

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 24, 2012

Volume 5 Issue 100

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

Tonight's Research Points

- Two flat days after a strong up day while > 200ma is a setup that has historically been followed by selling.
- An extremely high intraday TICK near an intermediate-term low carries bearish implications for the next day.

Short-term Outlook

The Bottom Line

Expectations have turned negative and the SPX is overbought for the time being. I will look to reduce my long exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
May 24, 2012	Near intermediate low. TICK spike.	1 day	Bearish	
May 24, 2012	Up 1.5% then flat.	1-5 days	Bearish	
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	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 > 10.	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	

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

The Evidence

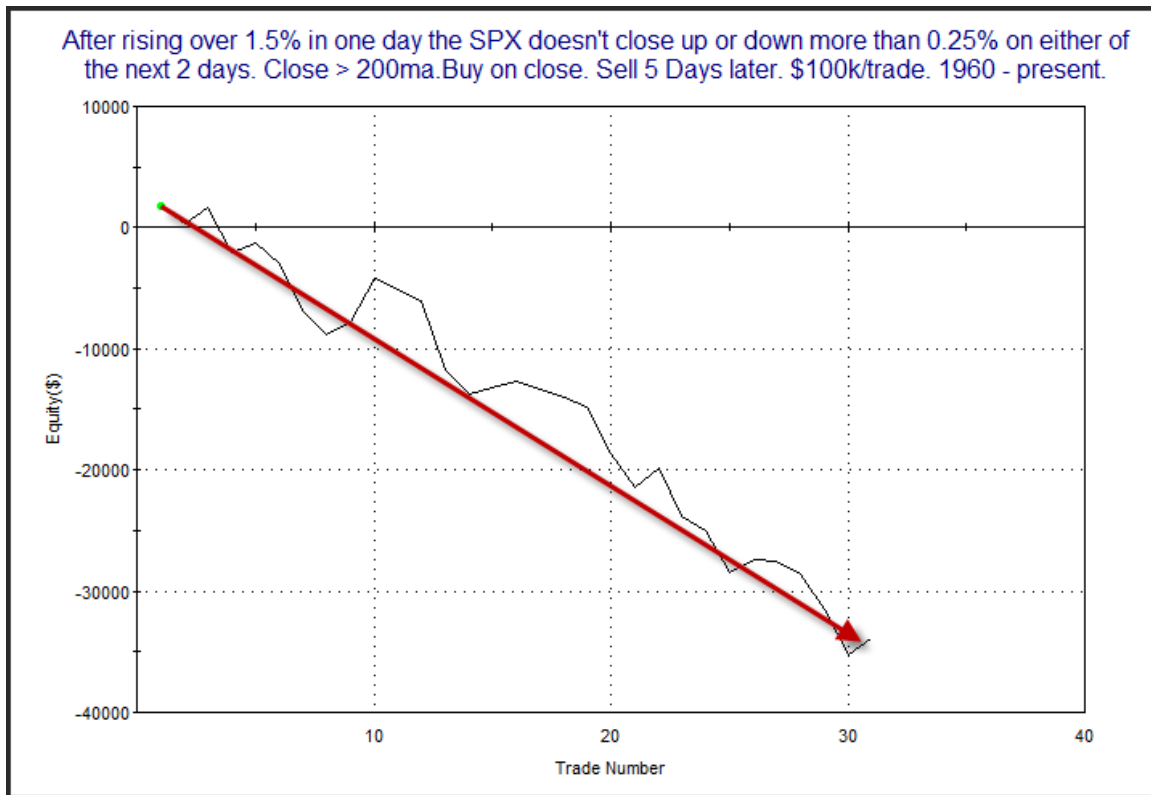
After trading strongly lower for most of the day, a frantic rally in the last 90 minutes turned most of the indices positive. The SPX gained 0.2%, the Nasdaq rallied 0.4% and the Russell 2000 closed up 0.7%. Breadth finished solidly positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 62%. Total NYSE volume rose for the second day in a row.

The SPX did not turn positive until the last 20 minutes of trading. Up until that point the Quantifinder was drawing a blank. But the late surge changed things and we actually saw some bearish evidence emerge. The study below was last seen in the 10/8/10 subscriber letter. It considers what happens when two sideways days follow a strong up day during long-term uptrend. All results are updated.

After rising over 1.5% in one day the SPX doesn't close up or down more than 0.25% on either of the next 2 days. Close > 200ma. Buy on close. Sell X Days later. \$100k/trade. 1960 - 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
10	-41,037.39	31	19	12	61.29	1,679.37	4,782.96	-6,078.79	-31,388.00	0.28	0.44	-1,323.79
9	-27,636.94	31	15	16	48.39	1,847.35	4,660.32	-3,459.20	-13,798.56	0.53	0.50	-891.51
8	-20,422.07	31	15	16	48.39	1,638.57	4,018.41	-2,812.54	-9,120.00	0.58	0.55	-658.78
7	-25,378.54	31	13	18	41.94	1,345.71	3,597.44	-2,381.82	-6,949.44	0.56	0.41	-818.66
6	-29,380.93	31	9	22	29.03	1,491.01	3,795.66	-1,945.46	-4,122.24	0.77	0.31	-947.77
5	-33,894.66	31	10	21	32.26	1,364.74	3,568.24	-2,263.91	-5,684.80	0.60	0.29	-1,093.38
4	-22,051.72	32	10	22	31.25	1,247.38	2,499.52	-1,569.34	-5,171.04	0.79	0.36	-689.12
3	-17,275.29	32	12	20	37.50	1,151.50	2,808.00	-1,554.67	-4,234.72	0.74	0.44	-539.85
2	-10,525.80	32	13	19	40.63	886.61	2,124.00	-1,160.62	-3,139.20	0.76	0.52	-328.93
1	-10,142.87	32	15	17	46.88	443.90	1,321.92	-988.31	-3,967.20	0.45	0.40	-316.96

In what might be a surprising revelation to many, these patterns tend to suggest bearish implications over the next week or so. Below I have produced an equity curve that assumes a 5-day holding period.



The strong, steady downslope acts as confirmation of the bearish tendencies.

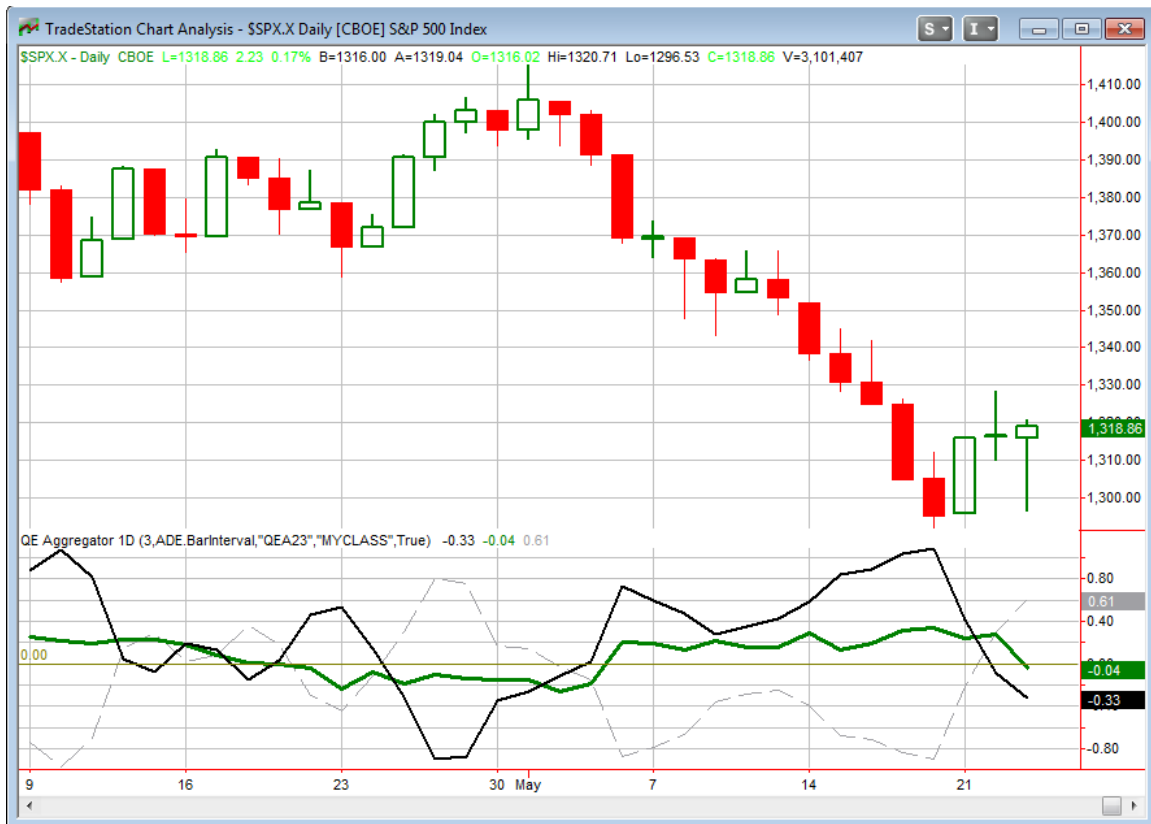
The rally near the end of the day saw broad participation and aggressive buying. At one point the NYSE tick spiked over 1500. It actually registered its highest intraday high since September 2011. I saw comments suggesting that the very high tick reading after a test of the lows was a good sign for the bulls. So I evaluated this concept. I formulated the test to simply seek out other instances where SPY probed or tested a new 50-day low while the NYSE TICK hit its highest intraday level in at least 100 days. The 1-day returns were the most interesting. I have listed all instances below.

SPY makes a low at or within 0.5% of a 50-day low.
 NYSE TICK makes the highest intraday high in 100 days.
 Buy SPY on close. Sell X Days later. \$100k/trade. 2003 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/01/07	Buy	\$140.51	(1.31%)	\$106.65
03/02/07	Sell	\$138.67		(\$1,315.35)
02/24/09	Buy	\$77.48	(0.79%)	\$1,212.60
02/25/09	Sell	\$76.87		(\$2,386.50)
05/21/10	Buy	\$109.11	(1.28%)	\$256.48
05/24/10	Sell	\$107.71		(\$1,374.00)
03/15/11	Buy	\$128.56	(1.85%)	\$7.77
03/16/11	Sell	\$126.18		(\$2,548.56)
06/23/11	Buy	\$128.30	(1.16%)	\$54.53
06/24/11	Sell	\$126.81		(\$1,308.72)
08/03/11	Buy	\$126.17	(4.68%)	\$0.00
08/04/11	Sell	\$120.26		(\$4,839.12)
08/09/11	Buy	\$117.48	(4.42%)	\$0.00
08/10/11	Sell	\$112.29		(\$4,706.03)
05/08/12	Buy	\$136.55	(0.59%)	\$43.92
05/09/12	Sell	\$135.74		(\$1,507.92)

The consistent and sizable weakness the next day has been very impressive. On average, the day following the extreme TICK near a market low has lost just over 2%. The average drawdown (2.5%) has been over 12 times the size of the average run-up (0.2%). It sure doesn't look like the frantic intraday buying and high TICK is a positive. Instances are a bit low, but the results are too compelling not to include this study in the Quantifinder.

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



With tonight's bearish studies factored in the green Aggregator line dropped sharply and is now negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remains below 0. This means the SPX is short-term overbought versus expectations. So net expectations are slightly bearish and the SPX is overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This meant the Aggregator System changed from flat to short at the close. Since this was brought about by the late surge as well as the new study concocted tonight I was unable to anticipate the short signal before the close.

Based on the current studies, expectations will remain negative on Thursday. This could change if bullish evidence emerges. Meanwhile, the Differential Pivot will be *strongly inverted* at 1,327.68 on Thursday. This is 0.7% *above* Wednesday's close. An inverted pivot means that the differential line will cross through zero if the SPX closes flat. To prevent the Differential Line from closing positive the SPX will need to close higher by at least this 0.7%.

The market is in a bit of an odd position. While the Aggregator system is short, the only way it remains short is if the SPX closes strongly higher. And even that is no sure thing since a strong move up could easily trigger some bullish studies (including Follow-

Through Day studies.) The QE Buying Power Index is at a bullish 3 and the CBI has still not returned to neutral (though it won't take much to get there). My gut says to hold on to some of my long position since this short-signal is only likely to last for 1 day. But there is a short signal. And conditions have been "abnormal" and dangerous for the last couple of weeks. Therefore, I think it would be wise of me to reduce my long exposure further. I will look to do that on Thursday by exiting the SPY long position. I will not put a sell order in for the QQQ position but will evaluate action during the day. If we close higher and the bearish evidence persists then I may well publish an intraday update with a stop or exit-on-close order.

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 (not filled and not looking for a fill)

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	\$62.56	-2.72%		Aggregator
KO(1/3)	5/18/2012	\$75.12	\$74.55	-0.76%		Catapult
SPY(1/4)	5/18/2012	\$130.86	\$132.27	1.08%		sell @ \$132.27 limit
UPS(1/3)	5/21/2012	\$74.03	\$75.00	1.31%		Catapult
KO(1/3)	5/22/2012	\$74.05	\$74.55	0.68%		Catapult

If KO hits \$75.09 intraday on Thursday that will trigger a Catapult exit. The standard Catapult exit technique is to sell at the next day's open. I may send out an intraday email in which I could use a stop or perhaps exit at the close depending on how things are shaping up.

UPS's intraday target is \$75.13. Everything I said about KO above also applies to UPS.

SPY – I will initially look to exit at a \$132.27 limit.

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