

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 6, 2012

Volume 5 Issue 108

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Bounce still not compelling since it failed to close above close of 3 days ago and is < 200ma.

## Short-term Outlook

### The Bottom Line

The Aggregator remains neutral, thought the CBI is still elevated. I'm not looking to add any more exposure tonight.

## 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 6, 2012	2 up after 20low. Close<3days ago<200	1-2 days	Bearish	
June 5, 2012	SPX up on poor breadth	1-3 days	Bearish	
June 5, 2012	Weak bounce after 1.75% drop	1-4 days	Bearish	
June 4, 2012	Big drop on Friday	1-6 days	Bullish	3.20%
June 1, 2012	End-of-month decline	1-5 days	Bullish	2.50%
<b>Active - Long Term</b>				
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 opening down a little the market trended higher for much of the day. The major indices all posted decent gains. The SPX gained 0.6%, the Nasdaq rallied 0.7% and the Russell 2000 rose 1.2%. Breadth was strongly positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 79%. Total NYSE volume shrunk for the 3<sup>rd</sup> day in a row.

As we approached the close on Tuesday I was keeping an eye on the 200ma – waiting to see if the SPX finished above or below it. In the end the SPX finished just fractionally below its 200ma. In the 3/21/11 letter I looked at scenarios where the SPX bounced from 20-day lows over a 2-day period but failed to make up for the losses of the day just previous to the 2-day bounce. I filtered this study by the 200ma and found a substantial difference in the results. Had the SPX managed to close above the 200ma the study below would have triggered.

After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Close > 200ma. Buy on close. Sell X Days later. \$100k/trade. 2000 - present.

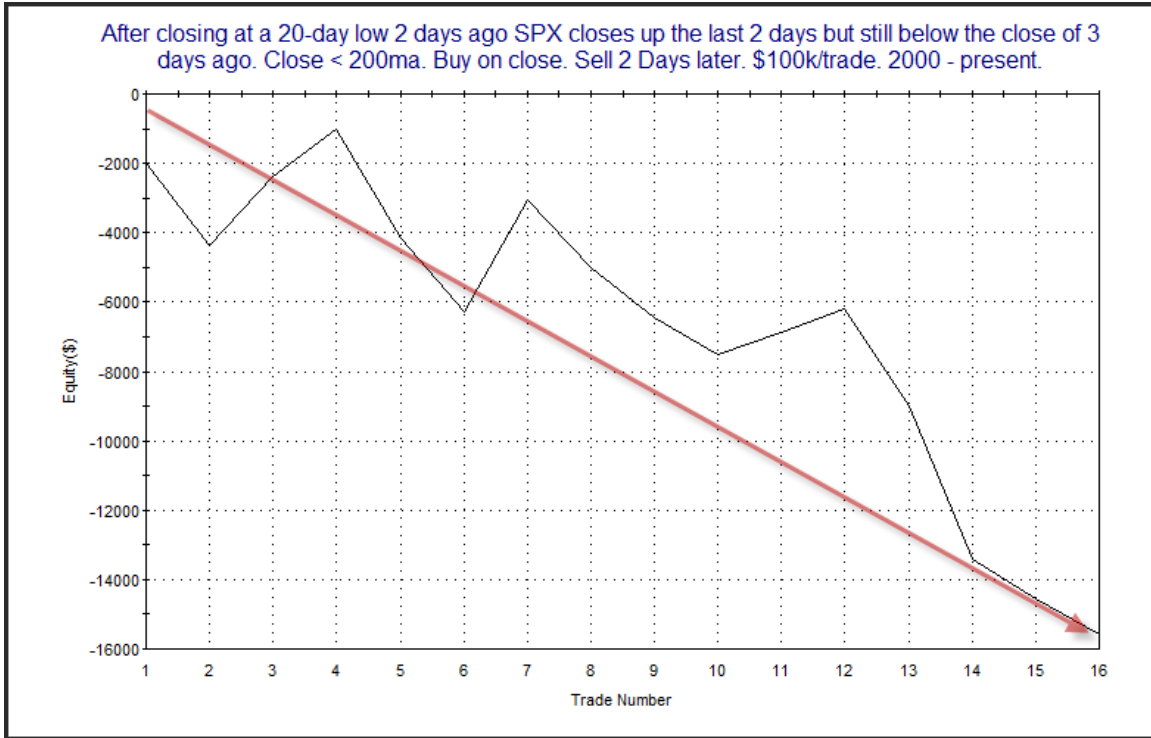
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	18,949.54	13	10	3	76.92	2,220.78	4,522.00	-1,086.07	-1,280.37	2.04	6.82	1,457.66
4	18,781.90	13	10	3	76.92	2,119.97	4,528.65	-805.94	-1,164.12	2.63	8.77	1,444.76
3	14,370.22	14	11	3	78.57	1,591.98	2,891.90	-1,047.20	-1,260.49	1.52	5.57	1,026.44
2	11,761.73	14	9	5	64.29	1,595.87	3,844.65	-520.23	-1,557.71	3.07	5.52	840.12
1	1,407.00	14	8	6	57.14	928.11	2,699.42	-1,002.98	-2,621.71	0.93	1.23	100.50

As you can see, implications of this setup when above the 200ma appear to be bullish. But the SPX missed the 200ma. And when we flip that filter the results have been substantially different.

After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Close < 200ma. Buy on close. Sell X Days later. \$100k/trade. 2000 - 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
5	-19,513.77	15	6	9	40.00	1,988.01	4,138.50	-3,493.54	-7,353.33	0.57	0.38	-1,300.92
4	-10,968.23	15	7	8	46.67	1,726.30	4,871.43	-2,881.55	-4,944.54	0.60	0.52	-731.22
3	-13,367.23	16	4	12	25.00	1,962.53	5,558.47	-1,768.11	-3,535.84	1.11	0.37	-835.45
2	-15,585.54	16	5	11	31.25	1,573.44	3,251.01	-2,132.07	-4,424.00	0.74	0.34	-974.10
1	-7,984.86	16	6	10	37.50	1,618.77	3,863.25	-1,769.75	-5,253.30	0.91	0.55	-499.05

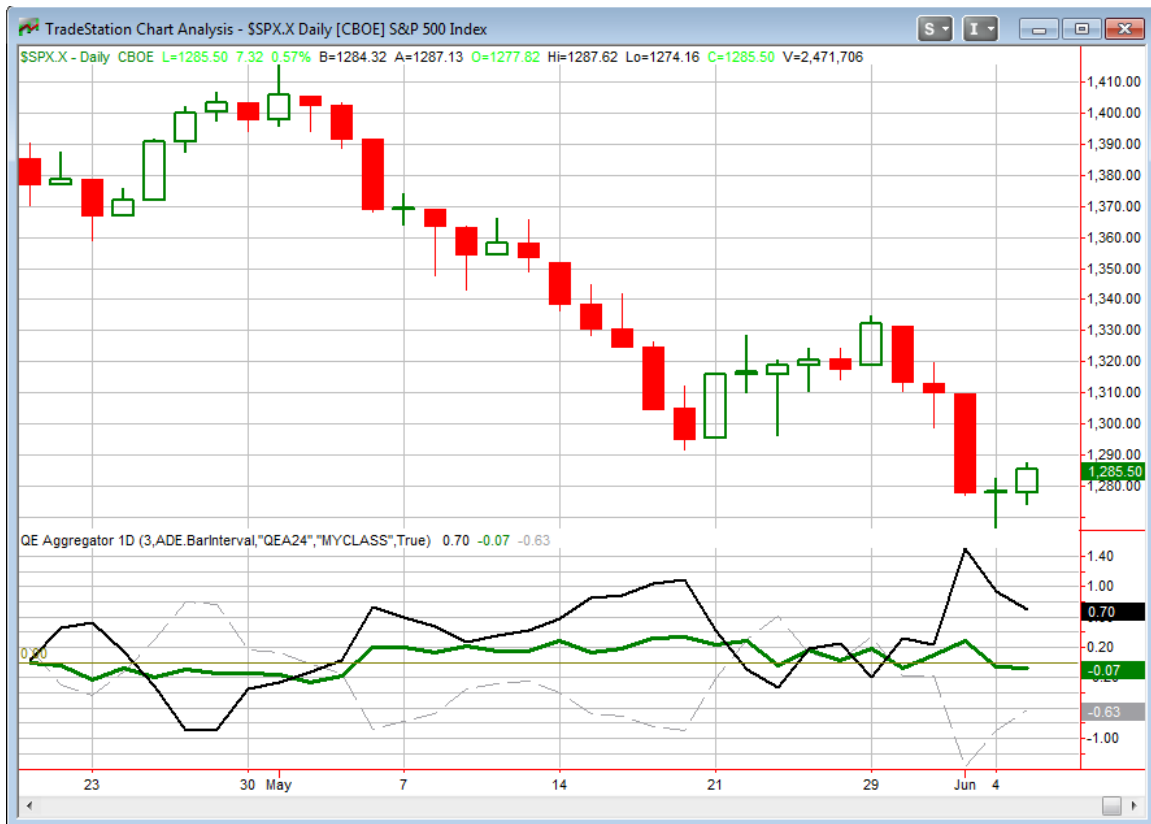
Instead of bullish implications the setup appears to suggest a bearish edge. I have included below an equity curve.



The downslope here is fairly consistent and seems to support the suggestion of a bearish edge.

Of course with the SPX closing so near the 200ma an argument could be made that I should simply throw out this study. It's too borderline. In terms of the Aggregator it doesn't matter much either way. One thing I cannot do though is to call the setup bullish.

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



With tonight's research the green Aggregator line remained negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is still strongly above zero. This means the SPX is short-term oversold versus expectations. So net expectations are bearish and the SPX is oversold 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 remained flat at the close. This was indicated as likely on the systems page before the bell.

Expectations on Wednesday are set up to turn bullish. Of course this could easily change depending on what studies emerge. Meanwhile, the Differential Pivot will be *mildly inverted* at 1,281.85 on Tuesday. An inverted pivot means that the Differential Line will cross 0 if the SPX has a flat close. In order to remain oversold (and the Differential positive) the SPX will need to close down about 0.3%.

As you will see below the CBI remained at 8 on Tuesday. Stocks are set up in a way that it would swing strongly in either direction tomorrow. A strong down day could easily trigger a couple more Catapult signals and move the CBI to a strongly bullish 10+. A rally could cause several of the active Catapults to trigger exits and the CBI could return

to a neutral 3 or lower. For now the fact that the CBI is still moderately elevated at 8 suggests the market remains oversold and a further bounce could easily occur.

Not only could a selloff on Wednesday cause the CBI to move up to 10+ but a close near 1,280 or lower would also likely trigger a QE Big Time Swing System long, since the Buying Power Index is set to close at 3 on Wednesday. Wednesday will be interesting. A long, short, or flat signal cause easily emerge depending on how market action shakes out. I intend to hold my small index position for another day. There are 8 open Catapult trades right now. If they near exit targets I will be sure to send intraday alerts to subscribers.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 6/4 – neutral***

The intermediate-term outlook was last updated in the 6/4 letter. A link is below.

[2012-06-04 QE Subscriber Letter.pdf](#)

**Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

***Open Catapult Triggers***

*JPM – 1/3 @ \$32.51 (filled @ \$31.00)*

*MCD – 1/3 @ \$89.34 (bought @ \$87.47)*

*MCD – 1/3 @ \$86.71 (bought @ limit)*

*BAX – 1/3 @ \$50.17 (bought @ limit)*

*EMC – 1/3 @ \$23.18 (bought @ limit)*

*MCD – 1/3 @ \$86.32 (bought) – 3<sup>rd</sup> & final lot*

*BAX – 1/3 @ \$50.06 (bought) – 2<sup>nd</sup> lot*

*EMC – 1/3 @ \$22.85 (bought) – 2<sup>nd</sup> lot*

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

*None*

***Broad Market Large Cap CBI – 8/4 (JPM, MCD-3, BAX-2, EMC-2)***

### **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	\$61.12	-4.96%		
MCD(1/3)	6/1/2012	\$87.47	\$87.08	-0.45%		Catapult
MCD(1/3)	6/4/2012	\$86.53	\$87.08	0.64%		Catapult
BAX(1/3)	6/4/2012	\$50.17	\$50.23	0.12%		Catapult
EMC(1/3)	6/4/2012	\$23.18	\$23.38	0.86%		Catapult
JPM(1/3)	6/4/2012	\$31.00	\$31.99	3.19%		Catapult
<b>SPY(1/4)</b>	<b>6/4/2012</b>	<b>\$128.10</b>	<b>\$128.10</b>	<b>0.00%</b>		<b><i>sold @ limit</i></b>
MCD(1/3)	6/5/2012	\$86.27	\$87.08	0.94%		bought on open
BAX(1/3)	6/5/2012	\$49.92	\$50.23	0.62%		bought on open
EMC(1/3)	6/5/2012	\$22.82	\$23.38	2.45%		bought on open

*SPY was exited at breakeven as per last night's letter.*

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