

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 13, 2012

Volume 5 Issue 113

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's FTD showed characteristics of FTDs that will often fail.

Short-term Outlook

The Bottom Line

The Aggregator is back to neutral. While net expectations remain positive the market is now overbought. I'm sidelined awaiting the next opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 13, 2012	FTD with modest breadth & volume	1-2 days	Bearish	-2.30%
June 12, 2012	SPY 3-day high. 3-day low. 3low close	1-5 days	Bullish	2.20%
June 12, 2012	SPX dn 1%. Decliners 2x advancers.	1-3 days	Bullish	1.85%
Active - Long Term				
June 13, 2012	FTD with modest breadth & volume	int term	Bearish	
June 12, 2012	SPY 3-day high. 3-day low. 3low close	1-10 days	Bullish	3.30%
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				
June 11, 2012	VIX dn 5 days. Not stretched.	1-2 days	Bullish	

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

The Evidence

A mild dip earlier on drew in the bulls and the market put in a strong day. The SPX rallied 1.2%, the Nasdaq gained 1.2% and the Russell 2000 rose 1.4%. Breadth was squarely positive as the NYSE Up Issues % came in at 77% and the Up Volume % was 86%. Total NYSE volume was down slightly but Nasdaq volume rose, creating an IBD Follow Through Day (FTD) for the Nasdaq.

In the 5/30/12 letter I looked at FTDs that occurred without very strong breadth. Typically, they have fared much worse than those with strong breadth. To compare breadth across market regimes, instead of using absolute breadth readings I used relative breadth readings. I have updated the study below.

Today is a Follow Through Day and the 1-yr Up Issues % Rank is < 95%. Buy 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	5,821.80	43	24	19	55.81	3,318.95	8,961.33	-3,885.95	-24,546.70	0.85	1.08	135.39
9	-2,524.61	43	22	21	51.16	3,431.69	10,112.58	-3,715.32	-18,395.06	0.92	0.97	-58.71
8	8,739.37	43	23	20	53.49	3,214.29	9,347.15	-3,259.46	-17,469.28	0.99	1.13	203.24
7	6,570.59	43	24	19	55.81	2,916.05	9,614.11	-3,337.61	-12,495.16	0.87	1.10	152.80
6	19,874.48	43	27	16	62.79	2,829.09	9,598.49	-3,531.93	-9,023.28	0.80	1.35	462.20
5	8,326.65	43	25	18	58.14	2,634.85	8,344.26	-3,196.92	-7,789.18	0.82	1.14	193.64
4	1,543.00	43	21	22	48.84	2,614.69	7,217.86	-2,425.71	-7,745.95	1.08	1.03	35.88
3	-4,296.12	43	20	23	46.51	2,147.01	6,990.39	-2,053.75	-5,299.32	1.05	0.91	-99.91
2	-3,951.69	43	19	24	44.19	1,930.44	5,134.01	-1,692.92	-8,433.70	1.14	0.90	-91.90
1	3,316.81	43	18	25	41.86	1,150.93	4,708.01	-696.00	-2,475.86	1.65	1.19	77.14

Only 18 of these 43 (42%) FTDs went on 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.

Also interesting about tonight is that while Nasdaq volume rose, volume in general was light. In the next study I decided to look at all instances where the FTD was accompanied by NYSE volume less than its 10ma.

Today is a Follow Through Day. NYSE volume is under its 10ma.
Buy 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	-3,636.13	33	21	12	63.64	2,981.72	10,921.96	-5,521.01	-24,546.70	0.54	0.95	-110.19
9	-17,469.21	33	19	14	57.58	2,535.94	10,571.08	-4,689.43	-18,395.06	0.54	0.73	-529.37
8	-19,434.82	33	16	17	48.48	2,640.67	8,027.20	-3,628.56	-17,469.28	0.73	0.68	-588.93
7	-10,386.55	33	15	18	45.45	2,699.24	9,599.94	-2,826.39	-12,495.16	0.96	0.80	-314.74
6	-4,452.09	33	18	15	54.55	2,346.67	6,965.80	-3,112.80	-9,023.28	0.75	0.90	-134.91
5	-8,579.89	33	16	17	48.48	2,388.03	4,663.62	-2,752.26	-7,789.18	0.87	0.82	-260.00
4	-8,493.45	33	13	20	39.39	2,779.48	7,124.13	-2,231.33	-7,745.95	1.25	0.81	-257.38
3	-14,661.56	33	12	21	36.36	2,341.55	5,692.12	-2,036.20	-5,299.32	1.15	0.66	-444.29
2	-21,234.75	33	13	20	39.39	1,442.87	5,323.24	-1,999.60	-8,433.70	0.72	0.47	-643.48
1	1,446.25	33	16	17	48.48	954.40	2,860.08	-813.19	-2,475.86	1.17	1.10	43.83

Only 11 of these 33 (33%) FTDs went on to successful rallies.

Results here are even worse than the previous study. The inclinations over the first 2-3 days here actually appear bearish. And the number of successful rallies that emerged was also quite a bit lower.

Of course Tuesday's FTD has both breadth and volume going against it. So let's examine results of other instances with FTDs that occurred on modest breadth and modest volume.

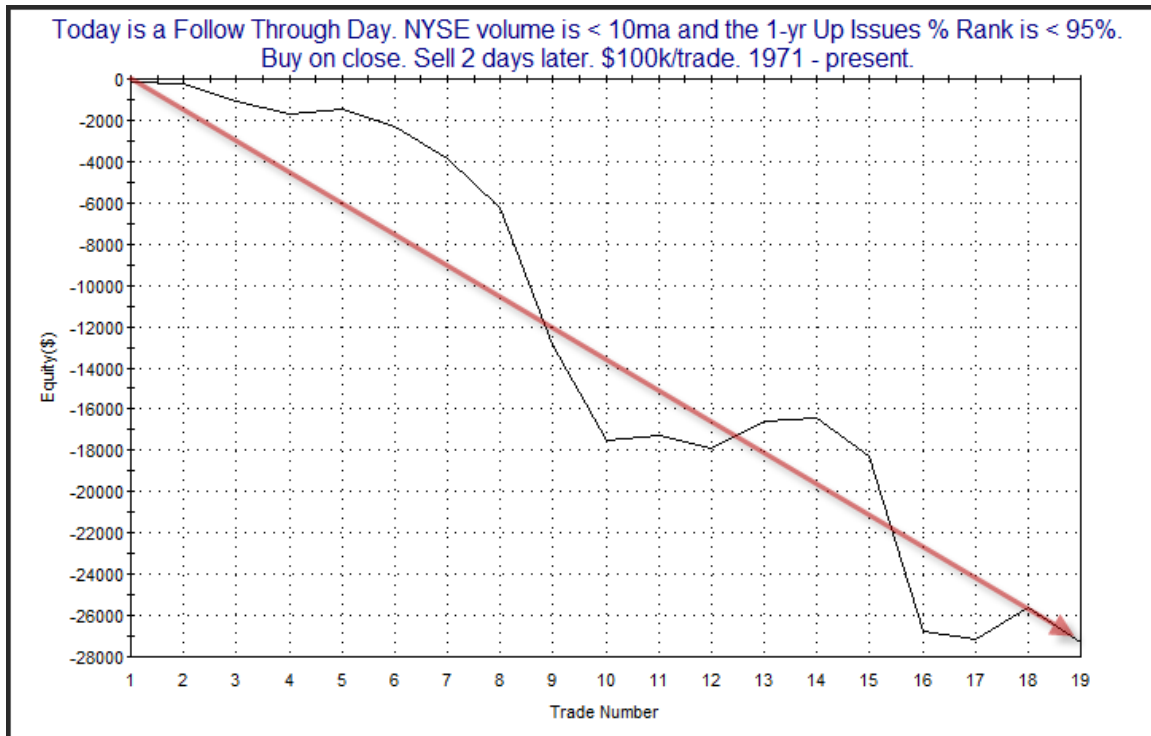
Today is a Follow Through Day. NYSE volume is < 10ma and the 1-yr Up Issues % Rank is < 95%.
Buy on close. Sell X days later. \$100k/trade. 1971 - present.

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	-42,744.09	19	8	11	42.11	2,627.11	7,531.29	-5,796.45	-24,546.70	0.45	0.33	-2,249.69
9	-49,036.76	19	7	12	36.84	1,961.77	2,418.26	-5,230.76	-18,395.06	0.38	0.22	-2,580.88
8	-37,515.76	19	8	11	42.11	1,801.29	3,617.64	-4,720.55	-17,469.28	0.38	0.28	-1,974.51
7	-27,620.24	19	8	11	42.11	1,641.64	2,899.26	-3,704.85	-12,495.16	0.44	0.32	-1,453.70
6	-15,525.82	19	10	9	52.63	1,913.90	5,900.31	-3,851.65	-9,023.28	0.50	0.55	-817.15
5	-20,605.62	19	8	11	42.11	1,948.15	4,663.62	-3,290.08	-7,789.18	0.59	0.43	-1,084.51
4	-19,556.88	19	6	13	31.58	2,268.26	7,124.13	-2,551.26	-7,745.95	0.89	0.41	-1,029.31
3	-21,816.56	19	5	14	26.32	1,783.14	3,189.42	-2,195.16	-5,299.32	0.81	0.29	-1,148.24
2	-27,304.06	19	5	14	26.32	701.33	1,508.80	-2,200.77	-8,433.70	0.32	0.11	-1,437.06
1	-3,639.30	19	8	11	42.11	837.07	2,565.81	-939.62	-2,475.86	0.89	0.65	-191.54

**All 19 instances closed below the entry price at some point in the next 4 days.
Only 3 of these 19 (16%) FTDs went on to successful rallies.**

The failure rate here is substantial no matter how you look at it. A short-term downside edge is suggested which largely plays out in the 1st 2 days. Every instance closed below

the entry price over the next few days. And these FTDs have demonstrated a paltry 16% success rate. All these stats are impressive and point to a downside inclination over the next few days. Below is a profit curve which illustrates 2-day holding period results.



There's certainly some wiggle but the general slope has been down for a long time and the curve is hitting new lows. I'm adding this study to both the short and intermediate-term active lists.

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



The green Aggregator line remains positive tonight. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the rally on Tuesday caused the black Differential Line to fall back 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 turned from long to flat. This was indicated as likely on the systems page near the close.

Expectations are set to remain positive on Wednesday. Of course this could change if bearish studies emerge. Meanwhile, the Differential Pivot will be *inverted* at 1,331.73 on Wednesday. An inverted pivot means it will cross 0 if the market closes flat. In order to prevent the Differential line from rising above 0 the SPX will need to close up nearly 0.6%.

It appears my entry criterion was a bit too conservative in last night's letter as I was unable to get a fill. With the SPX quickly moving to short-term overbought I am not inclined to chase – especially with the FTD evidence presented tonight. It will be interesting to see how the intermediate-term turns out since tonight's FTD study conflicts with last night's bullish study. There is very little triggering tonight, and I'm just going to have to sit tight and exercise patience. I may not need to wait long though. With bullish inclinations and an inverted Differential Pivot there is a good chance of a long signal triggering again on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/11 – neutral

The intermediate-term outlook was last updated in the 6/11 letter. A link is below.

[2012-06-11 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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

None.

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.