

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 1, 2013

Volume 6 Issue 22

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Poor closes to positive months have often been followed by a bounce.
- The 1<sup>st</sup> 5-day low in over 2 weeks is often good for a short-term rally.

## *Short-term Outlook*

### *The Bottom Line*

Seasonality, liquidity, and expectations are all bullish. And with the SPX now slightly oversold I began scaling in to a long position. I like the long side and may add more over the next few days.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
February 1, 2013	1st 5 low in 2 weeks	1-4 days	Bullish	
February 1, 2013	Dn last 2 days of up month	1-5 days	Bullish	
January 31, 2013	Broad, shallow selloff from high	1-2 days	Bearish	
January 31, 2013	Biggest drop in 10 days from 50-high	1-4 days	Bullish	
January 29, 2013	5 up then 1 dn > 200ma	1-4 days	Bullish	
<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	
<b>Dropped Tonight</b>				
January 31, 2013	Fed Day reversal	1 day	Bullish	
January 30, 2013	8-day closing range crosses over 75%	1-2 days	Bearish	
January 28, 2013	8 days up & 50-day high	1-4 days	Bullish	
January 30, 2013	Gap & Revers 2 days. 10-high > 200	1-2 days	Bearish	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

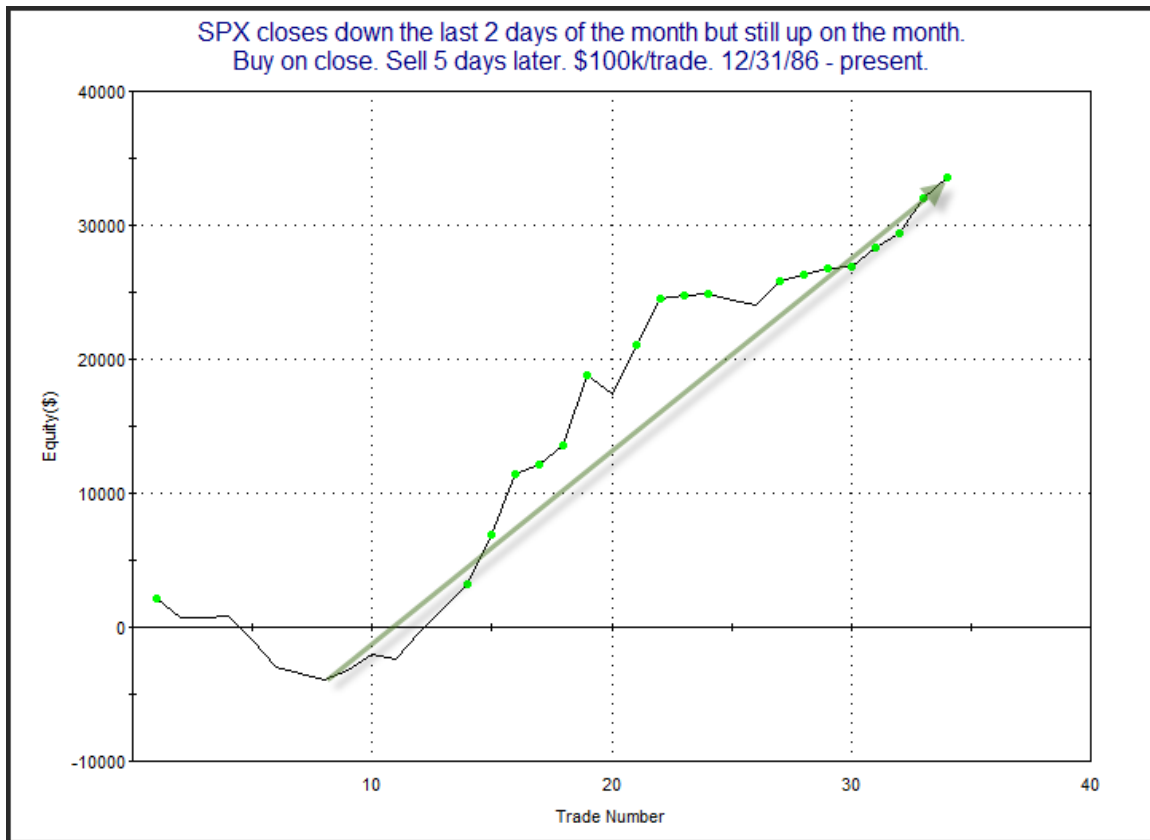
***The Evidence***

The last day of January came with mixed index returns. The SPX fell 0.3%, the Nasdaq closed basically flat, and the Russell 2000 rose 0.6%. Breadth was about breakeven as the NYSE Up Issues % was 52% and the Up Volume % came in at 49%. Total NYSE rose quite a bit above recent levels.

There were several studies that considered the upside market inclination found at the beginning of a new month. Perhaps the most compelling was the one below, which was last seen in the 8/1/12 letter. I have updated the stats.

SPX closes down the last 2 days of the month but still up on the month. Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	46,570.39	34	26	8	76.47	2,196.32	7,654.42	-1,316.73	-2,721.73	1.67	5.42	1,369.72
9	36,239.72	34	23	11	67.65	2,231.92	7,455.14	-1,372.22	-2,981.16	1.63	3.40	1,065.87
8	33,024.61	34	24	10	70.59	1,975.84	5,503.70	-1,439.54	-3,178.44	1.37	3.29	971.31
7	34,346.91	34	24	10	70.59	1,807.60	5,689.82	-903.55	-2,603.16	2.00	4.80	1,010.20
6	33,790.43	34	24	10	70.59	1,857.05	5,523.44	-1,077.89	-2,736.72	1.72	4.13	993.84
5	33,627.18	34	25	9	73.53	1,695.81	5,265.88	-974.23	-1,998.92	1.74	4.84	989.03
4	31,675.15	34	22	12	64.71	1,928.29	5,553.52	-895.60	-2,414.35	2.15	3.95	931.62
3	23,478.96	34	22	12	64.71	1,754.87	4,047.64	-1,260.67	-4,024.28	1.39	2.55	690.56
2	16,637.81	34	25	9	73.53	1,169.37	3,828.24	-1,399.62	-2,995.78	0.84	2.32	489.35
1	4,505.96	34	21	13	61.76	817.99	2,286.08	-974.76	-4,147.45	0.84	1.36	132.53

Results here would seem to suggest a decent edge over the next week+. Below is a profit curve using a 5-day holding strategy.



After a questionable start the last 30 or so instances have produced a nice strong upslope.

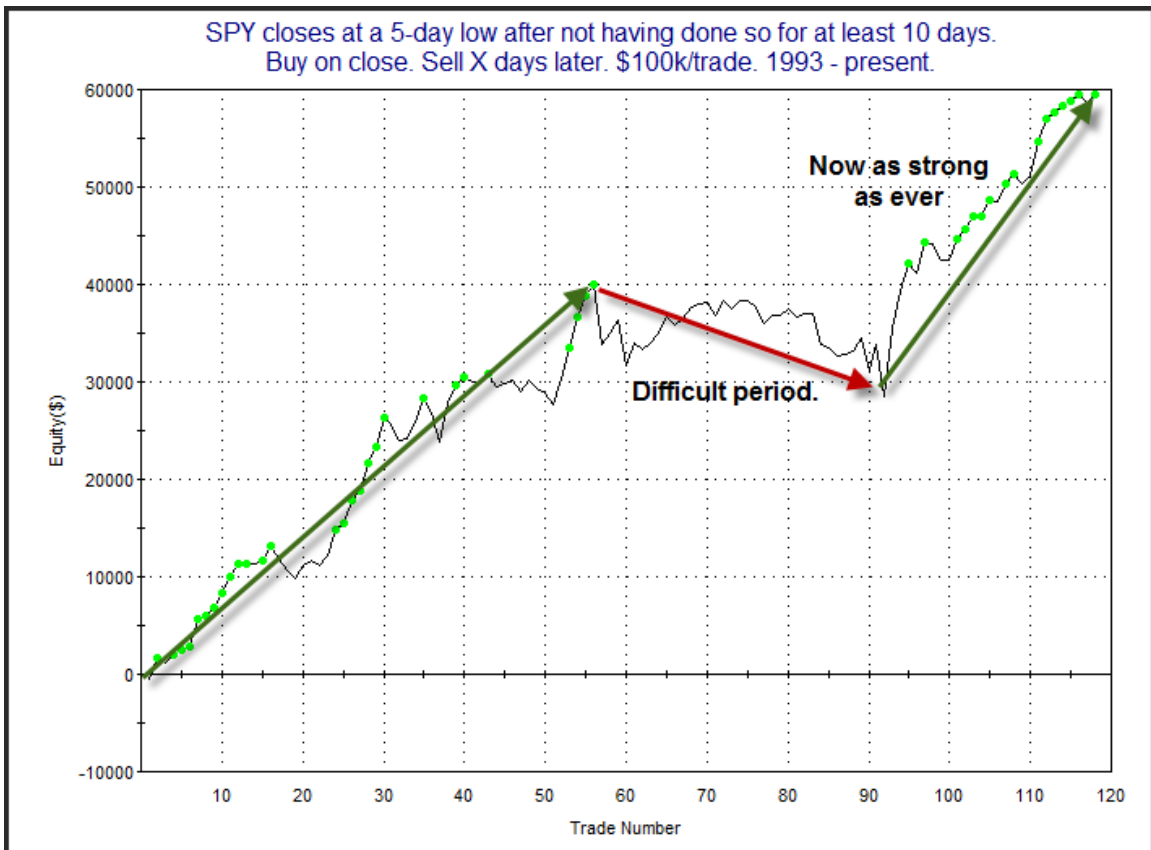
The market had gone quite a while without a pullback before the last 2 days. And while it isn't very impressive from a % decline standpoint, it did at least close at a 5-day low on Thursday. That hadn't happened for a while. In the 8/24/12 letter I looked at other instances of SPX closing at a 5-day low after going at least 2 weeks without one. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 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
10	95,358.66	118	79	39	66.95	2,161.27	8,925.10	-1,932.86	-8,623.54	1.12	2.27	808.12
9	82,281.65	118	79	39	66.95	1,960.33	8,933.76	-1,861.15	-6,709.56	1.05	2.13	697.30
8	76,411.55	118	78	39	66.10	1,896.49	8,908.38	-1,833.71	-7,113.48	1.03	2.07	647.56
7	61,203.20	118	77	41	65.25	1,820.06	6,851.52	-1,925.39	-7,790.40	0.95	1.78	518.67
6	50,449.66	118	75	43	63.56	1,664.53	6,523.92	-1,729.99	-9,559.44	0.96	1.68	427.54
5	48,558.70	118	74	43	62.71	1,584.96	6,103.89	-1,598.33	-4,906.44	0.99	1.71	411.51
4	59,499.34	118	78	40	66.10	1,443.20	6,941.43	-1,326.76	-6,244.56	1.09	2.12	504.23
3	37,347.39	118	73	45	61.86	1,297.28	5,888.16	-1,274.54	-5,295.84	1.02	1.65	316.50
2	22,901.09	118	65	52	55.08	1,133.34	3,809.72	-976.27	-3,737.28	1.16	1.45	194.08
1	12,841.03	118	66	52	55.93	842.49	2,812.20	-822.37	-3,909.03	1.02	1.30	108.82

103 of 118 instances (87%) closed above the entry price at some point in the next week.

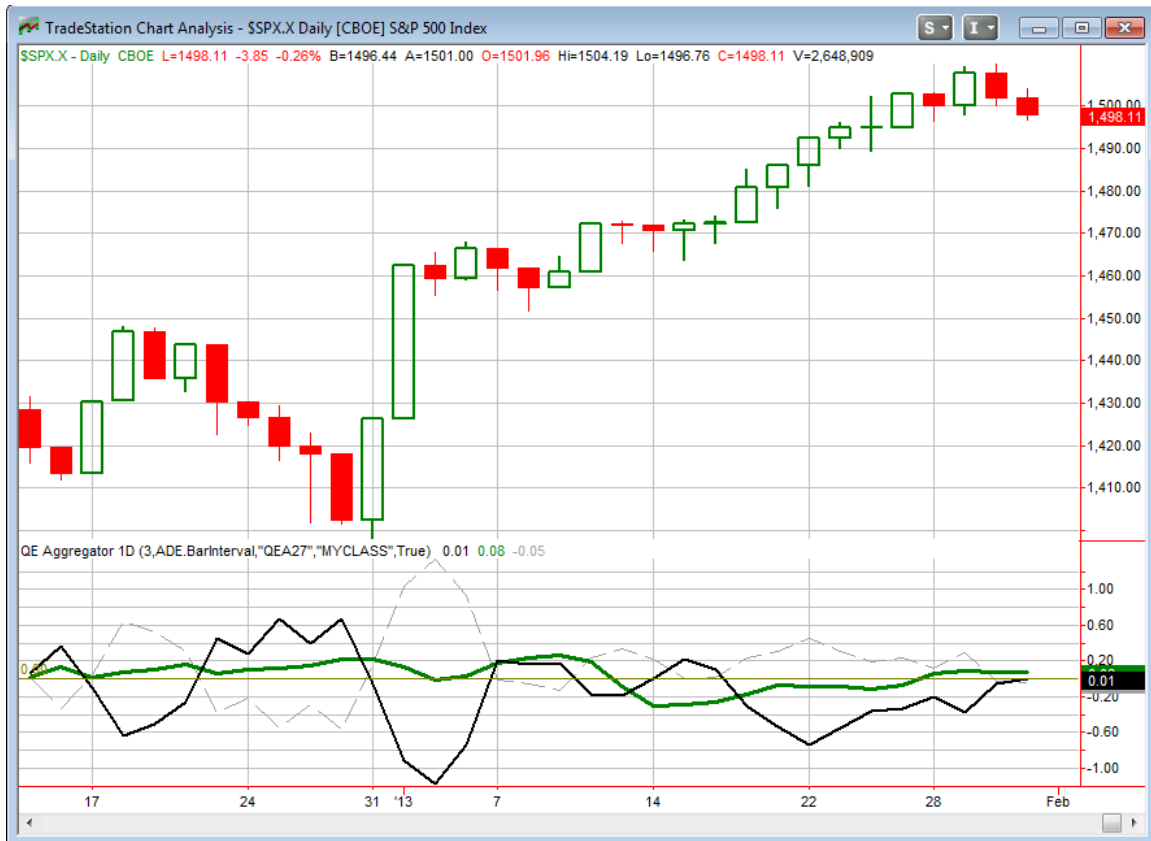
Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 20 trades or so the edge seems to have reasserted itself. Persistent uptrends normally wither before they die, rather than turn on a dime.

The Fed released their POMO and AMBS buying schedules for February on Thursday. They were as impressive as January from a liquidity expansion perspective. There is an expected \$44 billion set to be purchased via POMO during the month. There will be buying every day that the market is open except February 15<sup>th</sup>. Also, additional AMBS purchases are again scheduled for about \$40 billion. I will discuss this more over the weekend and update the QE Buying Power Index at that time. But for now I will simply say that it should remain a difficult market to short. I expect to see a strong wind continue at the market's back and for the move higher to continue this upcoming month. My focus will be in buying pullbacks.

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



Tonight the green Aggregator line was again able to hold firm above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the SPX closed just below the Differential Pivot and moved the black Differential Line just barely above 0. The positive reading means the SPX is oversold versus recent expectations. 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 turn long at the close.

Based on the current studies expectations are set to remain bullish on Friday. This could change if additional bearish evidence emerges. The Differential Pivot will be 1509.03 on Friday. This is 0.7% above Thursday's close. So it will take a close higher of at least this much in order to move the SPX from oversold to overbought versus expectations.

I began to scale in to a long on Thursday at the close. Positive liquidity, positive seasonality, and bullish studies all have me leaning long. I will scale in here as I often do. At this point the pullback has been very mild, and it could always worsen before the bounce arrives. If further selling does occur on Friday, then I may add another lot if I can get it cheap enough. Details are in the trade ideas section at 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 on close <= \$148.25.** This is based on the short-term outlook above. I'll be looking to add to my long position if we get a good sized move down on Friday

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/31/2013	\$149.70	\$149.70	0.00%		<i>bought on close</i>

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2012 Hanna Capital Management, LLC.