

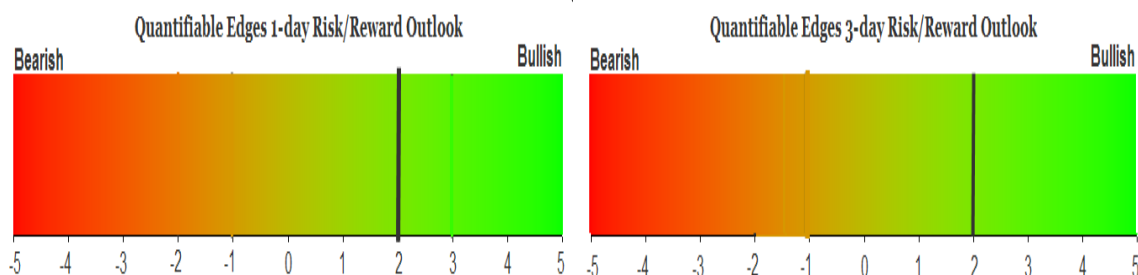
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 6, 2012

Volume 5 Issue 129

Market Overview



Signals Overview

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

Tonight's Research Points

- The employment report could bring some interesting action tomorrow but it does not provide the kind of edge it once did.

Short-term Outlook

The Bottom Line

The overbought condition has been worked off and the Aggregator is now suggesting an upside edge. I'll look to scale in to a small amount of long exposure, but only if we pullback a bit more on Friday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 5, 2012	8-day avg closing range > 75%	1-2 days	Bearish	-1.40%
July 5, 2012	75% Up Issues 2 of 3 & 10-high. > 200	1-6 days	Bullish	2.40%
June 29, 2012	SPY closes month at a high	1-5 days	Bullish	2.35%
Active - Long Term				
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	

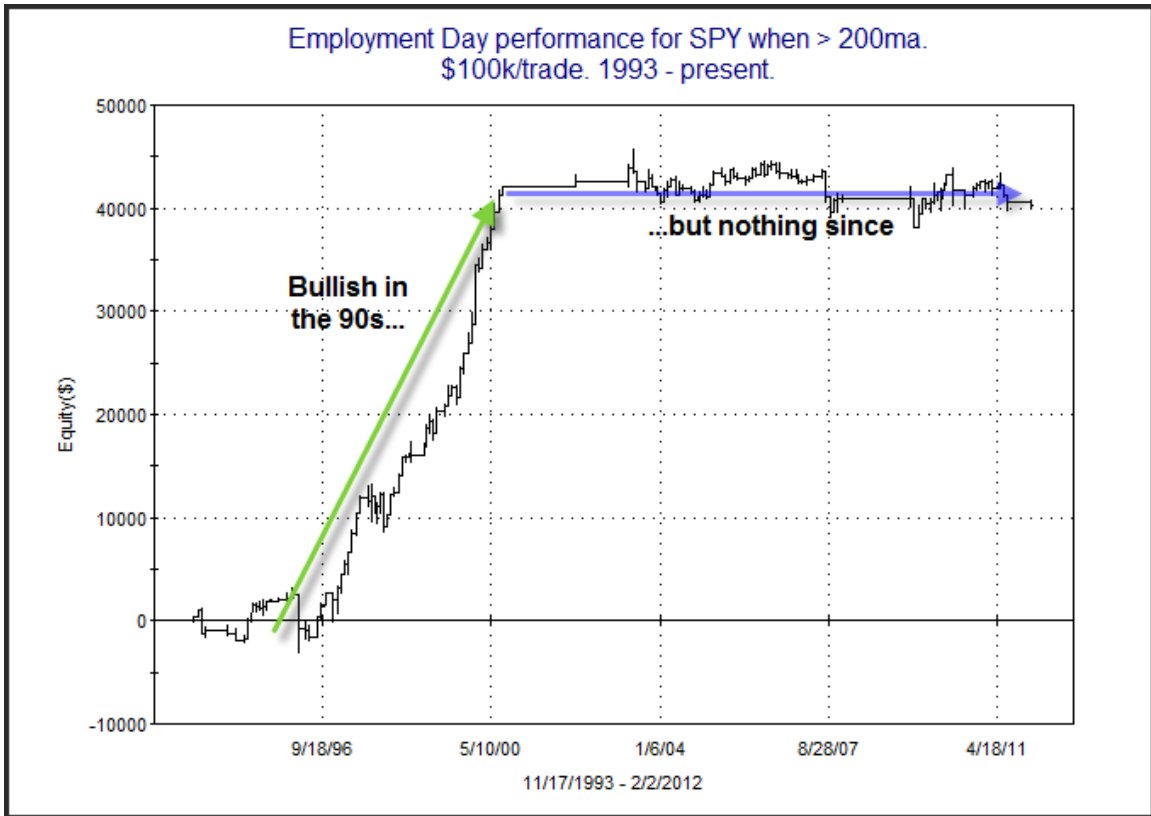
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

A quiet day led to a mostly lower market on Thursday. The SPX fell 0.5%, the Nasdaq gained 0.01%, and the Russell 2000 fell 0.1%. Breadth was negative as the NYSE Up Issues % came in at 46% and the Up Volume % was 31%. Total NYSE volume was very light with many traders probably taking some extra time off this week.

Thursday's action failed to spark anything compelling in the Quantifinder. But while there is no strong new evidence to discuss tonight, it is notable that tomorrow is an Employment Day. By that I mean that the Federal Employment Report will be released. This occurs once per month and is normally on the 1st Friday of the month. Subscribers that would like to study Employment Days on their own can find functions for them in the QE Indicators & Functions for Tradestation code available in the members section. *(Note that I updated the code last week. So if you used the QE Indicators & Functions in the past but have not pulled it down recently, you will need to do so. The old ones expired at the end of June. All you need to do is import the new file into Tradestation and allow the new indicators to overwrite the old ones. It's about a 1-minute process.)*

Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPY performance on Employment Days. I posted this chart in the 2/3/12 subscriber letter. (It is not updated tonight.) For this equity curve I filtered to only include days where SPY was > its 200ma. Each trade was a fictional \$100k.



What I find so interesting about the chart is that for a long time Employment Days in uptrends showed a strong propensity for gains. But in 2000 this edge vanished. Since then there has been no apparent advantage – bullish or bearish. While it unusual to see such an abrupt change in market dynamics, it does serve as a nice reminder that such changes are always possible.

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



Not much change in the green Aggregator line as it remained positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. But the black Differential Line jumped up dramatically and is now above 0. This means the SPX is slightly oversold versus expectations. The big jump was thanks to the combination of Thursday's decline along with the fact that Friday's big gain fell off the back of the calculation. So net expectations are bullish and the SPX is now 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 changed from flat to long at the close. This was indicated as likely on the systems page before the bell.

Based on the current active studies, expectations are set to remain positive on Friday. Of course this could change if more bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,373.22 on Friday. This is about 0.4% above Thursday's close. So it won't take too much of a rally to move back to an overbought condition.

While it was enough to turn the Differential Line positive, Thursday's decline was quite small when compared to the run-up over the last few days. Current studies are net

bullish, but only moderately. I'm not inclined to rush in to anything here, but if we close down again on Friday then I will look to take on some long exposure.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/2 – slightly bullish

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

[2012-07-02 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 ¼ index position @ \$136.78 LIMIT ON CLOSE. This is based on the short-term outlook above.

Current Open Trade Ideas

None

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