

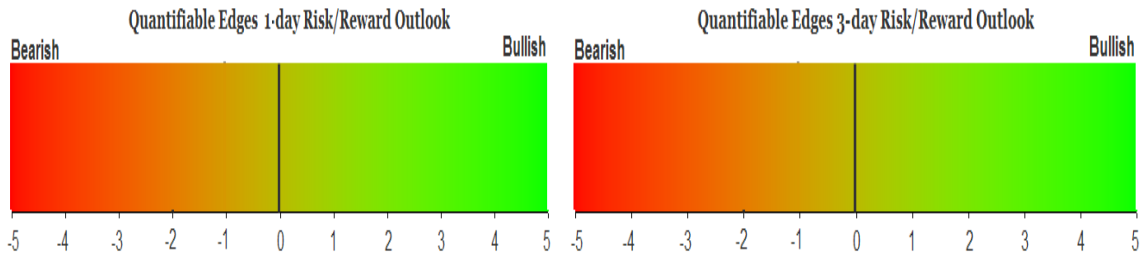
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 13, 2011

Volume 4 Issue 9

## Market Overview



## Tonight's Research Points

- The low VIX VXV ratio with the SPX at a 50 day high suggests a one-day downside edge.
- Fed POMO activity is slated to remain strong.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

## Short-term Outlook

### The Bottom Line

Though expectations remain mildly positive, the SPX is now strongly overbought. This leaves the Aggregator System neutral, and it leaves me flat and awaiting the next opportunity.

*Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)*

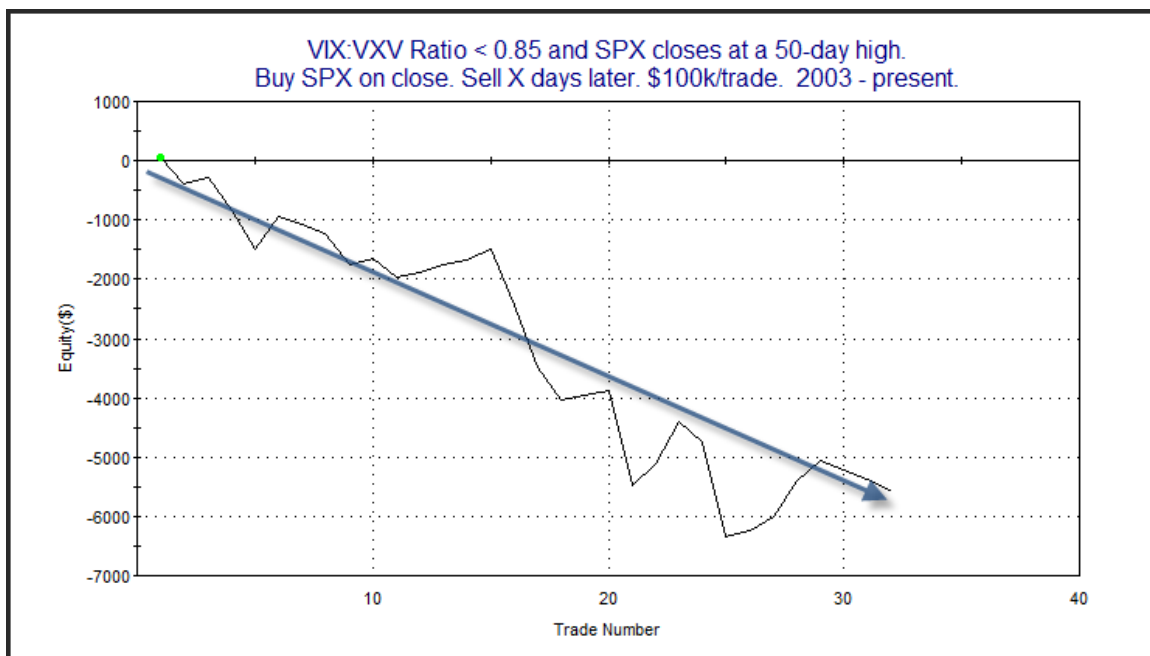
Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
January 13, 2011	SPX 50-high. VIX:VXV < 0.85	1 day	Bearish	
January 11, 2011	3 Days Down with extras	1-4 days	Bullish	2.60%
January 11, 2011	SPY 1st 5-day low in 10 days	1-4 days	Bullish	1.60%
<b>Active - Long Term</b>				
January 10, 2011	Nas/SPX RS Indicator favors Nas	int term	Bullish	
January 4, 2011	SPX up 1st day of year	1-13 days	Bearish	
January 3, 2011	SPX down last 2 days of up quarter	1-15 days	Bullish	
December 30, 2010	SPX closes > 10ma every day of month	1 month	Bullish	
December 16, 2010	2 Hindenburg Signals	1-50 days	Bearish	
December 9, 2010	SPX & TNX 50-day highs	1-50 days	Bearish	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
January 3, 2011	SPX down last 2 days of up quarter	1-8 days	Bullish	2.90%

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

### *The Evidence*

The market started strong on Wednesday and stayed that way all day, finishing near its highs. When it was done the SPX gained 0.9% and the NASDAQ and Russell 2000 each gained 0.8%. Breadth was also strong as the NYSE Up Issues % came in at 69% and the Up Volume % was 83%. Total NYSE volume rose from Tuesday's level, but was still not very high.

Just a couple of quick things to discuss tonight. First off, the low VIX:VXV Ratio with the SPX at a 50-day high once again triggered the study below. I just recently last showed it in the 1/6/11 letter. This edge has been one that primarily exhausts itself after just one day. Therefore, I have updated below the setup's equity curve assuming a 1-day exit strategy.



While there was a string of moves higher despite this condition in December, the last three instances have all closed lower. The downside edge appears to be intact.

Another thing to note about Wednesday was that the Fed announced its tentative operations schedule for the next month. I have provided a link to it below.

[http://www.newyorkfed.org/markets/tot\\_operation\\_schedule.html](http://www.newyorkfed.org/markets/tot_operation_schedule.html)

Even a quick examination of the schedule will reveal that there appears to be no slowdown in the frequency nor the amount of purchasing over the next month. It appears POMO activity will remain high, possibly acting as a wind at the market's back.

The Active Studies List did see one short-term bullish study expired tonight. It's also notable that all of the remaining short-term studies are set to expire in the next 1-2 days. This means the Aggregator value over the next few days will be almost entirely determined by the new studies we see emerge.

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



Despite tonight's mildly bearish study, the green Aggregator line remains above 0. The positive value means the net expectation from the Active Studies List is for upside over the next few days. Meanwhile the black Differential line took a sharp dive below 0. The negative value means the SPX has outperformed expectations over the last few days. So net expectations are for upside but the SPX has outperformed recent expectations. This is considered a neutral configuration. A neutral configuration can be seen on the chart

whenever both lines are on opposite sides of zero. Due to this the Aggregator System took profits and changed to flat at the close.

The green Aggregator line tomorrow is set up to remain above 0. Of course this could change if bearish evidence emerges. Meanwhile the Differential Pivot will be 1,271.03. This is 1.2% below Wednesday's close. This means it would take a drop of at least this much for the SPX to be considered "oversold", which would cause the black Differential line to move all the way back above zero.

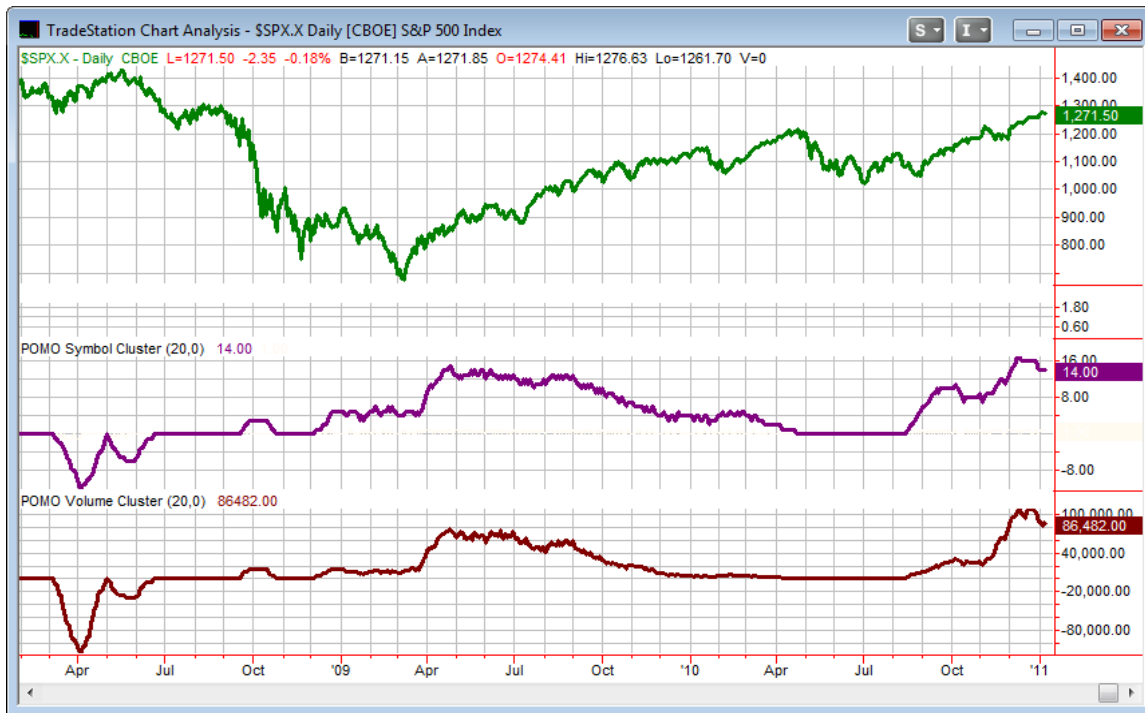
My market bias is now neutral, and I'm in observation mode. The next move will be determined by the action over the next few days. I am open to any possibility and will simply wait to see what edges emerge.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 1/3 – neutral to slightly bullish***

Intermediate-term indications remain mixed. New highs continue to be made each week, and until price weakness is evident I will likely continue to favor the bullish outlook.

I've been updating the POMO chart each week in the Letter. For those who may not recall below is a brief refresher on POMO. Beneath that I have updated our POMO indicator chart.

*POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place... The chart below (shows a couple of POMO indicators). The top pane is the S&P 500. The middle pane is the rolling number of days in the last 20 that have been POMO days. The bottom pane is the total amount of money infused into the system over the previous 20 days.*



Fed POMO activity picked up again this past week. The 20-day totals are off their peak levels but still very high. Monday and Tuesday are both scheduled for additional Fed buying. Wednesday is not, but the Fed schedule for the next month will be released on Wednesday at 2pm EST. This should provide a nice clue as to the potential tailwind that the Fed might be providing to the markets in the coming weeks. Right now the recent POMO activity is high and that should still continue to act as a positive for a bit longer.

*Subscribers should note that I gave a special presentation to gold subscribers this past week on the construction of the POMO indicators. I also answered questions on them, shared the Tradestation code, and provided links to the Fed website where the complete data history can be found. Both gold and silver subscribers may view the video and download the Tradestation code by visiting the POMO Video on the videos page of the website. For your convenience, I have also posted a link below.*

<http://www.quantifiableedges.com/members/pomo.php>

One other intermediate-term positive is that the SPX/Nasdaq Relative Strength indicator that I track on the charts page has now flipped and the Nasdaq is again in a leading position. Since the inception of the Nasdaq in 1971, the SPX has made all its gains when the Nasdaq was in a leading position. More details on this indicator can be found in the 5/26/09 blog. Subscribers can also download the models (both Excel and Tradestation) from the downloads page.

So POMO, momentum, and relative strength continue to favor the bull case. The negative intermediate-term studies are based on seasonality, breadth, and bond action. This means there is still quite a mix of studies and indicators for the intermediate-term. With the trend still favoring the bulls I'm inclined to give them the slight edge. I will continue to look for trades in both directions but will trade the short side with a bit more caution.

### **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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
SPY(1/4)	1/10/2011	\$126.98	\$128.58	1.26%		<b>sold on close</b>

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