

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 10, 2012

Volume 5 Issue 131

Market Overview



Signals Overview

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

Tonight's Research Points

- Mild 3+ day pullbacks from 20-day highs are often shortly followed by a bounce.
- 3-day pullbacks going into a Tuesday have been strongly prone to upside reversals.

Short-term Outlook

The Bottom Line

The market appears to be setting up for a bounce. I'm partially long and looking to add to that position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 10, 2012	3 down from 20 high. Todays is small.	1-3 days	Bullish	1.80%
July 10, 2012	3 down. Tomorrow is Tuesday.	1-4 days	Bullish	3.20%
July 9, 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%
Active - Long Term				
July 9, 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				
July 9, 2012	Employment Day down. SPX > 200ma	1 day	Bullish	
June 29, 2012	SPY closes month at a high	1-5 days	Bullish	2.35%

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

The Evidence

It was a pretty dull day for the market, with the major indices all closing marginally lower. The SPX and NASDAQ both declined 0.2% while the Russell 2000 dropped 0.3%. Breadth was solidly negative as the NYSE Up Issues % came in at 44% and the Up Volume % was 33%. Even with the dull trading, volume rose a bit from last week's holiday levels.

Three-day pullbacks will often suggest an upside edge, depending on where, when, and how they occur. The where (after a 20-day price high), when (going into a Turnaround Tuesday), and how (with declining volatility) all appear to be positive for this particular pullback. Let's look at some studies that demonstrate this.

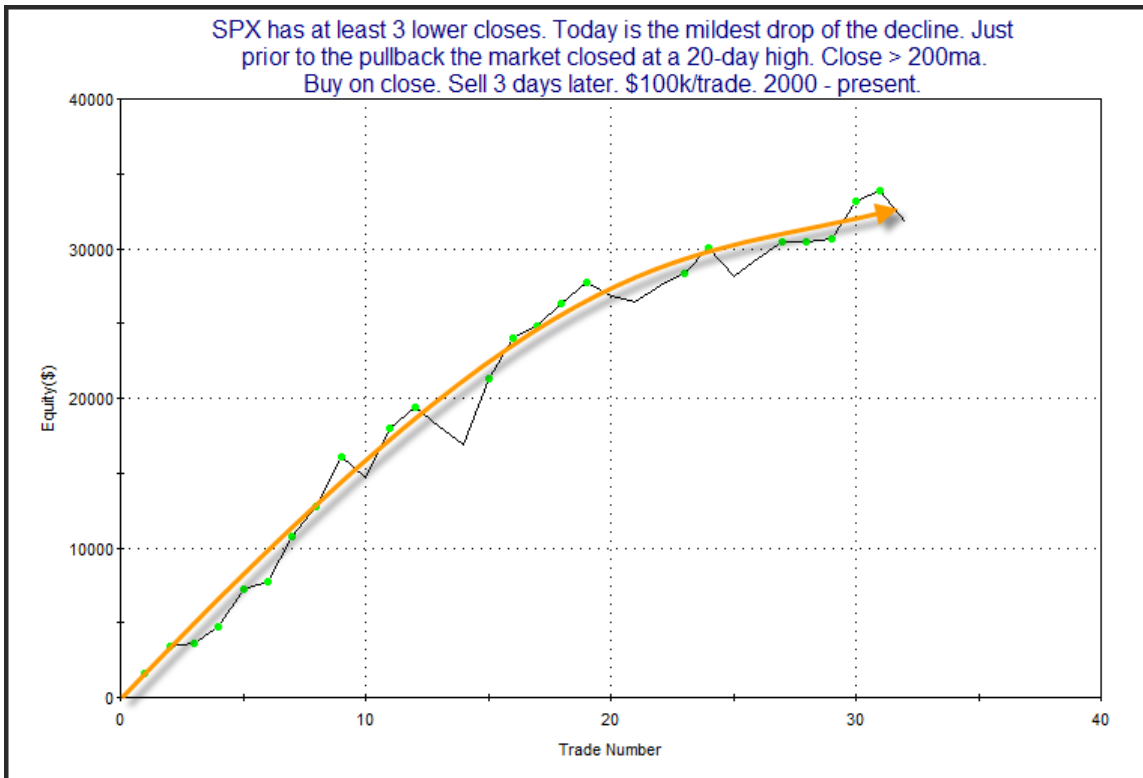
This first study was last seen in the 4/9/12 subscriber letter. It takes into consideration both that the SPX is coming off a 20-day high and that today's drop was the smallest of the decline. This can suggest the sellers are running out of steam. I have updated the stats below.

SPX has at least 3 lower closes. Today is the mildest drop of the decline. Just prior to the pullback the market closed at a 20-day high. Close > 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	41,976.92	30	23	7	76.67	2,373.15	7,183.08	-1,800.79	-7,026.10	1.32	4.33	1,399.23
9	42,079.78	30	23	7	76.67	2,353.85	6,685.72	-1,722.69	-7,816.60	1.37	4.49	1,402.66
8	39,067.44	30	23	7	76.67	2,257.83	6,017.68	-1,837.51	-4,389.40	1.23	4.04	1,302.25
7	32,593.34	31	21	10	67.74	2,306.37	6,121.80	-1,584.05	-3,690.70	1.46	3.06	1,051.40
6	33,956.91	31	20	11	64.52	2,107.42	5,533.56	-744.68	-1,803.70	2.83	5.15	1,095.38
5	31,387.68	32	23	9	71.88	1,884.15	5,769.16	-1,327.52	-3,304.80	1.42	3.63	980.86
4	30,318.28	32	19	13	59.38	2,160.00	4,989.40	-824.75	-2,876.40	2.62	3.83	947.45
3	31,751.64	32	25	7	78.13	1,641.31	4,373.80	-1,325.89	-2,085.27	1.24	4.42	992.24
2	24,504.58	32	25	7	78.13	1,333.90	3,583.44	-1,263.26	-2,803.79	1.06	3.77	765.77
1	11,884.12	35	26	8	74.29	748.31	1,767.00	-946.48	-2,214.00	0.79	2.57	339.55

Only 2 instances failed to close above the entry price at some point in the next week. They were 7/22/98 and 4/8/12.

Here we see what appears to be a reliable setup with some powerful results. A 3-day profit curve can be found below.



This curve is decelerating a little bit. It still appears solid and worth consideration.

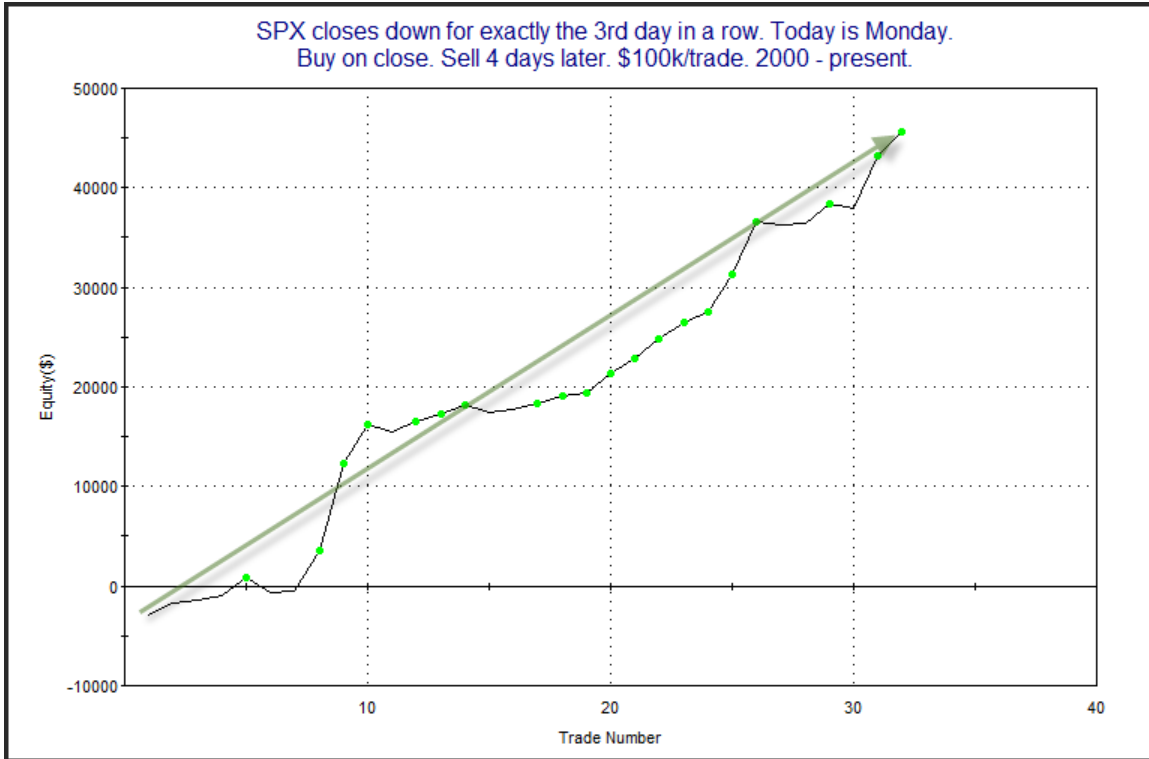
I've discussed many times in the past that Tuesdays have a well-earned reputation for being a day when the market will often halt a decline. The study below is one from the larger [Turnaround Tuesday](#) study. It was last published in the 1/31/12 Subscriber Letter. All statistics are updated.

SPX closes down for exactly the 3rd day in a row. Today is Monday.
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	60,888.26	31	25	6	80.65	2,854.72	13,815.90	-1,746.63	-4,387.46	1.63	6.81	1,964.14
9	64,621.61	31	25	6	80.65	2,783.10	11,206.23	-825.98	-1,686.96	3.37	14.04	2,084.57
8	62,807.23	31	25	5	80.65	2,744.10	11,382.35	-1,159.07	-2,031.30	2.37	11.84	2,026.04
7	62,041.40	31	26	5	83.87	2,620.94	11,104.17	-1,220.59	-2,148.96	2.15	11.17	2,001.34
6	50,575.34	31	23	8	74.19	2,503.58	10,034.53	-875.87	-1,676.79	2.86	8.22	1,631.46
5	57,328.77	32	23	9	71.88	2,801.57	9,572.31	-789.72	-1,714.92	3.55	9.07	1,791.52
4	45,682.91	32	26	6	81.25	2,009.22	8,810.76	-1,092.79	-2,964.25	1.84	7.97	1,427.59
3	39,249.51	32	23	9	71.88	1,994.02	8,432.34	-734.78	-1,873.02	2.71	6.94	1,226.55
2	27,382.49	32	25	7	78.13	1,323.28	5,018.23	-814.23	-1,590.28	1.63	5.80	855.70
1	18,946.39	32	21	11	65.63	1,301.04	4,723.23	-761.40	-2,680.15	1.71	3.26	592.07

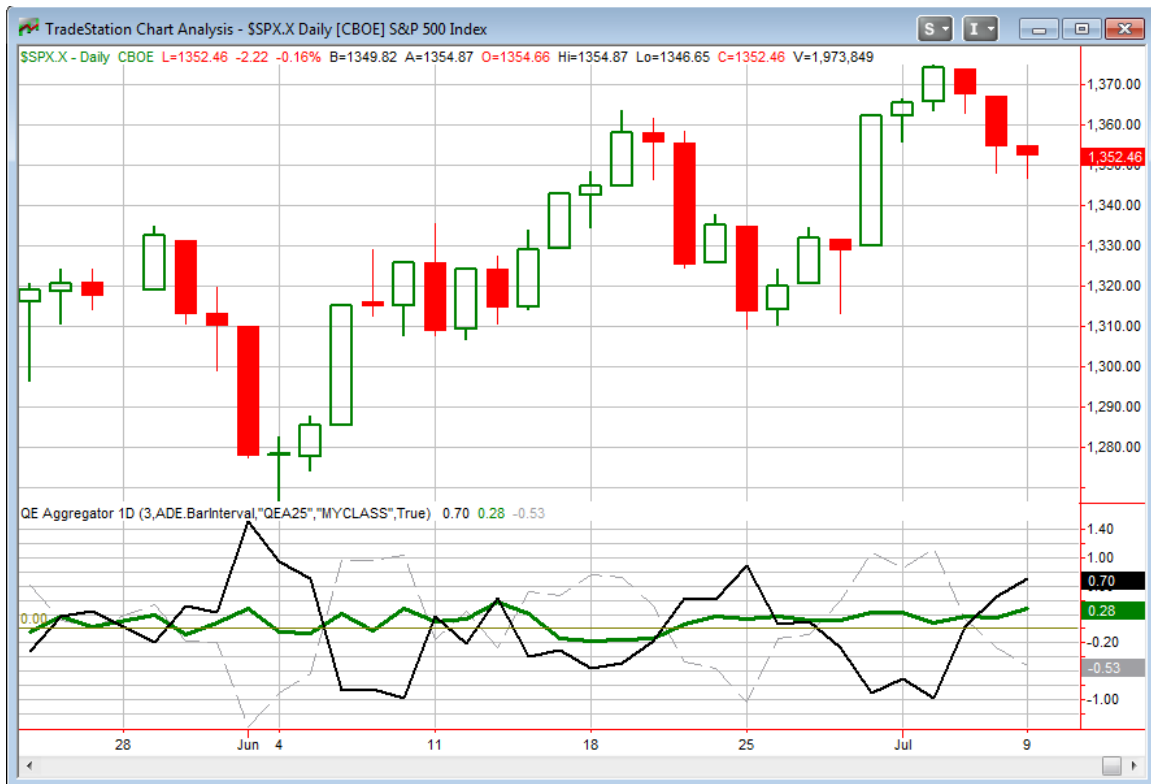
29 of 32 instances (91%) closed above the entry price at some point in the next week.

As you can see the market has strongly favored a quick move higher. And when that move hasn't happened on Tuesday it has often happened in the next few days. Below is an equity curve showing a 4-day exit strategy.



While the strength of the edge has oscillated some it has provided fairly consistent results over time. Certainly this study seems to suggest an upside edge.

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



With tonight's studies factored in the green Aggregator line rose further into positive territory. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also rose and is now strongly above 0. This means the SPX is 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. 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 Tuesday. Of course this could change if more bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,374.14 on Tuesday. This is 1.6% above Monday's close. That's a big gain for the market to try and tackle in just one day. So it seems unlikely that we will see the Differential Line close below zero on Tuesday. The more likely scenario is that we will need to see a multi-day rally or consolidation to wear off the oversold condition.

I like today's studies, and it appears at this point we are experiencing a normal pullback that will probably lead to a bounce in the next few days. I have one lot of SPY long from Friday afternoon. I was not filled on the second lot at the close today. Therefore I will look to take on that second lot on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/9 – slightly bullish

The intermediate-term outlook was last updated in the 7/9/12 letter. A link is below:

[2012-07-09 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 @ \$135.32 LIMIT. This is based on the short-term outlook above.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/6/2012	\$135.49	\$135.32	-0.13%		Aggregator

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