

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 10, 2012

Volume 5 Issue 90

Market Overview



Signals Overview

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

Tonight's Research Points

- The QE Buying Power Swing System triggered its first long signal since December.

Short-term Outlook

The Bottom Line

Evidence pointing towards a bounce continues to emerge. I am long and looking to take advantage of the bounce.

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


Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 10, 2012	QE Buying Power Swing System long	1-5 days	Bullish	2.70%
May 9, 2012	20-day low close > 200ma	1-7 days	Bullish	2.00%
Active - Long Term				
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	
Dropped Tonight				
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%

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

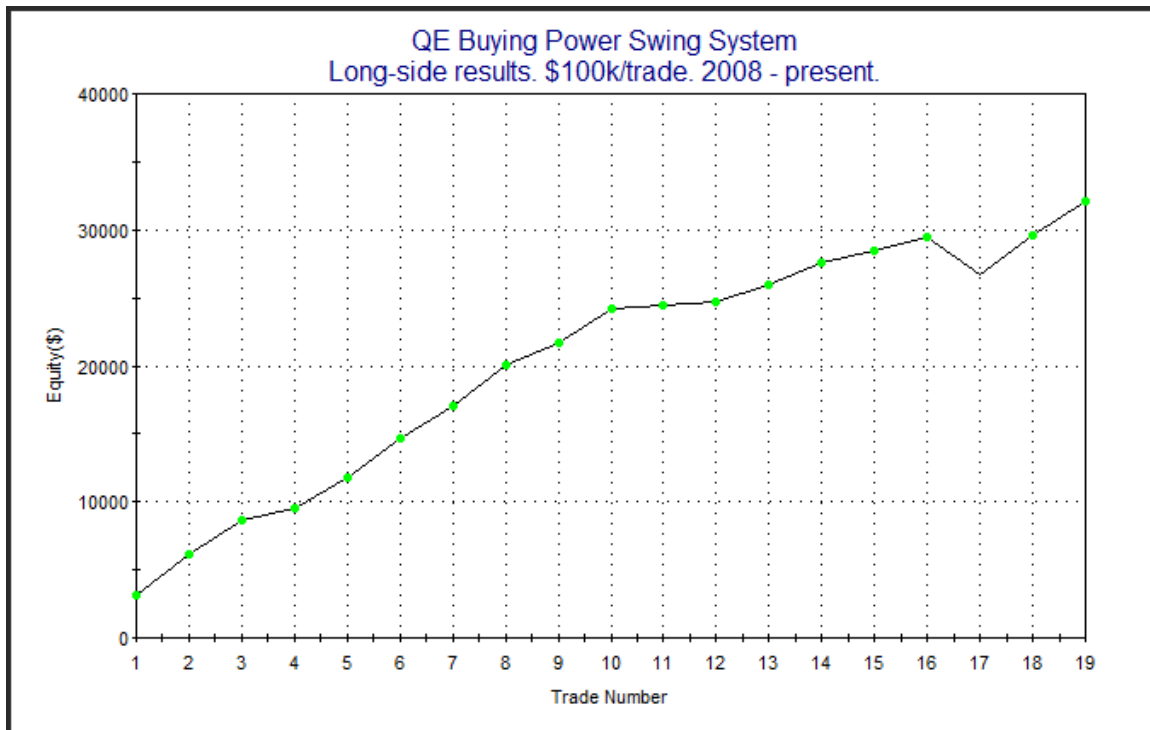
The Evidence

Wednesday again saw weakness in the morning that was followed by afternoon strength. As was the case Tuesday, this strength was not enough to close the market with positive numbers. The SPX finished down 0.7%, the NASDAQ lost 0.4% and the Russell 2000 fell 0.5%. Breadth was solidly negative as the NYSE Up Issues % came in at 32% and the Up Volume % was also 32%. Total NYSE made a 2-week high for the 2nd day in a row.

Perhaps the most significant bit of new evidence to discuss is the fact that the QE Buying Power Swing System triggered a long signal on Wednesday for the 1st time since December. Below are the long-only backtested stats for the system from 2008 – present.

QE Buying Power Swing System Long-side results. \$100k/trade. 2008 - present.			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$32,107.12	Profit Factor	12.67
Gross Profit	\$34,857.56	Gross Loss	(\$2,750.44)
Total Number of Trades	19	Percent Profitable	94.74%
Winning Trades	18	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$1,689.85	Ratio Avg. Win:Avg. Loss	0.70
Avg. Winning Trade	\$1,936.53	Avg. Losing Trade	(\$2,750.44)
Largest Winning Trade	\$3,160.20	Largest Losing Trade	(\$2,750.44)

The combination of an oversold market and POMO liquidity inflows has led to a rising market on a consistent basis over the last few years. Below is an equity curve.



This is an extremely strong equity curve. Aside from the 1 loser it is almost a straight line. The fact that this is the first signal of any kind in about 3 months and the 1st long signal in 5 months is fairly amazing. It implies that the QE Buying Power Index has done a good job over the last few months of anticipating short-term movements of the market. When there are no signals, that suggests that nothing is out of whack. Liquidity is affecting the market in a way that the index anticipates. It is when the market gets out of whack with the liquidity flows that strong edges (and trading signals) arise. The liquidity flows help the reversion take place as the market moves back to a place where it “should” be. Sometimes it is news that can get the market off track. In this case European worries appear to be an easy scapegoat. Of course news can get worse, and selloffs can intensify, but the market has now sold off to a point that the short-term liquidity inflow measured by the QE Buying Power Index should provide a substantial upside edge.

I should note that while the index reading is a 3, which is a strong reading, that only measures days. The net inflows are somewhat small – around \$1 billion. And the 5-day total will actually turn negative on Thursday (for 1 day), and then again on Tues – Thurs of next week. Still, the signal is valid and the POMO flows should provide a boost over the next few days. The standard exit for the QE Buying Power System is to give the trade at least 5 days to revert back to the upper end of its range, and then exit the long

position if the index reading falls to less than 3. So the exit would come next Thursday if we don't get an exit signal before then.

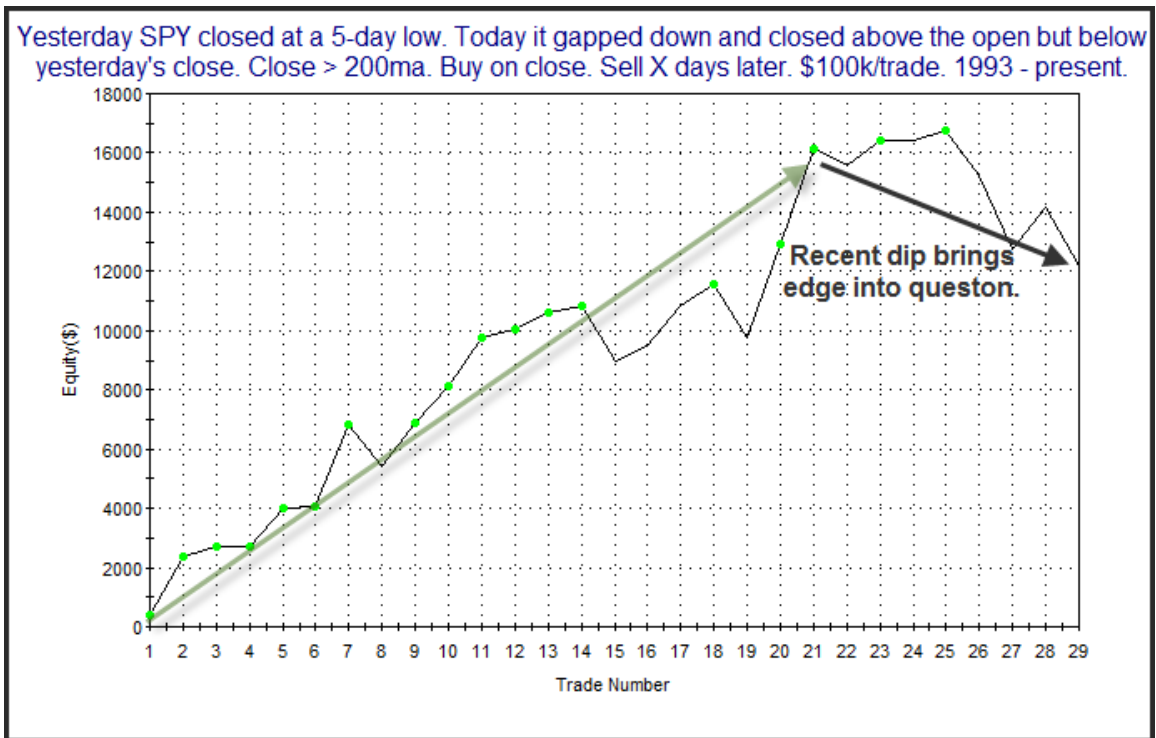
More detailed information on the QE Buying Power Swing System, including the recorded webinar and the PowerPoint slides, can be found on the QE Buying Power Index information page (for gold subscribers). Link below:

<http://www.quantifiableedges.com/members/qebuyingpower.php>

There was one other study that I thought worth discussing a bit tonight. It was last seen in the 8/1/11 letter. It looked at other instances where the SPY gapped down from a 5-day low and just partially recovered. I have updated the results below.

Yesterday SPY closed at a 5-day low. Today it gapped down and closed above the open but below yesterday's close. 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: 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	30,602.65	28	19	9	67.86	9,643.30	-8,665.33	2,997.05	-2,926.81	1.02	2.16	1,092.95
9	29,153.98	29	22	7	75.86	8,986.30	-9,276.00	2,532.53	-3,794.52	0.67	2.10	1,005.31
8	26,341.14	29	20	9	68.97	6,796.30	-13,171.92	2,636.03	-2,931.05	0.90	2.00	908.32
7	20,820.76	29	19	10	65.52	7,343.80	-9,160.05	2,269.93	-2,230.80	1.02	1.93	717.96
6	7,715.42	29	16	13	55.17	6,905.80	-13,195.11	2,138.04	-2,037.94	1.05	1.29	266.05
5	9,421.34	29	19	10	65.52	4,974.97	-7,150.25	1,593.10	-2,084.76	0.76	1.45	324.87
4	8,340.73	29	18	11	62.07	4,017.00	-7,011.11	1,506.63	-1,707.15	0.88	1.44	287.61
3	12,190.88	29	22	7	75.86	3,227.25	-2,442.68	1,081.46	-1,657.31	0.65	2.05	420.38
2	8,220.82	29	20	9	68.97	2,944.50	-4,759.36	1,225.48	-1,809.86	0.68	1.50	283.48
1	2,099.46	32	20	12	62.50	2,920.00	-3,321.28	829.20	-1,207.05	0.69	1.14	65.61

Results suggest a moderate upside edge. I looked at the equity curves though and was less excited. The 3-day curve is below.



It could be a slump, or perhaps recent action suggests there is no longer an edge provided by this setup. I'm putting it on probation and will not be including it on the Active List tonight.

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



With tonight's QE Buying Power signal factored in 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 above zero. This means 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 Thursday. Of course this could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,372.36 on Thursday. This is 1.3% above Wednesday's close. So it would take a rise of at least this much to move the SPX from oversold to overbought, causing the Differential line to drop below 0.

With the fill of last night's trade idea at the close on Wednesday I now have a 50% long index position. I'm optimistic that a good bounce will occur in the next few days and this will allow me to take advantage of it. Between my neutral intermediate-term outlook and the still-neutral CBI I'm not inclined to up it any further just yet. There was one Catapult signal today which I will look to enter on Thursday.

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

HD – buy 1/3 @ \$50.11 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(HD)

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.

HD – buy 1/3 Catapult position @ \$50.11. This is a Catapult trade and it was listed in the Catapult & CBI section above. Catapults have performed well over the years but have a volatile tendency. Traders who would like to learn more about them should check out the Catapult & CBI presentation on the videos page and the Catapult Exit Designer presentation on the downloads page.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	5/7/2012	\$64.31	\$64.32	0.02%		Aggregator
SPY(1/4)	5/9/2012	\$135.74	\$135.74	0.00%		Aggregator/QE BuyPower

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