

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 15, 2013

Volume 6 Issue 10

Market Overview



Signals Overview

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

Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has acted more like “Continuation Tuesday”.

Short-term Outlook

The Bottom Line

Net evidence points lower but the market is no longer overbought. This suggests a neutral stance. I'm flat and will remain that way for at least another day.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
January 15, 2013	Continuation Tuesday	1 day	Bearish	
January 14, 2013	January Opex Weak	1-5 days	Bearish	
January 11, 2013	2 unfilled up gaps. 50-day high	1-3 days	Bullish	
January 9, 2013	2 Unfilled SPY Gaps Dn & 5-low	1-5 days	Bullish	1.90%
Active - Long Term				
January 14, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
January 3, 2013	50-day high breakout. 90% up vol	1-25 days	Bullish	
January 3, 2013	SPX & TNX high 50-day highs	1-20 days	Bearish	
December 24, 2012	Nasdaq Leading SPX	int term	Bullish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
January 7, 2013	Up Issue % > 75% 2 of last 3 days	1-6 days	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 more quiet trading with the major indices pulling back slightly. The SPX and Russell 2000 each declined 0.1% while the Nasdaq dropped 0.3%. Breadth was a little weak as the NYSE Up Issues % was 49% and the Up Volume % came in at 45%. Volume sank to the lowest level so far in 2013.

With SPX now down 2 days in a row, the “[Turnaround Tuesday](#)” study from the [9/25/12 blog](#) triggered. The blog looks at the likelihood of a bounce broken down by both day of the week and the length of the decline up to that point. As legend suggests, Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But tonight I examined the 2-day pullback in a bit more detail. And what I found was somewhat surprising.

First I looked at all instances since 2000 where SPX had closed down for exactly the 2nd day in a row. Here are those results.

SPX closes down for exactly the 2nd day in a row. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$18,107.84	Profit Factor		1.68
Gross Profit	\$44,715.32	Gross Loss		(\$26,607.48)
Total Number of Trades	64	Percent Profitable		50.00%
Winning Trades	32	Losing Trades		32
Even Trades	0			
Avg. Trade Net Profit	\$282.94	Ratio Avg. Win:Avg. Loss		1.68
Avg. Winning Trade	\$1,397.35	Avg. Losing Trade		(\$831.48)
Largest Winning Trade	\$10,716.03	Largest Losing Trade		(\$2,190.26)

The win rate is 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (unlike now).

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX < 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

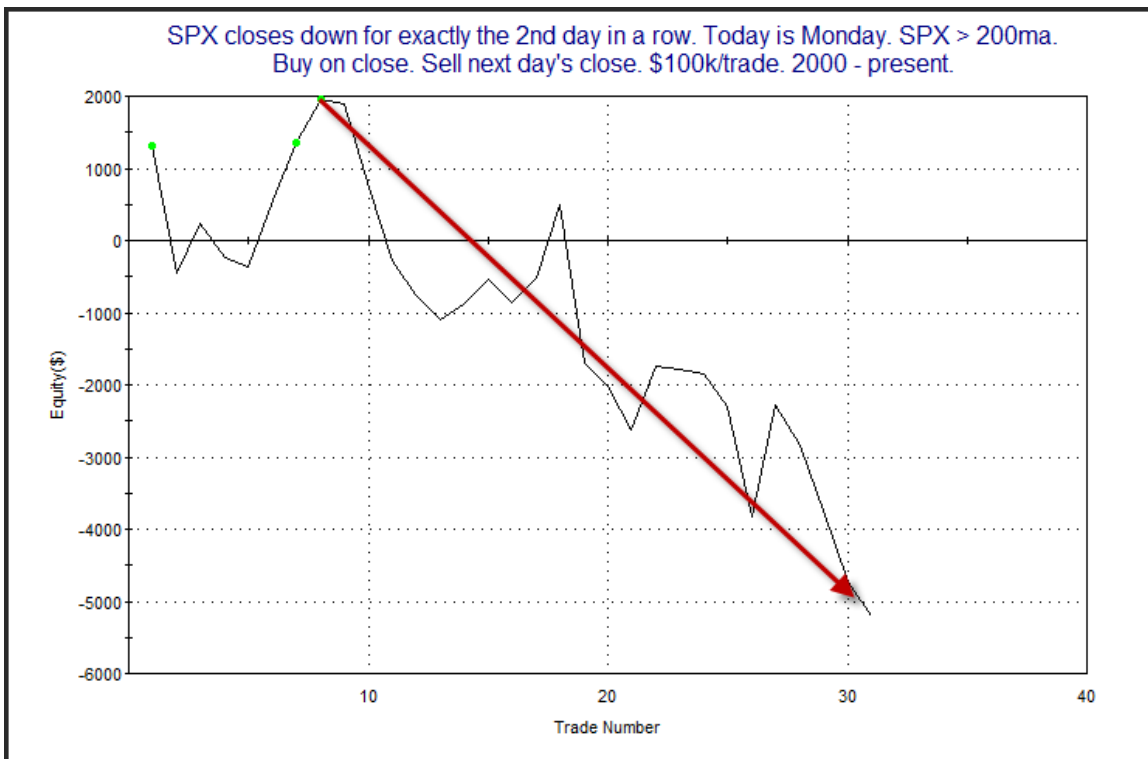
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$23,315.03	Profit Factor		2.83
Gross Profit	\$36,050.39	Gross Loss		(\$12,735.36)
Total Number of Trades	33	Percent Profitable		63.64%
Winning Trades	21	Losing Trades		12
Even Trades	0			
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss		1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade		(\$1,061.28)

We see here just over half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for exactly the 2nd day in a row. Today is Monday. SPX > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
Collapse ^			
All Trades			
Total Net Profit	(\$5,207.19)	Profit Factor	0.62
Gross Profit	\$8,664.93	Gross Loss	(\$13,872.12)
Total Number of Trades	31	Percent Profitable	35.48%
Winning Trades	11	Losing Trades	20
Even Trades	0		
Avg. Trade Net Profit	(\$167.97)	Ratio Avg. Win:Avg. Loss	1.14
Avg. Winning Trade	\$787.72	Avg. Losing Trade	(\$693.61)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn’t fit here. In fact, the tendency is for a continuation of the 2-day pullback. “Continuation Tuesday” appears to be more appropriate. Below is the profit curve.



Definitely choppy, but the last 20 instances have seen quite a bit of downside. The edge here is not clear-cut, but there certainly appears to be a small bearish tendency. At the very least the setup does NOT appear bullish.

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



The green Aggregator line fell a little further below 0 tonight. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line moved up and closed just barely above 0. The positive reading means the SPX is marginally oversold versus recent expectations. So net expectations are negative but the SPX is already slightly oversold. 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 back to flat.

Based on the current studies, expectations are set to remain bearish on Tuesday. This could easily change if compelling bullish evidence emerges. The Differential Pivot will be 1,482.28 on Tuesday. This is 0.8% above Monday's close. So it will take a fairly strong close higher to move the SPX from oversold up to overbought versus expectations.

Not overbought enough to short (especially with the current QE buying power index at 5 and liquidity strong), and not enough evidence to suggest a long. The Aggregator is neutral and so am I. Choppy, sideways, action can be a real test of patience. I intend to pass that test, and won't be looking to put capital at risk until a more favorable setup emerges.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/14– bullish

The intermediate-term outlook was last updated in the 1/14 letter. Link below:

[2013-01-14 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

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