

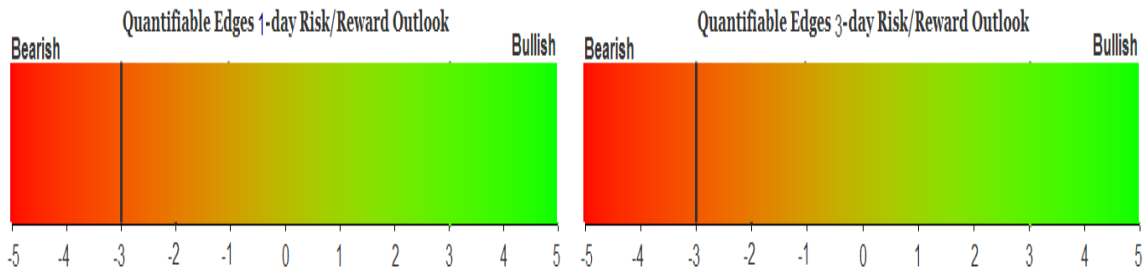
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 21, 2012

Volume 5 Issue 119

## 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 VXO's extended stretch below its 10ma suggests the SPX should dip in the next 1-2 days.
- Down Fed Days are often followed by a bounce, but the edge goes away when coming off a 10-day high.

## Short-term Outlook

### The Bottom Line

The Aggregator is again bearish. I am still interested in taking on some short exposure if I can get a fill at a favorable price.

**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 21, 2012	VXO > 15% below 10ma for 3 days	1-2 days	Bearish	-1.85%
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%
<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	
<b>Dropped Tonight</b>				
<b>June 20, 2012</b>	<b>SPX 10-hi and &gt; 200. VIX up midw</b>	<b>1-4 days</b>	<b>Bearish</b>	
June 15, 2012	Top 10% 10-day range before opex	1-4 days	Bearish	-1.50%

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

**The Evidence**

The market didn't seem to quite know what to make of Wednesday's Fed announcement, so after chopping back and forth it finished mixed. The SPX fell 0.2%, the Nasdaq gained 0.02% and the Russell 2000 rallied 0.3%. Breadth was also mixed as the NYSE Up Issues % came in at 57% but the Up Volume % was just 48%. Total NYSE volume dipped some from Tuesday's level.

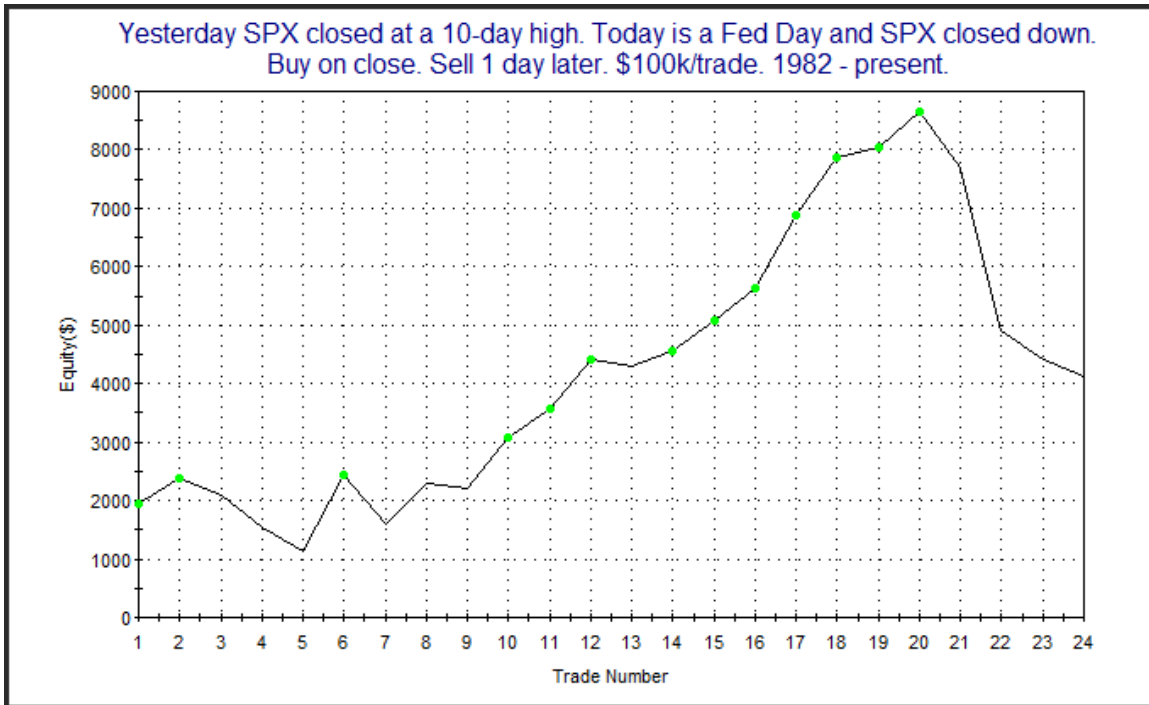
There were a couple of studies from the 9/22/10 letter that looked at down closes on Fed Days. Often these down closes turn out to be a headfake as the market rebounds over the next few days. Below is an updated table from the 9/22/10 Letter.

Today is a Fed Day and SPX closed down. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	60,630.66	98	63	35	64.29	2,348.94	9,012.33	-2,495.79	-8,323.53	0.94	1.69	618.68
9	61,989.80	98	65	33	66.33	2,173.61	8,967.96	-2,402.87	-5,671.36	0.90	1.78	632.55
8	40,988.34	98	61	37	62.24	2,052.10	8,456.40	-2,275.39	-6,514.96	0.90	1.49	418.25
7	43,911.09	98	63	35	64.29	1,856.70	8,869.37	-2,087.45	-6,757.80	0.89	1.60	448.07
6	46,946.45	98	64	34	65.31	1,763.62	7,361.95	-1,938.97	-5,884.97	0.91	1.71	479.05
5	43,868.11	98	65	33	66.33	1,624.28	6,013.86	-1,870.01	-5,581.03	0.87	1.71	447.63
4	35,863.63	98	59	39	60.20	1,520.06	8,095.62	-1,380.00	-4,622.80	1.10	1.67	365.96
3	32,281.10	98	58	40	59.18	1,277.26	5,035.28	-1,044.99	-4,025.70	1.22	1.77	329.40
2	23,430.23	98	61	37	62.24	1,178.62	5,202.52	-1,309.89	-4,588.00	0.90	1.48	239.08
1	15,646.08	98	58	40	59.18	905.29	4,001.33	-921.52	-3,162.00	0.98	1.42	159.65

I also noted in that letter that when the drop follows a 10-day high the upside edge is substantially reduced. This is shown in the study below (updated).

Yesterday SPX closed at a 10-day high. Today is a Fed Day and SPX closed down. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	12,584.34	24	15	9	62.50	2,027.46	5,947.62	-1,980.84	-6,157.91	1.02	1.71	524.35
9	9,416.10	24	15	9	62.50	1,800.77	5,228.01	-1,955.06	-4,779.30	0.92	1.54	392.34
8	9,748.62	24	13	11	54.17	2,162.21	6,363.78	-1,669.11	-4,393.93	1.30	1.53	406.19
7	3,870.30	24	11	13	45.83	2,213.11	4,282.98	-1,574.92	-4,043.27	1.41	1.19	161.26
6	3,946.64	24	12	12	50.00	1,742.79	4,307.20	-1,413.91	-2,915.88	1.23	1.23	164.44
5	3,793.45	24	13	11	54.17	1,500.71	3,615.39	-1,428.71	-2,538.28	1.05	1.24	158.06
4	1,857.41	24	13	11	54.17	1,192.59	2,206.92	-1,240.56	-3,709.52	0.96	1.14	77.39
3	2,088.56	24	14	10	58.33	946.92	2,276.88	-1,116.84	-3,721.09	0.85	1.19	87.02
2	-698.62	24	13	11	54.17	1,042.32	2,791.74	-1,295.34	-3,333.05	0.80	0.95	-29.11
1	4,133.29	24	14	10	58.33	781.72	1,950.75	-681.08	-2,811.51	1.15	1.61	172.22

You see here that any potential upside edge really has only been in force for one day. Perhaps the 10-day high prior to the Fed Day suggests that the market got its hopes up a bit too much. When the market is less hopeful prior to a Fed meeting then there may be more room for a positive reaction to occur. Whatever the reason, today's Fed Day pullback doesn't appear to provide much of an edge. And to dampen the bullishness further, here is the profit curve.



Over the last 4 instances there has been a large amount of give-back, calling even the 1-day edge into question. I am not including this study on the active list tonight.

Wednesday we again saw the VIX and VXO close well below their recent mean. This next study was last seen in the 10/13/11 subscriber letter. It looks for stretches of 15% or more that have persisted for three days.

VXO closes over 15% below its 10ma for exactly the 3rd day in a row.  
Buy SPX on close. Sell X days later. \$100k/trade. 1987 - 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	-23,837.17	20	10	10	50.00	833.97	2,073.06	-3,217.68	-10,448.88	0.26	0.26	-1,191.86
4	-16,531.81	20	10	10	50.00	877.96	2,331.45	-2,531.14	-5,673.45	0.35	0.35	-826.59
3	-11,644.60	20	9	11	45.00	1,151.96	1,904.75	-2,001.11	-8,395.18	0.58	0.47	-582.23
2	-14,975.69	20	5	15	25.00	993.87	1,737.55	-1,329.67	-5,164.42	0.75	0.25	-748.78
1	-13,393.71	20	5	15	25.00	780.12	1,990.25	-1,152.95	-4,980.56	0.68	0.23	-669.69

In only 3 instances SPX failed to close below the entry price on day 1 or day 2. All 3 continued higher and did not post a close under the entry price any time in the next month. The 3 instances took place on 7/18/94, 10/19/98, & 10/2/01.

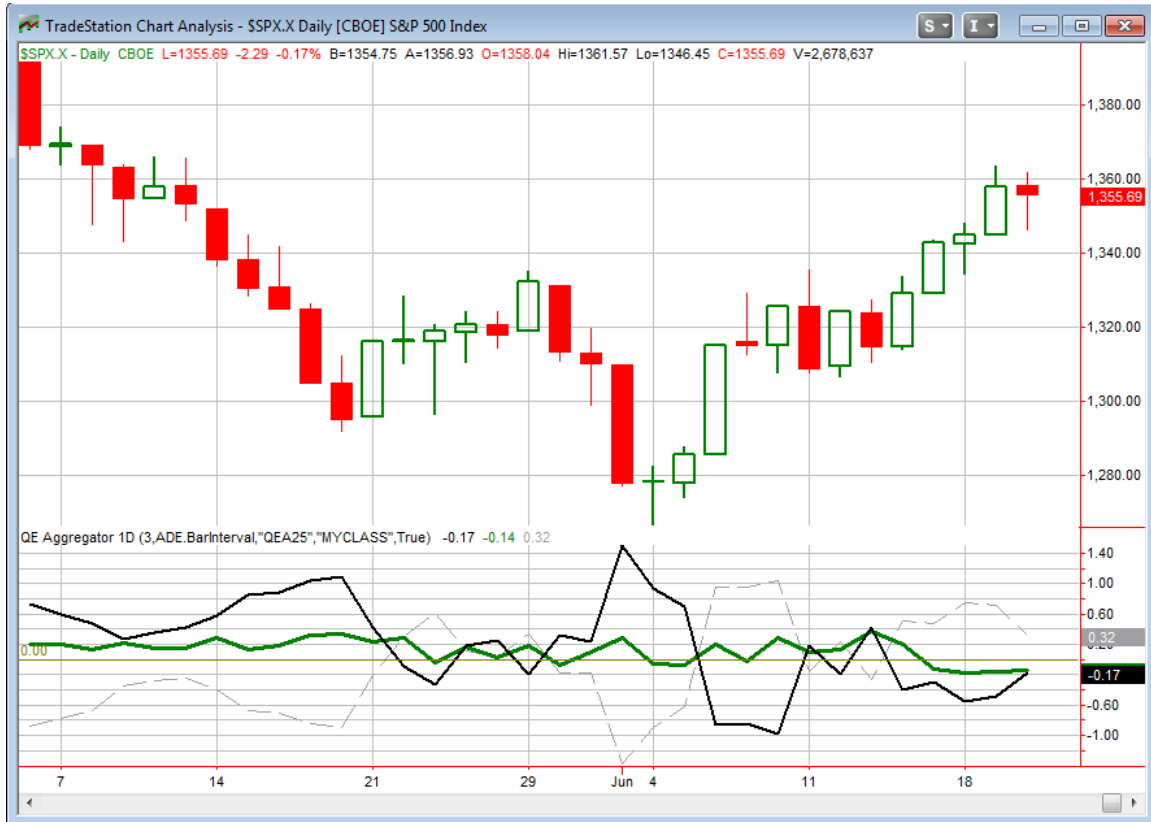
Based on the stats table there appears to be a downside inclination. I find the note at the bottom of the study to be especially interesting. Nearly every case has experienced an almost immediate pullback, but those that didn't went without pulling back for a long time. Below I have listed all instances assuming a 2-day exit strategy.

VXO closes over 15% below its 10ma for exactly the 3rd day in a row.  
Buy SPX on close. Sell 2 days later. \$100k/trade. 1987 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/02/87	Buy	\$255.75	(2.65%)	\$0.00
11/04/87	Sell	\$248.96		(\$5,075.18)
12/23/87	Buy	\$253.16	(3.00%)	\$0.00
12/28/87	Sell	\$245.57		(\$3,543.15)
11/14/90	Buy	\$320.39	(1.02%)	\$0.00
11/16/90	Sell	\$317.12		(\$1,687.92)
01/25/91	Buy	\$336.07	(0.07%)	\$395.01
01/29/91	Sell	\$335.84		(\$537.57)
07/18/94	Buy	\$448.55	0.68%	\$1,498.50
07/20/94	Sell	\$451.60		\$0.00
12/16/94	Buy	\$458.80	(0.37%)	\$0.00
12/20/94	Sell	\$457.10		(\$527.31)
10/19/98	Buy	\$1,062.40	0.71%	\$2,035.10
10/21/98	Sell	\$1,069.90		(\$404.20)
12/23/98	Buy	\$1,228.54	(0.25%)	\$241.38
12/28/98	Sell	\$1,225.48		(\$597.78)
10/02/01	Buy	\$1,051.33	1.74%	\$3,115.05
10/04/01	Sell	\$1,069.62		(\$935.75)
07/31/02	Buy	\$911.62	(5.20%)	\$0.00
08/02/02	Sell	\$864.24		(\$6,286.03)
08/19/02	Buy	\$950.70	(0.14%)	\$93.45
08/21/02	Sell	\$949.36		(\$2,034.90)
08/24/07	Buy	\$1,479.37	(3.18%)	\$0.00
08/28/07	Sell	\$1,432.36		(\$3,173.12)
09/20/07	Buy	\$1,518.75	(0.07%)	\$789.10
09/24/07	Sell	\$1,517.73		(\$169.00)
12/26/07	Buy	\$1,497.66	(1.28%)	\$0.00
12/28/07	Sell	\$1,478.49		(\$1,713.36)
11/05/08	Buy	\$952.77	(2.29%)	\$0.00
11/07/08	Sell	\$930.99		(\$5,515.12)
02/22/10	Buy	\$1,108.01	(0.25%)	\$51.30
02/24/10	Sell	\$1,105.24		(\$1,424.70)
06/17/10	Buy	\$1,116.04	(0.25%)	\$1,351.91
06/21/10	Sell	\$1,113.20		(\$694.20)
03/25/11	Buy	\$1,313.80	0.43%	\$451.44
03/29/11	Sell	\$1,319.44		(\$649.04)
07/01/11	Buy	\$1,339.67	(0.03%)	\$93.98
07/06/11	Sell	\$1,339.22		(\$647.50)
10/12/11	Buy	\$1,207.25	1.44%	\$1,423.52
10/14/11	Sell	\$1,224.58		(\$1,366.94)
<b>Avg Run-up: \$577 Avg Drawdown: -\$1,849</b>				

The fact that the average drawdown is well over 3x the size of the average run-up is also worth considering. All in all it appears the stretched VXO is suggesting a short-term pullback. I have included this study on the active list.

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 Thursday. Of course this could change if bullish studies emerge. This is especially true since all four of the active short-term studies are set to expire within the next two days. Meanwhile, the Differential Pivot will be 1,343.24 on Thursday. This is a drop of about 0.9%. If the SPX were to close down this much it would flip the Differential Line from negative to positive.

With the SPX closing down just slightly, I was not filled on my short trade idea from last night. I am still comfortable with the idea of taking on short exposure, though. Therefore, I will try again on Thursday to see if I can get filled at a favorable price. I believe there is a good likelihood of a pullback over the next few days. With the market still attempting to rally after the recent intermediate-term low, it is unlikely I will get aggressive with this short trade.

***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.*** This is based on the short-term outlook above. I left the entry price the same from last night, but have switched the order type from "limit on close" to "limit".

**Current Open Trade Ideas**

*None.*

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