

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 29, 2012

Volume 5 Issue 125

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Long

Tonight's Research Points

- The SPX down close on solid breadth suggests a short-term upside edge..

Short-term Outlook

The Bottom Line

While evidence is still pointing north, the SPX is now short-term overbought. The Aggregator is therefore neutral. I got flat at the close Thursday and will wait to see what unfolds tomorrow before considering a new position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 29, 2012	SPX down. Up Issues > 55%. Close > 55	1-2 days	Bullish	1.00%
June 28, 2012	Up 2 days but below close 3 ago	1-2 days	Bullish	0.90%
June 25, 2012	Sweet spot bounce from 1.75% drop	1-5 days	Bullish	3.00%
Active - Long Term				
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	
Dropped Tonight				
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%

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

The Evidence

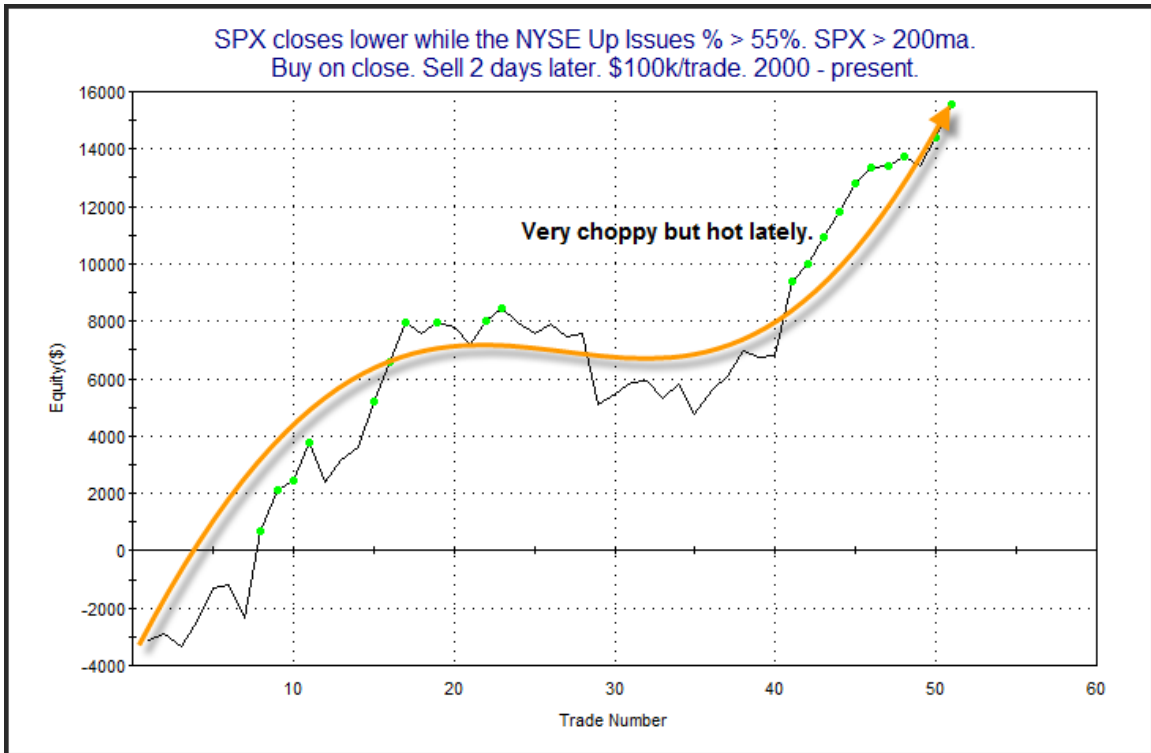
A morning scare was followed by strong buying near the end of the day that brought the SPX almost back to breakeven. The SPX finished down 0.2%, the Nasdaq fell 0.9%, and the Russell 2000 lost 0.1%. Breadth was mildly positive as the NYSE Up Issues % came in at 55% and the Up Volume % was 56%. Total NYSE volume rose from Wednesday’s light level.

One study identified by the Quantifinder suggests a bit of an upside edge. It considered the strong breadth on a day the SPX declined. It last appeared in the 4/17/12 letter. Results are updated.

SPX closes lower while the NYSE Up Issues % > 55%. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	22,676.73	46	26	20	56.52	2,084.97	7,183.08	-1,576.62	-4,406.82	1.32	1.72	492.97
9	27,706.46	46	31	15	67.39	1,849.09	5,597.64	-1,974.36	-4,873.44	0.94	1.94	602.31
8	24,770.73	46	32	14	69.57	1,683.44	5,105.16	-2,078.53	-4,715.80	0.81	1.85	538.49
7	17,105.46	46	31	15	67.39	1,467.61	4,736.88	-1,892.69	-6,585.48	0.78	1.60	371.86
6	13,301.05	47	32	15	68.09	1,358.06	3,398.72	-2,010.45	-9,589.14	0.68	1.44	283.00
5	19,052.32	47	30	17	63.83	1,373.39	3,616.92	-1,302.91	-4,012.80	1.05	1.86	405.37
4	17,454.69	48	30	18	62.50	1,282.37	3,429.00	-1,167.57	-2,921.28	1.10	1.83	363.64
3	16,482.67	50	35	15	70.00	907.42	2,923.44	-1,018.46	-2,852.01	0.89	2.08	329.65
2	15,555.04	51	36	15	70.59	798.54	3,025.12	-879.49	-3,119.03	0.91	2.18	305.00
1	12,049.39	53	32	21	60.38	691.52	2,310.88	-479.97	-1,348.29	1.44	2.20	227.35

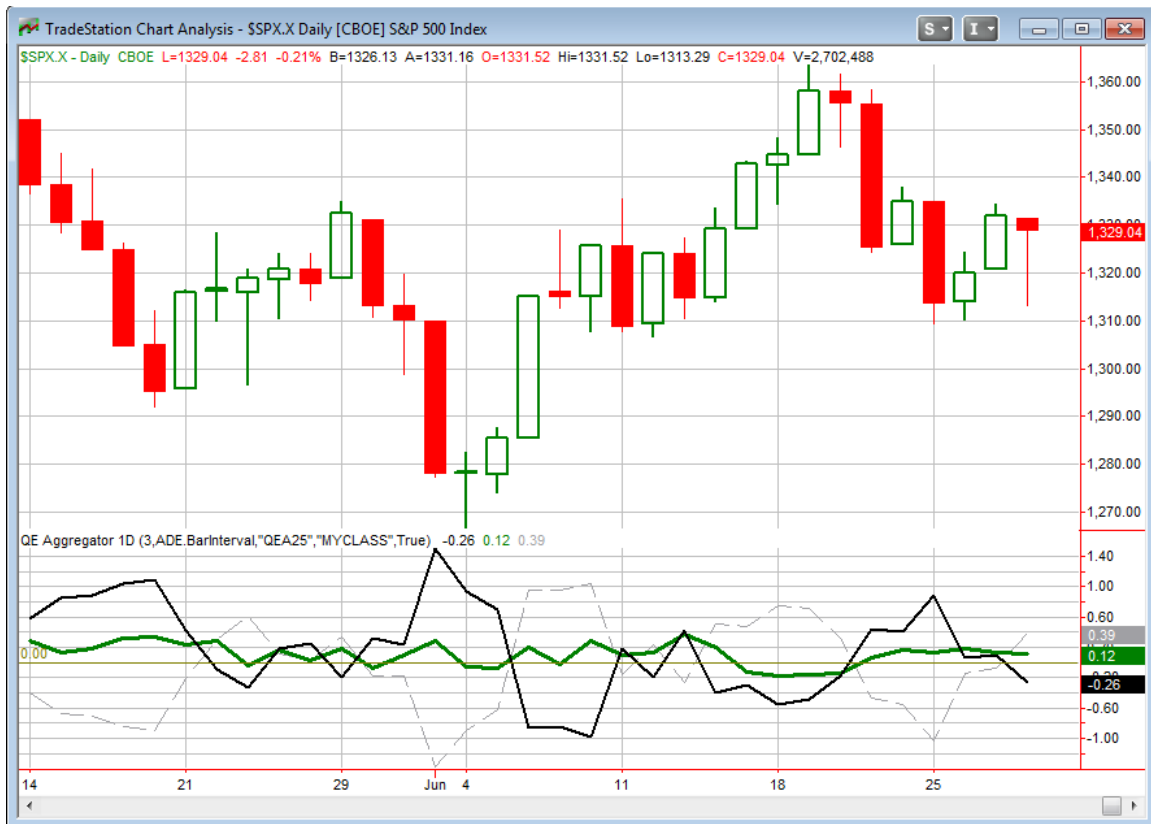
88% of instances posted a close above the entry price at some point in the next week.

The edge isn’t huge, but it does appear to be high-percentage. The equity curve below gives a better idea of how the edge has played out over time.



While the curve certainly appears choppy, the edge has been quite strong lately. The 3-5 day charts don't see quite as pronounced of a dip in the middle, which also alleviates some concern. I believe this study is worth taking into consideration and I've included it among the active studies.

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



With tonight's study factored in 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 dove down 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 changed from long to flat at the close.

Based on the current active studies, expectations are set to remain positive Friday. But with 2 of the 3 short-term studies set to expire, expectations will be largely dependent on new studies that emerge. Meanwhile, the Differential Pivot will be 1,326.36 on Friday. So a close at or below this level would flip the Differential line and move the SPX back to short-term oversold. From the current level that would mean only about a 0.2% drop.

The Aggregator is showing no substantial edge. I'm now flat and don't intend to change that on Friday. With the shallow amount of short-term evidence and the nearby Differential Pivot, the Aggregator signal could pretty easily finish long, short, or flat on Friday. I'm going to stand aside until a more compelling setup unveils itself.

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
<i>SPY(1/4)</i>	<i>6/26/2012</i>	<i>\$131.50</i>	<i>\$132.79</i>	<i>0.98%</i>		<i>sold on close</i>

SPY was sold at the close as per last night's letter. Of course, I was looking to try and trail a stop on Thursday knowing the high likelihood that the Differential line would move to an overbought signal. But the big gap down and early morning selling put the morning low down near the pivot level, therefore taking the edge out of using a stop. In the end it didn't work out too bad as the SPX only suffered a minor decline on the day.

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