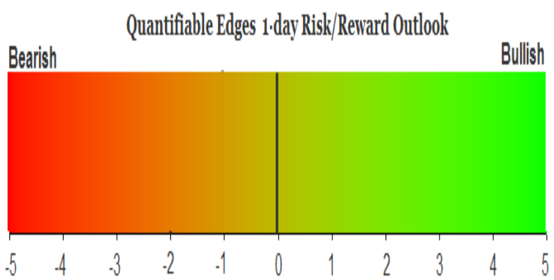
Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

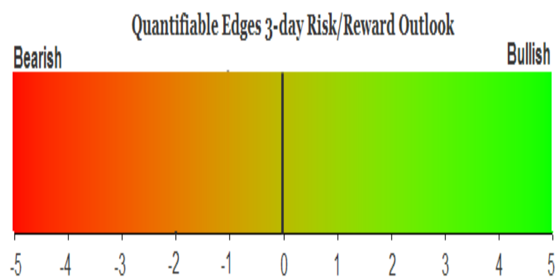
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 21, 2012 Volume 5 Issue 244

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	Flat	Flat	Flat

Tonight's Research Points

- The rising VIX did not appear to provide a reliable signal under current market conditions.

Short-term Outlook

The Bottom Line

The fiscal cliff may roil markets on Friday. Still, price action and seasonal evidence appear ready to remain bullish. If the selling that has hit the futures market tonight holds firm on Friday then I will look to start scaling into a long position at the close.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
December 21, 2012	Twas 3 Nights Before Christmas	1-8 days	Bullish	
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

The market put in another solid day of gains on Thursday. The SPX rose 0.6%, the NASDAQ rallied 0.2%, and the Russell 2000 finished up 0.5%. Breadth was negative as the NYSE Up Issues % was 67% and the Up Volume % came in at 75%. Total NYSE volume fell slightly for the second day in a row.

The first thing to mention is that the "Twas 3 Night's Before Christmas" study from last night is now kicking in. A link to last night's letter is below:

2012-12-20 QE Subscriber Letter.pdf

One notable about Thursday's action was that the VIX rose along with the SPX. I've shown studies about this many times in the past. For those that may not be familiar, VIX is the volatility index and it typically moves counter to the SPX. Sometimes when they move in the same direction it can provide us a clue for the next day. Now does not appear to be one of those times. I have typically filtered studies like this based on whether they fall midweek, Monday, or Friday. The reason for this is that the VIX has a natural tendency to rise on Friday afternoons and then decline Monday morning. When looking at midweek instances that both the SPX and VIX rose while the SPX was above its 200ma I found no substantial edge unless the SPX was also at a long-term high.

The studies below exemplify this. First, let's look at instances where the SPX was at a 50-day high.

SPX & VIX both close higher on Tues, Wed, or Thurs. SPX > 200ma and at a 50-day high.
Buy SPX on close. Sell X days later. $100k/trade. 1998 - 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	-13,167.36	51	26	25	50.98	699.47	2,108.40	-1,254.15	-4,171.80	0.56	0.58	-258.18
4	-10,343.91	53	24	29	45.28	712.81	1,719.75	-946.60	-4,354.72	0.75	0.62	-195.17
3	-6,057.44	53	26	27	49.06	596.23	2,381.25	-798.49	-2,091.82	0.75	0.72	-114.29
2	-11,145.09	54	19	35	35.19	561.32	1,609.50	-623.15	-2,182.68	0.90	0.49	-206.39
1	-8,829.07	62	29	33	46.77	279.90	1,281.75	-513.52	-1,721.70	0.55	0.48	-142.40

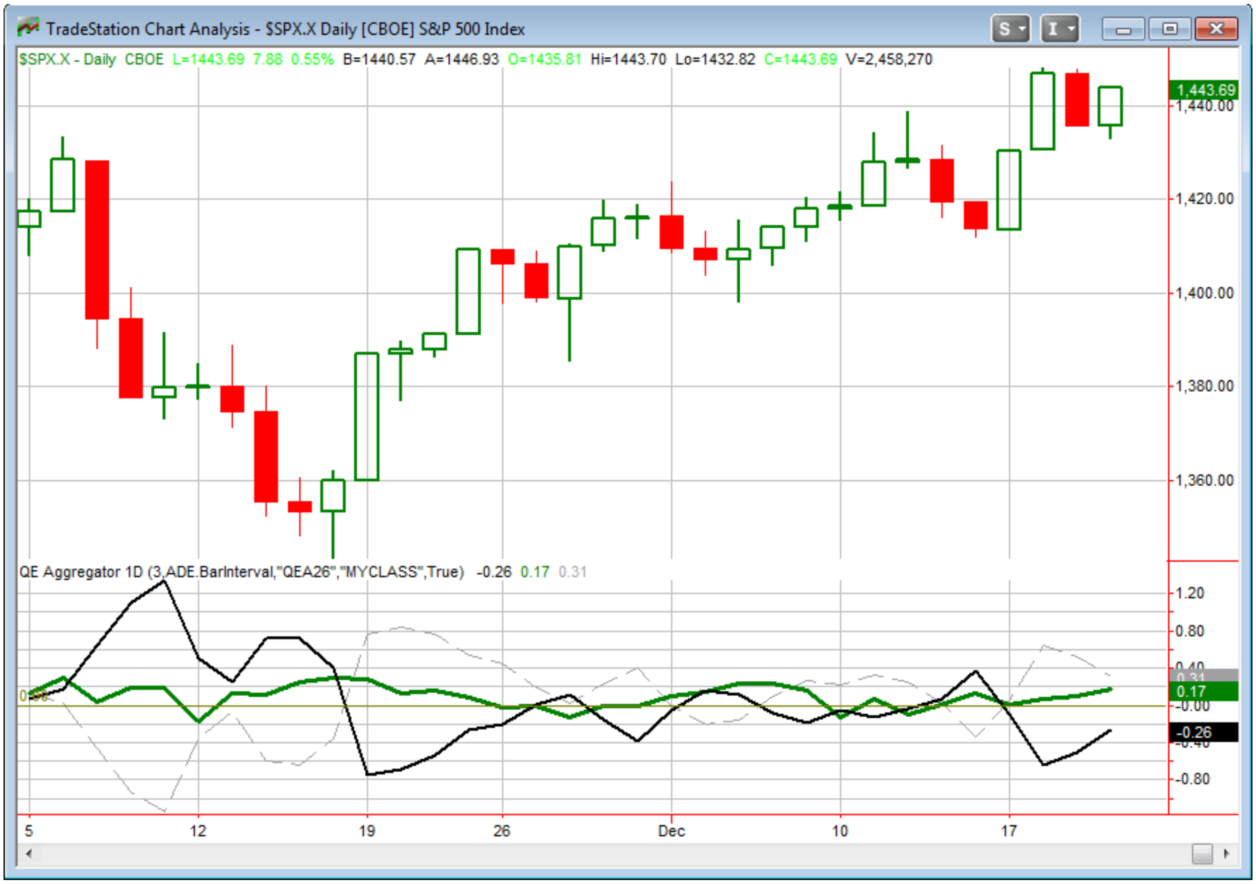
Numbers here appear to suggest a moderate downside edge. But now let's consider times like the present when the SPX is not at a 50 day high. This study was last shown in the 10/29/10 subscriber letter. Results are updated.

SPX & VIX both close higher on Tues, Wed, or Thurs. SPX > 200ma but < 50-day high.
Buy SPX on close. Sell X days later. $100k/trade. 1998 - 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	19,607.10	61	37	24	60.66	1,416.84	3,549.70	-1,367.33	-3,523.08	1.04	1.60	321.43
4	11,471.17	62	36	26	58.06	1,312.29	3,154.00	-1,375.82	-3,332.34	0.95	1.32	185.02
3	3,078.71	64	37	27	57.81	1,050.86	3,288.60	-1,326.04	-3,671.32	0.79	1.09	48.10
2	9,123.65	65	39	26	60.00	855.12	3,962.70	-931.78	-2,848.17	0.92	1.38	140.36
1	1,680.66	67	35	32	52.24	672.76	1,970.50	-683.31	-2,079.70	0.98	1.08	25.08

I wouldn't go so far as to call these numbers bullish, but they certainly don't appear at all bearish anymore.

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 Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted* at 1,449.92 on Friday. An inverted pivot means that the Differential Line would cross through zero (in this case upwards) on a flat SPX close. So for SPX to remain "overbought" versus expectations it will need to gain about 0.4% on Friday.

As I am typing this late Thursday night a 0.4% gain on Friday looks pretty unlikely. Futures are currently down about 1.5% from the 4:15 PM close. If the fiscal cliff scare continues to negatively impact stocks tomorrow, this could set up a nice buying opportunity. The market will be oversold during a seasonally strong period with additional upside evidence also in place. The QE Buying Power Index is currently down at 1. It should stay there again on Monday, but then the move up to a bullish 3+ reading starting Wednesday through the end of the year. Once that happens the market will also have strong liquidity on its side. Friday could be an emotional trading day. If the selling holds, turning the Differential Line positive, I will anticipate continued bullish expectations and look to start scaling into a long position at the close. Details are in the Trade Ideas section near the bottom of the Letter.

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.

SPY – buy ¼ index position if SPX closes <= $1,429.25. This would mark a decline of over 1%, which would be enough to get me interested in beginning my long position.

Current Open Trade Ideas

None