

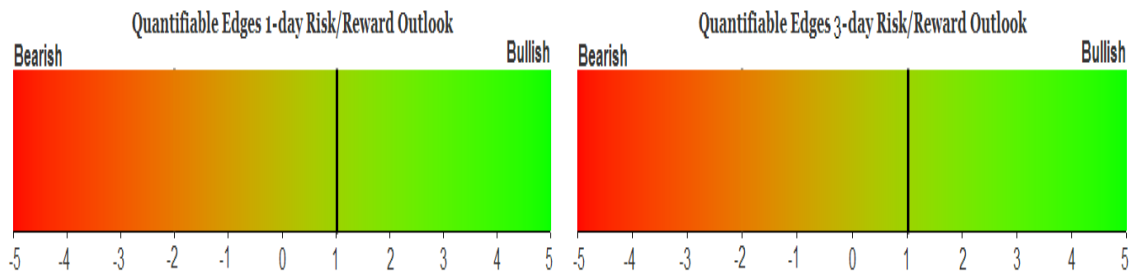
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 28, 2012

Volume 5 Issue 124

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Two days higher under similar circumstances will often be followed by more short-term gains.

## Short-term Outlook

### The Bottom Line

The outlook is still bullish but the market will turn “overbought” on Thursday unless there is a sharp decline. I am looking to exit my long position sometime on Thursday.

## 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 28, 2012	Up 2 days but below close 3 ago	1-2 days	Bullish	0.90%
June 26, 2012	1.5% loss 2x in week > 200ma	1-3 days	Bullish	2.25%
June 26, 2012	Gap down < 2ago. Gap up yest. > 200	1-3 days	Bearish	-1.80%
June 25, 2012	Sweet spot bounce from 1.75% drop	1-5 days	Bullish	3.00%
<b>Active - Long Term</b>				
June 25, 2012	Nasdaq leading SPX	int term	Bullish	
June 18, 2012	POMO modestly bullish	int term	slight bull	
June 13, 2012	FTD with modest breadth & vol	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
June 22, 2012	SPY closes at 5-day low 1st time > 2 wks	1-4 days	Bullish	1.60%
June 7, 2012	90% up day on 3rd day of rally	1-14 days	Bullish	

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

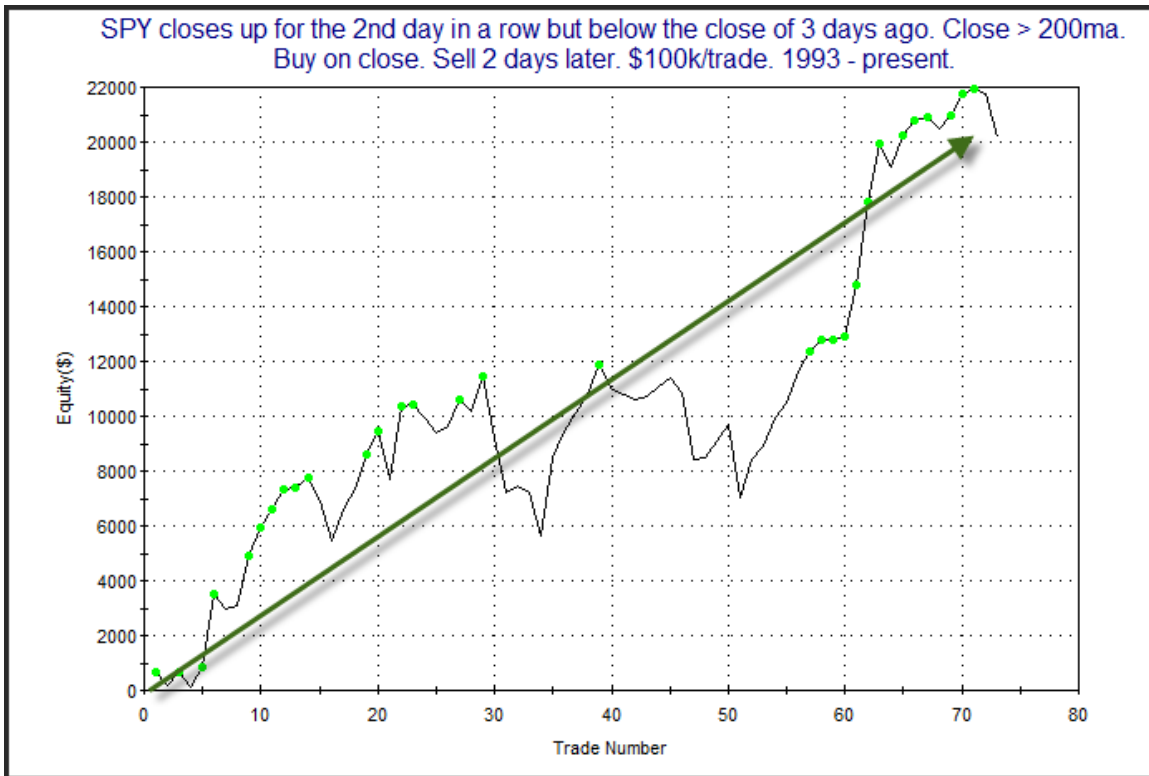
***The Evidence***

Wednesday saw the market move solidly higher for the 2<sup>nd</sup> day in a row. The SPX rose 0.9%, the Nasdaq gained 0.7%, and the Russell 2000 closed up 1.5%. Breadth was strongly positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 79%. Total NYSE volume came in at the lightest level in over 2 weeks.

As a swing trader I sometimes get antsy about taking profits when a trade goes in my direction for a few days. The study below was designed a while back to see if 2 up closes under similar circumstances warranted an exit. It was last seen in the 5/10/2011 letter and all stats have been updated.

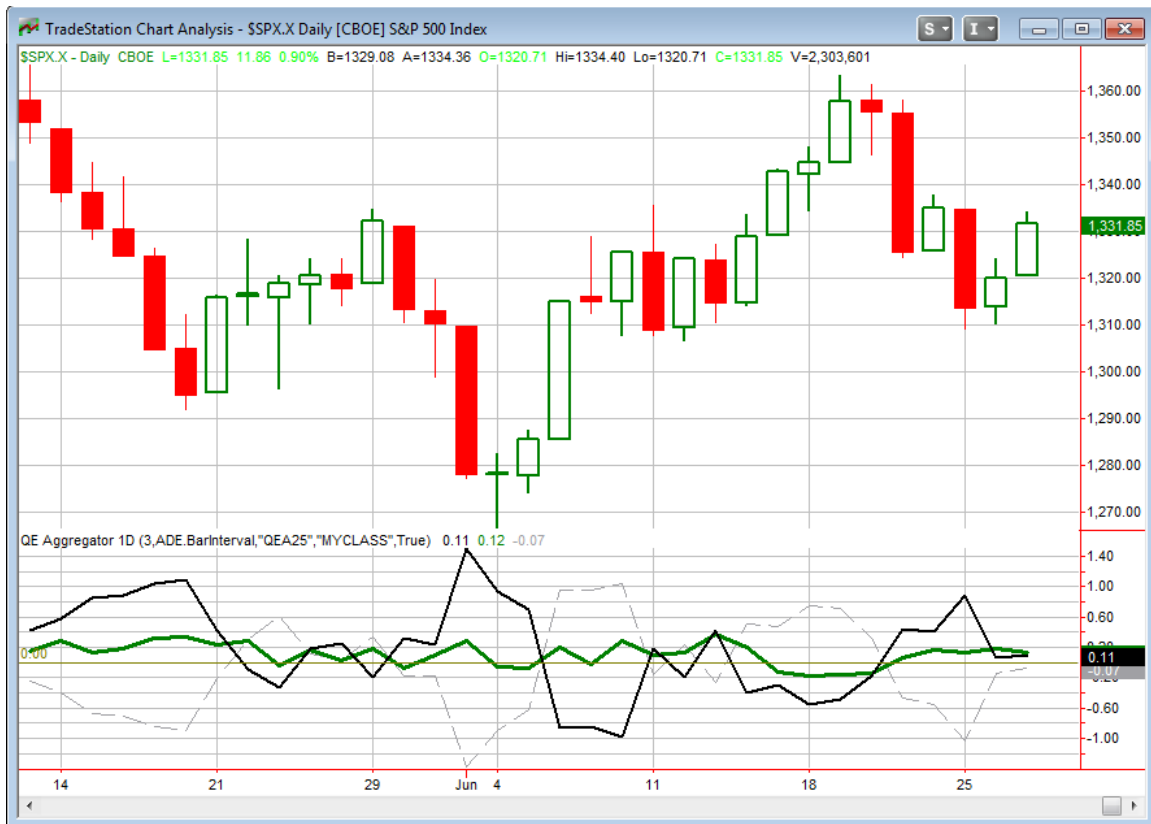
SPY closes up for the 2nd day in a row but below the close of 3 days ago. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	11,995.15	71	42	28	59.15	1,462.65	4,717.70	-1,765.58	-6,549.84	0.83	1.24	168.95
4	15,422.02	72	45	27	62.50	1,353.21	4,698.60	-1,684.16	-4,384.89	0.80	1.34	214.19
3	11,268.24	73	44	29	60.27	1,215.04	3,000.00	-1,454.95	-4,092.24	0.84	1.27	154.36
2	20,193.86	73	50	23	68.49	866.30	3,010.00	-1,005.27	-2,673.44	0.86	1.87	276.63
1	4,525.97	73	44	27	60.27	569.63	2,173.64	-760.66	-1,777.90	0.75	1.22	62.00

Certainly there is no apparent downside edge. No reason given here to look for an exit. In fact over the 1<sup>st</sup> 2 days there appears to be a bullish tendency. Below is an equity curve that shows how this has played out over time.



It may not be the smoothest profit curve we have seen, but it has managed to continually chop higher, and it appears worthy of inclusion on the Active List.

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



The chart shows almost no change tonight as both lines moved sideways. The green Aggregator line remained 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 held above zero. This means the SPX is still 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 remained long at the close.

Based on the current active studies, expectations are set to remain positive Thursday. Of course this could change if more bearish evidence emerges. Meanwhile, the Differential Pivot is *highly inverted* at 1,318.46 on Thursday. An inverted pivot means a flat close would see the Differential Line move through 0 (and in the case the SPX change from oversold to overbought). To avoid moving into an overbought condition the SPX would need to close down over 1% on Thursday.

When the Differential Pivot is highly inverted, meaning there is a good amount of space between the current price level (1,331.85) and the pivot level (1,318.46) then it will often make sense to utilize an intraday stop. This way more profits may be preserved if the SPX suffers a selloff later in the day. If for instance the market trades positive in the

early going, then 1,331.85 (or SPY \$133.17) could be used as a reasonable stop level. Another reasonable stop to consider might be the low of the first 30 or 60 minutes of trading. A move below there in the afternoon that finished down less than 1% would trigger an Aggregator exit signal anyway. A move down greater than 1% could be bought back either at the close or the next day's open as long as it didn't come with strong bearish evidence.

Thursday does have potential market moving news due as the Supreme Court is expected to rule on Obamacare. If the market reacts favorably to the verdict it could spark additional buying. A negative reaction on the other hand could mean a strong wave of selling. To me this means a strategy to trail a stop makes even more sense.

It is also notable that although the market was up fairly strongly on Wednesday, VIX futures only just barely declined. And the back months declined more than the front month perhaps thanks to Thursday's event risk. This resulted in XIV actually closing lower despite the strong move up in SPX. I would look for this to change on Thursday once the event becomes "known". A positive news reaction should see an oversized move up in XIV (futures are still well in contango), and a negative market reaction should see a dampened move lower in XIV. For more information on XIV trading and the impact of VIX futures movement and term structure traders may refer to the VIX-based ETF webinar presentations available on the videos page of the website.

<http://www.quantifiableedges.com/members/videos.php>

***Intermediate-term Outlook (2 weeks – 2 months)– updated 6/25 – slightly bullish***

Intermediate-term outlook was last updated in the 6/25 letter. A link is below:

[2012-06-25 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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/26/2012	\$131.50	\$133.17	1.27%		Aggregator

*Sell SPY on close  $\geq$  \$131.87.* I mentioned in the Short-Term Outlook above that I would prefer to implement a stop strategy during the day. Since I am currently on vacation I may not be able to monitor the market during the US trading day. If possible, I will send out intraday updates that may institute stops. If not, traders could consider using an approach like the one discussed above on their own.

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