

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 13, 2012

Volume 5 Issue 134

Market Overview



Signals Overview

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

Tonight's Research Points

- Still no bounce, but we are about to get a couple of bullish days from the QE Buying Power Index.

Short-term Outlook

The Bottom Line

I remain long and waiting for a bounce.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 12, 2012	5 dn. Close > 200ma and > 20-low.	1-3 days	Bullish	1.60%
July 10, 2012	3 down. Tomorrow is Tuesday.	1-4 days	Bullish	3.20%
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 5, 2012	75% Up Issues 2 of 3 & 10-high. > 200	1-6 days	Bullish	2.40%
July 10, 2012	3 down from 20 high. Today's is small.	1-3 days	Bullish	1.80%

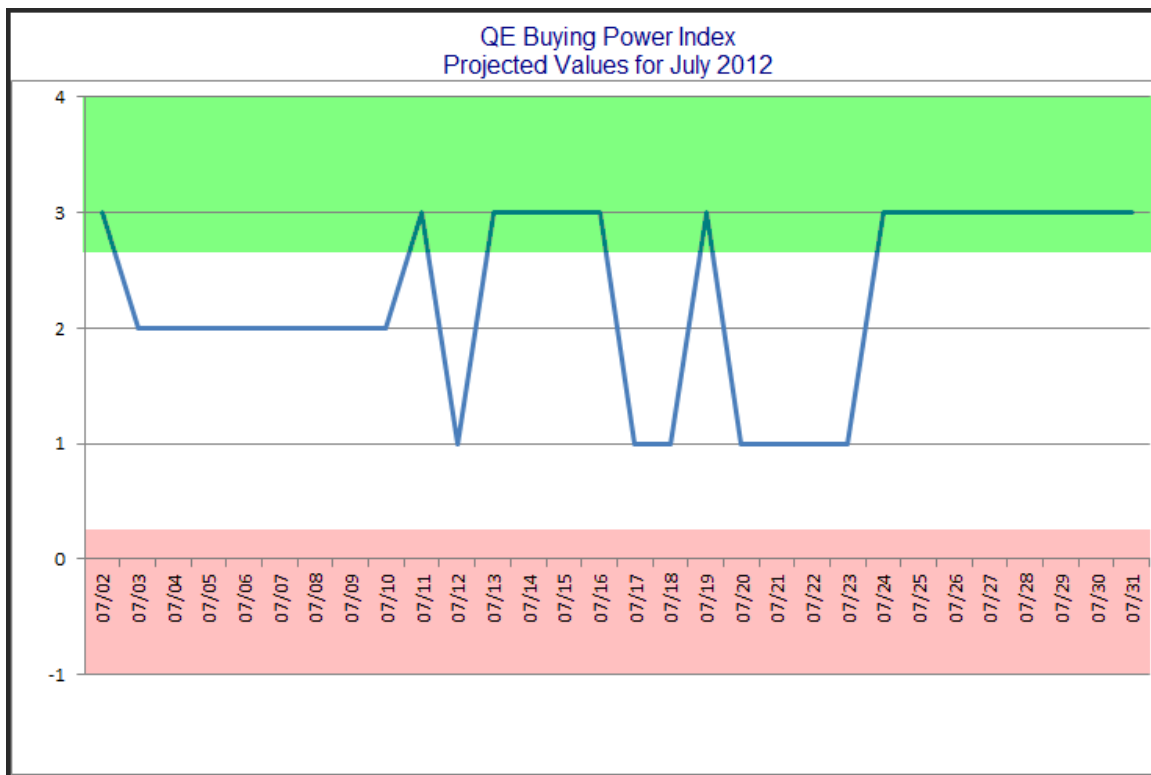
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

A morning scare bounced back some and the day ended with fairly moderate damage. The SPX lost 0.5%, the Nasdaq was down 0.8% and the Russell 2000 fell 0.3%. Breadth was squarely negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 28%. Total NYSE volume rose for the 4th day in a row.

I'm still looking for that bounce. I know I left it around here somewhere...

One cause for optimism is the QE Buying Power Index, which can be found below. As you can see, Friday and Monday are both projected to post readings of "3". We'll also likely see a 3 reading next Thursday. This POMO-based liquidity inflow could provide a boost over the next few days and aid in a bounce.



It is also worth noting that the 10-day range is set to shift tomorrow, and unless Friday's low is below Thursday's, Thursday's low will mark the low of the 10-day period. The QE Buying Power Swing System looks to buy oversold conditions only when the QE Buying power Index is 3 or greater (as it will be the next 2 days). To trigger a long

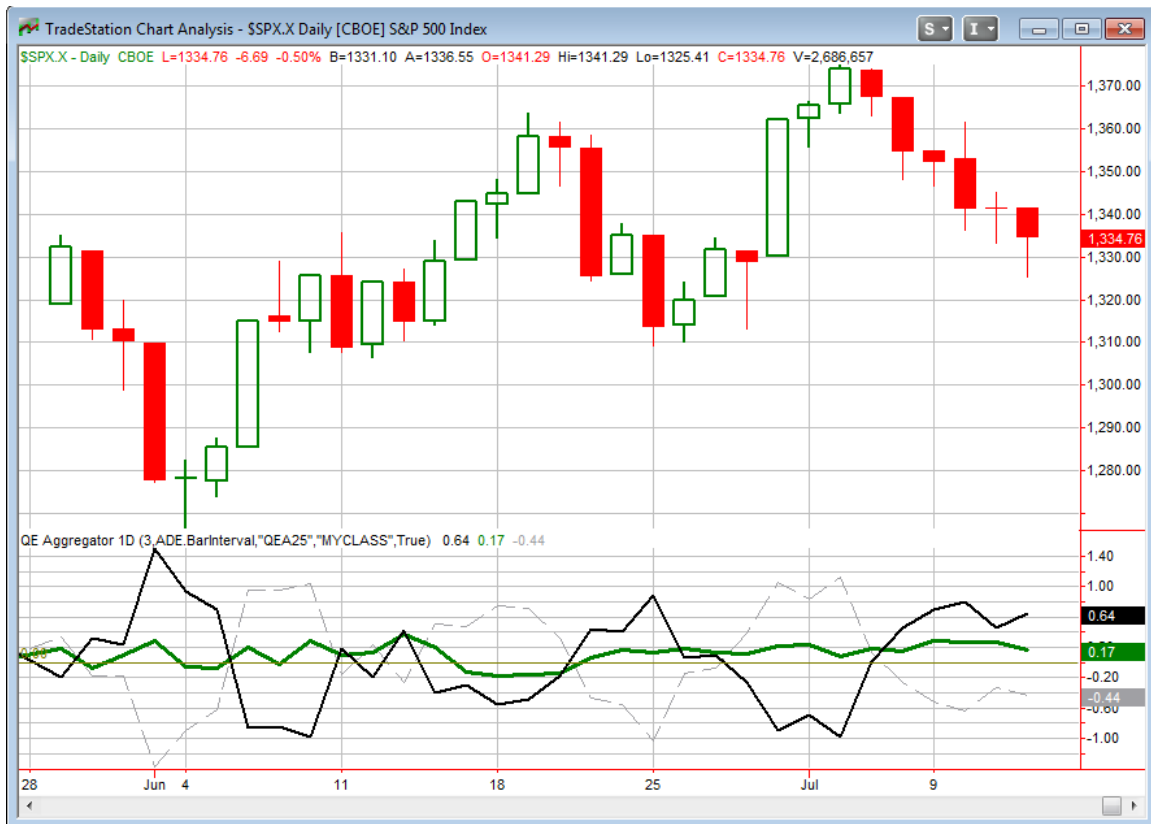
tomorrow the SPX would simply need to close < 1,335.29. In other words, if the bounce doesn't start on Friday, a QE Buying Power System long will almost certainly trigger.

While the next 2 days are going to see high readings, it's the end of the month that is most notable. Starting on the 24th the QE Buying Power Index will close at 3 every day through the end of the month (6 consecutive trading days). That is a long stretch and the bullish impact of such liquidity should be kept in mind during that time.

On another note, seeing the market close down 4+ days in a row and having volume increase each of the last 4 days is quite unusual. I ran a study, and there was some hint of an upside inclination but instances were low (less than 15) and the lion's share of the gain was thanks to 1 instance. So I decided to simply pass on that setup as a consideration.

Lastly, I feel it is worth mentioning the CBI. As you'll see in the Catapult & CBI section lower down, the selloff has not triggered any Catapults to this point. I am also not seeing anything that appears close to triggering. A high CBI gives me greater comfort when buying in to a selloff, and it is rare that I would take a full 4-lot position without it.

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



With 2 bullish studies expiring the green Aggregator line dipped a little tonight, but still remained 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 again on Friday. Of course this could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,350.79 on Friday. This is 1.2% above Thursday's close. So we'll still need a pretty good gain to move off the oversold condition.

The selloff has bucked the odds so far, but with a liquidity push coming into the picture perhaps it will finally get in gear. If the SPX does fail to rally on Friday, I will be a buyer at the close – taking on the 3rd of a possible 4 lots.

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 @ \$133.51 LIMIT ON CLOSE. Per the short-term outlook above, this would trigger a QE Buying Power System long entry. I'll take it if it happens with a 3rd lot of SPY.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/6/2012	\$135.49	\$133.51	-1.46%		Aggregator
SPY(1/4)	7/10/2012	\$135.32	\$133.51	-1.34%		Aggregator
XIV(1/2)	7/11/2012	\$11.64	\$11.92	2.41%		Aggressive VIX

Despite SPX selling the last 2 days XIV remains squarely profitable. If we do get the expected bounce, XIV has a nice chance of putting in some impressive gains. The current term structure is still showing an 11% difference between the July and August futures prices. For those subscribers that would like an easy way to keep an eye on the contango (or backwardation), I'd recommend visiting <http://vixcentral.com/>

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