

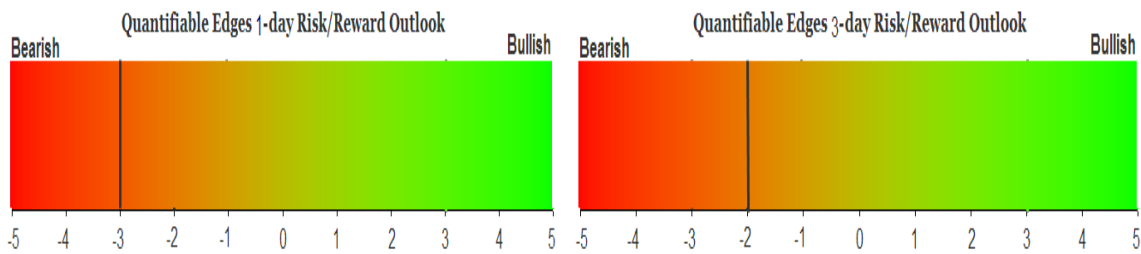
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 29, 2011

Volume 4 Issue 60

Market Overview



Tonight's Research Points

- A 2nd 20-day low in volume with the market still near the upper end of its range suggests short-term bearish implications.
- The Aggregator System is short.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

A small pullback occurred Monday. Indications are that the market could fall further. I'm short and hoping to take profits should the market fall again tomorrow.

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 29, 2011	2nd 20-day low. SPX > ma's.	1-2 days	Bearish	-1.35%
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	

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

The Evidence

The market gapped up to start the day, and though bulls couldn't get much traction, it remained higher for almost the entire day. But a selloff began about 20 minutes before the close that caused across the board declines in the indices. The SPX finished down 0.3%, the Nasdaq lost 0.45% and the Russell 2000 fell 0.25%. Breadth was moderately negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 38%. Total volume declined, again hitting a new 20-day low.

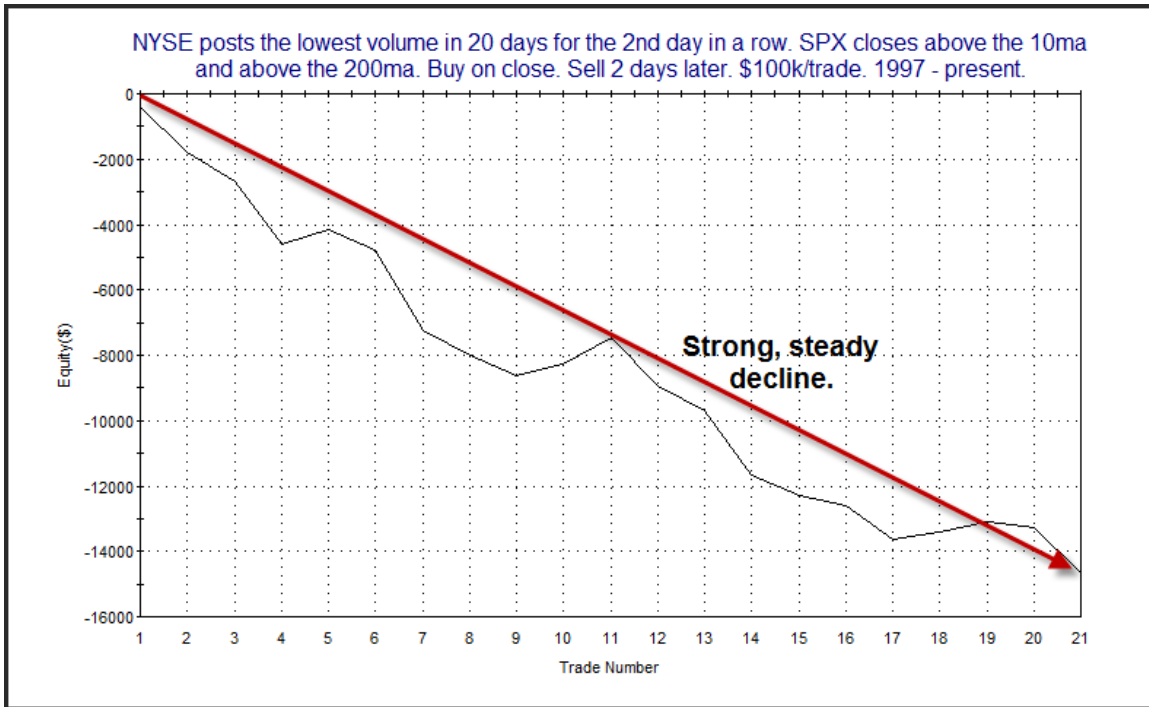
There were again a few studies in the Quantifinder tonight that looked at the very low volume and a relatively high short-term close. Most of them were repeated from last night. What I found most remarkable and noteworthy about Monday's trading is that it came on the lowest volume in over a month for the second day in a row. I decided to examine this within the context of current market setup.

NYSE posts the lowest volume in 20 days for the 2nd day in a row. SPX closes above the 10ma and above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-5,085.95	20	10	10	50.00	1,524.10	-2,032.70	0.75	0.75	-254.30
4	-11,765.42	20	10	10	50.00	905.97	-2,082.52	0.44	0.44	-588.27
3	-13,103.12	21	9	12	42.86	672.11	-1,596.01	0.42	0.32	-623.96
2	-14,639.92	21	5	16	23.81	426.11	-1,048.15	0.41	0.13	-697.14
1	-10,722.91	24	11	13	45.83	406.92	-1,169.16	0.35	0.29	-446.79

90% of instances closed below the entry price at some point in the next 4 days.

The numbers appear to suggest a substantial downside edge over the first couple of days. To get a better idea of how the edge has played out over time I generated the equity curve using a 2-day exit strategy.



The consistent downslope acts as confirmation of the bearish edge suggested by the results table.

One concern I had when considering the results was that Monday's action occurred in conjunction with a decline in price. I isolated those other instances that occurred on down days to see whether the edge was substantially different.

NYSE posts the lowest volume in 20 days for the 2nd day in a row. SPX closes down on the day, but above the 10ma and above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-7,126.71	7	3	4	42.86	1,005.55	-2,535.84	0.40	0.30	-1,018.10
4	-11,363.09	7	2	5	28.57	786.24	-2,587.11	0.30	0.12	-1,623.30
3	-7,877.77	7	2	5	28.57	352.45	-1,716.53	0.21	0.08	-1,125.40
2	-6,562.30	7	2	5	28.57	500.28	-1,512.57	0.33	0.13	-937.47
1	-4,178.44	7	2	5	28.57	595.09	-1,073.72	0.55	0.22	-596.92

The number of instances is quite low but the results are generally in line with the broader test. It appears the broad test is worthy of inclusion on the Active Studies List.

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



The green Aggregator remained below 0 today. 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 also 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 remained short at the close.

Based on the current active studies the green Aggregator line is set to rise back above 0 on Tuesday. This could change should bearish evidence emerge. It could also change if the SPX hits 1321 intraday and the "VIX 10% above to 10% below" study hits its target and is removed from the short-term Active List. Meanwhile, the Differential Pivot will be 1,311.72. This is only about 1.5 points above Monday's close. So even a very slight move higher could see the Differential Line rise back above 0 (and the SPX to be considered underperforming).

Bottom line is that while the current setup is suggesting downside, the setup is dynamic. It appears a move down tomorrow could lead to an Aggregator System long trigger, while a move higher could mean a flat or short signal. At this point it is up in the air. A

big part of the reason for this is that the number of short-term studies is very low. So any new studies that emerge will have a large influence on the Aggregator.

I'm normally inclined to take relatively quick profits on trades that are counter to my intermediate-term outlook. The current short is one such trade. At this point it's not strongly profitable, but if the SPX takes a dive Tuesday morning then I would likely look to trail stop. If the SPX closes lower on Tuesday and I will certainly cover my short position.

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.

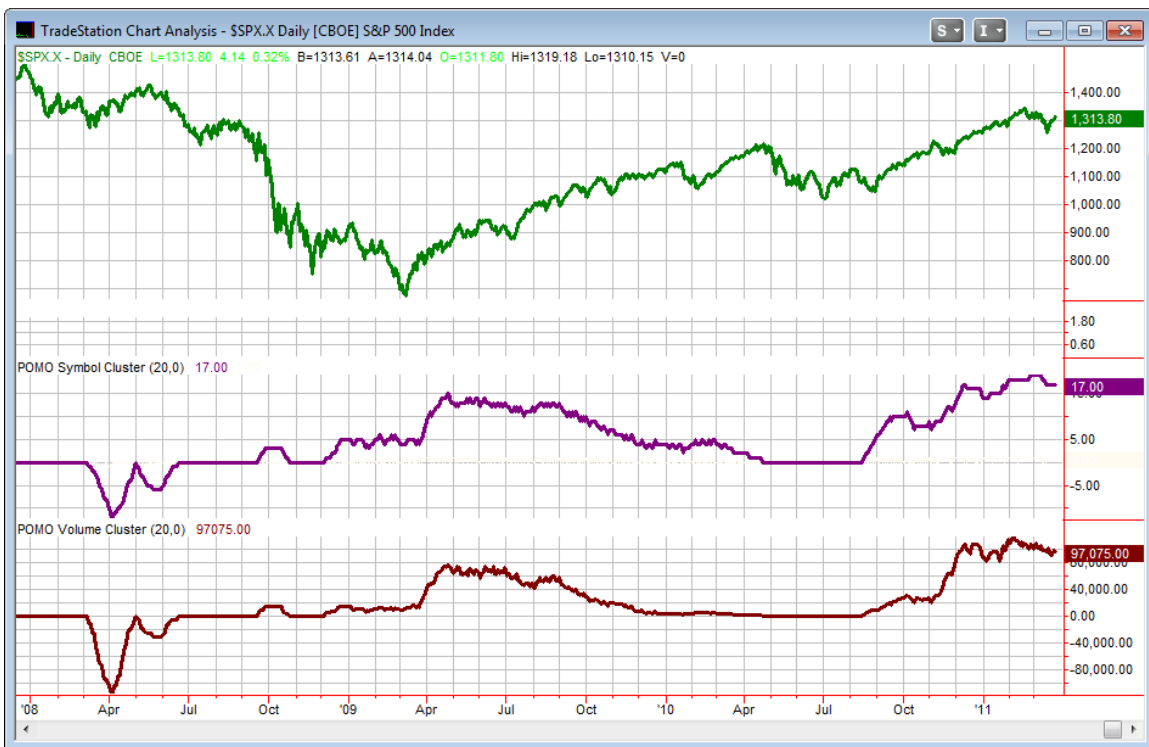
NYSE Up Issues % > 70% for the 3rd day in a row. Buy SPX on close. Sell 170 days later. \$100k/trade. 1967 - present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
01/09/67	Buy	\$82.81	14.16%	\$15,715.14
09/11/67	Sell	\$94.54		\$0.00
05/29/70	Buy	\$76.55	25.25%	\$25,244.98
01/29/71	Sell	\$95.88		(\$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.

None.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	3/28/2011	\$131.58	\$130.98	0.46%		shorted on open

I will cover the open lot of SPY on an SPX close below the differential pivot of 1311.72.

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