

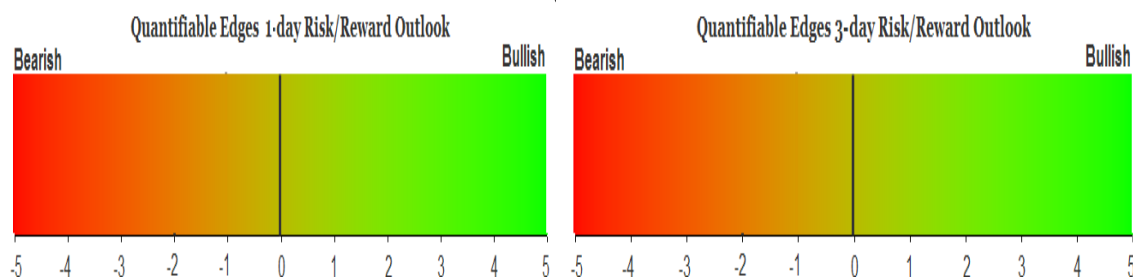
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 30, 2012

Volume 5 Issue 103

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Tuesday was a FTD. Its moderate breadth participation makes it less desirable.
- The QE Buying Power Index is now in bearish territory.

## Short-term Outlook

### The Bottom Line

The Aggregator is neutral, and so am I. I am now looking to get completely flat and await the next high probability trading opportunity.

## 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 25, 2012	Up 3 from 50-low. Today NR7.	1-3 days	Bullish	
May 24, 2012	Up 1.5% then flat.	1-5 days	Bearish	
<b>Active - Long Term</b>				
May 30, 2012	FTD moderate breadth/weak seasonal	int term	Bearish	
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	
<b>Dropped Tonight</b>				
May 17, 2012	4 lower lows 50-low	1-8 days	Bullish	2.40%
<b>May 29, 2012</b>	<b>Nas down while SOX up 1%.</b>	<b>1 day</b>	<b>Bullish</b>	

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

## The Evidence

The market started off strong and finished strong on Tuesday. The SPX gained 1.1%, the Nasdaq rallied 1.2% and Russell 2000 did the best with a 1.4% gain. Breadth was solidly positive, but not as strong as bulls would like to see. The NYSE Up Issues % came in at 77% and the Up Volume % was 88%. Total NYSE volume rose quite a bit from Friday's level.

The most interesting aspect of today's action is that it triggered an IBD Follow Through Day (FTD). One of the best ways to estimate FTD effectiveness is to consider how strong breadth is on the breakout. This is something I looked at in some detail in the 8/24/11 subscriber letter. To compare breadth across market regimes, instead of using absolute breadth readings I use relative breadth readings. The study below uses the 1-yr Up Issues % Rank. All stats are updated.

Today is an IBD Follow Through Day and the 1-yr Up Issues % Rank <= 95% Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	6,439.80	42	24	18	57.14	3,318.95	8,961.33	-4,067.51	-24,546.70	0.82	1.09	153.33
9	-762.86	42	22	20	52.38	3,431.69	10,112.58	-3,813.00	-18,395.06	0.90	0.99	-18.16
8	9,246.37	42	23	19	54.76	3,214.29	9,347.15	-3,404.33	-17,469.28	0.94	1.14	220.15
7	7,877.84	42	24	18	57.14	2,916.05	9,614.11	-3,450.41	-12,495.16	0.85	1.13	187.57
6	21,171.23	42	27	15	64.29	2,829.09	9,598.49	-3,680.95	-9,023.28	0.77	1.38	504.08
5	11,845.65	42	25	17	59.52	2,634.85	8,344.26	-3,177.97	-7,789.18	0.83	1.22	282.04
4	5,611.00	42	21	21	50.00	2,614.69	7,217.86	-2,347.50	-7,745.95	1.11	1.11	133.60
3	-217.62	42	20	22	47.62	2,147.01	6,990.39	-1,961.72	-5,299.32	1.09	0.99	-5.18
2	-2,294.94	42	19	23	45.24	1,930.44	5,134.01	-1,694.49	-8,433.70	1.14	0.94	-54.64
1	4,749.31	42	18	24	42.86	1,150.93	4,708.01	-665.31	-2,475.86	1.73	1.30	113.08

**Only 18 of these 42 FTDs (43%) led to successful rallies.**

As you can see, there is no discernible short-term impact from the FTD. The stat at the bottom is interesting, and suggests the bears may even have a slight edge when FTDs don't include strong breadth participation. And for those that may be curious, the success rate rises to 52% when breadth comes in above the 95th percentile.

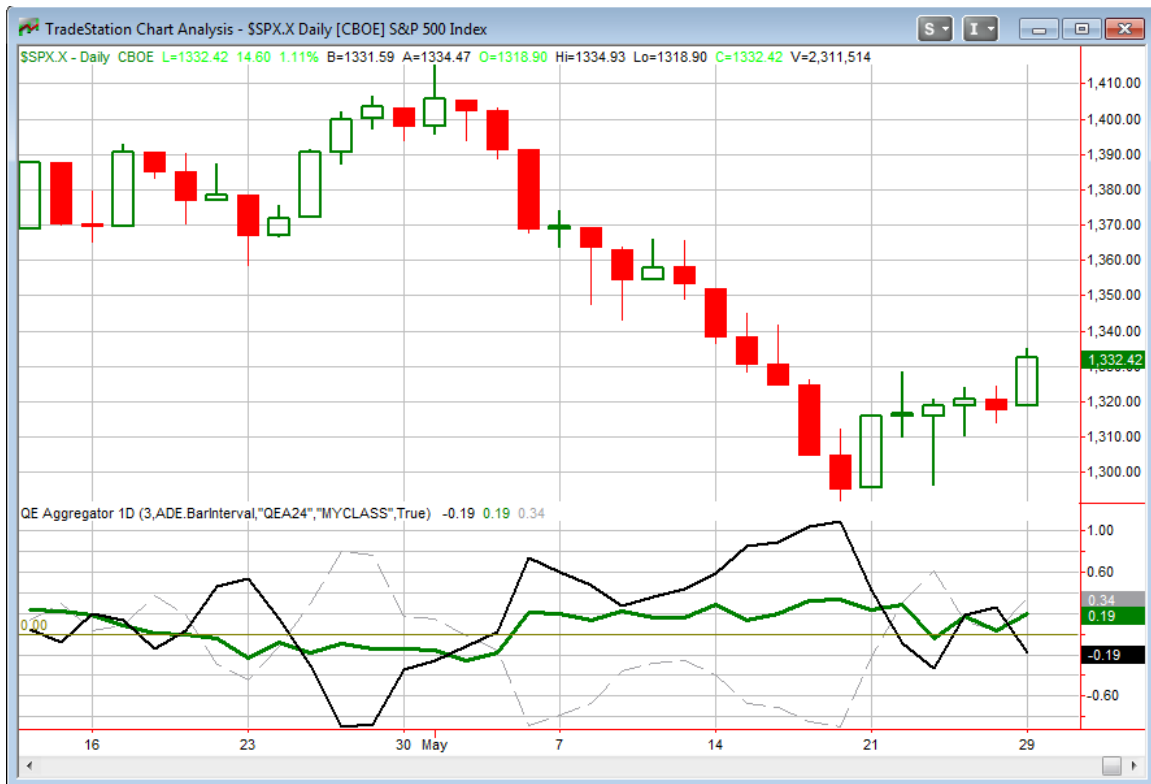
I also decided tonight to examine seasonality in conjunction with FTDs. The table below is one I have not shown before. It breaks out all 84 FTDs since 1971 by month. We see the total number of FTDs along with success/failure statistics.

FTD rally success by month 1971 - present.				
Month	FTDs	Success	Fails	% Success
12	7	3	4	42.86
11	5	3	2	60.00
10	17	12	5	70.59
9	5	0	5	0.00
8	14	8	6	57.14
7	6	2	4	33.33
6	7	1	6	14.29
5	1	0	1	0.00
4	6	4	2	66.67
3	9	4	5	44.44
2	5	3	2	60.00
1	2	0	2	0.00

I find it very interesting that of the 84 FTDs since 1971, this is only the second one that has taken place during the month of May. Rallies in the past have not started during May. Of course we are almost into June, but June doesn't look much better. In June there have been seven FTDs. Only one of those went on to stage a successful rally. That's not to say a bottom can't happen at this time of year. It would be unusual though.

Another indicator worth mentioning tonight is the QE Buying Power Index, which closed at 0. This is a bearish reading after which the market has often struggled short-term. With the SPX rally we nearly saw a QE Buying Power Swing System long signal trigger. That just missed, but with the weak reading it may be difficult to continue the upward momentum short-term.

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



With seasonal strength arriving in the next few days the green Aggregator line held positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dipped below 0. This means the SPX is short-term overbought versus expectations. So net expectations are bullish but the SPX is 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 switched from long to flat at the close. This was reflected on the systems page before the bell.

Based on the current studies, expectations are set to remain positive on Wednesday. Of course this could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,325.88 on Wednesday. This is 0.5% below Tuesday's close. Therefore the SPX would need to close down at least this much in order to turn the differential line back positive.

So the Aggregator is neutral. Tuesday's FTD doesn't seem to help at all, and the QE Buying Power Index may act as a drag. On the plus side, Memorial Week has been seasonally strong, and we are coming off strongly oversold conditions. With all this to consider, I don't have a strong inclination one way or the other. If I can get out at a reasonable price tomorrow I will look to exit the rest of my long exposure.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 5/29 – slightly bullish**

The intermediate-term outlook was last updated in the 5/29 letter. There is a link below:

[2012-05-29 QE Subscriber Letter.pdf](#)

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

**Open Catapult Triggers**

JPM – 1/3 @ \$32.51 (not filled and not currently looking for a fill)

**Catapult for ETF's Trades**

None

**Broad Market Large Cap CBI – 1 (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	\$62.86	-2.25%		<i>sell @ \$62.86</i>

*I'll be looking to get out of my QQQ trade idea on Wednesday at a price equal to Tuesday's close.*

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.