

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 7, 2013

Volume 6 Issue 26

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.

## *Short-term Outlook*

### *The Bottom Line*

There appears to be a moderate upside edge, but it may be short-lived. I'm still flat. I'm looking forward

**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 7, 2013	SPY up 2 but < 3 days ago.	1-2 days	Bullish	
February 5, 2013	Unfill gap up then gap dn from 20-high	1-7 days	<b>Bearish</b>	<b>-2.40%</b>
February 1, 2013	Dn last 2 days of up month	1-5 days	Bullish	
<b>Active - Long Term</b>				
January 29, 2013	up 5 & 50-day high. The down.	1-10 days	Bullish	
January 14, 2013	Breadth Divergence (from Tops Study)	int term	<b>Bearish</b>	
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	<b>Bearish</b>	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
February 6, 2013	1% up, 1% down, 1% up	1 day	Bullish	
February 5, 2013	7-day high to 7-day low in 1 day	1-2 days	<b>Bearish</b>	
February 1, 2013	1st 5 low in 2 weeks	1-4 days	Bullish	1.60%

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

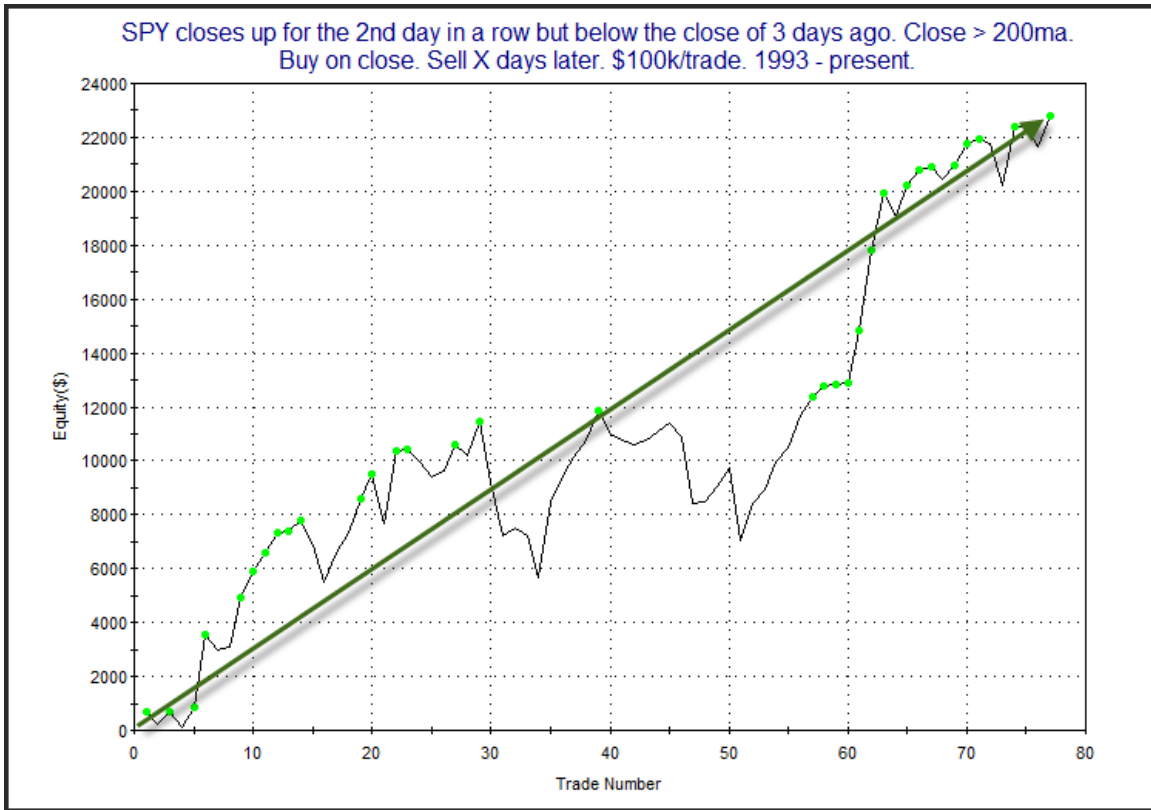
**The Evidence**

Wednesday started with a decent sized gap down, but it fought back, and in the end the market finished mixed. The SPX rose 0.1%, the NASDAQ fell 0.1%, and the Russell 2000 gained 0.3%. Breadth was positive as the NYSE Up Issues % was 58% and the Up Volume % came in at 62%. Total NYSE volume declined some from Tuesday's level.

The quiet action did not generate much in the way of compelling evidence. The study below was last seen in the 10/3/12 Letter. It looked at times the SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated that study below.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. 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	12,732.82	75	43	31	57.33	1,491.78	4,717.70	-1,658.50	-6,549.84	0.90	1.25	169.77
4	16,763.60	76	47	29	61.84	1,379.43	4,698.60	-1,657.58	-4,384.89	0.83	1.35	220.57
3	12,389.41	77	46	31	59.74	1,241.34	3,000.00	-1,442.33	-4,092.24	0.86	1.28	160.90
2	22,776.29	77	52	25	67.53	896.93	3,010.00	-954.57	-2,673.44	0.94	1.95	295.80
1	3,978.37	77	45	30	58.44	566.05	2,173.64	-716.46	-1,777.90	0.79	1.19	51.67

The stats appear to suggest a mild upside edge over the 1<sup>st</sup> 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

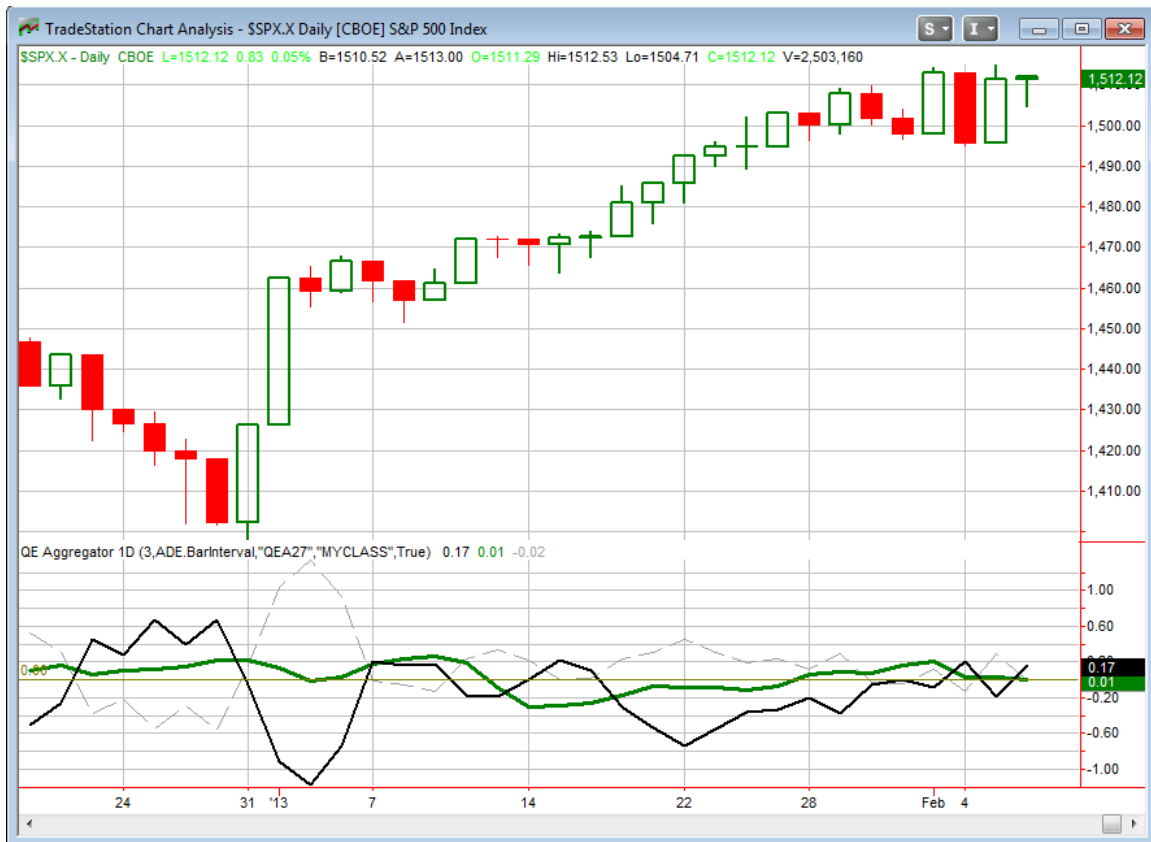
I also thought it would be interesting to see what happened those times when the 2-day rally *was* strong enough to close above the close of 3 days ago. So keeping the other parameters the same, I changed that one. Those results are below.

SPY closes up for exactly the 2nd day in a row and above the close of 3 days ago. 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	24,744.06	316	176	140	55.70	1,357.75	5,470.88	-1,530.14	-8,618.72	0.89	1.12	78.30
4	15,006.02	344	189	152	54.94	1,243.95	4,985.56	-1,448.02	-12,608.53	0.86	1.07	43.62
3	31,895.59	381	226	154	59.32	993.27	3,978.96	-1,250.55	-5,587.56	0.79	1.17	83.72
2	18,781.08	381	219	159	57.48	824.45	3,949.33	-1,017.44	-5,249.75	0.81	1.12	49.29
1	19,671.92	381	211	165	55.38	596.53	2,922.95	-643.61	-3,686.32	0.93	1.19	51.63

As you can see, that small change makes a big difference. Two days out total gains are less despite the fact that there are about 5 times as many instances. And the profit curves here look more like drift than any consistent edge.

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



Tonight's study kept the green Aggregator line just barely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose back 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 change from flat to long at the close.

Based on the current studies expectations are set to turn bearish on Thursday. Of course, like today, this could change if additional bullish evidence emerges. The Differential Pivot will again be *inverted* at 1,501.63 on Thursday. This is 0.7% *below* Wednesday's close. An inverted pivot means the Aggregator line will cross through 0 on a flat close.

In this case, in order to remain oversold, SPX will need to close lower by about 0.7%. Otherwise it will be considered “overbought” versus recent expectations.

So the Aggregator is bullish, but if it is right it won't still be bullish tomorrow thanks to the inverted pivot. In fact, a flat close without further bullish evidence could see the Aggregator flip from bullish to bearish. This jumpy behavior will often happen in very choppy markets like the one we've seen over the past week. Rather than trying to take quick hits on seemingly moderate edges I'll wait for what appears to be a more substantial edge. Of course more nimble traders may be able to take advantage of some upside here. I'm not inclined to do that as a trade idea in a subscriber letter. So I'll see how things play out on Thursday and then consider again whether I wish to take on some trades tomorrow night.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 2/4– bullish***

The intermediate-term outlook was last updated in the 2/4 letter. Link below:

[2013-02-04 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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