

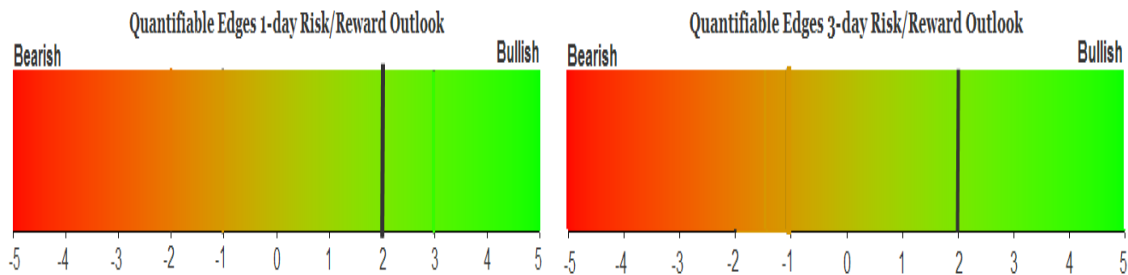
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 22, 2012

Volume 5 Issue 98

Market Overview



Signals Overview

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

Tonight's Research Points

- The unfilled gap up and close higher would be bullish from a short-term low, but from an intermediate-term low bullish inclinations are no longer apparent.

Short-term Outlook

The Bottom Line

The bounce began on Monday. I expect it will be more than just a one-day wonder. We should see some follow through in the next few days and I continue to hold some long positions. If we continue higher on Tuesday, then I will begin scaling out, but will likely continue to hold some.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 21, 2012	VIX 100 high. SPX > 100 low. Twice.	1-4 days	Bullish	2.85%
May 18, 2012	Down 3+ days. Big drop. High vol.	1-5 days	Bullish	
May 18, 2012	RSI2 < 2. 50-day low. Twice.	1-3 days	Bullish	
May 18, 2012	CBI/MCOsc overdone	1-5 days	Bullish	
May 17, 2012	4 lower lows 50-low	1-8 days	Bullish	2.40%
Active - Long Term				
May 21, 2012	CBI >= 11.	1-20 days	Bullish	6.80%
May 7, 2012	QQQ 5 lower lows. Today biggest drop.	1-20 days	Bullish	12.30%
February 1, 2012	Golden Cross	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
May 21, 2012	SPX < Bollinger Band 5 days	1 day	Bullish	

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

The Evidence

The long-awaited bounce finally arrived on Monday. The SPX gained 1.5%, the Nasdaq rallied 2.5% and the Russell 2000 closed up 2.3%. Breadth was strongly positive as the NYSE Up Issues % came in at 85% and the Up Volume % was 83%. Total NYSE volume dropped quite a bit from Friday's high op-ex aided level.

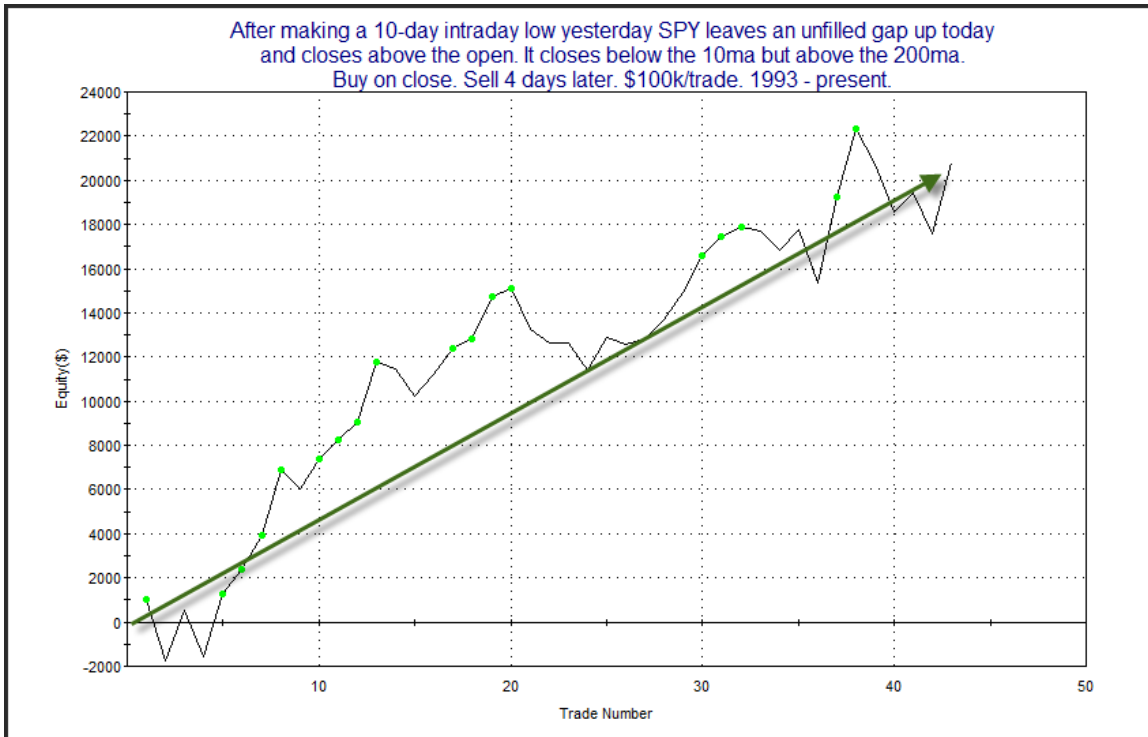
There were a few studies identified by the Quantifinder tonight, but nothing terribly compelling. Some noted the bounce from an intermediate-term low came on lower volume. I did not feel these were worth considering since Friday was options expiration and the Monday after almost always has lower volume.

The Quantifinder referred to a few studies from the 6/10/11 subscriber letter that were fairly interesting. I have copied the excerpt from that letter below. I did update all of the tables and graphs.

The price action in SPY showed some real strength in that it gapped up, never filled, and closed above the open. When the market is coming off an oversold level in an uptrend and is still not overbought, this pattern will often be followed by further gains. This is demonstrated in the study below.

After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 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	25,670.38	38	23	15	60.53	5,666.72	-4,060.20	2,191.94	-1,649.62	1.33	2.04	675.54
9	32,348.59	39	21	18	53.85	6,522.72	-3,329.90	2,587.26	-1,221.32	2.12	2.47	829.45
8	34,114.41	39	27	12	69.23	5,468.09	-5,654.80	1,954.69	-1,555.19	1.26	2.83	874.73
7	34,727.63	40	26	13	65.00	5,136.00	-9,172.30	2,205.93	-1,740.50	1.27	2.53	868.19
6	24,005.18	42	24	18	57.14	5,589.68	-3,309.80	2,025.66	-1,367.26	1.48	1.98	571.55
5	17,596.53	42	25	17	59.52	4,106.63	-3,739.32	1,680.44	-1,436.15	1.17	1.72	418.96
4	20,781.75	43	27	16	62.79	3,904.83	-2,744.82	1,525.87	-1,276.04	1.20	2.02	483.30
3	4,776.44	46	24	22	52.17	3,914.92	-2,996.76	1,159.27	-1,047.55	1.11	1.21	103.84
2	3,413.04	46	25	21	54.35	2,828.00	-2,355.20	1,048.80	-1,086.05	0.97	1.15	74.20
1	-1,077.25	46	20	25	43.48	2,121.60	-2,895.33	862.78	-733.31	1.18	0.94	-23.42
91% of instances posted a close above the entry price at some point in the next week.												

Results here appear to suggest a solid edge over the next several days. With 93% showing further gains at some point in the next week, the reliability of the setup appears very good. To get an idea of how the edge has played out over time I have run the equity curve below using a 4-day exit parameter.



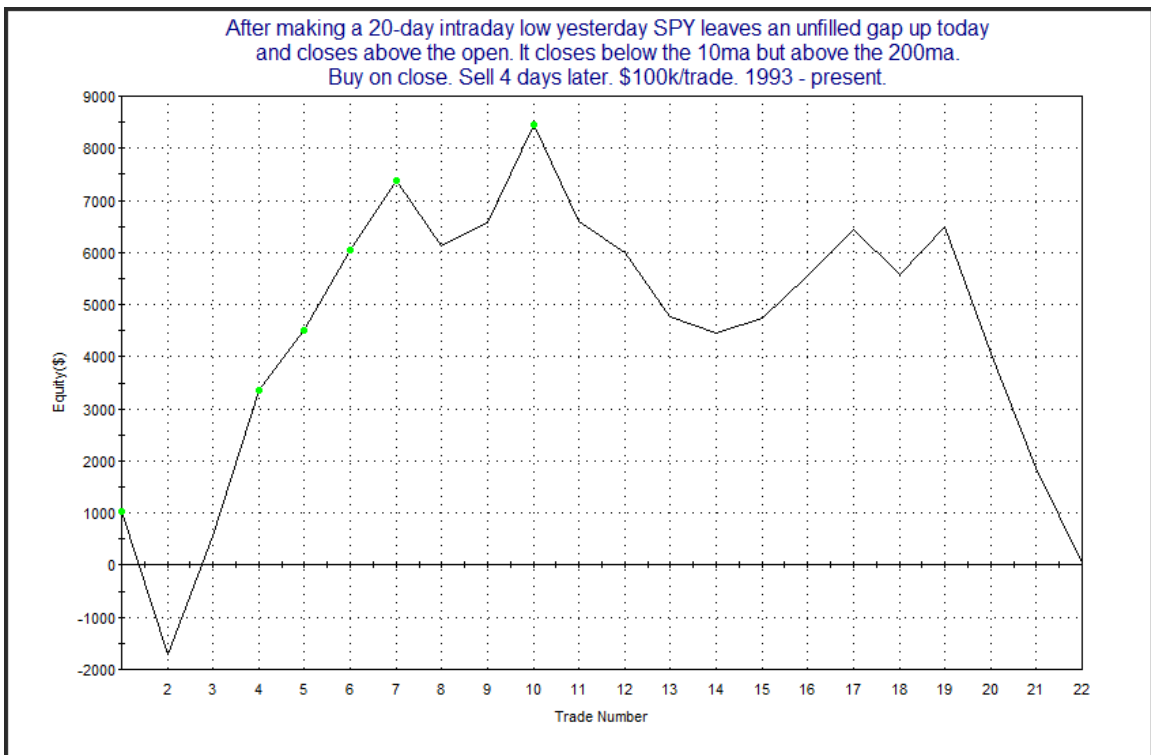
The slope has remained upwards for a long time. While it isn't perfectly smooth it does appear to confirm the upside edge suggested by the stats table.

But we aren't just at a short-term 10-day low. The market is making a 50-day low as well. When the market is hitting intermediate-term lows rather than just short-term lows then this pattern has struggled. The study below demonstrates this.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

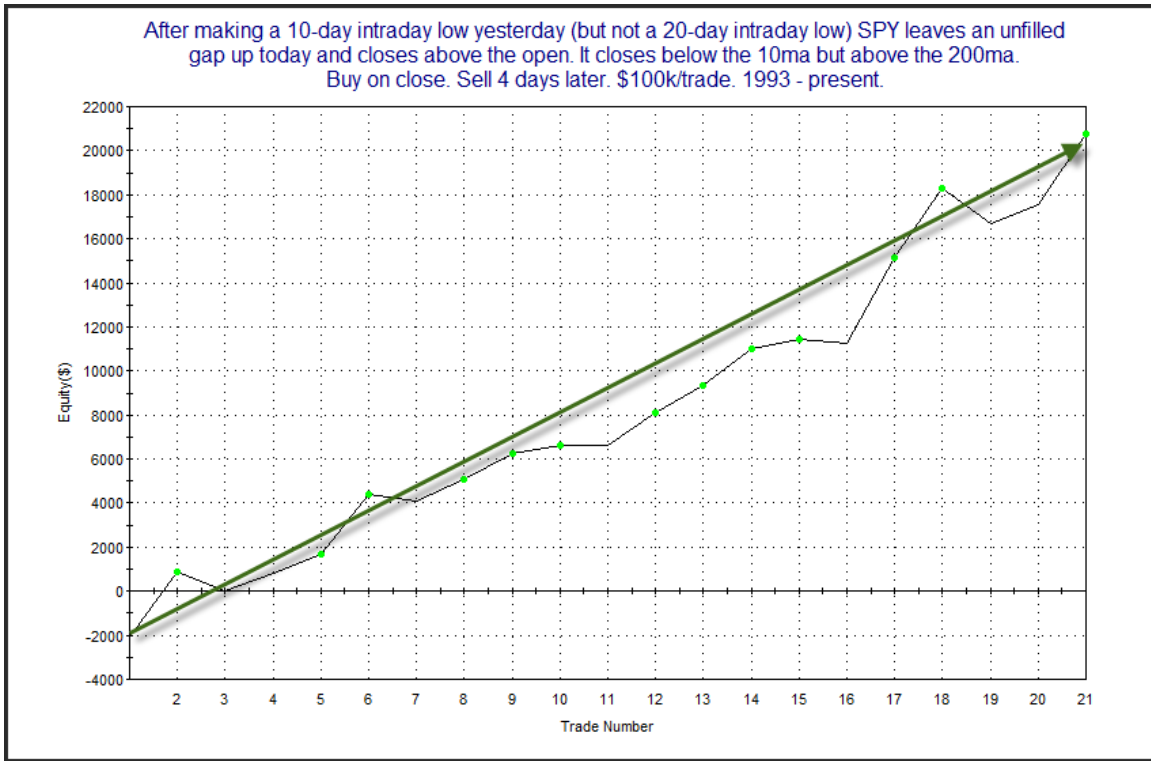
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	6,076.75	18	9	9	50.00	3,828.88	-2,717.55	1,933.13	-1,257.94	1.54	1.54	337.60
9	7,608.16	19	9	10	47.37	4,314.36	-1,900.12	2,133.23	-1,159.09	1.84	1.66	400.43
8	6,835.67	19	12	7	63.16	3,893.00	-2,690.64	1,367.50	-1,367.76	1.00	1.71	359.77
7	8,799.35	20	11	9	55.00	3,843.00	-2,770.56	1,869.03	-1,306.66	1.43	1.75	439.97
6	2,980.10	21	10	11	47.62	4,057.88	-3,222.18	1,855.09	-1,415.53	1.31	1.19	141.91
5	-2,941.35	21	9	12	42.86	3,073.60	-3,739.32	1,894.24	-1,665.79	1.14	0.85	-140.06
4	37.20	22	12	10	54.55	2,790.34	-2,744.82	1,280.57	-1,532.96	0.84	1.00	1.69
3	-8,385.62	24	10	14	41.67	1,773.00	-2,996.76	801.48	-1,171.46	0.68	0.49	-349.40
2	-6,068.84	24	11	13	45.83	1,931.20	-2,355.20	807.32	-1,149.95	0.70	0.59	-252.87
1	-1,878.87	24	9	15	37.50	2,121.60	-1,777.90	933.30	-685.24	1.36	0.82	-78.29

And here is the equity curve using a 4-day exit.



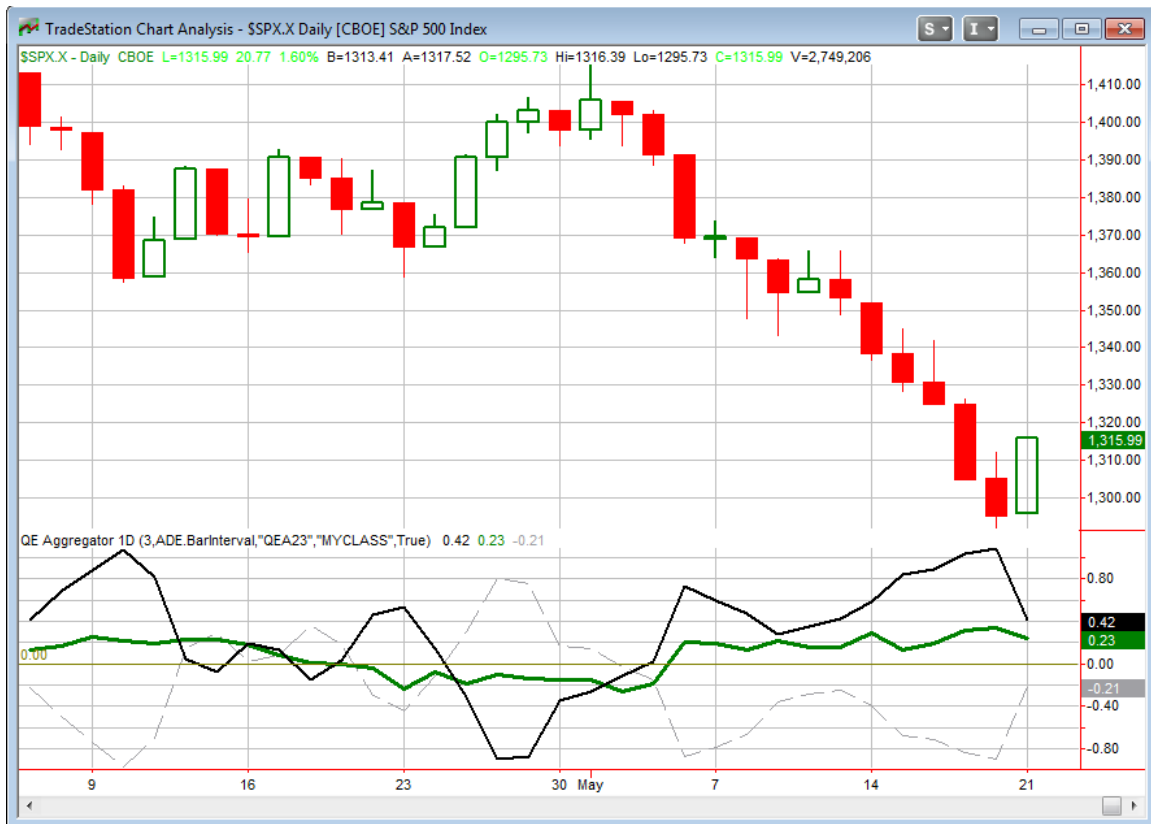
No edge is suggested here.

Lastly let's look at the curve when the market has just made a 10-day low but not a 20-day low.



It appears the ideal setup here is one where the market is making short-term lows but not intermediate-term lows. With intermediate-term lows now being made the bullish inclinations of the pattern are in question. It no longer appears worthy of inclusion in the Aggregator.

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



Without any new studies tonight the green Aggregator line is still strongly 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 0. This means the SPX is short-term oversold versus expectations. So net expectations are solidly bullish and the SPX is strongly 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. This is unlikely to change. Meanwhile, the Differential Pivot will be *slightly inverted* at 1,313.03 on Tuesday. This is 0.2% *below* Monday's close. An inverted pivot means that the Differential line will cross zero if the SPX closes flat. So for the market to remain oversold on Tuesday it will need to fall more than 0.2%.

The inverted pivot indicates the Aggregator signal will change from long to either flat or neutral if the SPX does any better than a 0.2% decline. This would normally suggest that Tuesday would be a good time to think about taking some profits. I will take a small amount of my index position off the table on Tuesday if the SPX closes higher. I intend to hold on to a decent amount of it for a while longer. I'm looking to do this for a couple

of reasons. For one, the very high CBI suggests we may get more than just a quick bounce. So I'll probably hold a portion until the CBI gets back down around three. We are also coming off of an intermediate-term low after a sizable market decline. So there is a chance an intermediate-term rally could evolve from here. I'll be monitoring action over the next few days, looking for clues that an intermediate-term rally may be emerging. If that turns out to be the case, I may also hold a small portion a while longer.

I have no interest, especially after a strong up day and with an inverted pivot, in looking to add more index exposure on Tuesday. There were however two new catapult signals that triggered. I will look to enter them. Details are in the Trade Ideas section near the bottom of the letter.

Correction from last night

In last night's letter I showed an intermediate-term study that looked at buying the SPX when the CBI rose to 10 or more and then holding that position for 20 days. Unfortunately, the results I showed were not correct. I made an error when running the study and used a CBI of 11 or higher rather than 10. The CBI did reach 11 on Friday, so it still would've triggered a study that used a filter of 11, but I meant to run it at 10. I reran the study today for a CBI level of 10. Those results are below.

Buy SPX if CBI closes >= 10. Sell 20 days later. \$100k/trade. 1995 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$93,161.62	Profit Factor	7.70
Gross Profit	\$107,074.70	Gross Loss	(\$13,913.08)
Total Number of Trades	25	Percent Profitable	80.00%
Winning Trades	20	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$3,726.46	Ratio Avg. Win:Avg. Loss	1.92
Avg. Winning Trade	\$5,353.73	Avg. Losing Trade	(\$2,782.62)
Largest Winning Trade	\$17,878.08	Largest Losing Trade	(\$9,103.22)

Results here are still very strong, but they are nowhere near the 100% success rate shown using a CBI filter of 11. Below are all of the individual instances.

Buy SPX if CBI closes >= 10.
 Sell 20 days later. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.39%	\$1,889.40
01/03/97	Sell	\$748.03		(\$3,806.94)
04/03/97	Buy	\$750.32	6.43%	\$7,156.73
05/01/97	Sell	\$798.53		(\$2,231.74)
08/14/97	Buy	\$924.77	(0.09%)	\$1,684.80
09/12/97	Sell	\$923.91		(\$3,394.44)
08/28/98	Buy	\$1,027.25	2.09%	\$3,768.45
09/28/98	Sell	\$1,048.70		(\$8,463.25)
10/18/99	Buy	\$1,254.13	11.18%	\$11,412.34
11/15/99	Sell	\$1,394.39		\$0.00
01/26/00	Buy	\$1,404.09	(3.61%)	\$2,679.54
02/24/00	Sell	\$1,353.43		(\$5,268.91)
10/18/00	Buy	\$1,342.11	3.55%	\$7,129.90
11/15/00	Sell	\$1,389.81		(\$998.26)
09/18/01	Buy	\$1,032.74	6.27%	\$6,616.32
10/16/01	Sell	\$1,097.54		(\$8,447.04)
06/12/02	Buy	\$1,020.26	(9.10%)	\$2,015.86
07/11/02	Sell	\$927.37		(\$11,693.36)
07/18/02	Buy	\$881.56	5.52%	\$5,845.49
08/15/02	Sell	\$930.25		(\$11,964.44)
02/02/04	Buy	\$1,135.26	1.22%	\$2,087.36
03/02/04	Sell	\$1,149.10		(\$952.16)
08/09/04	Buy	\$1,065.22	5.26%	\$5,473.98
09/07/04	Sell	\$1,121.29		(\$418.50)
03/23/05	Buy	\$1,172.53	(1.07%)	\$1,644.75
04/21/05	Sell	\$1,159.95		(\$3,092.30)
03/05/07	Buy	\$1,374.12	3.67%	\$4,663.44
04/02/07	Sell	\$1,424.55		(\$730.08)
11/21/07	Buy	\$1,416.76	3.06%	\$7,476.70
12/20/07	Sell	\$1,460.12		(\$746.20)
01/22/08	Buy	\$1,310.51	3.78%	\$6,498.76
02/20/08	Sell	\$1,360.02		(\$3,074.96)
03/07/08	Buy	\$1,293.37	6.12%	\$7,189.49
04/07/08	Sell	\$1,372.53		(\$2,802.03)
07/01/08	Buy	\$1,284.92	(0.05%)	\$558.25
07/30/08	Sell	\$1,284.26		(\$6,504.96)
10/07/08	Buy	\$996.23	0.96%	\$4,808.00
11/04/08	Sell	\$1,005.75		(\$15,643.00)
11/20/08	Buy	\$752.44	18.00%	\$21,966.12
12/19/08	Sell	\$887.88		(\$1,453.32)
03/02/09	Buy	\$700.82	12.37%	\$18,762.46
03/30/09	Sell	\$787.53		(\$4,832.26)
05/20/10	Buy	\$1,071.59	4.29%	\$4,596.06
06/18/10	Sell	\$1,117.51		(\$2,865.33)
06/29/10	Buy	\$1,041.24	6.23%	\$7,652.16
07/28/10	Sell	\$1,106.13		(\$2,911.68)
03/17/11	Buy	\$1,273.72	3.20%	\$5,127.72
04/14/11	Sell	\$1,314.52		\$0.00
08/08/11	Buy	\$1,119.46	4.09%	\$9,901.25
09/06/11	Sell	\$1,165.24		(\$1,594.88)

There are a few disappointments on this list, but overall a CBI of 10 would still seem to indicate an intermediate-term upside edge.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/21 – slightly bullish

The intermediate-term outlook was last updated in the 5/21 letter. To view it you may use the link below.

[2012-05-21 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

HD –1/3 @ \$50.11 (bought @ \$47.00)

APA– 1/3 @ \$82.12(bought)

KO– 1/3 @ \$75.08(bought @ limit)

APA– 1/3 @ \$81.67(bought @ limit)

KO– 1/3 @ \$74.05(not filled) – 2nd lot

APA– 1/3 @ \$80.52(not filled AND NO LONGER LOOKING FOR A FILL)

C – 1/3 @ \$26.01 (bought @ limit)

UPS – 1/3 @ \$74.03 (bought @ limit)

New

JPM – 1/3 @ \$32.51 (buy @ limit)

MS – 1/3 @ \$13.19 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 10/7 (HD, APA-3, KO-2, C, UPS, MS, JPM)

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.

KO – buy 1/3 Catapult position @ \$74.05 limit. – This is an unfilled trigger from last night. This is based on the catapult signal listed above in the Catapult & CBI section. It is the 2nd lot.

JPM – buy 1/3 Catapult position @ \$32.51 limit. - This is based on the catapult signal listed above in the Catapult & CBI section. It is the 1st lot.

MS – buy 1/3 Catapult position @ \$13.19 limit. - This is based on the catapult signal listed above in the Catapult & CBI section. It is the 1st lot.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	5/7/2012	\$64.31	\$62.51	-2.80%		Aggregator
SPY(1/4)	5/9/2012	\$135.74	\$131.97	-2.78%		<i>sell on close >= \$131.98</i>
CAT(1/3)	5/15/2012	\$93.61	\$91.98	-1.74%		<i>sell on open</i>
CAT(1/3)	5/16/2012	\$92.68	\$91.98	-0.76%		<i>sell on open</i>
CAT(1/3)	5/17/2012	\$91.02	\$91.90	0.97%		<i>sell on open</i>
APA(1/3)	5/17/2012	\$82.12	\$82.72	0.73%		Catapult
APA(1/3)	5/18/2012	\$81.67	\$82.72	1.29%		Catapult
KO(1/3)	5/18/2012	\$75.12	\$74.51	-0.81%		Catapult
HD(1/3)	5/18/2012	\$47.00	\$47.62	1.32%		Catapult
SPY(1/4)	5/18/2012	\$130.86	\$131.97	0.85%		Aggregator
C(1/3)	5/21/2012	\$26.01	\$26.25	0.92%		Catapult
UPS(1/3)	5/21/2012	\$74.03	\$74.64	0.82%		Catapult

CAT reached its exit target at the close and should be sold at Tuesday's open.

APA is nearing its exit target. Therefore I have removed the limit order on the 3rd lot for the time being.

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.