

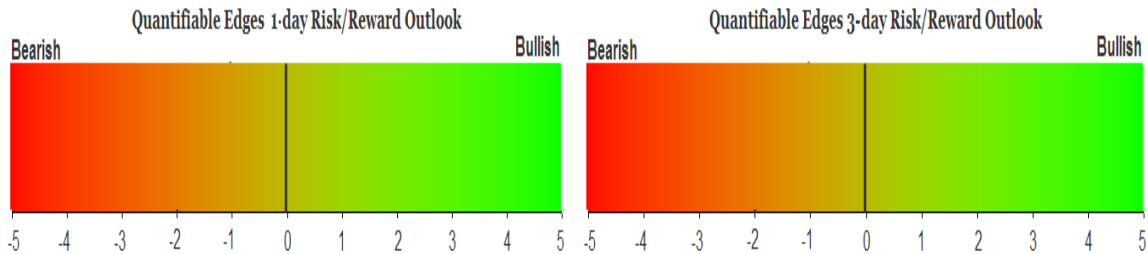
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 7, 2011

Volume 4 Issue 44

Market Overview



Tonight's Research Points

- Down 1st Fridays bounce about 2/3 of the time on Monday.
- POMO days and volume continue to pile up, supporting the bulls.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

The Aggregator System is back to flat and new evidence tonight is somewhat lacking. I'm neutral and awaiting a better edge.

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				
March 7, 2011	SPX down on 1st Friday of month	1 day	Bullish	
March 4, 2011	Unfilled gap-n-go under 10-high	1-3 days	Bullish	1.40%
March 2, 2011	1% drop and decliners 2x advancers	1-9 days	Bullish	3.00%
Active - Long Term				
March 2, 2011	Outside 2 days and 3-day low close	4-10 days	Bullish	
February 23, 2011	From 20 hi to 1st 5low in 10 days.	1-11 days	Bullish	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
March 4, 2011	1% Rise Before Employment Report	1 day	Bullish	

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

The Evidence

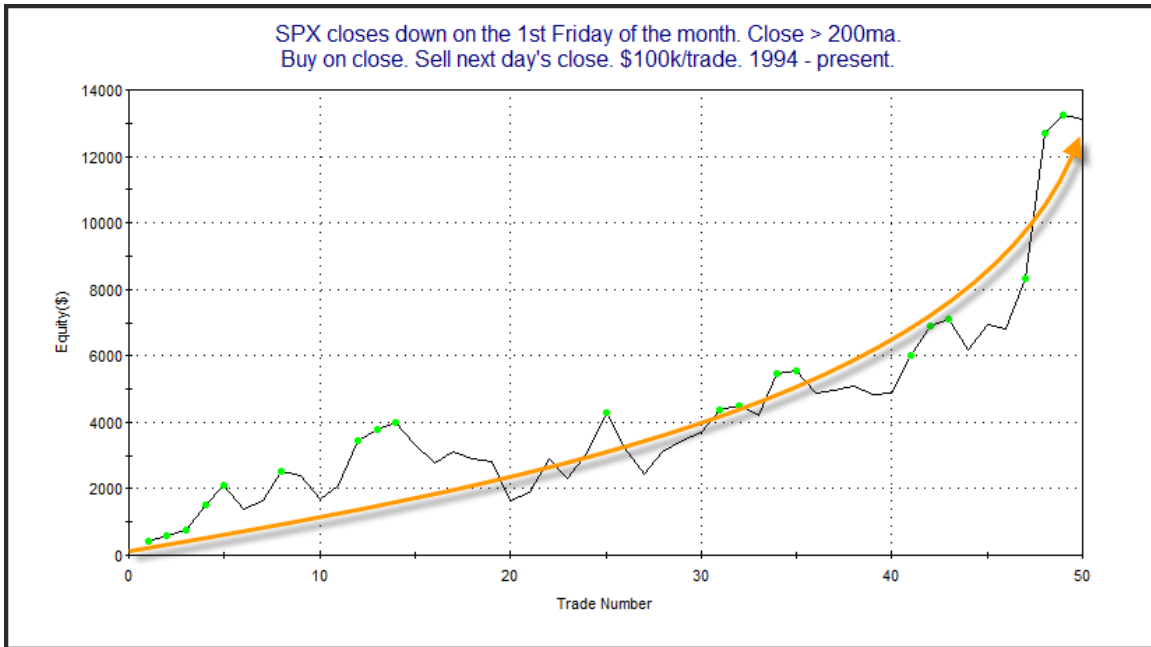
The market spent most of the day in selling mode on Friday, though damage was lessened by a surge in the last half-hour. When it was over the SPX had lost 0.7%, and the NASDAQ and Russell 2000 were each down 0.5%. Breadth was solidly negative as the NYSE Up Issues % came in at 35% and the Up Volume % was 24%. Total NYSE volume declined a bit from Thursday's levels.

The market has spent the last few days zigzagging back-and-forth. It is now almost smack dab in the middle of the range it carved out between the 2/18 high and the 2/24 low. Markets that chop around in the middle of a trading range rarely suggest a significant short-term edge. Current action does not seem to be an exception. The Quantifinder, despite now being populated with over 900 studies, came up blank on Friday. And there was really only one study I examined that appeared worth considering.

The employment report will often set the tone for the market on the day it is released. Interestingly, when the move has been lower during an uptrend, it has rarely seen follow through on Monday. This can be seen in the below results sheet.

SPX closes down on the 1st Friday of the month. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1994 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$13,117.24	Profit Factor	2.43
Gross Profit	\$22,281.62	Gross Loss	(\$9,164.38)
Total Number of Trades	50	Percent Profitable	66.00%
Winning Trades	33	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	\$262.34	Ratio Avg. Win:Avg. Loss	1.25
Avg. Winning Trade	\$675.20	Avg. Losing Trade	(\$539.08)
Largest Winning Trade	\$4,396.50	Largest Losing Trade	(\$1,194.83)

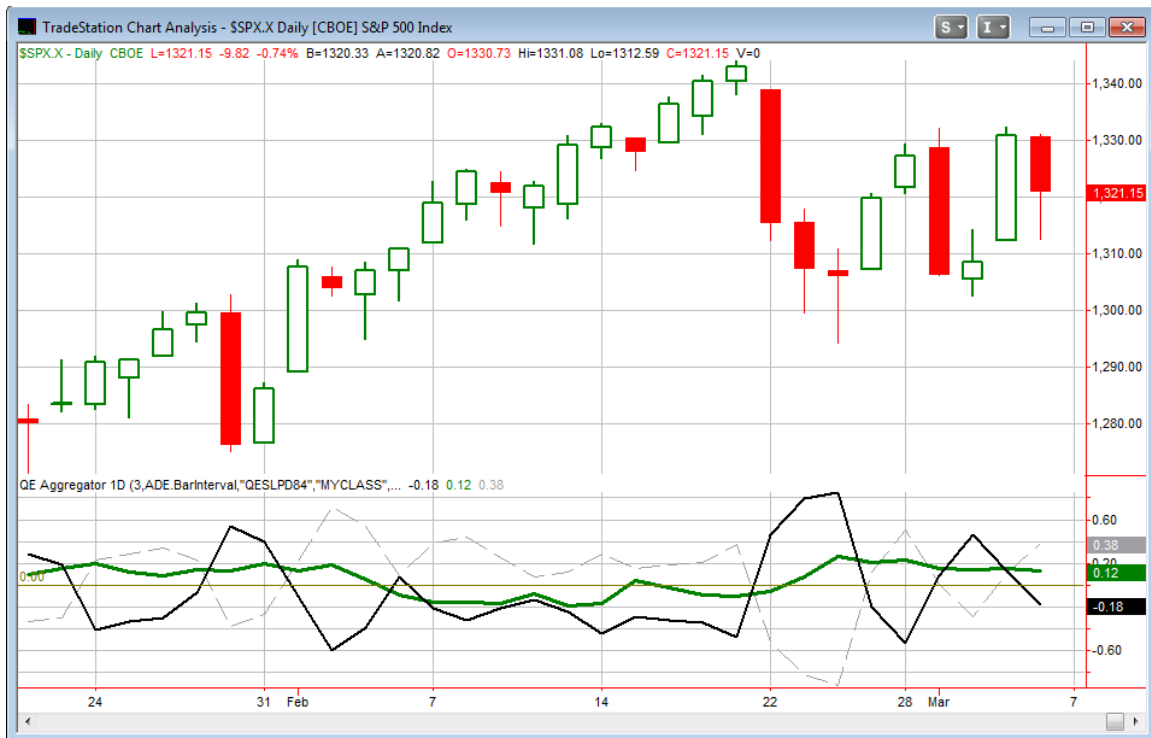
About 2/3 of the time the market has bounced on Monday. And with winners out sizing losers that has meant favorable risk/reward. Below is an equity curve showing how the edge has played out over time.



There has been acceleration lately, but a good portion of that is due to the 5/7/10 instance that posted a gain of 4.4% on Monday. In any case, there has been a continual upslope, which helps confirm the edge.

There are still some studies from a few days ago suggesting we should see some upside here. And everything intermediate-term is also pointing higher at the moment.

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



The green Aggregator line is still well above 0. The positive value means the net expectation from the Active Studies List is for upside over the next few days. This is no surprise since all the active short-term studies remain bullish. Meanwhile the black Differential line dropped back below 0. Readings below 0 mean 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. It can be seen on the chart whenever both lines are on opposite sides of zero. Due to this the Aggregator System turned from long to flat at the close.

Based on the current active studies the green Aggregator line is set to remain above 0 on Monday. This could change should strong bearish evidence emerge. Meanwhile, the Differential Pivot will be 1,315.04. This is almost 0.5% below Friday's close. So for the Differential Line to move back above zero and the SPX to be considered underperforming the SPX will need to drop at least this much. If it does drop at least 0.5% then it appears likely that a long signal would trigger.

I'm back on the sidelines and that's fine with me. Leading up to the February 22nd selloff we were repeatedly seeing studies suggesting a short-term bearish edge. But since that selloff was 2-3 days old I don't believe we have seen a single compelling short-term bearish study. Short-term evidence has all been pointing higher, but with the recent chop even bullish evidence is becoming scarce. Additionally, the best risk/reward setups

typically occur near the outer edge of ranges. They don't occur when initiating new positions in the middle of a range. So with neither evidence nor risk/reward terribly attractive, I'm content to stand aside and await a better setup.

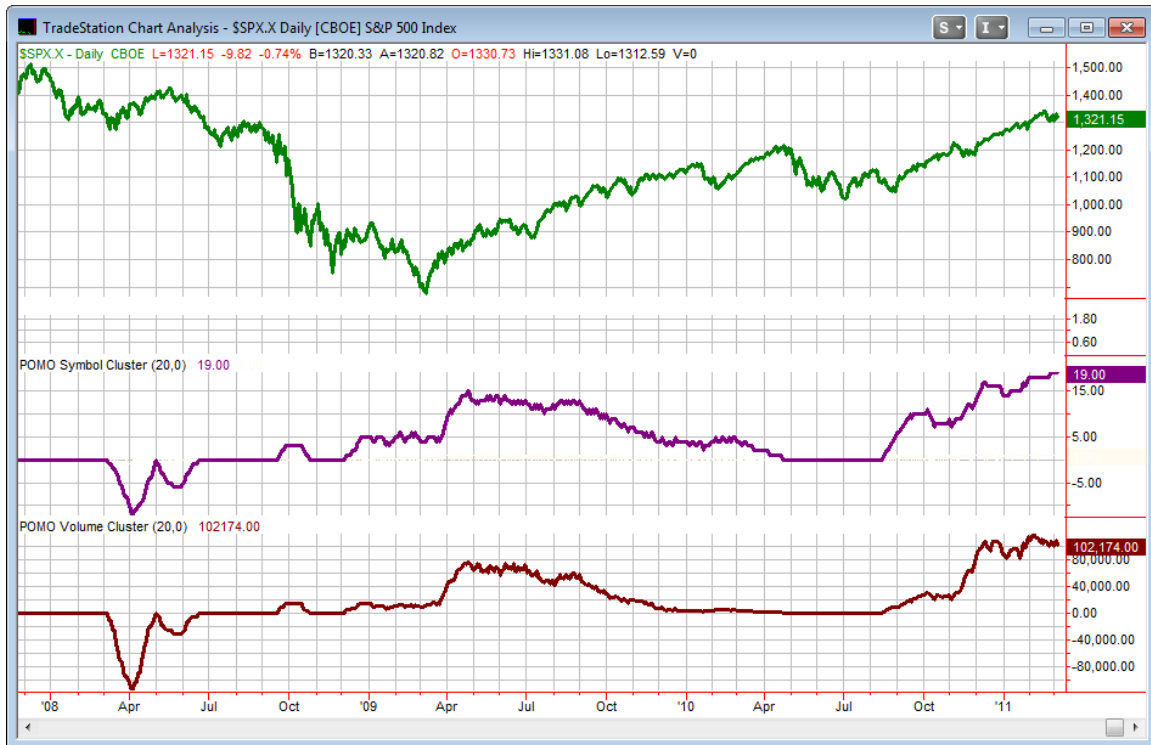
Intermediate-term Outlook (2 weeks – 2 months)– updated 3/5 - bullish

Very little was accomplished this week price-wise. Both the NASDAQ and the S&P finished up just a smidge. Both also formed inside weeks, and it's possible they are beginning triangle formations. At this point the consolidation doesn't appear so tight that it is notable. And though it is tough to predict, it will be interesting to see which way it eventually breaks. I'm still leaning long.

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>



The POMO Days indicator remained at 19 this entire week. In fact February 10th is the only day since the end of January when there hasn't been POMO activity. February 10th was the day the last tentative operations schedule was released. The next day where no POMO activity is currently scheduled is this Thursday, March 10. March 10 is also the day the next tentative operations schedule is set to be released. So Thursday should be an interesting day since we'll get a glimpse of the scheduled buying activity for the next month. The POMO Volume indicator is also still hovering near all-time highs. Barring a notable reduction in scheduled buying activity appearing on Thursday, I expect POMO to continue to provide a steady wind at the market's back. The link below is to the tentative operations page. Does the page that will be updated on Thursday when the new schedule comes out.

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

Intermediate-term evidence continues to point higher. POMO, trend, momentum, and price patterns all suggest the rally is not over. And frankly I'm not seeing anything suggesting an intermediate-term selloff is about to start. Due to this, I still favor a bullish outlook. 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

HPQ -1/3 @ \$43.59

HPQ -1/3 @ \$42.17 (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2 (HPQ-2)

COF hit its intraday target and is no longer open.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
HPQ (1/3)	2/24/2011	\$43.16	\$42.57	-1.37%		Catapult
SPY(1/4)	3/2/2011	\$130.75	\$132.47	1.32%		sold on close

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