

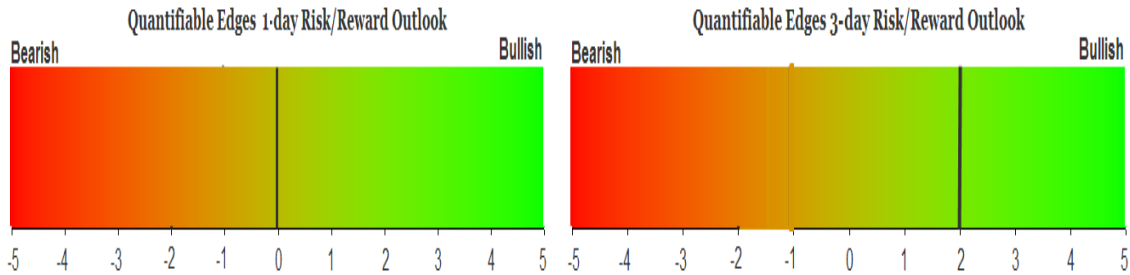
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 22, 2012

Volume 5 Issue 120

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Flat

Tonight's Research Points

- When SPY goes over two weeks without closing at a five day low, the first five day low can often be bought and held for a short-term profit.
- 2% down days during uptrends used to provide a very favorable edge. In recent years there hasn't seemed to be any edge.

Short-term Outlook

The Bottom Line

The Aggregator flipped from bearish to bullish with Thursday's big selloff. I will look to take advantage of this with a small long position. Evidence is not overly compelling though, so I will keep my exposure small for now.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 22, 2012	SPY closes at 5-day low 1st time > 2 wks	1-4 days	Bullish	1.60%
June 19, 2012	SPY low vol 20, high price 10.	1-4 days	Bearish	
June 18, 2012	SPX up 1%-2% opex week	1-5 days	Bearish	-1.40%
Active - Long Term				
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	
Dropped Tonight				
June 18, 2012	SPY low vol. VIX low close. Opex.	1-4 days	Bearish	-1.90%
June 21, 2012	VXO > 15% below 10ma for 3 days	1-2 days	Bearish	-1.85%

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

The Evidence

The market had been giving signs that it was likely to pull back. But I had been hesitant to enter with the QE Buying Power Index high and a Fed Day approaching. Those conditions were relieved on Wednesday and the market started to pull back. Thursday the selloff kicked in to full gear. The SPX fell 2.2%, the Nasdaq lost 2.4% and the Russell 2000 declined 2.5%. Breadth was strongly negative as the NYSE Up Issues % came in at 19% and the Up Volume % was just 6%. Total NYSE volume rose to the 2nd highest level in the last 2 weeks – eclipsed by only last Friday’s op-ex day.

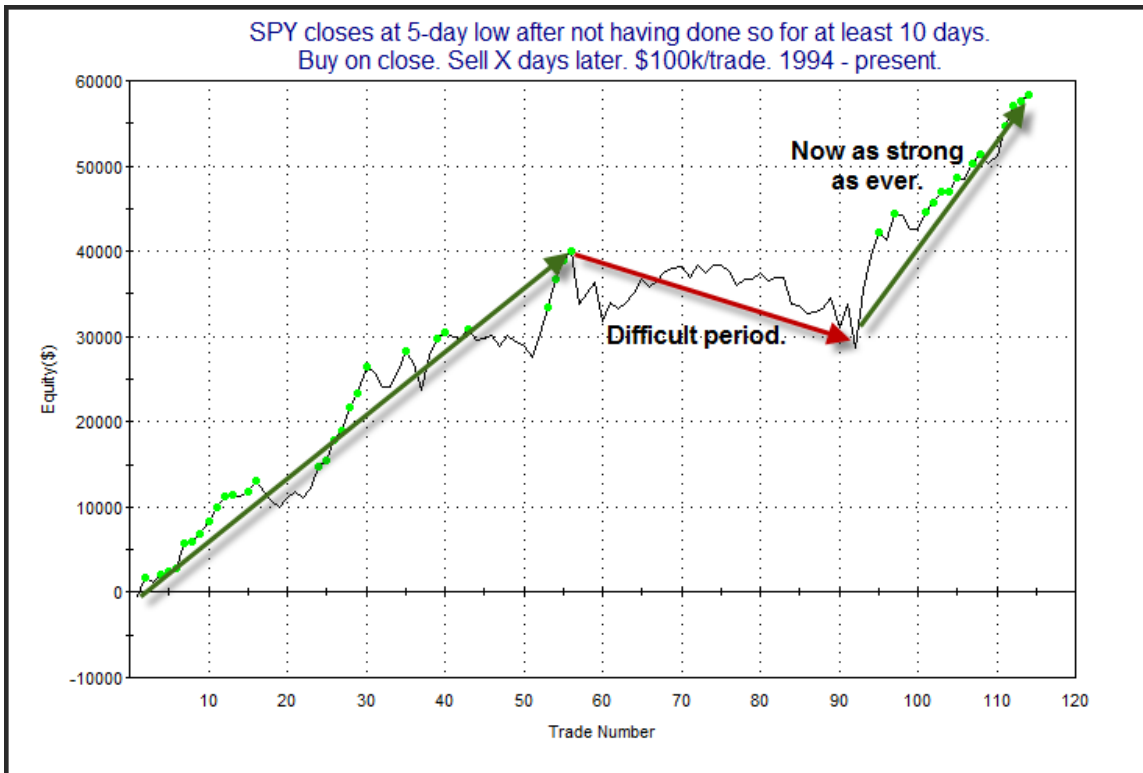
Thursday was the 1st time the SPY managed to close at a short-term low in a while. In the 3/22/12 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at 5-day low after not having done so for at least 10 days.
Buy on close. Sell X days later. \$100k/trade. 1994 - 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	87,352.41	114	75	39	65.79	2,169.78	8,925.10	-1,932.86	-8,623.54	1.12	2.16	766.25
9	74,829.57	114	75	39	65.79	1,965.53	8,933.76	-1,861.15	-6,709.56	1.06	2.03	656.40
8	72,438.17	114	75	38	65.79	1,912.25	8,908.38	-1,867.91	-7,113.48	1.02	2.02	635.42
7	57,830.45	114	74	40	64.91	1,835.58	6,851.52	-1,950.07	-7,790.40	0.94	1.74	507.28
6	46,774.75	114	72	42	63.16	1,668.38	6,523.92	-1,746.39	-9,559.44	0.96	1.64	410.30
5	48,168.33	114	72	41	63.16	1,603.81	6,103.89	-1,641.61	-4,906.44	0.98	1.72	422.53
4	58,324.70	114	75	39	65.79	1,474.04	6,941.43	-1,339.18	-6,244.56	1.10	2.12	511.62
3	38,116.47	114	71	43	62.28	1,314.87	5,888.16	-1,284.64	-5,295.84	1.02	1.69	334.36
2	23,818.23	114	63	50	55.26	1,151.21	3,809.72	-974.16	-3,737.28	1.18	1.49	208.93
1	11,441.38	114	63	51	55.26	858.00	2,812.20	-835.54	-3,909.03	1.03	1.27	100.36

100 of 114 instances (88%) closed above the entry price at some point in the next week.

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.

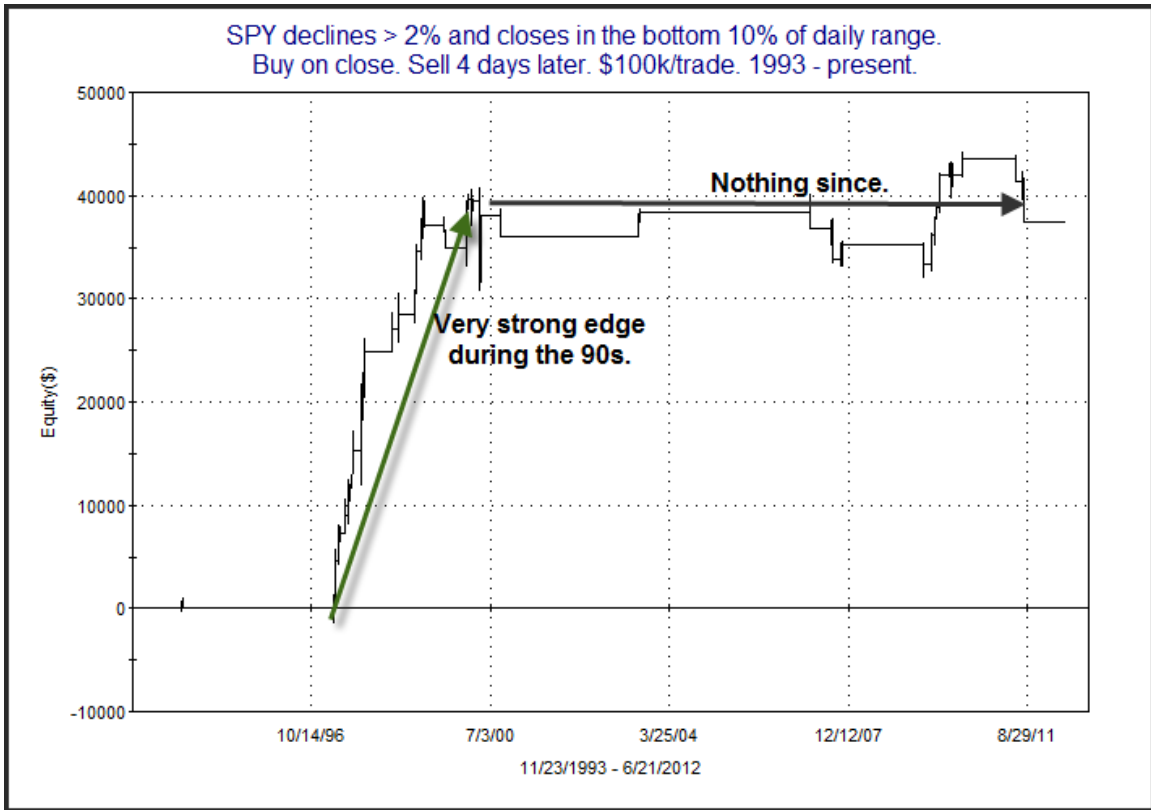


After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 20 trades or so the edge seems to have reasserted itself. The implication here is that steady moves higher normally wither before they die, and the market will likely experience a bounce in the next few days.

There were a few fairly old studies identified by the Quantifinder that suggested a 1-day drop of the magnitude we saw on Thursday is often exhaustive when the market is above the 200ma. Some common filters were 2% drops and poor finishes. I combined a few requirements and came up with the below study.

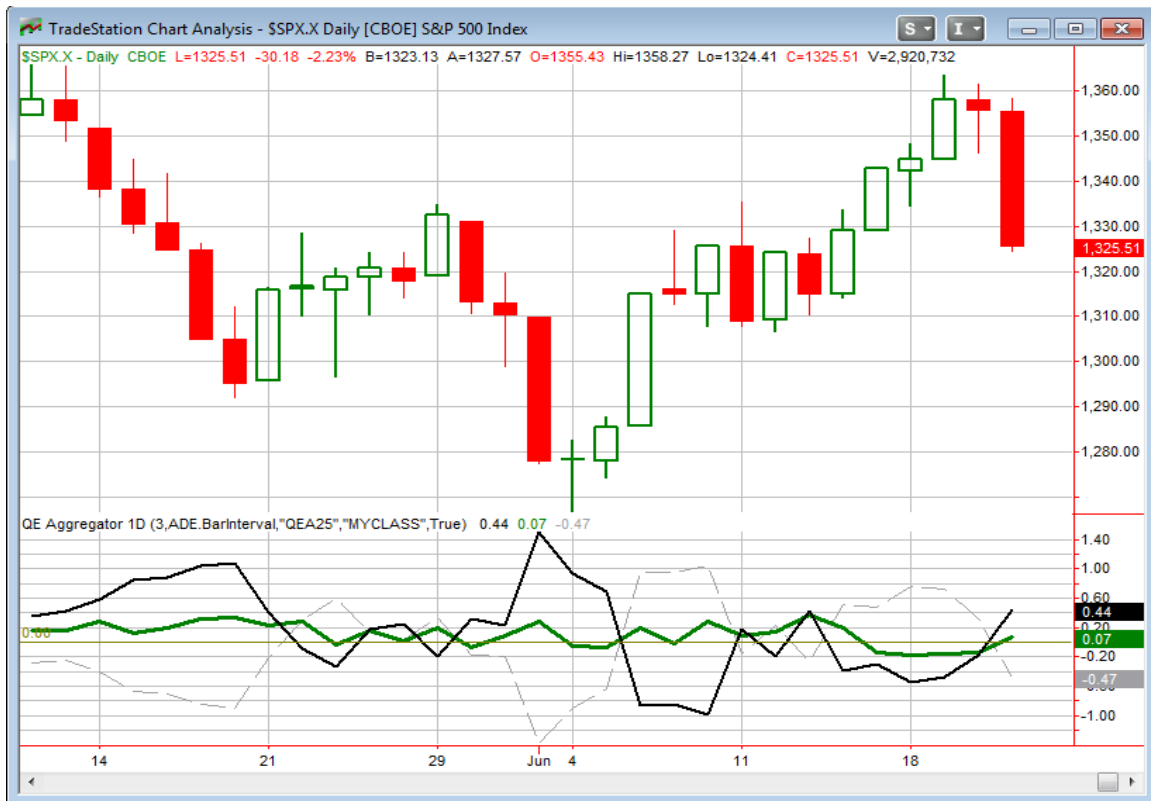
SPY declines > 2% and closes in the bottom 10% of daily range. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	46,563.25	31	19	12	61.29	4,428.16	9,282.24	-3,130.98	-14,007.15	1.41	2.24	1,502.04
9	65,160.83	33	25	8	75.76	3,662.56	7,585.77	-3,300.40	-10,036.80	1.11	3.47	1,974.57
8	58,983.46	33	25	8	75.76	3,738.47	7,858.26	-4,309.78	-14,030.10	0.87	2.71	1,787.38
7	57,163.51	33	25	8	75.76	3,401.32	8,324.13	-3,483.70	-8,047.80	0.98	3.05	1,732.23
6	57,493.33	33	24	9	72.73	3,140.27	7,873.02	-1,985.90	-7,910.10	1.58	4.22	1,742.22
5	46,240.98	33	22	11	66.67	2,949.18	8,239.74	-1,694.63	-3,388.95	1.74	3.48	1,401.24
4	37,460.54	33	23	10	69.70	2,448.64	5,581.02	-1,885.83	-3,909.15	1.30	2.99	1,135.17
3	41,701.99	34	23	11	67.65	2,517.22	5,117.85	-1,472.18	-3,776.99	1.71	3.58	1,226.53
2	29,434.31	34	24	10	70.59	1,957.89	5,477.88	-1,755.51	-7,362.74	1.12	2.68	865.71
1	25,477.44	34	25	9	73.53	1,190.30	5,764.38	-475.56	-1,386.49	2.50	6.95	749.34

The stats table suggests a sizable upside edge from day 1 through the next couple of weeks. But closer examination taught more about this setup. The profit curves were less than desirable, and they all had a similar look. Below is a curve using a 4-day holding period. It typifies what I saw.



At one time I would have jumped all over this with a heavy long position. But without any profits to speak of since the turn of the century, I am not even inclined to include this study on the Active List. 2% drops just ain't what they used to be.

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



The Aggregator chart saw a big shift tonight. The green Aggregator line turned up sharply and moved from negative to positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also jumped above zero. This means the SPX is short-term oversold versus expectations. So net expectations are bullish and the SPX is oversold versus recent expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This meant the Aggregator System switched from short to long at the close. This was indicated as likely on the systems page before the bell.

With both short-term bearish studies scheduled to expire on Friday expectations are set to remain positive. Of course this could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,351.05 on Friday. To reach this level would take a rally of around 1.9%. That's an unlikely 1-day scenario. More likely is that we will need to see a multi-day advance or consolidation to work off this oversold condition.

The Aggregator is now bullish, but evidence is somewhat muted. I'm not compelled to take on a large position. We could certainly see another day or so of selling before the bounce ensues. In fact, while 3-day expectations are bullish, Friday's prospects are basically neutral. I will look to enter a small long position on Friday if I can get a decent fill, but I will save most of my ammo for when evidence becomes more compelling.

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 -buy 1/4 index position @ \$132.44 LIMIT. This is based on the short-term outlook above. As long as the market does not gap up and run higher without filling, I will look to take on some small exposure.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)(s)</i>	<i>6/21/2012</i>	<i>\$135.71</i>	<i>\$132.44</i>	<i>2.41%</i>		<i>shorted @limit/sold close</i>

SPY was covered on the close as indicated in the intraday update sent to gold subscribers around 2:30pm EST.

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