

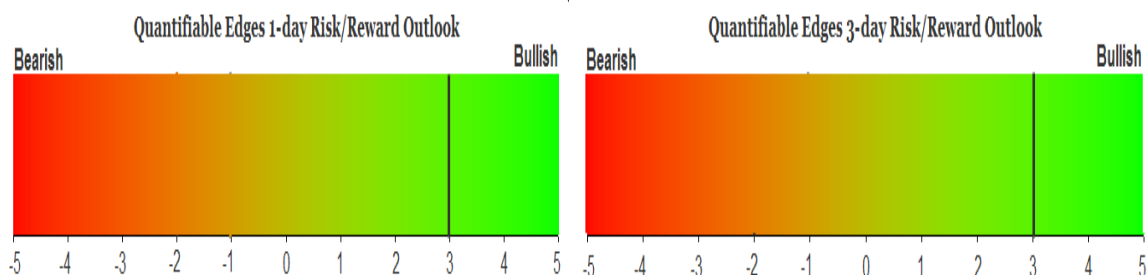
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 8, 2012

Volume 5 Issue 88

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Low-volume bounces when the SPX has been extremely oversold short-term have suggested an upside edge.

## Short-term Outlook

### The Bottom Line

It appears likely that Monday's small bounce will see a continuation over the next few days. I have a small long position. I am looking to hold on to it for now.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
May 8, 2012	Low vol bounce from RSI2 < 5.	1-2 days	Bullish	
May 7, 2012	3 dn. Today biggest. No 20-high before	1-3 days	Bullish	1.70%
<b>Active - Long Term</b>				
May 7, 2012	QQQ 5 lower lows. Today biggest drop.	1-20 days	Bullish	12.30%
March 14, 2012	SPX & TNX hit 50-day highs	1-50 days	Bearish	
March 14, 2012	50-day high on strong breadth	1-50 days	Bullish	8.00%
March 5, 2012	Negative breadth divergences	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
<b>Dropped Tonight</b>				
<i>May 2, 2012</i>	<i>1st Day of May was up</i>	<i>1-4 days</i>	<i>Bearish</i>	<i>-3.00%</i>
<i>May 7, 2012</i>	<i>SPX Down on Employment Day &gt; 1 day</i>	<i>1 day</i>	<i>Bullish</i>	

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

***The Evidence***

Futures were very weak Sunday night, but it worked its way higher through the pre-market morning hours. Then after the open it took less than 10 minutes to quickly get back to even. After that traders seemed unsure of what to do. Little progress was made in either direction for the remainder of the day. SPX and the NASDAQ each rose less than 0.1% while the Russell 2000 rose 0.2%. Breadth was mildly positive as the NYSE Up Issues % came in at 54% and the Up Volume % was 53%. Total NYSE volume came in at the lightest level in over a week..

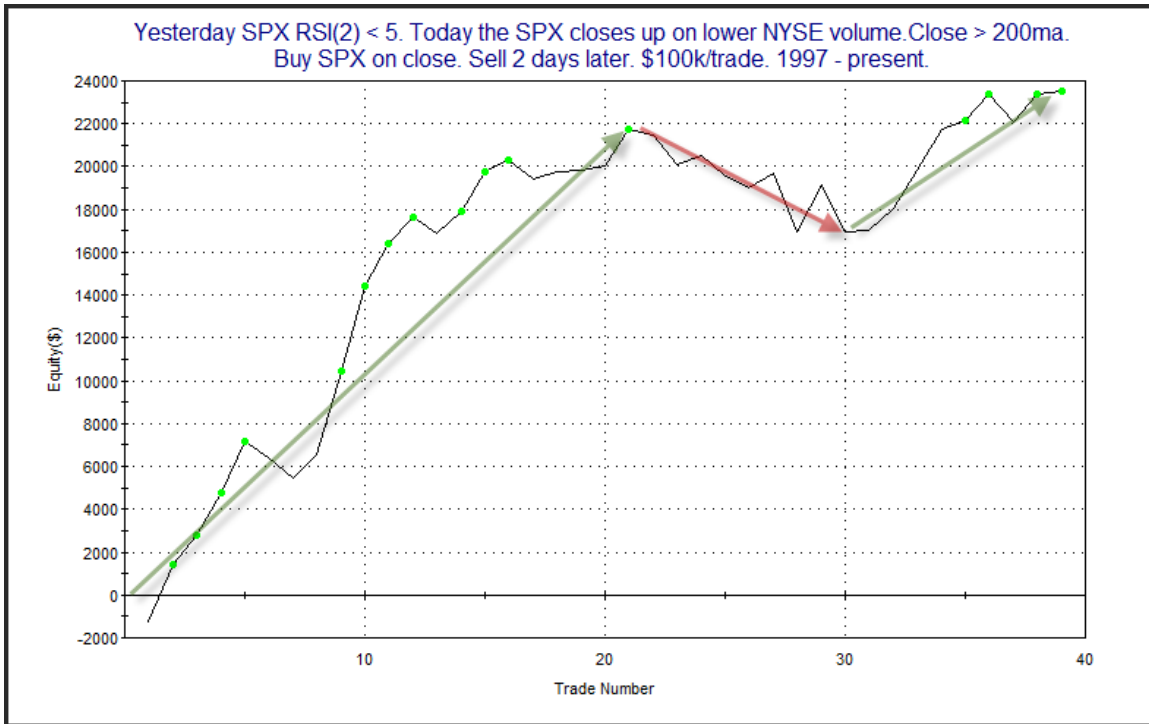
The study below was last seen about a month ago in the 4/12/12 letter. It considered bounces from strongly oversold short-term conditions and filtered based on the relative volume of the first day of the bounce. The study suggested that low volume bounces provide more favorable odds. I have updated the study below.

Yesterday SPX RSI(2) < 5. Today the SPX closes up on lower NYSE volume. Close > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1997 - present.

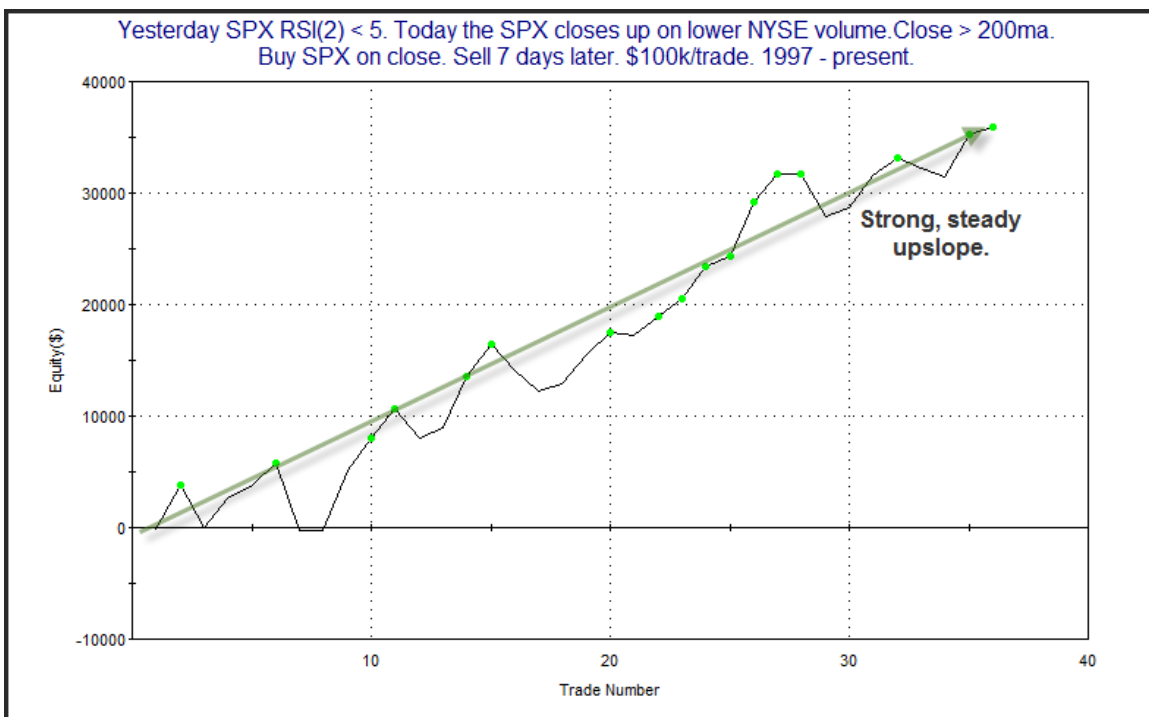
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	24,788.25	35	18	17	51.43	6,440.94	-7,402.88	3,285.31	-2,020.43	1.63	1.72	708.24
9	31,413.86	36	24	12	66.67	6,371.46	-6,195.44	2,604.46	-2,591.10	1.01	2.01	872.61
8	20,913.74	36	24	12	66.67	6,486.48	-7,580.04	2,250.91	-2,759.00	0.82	1.63	580.94
7	35,951.13	36	25	11	69.44	5,418.09	-5,975.16	2,339.56	-2,048.89	1.14	2.60	998.64
6	32,241.85	37	25	12	67.57	5,668.38	-3,510.00	2,092.58	-1,672.71	1.25	2.61	871.40
5	27,843.19	37	22	15	59.46	5,396.71	-8,178.56	2,375.39	-1,627.69	1.46	2.14	752.52
4	25,905.11	39	24	15	61.54	4,223.34	-2,736.28	1,942.10	-1,380.35	1.41	2.25	664.23
3	17,969.02	39	23	16	58.97	4,457.43	-3,490.90	1,510.13	-1,047.74	1.44	2.07	460.74
2	23,523.66	39	27	12	69.23	4,001.40	-2,735.64	1,389.14	-1,165.25	1.19	2.68	603.17
1	14,811.15	39	26	13	66.67	2,842.84	-2,782.56	977.69	-816.07	1.20	2.40	379.77

**33 of 37 instances (89%) posted a close above the entry price at some point in the next week. 36 of 37 did so within 8 days.**

The numbers here are all fairly attractive. The 2-day and 7-day results appeared to be especially appealing. Below are profit curves for both those time frames. First I will show the 2-day holding period.



This one saw a bit of a stumble in the middle of the curve, but now appears to be back on track. That is a little disconcerting, but not so much to make me throw out the study. I also wanted to look at the 7-day results.



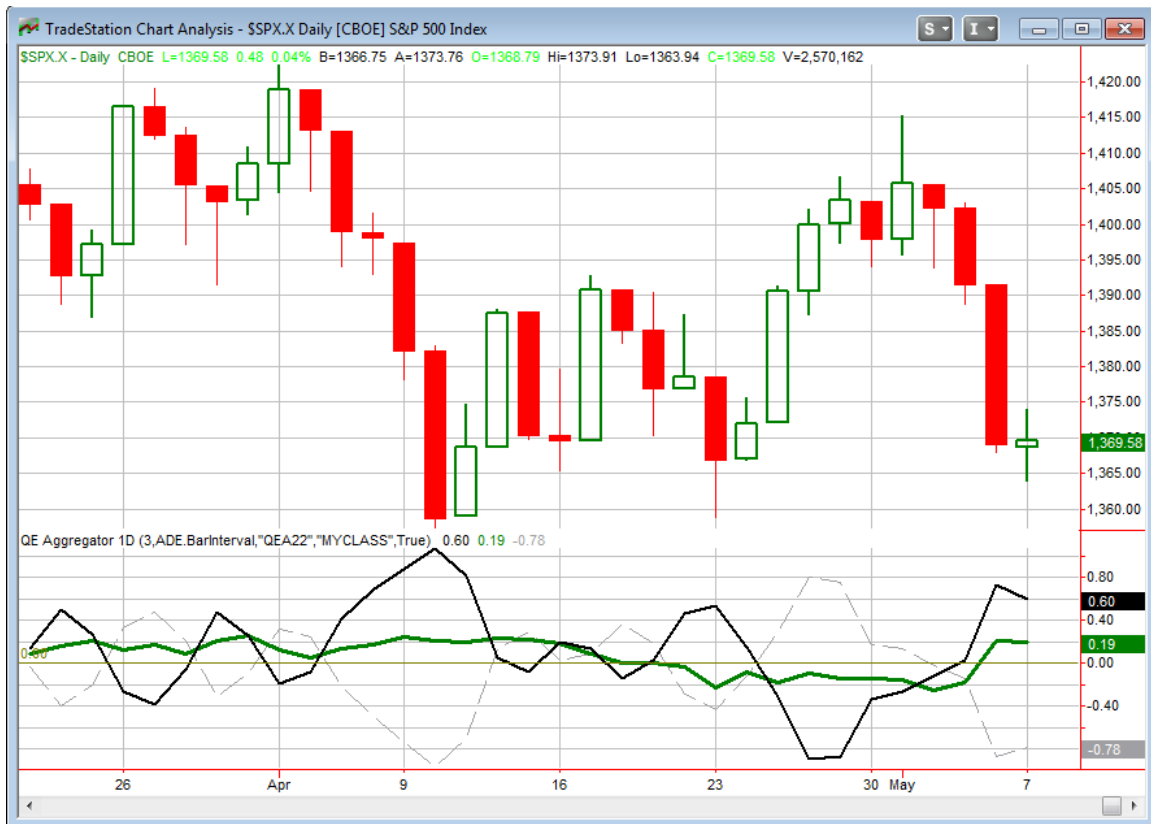
This curve is more appealing. It did not seem to suffer the same struggles that the 2-day holding period experienced.

The volume is an interesting filter here. Many readers may be wondering whether it really matters. The test below looks at the exact same scenario, except rather than requiring volume come in lower, it requires it to come in higher.

Yesterday SPX RSI(2) < 5. Today the SPX closes up on <b>higher</b> NYSE volume. Close > 200ma. Buy SPX 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: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-2,071.07	19	9	10	47.37	3,532.25	-2,969.64	1,342.26	-1,415.14	0.95	0.85	-109.00
4	-4,197.57	20	11	9	55.00	2,587.95	-2,541.13	929.63	-1,602.61	0.58	0.71	-209.88
3	-10,722.45	20	6	14	30.00	3,939.79	-2,517.13	1,234.45	-1,294.94	0.95	0.41	-536.12
2	-8,343.62	20	8	12	40.00	2,794.56	-1,962.36	705.60	-1,165.70	0.61	0.40	-417.18
1	-6,590.57	20	8	12	40.00	761.76	-1,774.60	347.28	-780.74	0.44	0.30	-329.53

As you can see, the change in volume appears to have a dramatic impact on the results. It would seem that the low volume bounces may suggest that people need convincing and are not rushing back in. But over the next few days, their willingness to commit capital and desire not let the bounce get too far away from them helps to propel it further.

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



Tonight's readings are little changed. The green Aggregator line remains positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is also well above zero. This suggests the SPX is short-term oversold versus expectations. So net expectations are bullish and 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 meant the Aggregator System remained long at the close. This was indicated as likely on the systems page shortly before the bell.

Based on the current studies, expectations will remain positive on Tuesday. Of course this could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1383.05 on Tuesday. This is a 1% above Monday's close. It would take a rally at least this large on Tuesday to move the SPX from oversold to overbought, causing the Differential line to drop below 0.

I took a small long position at the open on Monday and there still appears to be an upside edge. With the QE Buying Power Index scheduled to hit 3 on Wednesday and Friday, those could be opportune times to up the exposure, should the market fail to bounce prior to then. The evidence tonight pointed in our direction, but it wasn't overwhelming. I am going to give it a day before considering adding to my long position.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 5/7 – neutral***

The intermediate-term outlook was last updated in the 5/7 letter. A link can be found below:

[2012-05-07 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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	5/7/2012	\$64.31	\$64.76	0.70%		bought on open

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