

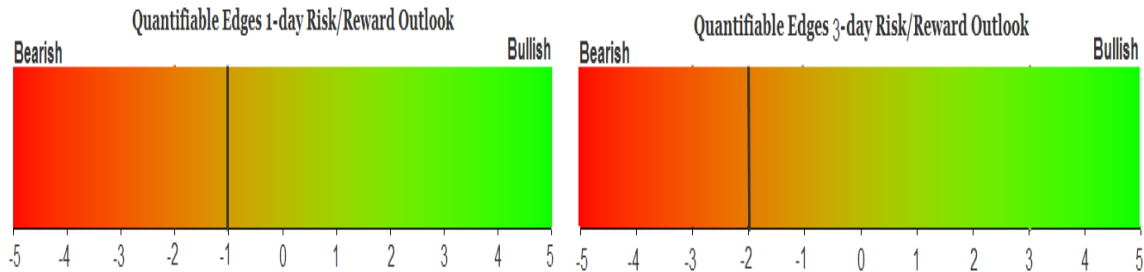
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 20, 2012

Volume 5 Issue 118

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Short	100% Short SPY	Flat	Flat

## Tonight's Research Points

- The VIX rising along with the SPX today triggered the short-term bearish study.
- While tomorrow is a Fed Day, the setup appears less bullish than most Fed Days.

## Short-term Outlook

### The Bottom Line

The Aggregator is again bearish. This time I am interested in taking on some short exposure if the market manages to close higher.

## 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 20, 2012	SPX up 10-high > 200. VIX up midweek.	1 day	Bearish	
June 19, 2012	SPY low vol 20, high price 10.	1-4 days	Bearish	
June 18, 2012	SPY low vol. VIX low close. Opex.	1-4 days	Bearish	-1.90%
June 18, 2012	SPX up 1%-2% opex week	1-5 days	Bearish	-1.40%
June 15, 2012	Top 10% 10-day range before opex	1-4 days	Bearish	-1.50%
<b>Active - Long Term</b>				
June 18, 2012	POMO modestly bullish	int term	slight bull	
June 13, 2012	FTD with modest breadth & vol	int term	Bearish	
June 12, 2012	SPY 3high, 3low, 3low close.	1-10 days	Bullish	3.30%
June 7, 2012	90% up day on 3rd day of rally	1-14 days	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	

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

***The Evidence***

Tuesday saw very solid gains for the market. The SPX rose 1.0%, the Nasdaq gained 1.2% and the Russell 2000 rallied 1.8%. Breadth was strongly positive as the NYSE Up Issues % came in at 83% and the Up Volume % was 84%. Total NYSE volume rose to the 2<sup>nd</sup> highest level of the last 8 days.

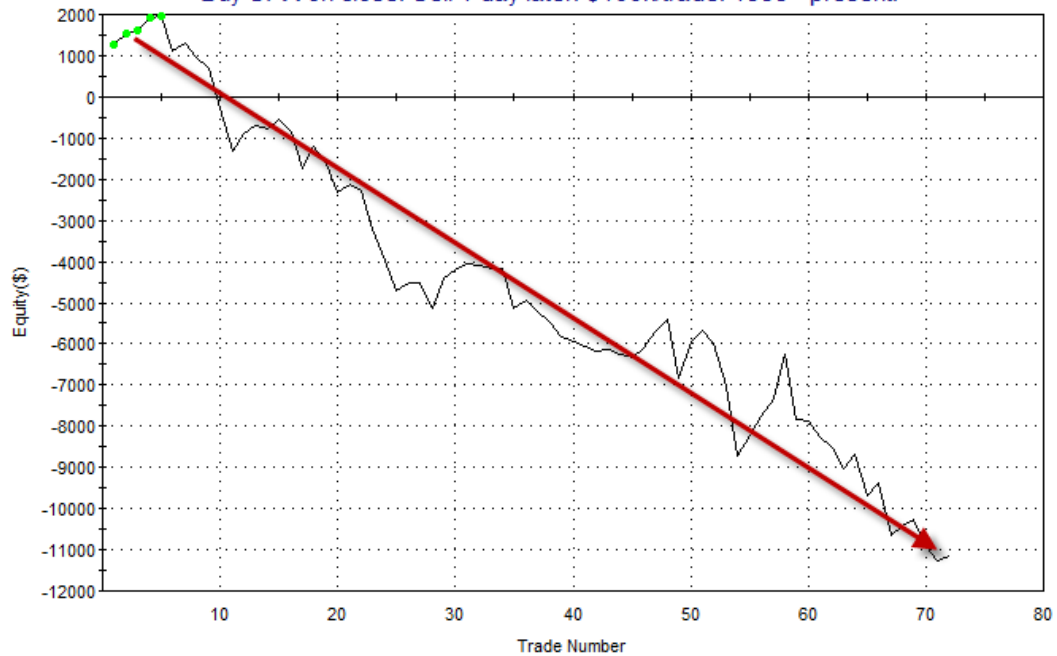
In an unusual move, while the SPX closed solidly higher, the VIX also closed up on Tuesday. As most subscribers are no doubt aware, the VIX and the SPX will most often move opposite each other. The strange move in the VIX may partly be due to the fact that it had dropped so far on Monday - so far that it overshot where it "should" have been. But whatever the reason, Tuesday's action was unusual, and it managed to trigger the study below. I last showed this study in the 12/28/11 subscriber letter. Results are updated.

SPX and VIX both close higher. Today is Tues, Wed, or Thurs. SPX > 200ma and at a 10-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-11,932.45	60	31	29	51.67	793.05	2,288.73	-1,259.20	-4,171.80	0.63	0.67	-198.87
4	-12,722.74	62	29	33	46.77	801.32	2,343.30	-1,089.73	-4,354.72	0.74	0.65	-205.21
3	-10,236.56	62	29	33	46.77	638.80	2,381.25	-871.57	-2,337.28	0.73	0.64	-165.11
2	-13,184.41	63	23	40	36.51	561.71	1,609.50	-652.59	-2,182.68	0.86	0.49	-209.28
1	-11,156.74	72	32	40	44.44	339.38	1,281.75	-550.43	-1,721.70	0.62	0.49	-154.95

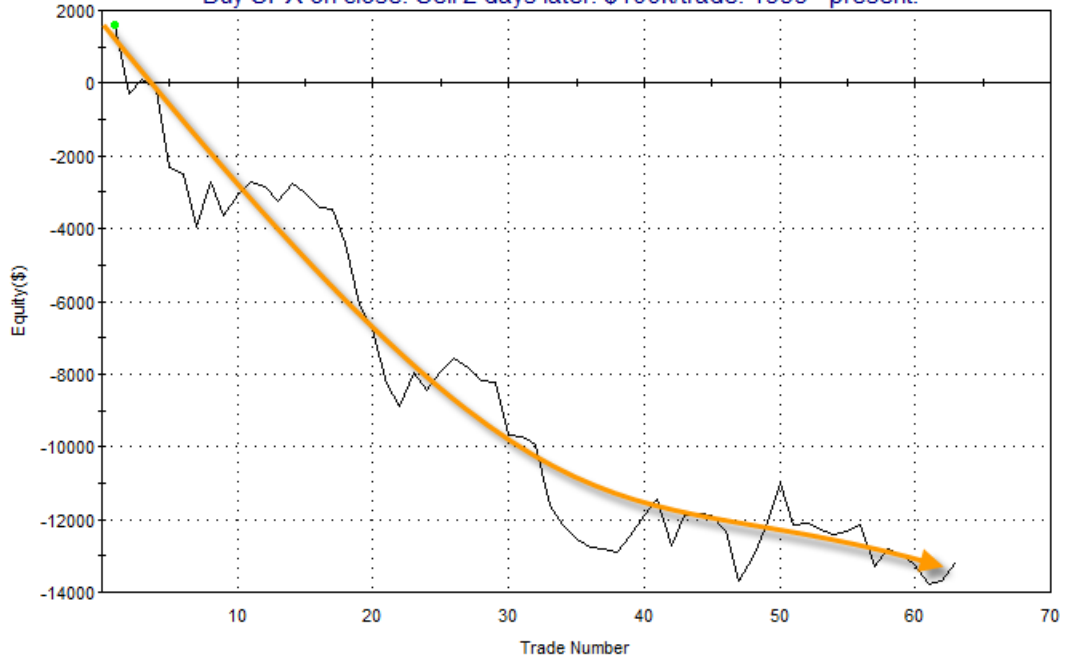
**89% of instances posted at least 1 close below the entry price at some point in the next week.**

The stats seem to point to a possible downside edge. The average drop isn't very deep, but the consistency is solid. The edge primarily plays out in the first two days. Below I have published the profit curves for both the one-day and two-day exit strategies.

SPX and VIX both close higher. Today is Tues, Wed, or Thurs. SPX > 200ma and at a 10-day high.  
Buy SPX on close. Sell 1 day later. \$100k/trade. 1999 - present.



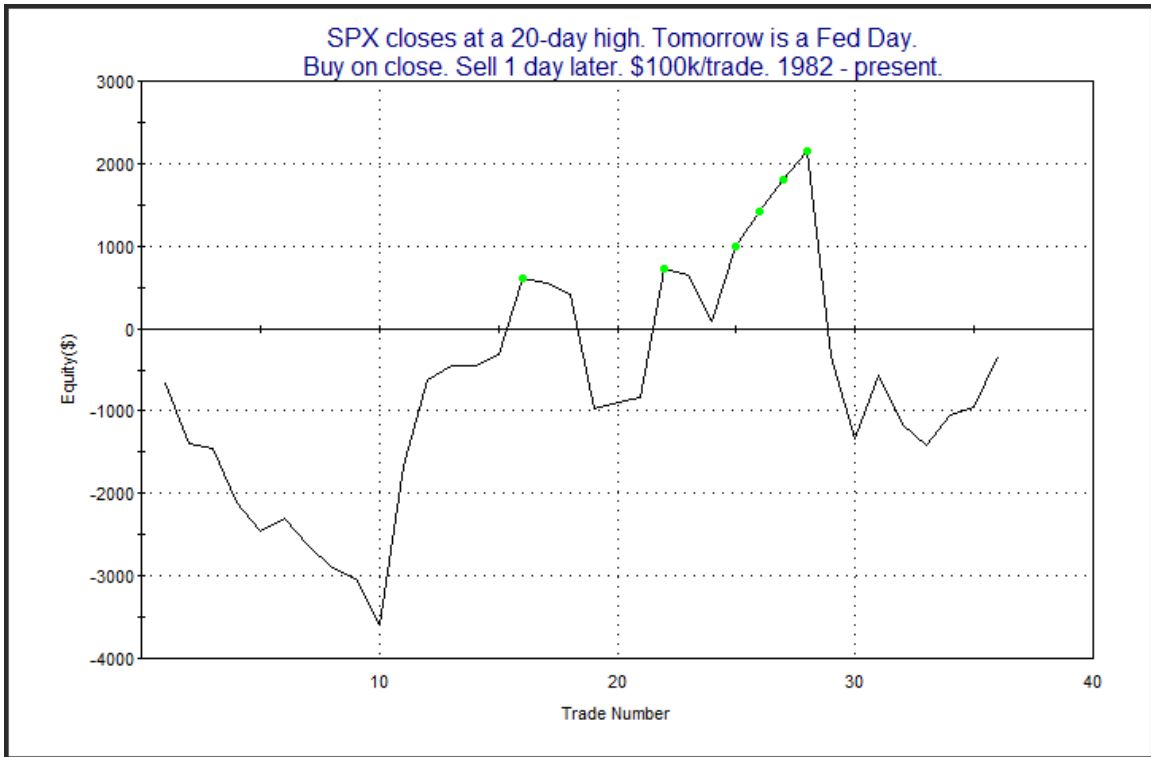
SPX and VIX both close higher. Today is Tues, Wed, or Thurs. SPX > 200ma and at a 10-day high.  
Buy SPX on close. Sell 2 days later. \$100k/trade. 1999 - present.



While the total losses are larger using the 2-day exit strategy, the downside inclination seems to have weakened for that holding period. But the 1-day exit strategy is still showing a strong and steady downward slope. I decided to include this study on the short-term Active List, but only as a 1-day edge.

As I have mentioned the last couple of days, Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. I have documented this tendency in great detail over the last few years, with the most complete documentation coming in [The Quantifiable Edges Guide to Fed Days](#). Based on what the market did today, this does not seem to be the most favorable Fed Day setup. For one, SPY closed in the upper half of its daily range. Typically, the worse the close, the stronger the upside inclination for the Fed Day. Additionally, SPX closed at a 20-day high on Tuesday. Fed Day bullishness has often occurred when a Fed announcement has helped to alleviate market stress. When the market closes at a 20-day high, it typically means there isn't a lot of worry present. Under these circumstances, the upside inclination has also not been present. I last showed this in the 12/14/10 subscriber letter, and have updated the study below.

SPX closes at a 20-day high. Tomorrow is a Fed Day. Buy on close. Sell 1 day later. \$100k/trade. 1982 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$335.36)	Profit Factor	0.97
Gross Profit	\$9,998.75	Gross Loss	(\$10,334.11)
Total Number of Trades	36	Percent Profitable	47.22%
Winning Trades	17	Losing Trades	19
Even Trades	0		
Avg. Trade Net Profit	(\$9.32)	Ratio Avg. Win:Avg. Loss	1.08
Avg. Winning Trade	\$588.16	Avg. Losing Trade	(\$543.90)
Largest Winning Trade	\$1,934.04	<a href="#">Largest Losing Trade</a>	(\$2,492.10)



Neither the stats table nor the profit curve suggest any consistency or tradable edge.

Ironically, in a way that only the market can contradict itself, another study today suggested the move higher over the last few days may actually improve Wednesday's outlook. The study below uses SPY, and it requires at least three up days.

Tomorrow is a Fed Day. SPY closes up for at least the 3rd day in a row.  
Buy on close. Sell 1 day later. \$100k/trade. 1993 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ↕</span>			
All Trades			
Total Net Profit	\$15,027.82	Profit Factor	55.27
Gross Profit	\$15,304.71	Gross Loss	(\$276.89)
Total Number of Trades	19	Percent Profitable	84.21%
Winning Trades	16	Losing Trades	2
Even Trades	1		
Avg. Trade Net Profit	\$790.94	Ratio Avg. Win:Avg. Loss	6.91
Avg. Winning Trade	\$956.54	Avg. Losing Trade	(\$138.45)
Largest Winning Trade	\$3,383.38	Largest Losing Trade	(\$147.80)

The average trade shown here is about twice as strong as the average Fed Day. Below is a list of all instances for those who are interested.

Tomorrow is a Fed Day. SPY closes up for at least the 3rd day in a row. Buy on close. Sell 1 day later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/27/95	Buy	\$50.42	0.00%	\$0.00
03/28/95	Sell	\$50.42		(\$356.94)
01/30/96	Buy	\$63.03	1.03%	\$1,062.62
01/31/96	Sell	\$63.68		(\$79.30)
05/20/96	Buy	\$67.65	(0.15%)	\$339.94
05/21/96	Sell	\$67.55		(\$221.70)
02/03/98	Buy	\$100.69	(0.13%)	\$466.71
02/04/98	Sell	\$100.56		(\$744.75)
12/21/98	Buy	\$120.16	0.44%	\$881.92
12/22/98	Sell	\$120.69		(\$807.04)
11/15/99	Buy	\$140.08	0.97%	\$2,081.96
11/16/99	Sell	\$141.44		\$0.00
05/15/00	Buy	\$145.28	0.97%	\$1,678.72
05/16/00	Sell	\$146.69		\$0.00
11/05/01	Buy	\$110.68	1.55%	\$1,625.40
11/06/01	Sell	\$112.40		(\$749.49)
11/05/02	Buy	\$91.85	1.30%	\$1,327.36
11/06/02	Sell	\$93.04		(\$1,153.28)
03/17/03	Buy	\$86.78	0.59%	\$656.64
03/18/03	Sell	\$87.29		(\$576.00)
08/11/03	Buy	\$98.65	0.91%	\$952.22
08/12/03	Sell	\$99.55		(\$232.99)
12/13/04	Buy	\$120.37	0.35%	\$489.70
12/14/04	Sell	\$120.79		(\$157.70)
10/24/06	Buy	\$137.88	0.34%	\$384.25
10/25/06	Sell	\$138.35		(\$268.25)
01/27/09	Buy	\$84.53	3.38%	\$4,045.86
01/28/09	Sell	\$87.39		\$0.00
03/15/10	Buy	\$115.49	0.80%	\$890.95
03/16/10	Sell	\$116.41		\$0.00
11/02/10	Buy	\$119.47	0.40%	\$460.35
11/03/10	Sell	\$119.95		(\$853.74)
12/13/10	Buy	\$124.56	0.09%	\$537.34
12/14/10	Sell	\$124.67		(\$216.54)
01/25/11	Buy	\$129.17	0.39%	\$681.12
01/26/11	Sell	\$129.67		\$0.00
03/12/12	Buy	\$137.58	1.80%	\$1,851.30
03/13/12	Sell	\$140.06		\$0.00

Interestingly, if I use SPX instead of SPY the results aren't quite as strong. Combining this with the fact that the other studies suggest any Fed Day edge is muted has led me to ignore this study tonight and leave it off the active list. It wouldn't matter either way.

Being that it is just a one-day study, its influence wouldn't do much to the net expectations.

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



Once again the green Aggregator line remains negative. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line also remained below zero. This means the SPX is short-term overbought versus expectations. So net expectations are bearish and the SPX is overbought versus recent expectations. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This meant the Aggregator System remained short at the close. This was indicated as likely on the systems page near the close.

Expectations are set to remain negative on Wednesday. Of course this could change if bullish studies emerge. Meanwhile, the Differential Pivot will be 1,348.80 on Wednesday. This is a drop of about 0.7%. If the SPX were to close down this much it would flip the Differential Line from negative to positive.

Over the last two days I have ignored the bearish Aggregator readings. Two reasons that I chose to do this were: 1) Wednesday is a Fed Day and those are typically bullish. 2) The QE Buying Power Index was at a bullish 3, and under those circumstances short Aggregator signals have suffered over the last few years. But once we get through Wednesday, neither of these conditions will be in place any longer. We are still fairly early in a rally from an intermediate-term low, which warrants some caution. Still, if the market manages to close up again on Wednesday, I plan to take on some short exposure. And depending on what studies emerge Wednesday afternoon, I could add to that exposure as early as Thursday's open.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 6/18 – neutral***

The intermediate-term outlook was last updated in the 6/18 letter. A link is below:

[2012-06-18 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.*

***SPY - sell short 1/4 index position @ \$135.71 LIMIT ON CLOSE.*** This is based on the short-term outlook above.

**Current Open Trade Ideas**

*None.*

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