

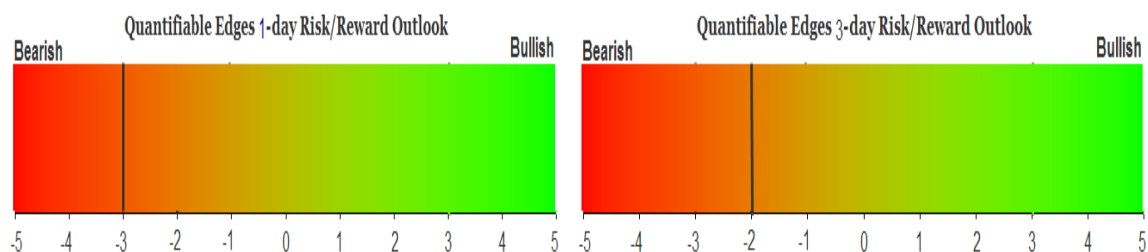
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 31, 2011

Volume 4 Issue 62

Market Overview



Tonight's Research Points

- Positive seasonality will begin to kick in on Friday.
- The Aggregator System is short.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

The Aggregator remains moderately bearish. I'm holding short for now, but will likely look to cover at some point during the day Thursday.

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 30, 2011	Opposite 2-day gap and reverse in uptrd	1-3 days	Bearish	-1.20%
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	VIX from 10% above to 10% below	1-8 days	Bullish	2.10%
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%

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

The Evidence

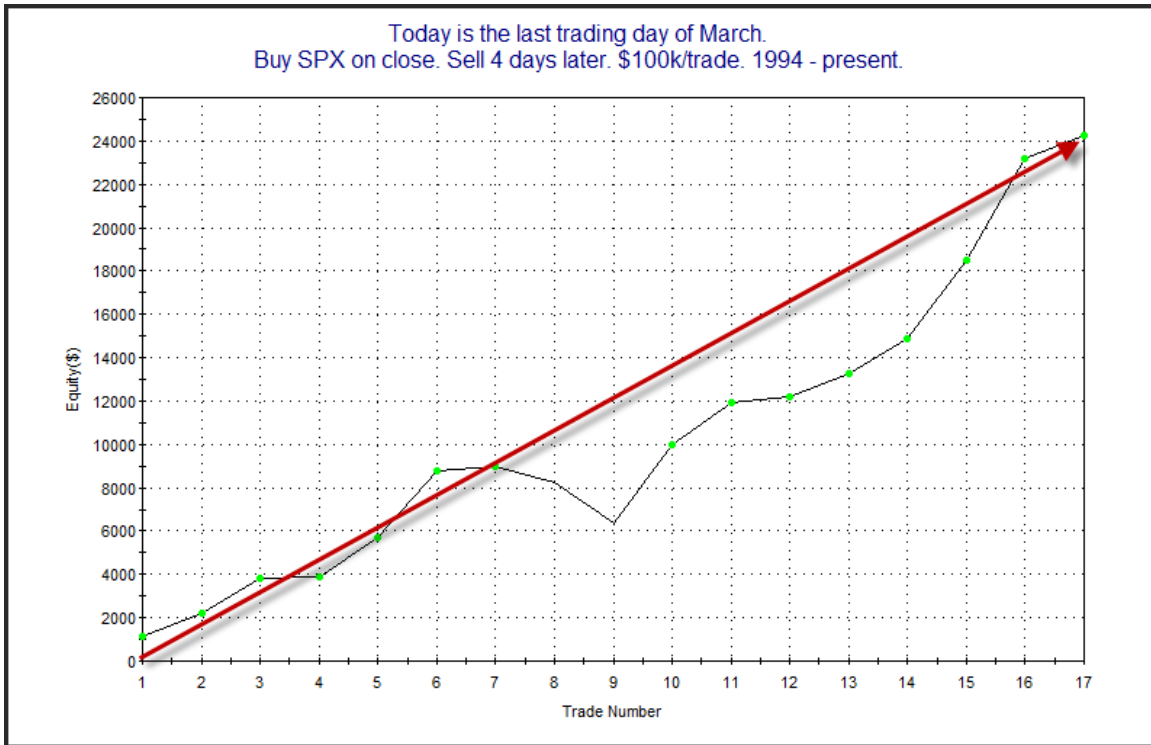
The market gapped up to start the day. It gave a mini-dip in the morning and then spent the rest of the day above the open. But not much further progress was made between open and close. In the end the SPX and Nasdaq gained 0.7% and the Russell 2000 rose 1.3%. Breadth was nicely positive as the NYSE Up Issues % came in at 72% and the Up Volume % was 77%. Total NYSE Volume rose for the 2nd day in a row.

I looked at an awful lot tonight, but very little of it seemed to matter much. Therefore, I am going to keep it short and sweet. The market isn't giving us a whole lot to go on over the last few days. Bearish studies have been ignored while the market has continued higher. This in itself can often be a positive sign. If bears can't follow through when they have the edge, then bulls often can. We are reaching a point now where the bearish studies are rapidly expiring. And while convincing bullish evidence has failed to emerge, we will soon be entering an exceptionally strong seasonal period.

The last day of March has had a very moderate downside bias over the years. But after that, the first several days in April have been very strong. The study below examines performance back to 1994. It was around this time that early April upside performance really began to take off.

Today is the last trading day of March. Buy SPX 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	18,283.34	17	14	3	82.35	1,669.14	-1,694.86	0.98	4.60	1,075.49
4	24,279.03	17	15	2	88.24	1,791.60	-1,297.52	1.38	10.36	1,428.18
3	18,870.48	17	14	3	82.35	1,899.35	-2,573.49	0.74	3.44	1,110.03
2	16,872.07	17	12	5	70.59	1,999.13	-1,423.51	1.40	3.37	992.47
1	8,121.02	17	13	4	76.47	893.53	-873.71	1.02	3.32	477.71

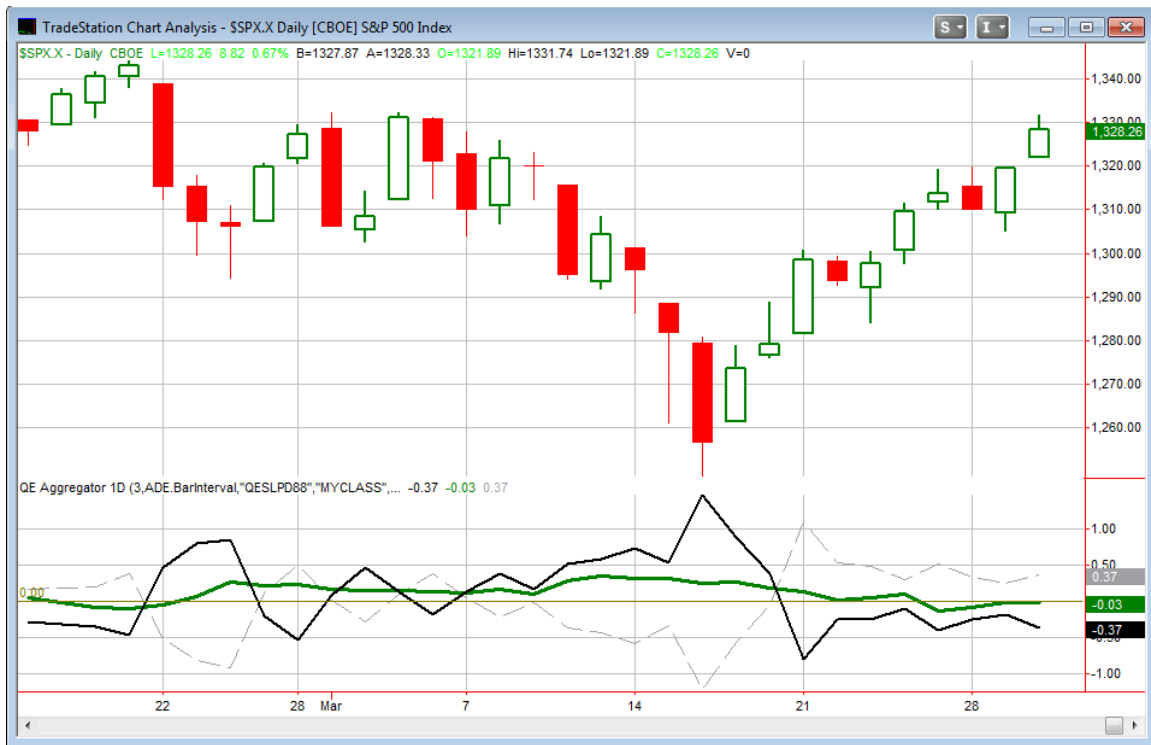
As you can see, statistics here appear to strongly favor the bulls. Below is the equity curve using a 4-day exit strategy.



The consistent move higher supports the idea of an upside edge.

This edge isn't set to kick in until Friday. There is still one bearish study left on the board, and with nothing else active short-term it still has a chance to impact the market. Time is running out, though. For bearish studies to remain in charge past tomorrow, further ones will need to emerge.

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



The green Aggregator remained just 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.

At this point the green Aggregator line is set to rise back above 0 on Thursday. This could change should additional bearish evidence emerge. Meanwhile, the Differential Pivot will be 1,308.19. This is about 1.5% below Wednesday's close. So for the Differential line to move back above 0 the SPX will need to drop at least this much.

The triggers page for the numbered systems came up blank tonight. This is quite unusual, but it is also the second time in the last three days that this has happened. To me this suggests further confirmation that there isn't a tremendous edge. I still have a very small short position. I do not intend to add to it. Instead I'll wait for a more substantial edge to appear before putting more capital to work. And unless strong and convincing bearish evidence emerges, I will also look to exit the open short position at some point before the close on Thursday.

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%.				

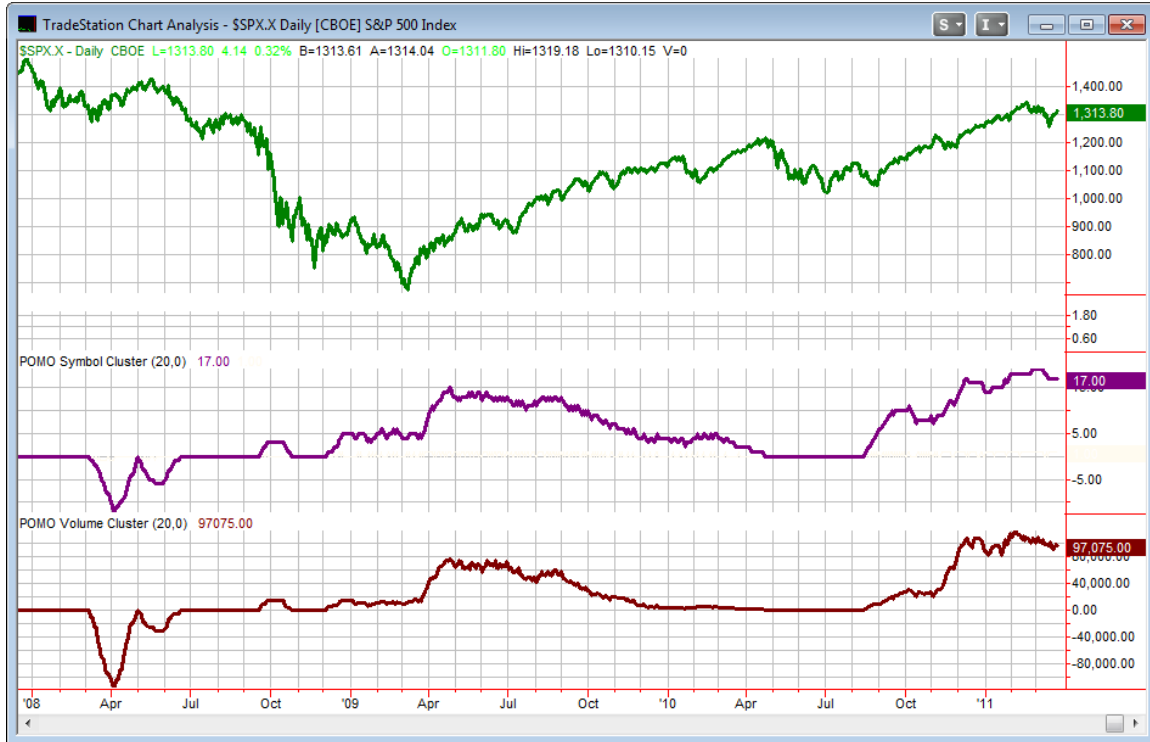
As you can see, 7 of the 12 made double-digit returns over the 170 days. The lowest runup of 5% is equal to the average drawdown, and 10 of 12 instances saw double digit runups during the 170-day periods. I have added this study to the intermediate-term active list.

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 tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	3/30/2011	\$132.55	\$132.77	-0.17%		shorted on open

Since it appears unlikely that the short signal will persist tomorrow, I will likely look to trail a stop above intraday resistance levels should the market provide an early dip.

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