

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 25, 2013

Volume 6 Issue 17

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 hitting 10-day highs after closing > 5ma for at least 10 straight days suggests extended condition likely to pull back.

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)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
January 25, 2013	SPY 10 days > 5ma. 10-high close.	1-2 days	Bearish	-1.20%
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	Bearish	
January 22, 2013	HV low for 4 days. SPX high.	1-4 days	Bullish	
January 22, 2013	MLK week bearish	1-4 days	Bearish	
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	
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

Thursday was a mixed one for the market. The SPX was basically flat, finishing up a small fraction of a point, the Nasdaq fell 0.7% (largely thanks to Apple), and the Russell 2000 rallied 0.4%. Breadth was moderately positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 58%. Volume rose a little from Wednesday's level.

Small gains each day in the SPX are triggering the same studies over and over. The VIX rose again on Thursday, and that triggered the study below from last night. I have not updated it, but rather just copied the commentary and stats from last night's letter.

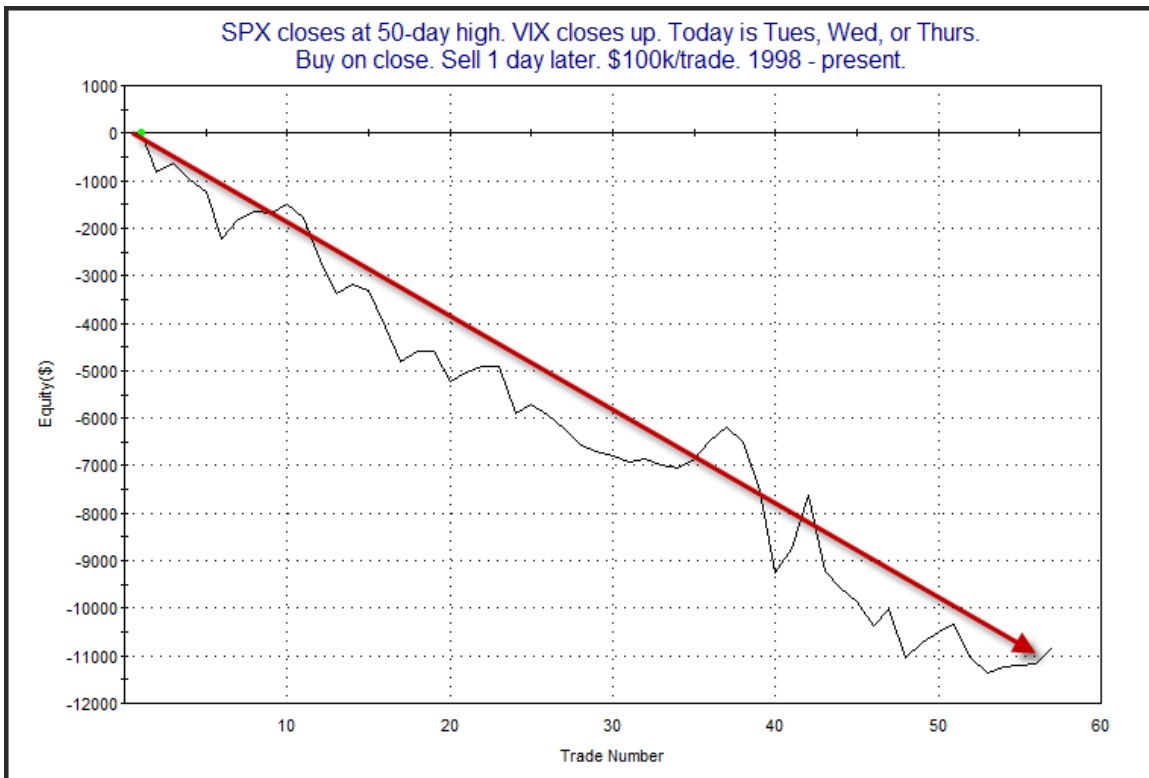
VIX studies continue to trigger. The study below was last seen just a few days ago in the 1/18/13 subscriber letter. It looks at other times the VIX has risen while the SPX has closed at a 50-day high midweek. VIX action on Mondays and Fridays is influenced by the weekend so I commonly segregate midweek 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 1st two days. The 1-day equity curve looked the most appealing so I have produced that below.



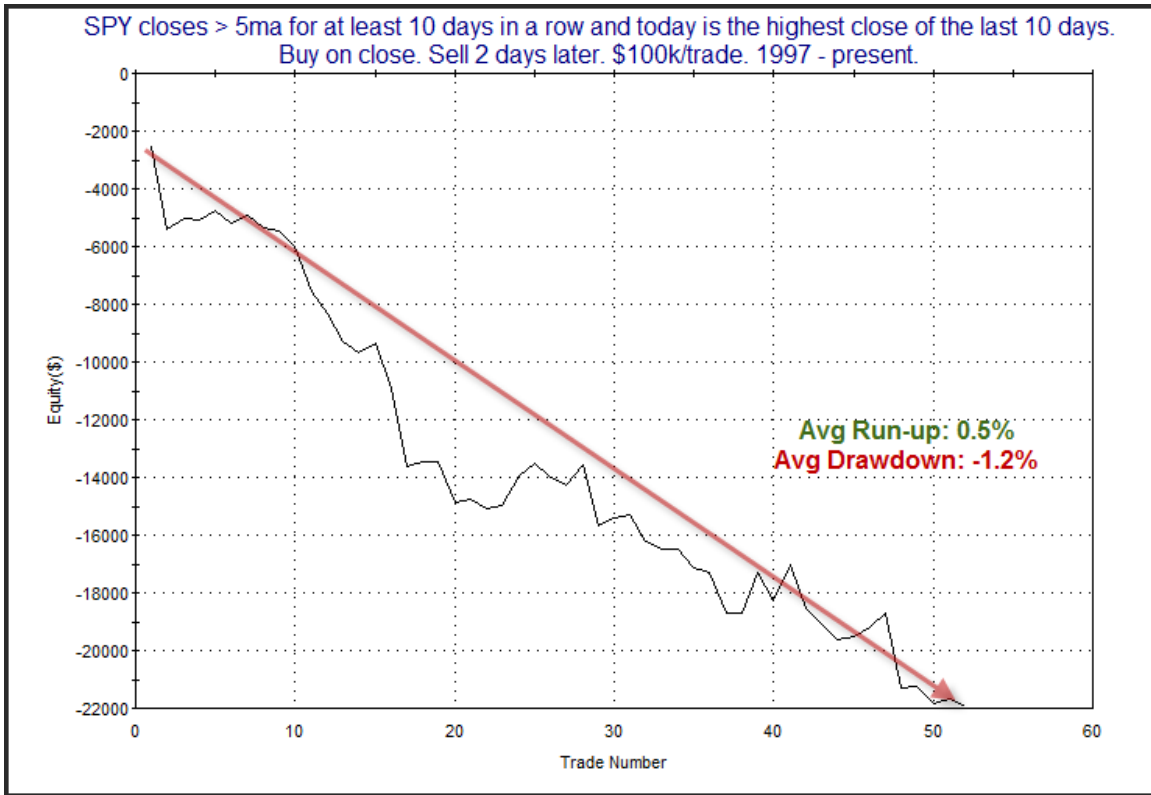
The fairly steady decline seems to support the idea of a short-term downside edge.

This next study actually triggered yesterday as well, but a slight error in the Quantifinder kept it from appearing until today. (I fixed the error.) SPY has now gone over two weeks

without closing below its 5ma. That's an unusually long period of time to hold above such a short-term moving average. The study below was last seen in the 8/17/12 subscriber letter. It looked at other instances in which the market had traded above the 5ma for so long and was now closing at a 10-day high. All results are updated.

SPY closes > 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-11,287.60	37	20	17	54.05	752.39	2,516.52	-1,549.14	-4,014.40	0.49	0.57	-305.07
4	-16,592.76	39	16	23	41.03	644.93	1,428.90	-1,170.07	-3,723.20	0.55	0.38	-425.46
3	-19,729.66	46	15	31	32.61	635.50	1,294.25	-943.94	-3,235.65	0.67	0.33	-428.91
2	-21,948.89	52	21	30	40.38	385.13	1,392.65	-1,001.22	-2,870.40	0.38	0.27	-422.09
1	-21,444.05	75	31	44	41.33	283.48	1,134.24	-687.09	-2,817.32	0.41	0.29	-285.92
90% of instances closed below the entry price at some point in the next week.												

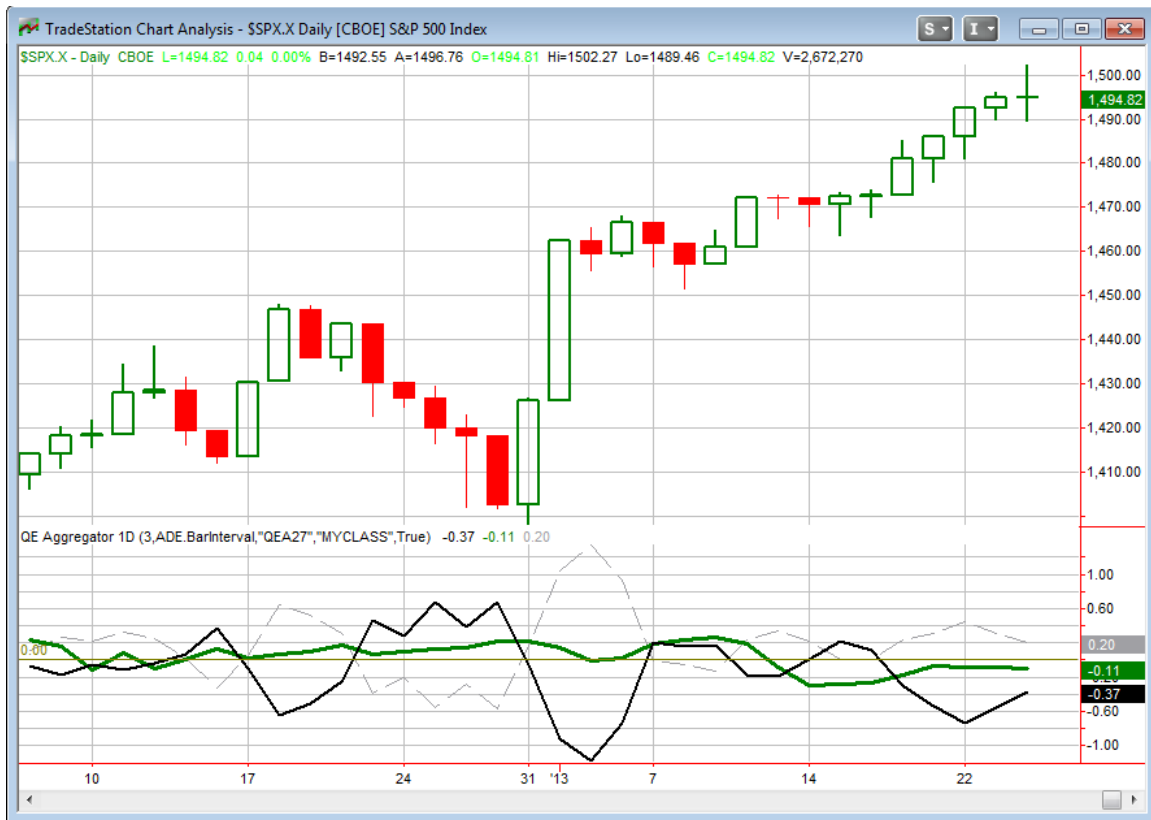
In the past this setup has almost always been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The strong downslope seems to confirm the bearish edge.

So once again evidence is pointing lower. But liquidity remains very strong (and momentum as well.)

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



Once again, no substantial change in the Aggregator formation. The green Aggregator line remained below 0. 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 Friday. This could easily change if compelling bullish evidence emerges. The Differential Pivot will be 1,487.77 on Friday. This is 0.5% below Thursday's close. So it will take a decline of at least this much on Friday in order for the SPX to move from overbought to oversold.

I feel like a broken record but I'll briefly say it again tonight. Evidence points south. But liquidity is so strong that it has been trumping all other evidence lately. Rather than fight my intermediate-term bullish outlook for a quick short attempt, I'll wait for the pullback and then consider buying in.

One final note. I had a few people ask me today whether AAPL was likely to trigger a Catapult setup. At this point that looks very unlikely to happen in the next several days, even with more selling.

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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