

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 12, 2012

Volume 5 Issue 133

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 5-day drops under similar market conditions, while rare, have often led to a bounce..

## Short-term Outlook

### The Bottom Line

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

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

| Study Date                | Description                           | Time span | Bias        | Avg Max Move |
|---------------------------|---------------------------------------|-----------|-------------|--------------|
| <b>Active</b>             |                                       |           |             |              |
| July 12, 2012             | 5 dn. Close > 200ma and > 20-low.     | 1-3 days  | Bullish     | 1.60%        |
| 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%        |
| <b>Active - Long Term</b> |                                       |           |             |              |
| 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     |              |

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

***The Evidence***

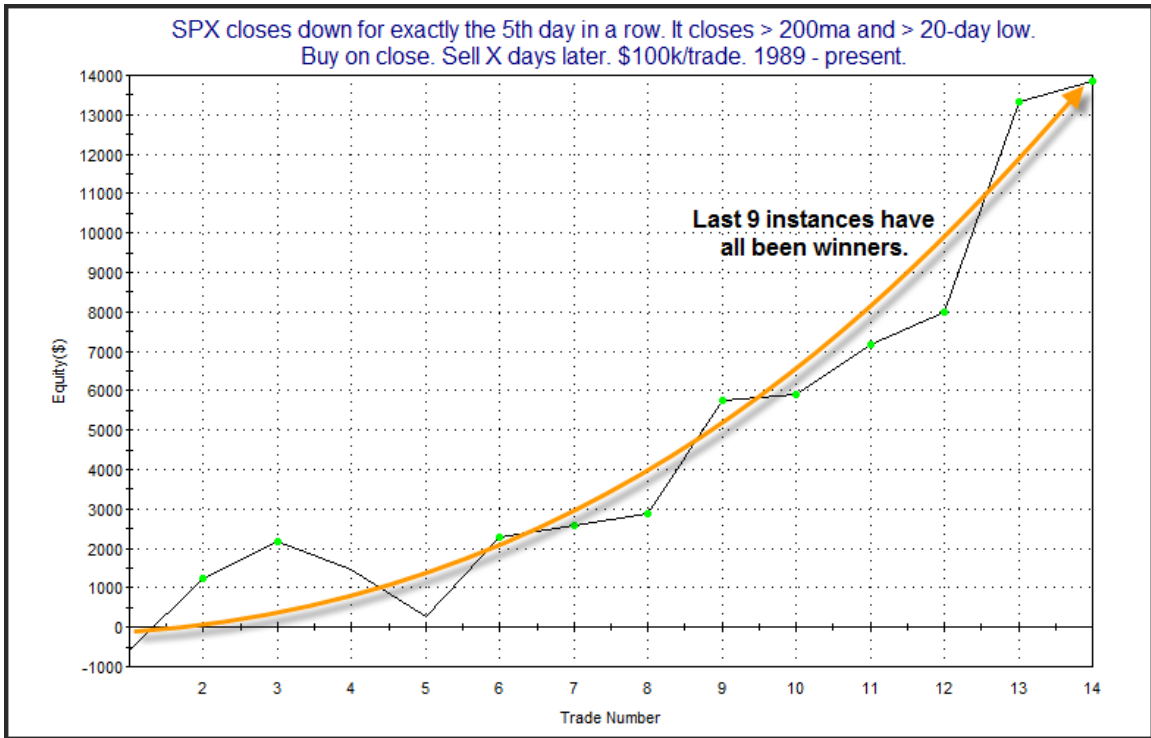
The pullback continued on Wednesday. The SPX nearly broke even with a 0.02 point drop, the Nasdaq was down 0.5% and the Russell 2000 fell 0.4%. Breadth was actually slightly positive as the NYSE Up Issues % and the Up Volume % both came in at 51%. Total NYSE volume rose for the 3<sup>rd</sup> day in a row.

Pullbacks as persistent as we are experiencing rarely occur under similar circumstances, where the SPX is trading above its 200ma and has just run higher. I looked at other times the SPX made a lower low & a lower close for the 5<sup>th</sup> day in a row, closed above the 200ma, and above a 20-day low. Tuesday was the 1<sup>st</sup> instance since 1984. This doesn't help us predict the next few days, but it does speak to how unusual the market action is.

By eliminating the “5 lower lows” criteria I was able to get enough instances to at least generate some interesting results. Below is a stats table that examines this setup.

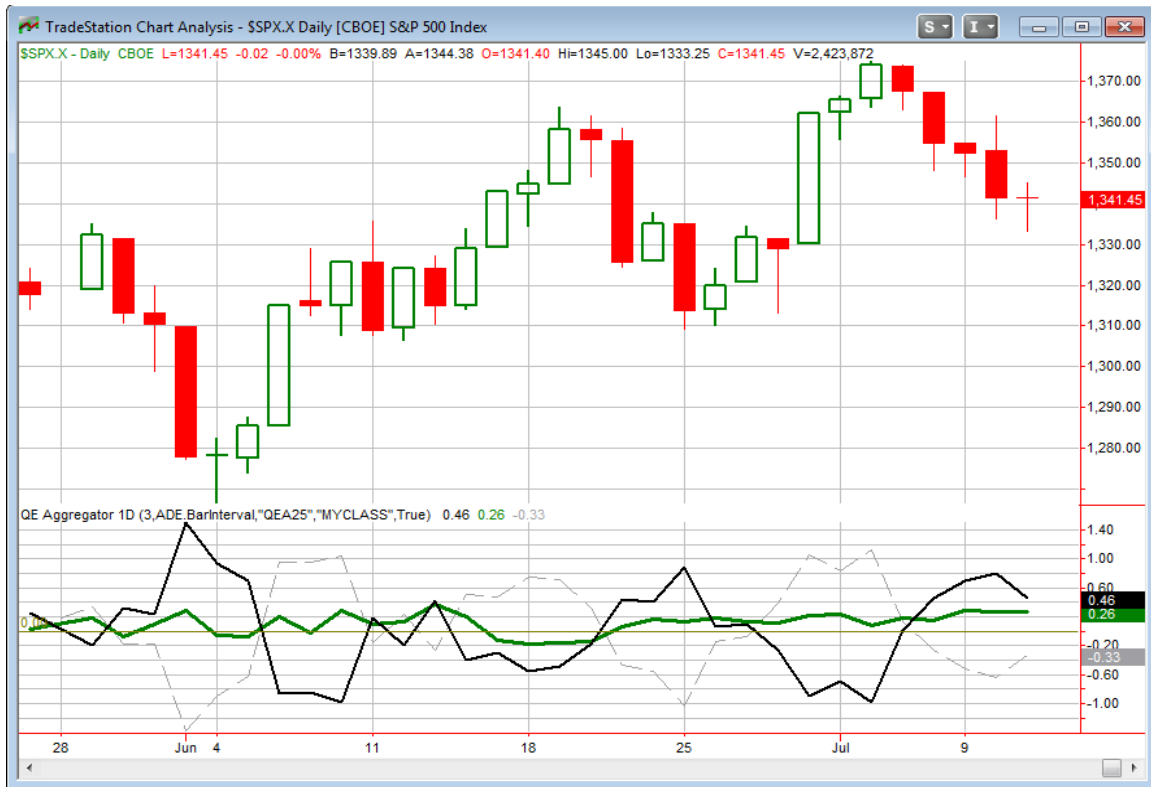
| SPX closes down for exactly the 5th day in a row. It closes > 200ma and > 20-day low.<br>Buy on close. Sell X days later. \$100k/trade. 1989 - present. |                 |                   |                     |                    |                   |                        |                        |                       |                       |                     |                   |                |
|---------------------------------------------------------------------------------------------------------------------------------------------------------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 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                                                                                                                                                       | 10,186.45       | 14                | 8                   | 6                  | 57.14             | 1,876.07               | 5,460.84               | -803.69               | -1,479.60             | 2.33                | 3.11              | 727.60         |
| 4                                                                                                                                                       | 12,415.05       | 14                | 10                  | 4                  | 71.43             | 1,610.65               | 5,187.49               | -922.86               | -1,389.15             | 1.75                | 4.36              | 886.79         |
| 3                                                                                                                                                       | 13,854.76       | 14                | 11                  | 3                  | 78.57             | 1,486.95               | 5,339.18               | -833.89               | -1,169.92             | 1.78                | 6.54              | 989.63         |
| 2                                                                                                                                                       | 12,002.98       | 14                | 11                  | 3                  | 78.57             | 1,235.18               | 3,591.28               | -528.00               | -763.84               | 2.34                | 8.58              | 857.36         |
| 1                                                                                                                                                       | 4,234.78        | 14                | 9                   | 5                  | 64.29             | 746.26                 | 1,367.55               | -496.32               | -1,155.00             | 1.50                | 2.71              | 302.48         |

Based on the stats table there appears to be a bullish inclination, especially over the first 2-3 days. Below is a profit curve to see how the edge has evolved.



The profit curve supports the idea of a bullish edge.

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 is still well 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 Thursday. Of course this could change if more bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,360.52 on Thursday. This is 1.4% above Wednesday'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 still like my chances for all of my long positions – but not so much that I want to up my exposure any more right here. Despite the sideways SPX and decline in other indices, the new XIV position got off to a nice head start. If the market can finally muster a bounce in the next few days the XIV return could be very solid.

The primary reason I am not looking to increase any further on Thursday is that the bullish evidence isn't exactly overwhelming. No short-term bearish studies are triggering but market conditions are unusual and bullish evidence is mild. To get aggressive I require more convincing studies.

***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.*

*None tonight.*

**Current Open Trade Ideas**

| Symbol   | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes          |
|----------|------------|-------------|---------------|-------------|------|----------------|
| SPY(1/4) | 7/6/2012   | \$135.49    | \$134.16      | -0.98%      |      | Aggregator     |
| SPY(1/4) | 7/10/2012  | \$135.32    | \$134.16      | -0.86%      |      | Aggregator     |
| XIV(1/2) | 7/11/2012  | \$11.64     | \$12.00       | 3.09%       |      | Aggressive VIX |

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