

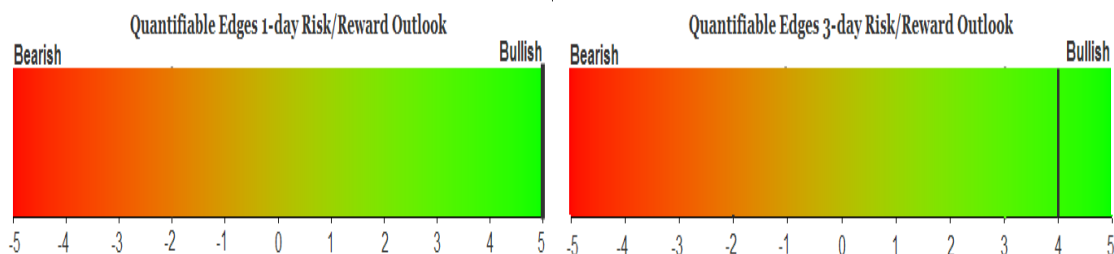
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 13, 2011

Volume 4 Issue 71

Market Overview



Tonight's Research Points

- Down 4 days on a Tuesday suggests an upside edge.
- Down 4 days and today being the biggest drop suggests a strong bullish tendency.
- The unfilled gap down makes the edge even more compelling.
- The relatively low VIX does not appear to be a concern.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

The market continued to slide but bullish studies are piling up. I'm long and looking to get longer.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 13, 2011	SPY unfilled gap. 10-low & dn 3 days	1-2 days	Bullish	1.90%
April 13, 2011	Down 4 days. Today is biggest drop.	1-5 days	Bullish	2.10%
April 12, 2011	3 Down Days - declining vol / Tues	1-2 days	Bullish	2.00%
April 11, 2011	SPY 5 low for 1st time in 2 weeks	1-4 days	Bullish	1.60%
April 11, 2011	April Op-Ex week	1-3 days	Bullish	1.90%
Active - Long Term				
April 11, 2011	QQQ 5 lower lows. Today worst day.	1-20 days	Bullish	13.00%
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 11, 2011	SPX 10-high and 5-low close	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

Despite strong evidence suggesting a bounce the market couldn't mount anything on Tuesday. It gapped down to open the day, only spent a brief time in the morning above the open price, and then finished poorly. In the end the SPX lost 0.8%, the Nasdaq was down 1.0%, and the Russell 2000 dropped 1.4%. Breadth was weak as the NYSE Up Issues % came in at 26% and the Up Volume % was 33%. Total volume spiked above levels of the last week as the selloff finally got a little attention.

Once again the evidence tonight appears to strongly favor a bounce. Several compelling studies appeared in the Quantifinder.

Last night I showed a Turnaround Tuesday study that indicated when the market is down 3 days in a row going into a Tuesday that it has a strong tendency to bounce. Of course there have been instances over the years where it hasn't. When it doesn't bounce on Tuesday what does that mean for Wednesday and beyond? The test below is updated from the 11/17/10 Letter and it answers that question.

Today is Tuesday. SPX closes lower for exactly the 4th day in a row. Buy on close. Sell X days later. \$100k/trade. 1980 - 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
10	58,632.19	35	29	6	82.86	2,437.09	-2,007.25	1.21	5.87	1,675.21
9	61,470.49	35	31	4	88.57	2,228.28	-1,901.52	1.17	9.08	1,756.30
8	68,526.80	35	30	5	85.71	2,548.90	-1,588.06	1.61	9.63	1,957.91
7	59,310.82	35	29	6	82.86	2,402.07	-1,724.85	1.39	6.73	1,694.59
6	59,331.63	35	28	7	80.00	2,464.57	-1,382.33	1.78	7.13	1,695.19
5	50,873.05	35	27	8	77.14	2,320.17	-1,471.44	1.58	5.32	1,453.52
4	48,217.75	35	26	9	74.29	2,338.59	-1,398.40	1.67	4.83	1,377.65
3	31,830.90	35	27	8	77.14	1,623.42	-1,500.17	1.08	3.65	909.45
2	19,438.95	35	21	14	60.00	1,355.24	-644.36	2.10	3.15	555.40
1	14,712.50	35	24	11	68.57	898.20	-622.21	1.44	3.15	420.36

30 of 35 instances (86%) closed above the entry price at some point in the next week.

Results here have been very strong over a long period. I believe they are worth taking under consideration.

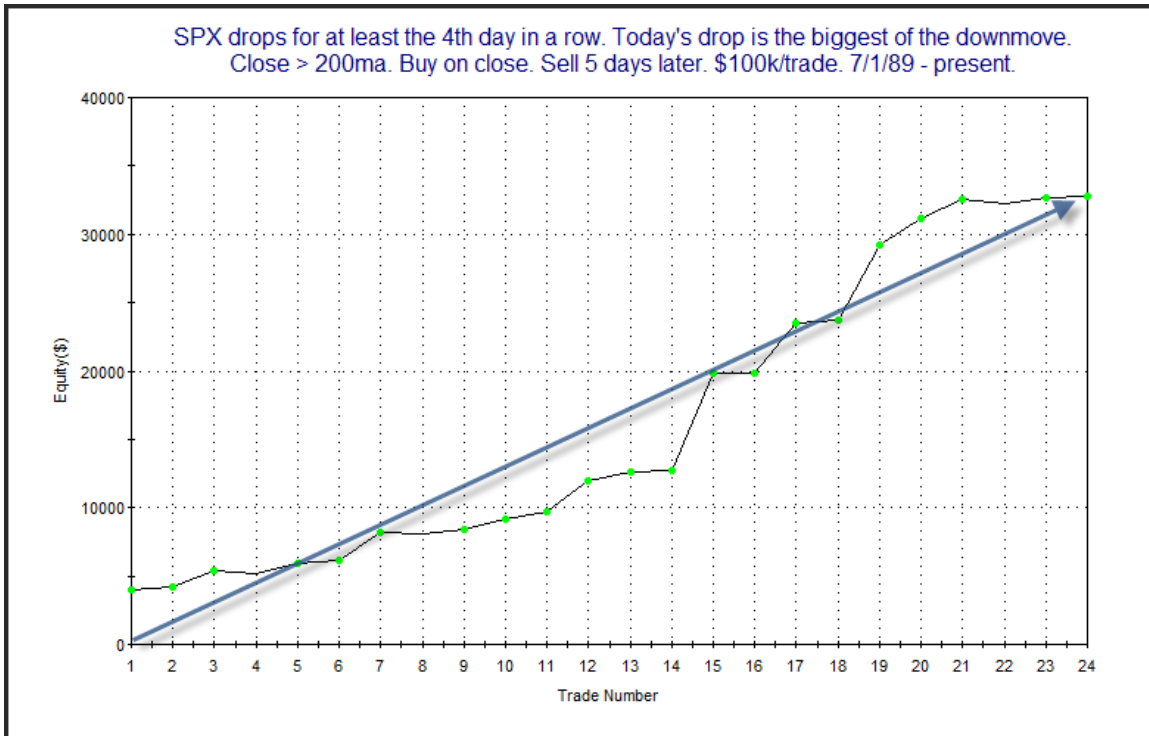
Today we not only saw the down move continue lower but we also saw a downside acceleration to that move. In the weekend letter I showed a QQQ pattern that produced extremely strong results when a short-term overdone condition saw an acceleration downward. Tonight a somewhat similar SPX study appeared. It was also last seen in the 11/17/10 Subscriber Letter.

**SPX drops for at least the 4th day in a row. Today's drop is the biggest of the downmove.
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/89 - 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
10	22,893.41	23	16	7	69.57	2,203.28	-1,765.57	1.25	2.85	995.37
9	20,502.97	24	17	7	70.83	1,924.55	-1,744.90	1.10	2.68	854.29
8	19,980.51	24	15	9	62.50	2,296.37	-1,607.23	1.43	2.38	832.52
7	28,971.07	24	16	8	66.67	2,233.06	-844.74	2.64	5.29	1,207.13
6	32,221.10	24	18	6	75.00	2,085.58	-886.57	2.35	7.06	1,342.55
5	32,822.26	24	21	3	87.50	1,592.46	-206.45	7.71	54.00	1,367.59
4	26,632.84	24	19	5	79.17	1,633.69	-881.44	1.85	7.04	1,109.70
3	24,319.54	24	18	6	75.00	1,549.72	-595.89	2.60	7.80	1,013.31
2	22,522.04	25	18	7	72.00	1,490.09	-614.22	2.43	6.24	900.88
1	16,834.82	27	19	8	70.37	1,079.23	-458.82	2.35	5.59	623.51

100% of instances closed above the entry price at some point in the next 6 days.

These results appear extremely compelling. The consistency is very strong. Of course the market is always capable of doing things it hasn't before. We've seen plenty evidence of that over the last 3+ years. So although this condition has led to a bounce in every instance evaluated over the test period, it's no sure thing. In fact just before the period shown there were 2 trades that were losers. Still, the evidence appears strong enough to suggest a bullish inclination. This is further confirmed by the strong, steady equity curve below.



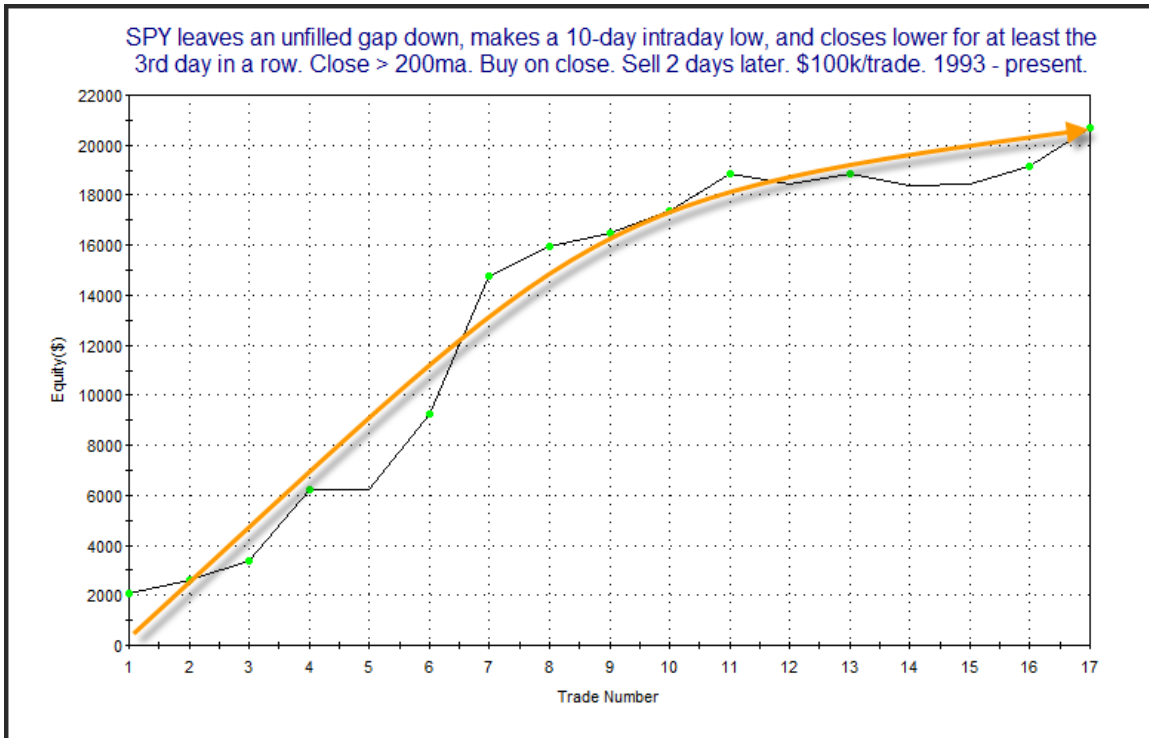
I also wondered how today's unfilled gap might affect the likelihood of an oversold bounce. To test this I concocted a new study. It required at least 3 down days, the last of which posted a 10-day intraday low and an unfilled gap. I also included a long-term trend filter. The results table is below.

SPY leaves an unfilled gap down, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	14,239.72	17	13	4	76.47	1,710.06	-1,997.76	0.86	2.78	837.63
4	12,317.88	17	12	5	70.59	1,860.66	-2,002.01	0.93	2.23	724.58
3	18,115.53	17	13	4	76.47	1,614.59	-718.55	2.25	7.30	1,065.62
2	20,697.07	17	14	2	82.35	1,541.26	-440.25	3.50	24.51	1,217.47
1	14,406.00	17	15	2	88.24	1,003.15	-320.62	3.13	23.47	847.41

All 17 instances closed at or above the entry price at some point in the next 2 days.

This suggests a very high probability of an almost immediate bounce. Below is the equity curve using a 2-day hold.



It appears that the upside edge remains squarely in place, but perhaps it is not as powerful as it once appeared. It will be interesting to monitor this study going forward.

One concern I had when examining market action today is that while the SPX has taken a bit of a dive, the VIX has done nearly nothing. In fact, it closed today below its 10ma. I decided to examine other times the SPX closed at a 10-day low while the VIX was still below its 10ma. In this way I could see whether the low VIX might be a troubling sign that could suggest more selling rather than a bounce. The study I devised is below.

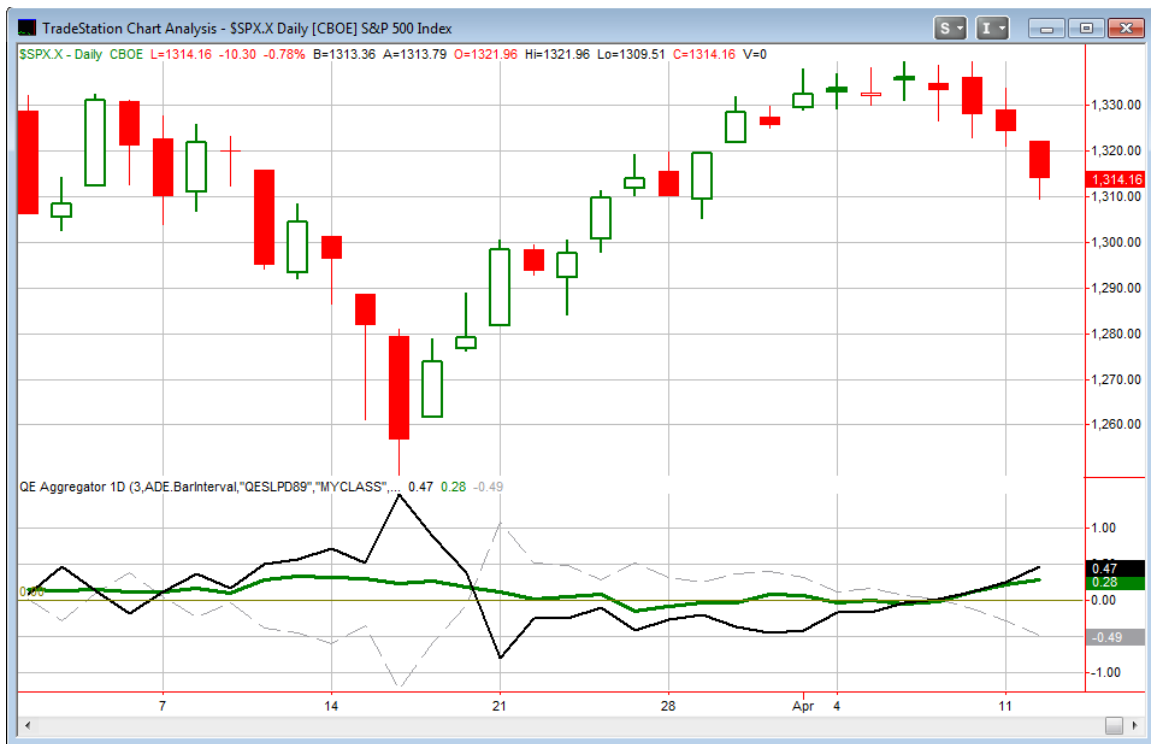
SPX closes at a 10-day low but above the 200ma. VIX closes BELOW its 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - present.

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	12,651.84	25	16	9	64.00	1,614.51	-1,464.49	1.10	1.96	506.07
4	8,213.03	25	16	9	64.00	1,473.90	-1,707.71	0.86	1.53	328.52
3	9,473.23	26	18	8	69.23	1,213.41	-1,546.01	0.78	1.77	364.36
2	7,002.91	30	18	12	60.00	1,130.49	-1,112.15	1.02	1.52	233.43
1	3,580.29	33	21	12	63.64	702.82	-931.58	0.75	1.32	108.49

It appears my worries were unfounded. These aren't the most bullish results we've seen, but there is nothing here suggesting a downside edge.

One reason I've been keeping a close eye on the VIX is that I've been considering placing a long XIV trade in the Trade Ideas section. Should the market bounce, that would most likely cause volatility to drop and XIV to rise. In addition, the VIX futures are currently in a pretty strong contango formation. This helps to provide an upside boost to XIV over time. I'd rather wait for the VIX to spike a bit before buying XIV, and I will, but it is another possibility for traders to consider. For more information on this inverse VIX etf, you may review the "VIX-based ETFs and the Quantifiable Edges Aggregator" presentation on [the videos page](#) of the members site.

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



With bullish evidence continuing to build, the green Aggregator line again moved higher. 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 is getting stretched quite far above 0. Readings above 0 mean the SPX has underperformed expectations over the

last few days. So net expectations are for upside and the SPX is oversold. Historically, this configuration has provided a bullish edge. It can be seen on the chart whenever the green Aggregator and black Differential lines both close above zero. Due to this the Aggregator System remained long.

The green Aggregator line is again set to remain above 0 on Wednesday. This is unlikely to change unless very strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,328.79. This is about 1.1% above Tuesday's close. This means it would take a rise of at least this much to turn the black Differential line negative.

I have a decent sized long position on already. The weight of the evidence is quite compelling, though. Therefore I will again be looking to take on more exposure tomorrow. Details are in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/11 – bullish

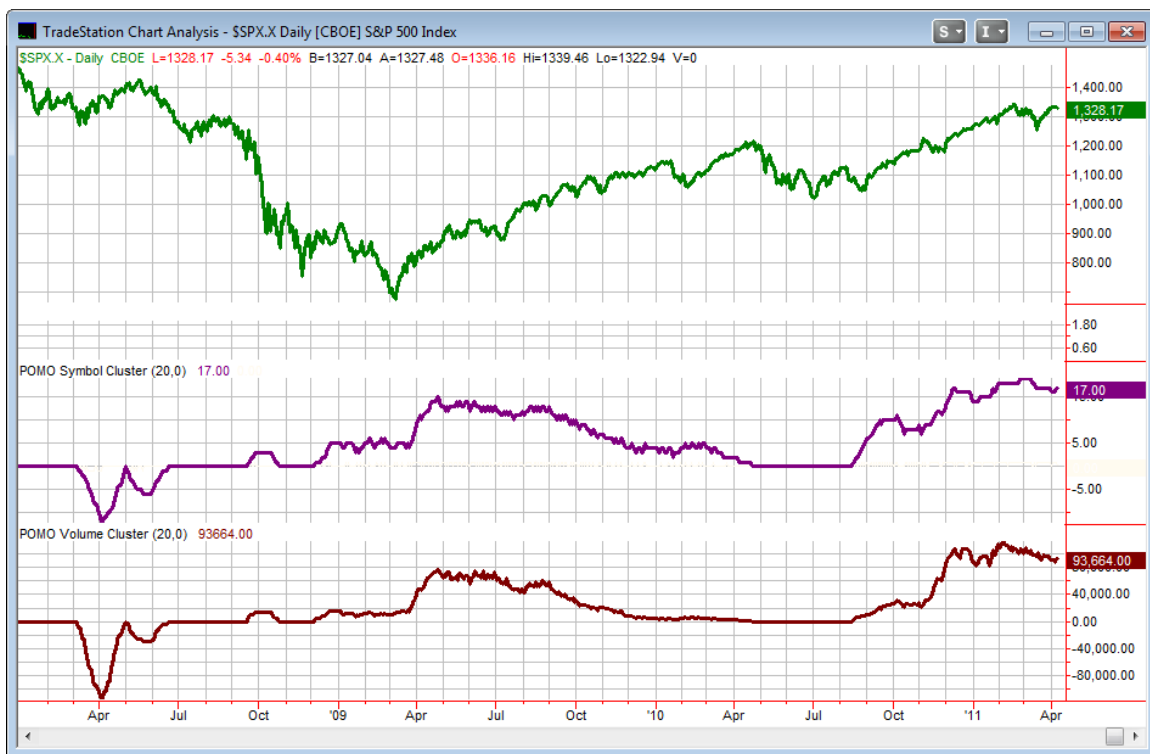
The market continues to bump against its February highs without breaking through. It has established a tight range over the last 8 days between the 3/30 gap higher and the Feb highs. A break in either direction could lead to a sharp move. Evidence at this point seems to suggest we should be seeing higher prices in the next few weeks.

The QQQ pullback study from the short-term section also has intermediate-term implications and I have added it to the intermediate-term Active List.

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 ticked back up to 17. Additional buying is scheduled for Monday. Tuesday is an off-day, and the Fed is also set to release the new schedule on Tuesday. With buying slated to continue into June, I expect to see another busy slate. It certainly bears watching though and should provide insight into the Fed's immediate plans and whether POMO is likely to continue to act as a wind at the markets back over the next month. For those that would like to view the upcoming schedule I have provided a link below. Checking this link on or after Tuesday should show the new schedule.

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

There is still a decided lack of intermediate-term bearish studies. Meanwhile, momentum, POMO activity, breadth, and now QQQ price action 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.

SPY – buy 1/4 index position @ \$131.47 limit. Based on short-term outlook above, I will continue to scale in to my long index position. I will switch to SPY for this lot since it now appears to be as compelling as QQQ.

XIV – buy if VIX spikes and is > 19 at the 4pm market close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	4/11/2011	\$56.95	\$56.37	-1.02%		Aggregator
QQQ(1/4)	4/12/2011	\$56.52	\$56.37	-0.27%		Aggregator
IJK	4/12/2011	\$108.61	\$108.36	-0.23%		system 11111

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