

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 6, 2011

Volume 4 Issue 66

## Market Overview



## Tonight's Research Points

- A down close in the SPX with solidly positive breadth suggests a short-term bullish edge.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

## *Short-term Outlook*

### *The Bottom Line*

New evidence has the Aggregator back to a neutral configuration for Wednesday. I'm looking to step out with a small profit or scratch trade if the opportunity presents itself.

*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
<b>Active</b>				
April 6, 2011	SPX down. Up Issues % > 55%	1-3 days	Bullish	1.20%
April 5, 2011	SPY 10-high on 20-day low volume	1-4 days	Bearish	-1.70%
April 4, 2011	Unfilled gap. 20-day high. Close < open.	1-4 days	Bullish	1.40%
April 1, 2011	Early April seasonally strong	1-4 days	Bullish	
April 1, 2011	Low range 60. SPX down. Close > 200	1-6 days	Bearish	-2.25%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
April 5, 2011	SPX up. VIX up. Monday	1 day	Bearish	
April 4, 2011	10 day > 5ma & a 10-day high.	1-2 days	Bearish	-1.20%

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

### *The Evidence*

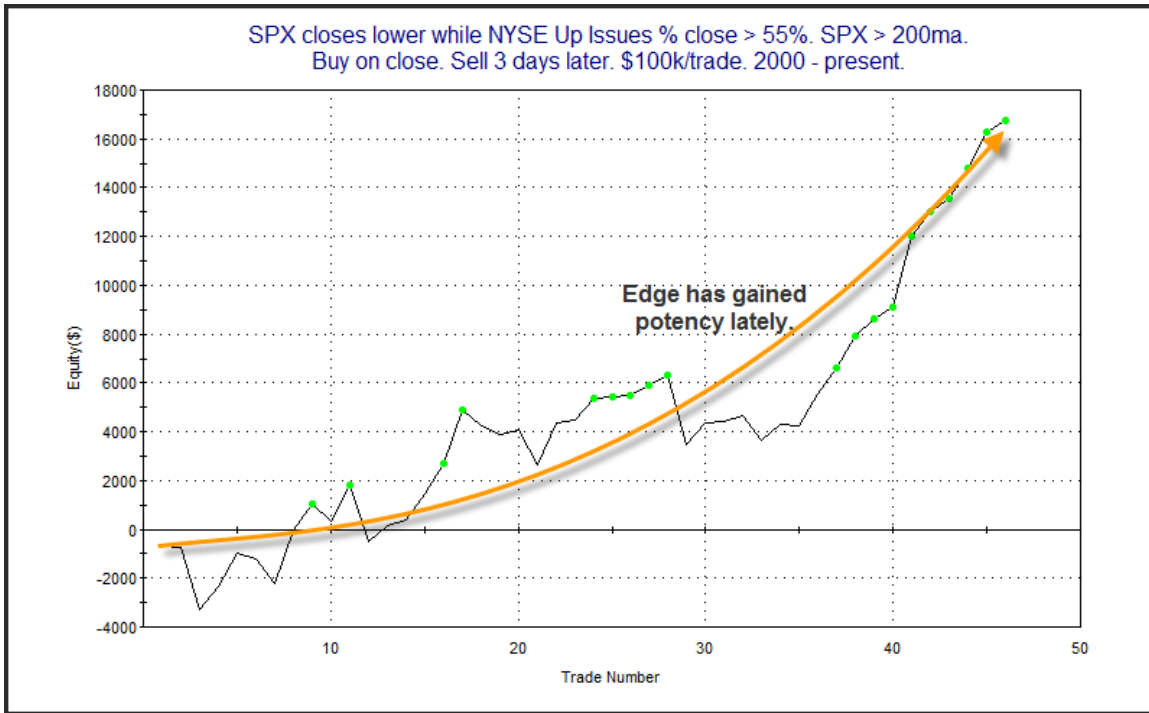
Last night the Aggregator suggested a pullback seemed likely and on Tuesday we got it to the tune of -0.02% in the SPX. The NASDAQ and Russell 2000 didn't comply, rising 0.07% and 0.48%. Breadth sided with the NASDAQ and Russell and finished positive on the day. The NYSE Up Issues % came in at 55.4% and the Up Volume % was 60%. Total volume rose from Monday's very low levels.

Personally I despise indecisive days like Tuesday. They make it very difficult to anticipate which studies are likely to trigger prior to the closing bell. I identified the study below in the intraday Quantifinder but it appeared unlikely to trigger even a few minutes before the bell. It requires solidly positive breadth and a down SPX close. Up until just before the bell the breadth didn't appear like it would finish strong enough. It did though, and the study below, which was last seen just a few days ago in the 4/1 subscriber letter, did trigger.

SPX closes lower while NYSE Up Issues % close > 55%. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	16,299.21	43	27	16	62.79	1,416.91	-1,372.34	1.03	1.74	379.05
4	16,390.33	44	27	17	61.36	1,348.04	-1,176.87	1.15	1.82	372.51
3	16,773.54	46	33	13	71.74	928.51	-1,066.73	0.87	2.21	364.64
2	13,335.17	46	32	14	69.57	819.80	-921.31	0.89	2.03	289.90
1	10,056.89	48	29	19	60.42	671.53	-495.66	1.35	2.07	209.52

**87% of instances posted a close above the entry price at some point in the next 4 days.**

The edge isn't huge, but it does appear to be high-percentage. The equity curve below gives a better idea of how the edge has played out over time.



While the curve certainly appears choppy, the slope has always been upwards, and recent results are stronger than ever. As I said the other day, I believe this study is worth taking into consideration and including among the active studies.

But one concern I had with it tonight is that is barely qualified since the Up Issue % came in at 55.39%. So I looked at a range near to that percentage to see if the edge held true this close to the 55% level.

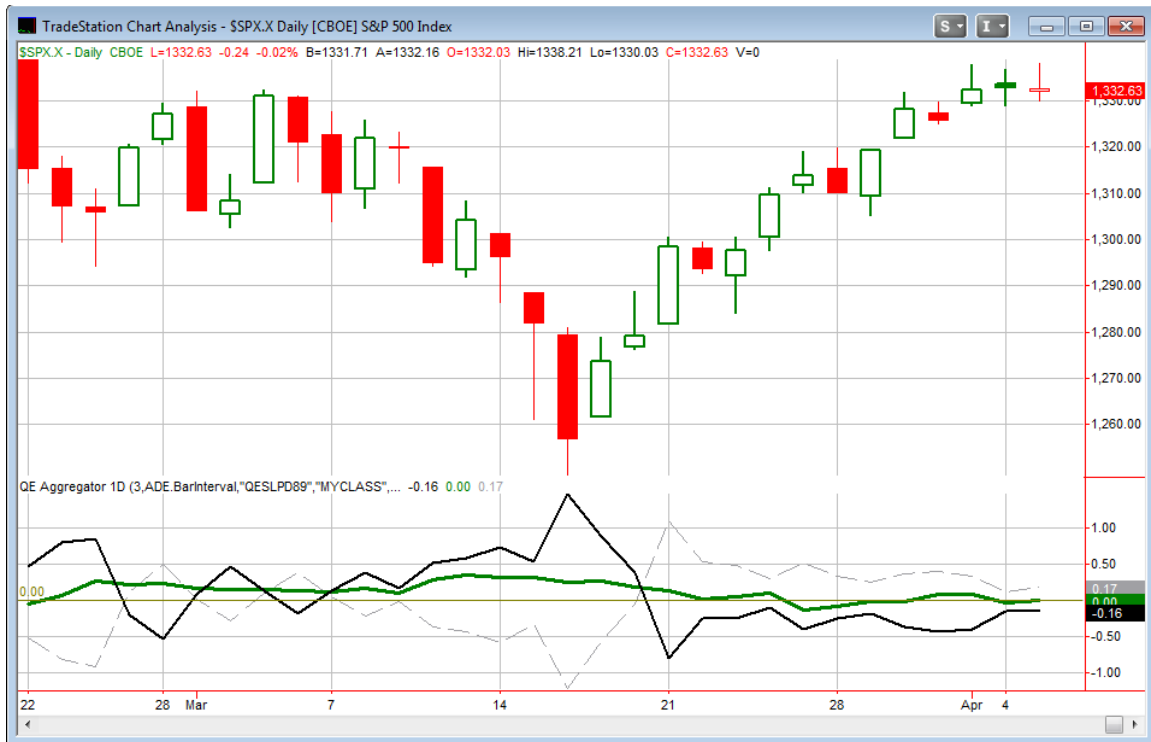
SPX closes lower while NYSE Up Issues % close > 55% and < 56%. SPX > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

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	6,474.34	14	8	6	57.14	1,737.41	-1,237.48	1.40	1.87	462.45
4	7,183.71	14	8	6	57.14	1,615.38	-956.56	1.69	2.25	513.12
3	6,505.65	14	9	5	64.29	1,310.94	-1,058.56	1.24	2.23	464.69
2	1,336.86	14	8	6	57.14	1,238.84	-1,428.97	0.87	1.16	95.49
1	2,469.53	14	9	5	64.29	773.65	-898.66	0.86	1.55	176.40

Results here were very similar to the original study. I also ran another test that expanded the range to 54.5% - 56.5% and found those results to also be in line with the original

test. So the bottom line was that even though it qualified with a bit of a close call, it still appeared worthy of consideration.

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



Tonight's study caused the green Aggregator line to sneak back up to just above 0. The positive value means the net expectation from the Active Studies List is for upside 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 mild upside but the SPX is relatively overbought. This is considered a neutral configuration. Neutral configurations can be seen on the chart whenever the green Aggregator and black Differential lines close on opposite sides of 0. Due to this the Aggregator System turned flat at the close.

At this point the green Aggregator line is set to cross back below 0 on Wednesday. This could change should bullish evidence emerge. Meanwhile, the Differential Pivot will be 1,334.21. This is about 0.1% above Tuesday's close. In other words, the SPX will need to rise at least this much in order for the Differential line to remain negative. Should the market pull back or remain flat then the Differential line will cross into positive territory.

So the Aggregator is back to neutral. And it appears a long, short, or flat signal could be setting up tomorrow. If long or short were to trigger it would likely happen in the opposite direction of tomorrow's move. This is because the SPX is so close to the Differential pivot. I will look to exit my small short position tomorrow, but won't be covering immediately if the market gaps higher. Details and thoughts on handling the trade idea in the trade ideas section below.

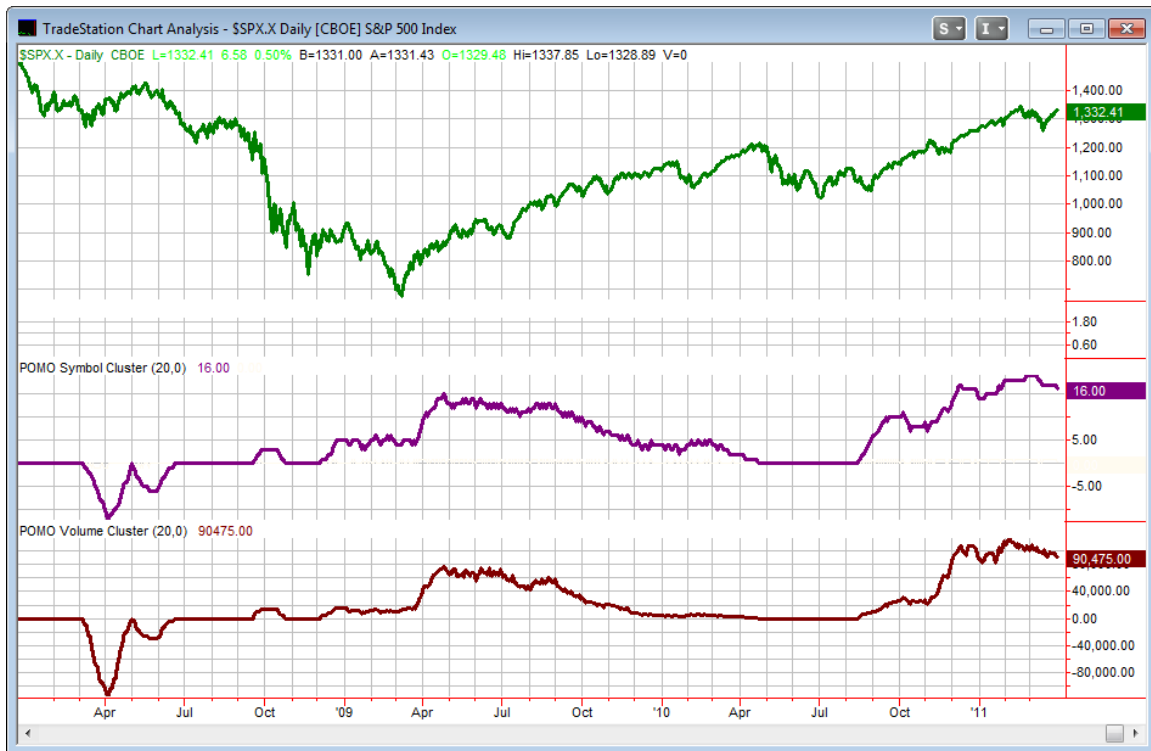
***Intermediate-term Outlook (2 weeks – 2 months)– updated 4/4 – bullish***

What felt to many like a scary drop just a couple of weeks ago has now almost completely recovered and the market is nearing new highs. The SPX is only about 1% from a new high, and the Russell 2000 is already there.

The Fed's current POMO activity 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 3<sup>rd</sup> POMO presentation linked below. (Not available for trial users.)*

<http://www.quantifiableedges.com/members/pomo.php>



The POMO Days indicator remains strong at 16. According to the tentative operations schedule we should see additional POMO buying Monday-Thursday of this upcoming week before an off-day on Friday. POMO Volume has declined a bit recently but still remains at a high level. 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](http://www.newyorkfed.org/markets/tot_operation_schedule.html)

There is still a decided lack of intermediate-term bearish studies. Meanwhile, momentum, POMO activity, and breadth are all pointing higher. I remain intermediate-term bullish. 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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
SPY(1/4)(s)	4/5/2011	\$133.26	\$133.24	0.02%		cover @ \$133.24 limit

I will look to exit the SPY position at a limit price of Tuesday's close. Should it gap down that will give me a little extra profit. Should it gap up then I'll exercise some patience in expectation of a gap fill at some point during the day. If it gaps up, doesn't fill, and trades in a tight range early on, I would consider putting a stop near the upper end of that range in order to protect against a trend day to the upside. If the situation arises and I believe it a good idea, and I have time, I may put out a stop like this via an intraday update to subscribers.

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