

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 8, 2011

Volume 4 Issue 45

Market Overview



Tonight's Research Points

- ATR expansions can suggest an upside edge, but it typically is only so when the SPX is under the 200ma.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

Monday's selloff pushed the Differential line back above 0 and triggered a long in the Aggregator System. I'm somewhat bullish and am looking to begin scaling in to a long index position.

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 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 7, 2011 | SPX down on 1st Friday of month | 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

It was a tough day for the market. A strong start quickly turned sour and the major indices all finished with ample sized losses. The SPX closed down 0.8%, the Nasdaq dropped 1.4%, and the Russell 2000 shed 1.5%. Breadth was very weak as the NYSE Up Issues % came in at 25% and the Up Volume % was 19%. While the price drop was strong and broad, NYSE volume was tame. It declined for the 2nd day in a row.

A couple of bullish studies appeared in the Quantifinder this afternoon, but when I looked at them a bit closer I wasn't very enthused by either. The 1st one looked at the inclination of Tuesdays to act as "Turnaround Tuesdays". When I looked at the current setup more in depth, taking into account trend and volume characteristics, I failed to find any upside edge.

The other Quantifinder study that appeared intriguing looked at the recent sizable increase in the Average True Range of the SPY. Increases in volatility can sometimes suggest panic, or at least an emotion-driven move. A study in the 9/28/08 Letter implied that ATR spikes of the magnitude we've seen lately tended to suggest an upside edge. Tonight I looked at the setup again. This time I broke it out by long-term trend. First I'll show instances that occurred during a long-term downtrend. (Close < 200ma.)

SPY 10-day average true range crosses over 1.5x the 100-day average true range.
Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1994 - 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 |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 20 | 30,380.01 | 11 | 8 | 3 | 72.73 | 6,236.49 | -6,503.97 | 0.96 | 2.56 | 2,761.82 |
| 19 | 20,216.49 | 11 | 8 | 3 | 72.73 | 6,164.31 | -9,699.34 | 0.64 | 1.69 | 1,837.86 |
| 18 | 17,279.78 | 11 | 8 | 3 | 72.73 | 5,411.46 | -8,670.63 | 0.62 | 1.66 | 1,570.89 |
| 17 | 17,338.31 | 11 | 9 | 2 | 81.82 | 4,523.62 | -11,687.12 | 0.39 | 1.74 | 1,576.21 |
| 16 | 22,788.77 | 11 | 9 | 2 | 81.82 | 5,077.80 | -11,455.71 | 0.44 | 1.99 | 2,071.71 |
| 15 | 19,160.17 | 11 | 9 | 2 | 81.82 | 4,580.08 | -11,030.29 | 0.42 | 1.87 | 1,741.83 |
| 14 | 27,766.20 | 11 | 9 | 2 | 81.82 | 4,653.70 | -7,058.55 | 0.66 | 2.97 | 2,524.20 |
| 13 | 28,091.00 | 11 | 8 | 3 | 72.73 | 4,931.10 | -3,785.93 | 1.30 | 3.47 | 2,553.73 |
| 12 | 29,146.53 | 11 | 8 | 3 | 72.73 | 4,286.49 | -1,715.13 | 2.50 | 6.66 | 2,649.68 |
| 11 | 29,751.19 | 11 | 8 | 3 | 72.73 | 4,415.92 | -1,858.73 | 2.38 | 6.34 | 2,704.65 |
| 10 | 25,818.89 | 11 | 7 | 3 | 63.64 | 5,125.01 | -3,352.07 | 1.53 | 3.57 | 2,347.17 |
| 9 | 26,518.55 | 11 | 8 | 3 | 72.73 | 4,364.84 | -2,800.05 | 1.56 | 4.16 | 2,410.78 |
| 8 | 23,011.46 | 11 | 7 | 4 | 63.64 | 5,110.75 | -3,190.95 | 1.60 | 2.80 | 2,091.95 |
| 7 | 13,345.96 | 11 | 7 | 4 | 63.64 | 3,748.38 | -3,223.18 | 1.16 | 2.04 | 1,213.27 |
| 6 | 8,686.12 | 11 | 6 | 5 | 54.55 | 4,540.39 | -3,711.25 | 1.22 | 1.47 | 789.65 |
| 5 | 9,819.03 | 11 | 7 | 4 | 63.64 | 3,677.87 | -3,981.51 | 0.92 | 1.62 | 892.64 |
| 4 | 10,994.80 | 11 | 8 | 3 | 72.73 | 3,356.84 | -5,286.65 | 0.63 | 1.69 | 999.53 |
| 3 | 12,567.34 | 12 | 8 | 4 | 66.67 | 3,057.41 | -2,972.98 | 1.03 | 2.06 | 1,047.28 |
| 2 | 12,947.08 | 12 | 8 | 4 | 66.67 | 2,720.67 | -2,204.57 | 1.23 | 2.47 | 1,078.92 |
| 1 | 12,330.44 | 12 | 7 | 5 | 58.33 | 2,506.73 | -1,043.34 | 2.40 | 3.36 | 1,027.54 |

Not tons of instances but the results are suggestive of an upside edge. Of course the market is currently above the 200ma, not below it. Results for the current setup can be seen below.

| SPY 10-day average true range crosses over 1.5x the 100-day average true range. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1994 - 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 |
| 20 | 1,989.94 | 16 | 8 | 8 | 50.00 | 3,497.51 | -3,248.77 | 1.08 | 1.08 | 124.37 |
| 19 | 7,217.42 | 16 | 10 | 6 | 62.50 | 2,681.04 | -3,265.49 | 0.82 | 1.37 | 451.09 |
| 18 | 11,703.16 | 16 | 9 | 7 | 56.25 | 2,905.57 | -2,063.85 | 1.41 | 1.81 | 731.45 |
| 17 | 7,609.90 | 16 | 7 | 9 | 43.75 | 3,289.08 | -1,712.63 | 1.92 | 1.49 | 475.62 |
| 16 | 4,702.28 | 16 | 7 | 9 | 43.75 | 3,257.51 | -2,011.15 | 1.62 | 1.26 | 293.89 |
| 15 | 1,630.16 | 16 | 7 | 9 | 43.75 | 2,669.00 | -1,894.76 | 1.41 | 1.10 | 101.89 |
| 14 | -2,275.71 | 16 | 6 | 10 | 37.50 | 3,200.11 | -2,147.64 | 1.49 | 0.89 | -142.23 |
| 13 | -11,078.38 | 17 | 6 | 11 | 35.29 | 2,252.87 | -2,235.96 | 1.01 | 0.55 | -651.67 |
| 12 | -19,902.24 | 17 | 5 | 12 | 29.41 | 1,823.33 | -2,418.24 | 0.75 | 0.31 | -1,170.72 |
| 11 | -31,106.98 | 18 | 5 | 13 | 27.78 | 1,926.48 | -3,133.80 | 0.61 | 0.24 | -1,728.17 |
| 10 | -31,381.16 | 18 | 6 | 12 | 33.33 | 1,704.96 | -3,467.58 | 0.49 | 0.25 | -1,743.40 |
| 9 | -16,049.55 | 19 | 7 | 12 | 36.84 | 1,568.59 | -2,252.47 | 0.70 | 0.41 | -844.71 |
| 8 | -12,254.38 | 19 | 8 | 11 | 42.11 | 1,526.58 | -2,224.28 | 0.69 | 0.50 | -644.97 |
| 7 | -9,576.31 | 19 | 12 | 7 | 63.16 | 1,408.36 | -3,782.38 | 0.37 | 0.64 | -504.02 |
| 6 | -5,197.45 | 19 | 12 | 7 | 63.16 | 1,338.13 | -3,036.43 | 0.44 | 0.76 | -273.55 |
| 5 | 467.62 | 19 | 11 | 8 | 57.89 | 1,428.30 | -1,905.46 | 0.75 | 1.03 | 24.61 |
| 4 | 561.43 | 19 | 10 | 9 | 52.63 | 1,488.41 | -1,591.41 | 0.94 | 1.04 | 29.55 |
| 3 | 846.73 | 20 | 11 | 9 | 55.00 | 1,174.58 | -1,341.51 | 0.88 | 1.07 | 42.34 |
| 2 | -2,853.39 | 20 | 11 | 9 | 55.00 | 1,191.19 | -1,772.94 | 0.67 | 0.82 | -142.67 |
| 1 | -707.76 | 20 | 9 | 11 | 45.00 | 974.80 | -861.91 | 1.13 | 0.93 | -35.39 |

Under current circumstances the upside edge is no longer apparent.

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 moved back above 0 today. 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 has been a winning long side combination. It can be seen on the chart whenever both lines are above zero. Due to this the Aggregator System turned from flat to long at the close.

Based on the current active studies the green Aggregator line is set to remain above 0 on Monday. There is very little research currently active and this could change should bearish evidence emerge. Meanwhile, the Differential Pivot will be 1,336.58. This is 2.0% above Monday's close. So unless the SPX rallies this much the Differential Line will remain above 0 on Tuesday.

Keeping an eye on the Quantifinder will be key Tuesday. Upside evidence is somewhat weak, so a solid bearish study could easily flip the Aggregator.

While the bullish evidence is only mildly compelling, I still think the long side is worth taking a shot. I plan to start building a position.

Subscribers that wish to take trades based on Aggregator signals should also note that probable Aggregator signals are posted on the systems page each afternoon prior to the close. If you prefer entering at the close, then you could check the signal there rather than waiting for the subscriber letter to come out.

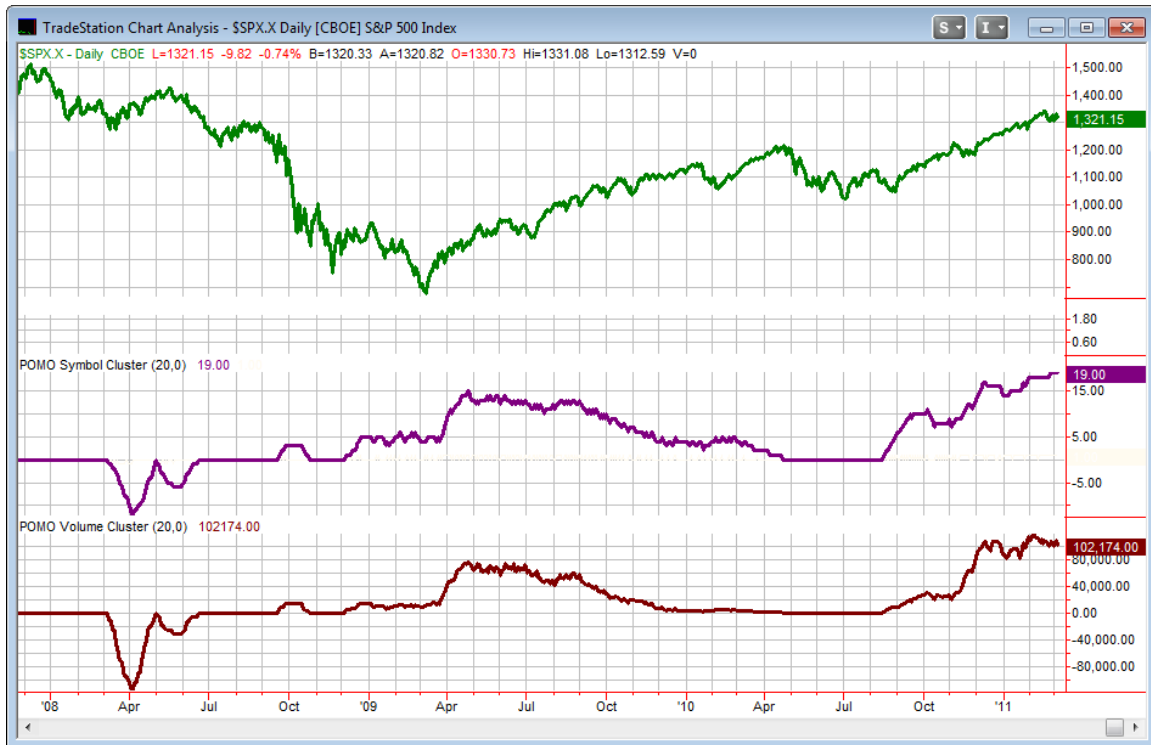
Intermediate-term Outlook (2 weeks – 2 months)– updated 3/5 - bullish

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.

SPY – buy 1/4 index position @ \$131.43 limit. Based on the short-term outlook above. I am looking to begin building a position. Keeping it light early on since bullish evidence is still a bit weak.

HPQ – buy 1/3 position @ \$42.00 LIMIT ON CLOSE. The Catapult lot that never filled has now come back down. I'll look to take that position at the close tomorrow if HPQ fails to rally.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-----------|------------|-------------|---------------|-------------|------|----------|
| HPQ (1/3) | 2/24/2011 | \$43.16 | \$41.98 | -2.73% | | Catapult |
| | | | | | | |
| | | | | | | |

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