

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 9, 2011

Volume 4 Issue 46

Market Overview



Tonight's Research Points

- Inside days only suggest a bearish edge when the market is in a long-term downtrend.
- The last 5 days have now closed within the previous day's range. After a 1% selloff in an uptrend this type of consolidation has often been followed by a pop.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

Still nothing but bullish indications. SPX still not overbought versus expectations. The Aggregator remains long and so do I. If the market closes even 0.4% higher on Wednesday I'll be looking to get out with my profits.

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 9, 2011	5 days inside 1% SPX drop day. Uptrend.	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	Unfilled gap-n-go under 10-high	1-3 days	Bullish	1.40%

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

The Evidence

The market put in a strong move up on Tuesday though it gave back some of those gains near the very end of the day. Even so, the SPX rose 0.9%, the Nasdaq gained 0.7% and the Russell 2000 did the best with a 1.5% gain. Breadth was solidly positive as the NYSE Up Issues % came in at 73% and the Up Volume % was 78%. Volume did not follow suit and declined for the 3rd day in a row.

The recent chop back and forth has left us without much to look at from the Quantifinder. There was one study tonight that looked at inside days. It suggested bearish implications. But upon further examination I found it only to be bearish when trading below the 200ma. Below I have rerun that 6/1/10 study but filtered so that it only looked at instances above the 200ma.

SPY posts an inside day. Range is the smallest in 3 days. 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
5	40,364.10	195	106	89	54.36	1,511.54	-1,346.74	1.12	1.34	207.00
4	30,361.17	206	115	91	55.83	1,349.50	-1,371.77	0.98	1.24	147.38
3	17,441.54	222	115	105	51.80	1,200.99	-1,149.26	1.05	1.14	78.57
2	7,633.56	233	126	106	54.08	926.44	-1,029.22	0.90	1.07	32.76
1	-10,612.01	235	117	117	49.79	720.93	-811.63	0.89	0.89	-45.16

These results don't appear to suggest a strong edge either way.

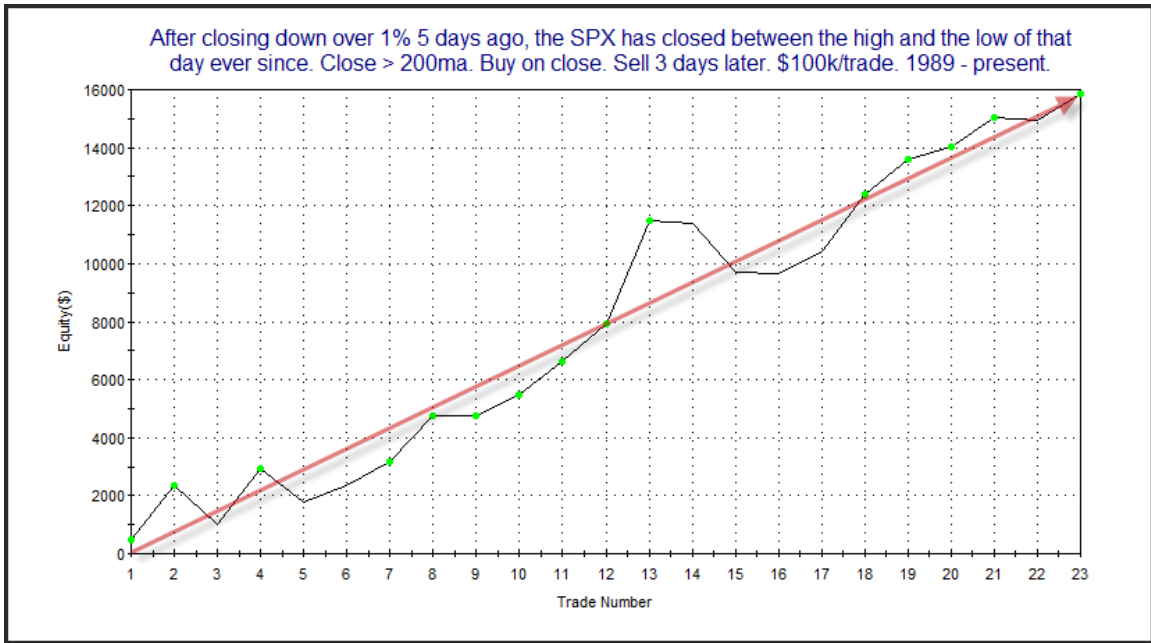
Of course the market has been stuck in a trading range for the last couple of weeks, and that range has tightened even further in the last week. Looking at the SPX we have now seen 5 closes in a row that have occurred within the range of the 3/1/11 bar 5 days ago. The 3/1/11 action was marked by strong selling. Inspired by some gap-related research by Scott Andrews over at Master the Gap using a similar setup, I decided to take a more detailed look at this set of circumstances. What stuck out to me is that 1) the SPX has been in a long-term uptrend. 2) There was a sizable 1-day selloff. 3) The bears failed to follow through on that selloff, yet the bulls have not managed to move the SPX back out of the range either.

After closing down over 1% 5 days ago, the SPX has closed between the high and the low of that day ever since. Close > 200ma. 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
20	5,394.55	22	14	8	63.64	2,740.57	-4,121.69	0.66	1.16	245.21
19	-1,023.26	22	13	9	59.09	2,795.44	-4,151.56	0.67	0.97	-46.51
18	-7,278.45	22	12	10	54.55	2,808.20	-4,097.68	0.69	0.82	-330.84
17	4,602.04	22	14	8	63.64	2,481.80	-3,767.90	0.66	1.15	209.18
16	8,296.94	23	14	9	60.87	2,470.98	-2,921.87	0.85	1.32	360.74
15	3,339.69	23	14	9	60.87	2,080.40	-2,865.10	0.73	1.13	145.20
14	3,305.82	23	14	9	60.87	2,220.80	-3,087.26	0.72	1.12	143.73
13	5,085.91	23	14	9	60.87	2,185.92	-2,835.22	0.77	1.20	221.13
12	6,484.51	23	13	10	56.52	2,108.37	-2,092.43	1.01	1.31	281.94
11	2,442.63	23	12	11	52.17	2,455.55	-2,456.72	1.00	1.09	106.20
10	1,292.76	23	14	9	60.87	1,972.44	-2,924.60	0.67	1.05	56.21
9	-3,258.14	23	12	11	52.17	2,064.45	-2,548.32	0.81	0.88	-141.66
8	-1,268.63	23	12	11	52.17	2,123.04	-2,431.38	0.87	0.95	-55.16
7	-4,845.14	23	13	10	56.52	1,764.07	-2,777.81	0.64	0.83	-210.66
6	-10,202.77	23	10	13	43.48	1,954.49	-2,288.28	0.85	0.66	-443.60
5	1,654.79	23	12	11	52.17	2,017.39	-2,050.35	0.98	1.07	71.95
4	3,165.46	23	15	8	65.22	1,235.10	-1,920.14	0.64	1.21	137.63
3	15,857.37	23	17	6	73.91	1,192.57	-736.07	1.62	4.59	689.45
2	14,035.11	23	16	7	69.57	1,059.29	-416.23	2.54	5.82	610.22
1	10,201.51	23	19	4	82.61	677.97	-669.99	1.01	4.81	443.54

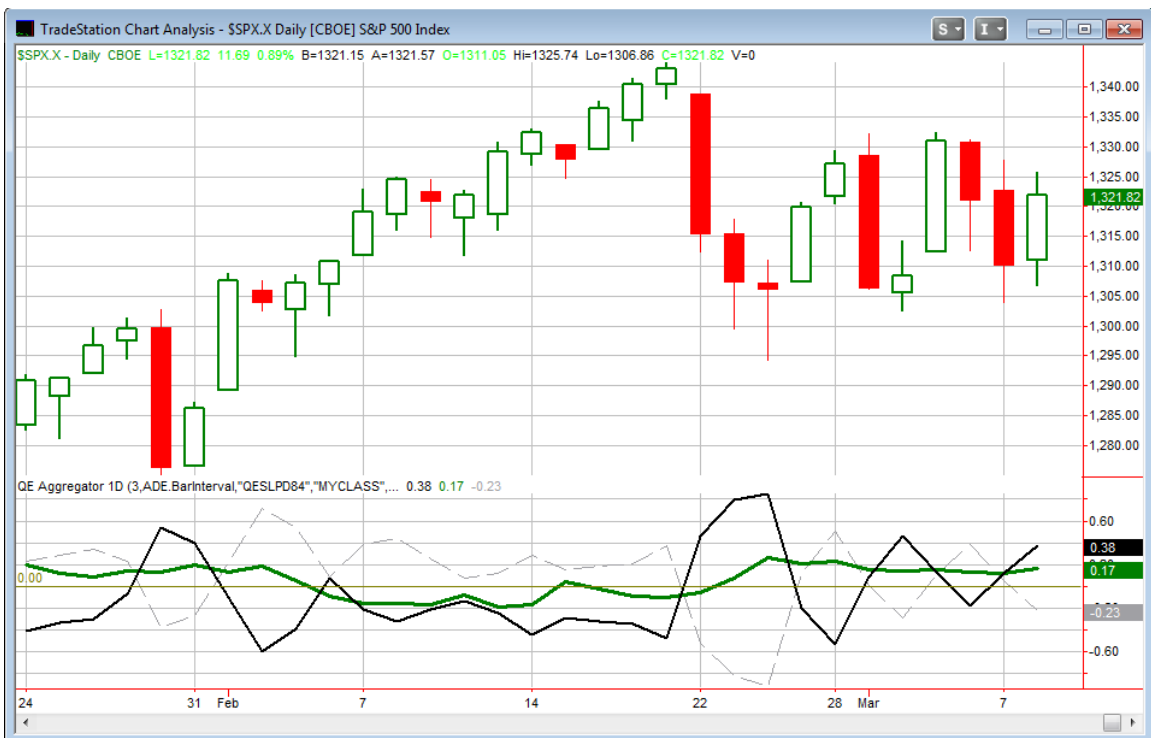
Over the last 22 years or so the SPX has burst higher out of this “failed selloff” and consolidation on a consistent basis. But the implications are only bullish for a few short days. After that there does not appear to be a decided edge for either the bulls or the bears.

Below I have produced an equity curve using a 3-day exit strategy.



Equity curves don't get much more appealing than this. It goes from bottom left to top right with very little deviation along the way. This serves as confirmation of the edge.

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 – still! Meanwhile the black Differential line is also greater than 0. 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 provided an upside edge. It can be seen 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 stay above 0 on Wednesday. This could change should bearish evidence emerge. Meanwhile, the Differential Pivot will be 1,326.54. This is less than 0.4% above Tuesday's close. So it wouldn't take too much of a move higher on Wednesday to turn the Differential Line back into negative territory. This would also take the Aggregator System off its current buy signal.

Aggregator entries have been quite good lately. I'm afraid I have been a little too conservative with position size. Still, it has been nice to participate, even with lower-than-normal size. As the Aggregator suggests, I am still looking for more upside. I am not looking to take on more index exposure at this point since the SPX is already so close to its exit target. It is also substantially above where the Aggregator first triggered long. Should we get a move higher on Wednesday, then I will be looking to take profits.

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

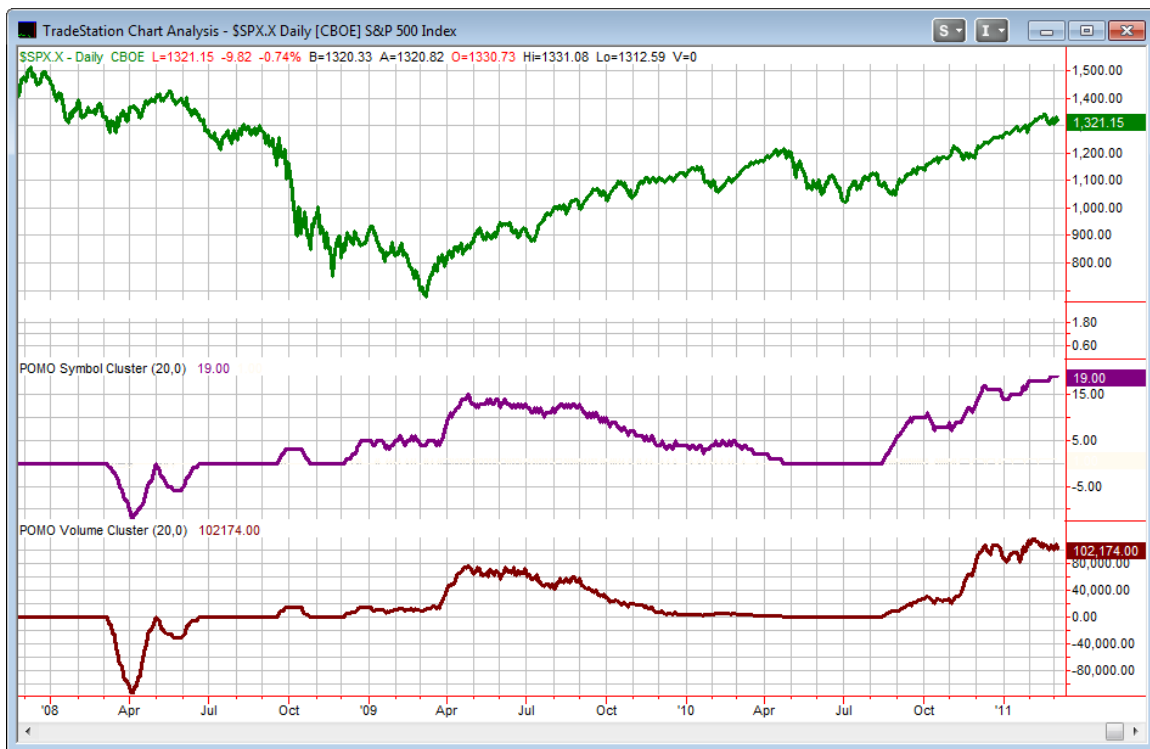
Very little was accomplished this week price-wise. Both the NASDAQ and the S&P finished up just a smidge. Both also formed inside weeks, and it's possible they are beginning triangle formations. At this point the consolidation doesn't appear so tight that it is notable. And though it is tough to predict, 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)

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	\$42.40	-1.76%		Catapult
SPY (1/4)	3/8/2011	\$131.43	\$132.57	0.87%		bought on open

I will look to sell the SPY position at the close if SPX closes at 1,326.54 or above.

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