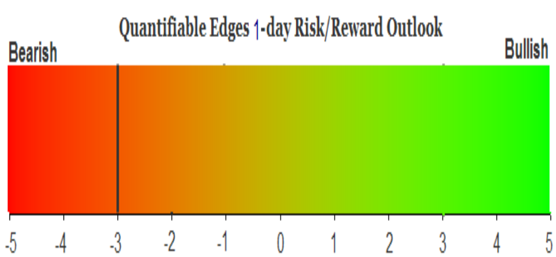
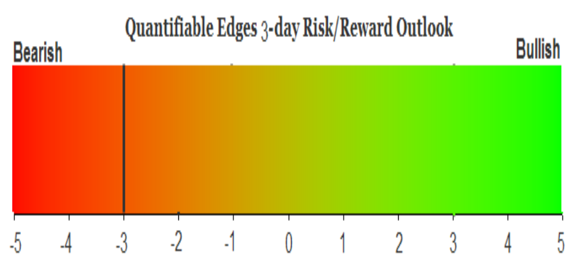
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 28, 2011 Volume 4 Issue 59

Market Overview





Tonight's Research Points

- A 10-day SPX high and a 20-day NYSE volume low suggest bearish implications.
- The VXO remained stretched 15% below its 10ma for the 3rd day in a row. Historically this has been followed by a short-term pullback on most occasions.
- The Aggregator System is short.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

The market remains overbought. Now the studies are turning negative. This is combining to suggest a downside edge over the next few days. I'm looking to take advantage of it with a short trade.

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 28, 2011	SPX 10-day high. Vol 20-day low.	1-3 days	Bearish	-1.50%
March 28, 2011	VIX 15% below 10ma 3rd day	1-2 days	Bearish	-2.00%
March 23, 2011	VIX from 10% above to 10% below 10ma	1-8 days	Bullish	2.10%
Active - Long Term				
March 22, 2011	3 Days Up Issues % > 70%	int term	Bullish	19.00%
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
March 23, 2011	Lowest volume 20. Close >10&200ma	1-3 days	Bearish	-1.10%

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

Friday saw moderate gaps higher, a morning rally, and a slow fade in the afternoon that gave back some of the gains. In the end the major indices all finished higher. The SPX gained 0.3%, the NASDAQ was up 0.2%, and the Russell 2000 led the way with a 0.8% gain. Breadth was solidly positive as both the NYSE Up Issues % and the Up Volume % came in at 65%. Total NYSE volume came in at the lowest level so far in 2011.

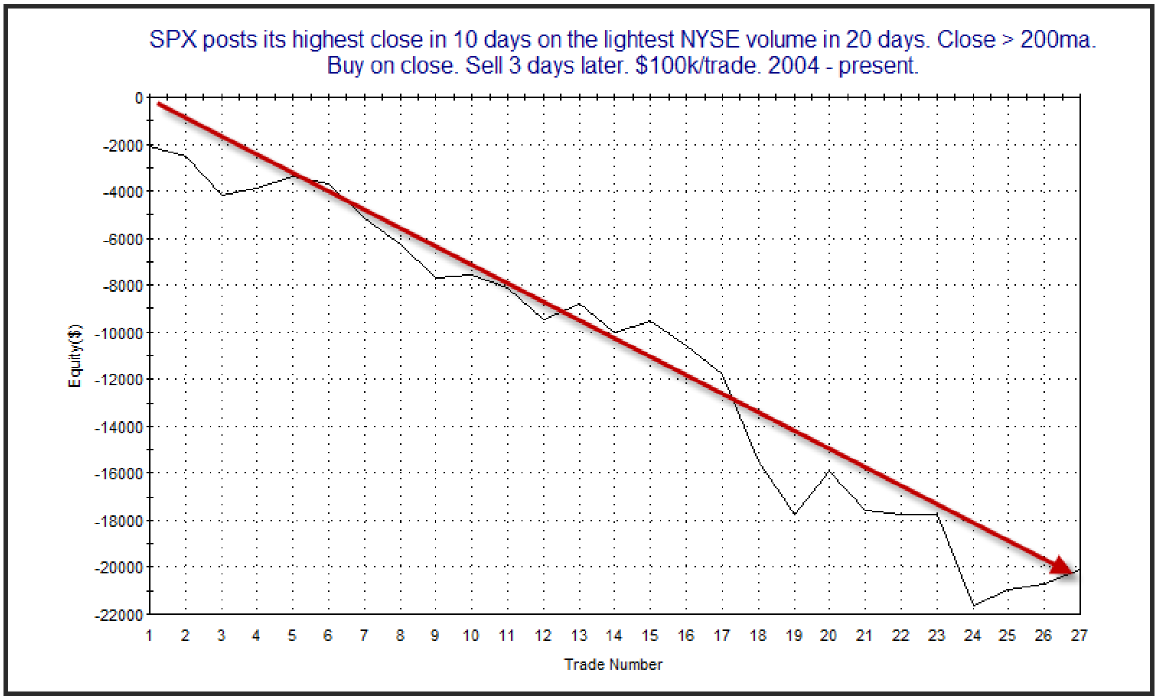
There were a good number of studies that appeared in the Quantifinder related to the very low volume and the fact that price is now short-term extended to the upside. I combined a few of those studies to create one that more closely depicted the current situation. I looked for other instances of the SPX closing at a 10 day high while NYSE volume was the lowest in a month during a long-term uptrend.

SPX posts its highest close in 10 days on the lightest NYSE volume in 20 days. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 2004 - 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	-19,922.47	26	6	20	23.08	1,146.97	-1,340.22	0.86	0.26	-766.25
4	-18,758.56	27	6	21	22.22	765.98	-1,112.12	0.69	0.20	-694.76
3	-20,106.91	27	9	18	33.33	597.14	-1,415.62	0.42	0.21	-744.70
2	-19,463.28	28	9	19	32.14	504.78	-1,263.49	0.40	0.19	-695.12
1	-9,082.01	29	11	18	37.93	189.44	-620.33	0.31	0.19	-313.17

92% of instances closed below the entry price at some point in the next 4 days.

As would be expected based on the other price/volume studies identified by the Quantifinder, results here suggested bearish implications. The edge appears to be primarily short-term, maxing out around 3-4 days. You'll note the study only goes back to 2004. The reason for that is that prior to this a downside edge was not apparent. Therefore I felt it was important to examine the equity curve for confirmation of the bearish edge suggested by the numbers.



The equity curve shows a fairly consistent downside edge. The last three instances have seen a rise over the three day period, but the rises were very mild and it doesn't appear to have changed the downslope dramatically at this point. In all, I think this study is worth taking into consideration.

I've noted the last few days that the VXO has been stretched extremely far below its 10ma. Studies shown the last couple of nights have suggested a mild 1-day downside edge. Of course it hasn't played out to this point. But now we find ourselves in a situation where the VXO has remained stretched for three days in a row. I decided to take a look at other times where this kind of extended stretch had occurred.

VXO closes more than 15% below its 10ma for the 3rd day in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1987 - 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	-23,973.87	17	8	9	47.06	838.70	-3,409.28	0.25	0.22	-1,410.23
4	-19,238.37	17	7	10	41.18	867.57	-2,531.14	0.34	0.24	-1,131.67
3	-13,222.28	17	7	10	41.18	1,180.85	-2,148.83	0.55	0.38	-777.78
2	-16,792.09	17	3	14	17.65	1,039.88	-1,422.27	0.73	0.16	-987.77
1	-12,692.51	17	5	12	29.41	780.12	-1,382.76	0.56	0.24	-746.62

The numbers here appear to strongly suggest a short-term downside edge. Below I have listed all 17 instances assuming a 2-day exit.

VXO closes more than 15% below its 10ma for the 3rd day in a row.
Buy SPX on close. Sell 2 days later. $100k/trade. 1987 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
11/02/87	Buy	$255.75	(2.65%)	$0.00
11/04/87	Sell	$248.96		($5,075.18)
12/23/87	Buy	$253.16	(3.00%)	$0.00
12/28/87	Sell	$245.57		($3,543.15)
11/14/90	Buy	$320.39	(1.02%)	$0.00
11/16/90	Sell	$317.12		($1,687.92)
01/25/91	Buy	$336.07	(0.07%)	$395.01
01/29/91	Sell	$335.84		($537.57)
07/18/94	Buy	$448.55	0.68%	$1,498.50
07/20/94	Sell	$451.60		$0.00
12/16/94	Buy	$458.80	(0.37%)	$0.00
12/20/94	Sell	$457.10		($527.31)
10/19/98	Buy	$1,062.40	0.71%	$2,035.10
10/21/98	Sell	$1,069.90		($404.20)
12/23/98	Buy	$1,228.54	(0.25%)	$241.38
12/28/98	Sell	$1,225.48		($597.78)
10/02/01	Buy	$1,051.33	1.74%	$3,115.05
10/04/01	Sell	$1,069.62		($935.75)
07/31/02	Buy	$911.62	(5.20%)	$0.00
08/02/02	Sell	$864.24		($6,286.03)
08/19/02	Buy	$950.70	(0.14%)	$93.45
08/21/02	Sell	$949.36		($2,034.90)
08/24/07	Buy	$1,479.37	(3.18%)	$0.00
08/28/07	Sell	$1,432.36		($3,173.12)
09/20/07	Buy	$1,518.75	(0.07%)	$789.10
09/24/07	Sell	$1,517.73		($169.00)
12/26/07	Buy	$1,497.66	(1.28%)	$0.00
12/28/07	Sell	$1,478.49		($1,713.36)
11/05/08	Buy	$952.77	(2.29%)	$0.00
11/07/08	Sell	$930.99		($5,515.12)
02/22/10	Buy	$1,108.01	(0.25%)	$51.30
02/24/10	Sell	$1,105.24		($1,424.70)
06/17/10	Buy	$1,116.04	(0.25%)	$1,351.91
06/21/10	Sell	$1,113.20		($694.20)

Avg Runup: 0.56% Avg Drawdown: -2.02%

The runup and drawdown numbers also suggest risk/reward substantially favors the bears. There are a few other things to note about this study as well.

- There were 3 instances that occurred completely above the 200ma. They occurred on 12/23/98, 9/20/07, and 2/22/10. Each instance pulled back within 2 days, but the pullbacks were shallow in each case. Ten days out every instance had risen between 2.5% - 3.0%.
- The three instances that didn't pull back over the 2-day period all refused to pull back at any point over the next couple of weeks.
- Of further note on the three instances that didn't pull back, the 1998 and 2001 instances occurred near major bottoms. The 1994 instance occurred on a retest of a major bottom. All three were part of early thrusts in the SPX that led to substantial rallies.

There aren't a lot of short-term studies active currently. And while they seem to suggest a pullback over the next couple of days, further studies uncovered early this upcoming week could quickly change the outlook.

I have updated the Aggregator chart below.

The green Aggregator line took a dip below 0 Friday afternoon. 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 remains 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 is relatively overbought. Historically this configuration has suggested a downside edge. It can be seen on the Aggregator chart whenever the both lines are below 0. Due to this the Aggregator System turned short at the close.

Based on the current active studies the green Aggregator line is set to stay below 0 on Monday. This could change should bullish evidence emerge. Meanwhile, the Differential Pivot will be 1,299.91. This is about 1% below Friday’s close. So for the Differential Line to rise back above 0 (and the SPX to be considered underperforming) the SPX will need to decline at least this much.

The rally over the last week and a half now appears to be overdone to the point where a pullback is likely. The low participation volume and the seeming lack of fear as evidenced by the low VXO are the 2 biggest factors suggesting a market dip. I took profits on my long positions a few days ago and am now ready to put some money to work on the short side. With a bullish intermediate-term outlook and market that has been moving up strongly, I’m not inclined to get aggressive. Instead I will be scaling in and likely keeping my position size relatively small.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/28 – bullish

We've seen some very choppy action in the market over the last month-plus. The rebound this past week has now put us a little above the midpoint of the five-week range. So the question for intermediate-term traders is whether this five-week range is going to break to the upside, allowing the rally to continue, or whether a downside break will create a new leg down.

There was one study that appeared this past week that would seem to strongly suggest a continuation of the uptrend. The 3-day upthrust from 3/17 - 3/21 that came off the 3/16 bottom was especially strong. Each of the three days saw the NYSE Up Issues % close at least 70%. A 3-day upthrust of this magnitude has been quite rare. The study below appeared in Monday night's subscriber letter and examines past instances.

NYSE Up Issues % > 70% for the 3rd day in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1967 - 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
200	165,783.08	10	8	2	80.00	20,992.50	-1,078.46	19.47	77.86	16,578.31
190	179,921.56	10	10	0	100.00	17,992.16	0.00	100.00	100.00	17,992.16
180	189,510.43	10	10	0	100.00	18,951.04	0.00	100.00	100.00	18,951.04
170	193,444.26	12	12	0	100.00	16,120.36	0.00	100.00	100.00	16,120.36
160	190,654.61	12	12	0	100.00	15,887.88	0.00	100.00	100.00	15,887.88
150	189,374.16	12	12	0	100.00	15,781.18	0.00	100.00	100.00	15,781.18
140	174,839.17	12	12	0	100.00	14,569.93	0.00	100.00	100.00	14,569.93
130	155,443.52	13	12	1	92.31	13,423.27	-5,635.69	2.38	28.58	11,957.19
120	124,165.35	13	11	2	84.62	11,457.94	-936.02	12.24	67.33	9,551.18
110	114,709.32	13	13	0	100.00	8,823.79	0.00	100.00	100.00	8,823.79
100	108,917.44	13	11	2	84.62	10,146.31	-1,345.98	7.54	41.46	8,378.26
90	112,591.69	13	11	2	84.62	10,792.99	-3,065.58	3.52	19.36	8,660.90
80	106,199.39	13	12	1	92.31	9,368.54	-6,223.12	1.51	18.07	8,169.18
70	80,683.41	13	12	1	92.31	7,434.63	-8,532.18	0.87	10.46	6,206.42
60	82,174.40	14	12	2	85.71	8,170.87	-7,938.01	1.03	6.18	5,869.60
50	81,600.52	15	12	3	80.00	8,814.94	-8,059.59	1.09	4.37	5,440.03
40	56,862.16	15	12	3	80.00	7,577.48	-11,355.88	0.67	2.67	3,790.81
30	46,902.20	16	11	5	68.75	6,278.54	-4,432.34	1.42	3.12	2,931.39
20	55,292.65	16	13	3	81.25	5,463.75	-5,245.36	1.04	4.51	3,455.79
10	26,652.70	17	13	4	76.47	3,262.61	-3,940.32	0.83	2.69	1,567.81

The long-term consistency is quite amazing. The average trade appears quite large as well. I've listed below all 12 instances with a 170-day exit.

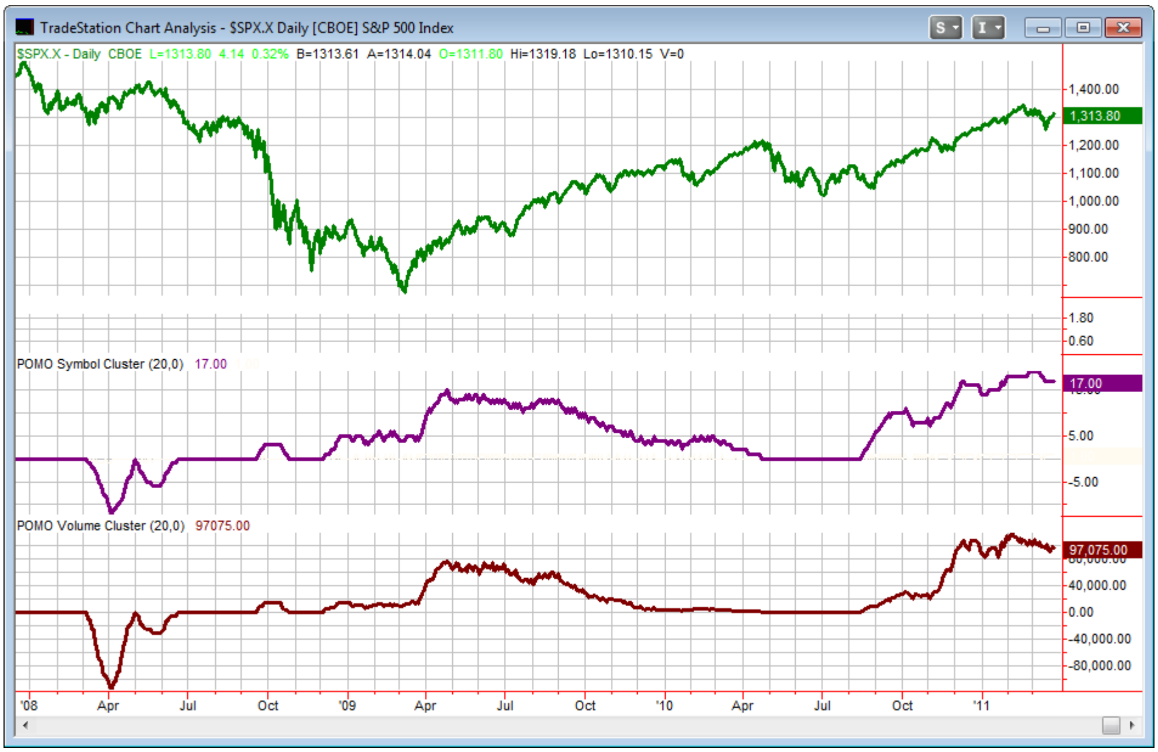
NYSE Up Issues % > 70% for the 3rd day in a row. Buy SPX on close. Sell 170 days later. $100k/trade. 1967 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up DrawDown**
01/09/67	Buy	$82.81	14.16%	$15,715.14
09/11/67	Sell	$94.54		$0.00
05/29/70	Buy	$76.55	25.25%	$25,244.98
01/29/71	Sell	$95.88		($6,947.92)
10/11/74	Buy	$71.14	28.56%	$30,558.75
06/16/75	Sell	$91.46		($8,612.65)
01/05/76	Buy	$92.58	12.66%	$14,439.60
09/03/76	Sell	$104.30		$0.00
01/05/79	Buy	$99.13	8.60%	$10,785.60
09/07/79	Sell	$107.66		($3,780.00)
08/18/82	Buy	$108.52	48.09%	$48,997.20
04/20/83	Sell	$160.71		($1,077.57)
08/03/84	Buy	$162.35	9.65%	$13,277.85
04/08/85	Sell	$178.02		($1,432.95)
12/26/91	Buy	$404.84	2.15%	$5,011.63
08/27/92	Sell	$413.53		($3,072.68)
03/21/07	Buy	$1,435.04	0.32%	$9,732.45
11/20/07	Sell	$1,439.70		($4,446.36)
01/02/09	Buy	$931.80	9.08%	$11,500.36
09/04/09	Sell	$1,016.40		($28,356.07)
09/08/09	Buy	$1,025.39	14.27%	$18,857.77
05/12/10	Sell	$1,171.67		($527.68)
07/09/10	Buy	$1,077.95	21.00%	$24,483.04
03/11/11	Sell	$1,304.28		($3,519.00)
The average runup was 19% and the average drawdown was 5%.				

As you can see, 7 of the 12 made double–digit returns over the 170 days. The lowest runup of 5% is equal to the average drawdown, and 10 of 12 instances saw double digit runups during the 170-day periods. I have added this study to the intermediate-term active list.

The Fed's current POMO activity also remains a potential positive. 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 is still extremely elevated at 17. According to the tentative operations schedule we should see additional POMO buying Monday-Thursday of this upcoming week before an off-day on Friday. Both the POMO Days and POMO Volume indicators appear likely to remain bullish. I expect POMO to continue to provide a steady wind at the market's back. For those that would like to view the upcoming schedule I have provided a link below.

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

The market may still have some chopping around left to do, and the short-term outlook suggests a pullback here is likely. From a longer-term standpoint I'm still favoring the long side. The short-term pullback may be shallow or it may test the recent lows, but ultimately I'm optimistic that the long-term uptrend still has a ways to go. For my own trading this means I will be more inclined to take bullish setups more aggressively and bearish setups 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 ¼ index position at $131.30 limit. Based on the short-term outlook above, I will start scaling in to a short position.

Current Open Trade Ideas

None.