

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 11, 2012

Volume 5 Issue 132

Market Overview



Signals Overview

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

Tonight's Research Points

- When Turnaround Tuesday fails, it is often temporary.

Short-term Outlook

The Bottom Line

The market is still oversold. Evidence is still pointing higher. I still like the long side.

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 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	8-day avg closing range > 75%	1-2 days	Bearish	-1.40%

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

The Evidence

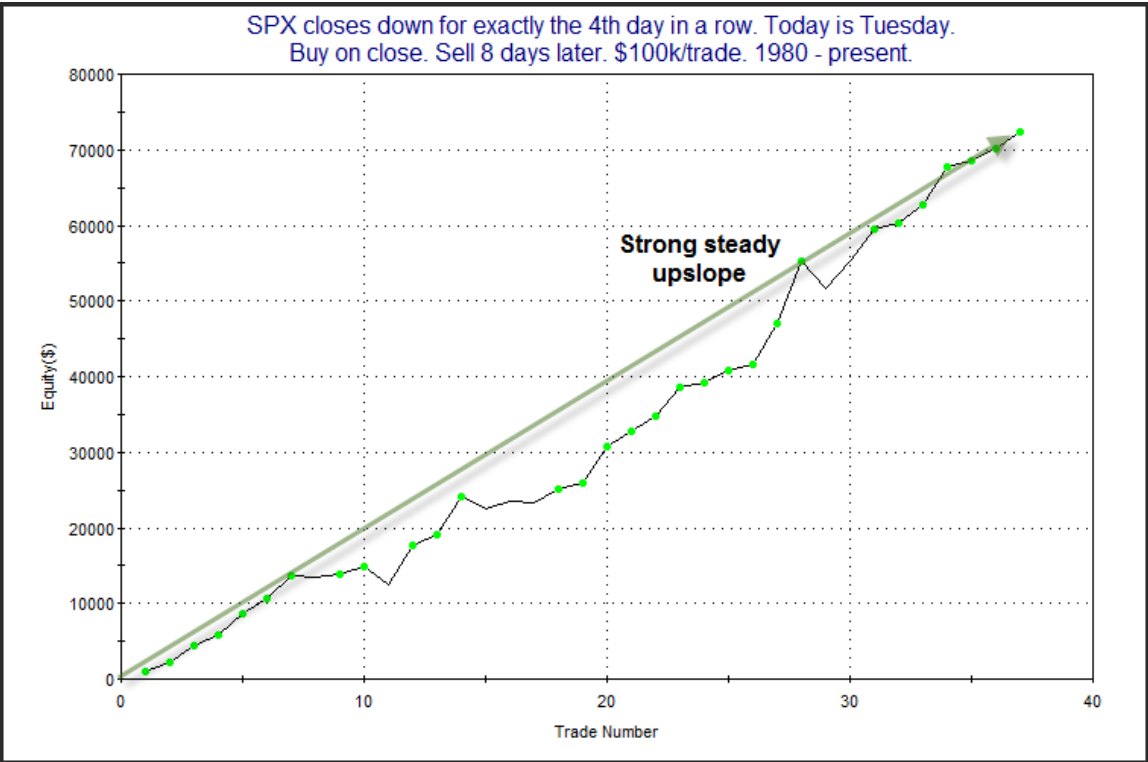
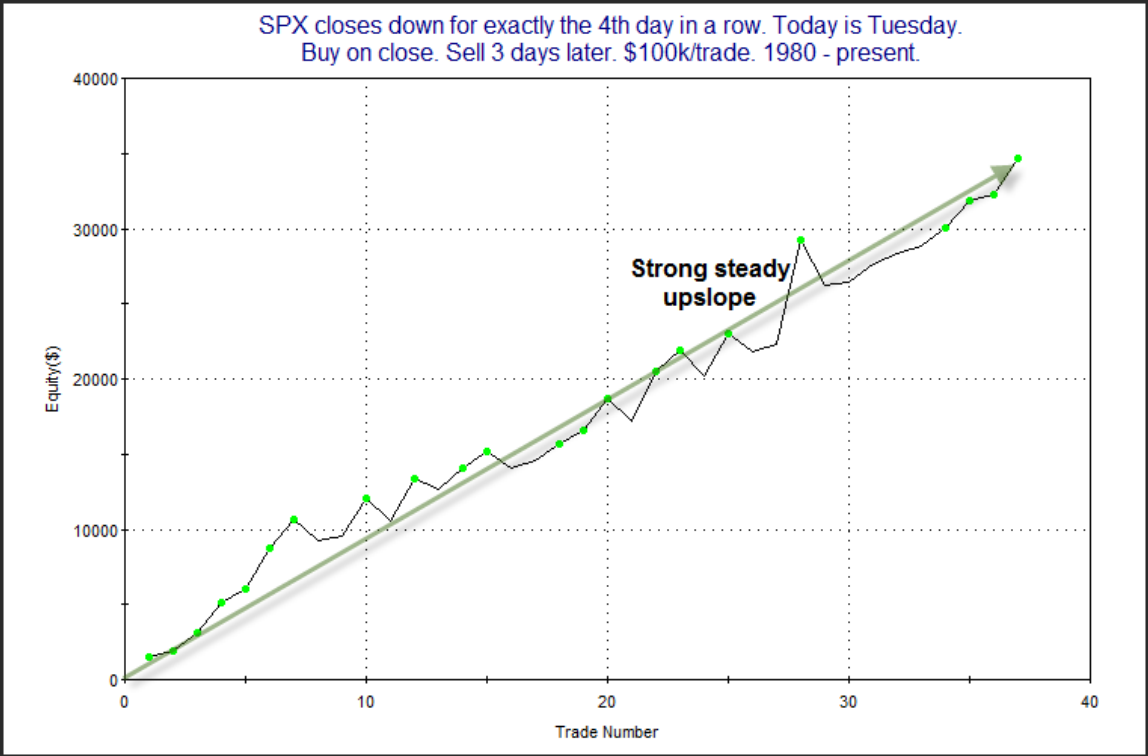
The bullish evidence we have seen the past couple of days failed to play out on Tuesday. After gapping higher, the market crumbled. The SPX declined 0.8%, the Nasdaq was down 1.0% and the Russell 2000 dropped 1.2%. Breadth was strongly negative as the NYSE Up Issues % came in at 33% and the Up Volume % was 19%. Total NYSE volume rose for the 2nd day in a row.

Last night I showed a Turnaround Tuesday study that indicated when the market is down 3 days in a row going into a Tuesday that it has a strong tendency to bounce. Of course there have been instances over the years where it hasn't. When it doesn't bounce on Tuesday what does that mean for Wednesday and beyond? The test below is updated from the 2/1/12 Letter and it answers that question.

SPX closes down for exactly the 4th day in a row. Today is Tuesday. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	64,681.79	37	31	6	83.78	2,475.01	7,733.75	-2,007.25	-4,415.04	1.23	6.37	1,748.16
9	66,976.68	37	33	4	89.19	2,260.08	5,490.33	-1,901.52	-3,566.25	1.19	9.81	1,810.18
8	72,427.89	37	32	5	86.49	2,511.51	8,317.50	-1,588.06	-3,575.04	1.58	10.12	1,957.51
7	64,081.34	37	31	6	83.78	2,400.98	10,870.00	-1,724.85	-4,817.12	1.39	7.19	1,731.93
6	63,417.41	37	30	7	81.08	2,436.46	14,240.00	-1,382.33	-2,605.12	1.76	7.55	1,713.98
5	53,389.41	37	28	9	75.68	2,331.36	13,135.00	-1,320.95	-3,256.96	1.76	5.49	1,442.96
4	49,958.91	37	27	10	72.97	2,341.85	12,657.50	-1,327.11	-4,495.68	1.76	4.76	1,350.24
3	34,720.42	37	29	8	78.38	1,611.10	6,892.50	-1,500.17	-2,936.64	1.07	3.89	938.39
2	20,464.95	37	23	14	62.16	1,282.00	5,122.50	-644.36	-1,667.42	1.99	3.27	553.11
1	15,619.18	37	26	11	70.27	863.98	5,716.25	-622.21	-1,721.25	1.39	3.28	422.14

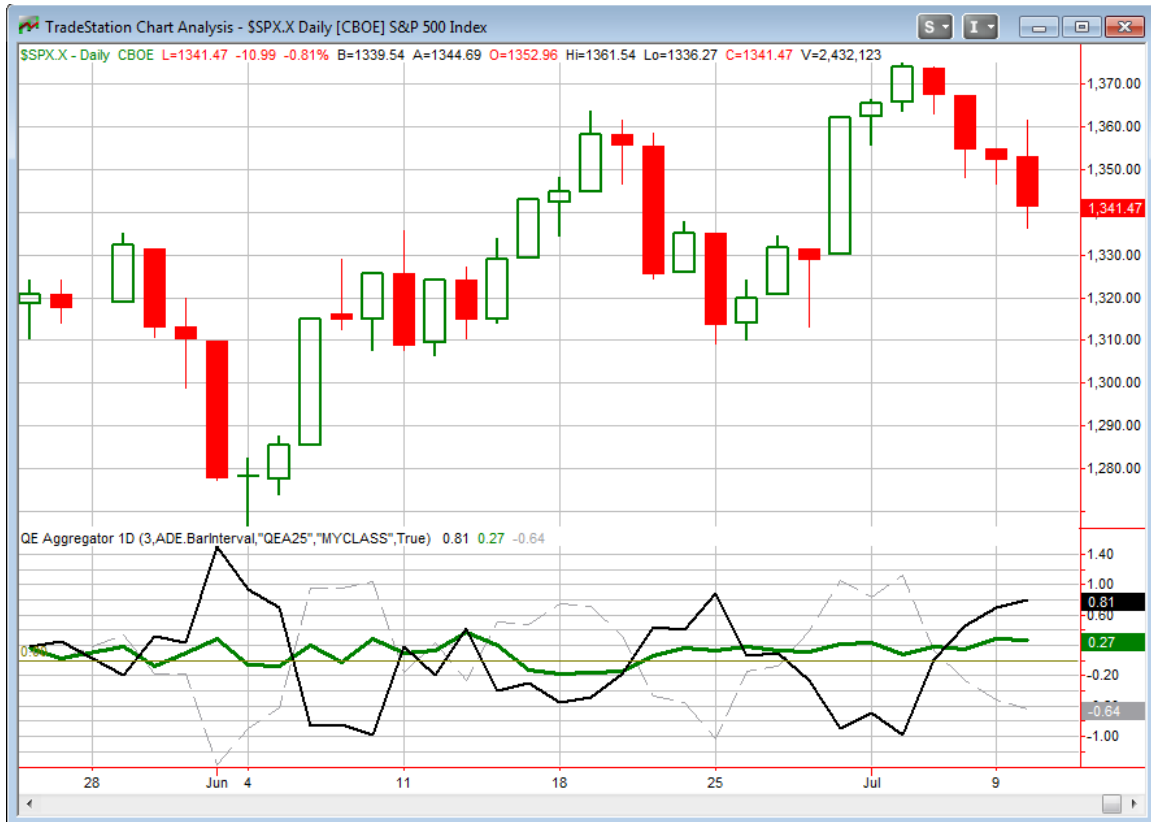
32 of 37 instances (86%) closed above the entry price at some point in the next week.

Results here have been very strong over a long period. Tonight I also examined the profit curves and found them very impressive. Below are the curves for both a 3-day and 8-day holding periods.



Both time frames show strong, persistent upside tendencies. It seems the “Turnaround Tuesday Failure” is likely a temporary setback. This premise of this test is basically the same as last night’s, so while I found the results comforting I did not add it to the Active List. Doing so would just have been doubling down on the same study.

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



The green Aggregator line barely budged tonight, remaining squarely positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line continues to rise and is now very strongly above 0. This means the SPX is very 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 Wednesday. Of course this could change if more bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,360.13 on Wednesday. This is 1.4% above Tuesday's

close. That's a pretty big one-day gain. So it still appears that we will likely need to see a multi-day rally or consolidation to wear off the oversold condition.

I have a fair amount of long exposure and still feel there is a strong possibility of a bounce. I considered looking to add a 3rd lot tomorrow, but instead I have elected to take an XIV position. I haven't traded XIV in the letter in a couple of months. For those unfamiliar, XIV is the inverse VIX ETF. More accurately it goes short VIX futures. Last year I did a series of 3 webinars that can all be found on the videos page that examined VIX-based ETFs and the edges associated with them.

The VIX (and VIX futures) will often trade inverse to the SPX. So if we get a rise in the SPX as expected, then we will also likely see a decline in the VIX. This should translate to a rise in XIV. But there is a 2nd factor that strongly influences XIV prices, and that is the VIX futures term structure. This is because XIV looks to maintain a constant-maturity short position. To do so it must buy to cover a certain number of front-month VIX futures each day and then short an offsetting amount of the 2nd month. When the 2nd month is priced above the front month that is referred to as "contango". The stronger the contango, the more beneficial the term structure for XIV. To understand why this is beneficial consider tonight's closing futures prices. July closed at \$19.25 and August closed at \$21.20. So XIV is buying at \$19.25 today and selling at \$21.10. Buying low and selling high like this can be quite beneficial to its value over the course of an entire month.

So XIV has a few things going for it. First, we are expecting the SPX to rally and the VIX to decline. That should help XIV. Also, the 10.1% spread between the front 2 months will have a positive influence on XIV's price. This is the combination that has the Aggressive VIX system at the top of the letter 100% long XIV. As volatile as XIV is, I prefer to scale in. I'll take ½ an XIV position on Wednesday if I can get a favorable fill. Note that XIV positions for me are typically quite a bit smaller than I would take with a SPY position, due primarily to the volatility.

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.

XIV – buy 1/2 position @ \$11.64 LIMIT. This is based on the Aggressive VIX system and the discussion in 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	\$134.14	-1.00%		Aggregator
SPY(1/4)	7/10/2012	\$135.32	\$134.14	-0.87%		Aggregator

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2012 Hanna Capital Management, LLC.