

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 8, 2011

Volume 4 Issue 68

Market Overview



Tonight's Research Points

- Tight closes in the upper end of the market's recent trading range have often been resolved to the upside over the intermediate-term. Over the short-term there is no clear edge.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

Though the pullback Wednesday was just a mild one, it was enough to flip the SPX into the "underperforming" category. With mild downside expectations to go along with that the Aggregator is neutral. I'm sidelined and in "wait and see" mode.

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	Avg MM - 1/3 Std Dev
Active					
April 7, 2011	10 day > 5ma & a 10-day high.	1-2 days	Bearish	-1.20%	
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 1, 2011	Low range 60. SPX down. Close >200	1-6 days	Bearish	-2.25%	
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					
April 4, 2011	Unfilled gap. 20-day high. Close < open.	1-4 days	Bullish	1.40%	

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

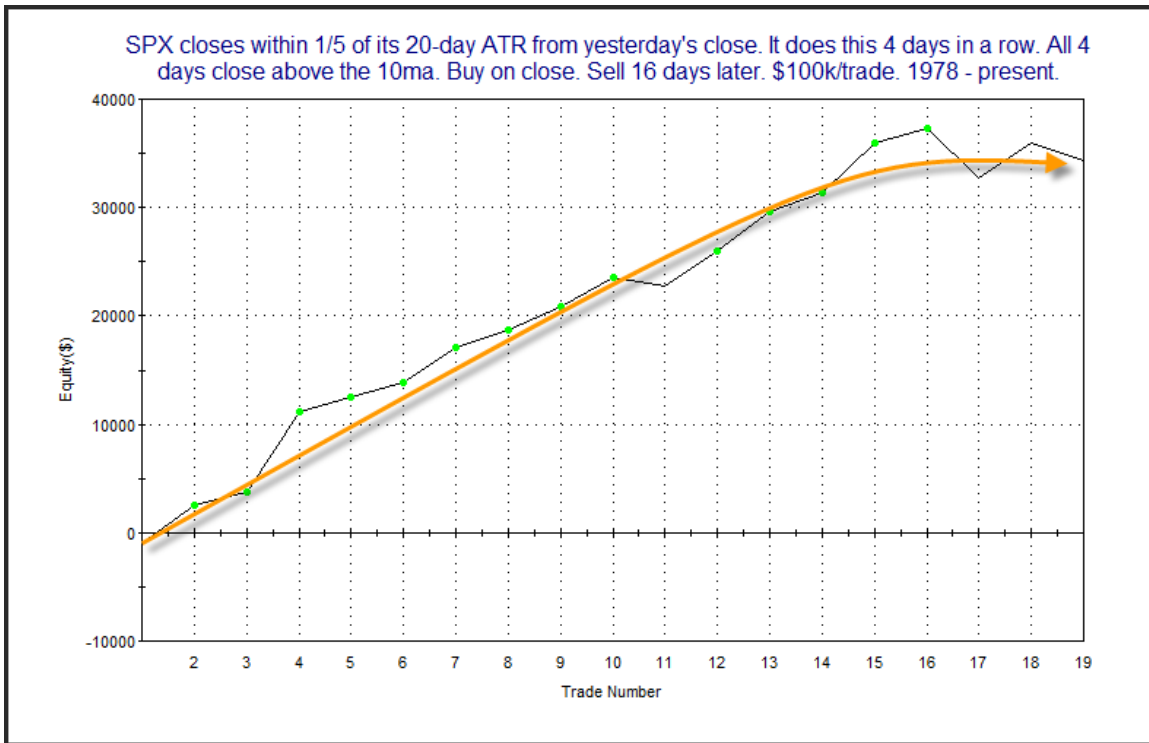
The Evidence

Even an earthquake couldn't get the market to move much. The SPX declined 0.2%, the Nasdaq dropped 0.1% and the Russell 2000 fell 0.6%. Breadth was moderately negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 44%. Total volume ran higher for much of the day but ended lower than Wednesday's level.

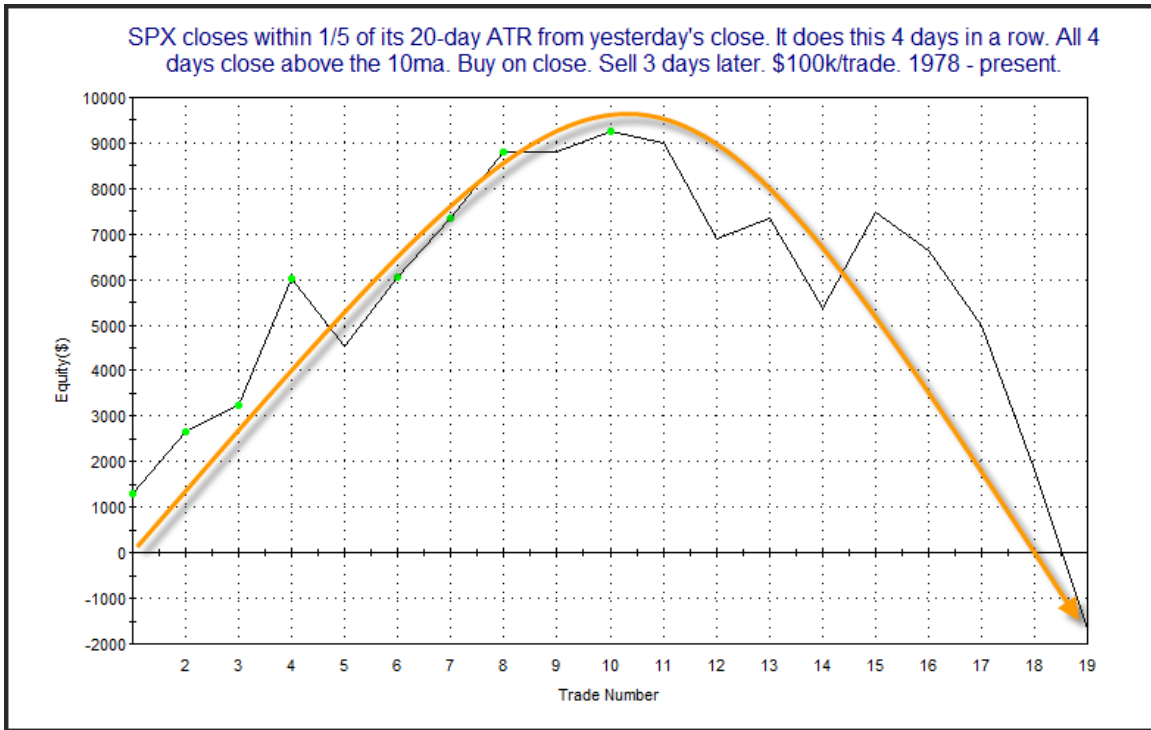
The market has become dull. I'm somewhat thankful for that tonight since I'm traveling, but profiting from swing trades has been like squeezing blood from a stone in the last couple of weeks. Sideways drift typically doesn't tend to trigger terribly compelling studies, and today was no exception. There was one study from the 6/11/2009 subscriber letter that triggered that I thought I'd review. It looked at times like now where the market underwent several days of consolidation in the upper end of its recent range. Updated results are below.

SPX closes within 1/5 of its 20-day ATR from yesterday's close. It does this 4 days in a row. All 4 days close above the 10ma. Buy on close. Sell X days later. \$100k/trade. 1978 - 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	32,864.41	19	15	4	78.95	2,826.13	-2,381.89	1.19	4.45	1,729.71
19	29,805.55	19	14	5	73.68	3,001.94	-2,444.31	1.23	3.44	1,568.71
18	31,178.38	19	15	4	78.95	2,925.45	-3,175.84	0.92	3.45	1,640.97
17	35,593.33	19	15	4	78.95	2,918.44	-2,045.81	1.43	5.35	1,873.33
16	34,364.28	19	15	4	78.95	2,821.84	-1,990.84	1.42	5.32	1,808.65
15	30,742.07	19	14	5	73.68	2,696.59	-1,402.03	1.92	5.39	1,618.00
14	22,320.99	19	14	5	73.68	2,336.12	-2,076.94	1.12	3.15	1,174.79
13	18,017.02	19	14	5	73.68	2,136.01	-2,377.41	0.90	2.52	948.26
12	14,272.98	19	14	5	73.68	1,954.65	-2,618.42	0.75	2.09	751.21
11	14,568.66	19	15	4	78.95	1,627.46	-2,460.80	0.66	2.48	766.77
10	9,501.60	19	14	5	73.68	1,743.90	-2,982.59	0.58	1.64	500.08
9	8,737.14	19	14	5	73.68	1,686.10	-2,973.66	0.57	1.59	459.85
8	1,804.93	19	14	5	73.68	1,239.38	-3,109.27	0.40	1.12	95.00
7	3,494.61	19	10	8	52.63	1,563.37	-1,517.39	1.03	1.29	183.93
6	2,534.88	19	11	8	57.89	1,564.70	-1,834.61	0.85	1.17	133.41
5	-1,524.41	19	10	9	52.63	1,460.60	-1,792.27	0.81	0.91	-80.23
4	-2,207.68	19	10	9	52.63	1,490.73	-1,901.66	0.78	0.87	-116.19
3	-1,684.60	19	10	8	52.63	1,334.23	-1,878.36	0.71	0.89	-88.66
2	2,007.81	20	13	6	65.00	872.85	-1,556.55	0.56	1.21	100.39
1	2,343.27	26	16	10	61.54	673.42	-843.14	0.80	1.28	90.13

Results here don't show any edge for the first 8 days or so. After that there appears to be a possible mild upside inclination. Below is an equity curve using a 16-day exit so you can see how the edge has evolved.



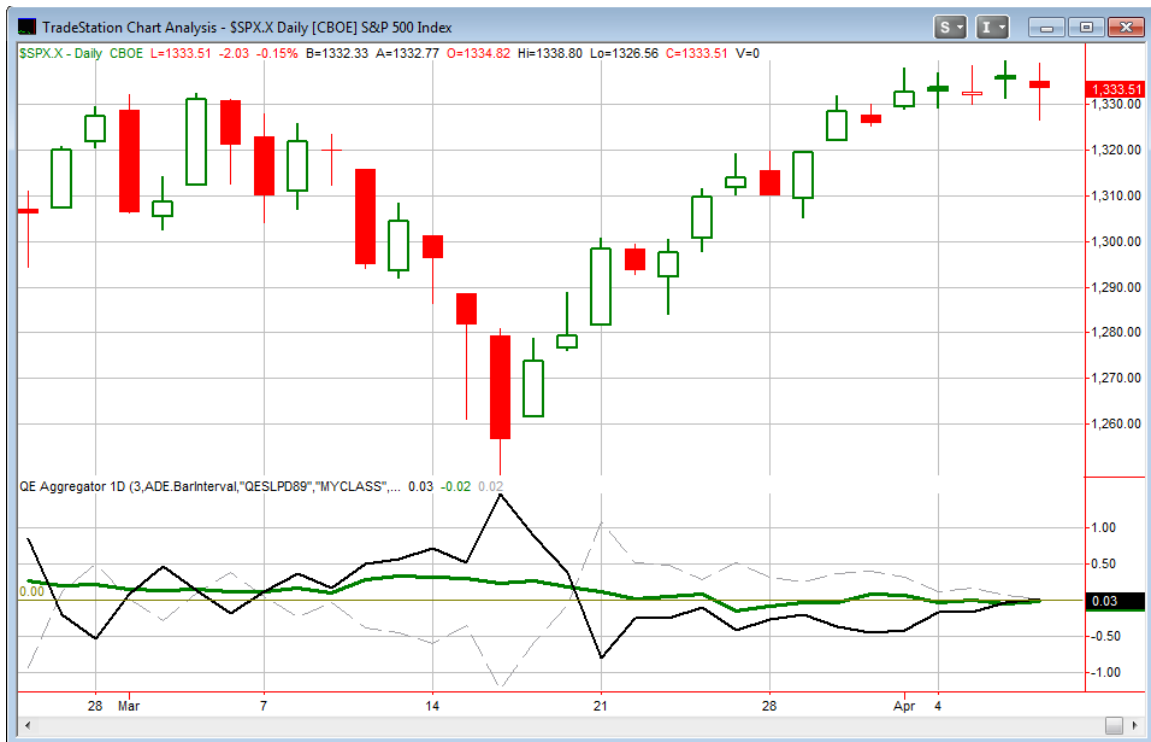
The last few trades have shown some difficulty. It is a bit soon to see whether this means anything. In any case, due to the early inconsistency, I don't find this study worthy of inclusion on the active list. I also looked at some shorter curves. Below is the 3-day, which isn't compelling, but is interesting.



What once appeared to provide an upside edge has favored downside more recently.

No new studies are therefore being added tonight. One is expiring.

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



Without new bullish evidence the green Aggregator line remained just below 0 at -0.02. The negative value means the net expectation from the Active Studies List is for modest downside over the next few days. Meanwhile the black Differential line rose barely above 0. Readings above 0 mean the SPX has underperformed expectations over the last few days. So net expectations are for mild downside but the SPX is already relatively oversold. This is considered a neutral configuration. It can be seen on the chart whenever the green Aggregator and black Differential lines close on opposite sides of zero. Due to this the Aggregator System changed to flat at the close.

At this point the green Aggregator line is set to rise back above 0 on Friday. In fact, all 4 active short-term studies are set to expire. If that should happen without new short-term studies emerging then the bullish intermediate-term studies would prevail. Expectations will be very much dependent on Friday's action and what studies it triggers. Meanwhile, the Differential Pivot will be 1,333.25. This is just 0.26 SPX points below Thursday's close. This means a positive close will turn the Differential line negative and almost any negative close will keep it above 0. If the market breaks its range tomorrow (in either direction) I will then be looking to the studies to see whether the breakout is characteristic of one that is prone to reversal or prone to follow through.

I'm sidelined for now and perfectly comfortable to be so. While the trade idea from last night was only a small winner, I'm generally happy with little victories in counter-trend

trades and in tight markets. I'll wait to see what tomorrow brings before taking on new exposure.

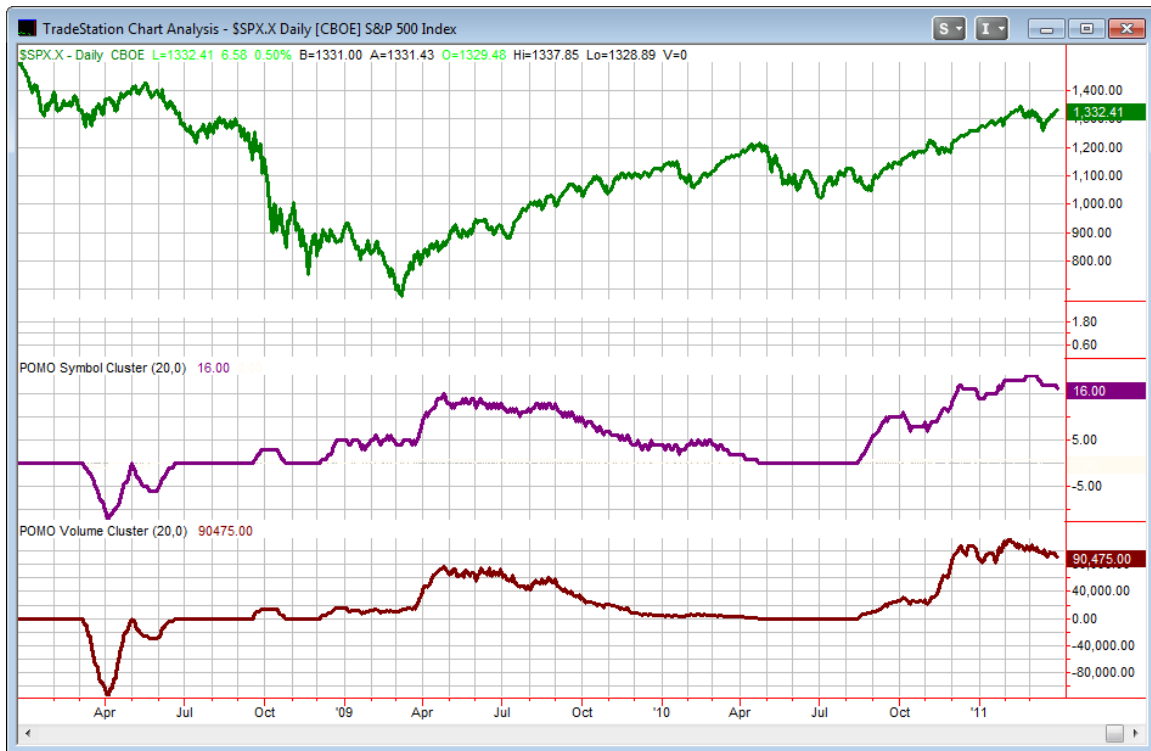
Intermediate-term Outlook (2 weeks – 2 months)– updated 4/4 – bullish

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 3rd 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

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	4/7/2011	\$133.66	\$133.32	0.25%		covered on close

With the SPX closing below the Differential Pivot the SPY trade idea was exited at the close. I indicated this would occur in a note to subscribers a little before noon. (Apologies to trial subscribers who did not receive the email.)

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