

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 24, 2013

Volume 6 Issue 16

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% short SPY	Flat	Flat

## Tonight's Research Points

- VIX up mid-week while SPX hits a 50-day high suggests 1-2 days of weakness.
- SPY making back to back 50-day highs on decreasing volume has been a bad short-term omen historically.

## *Short-term Outlook*

### *The Bottom Line*

No change from the last couple of days. Evidence points south and the market is overbought. Ordinarily this would be enough to get me interested in the short side. But with the QE Buying Power Index locked in at the maximum 5 I will remain sidelined.

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

<b>Study Date</b>	<b>Description</b>	<b>Time span</b>	<b>Bias</b>
<b>Active</b>			
January 24, 2013	VIX up. SPX 50-high. Midweek.	1 day	Bearish
January 24, 2013	SPY 2 50-day highs on lower volume	1-2 days	Bullish
January 22, 2013	HV low for 4 days. SPX high.	1-4 days	Bullish
January 22, 2013	MLK week bearish	1-4 days	Bearish
<b>Active - Long Term</b>			
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
September 17, 2012	QE3	int term	Bullish
February 1, 2012	Golden Cross	int term	Bullish
<b>Dropped Tonight</b>			
January 23, 2013	VIX:VXV < 0.85. SPX 50-high	1 day	Bearish
January 22, 2013	SPY closing range consistently 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***

Another day. Another day higher for most of the indices. The SPX gained 0.2%, and the Nasdaq rallied 0.3%, but the Russell 2000 fell 0.3%. Breadth was a little negative as the NYSE Up Issues % was 48% and the Up Volume % came in at 45%. Volume declined from Monday's level.

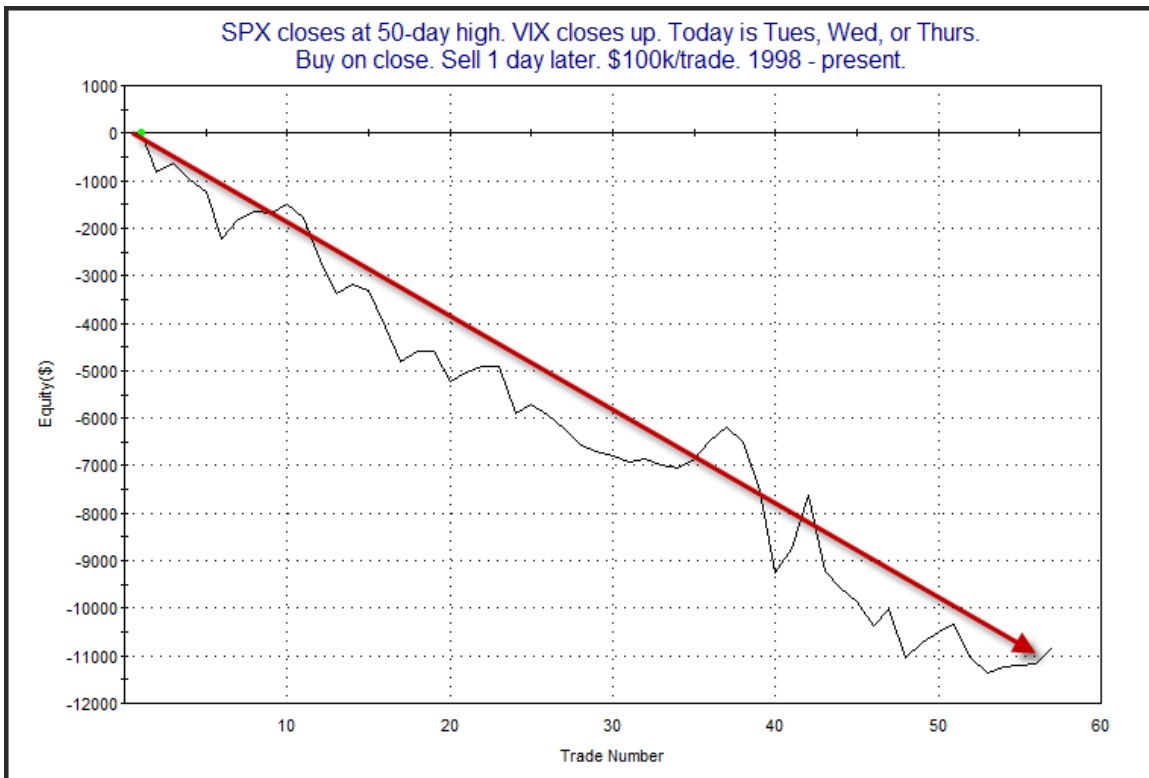
There are a few notable studies to discuss tonight. VIX studies continue to trigger. The study below was last seen just a few days ago in the 1/18/13 subscriber letter. It looks at other times the VIX has risen while the SPX has closed at a 50-day high midweek. VIX action on Mondays and Fridays is influenced by the weekend so I commonly segregate midweek from Mondays and Fridays when I run VIX-based studies. I have updated the results.

SPX closes at 50-day high. VIX closes up. Today is Tues, Wed, or Thurs.  
Buy 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	-11,663.88	52	27	25	51.92	729.25	2,108.40	-1,254.15	-4,171.80	0.58	0.63	-224.31
4	-8,992.52	54	25	29	46.30	738.36	1,719.75	-946.60	-4,354.72	0.78	0.67	-166.53
3	-5,143.56	54	27	27	50.00	607.99	2,381.25	-798.49	-2,091.82	0.76	0.76	-95.25
2	-9,793.70	56	21	35	37.50	572.22	1,609.50	-623.15	-2,182.68	0.92	0.55	-174.89
1	-8,471.96	64	31	33	48.44	273.37	1,281.75	-513.52	-1,721.70	0.53	0.50	-132.37

**89% of instances closed below the entry price at some point in the next week.**

Pullbacks of some kind have been quite reliable, with most of the damage occurring in the 1<sup>st</sup> two days. The 1-day equity curve looked the most appealing so I have produced that below.

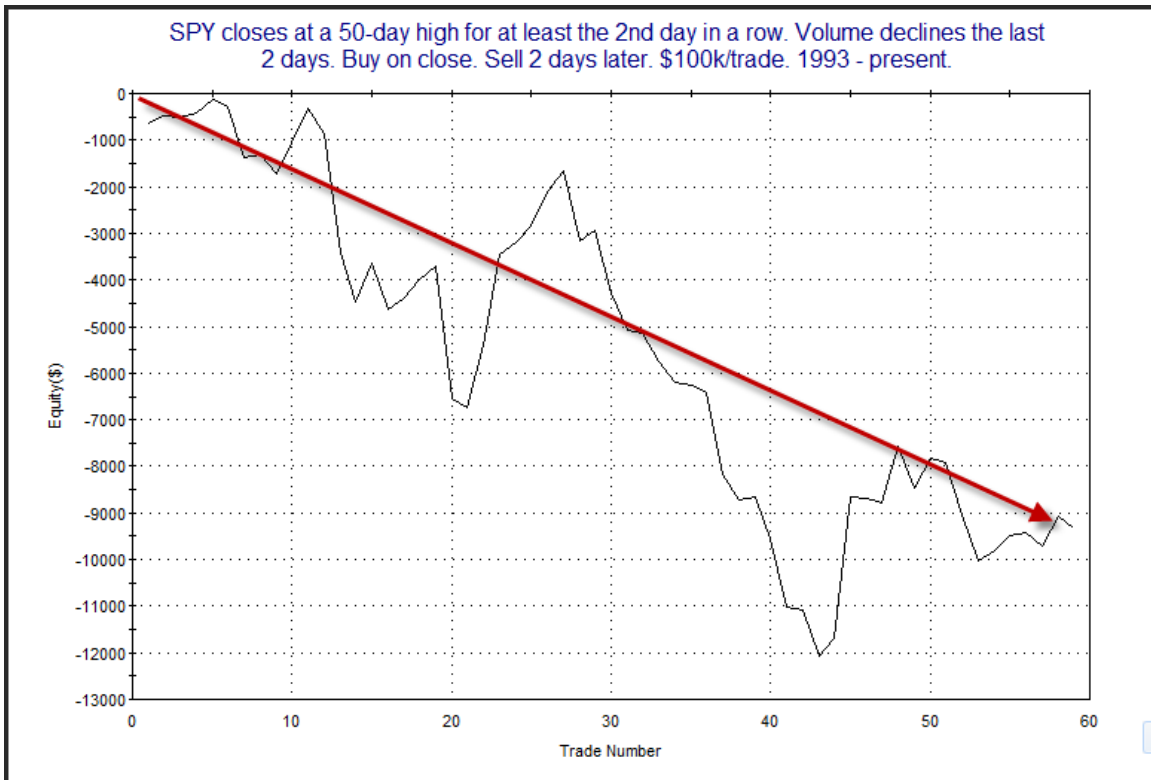


The fairly steady decline seems to support the idea of a short-term downside edge.

While SPY was making new highs the last couple of days, SPY volume declined. This triggered the study below, which was last seen in the 2/21/12 subscriber letter. I have updated the results.

SPY closes at a 50-day high for at least the 2nd day in a row. Volume declines the last 2 days. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-10,162.79	58	27	30	46.55	964.13	5,787.33	-1,206.48	-4,272.30	0.80	0.72	-175.22
4	-8,436.15	59	28	31	47.46	819.49	3,376.89	-1,012.32	-4,081.95	0.81	0.73	-142.99
3	-9,246.84	59	28	31	47.46	777.92	4,832.25	-1,000.92	-3,240.00	0.78	0.70	-156.73
2	-9,331.96	59	26	33	44.07	600.64	3,047.16	-756.02	-2,827.05	0.79	0.63	-158.17
1	-5,428.10	65	21	43	32.31	594.01	3,399.63	-416.34	-1,745.63	1.43	0.70	-83.51

The stats here appear to suggest a moderate downside edge over the next 1-2 days. Below is an equity curve using a 2-day exit strategy.



Definitely choppy but the series of lower highs and lower lows suggests a downtrend intact. I have included both of the studies above on the short-term active list.

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



No substantial change in the Aggregator formation. The green Aggregator line remained 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 is also below 0. The negative reading means the SPX is overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator system to remain short at the close.

Based on the current active studies expectations are set to remain bearish on Thursday. This could easily change if compelling bullish evidence emerges. The Differential Pivot will be 1,478.42 on Thursday. This is 1.1% below Wednesday's close. So it will take a decline of at least this much on Monday in order for the SPX to move from overbought to oversold.

No lectures tonight about patience. Just know that remains my game plan. At some point the things that normally matter will matter again and the market will take a dip. Perhaps

Apple's disappointment after the bell may spark it on Thursday. Even so, I don't want to get short in the face of this liquidity flood and strong upside momentum. So I will continue to wait for a better risk/reward setup.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 1/22– bullish***

The intermediate-term outlook was last updated in the 1/22 letter. Link below:

[2013-01-22 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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