

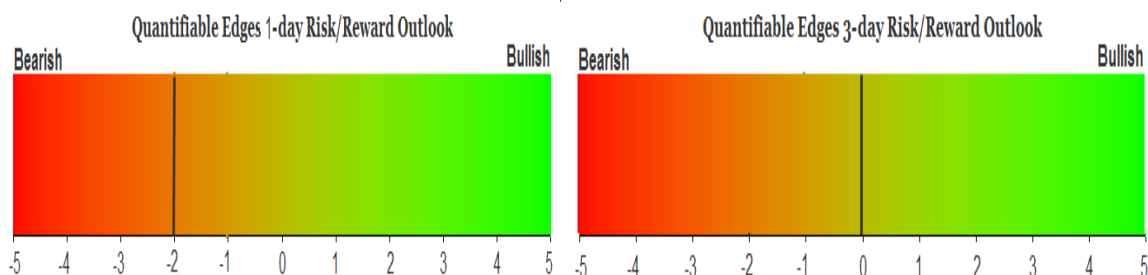
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 7, 2012

Volume 5 Issue 109

Market Overview



Signals Overview

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

Tonight's Research Points

- A 90% up day after SPX already having rallied 2 days has typically been followed by more upside over the next 2-3 weeks.

Short-term Outlook

The Bottom Line

Expectations are now positive but the SPX is strongly overbought. I'm looking to get flat and await the next favorable entry opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 6, 2012	2 up after 20 low. Close < 3 days 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%
Active - Long Term				
June 7, 2012	90% up day on 3rd day of rally	1-14 days	Bullish	
May 21, 2012	CBI > 10.	1-20 days	Bullish	6.80%
February 1, 2012	Golden Cross	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
Dropped Tonight				
May 7, 2012	QQQ 5 lower lows. Today biggest drop.	1-20 days	Bullish	12.30%

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

The Evidence

The market put in a strong showing on Wednesday. It gapped up, never retraced, and finished near its highs. The SPX gained 2.3%, the Nasdaq rallied 2.4% and the Russell 2000 rose 2.6%. Breadth was extremely positive as the NYSE Up Issues % came in at 87% and the Up Volume % was 93%. Total NYSE volume rose above the levels of the last two days.

There were a few studies that triggered tonight, but only 1 that I found compelling after close examination. It looked at other times the SPX rose for at least 3 days in a row and the NYSE Up Volume % came in > 90%. It was last seen in the 3/14/12 letter. I have updated the results below.

SPX closes higher for at least the 3rd day in a row and NYSE Up Volume % > 90%. Buy on close. Sell X Days later. \$100k/trade. 10/20/87 - 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
20	38,410.14	19	12	7	63.16	4,693.29	14,074.06	-2,558.48	-5,866.30	1.83	3.14	2,021.59
19	28,055.41	19	13	6	68.42	3,635.90	9,897.86	-3,201.89	-7,086.20	1.14	2.46	1,476.60
18	31,709.11	19	14	5	73.68	3,385.97	8,619.73	-3,138.90	-4,913.70	1.08	3.02	1,668.90
17	41,204.74	19	14	5	73.68	3,814.23	11,270.42	-2,438.89	-5,553.90	1.56	4.38	2,168.67
16	45,447.57	19	15	4	78.95	3,627.16	12,204.08	-2,239.97	-6,770.50	1.62	6.07	2,391.98
15	44,306.45	20	14	6	70.00	3,958.79	11,124.12	-1,852.76	-5,239.30	2.14	4.99	2,215.32
14	43,251.30	20	17	3	85.00	2,860.19	8,025.22	-1,790.62	-2,533.16	1.60	9.05	2,162.57
13	31,610.91	21	16	5	76.19	2,448.31	7,484.65	-1,512.40	-3,373.70	1.62	5.18	1,505.28
12	30,429.03	21	16	5	76.19	2,421.42	7,583.70	-1,662.73	-2,355.10	1.46	4.66	1,449.00
11	27,557.95	21	13	8	61.90	2,675.96	8,671.60	-903.69	-2,496.80	2.96	4.81	1,312.28
10	27,581.55	21	15	6	71.43	2,626.33	10,921.96	-1,968.89	-2,811.20	1.33	3.33	1,313.41
9	25,365.14	21	15	6	71.43	2,310.21	8,397.62	-1,547.99	-2,298.27	1.49	3.73	1,207.86
8	20,068.45	21	15	6	71.43	2,204.13	7,394.80	-2,165.58	-3,753.26	1.02	2.54	955.64
7	24,472.10	21	14	7	66.67	2,361.86	9,599.94	-1,227.71	-2,724.73	1.92	3.85	1,165.34
6	17,290.13	21	13	8	61.90	2,275.67	5,066.85	-1,536.70	-3,497.62	1.48	2.41	823.34
5	13,192.88	21	16	5	76.19	1,777.84	4,428.90	-3,050.52	-6,695.61	0.58	1.86	628.23
4	11,959.29	21	16	5	76.19	1,519.33	5,800.13	-2,470.00	-6,719.68	0.62	1.97	569.49
3	3,018.40	21	14	7	66.67	1,342.41	3,641.54	-2,253.63	-5,298.72	0.60	1.19	143.73
2	4,836.60	21	16	5	76.19	904.82	4,479.84	-1,928.11	-8,004.64	0.47	1.50	230.31
1	5,114.85	21	9	12	42.86	961.74	2,860.08	-295.07	-1,140.30	3.26	2.44	243.56

Results here all point north – especially when you look out 2-3 weeks. Below I have listed all 20 instances with a 14-day holding period.

SPX closes higher for at least the 3rd day in a row and NYSE Up Volume % > 90%.
Buy on close. Sell 14 Days later. \$100k/trade. 10/20/87 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/29/87	Buy	\$244.77	0.32%	\$5,071.44
11/18/87	Sell	\$245.55		(\$2,913.12)
05/12/89	Buy	\$313.84	3.72%	\$3,746.04
06/02/89	Sell	\$325.52		\$0.00
05/11/90	Buy	\$352.00	3.17%	\$3,271.68
06/01/90	Sell	\$363.15		(\$17.04)
01/02/03	Buy	\$909.03	(2.39%)	\$2,862.20
01/23/03	Sell	\$887.34		(\$3,535.40)
03/17/03	Buy	\$862.79	1.86%	\$3,807.65
04/04/03	Sell	\$878.85		(\$2,197.65)
03/21/07	Buy	\$1,435.04	0.27%	\$944.61
04/11/07	Sell	\$1,438.87		(\$1,803.66)
11/26/08	Buy	\$887.68	1.89%	\$3,491.04
12/17/08	Sell	\$904.42		(\$8,062.88)
03/12/09	Buy	\$750.74	8.04%	\$10,933.93
04/01/09	Sell	\$811.08		(\$1,101.24)
04/02/09	Buy	\$834.38	2.10%	\$4,908.75
04/23/09	Sell	\$851.92		(\$2,362.15)
07/15/09	Buy	\$932.68	7.82%	\$7,965.08
08/04/09	Sell	\$1,005.65		(\$559.61)
08/21/09	Buy	\$1,026.13	1.62%	\$2,138.85
09/11/09	Sell	\$1,042.73		(\$3,313.52)
11/09/09	Buy	\$1,093.08	0.23%	\$1,875.51
11/30/09	Sell	\$1,095.63		(\$849.94)
03/05/10	Buy	\$1,138.70	2.37%	\$3,653.13
03/25/10	Sell	\$1,165.73		(\$330.60)
07/13/10	Buy	\$1,095.34	2.79%	\$2,908.36
08/02/10	Sell	\$1,125.86		(\$3,499.86)
09/03/10	Buy	\$1,104.51	4.00%	\$3,995.10
09/24/10	Sell	\$1,148.67		(\$1,202.40)
07/01/11	Buy	\$1,339.67	0.40%	\$1,243.94
07/22/11	Sell	\$1,345.02		(\$3,237.50)
08/15/11	Buy	\$1,204.49	(2.53%)	\$2,176.26
09/02/11	Sell	\$1,173.97		(\$6,922.20)
10/06/11	Buy	\$1,164.97	6.61%	\$7,784.30
10/26/11	Sell	\$1,242.00		(\$1,250.35)
11/30/11	Buy	\$1,246.96	(0.45%)	\$1,608.00
12/20/11	Sell	\$1,241.30		(\$3,567.20)
03/13/12	Buy	\$1,395.96	1.64%	\$1,875.82
04/02/12	Sell	\$1,418.90		(\$645.39)

A couple of instances have faltered recently, but the upside edge still appears to be intact and the total gains are again hitting new highs. While the short-term inclinations are not terribly strong, I did include this study on the intermediate-term active list.

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



As anticipated last night the green Aggregator line turned 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 well below zero. 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 remained flat at the close. This was indicated as likely on the systems page before the bell.

Expectations on Thursday are set up to remain bullish. Of course with only a few studies active on the short-term list this could easily change depending on what studies emerge. Meanwhile, the Differential Pivot will be 1,281.52 on Thursday. This means the SPX would need to close at or below that level in order to turn the Differential Line positive, signaling an oversold market. That would be a drop of 2.6% - an unlikely 1-day drop. A more likely scenario would be a multi-day decline or consolidation to wear off the overbought condition.

Evidence suggests the market could still move higher from here, but the SPX is now as overbought as it has been in months. So rather than push it further, I will look to exit the last of my index position (the QQQ lot) and take the loss. Now seems like an opportune time to get flat and await the next compelling entry opportunity. I took nice profits in most of the Catapults on Wednesday, with only 2 lots of BAX remaining. It won't take too much of a rise on Thursday for BAX to trigger an exit as well.

I should also note that while the 3-day expectations that the Aggregator uses are positive, expectations for just Thursday are actually negative. This is why the 1-day risk/reward at the top of the letter is "-2".

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

BAX – 1/3 @ \$50.17 (bought @ limit)

BAX – 1/3 @ \$50.06 (bought) – 2nd lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2/1 (BAX-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	\$62.52	-2.78%		<i>sell @ \$62.52 limit</i>
<i>MCD(1/3)</i>	<i>6/1/2012</i>	<i>\$87.47</i>	<i>\$88.66</i>	<i>1.36%</i>		<i>sold on close</i>
<i>MCD(1/3)</i>	<i>6/4/2012</i>	<i>\$86.53</i>	<i>\$88.66</i>	<i>2.46%</i>		<i>sold on close</i>
BAX(1/3)	6/4/2012	\$50.17	\$50.36	0.38%		Catapult
<i>EMC(1/3)</i>	<i>6/4/2012</i>	<i>\$23.18</i>	<i>\$24.38</i>	<i>5.18%</i>		<i>sold on close</i>
<i>JPM(1/3)</i>	<i>6/4/2012</i>	<i>\$31.00</i>	<i>\$32.79</i>	<i>5.77%</i>		<i>hit intraday stop</i>
<i>MCD(1/3)</i>	<i>6/5/2012</i>	<i>\$86.27</i>	<i>\$88.66</i>	<i>2.77%</i>		<i>sold on close</i>
BAX(1/3)	6/5/2012	\$49.92	\$50.36	0.88%		Catapult
<i>EMC(1/3)</i>	<i>6/5/2012</i>	<i>\$22.82</i>	<i>\$24.38</i>	<i>6.84%</i>		<i>sold on close</i>

Catapult exits were hit in MCD, EMC, and JPM. All three of these positions were exited as described in the intraday updates sent to gold subscribers.

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.