

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 23, 2012

Volume 5 Issue 99

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

Tonight's Research Points

- Nothing compelling emerged on Tuesday. The QE Buying Power Index and IBD Follow Through Days are two indicators I'll be keeping an eye on over the next couple of days.

Short-term Outlook

The Bottom Line

Expectations still suggest we could see more upside, but the SPX is no longer oversold. I've taken part of my position off the table.

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%
January 3, 1900	Down 3+ days. Big drop. High vol.	1-5 days	Bullish	3.05%
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 18, 2012	RSI2 < 2. 50-day low. Twice.	1-3 days	Bullish	

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

The Evidence

The day started off well but buyers could not maintain momentum and the indices finished mixed. The SPX gained 0.1%, while the Nasdaq fell 0.3% and the Russell 2000 declined 0.7%. Breadth was also mixed as the NYSE Up Issues % came in at 51% and the Up Volume % was 48%. Total NYSE volume rose some from Monday's level.

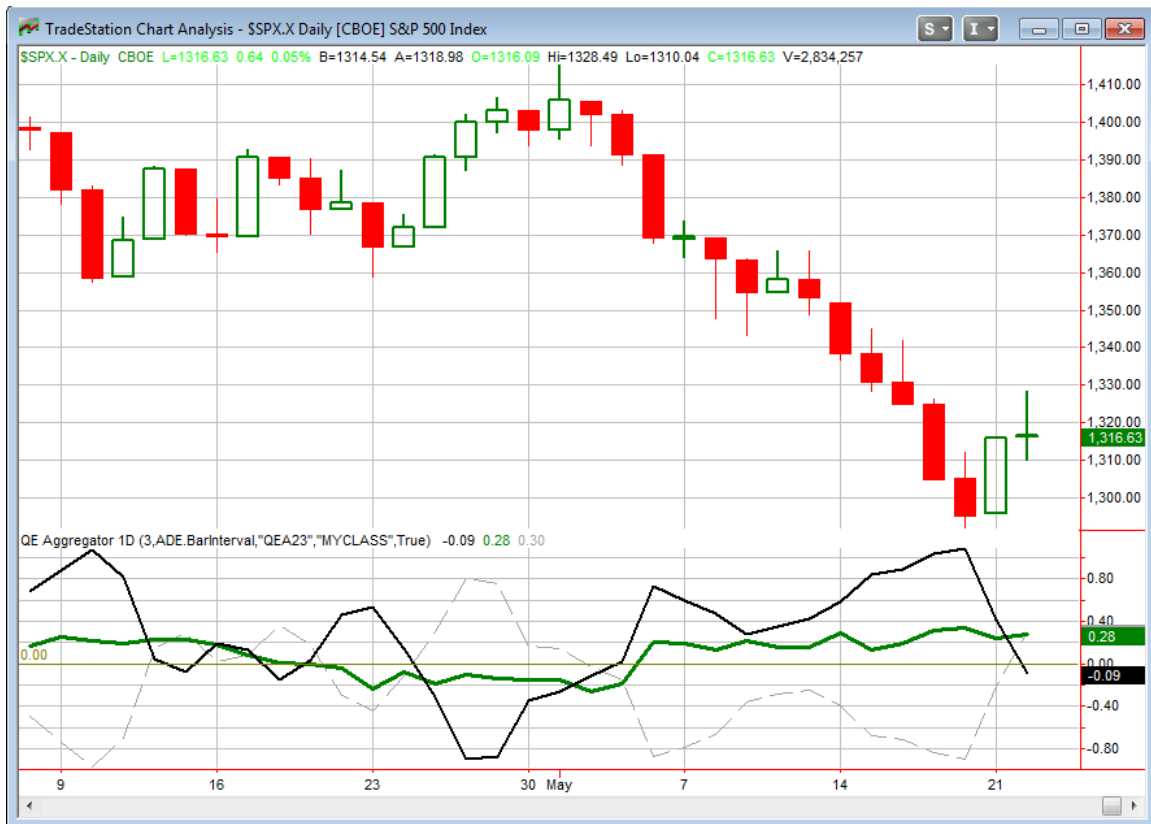
I'm going to keep it short tonight, as nothing terribly compelling triggered from a studies standpoint. The bounce the last couple of days has put SPY and QQQ at a point a little over one third of the way up their 10-day ranges. So we are nearly midrange and not seeing compelling evidence that would suggest either a continuation of the bounce or a retest of the lows. I have exited a fair amount of my long positions at this point. I intend to monitor market action closely over the next few days and see what studies emerge before taking further action.

One thing I will be on the lookout for starting Thursday will be an IBD Follow-Through Day (FTD). I have written an awful lot about FTDs on the blog over the years. Intermediate and short-term implications of FTDs are dependent on many different factors. A link to the FTD studies on the blog can be found below. If we get one in the next several days I will be sure to examine it closely and evaluate how it stands up historically.

<http://quantifiableedges.blogspot.com/search/label/IBD%20Follow%20Through%20Day>

Another indicator to keep an eye on over the next couple of days is the QE Buying Power Index, which measures short-term POMO flows. It is scheduled to close at a bullish "3" on both Wednesday and Thursday. A decline and close in the bottom 20% of the 10-day range on either of these two days would therefore trigger a QE Buying Power Swing System long signal. The positive liquidity injections over the short-term may help to prevent a sharp selloff and fresh leg down in the next few days.

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 took a dive and is now below 0. This means the SPX is short-term overbought versus expectations. So net expectations are solidly bullish but the SPX is now overbought versus recent expectations. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This meant the Aggregator System changed from long to flat 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 Wednesday. This could change if compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,305.98 on Wednesday. This is 0.8% below Tuesday's close. So for the market to turn oversold, causing the Differential Line to flip back positive, the SPX would need to close down at least this much.

I'm still mildly bullish for the short-term. The CBI hasn't quite returned to neutral yet, although it is as close as it can get at 4. The jump to 11 a few days ago suggests we may get an intermediate-term bounce. The QE Buying Power Index should also help short-term. I would also expect a bit more of a bounce after such a long, sharp decline. Still, as

we are well aware, the market has been abnormal over the last few weeks. It may not be a good idea to get aggressive at this point. More wiggling around, a retest of the lows, or even a lower leg down are all possibilities. I'm planning to sit tight today and see what emerges tomorrow.

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

KO– 1/3 @ \$75.08(bought @ limit)

KO– 1/3 @ \$74.05(bought @ limit) – 2nd lot

UPS – 1/3 @ \$74.03 (bought @ limit)

JPM – 1/3 @ \$32.51 (buy @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4/3 (KO-2, UPS, 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.

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	\$62.41	-2.95%		Aggregator
SPY(1/4)	5/9/2012	\$135.74	\$132.20	-2.61%		<i>sold on close</i>
CAT(1/3)	5/15/2012	\$93.61	\$92.76	-0.91%		<i>sold on open</i>
CAT(1/3)	5/16/2012	\$92.68	\$92.76	0.09%		<i>sold on open</i>
CAT(1/3)	5/17/2012	\$91.02	\$92.76	1.91%		<i>sold on open</i>
APA(1/3)	5/17/2012	\$82.12	\$82.14	0.02%		<i>stopped out intraday</i>
APA(1/3)	5/18/2012	\$81.67	\$82.14	0.58%		<i>stopped out intraday</i>
KO(1/3)	5/18/2012	\$75.12	\$74.19	-1.24%		Catapult
HD(1/3)	5/18/2012	\$47.00	\$48.26	2.68%		<i>sold on close</i>
SPY(1/4)	5/18/2012	\$130.86	\$132.20	1.02%		Aggregator
C(1/3)	5/21/2012	\$26.01	\$26.99	3.77%		<i>stopped out intraday</i>
UPS(1/3)	5/21/2012	\$74.03	\$74.76	0.99%		Catapult
KO(1/3)	5/22/2012	\$74.05	\$74.19	0.19%		Catapult

CAT & SPY were sold as described in last night letter.

APA, HD, & C all hit their intraday exit targets. Gold subscribers were sent intraday updates a little before noon alerting them of this and placing a stop and end of day exit strategies on those open trade ideas.

I strongly considered placing a protective stop on the remaining SPY lot this evening. Ultimately I decided that the level I would place a stop at was far enough away that I would probably be looking for a reentry if the market closed below their. Therefore, I decided to simply hold it so that I don't have to worry about being shaken out. Of course there would be nothing wrong with trailing a stop up a little at this point.

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