

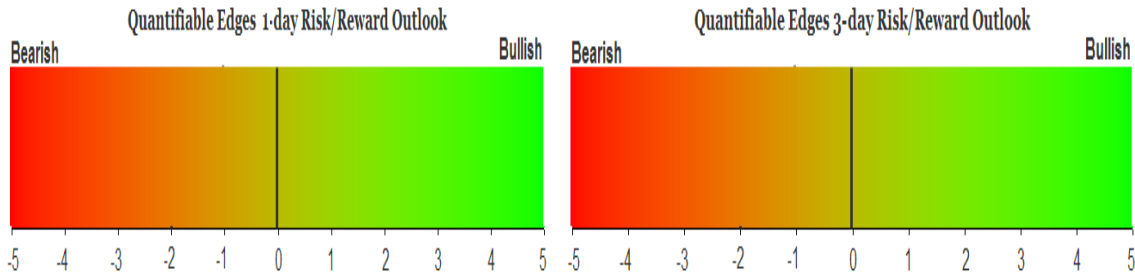
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2013

Volume 6 Issue 19

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- While SPX closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days and weeks.
- Wednesday is a Fed Day and Tuesday's action could impact Wednesday's chances of a move higher.

## Short-term Outlook

### The Bottom Line

The very mild pullback today and the momentum study from Sunday night were enough to turn expectations positive. But SPX is still overbought so the Aggregator is now neutral. I may look to take on some long exposure if we get a lower close again on Tuesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
January 29, 2013	3 Higher hi, low, close. Then dn close.	1-2 days	Bullish	
January 29, 2013	5 up then 1 dn > 200ma	1-4 days	Bullish	
January 28, 2013	8-day closing range crosses over 75%	1-2 days	Bearish	
January 28, 2013	SPX & VIX up on Friday > 200ma	1-3 days	Bearish	
January 28, 2013	8 days up & 50-day high	1-4 days	Bullish	
January 28, 2013	SPY 10 days > 5ma. 10-high close.	1-2 days	Bearish	-1.20%
<b>Active - Long Term</b>				
January 29, 2013	3 Higher hi, low, close. Then dn close.	1-10 days	Bullish	
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.

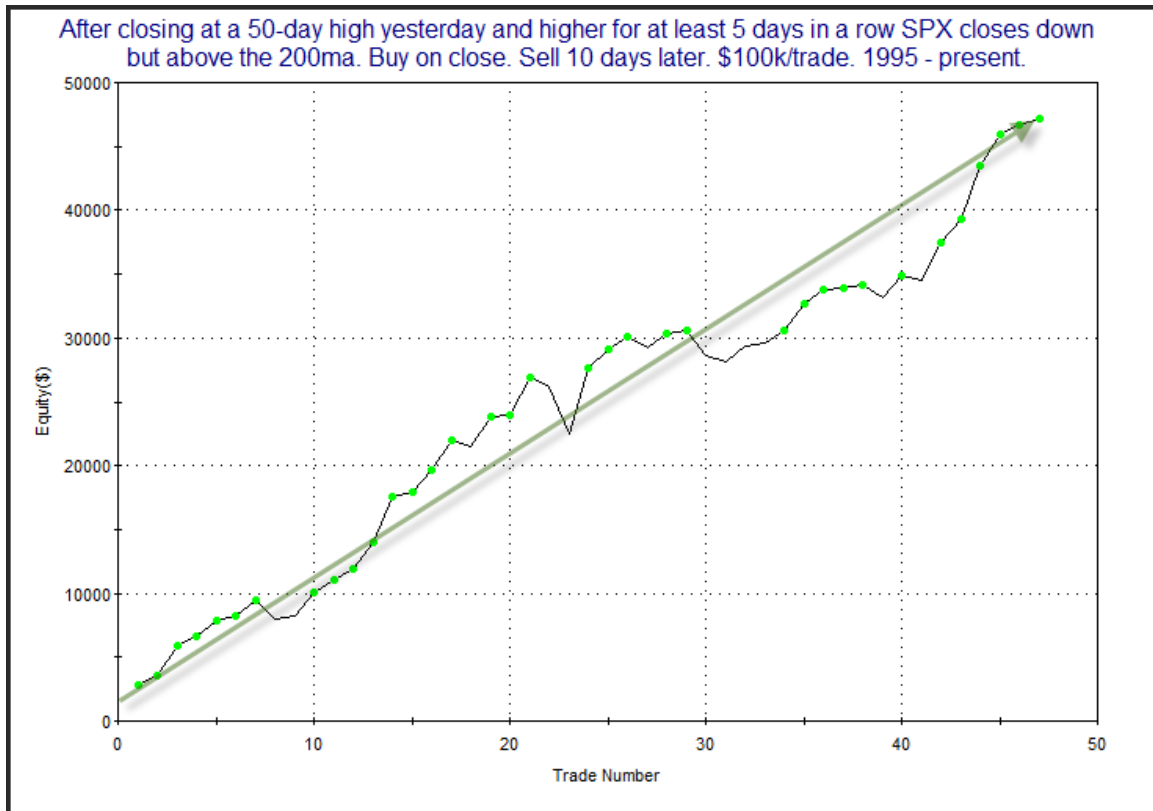
**The Evidence**

Monday was mixed. The SPX finally had a down day with a 0.2% drop, while the Nasdaq and Russell 2000 each rallied 0.2%. Breadth was negative as the NYSE Up Issues % was 43% and the Up Volume % came in at 39%. Total NYSE volume dipped fro the 2<sup>nd</sup> day in a row.

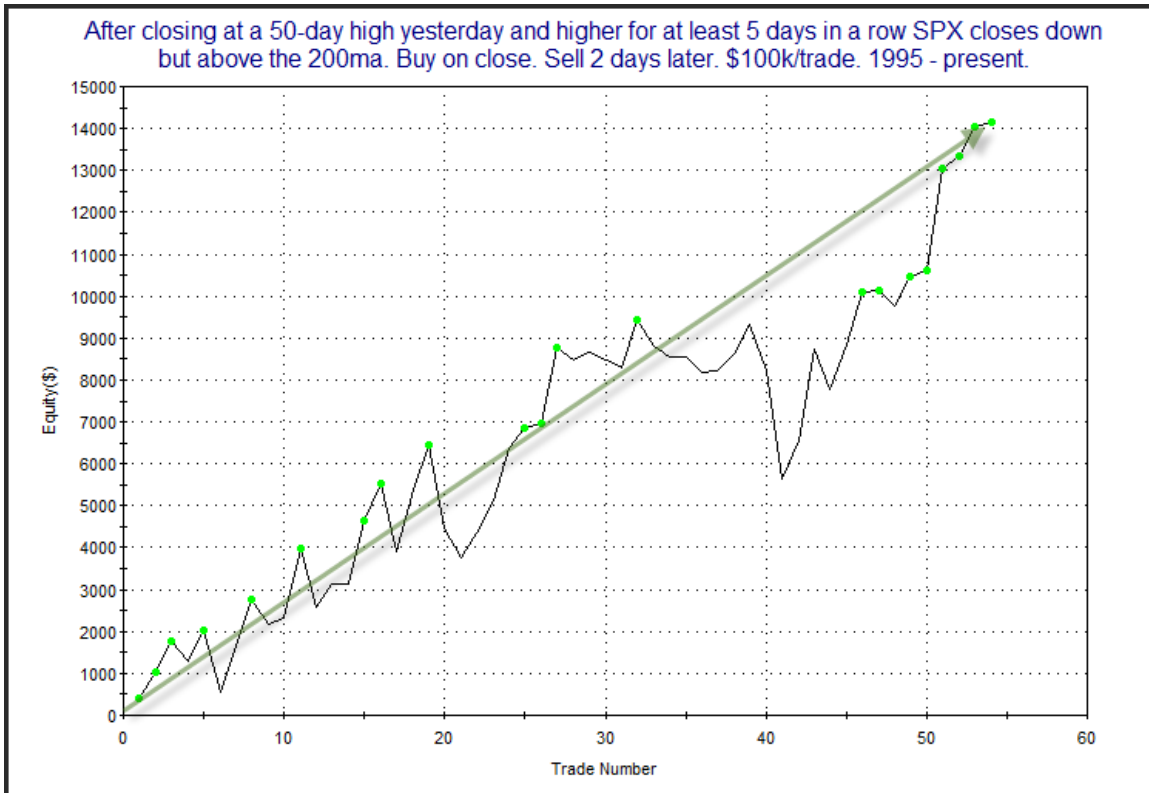
As everyone likely knows, prior to Monday's drop the SPX was locked in a persistent rally. I've shown a few different ways in the past that persistent rallies are unlikely to end abruptly. Instead they will either continue higher after a brief pullback, or action will become choppy prior to a sizable move lower. The study below was last seen in the 8/14/12 letter and it triggered on Monday. I have updated the results.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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
10	47,162.81	47	38	9	80.85	1,534.46	5,131.35	-1,238.51	-3,672.90	1.24	5.23	1,003.46
9	47,537.43	50	41	9	82.00	1,505.34	5,023.20	-1,575.73	-4,151.40	0.96	4.35	950.75
8	40,090.02	51	34	17	66.67	1,757.51	4,878.08	-1,156.77	-4,874.10	1.52	3.04	786.08
7	32,396.13	52	34	18	65.38	1,575.16	3,874.76	-1,175.52	-3,912.48	1.34	2.53	623.00
6	31,997.44	54	35	19	64.81	1,469.16	4,307.20	-1,022.26	-3,637.71	1.44	2.65	592.55
5	24,752.60	54	34	20	62.96	1,236.19	4,252.50	-863.89	-2,466.75	1.43	2.43	458.38
4	24,244.97	54	33	21	61.11	1,243.55	3,843.00	-799.63	-3,003.39	1.56	2.44	448.98
3	13,960.23	54	34	20	62.96	920.48	2,472.85	-866.80	-1,992.34	1.06	1.81	258.52
2	14,147.56	54	36	18	66.67	814.54	2,437.50	-843.10	-2,614.95	0.97	1.93	261.99
1	8,230.90	54	33	20	61.11	572.08	1,751.19	-532.39	-1,744.10	1.07	1.77	152.42

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.



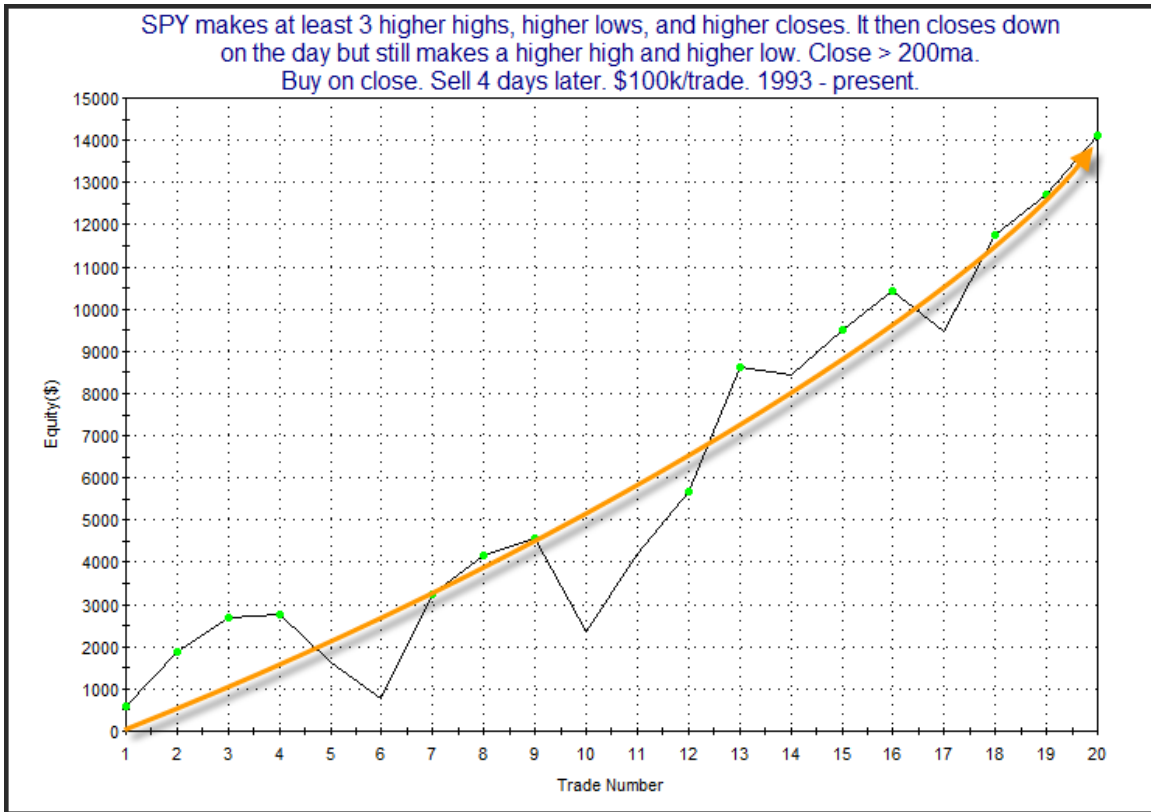
Results are choppy here but the curves look somewhat similar. And even with more whipsaws this one appears worthy of consideration.

While SPX pulled back today and closed lower, SPY still made a higher high and a higher low. The study below was last seen in the 12/7/10 Letter. It examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 higher highs, higher lows, and higher closes. It then closes down on the day but still makes a higher high and higher low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

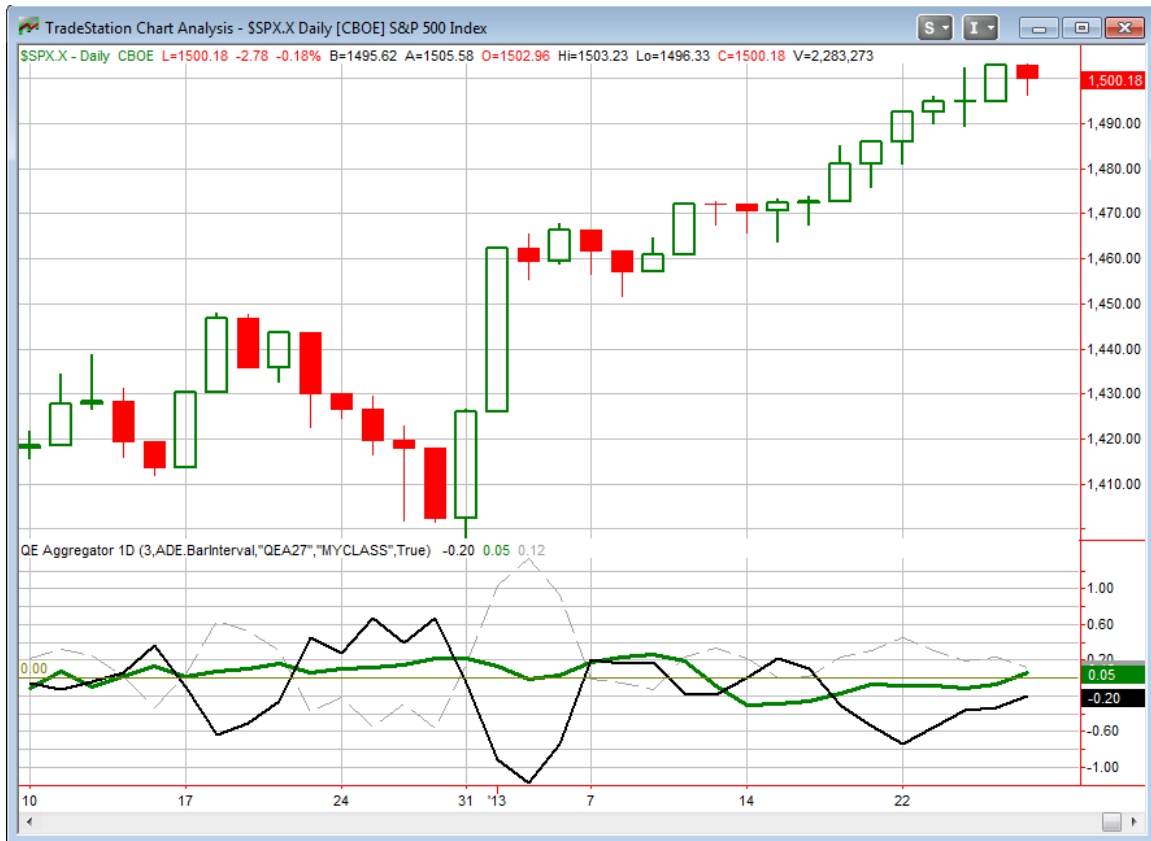
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	10,559.51	20	13	7	65.00	1,441.49	3,602.64	-1,168.55	-2,800.26	1.23	2.29	527.98
4	14,115.41	20	15	5	75.00	1,294.87	2,958.05	-1,061.53	-2,191.22	1.22	3.66	705.77
3	7,141.75	20	14	6	70.00	952.41	2,432.70	-1,032.00	-2,640.33	0.92	2.15	357.09
2	5,021.92	20	16	4	80.00	618.26	2,004.60	-1,217.54	-1,804.67	0.51	2.03	251.10
1	3,364.70	20	12	8	60.00	508.10	1,002.03	-341.55	-1,137.92	1.49	2.23	168.24

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The strong upslope has gotten even stronger lately. This study also appears worthy of consideration, and I have included it on the Active List.

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



The green Aggregator line was set to move higher today anyway, and tonight's studies made a positive close a certainty. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below 0. The negative reading means the SPX is overbought versus recent expectations. 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 flat at the close.

Based on the current studies expectations are set to remain bullish on Tuesday. This could easily change if additional bearish evidence emerges. The Differential Pivot will be 1,490.79 on Tuesday. This is 0.6% below Monday's close. So it will take a decline of at least this much on Tuesday in order for the SPX to move from overbought to oversold.

One thing to keep in mind as we approach the close on Tuesday is that Wednesday is a Fed Day. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 10/23/12 letter. Below are the 4 quartiles from highest to lowest in the daily range (not updated tonight).

SPY closes in top 25% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

**TradeStation Performance Summary**

[Collapse ^](#)

**All Trades**

Total Net Profit	\$10,668.70	Profit Factor	1.61
Gross Profit	\$28,181.69	Gross Loss	(\$17,512.99)
Total Number of Trades	61	Percent Profitable	50.82%
Winning Trades	31	Losing Trades	28
Even Trades	2		
Avg. Trade Net Profit	\$174.90	Ratio Avg. Win:Avg. Loss	1.45
Avg. Winning Trade	\$909.09	Avg. Losing Trade	(\$625.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

SPY closes > 50% and <= 75% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

**TradeStation Performance Summary**

[Collapse ^](#)

**All Trades**

Total Net Profit	\$12,892.90	Profit Factor	2.01
Gross Profit	\$25,714.89	Gross Loss	(\$12,821.99)
Total Number of Trades	36	Percent Profitable	55.56%
Winning Trades	20	Losing Trades	15
Even Trades	1		
Avg. Trade Net Profit	\$358.14	Ratio Avg. Win:Avg. Loss	1.50
Avg. Winning Trade	\$1,285.74	Avg. Losing Trade	(\$854.80)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

SPY closes > 25% and <= 50% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 9/30/2012

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$10,501.80	Profit Factor	2.60
Gross Profit	\$17,070.96	Gross Loss	(\$6,569.16)
Total Number of Trades	25	Percent Profitable	72.00%
Winning Trades	18	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$420.07	Ratio Avg. Win:Avg. Loss	1.01
Avg. Winning Trade	\$948.39	Avg. Losing Trade	(\$938.45)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 2003 - 9/30/2012

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$20,552.27	Profit Factor	4.08
Gross Profit	\$27,234.96	Gross Loss	(\$6,682.69)
Total Number of Trades	35	Percent Profitable	74.29%
Winning Trades	26	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 2.5 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out *prior* to the actual Fed announcement. Traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

The Aggregator is neutral but it should shift to bullish if we close down about 0.6% and below the Differential Pivot on Tuesday. With a Fed Day on tap, and then turn of the month later in the week we should also have some strong seasonality. So I will look to

take on some long exposure at Tuesday's close under the right conditions. Details are in the Trade Ideas section near the bottom of the letter.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 1/28– bullish***

The intermediate-term outlook was last updated in the 1/28 Letter. Link below:  
[2013-01-28 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 share if SPY closes <= \$150.06 AND in the bottom 25% of its daily range.*** This is primarily a Fed Day play. I will likely look to get out of it prior to the actual announcement on Wednesday.

***SPY – buy ¼ index share on SPX close <= 1,490.79.*** Based on the short-term outlook above. This is the Differential Pivot. A close below here will mean the SPX is short-term oversold versus recent expectations. With expectations very likely to remain bullish under these circumstances I will take a partial long position on a close at or below this level.

### **Current Open Trade Ideas**

*None*

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