

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 3, 2012

Volume 5 Issue 149

Market Overview



Signals Overview

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

Tonight's Research Points

- 4 down days with today being the largest has consistently been followed by a bounce.

Short-term Outlook

The Bottom Line

Expectations remain positive and the SPX is now strongly oversold. I am long and looking to get longer.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 3, 2012	SPX dn 4+. Today is biggest drop.	1-5 days	Bullish	2.00%
August 2, 2012	Down 2+ on a Fed Day	1-6 days	Bullish	
August 2, 2012	Down 3rd day. 3/10 Offset HV very low	1-3 days	Bullish	
August 1, 2012	Downlast 2 of up month	1-5 days	Bullish	2.00%
July 30, 2012	SPY 2 unfilled up gaps & 50 high	1-3 days	Bullish	1.00%
Active - Long Term				
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
July 16, 2012	POMO modestly bullish	int term	Bullish	
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

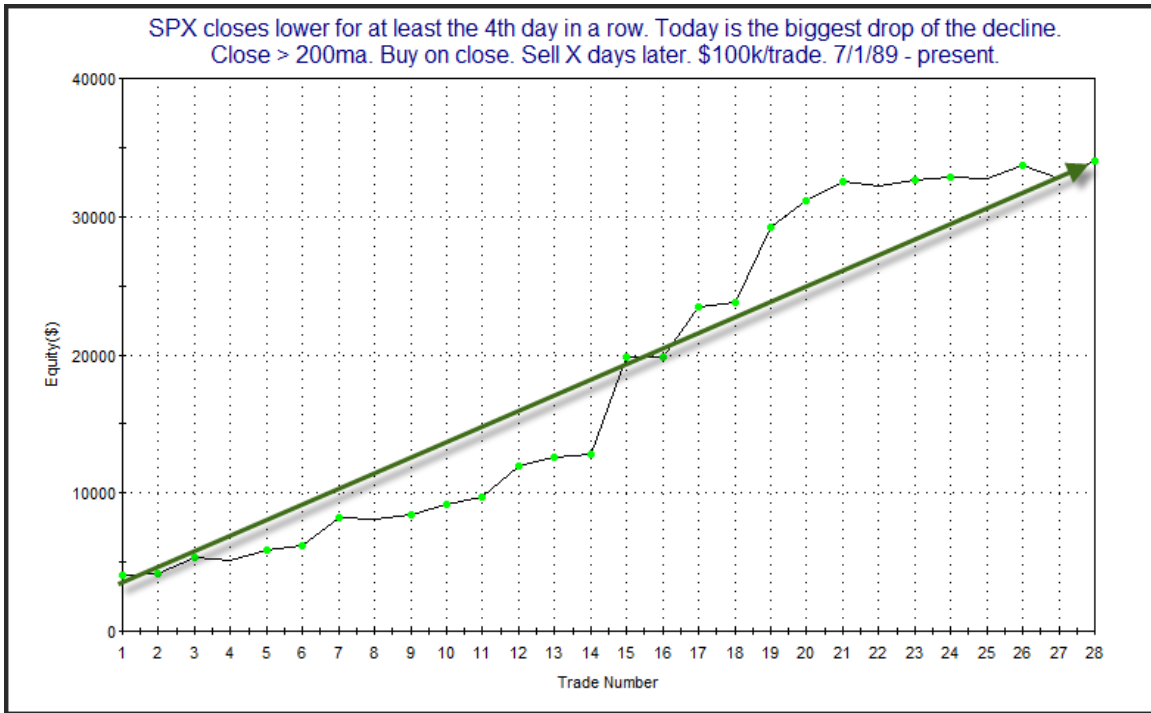
After gapping down big the SPY nearly made it back to even. It ran out of gas a little before 11am and sold off fairly hard. Late in the day it bounced and by the close it was back around the midpoint of the daily range – and near where it opened. The SPX ended up losing 0.75% while the Nasdaq dropped 0.4% and the Russell 2000 declined 0.3%. Breadth was weak as the NYSE Up Issues % came in at 37% and the Up Volume % was 21%. Total NYSE volume dipped from Wednesday’s high level.

The 4-day pullback triggered the study below, which was last seen in the 4/10/12 Subscriber Letter. It looks at 4+ day drops that suffer the worst decline of the drop on the entry day.

SPX closes lower for at least the 4th day in a row. Today is the biggest drop of the decline. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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	34,000.88	28	23	5	82.14	1,549.85	7,070.28	-329.15	-909.36	4.71	21.66	1,214.32
4	26,668.16	28	21	7	75.00	1,553.36	5,187.49	-850.34	-1,776.42	1.83	5.48	952.43
3	27,652.66	28	22	6	78.57	1,419.46	5,339.18	-595.89	-849.87	2.38	8.73	987.59
2	23,252.06	29	21	8	72.41	1,358.23	4,809.66	-658.85	-1,343.84	2.06	5.41	801.80
1	15,537.42	32	22	10	68.75	983.66	5,117.46	-610.31	-1,699.92	1.61	3.55	485.54

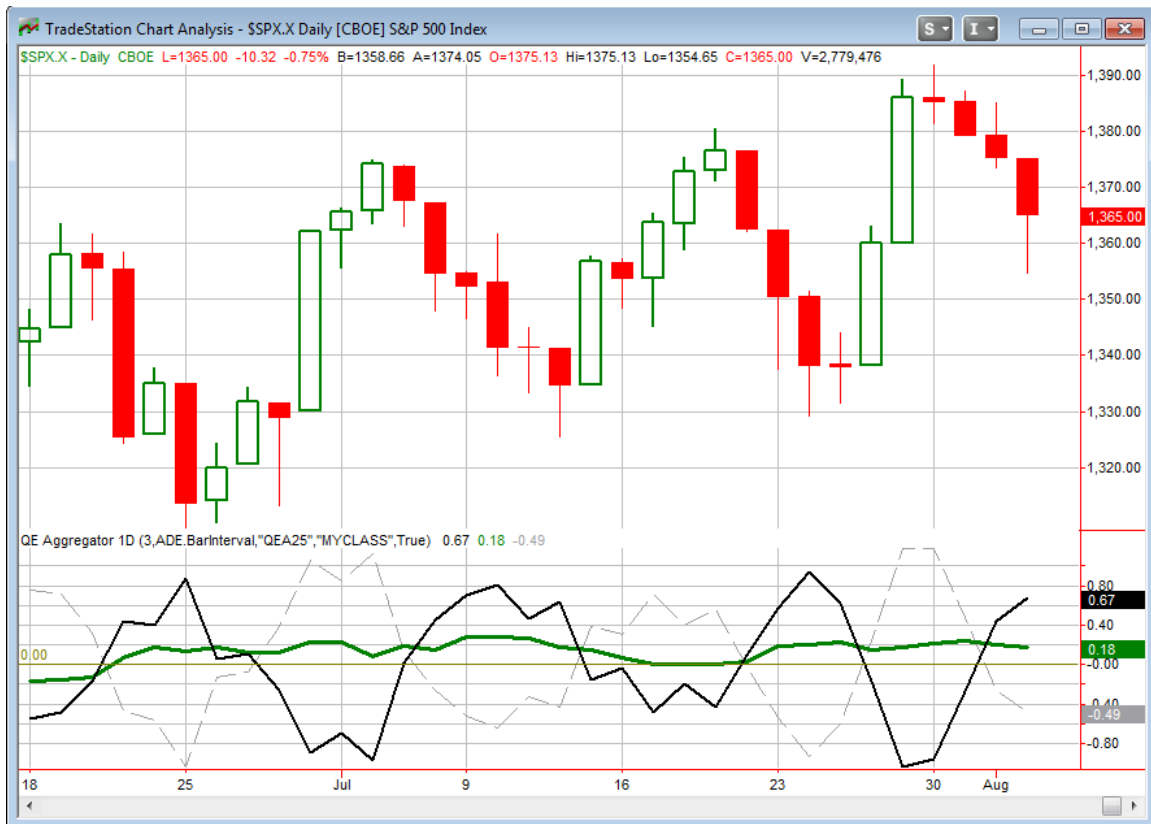
100% of instances closed above the entry price at some point in the next 6 days.

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn’t before. We’ve seen plenty evidence of that over the last 4 ½ years. So although this condition has led to a bounce in every instance evaluated over the test period, it’s no sure thing. In fact just before the period shown there were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the equity curve below.



The curve has been a little choppy when looking strictly at the 5-day holding period. But it has maintained an upward trajectory throughout and the setup has effectively called short-term bounces.

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



With tonight's study factored in the green Aggregator Line remained squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is now strongly above 0. This means the SPX is oversold versus recent expectations. So net expectations are bullish and the SPX is short-term oversold. 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.

Still without any short-term bearish studies, expectations are slated to remain bullish on Friday. Of course that could change if bearish evidence emerges. The Differential Pivot will be 1,387.82 on Friday. This is nearly 1.7% above Thursday's close. For the SPX to work off the oversold condition it would need to close up at least this much. A more likely scenario would be a multi-day rise or consolidation to work of the oversold condition.

So I am optimistic that the market will bounce here in the next few days. I currently have a small position long. I was not filled on the 2nd lot Thursday, so I will try again on Friday with a more aggressive entry. I am still looking to keep the total position about ½ size since neither the QE Buying Power Index nor the CBI are strongly supportive.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/30 – bullish

The intermediate-term outlook was last updated in the 7/30 letter. Link below:

[2012-07-30 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 size index position at \$136.50 LIMIT. Based on the short-term outlook above I'll scale in further on an intraday dip.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	8/1/2012	\$137.59	\$136.64	-0.69%		Aggregator

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