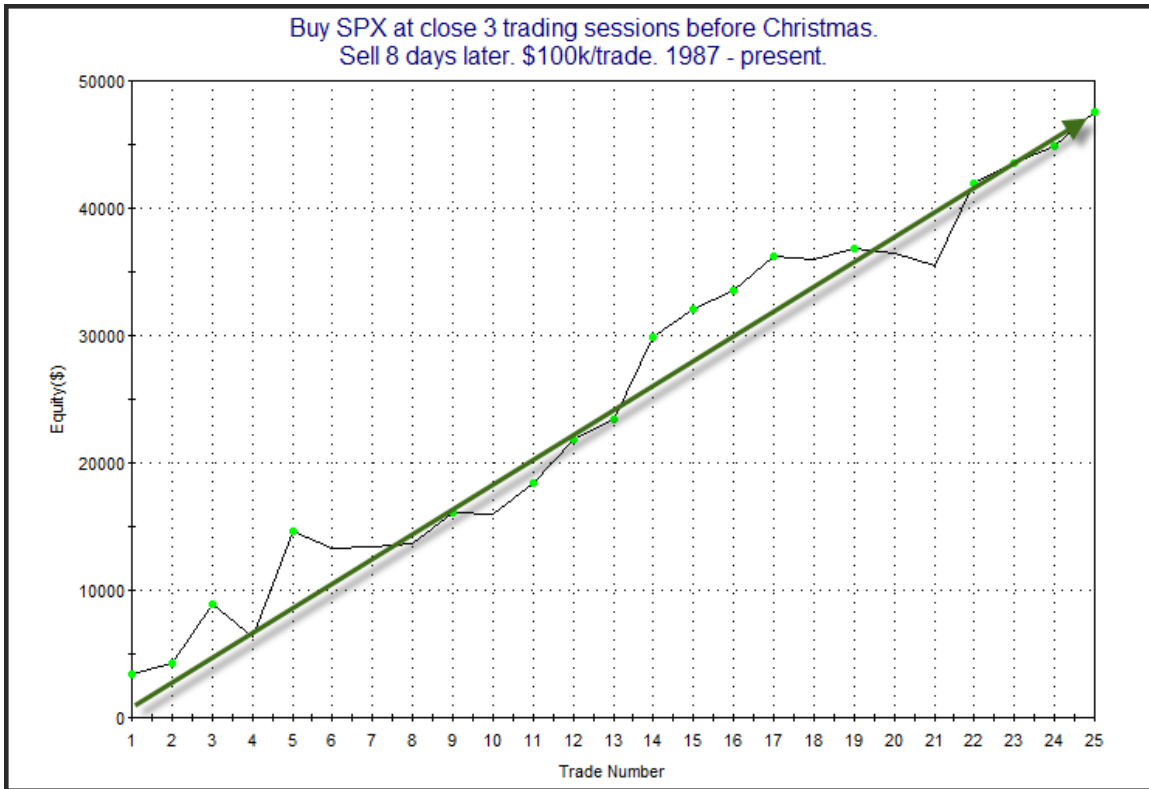
The next seasonally strong period will begin on Thursday's close. The study below is the "Twas 3 Nights Before Christmas" study, and I have shown it each year in the letter. Results are updated.

Buy SPX at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	34,777.33	25	19	6	76.00	2,582.53	7,830.30	-2,381.80	-4,436.38	1.08	3.43	1,391.09
9	42,143.49	25	18	7	72.00	3,022.91	7,974.78	-1,752.70	-3,298.00	1.72	4.43	1,685.74
8	47,604.40	25	19	6	76.00	2,793.36	8,333.40	-911.57	-2,482.44	3.06	9.70	1,904.18
7	36,219.39	25	18	7	72.00	2,347.23	7,796.76	-861.54	-1,580.04	2.72	7.01	1,448.78
6	25,498.66	25	17	8	68.00	1,904.97	7,752.90	-860.73	-1,768.23	2.21	4.70	1,019.95
5	31,563.28	25	20	5	80.00	1,781.87	7,247.22	-814.81	-1,815.96	2.19	8.75	1,262.53
4	20,872.27	25	17	8	68.00	1,595.08	5,070.22	-780.52	-2,258.85	2.04	4.34	834.89
3	18,387.46	25	17	8	68.00	1,415.64	4,592.40	-709.80	-1,794.00	1.99	4.24	735.50
2	16,729.47	25	19	6	76.00	1,092.70	3,257.17	-671.96	-2,185.04	1.63	5.15	669.18
1	10,233.79	25	19	6	76.00	727.00	2,523.24	-596.55	-1,518.40	1.22	3.86	409.35

24 of 25 instances (96%) closed above the entry price at some point in the next week.

The stats all appear quite strong. I would note the “Max Losing Trade” column shows very mild numbers from days 1-8, with no decline being worse than 2.5%. Below are profit curves using 5 and 8-day holding periods.





The strong, steady upslopes seem to confirm the bullish tendency. But as I discussed Sunday night, smallcaps rule this time of year. So let's examine some other indices. First let's look at the Russell 2000.

Buy Russell 2000 at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	60,177.48	25	21	4	84.00	3,488.81	11,169.90	-3,271.87	-5,643.30	1.07	5.60	2,407.10
9	65,548.90	25	20	5	80.00	3,821.58	10,353.42	-2,176.53	-5,973.50	1.76	7.02	2,621.96
8	71,818.79	25	22	3	88.00	3,451.68	9,130.50	-1,372.71	-2,948.40	2.51	18.44	2,872.75
7	62,049.69	25	23	2	92.00	2,812.26	7,189.56	-1,316.19	-1,809.60	2.14	24.57	2,481.99
6	57,910.62	25	21	4	84.00	2,862.33	8,941.50	-549.56	-977.82	5.21	27.34	2,316.42
5	50,169.00	25	21	4	84.00	2,468.59	11,299.50	-417.83	-1,199.70	5.91	31.02	2,006.76
4	33,020.30	25	19	6	76.00	1,962.16	7,987.50	-710.12	-1,845.90	2.76	8.75	1,320.81
3	29,441.95	25	21	4	84.00	1,465.82	5,136.75	-335.06	-465.99	4.37	22.97	1,177.68
2	23,241.21	25	19	6	76.00	1,357.90	4,317.75	-426.47	-930.30	3.18	10.08	929.65
1	12,769.28	25	20	5	80.00	753.56	2,299.70	-460.40	-1,354.50	1.64	6.55	510.77

All 25 instances closed above the entry price
at some point in the next 4 days.

Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

**Buy Nasdaq Composite at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	71,948.92	25	21	4	84.00	3,999.90	12,374.58	-3,012.24	-5,231.80	1.33	6.97	2,877.96
9	78,318.86	25	21	4	84.00	4,139.60	11,558.04	-2,153.16	-5,039.77	1.92	10.09	3,132.75
8	84,452.15	25	23	2	92.00	3,789.07	11,915.40	-1,348.19	-1,412.66	2.81	32.32	3,378.09
7	51,344.77	25	18	7	72.00	3,199.90	9,428.34	-893.34	-2,010.42	3.58	9.21	2,053.79
6	47,096.27	25	21	4	84.00	2,425.81	9,407.88	-961.45	-2,010.42	2.52	13.25	1,883.85
5	46,731.14	25	19	6	76.00	2,605.65	9,436.56	-462.70	-1,716.23	5.63	17.83	1,869.25
4	34,182.58	25	19	6	76.00	1,992.64	8,665.86	-612.92	-1,431.95	3.25	10.30	1,367.30
3	30,636.85	25	19	6	76.00	1,759.86	6,748.14	-466.73	-1,344.20	3.77	11.94	1,225.47
2	27,479.59	25	20	5	80.00	1,565.40	7,726.74	-765.66	-2,114.45	2.04	8.18	1,099.18
1	14,506.65	25	21	4	84.00	848.92	2,423.79	-830.16	-1,439.75	1.02	5.37	580.27

Since Nasdaq inception in 1971 the only year that the Nasdaq failed to close above the entry at some point within 5 days was 1986.

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week.

Lastly, let's look at the NDX.

**Buy NDX at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	75,689.54	25	20	5	80.00	4,451.87	14,811.16	-2,669.56	-5,387.52	1.67	6.67	3,027.58
9	85,369.27	25	21	4	84.00	4,543.13	13,881.66	-2,509.13	-5,095.68	1.81	9.51	3,414.77
8	91,445.05	25	22	3	88.00	4,327.10	14,312.70	-1,250.41	-2,534.56	3.46	25.38	3,657.80
7	53,885.77	25	18	7	72.00	3,520.47	12,688.52	-1,354.66	-3,669.30	2.60	6.68	2,155.43
6	43,381.24	25	19	6	76.00	2,701.95	11,843.52	-1,325.97	-2,893.94	2.04	6.45	1,735.25
5	51,458.55	25	19	6	76.00	3,044.18	11,443.50	-1,063.47	-2,352.98	2.86	9.06	2,058.34
4	38,416.35	25	18	7	72.00	2,477.97	11,245.05	-883.88	-1,572.90	2.80	7.21	1,536.65
3	34,131.37	25	17	8	68.00	2,394.03	8,742.60	-820.89	-2,203.20	2.92	6.20	1,365.25
2	31,694.94	25	20	5	80.00	1,890.91	10,167.30	-1,224.63	-3,741.36	1.54	6.18	1,267.80
1	18,051.84	25	20	5	80.00	1,149.84	2,863.84	-988.98	-2,662.20	1.16	4.65	722.07

24 of 25 instances (96%) closed above the entry price at some point in the next week.

Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

Since this study does not kick in until Thursday's close, it is not included on the Active List tonight, but will appear there tomorrow night.

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



The green Aggregator line is still squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remains in negative territory. This means the SPX is still 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 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 Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1,432.53 on Thursday. This is only 0.2% below Wednesday's close. So it would not take much of a move lower Thursday to change the SPX to oversold.

I'm hopeful that a down close on Thursday could allow for another buying opportunity. Oversold with positive expectations during a seasonally strong period is a setup I like. I even considered listing a "buy on close" order in the Trade Ideas section at the bottom of the Letter. But instead I'll wait for tomorrow night to for both confirmation and to allow me to decide which index I would take a position in.

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

None

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.