

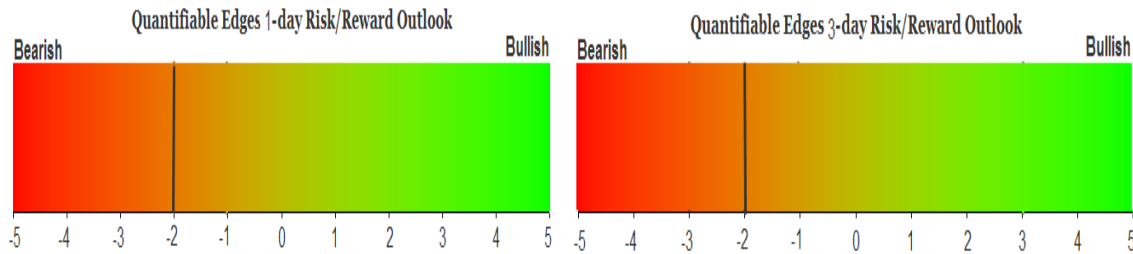
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 17, 2011

Volume 4 Issue 33

Market Overview



Tonight's Research Points

- SPX 50-day high and VIX up midweek suggests bearish inclinations.
- Another new high without a dip below the 5ma triggers an overbought study again.
- The Aggregator System is short.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

More bearish studies arrived. With the market overbought that is triggering a short Aggregator signal. I'm looking to get short again.

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
Active				
February 17, 2011	SPY 10 days > 5ma & 10-day high	1-2 days	Bearish	-1.20%
February 17, 2011	SPX 50 high VIX up midweek	1-2 days	Bearish	-0.80%
February 16, 2011	SPY 5 gaps lower	1-3 days	Bullish	2.50%
February 16, 2011	Unfilled gap from 10 high. Opn&cls high	1-3 days	Bearish	-1.70%
Active - Long Term				
January 21, 2011	SPY 1st close < 10ma in over 25 days	1-20 days	Bullish	
January 19, 2011	SPX 20-day high. Vol 20-day high.	int term	Bullish	
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	
Dropped Tonight				
February 15, 2011	20-day high on 20-day low vol.	1-2 days	Bearish	-1.10%

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

The Evidence

Bullish inclinations played out on Wednesday as the market moved higher. It began with a morning gap up. Those gains were added to early on then choppy action took over. The market again finished in the upper end of its range. The SPX closed up 0.6%, the Nasdaq rose 0.8%, and the Russell 2000 gained 1.0%. Breadth was solidly positive as the NYSE Up Issues % and the Up Volume % both closed at 73%. Total NYSE volume declined slightly from Tuesday's levels.

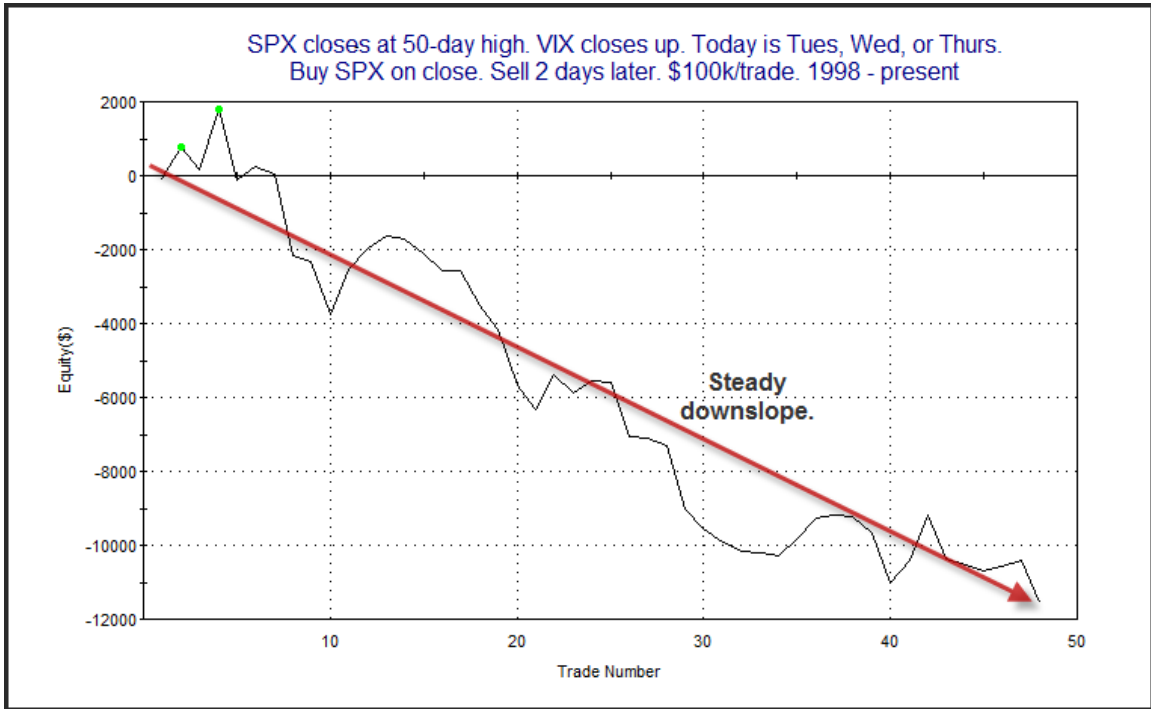
Three or four weeks ago a subscriber that was relatively new to Quantifiable Edges questioned me about the number of bullish studies versus bearish studies. Based on his observations at the time it appeared to him that there were a great many more bullish studies than bearish. I told him that I wasn't sure of the exact split, but assured him there were plenty of both. At that time we were simply in an environment that was generating a lot of short-term bullish studies. I thought about this today as I considered the amazing lack of bullish studies we have seen over the last week and a half or so. Anyone observing lately would likely be under the impression that there are way more bearish studies.

As has often been the case recently, the evidence tonight is predominantly short-term bearish. The first study below was last seen in the 12/15/10 Subscriber Letter. It examines midweek occurrences of an SPX 50 day high and a rising VIX. All stats are updated.

SPX closes at 50-day high. VIX closes up. Today is Tues, Wed, or Thurs. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,342.37	45	23	22	51.11	677.38	-1,269.19	0.53	0.56	-274.27
4	-10,051.20	47	19	28	40.43	803.17	-903.98	0.89	0.60	-213.86
3	-5,523.82	47	21	26	44.68	690.02	-769.78	0.90	0.72	-117.53
2	-11,539.29	48	15	33	31.25	631.22	-636.59	0.99	0.45	-240.40
1	-8,674.47	55	24	31	43.64	302.50	-514.02	0.59	0.46	-157.72

91.5% of instances posted a closed below the entry price at some point in the next week.

Implications appeared to be solidly bearish over the next 1-2 days. Below is the equity curve using a 2-day exit strategy.



The steady downslope provides further confirmation of the bearish tendencies.

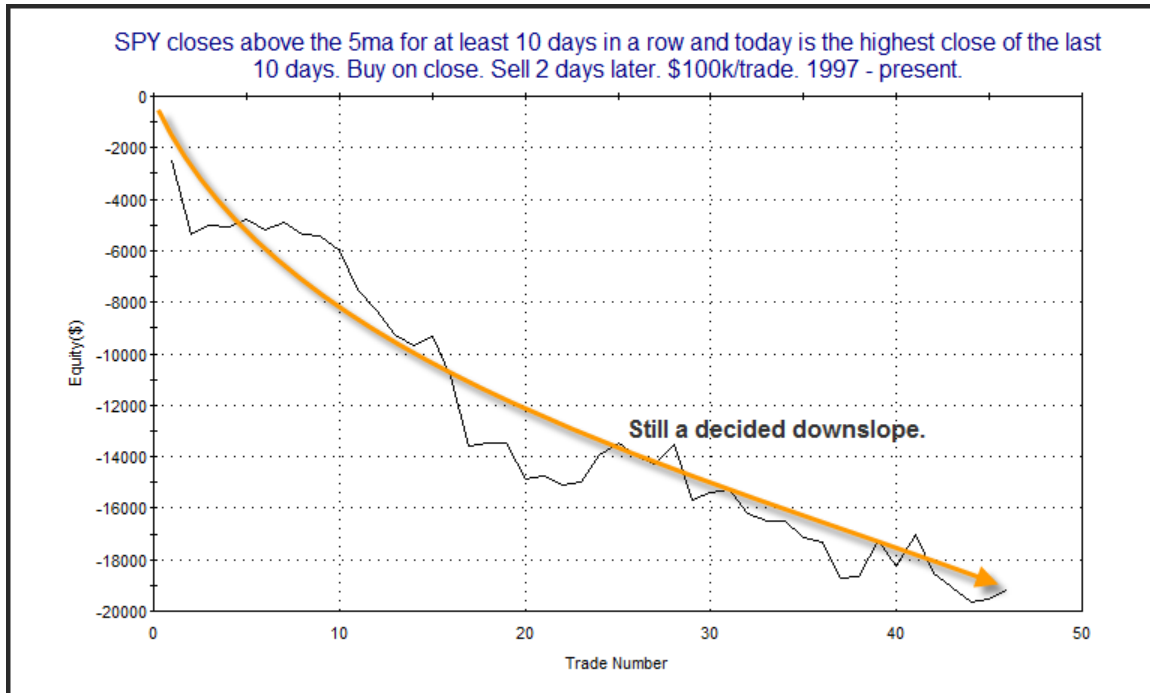
Astute subscribers will recognize the study below from just two nights ago. It examines instances where the market has gone an extended period of time without managing to pull back enough that it closes below the 5-day moving average.

SPY closes above the 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-8,935.09	34	20	14	58.82	752.39	-1,713.06	0.44	0.63	-262.80
4	-15,790.05	35	14	21	40.00	669.09	-1,197.97	0.56	0.37	-451.14
3	-17,264.21	41	13	28	31.71	656.57	-921.41	0.71	0.33	-421.08
2	-19,198.79	46	18	27	39.13	409.52	-984.08	0.42	0.28	-417.37
1	-19,623.62	65	25	40	38.46	321.23	-691.36	0.46	0.29	-301.90

90% of instances closed below the entry price at some point in the next 4 days.

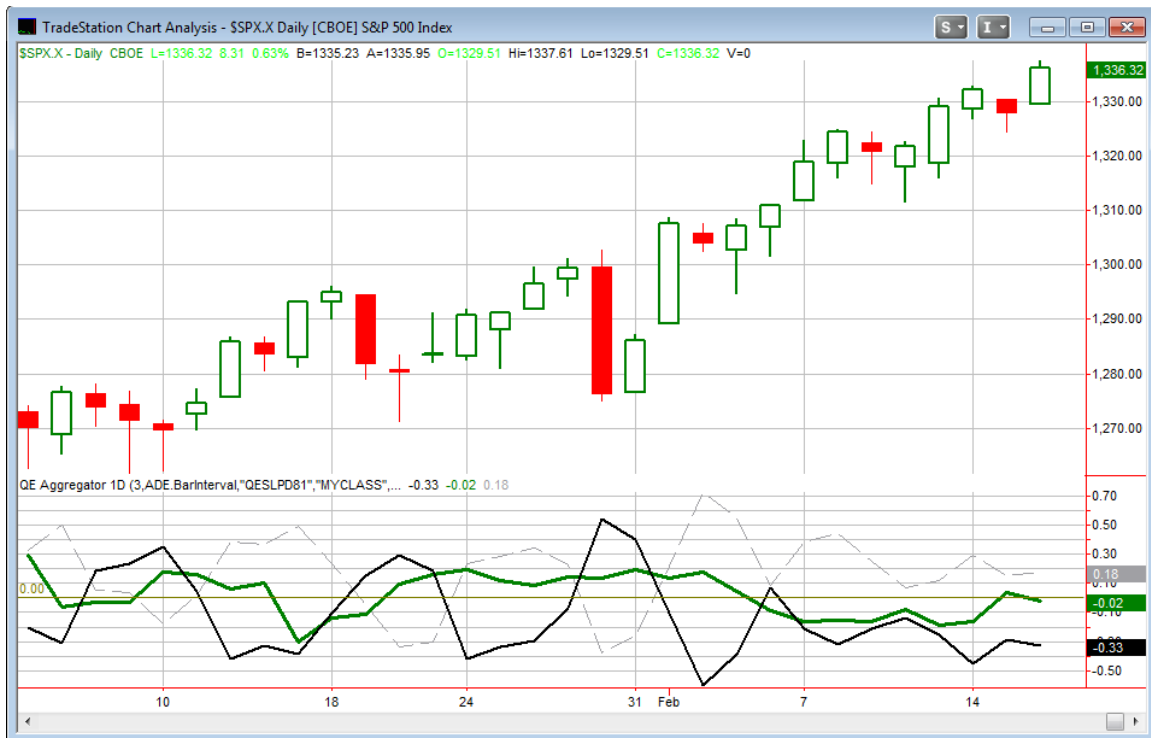
Such persistence doesn't typically last much longer before a pullback is seen. We see above what appears to be a decent downside edge. It appears most of the downside damage is done in the first 2 days. To see how the edge has played out over time I've produced an equity curve using a 2-day exit strategy.



The edge may not be quite as strong as it once appeared, but it still seems healthy. I've added it back to the Active List tonight.

There were also a few studies that looked at Wednesday's unfilled gap up following Tuesday's unfilled gap down after an intermediate-term high. In taking a fresh look at those tonight I did not find the implications to be as bearish as they once appeared. I'll continue to keep an eye on them but have not included them among the active studies.

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



Tonight's bearish studies helped to quickly flip the green Aggregator line back below 0. The negative value means the net expectation from the Active Studies List is for downside over the next few days. Meanwhile the black Differential line is still below 0. Readings below 0 mean the SPX has outperformed expectations over the last few days. So net expectations are for downside and the SPX has outperformed recent expectations. Historically this configuration has suggested a bearish edge. It is evident on the chart whenever both lines are below zero. Due to this the Aggregator System turned short at the close.

Based on the current active studies the green Aggregator line is set to remain below 0 on Thursday. This could change if bullish evidence emerges. Meanwhile the Differential Pivot will be at 1,326.44. This is about 0.7% below Wednesday's close. For the Differential Line to move above zero it would require the SPX to drop at least this much.

With the Aggregator again suggesting bearish inclinations I am going to begin to step back in to a short position. Details in the Trade Ideas section below.

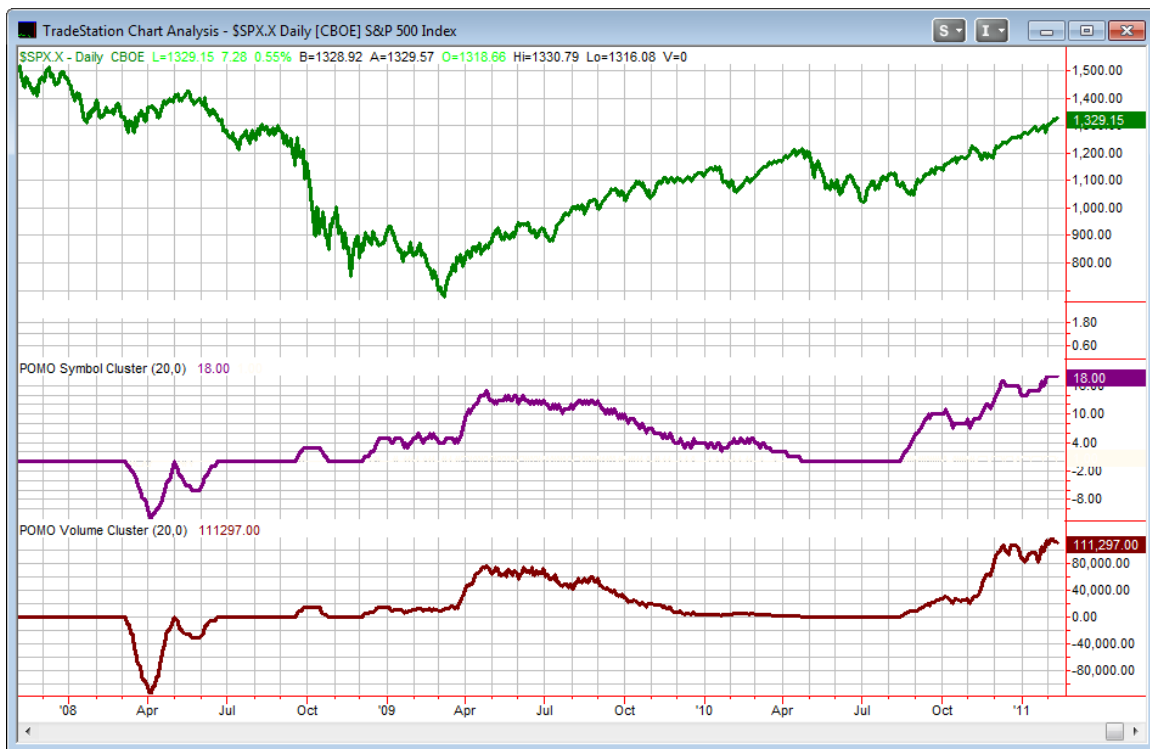
Intermediate-term Outlook (2 weeks – 2 months)– updated 2/14 - bullish

The market continues to make new highs. There can be no doubt we are in an intermediate-term uptrend. And while evidence is mixed, most signs continue to point up.

I've been updating the POMO chart most weekends 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. Information on acquiring the data and constructing the chart can be found in the January 3rd POMO presentation linked below. (Not available for trial users.)

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



POMO levels remain at or near all-time highs. This has almost certainly provided a strong boost to the market. On Thursday the Fed released its tentative operations schedule for the next month. A link to the schedule is below. After eyeballing it, it

appears that POMO activity will be extremely strong. Operations are schedule for almost every day, and most days look to have a substantial amount of buying. This should continue to put a nice wind at the market's back.

http://www.newyorkfed.org/markets/tot_operation_schedule.html

Bulls still have POMO, trend, and momentum on their side, while the bears hopes continue to hinge on bond action. Short-term evidence is suggesting a pullback, but there is little suggesting that a pullback would mark the end of the uptrend. I'll continue to side with the bulls. From my standpoint this means I'll trade the long side more aggressively and the short side more conservatively.

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 – short 1/4 index position @ \$133.85. Based on the short-term outlook above. Being a counter-trend trade during this strong uptrend I will again be looking for a quick exit. If I get into the position and the market does take a dive tomorrow, I will exit on an SPX close at or below the Differential Pivot of 1,326.44.

Current Open Trade Ideas

None.

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 © 2010 Hanna Capital Management, LLC.