

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 28, 2012

Volume 5 Issue 248

Market Overview



Signals Overview

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

Tonight's Research Points

- When SPY closes near the top of its range, but still down for at least the third consecutive day, a move higher is often seen the next day.

Short-term Outlook

The Bottom Line

Same as the last few days. I am seeing a fair amount of bullish evidence but the market is being held hostage by Fiscal Cliff news. A bounce is overdue and I am positioned to take advantage of it. Should more news be bad news I also still have more equity to allocate. I intend to maintain my ½ index position through the weekend unless we bounce strongly on Friday. In that case I will take some profits and lighten up.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
December 27, 2012	SPT down 3+. Close in top 25% of range.	1 day	Bullish	
December 27, 2012	VIX 100 high. SPX > 100 low.	1-7 days	Bullish	2.90%
December 27, 2012	SPX down 3 above 200	1-3 days	Bullish	1.30%
December 26, 2012	2 Unfilled Gaps Dn & 5-day low	1-5 days	Bullish	1.80%
December 24, 2012	Opex Week Up 1%-2%	1-5 days	Bearish	
December 21, 2012	Twas 3 Nights Before Christmas	1-8 days	Bullish	
Active - Long Term				
December 24, 2012	Nasdaq Leading SPX	int term	Bullish	
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

If you just look at the final numbers, you'll think that it was a quiet day. The SPX and NASDAQ lost 0.1% and the Russell 2000 declined 0.2%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 34%. Volume was higher than Wednesday but still light.

Of course none of those stats reveal what really went on. The market was moving sharply on fiscal cliff news. After gapping up a few points to start the day, SPX dropped as much as 18 points by a little after noon. The morning was full of despair. But the afternoon was full of hope, and SPX rallied all the way back into positive territory before slipping negative a few minutes prior to the close.

The Quantifinder identified a few studies related to multi-day pullbacks. But I looked at that last night and already have one of those studies on the Active List. What intrigued me about today's action was that the market closed down but still enjoyed a strong reversal. I decided to combine the multi-day pullback concept with the fact that the market saw a relatively strong close. In doing so I devised the study below. You'll note that I only show results for a 1-day holding period. This is because beyond one day the stats were not as compelling.

SPY closes down for at least 3rd day in a row. Today's close is in the top 25% of the daily range. Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$10,289.13	Profit Factor	13.59
Gross Profit	\$11,106.46	Gross Loss	(\$817.33)
Total Number of Trades	18	Percent Profitable	83.33%
Winning Trades	15	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$571.62	Ratio Avg. Win:Avg. Loss	2.72
Avg. Winning Trade	\$740.43	Avg. Losing Trade	(\$272.44)
Largest Winning Trade	\$2,818.20	Largest Losing Trade	(\$397.29)

Instances are just a little lower than I typically like to see, but the stats are overwhelmingly bullish. Not only is there a very high percentage of winners, but the average win dwarfed the average loss. This made for a gaudy profit factor of over 13 and a good-sized average trade. Let's also take a look at the list of individual trades and I'll share some additional insights.

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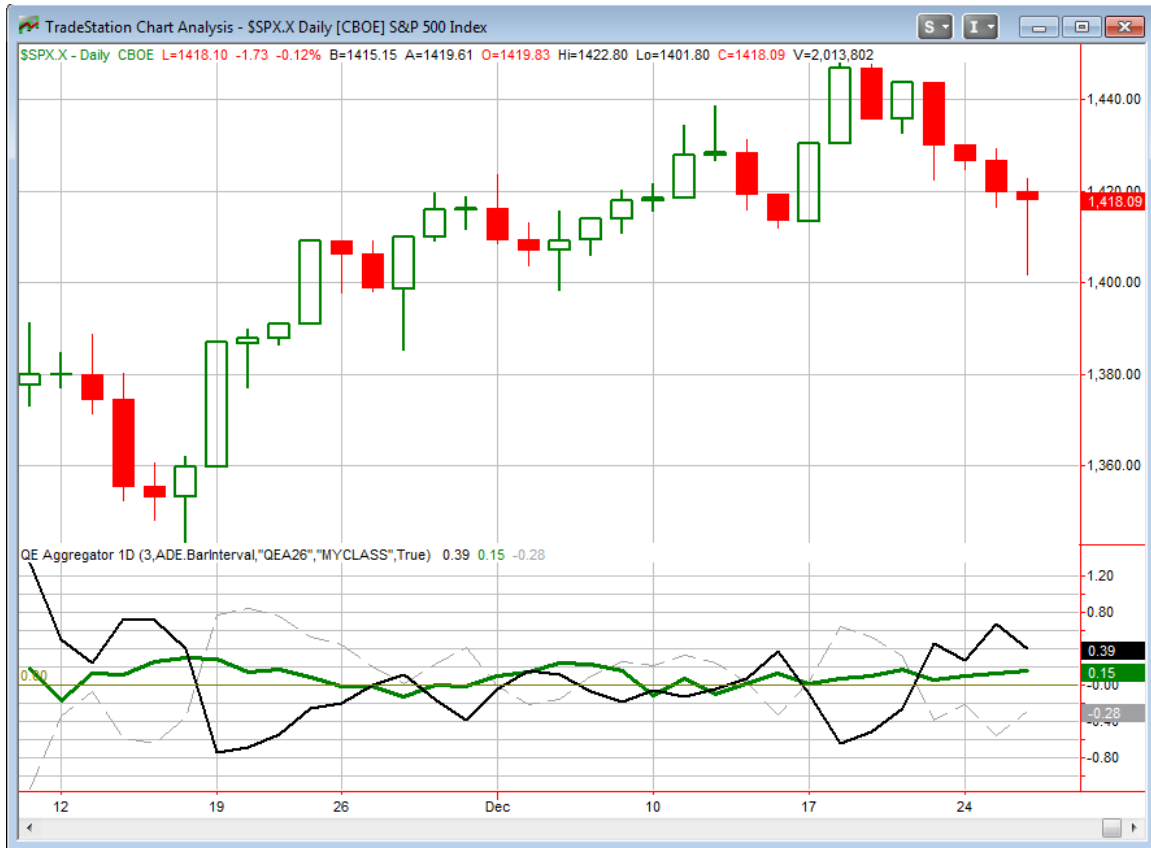
Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/31/95	Buy	\$50.12	0.06%	\$219.45
04/03/95	Sell	\$50.15		(\$99.75)
08/03/95	Buy	\$55.92	0.11%	\$286.08
08/04/95	Sell	\$55.98		\$0.00
09/27/95	Buy	\$58.17	0.74%	\$739.17
09/28/95	Sell	\$58.60		(\$17.19)
10/10/97	Buy	\$96.88	0.09%	\$691.44
10/13/97	Sell	\$96.97		(\$165.12)
08/21/98	Buy	\$108.56	0.64%	\$1,270.98
08/24/98	Sell	\$109.25		(\$230.25)
10/08/98	Buy	\$96.59	2.01%	\$3,073.95
10/09/98	Sell	\$98.53		(\$1,386.90)
01/17/06	Buy	\$128.33	(0.40%)	\$444.03
01/18/06	Sell	\$127.82		(\$911.43)
03/07/06	Buy	\$127.97	0.21%	\$367.07
03/08/06	Sell	\$128.24		(\$616.99)
07/18/07	Buy	\$154.47	0.39%	\$685.82
07/19/07	Sell	\$155.07		\$0.00
09/25/07	Buy	\$151.39	0.53%	\$910.80
09/26/07	Sell	\$152.19		\$0.00
03/03/08	Buy	\$133.50	(0.38%)	\$0.00
03/04/08	Sell	\$132.99		(\$1,879.99)
03/04/08	Buy	\$132.99	0.63%	\$1,336.78
03/05/08	Sell	\$133.83		(\$488.15)
08/16/10	Buy	\$108.26	1.23%	\$1,965.99
08/17/10	Sell	\$109.59		\$0.00
01/10/11	Buy	\$126.98	0.35%	\$598.12
01/11/11	Sell	\$127.43		(\$23.61)
05/17/11	Buy	\$133.17	0.89%	\$997.50
05/18/11	Sell	\$134.36		(\$165.00)
09/06/11	Buy	\$116.99	2.82%	\$2,860.90
09/07/11	Sell	\$120.29		\$0.00
01/30/12	Buy	\$131.37	(0.04%)	\$616.41
01/31/12	Sell	\$131.32		(\$525.09)
03/29/12	Buy	\$140.23	0.41%	\$584.66
03/30/12	Sell	\$140.81		(\$128.34)

= open in top 25% of daily range
 = close is > 1% above intraday low

First off, I'll note that there is nothing here that dissuades me from thinking this setup provides a bullish 1-day edge. In addition to looking at the basic set up, I also sliced and diced it a few different ways. I marked some of the more interesting results I found above. You'll note that the two instances that are highlighted in yellow are the only two instances where SPY not only closed in the top 25% of its daily range, but also opened up there as well. And the instances I've marked with a blue box around them illustrate the eight times in which SPY closed at least 1% above its intraday low as it did on Thursday.

Seven of these eight instances saw gains the next day, and the only loser finished with a decline of 0.04%. So all in all it appears that strong finishes after multi-day pullbacks will often see that late-day strength followed through into the following day. Though it is only a 1-day study, I have added this to the Active List.

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



Tonight's study helped keep the green Aggregator line well 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 elevated. The positive reading 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 remain long 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 1,431.33 on Friday. This is 0.9% above Thursday's close. So it would take a close

higher of at least this much in order to move the differential line back below zero, signaling an SPX move from oversold to overbought.

My outlook tonight is largely the same as it was last night. The market remains oversold, the VIX remains somewhat overbought, seasonality remains bullish, and liquidity as measured by the QE Buying Power Index also remains bullish. We have a lot of evidence suggesting a good chance of a bounce. I still like my two lots of SPY long. I don't intend to add to the position on Friday, especially with additional congressional meetings now set for Sunday. If Friday does bounce strongly I will take partial profits. Otherwise I'll hold into next week and reevaluate on Monday.

Intermediate-term Outlook (2 weeks – 2 months)– updated 12/24– bullish

The intermediate-term outlook was last updated in the 12/24 letter. Link below:

[2012-12-24 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)	12/24/2012	\$142.48	\$141.56	-0.65%		<i>sell on SPX close > 1,431.33</i>
SPY(1/4)	12/24/2012	\$142.35	\$141.56	-0.55%		Aggregator

I will look to exit at least 1 lot of SPY at the close if SPX finishes above the Differential Pivot.

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