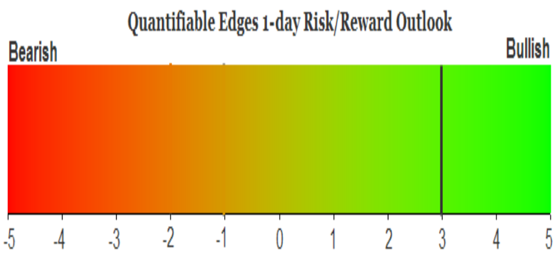
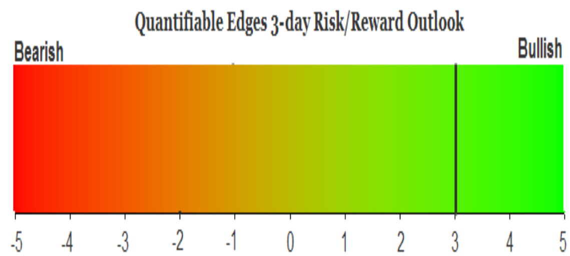
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 25, 2011 Volume 4 Issue 38

Market Overview





Tonight's Research Points

- Gaps to new lows that partially reverse are typically followed by upside.
- 3 days down with the rate of decline slowing suggests bullish implications.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook
The Bottom Line

Evidence is building for the bulls. The Aggregator chart is now strongly positive. I'm becoming enthused and looking to add more long exposure.

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 25, 2011	3 days dn. Drop slowing.	1-4 days	Bullish	
February 25, 2011	SPY gap dn and partial reverse	1-3 days	Bullish	
February 24, 2011	Down 1.75% and the between .25-.75%	1-5 days	Bullish	
Active - Long Term				
February 23, 2011	From 2- hi to 1st 5low in 10 days.	1-11 days	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 23, 2011	***SPX 10-high to 10-low in 1 day***	***1-3 days***	***Bearish***	***-1.40%***

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

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

The Evidence

Mild bullish evidence last night was followed by mixed index readings on Thursday. The SPX fell 0.1% but the Nasdaq and the Russell 2000 each gained 0.6%. Breadth was also mixed as the NYSE Up Issues % came in at 52% while the Up Volume % was just 42%. Total volume declined from the levels of the last 2 days.

The Quantifinder identified a number of appealing patterns tonight – all suggesting a short-term bullish edge. These first 2 below are very similar and they both come from the 5/6/10 Subscriber Letter. Stats are updated.

Yesterday SPY closed at a 10-day low. Today it gapped down and then closed above the open but below yesterdays close. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - 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	9,576.28	7	6	1	85.71	1,739.20	-858.90	2.02	12.15	1,368.04
4	6,765.46	7	6	1	85.71	1,268.82	-847.44	1.50	8.98	966.49
3	6,331.23	7	6	1	85.71	1,149.37	-564.96	2.03	12.21	904.46
2	-249.56	7	5	2	71.43	994.12	-2,610.08	0.38	0.95	-35.65
1	-73.55	8	6	2	75.00	542.65	-1,664.73	0.33	0.98	-9.19

All instances closed above the entry price at some point in the next week.

The last instance hurt the stats somewhat. It was followed by the Flash Crash the next day and showed up as a loser in all rows except for the "5-days" exit strategy. While the stats are lopsided, instances are very low. As I did last spring, I also ran the test using a 5-day low filter instead of a 10-day low. Those results are also updated.

Yesterday SPY closed at a 5-day low. Today it gapped down and then closed above the open but below yesterdays close. Close > 200ma. Buy on close. Sell X days later. $100k/trade. 1993 - 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
10	44,471.75	22	18	4	81.82	3,140.02	-3,012.15	1.04	4.69	2,021.44
9	39,414.59	23	19	4	82.61	2,780.54	-3,353.91	0.83	3.94	1,713.68
8	39,968.13	23	17	6	73.91	2,925.15	-1,626.57	1.80	5.10	1,737.74
7	29,181.54	23	17	6	73.91	2,403.04	-1,945.03	1.24	3.50	1,268.76
6	23,207.15	23	14	9	60.87	2,276.97	-963.38	2.36	3.68	1,009.01
5	18,863.90	23	17	6	73.91	1,623.02	-1,454.57	1.12	3.16	820.17
4	16,555.16	23	16	7	69.57	1,624.62	-1,348.39	1.20	2.75	719.79
3	16,415.95	23	19	4	82.61	1,160.40	-1,407.91	0.82	3.91	713.74
2	10,532.11	23	17	6	73.91	1,173.69	-1,570.12	0.75	2.12	457.92
1	4,097.80	25	17	8	68.00	841.19	-1,275.30	0.66	1.40	163.91
21 of 23 instances (91%) closed above the entry price at some point in the next week.										

Results here are very impressive and the upside edge could persist for two weeks or more.

Another set of criteria that triggered a number of studies tonight included the observations that 1) the SPX has now pulled back 3 days in a row, and 2) the % decline each day over the last couple of days has slowed. This next study is from the 8/13/10 subscriber letter. It also notes a recent intermediate-term high. Stats are updated.

SPX has at least 3 lower closes. Today is the mildest drop of the decline. Just prior to the pullback SPX had closed at a 20-day high. 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: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	51,153.80	38	27	11	71.05	2,534.77	-1,571.37	1.61	3.96	1,346.15
9	48,443.21	38	27	11	71.05	2,488.18	-1,703.43	1.46	3.59	1,274.82
8	38,739.14	38	27	11	71.05	2,238.48	-1,972.71	1.13	2.79	1,019.45
7	34,376.85	39	25	14	64.10	2,295.01	-1,642.75	1.40	2.49	881.46
6	37,488.34	39	25	14	64.10	2,118.49	-1,105.28	1.92	3.42	961.24
5	33,632.07	39	27	12	69.23	1,954.50	-1,594.95	1.23	2.76	862.36
4	37,429.63	39	24	15	61.54	2,203.59	-1,030.44	2.14	3.42	959.73
3	36,195.03	39	28	11	71.79	1,691.60	-1,015.42	1.67	4.24	928.08
2	25,992.23	40	28	12	70.00	1,280.88	-822.71	1.56	3.63	649.81
1	12,878.88	45	30	14	66.67	739.66	-665.06	1.11	2.38	286.20
90% of instances closed above the entry price at some point in the next week.										

Here we see strong upside implications over the next 1-10 days.

Similar criteria were seen in this 10/28/09 study.

SPY closes lower at least 3 days in a row. Close > 200ma. The rate of decline has slowed the last 2 days. Buy on close. Sell X days later. $100k/trade. 1993 - 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
10	47,469.52	25	19	6	76.00	2,728.51	-728.71	3.74	11.86	1,898.78
9	41,428.74	25	19	6	76.00	2,413.18	-736.96	3.27	10.37	1,657.15
8	32,091.23	25	17	8	68.00	2,294.46	-864.32	2.65	5.64	1,283.65
7	34,491.86	26	19	7	73.08	2,186.25	-1,006.69	2.17	5.89	1,326.61
6	33,202.20	26	18	8	69.23	2,259.93	-934.56	2.42	5.44	1,277.01
5	24,890.18	26	19	7	73.08	1,825.90	-1,400.28	1.30	3.54	957.31
4	20,486.62	26	20	6	76.92	1,490.18	-1,552.82	0.96	3.20	787.95
3	18,184.54	26	17	9	65.38	1,550.00	-907.28	1.71	3.23	699.41
2	13,039.79	27	18	8	66.67	925.59	-452.61	2.05	4.60	482.96
1	5,453.64	29	19	10	65.52	577.86	-552.57	1.05	1.99	188.06

Every instance closed above the entry price at some point in the next week.

Most impressive about this one is the 100% consistency of the bounce. That's an impressive feat with a sample size so ample.

Also notable on the active list is the fact that the lone remaining short-term bearish study hit its target and is being removed 1 day early.

I have updated the Aggregator chart below.

The green Aggregator line is now strongly 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 remains highly positive. Readings above 0 mean the SPX has underperformed expectations over the last few days. So net expectations are for upside and the SPX has underperformed recent expectations. Historically this combination has provided an upside edge, and is considered bullish. It is evident on the chart whenever both lines are above zero. Due to this the Aggregator System remained long at the close.

Based on the current active studies the green Aggregator line is set to remain above 0 on Friday. This could change should bearish evidence emerge. Meanwhile the Differential Pivot will be at 1,312.12. This is nearly 0.5% above Thursday's close. For the Differential Line to fall back below zero it would require the SPX to rally at least this much.

I labeled the bullish evidence as weak in last night's letter. That's changed with the strong price patterns discussed tonight. I am long and looking to get longer.

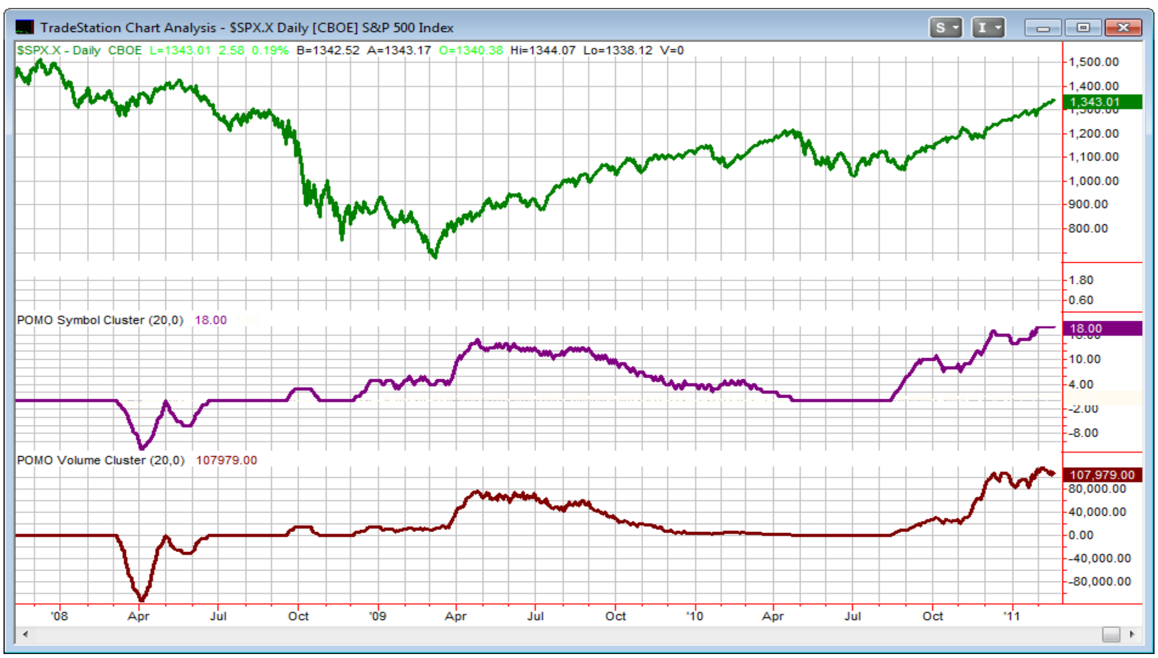
Intermediate-term Outlook (2 weeks – 2 months)– updated 2/22 - bullish

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. POMO activity is expected to remain strong over at least the next 3 weeks according to the tentative operations schedule. Operations are scheduled 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

GE – buy 1/3 @ $20.37
HPQ – buy 1/3 @ $43.59
New
AMGN – buy 1/3 @ $50.95
HPQ – buy 1/3 @ $42.17

Catapult for ETF's Trades
None

***Broad Market Large Cap CBI* – 4 (GE, HPQ-2, AMGN)**

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.

AMGN – buy 1/3 position @ $50.95 limit.
HPQ – buy 1/3position @ $42.17 limit

These two traders are both Catapults. We have not seen catapult trades in a long time. Those new to them and anyone who would like a refresher is encouraged to review the Catapult & CBI presentation in the videos section of the website.

SPY – buy ¼ index position at $130.50 limit. If not filled in first 30 minutes of day, then cancel and look to buy ¼ index position @ $130.90 LIMIT ON CLOSE. I'll look add more based on the Aggregator.

There is quite a bit more on the triggers page tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	2/24/2011	$130.00	$130.93	0.72%		Aggregator
GE(1/3)	2/24/2011	$20.12	$20.58	2.29%		Catapult
HPQ (1/3)	2/24/2011	$43.16	$42.17	-2.29%		Catapult