

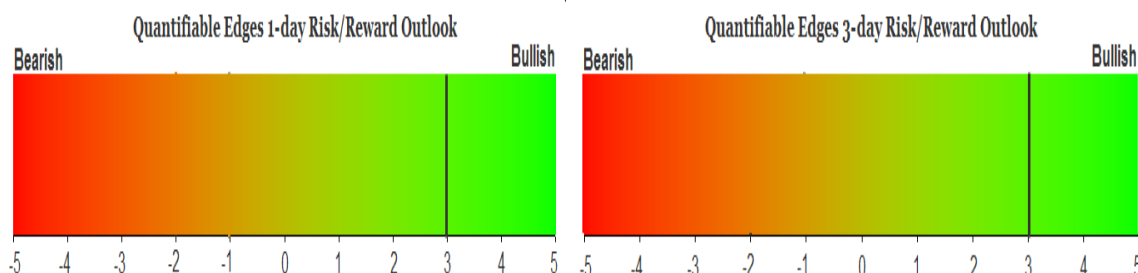
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 1, 2012

Volume 5 Issue 105

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- During uptrends, moves down at the end of the month will often set the market up for an early month bounce.
- The Fed released their POMO schedule for June. There will likely be some long opportunities for the QE Buying Power Swing System.

## Short-term Outlook

### The Bottom Line

Evidence now appears to favor the bulls. I am partially long and looking to hold my index position. I will also add some individual stock exposure via a new Catapult trigger.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
June 1, 2012	End-of-month decline	1-5 days	Bullish	2.50%
May 31, 2012	Unfilled gap dn after unfilled gap up	1-3 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 24, 2012	<i>Up 1.5% then flat.</i>	<i>1-5 days</i>	<i>Bearish</i>	

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

## The Evidence

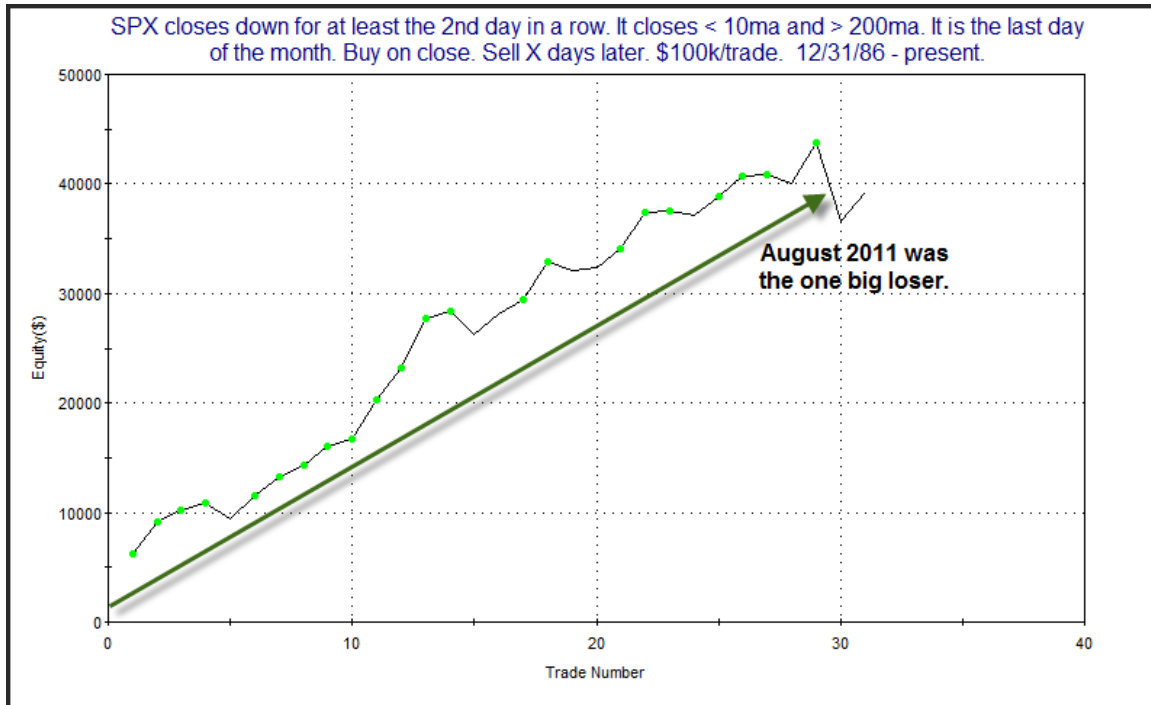
Thursday saw some wild back and forth action. In the end the major indices saw moderate losses. The SPX lost 0.2%, the Nasdaq fell 0.4% and the Russell 2000 dropped less than 0.1%. Breadth was mildly negative as the NYSE Up Issues % came in at 48% and the Up Volume % was just 45%. Total NYSE volume came in at the highest level of the month outside of options-expiration Friday.

I have documented many times some strong tendencies for the market to perform well on the 1<sup>st</sup> day of the month. The study below looks at what has happened when the market was short-term oversold during a long-term uptrend at the turn of the month. It was last seen in the 2/1/12 letter.

SPX closes down for at least the 2nd day in a row. It closes < 10ma and > 200ma. It is the last day of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	52,562.22	31	25	6	80.65	2,604.19	9,607.84	-2,090.41	-8,737.19	1.25	5.19	1,695.56
9	51,462.41	31	24	7	77.42	2,808.56	8,433.64	-2,277.58	-9,212.28	1.23	4.23	1,660.08
8	42,542.03	31	25	6	80.65	2,409.21	7,325.36	-2,948.06	-13,207.04	0.82	3.41	1,372.32
7	44,711.80	31	25	6	80.65	2,382.03	7,473.68	-2,473.14	-9,220.75	0.96	4.01	1,442.32
6	34,643.84	31	24	7	77.42	2,317.28	6,822.72	-2,995.85	-13,307.14	0.77	2.65	1,117.54
5	39,213.38	31	25	6	80.65	2,075.48	6,229.44	-2,112.26	-7,153.30	0.98	4.09	1,264.95
4	32,527.19	31	24	7	77.42	1,860.51	5,426.04	-1,732.15	-7,100.17	1.07	3.68	1,049.26
3	30,071.83	31	22	9	70.97	1,891.46	4,371.32	-1,282.25	-2,459.38	1.48	3.61	970.06
2	25,000.56	31	23	8	74.19	1,467.19	4,132.36	-1,093.10	-2,995.78	1.34	3.86	806.47
1	17,696.87	31	23	8	74.19	946.51	3,119.10	-509.10	-2,559.62	1.86	5.35	570.87

**28 of 31 instances (90%) closed above the entry price at some point in the next week.**

Results here appear strongly bullish for the early part of the upcoming month. Below is an updated equity curve using a 5-day exit strategy.



The August 2011 instance saw a sharp decline. Traders may recall that this was the first time in history in which US debt was downgraded, and the market reacted with a mini-crash. At this point it looks like an anomaly rather than representative of typical behavior.

On Sunday I also noted that the Memorial week / 1<sup>st</sup> of month combo seemed to suggest an edge for Friday. Below I have copied an excerpt from that letter.

*Last year I also looked at the combination of Memorial week and the positive seasonality experienced on the 1<sup>st</sup> day of the month. I found that since 1977 any time you could buy the close of May 31<sup>st</sup> and sell the close of June 1<sup>st</sup>, then June 1 would have been a winner – until last year. I've updated below the results table.*

SPX performance on June 1 when it falls on Wed, Thurs, or Fri. after Memorial Day.  
\$100k/trade. 1977 - present.

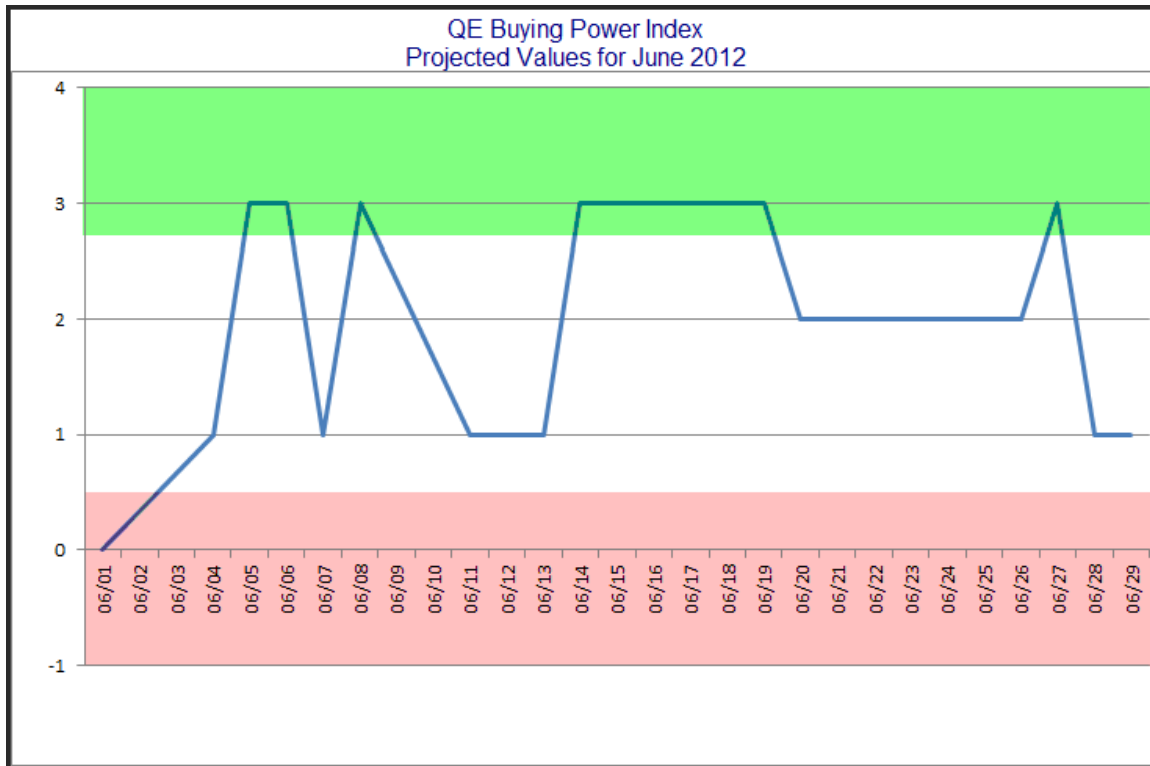
Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/31/77	Buy	\$96.12	0.84%	\$842.40
06/01/77	Sell	\$96.93		\$0.00
05/31/78	Buy	\$97.24	0.11%	\$719.60
06/01/78	Sell	\$97.35		(\$627.08)
05/31/79	Buy	\$99.08	0.08%	\$615.49
06/01/79	Sell	\$99.16		(\$514.59)
05/31/83	Buy	\$162.38	0.10%	\$750.30
06/01/83	Sell	\$162.55		(\$1,107.00)
05/31/84	Buy	\$150.55	1.79%	\$1,786.16
06/01/84	Sell	\$153.24		\$0.00
05/31/88	Buy	\$262.15	1.73%	\$2,007.87
06/01/88	Sell	\$266.68		(\$19.05)
05/31/89	Buy	\$320.52	0.45%	\$637.55
06/01/89	Sell	\$321.96		(\$158.61)
05/31/90	Buy	\$361.22	0.53%	\$634.80
06/01/90	Sell	\$363.15		(\$5.52)
05/31/94	Buy	\$456.51	0.25%	\$389.82
06/01/94	Sell	\$457.63		(\$551.88)
05/31/95	Buy	\$533.41	0.01%	\$149.60
06/01/95	Sell	\$533.49		(\$628.32)
05/31/00	Buy	\$1,420.65	1.98%	\$1,970.50
06/01/00	Sell	\$1,448.80		(\$3.50)
05/31/01	Buy	\$1,255.84	0.38%	\$750.50
06/01/01	Sell	\$1,260.67		(\$707.84)
05/31/05	Buy	\$1,191.52	0.90%	\$1,171.96
06/01/05	Sell	\$1,202.27		(\$40.67)
05/31/06	Buy	\$1,270.09	1.23%	\$1,218.36
06/01/06	Sell	\$1,285.71		(\$70.20)
05/31/07	Buy	\$1,530.62	0.37%	\$646.10
06/01/07	Sell	\$1,536.34		\$0.00
05/31/11	Buy	\$1,345.20	(2.28%)	\$0.00
06/01/11	Sell	\$1,314.55		(\$2,330.26)

*A few thoughts: 1) Last year was a stark reminder that seasonal tendencies are not impervious to strong moves in the opposite direction. 2) Between 1962 and 1976 the SPX was only 2-3 under the above conditions. 3) The Memorial week edge didn't kick in until 1983 and the 1<sup>st</sup> of the month edge began in the late 80s. Therefore, the 5 instances between '77 and '84 may be due more to chance than to a seasonal influence. In any case, Friday would seem to carry some seasonal strength.*

Also notable is that the Fed released its POMO schedule for June on Thursday. It appears to be another month of churning as the Fed mixes buying and selling transactions. The shifting liquidity flows will only provide 1 brief short opportunity tomorrow for the QE Buying Power Swing System. There will be a number of long

opportunities during the month. Below I have updated the QE Buying Power Index. It is also updated on the QE Buying Power Index page for subscribers.

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



Under the right conditions we could see long opportunities in the QE Buying Power Index Swing System on the 5<sup>th</sup>, 6<sup>th</sup>, 8<sup>th</sup>, 14<sup>th</sup>, 15<sup>th</sup>, 18<sup>th</sup>, 19<sup>th</sup>, or 27<sup>th</sup>. As I mentioned above, the only day where an overbought market could signal a short opportunity is the 1<sup>st</sup>. I'll refer back to this chart throughout the month as we approach key dates.

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



With tonight's research the green Aggregator line flipped back to positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained above 0. 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 changed to long 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 Friday. Of course this could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,337.10 on Friday. This is 2% above Thursday's close. A rise of this much on Thursday is highly unlikely. A much more likely scenario would be a multi-day rise or consolidation.

So the odds appear to favor a rise on Friday and perhaps the next few days. But there really isn't much to go on. I'd be more enthusiastic if we had multiple studies pointing upwards. Therefore, I am not inclined to get too excited about this particular long Aggregator signal. If I did not already have long exposure then I would be looking to take some on. Instead, I will simply remove the stop on the current index position. As you'll see below, there was a Catapult trade that triggered. I will look to take a position there. Details are in the Catapult and the Trade Ideas sections below.

**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)*

*New*

*MCD – 1/3 @ \$89.34 (buy @ limit)*

#### **Catapult for ETF's Trades**

*None*

#### **Broad Market Large Cap CBI – 2 (JPM, MCD)**

*One last thing I should mention is that the CBI, while only 2 right now, could spike higher quickly. On the last leg down there were very few stocks in position where they could trigger a Catapult. Now there are a great many more, and moving to 10 or higher could happen in just a few days if selling persists.*

### **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.*

***MCD – buy 1/3 Catapult position @ \$89.34 limit.*** – This is based on the new Catapult trigger listed in the Catapult & CBI section above. Traders unfamiliar with Catapults are encouraged to review the Catapult & CBI presentation.

[Catapult & CBI Presentation Link](#)

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	5/7/2012	\$64.31	\$62.06	-3.50%		

*The stop held by \$0.01 on Thursday. I have now removed it since we have a long Aggregator signal that is active.*

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