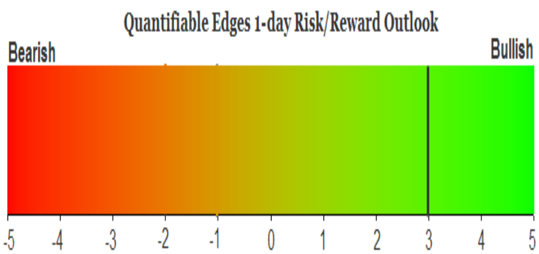
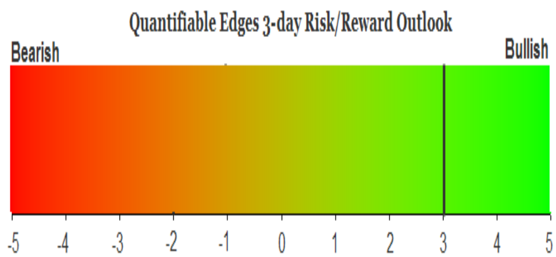
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 14, 2011 Volume 4 Issue 72

Market Overview





Tonight's Research Points

- A weak bounce like seen Wednesday after the pullback pattern that led up to it has historically been followed by more upside. Recent history isn't as compelling though. Most of the bullishness occurred more than 12 years ago.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook
The Bottom Line

A small bounce on Wednesday didn't change anything. The market is still oversold and the evidence still suggests higher prices. I am substantially long and looking to hold on to my position for another day.

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 11, 2011	SPY 5 low for 1st time in 2 weeks	1-4 days	Bullish	1.60%
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 12, 2011	3 Down Days - declining vol / Tues	1-2 days	Bullish	2.00%
April 11, 2011	April Op-Ex week	1-3 days	Bullish	1.90%

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

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

The Evidence

An early gap higher failed to inspire further buying Wednesday. The market bounced back and forth throughout the day. When it was over the SPX was nearly dead even with a 0.25 point gain. Meanwhile the Nasdaq rose 0.6% and the Russell 2000 was up 0.2%. Breadth was slightly negative as the NYSE Up Issues % came in a fraction under 50% and the Up Volume % was 46%. Total NYSE volume declined from Tuesday's level.

So we got a bounce today, but it was weak, and it sure didn't feel like a bounce. How a market bounce begins after the market reaches strongly oversold levels will often provide clues to the success chances of that bounce. Strong bounces are typically more prone to follow through and weak bounces sometimes suggest trouble. I mention this not because bearish studies triggered tonight. I mention this rather because despite the weak bounce on Wednesday, I did not find any compelling bearish evidence.

The last time something like this happened was 11/17/2010. Below is an excerpt from the 11/18/2010 Subscriber Letter. I've updated all the studies as they have triggered once again today. This first one looks at weak bounces following selloffs of at least 4 days with the last day being the biggest loser.

After at least 4 lower closes with the last one being the largest, SPX rises today but the gain is less than 1%. Buy on close. Sell X days later. $100k/trade. 1971 - 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	38,379.80	53	36	17	67.92	1,696.25	-1,334.42	1.27	2.69	724.15
4	31,829.09	53	37	16	69.81	1,471.94	-1,414.55	1.04	2.41	600.55
3	15,395.34	53	33	20	62.26	1,244.47	-1,283.61	0.97	1.60	290.48
2	12,664.18	53	30	23	56.60	1,256.11	-1,087.78	1.15	1.51	238.95
1	10,708.48	53	31	22	58.49	783.55	-617.35	1.27	1.79	202.05

As you can see the suggestion is for a small upside edge. But the size of the bounce used in this study is fairly wide – between 0% and 1%. So I narrowed it down to 0% - 0.25% to see if the weakest of bounces suggested bullish or bearish implications.

After at least 4 lower closes with the last one being the largest, SPX rises today but the gain is less than 0.25%. Buy on close. Sell X days later. $100k/trade. 1971 - 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	7,023.95	12	8	4	66.67	1,315.15	-874.31	1.50	3.01	585.33
4	9,548.06	12	10	2	83.33	1,095.10	-701.47	1.56	7.81	795.67
3	5,656.33	12	9	3	75.00	1,198.92	-1,711.31	0.70	2.10	471.36
2	6,338.19	12	7	5	58.33	1,573.78	-935.66	1.68	2.35	528.18
1	5,914.43	12	9	3	75.00	733.25	-228.29	3.21	9.64	492.87

The results held up fine here and actually came out a little better. But as I usually do, I took a deeper look. Below is the list of instances using a 4-day exit strategy.

After at least 4 lower closes with the last one being the largest, SPX rises today but the gain is less than 0.25%. Buy on close. Sell X days later. $100k/trade. 1971 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up DrawDown**
03/23/73	Buy	$108.88	3.52%	$3,515.94
03/29/73	Sell	$112.71		$0.00
08/06/75	Buy	$86.25	1.01%	$1,008.33
08/12/75	Sell	$87.12		($266.57)
02/28/79	Buy	$96.27	1.65%	$2,449.68
03/06/79	Sell	$97.86		($311.40)
08/29/80	Buy	$122.38	2.04%	$4,338.27
09/05/80	Sell	$124.88		($490.20)
06/03/81	Buy	$130.71	0.96%	$2,264.40
06/09/81	Sell	$131.97		($757.35)
02/18/82	Buy	$113.82	(0.31%)	$939.46
02/24/82	Sell	$113.47		($3,336.40)
11/14/84	Buy	$165.99	(1.10%)	$301.00
11/20/84	Sell	$164.17		($1,787.94)
08/07/90	Buy	$334.83	1.20%	$1,707.54
08/13/90	Sell	$338.84		($837.38)
09/11/91	Buy	$385.09	0.11%	$738.15
09/17/91	Sell	$385.50		($600.88)
06/09/93	Buy	$445.78	0.11%	$640.64
06/15/93	Sell	$446.27		($378.56)
07/24/98	Buy	$1,140.80	0.18%	$562.02
07/30/98	Sell	$1,142.86		($1,858.32)
11/17/10	Buy	$1,178.59	0.18%	$1,822.80
11/23/10	Sell	$1,180.73		($141.12)

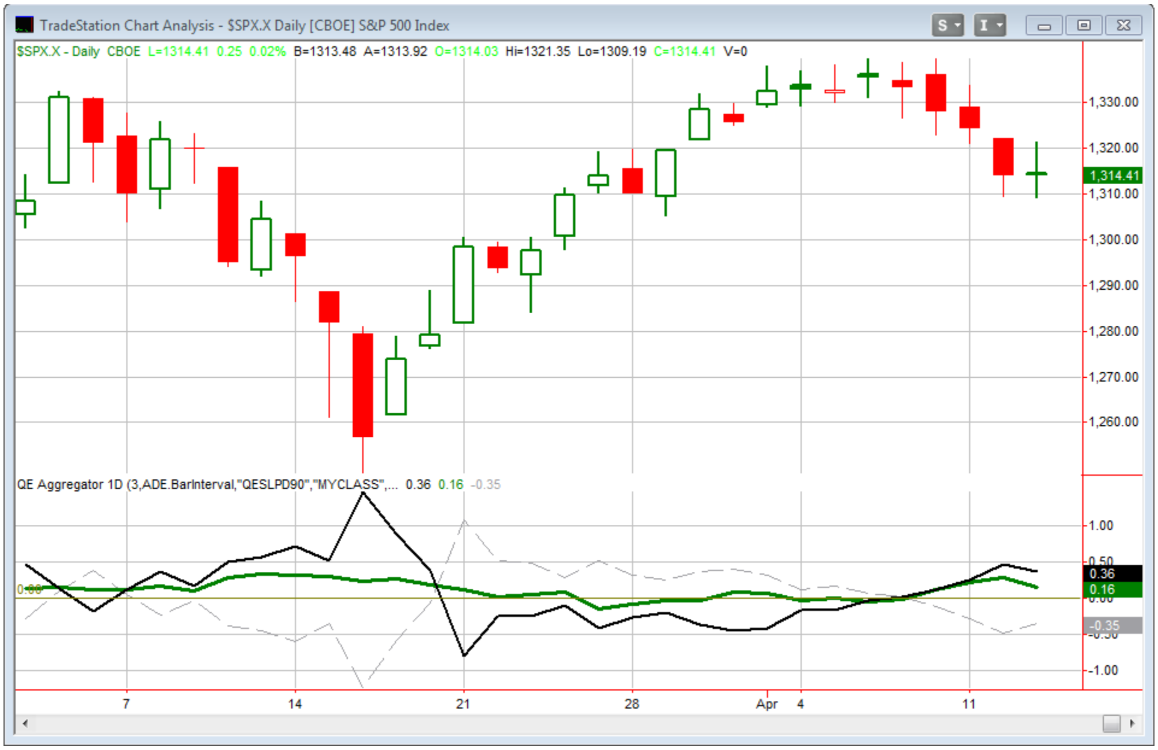
I find it a bit concerning that most of the gains occurred before 1981. I also don't like the fact that this is just the 2nd instance in over 12 years. Overall, this line of studies doesn't provide a solid enough edge that I'm comfortable including it in the Aggregator. It did quell my fears that the weak bounce could be an issue, and the studies from the past few days still seems to be providing an upside edge.

While the SPX closed higher on Wednesday it did make a slightly lower low for the 5th straight day. In the 5/18/09 Subscriber Letter I examined performance after 5 lower lows. Those studies revealed that the meaning of 5 lower lows depends greatly on where it occurs. If it is accompanied by a 50-day low it suggests a strong upside edge. It if is coming off a 50-day high, then there is often more downside over the short and intermediate-term. And if it is somewhere in between those areas then there typically isn't a big edge either way. The current selloff came from the middle ground, and therefore doesn't seem to carry a strong edge in either direction. Still, it does concern me a bit. While the SPX wasn't coming off a 50-day high, other areas of the market (like the Russell 2000) were. Strong uptrends should not see the market make 5 lower lows in a row. So it is somewhat troubling that we have. There is a link below to the 5/18/09 letter in case you want to read the study in more detail.

2009-05-18 QE Subscriber Letter.pdf

So I'm not adding any new studies to the Active List tonight. The evidence I examined just wasn't compelling enough to include. There were a couple of studies that dropped off the list as well.

I have updated the Aggregator chart below.



With 2 studies expiring the green Aggregator line dipped a little tonight but still remained squarely positive. 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 still 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.

With no bearish studies on the Active List the green Aggregator line is again set to close above 0 on Wednesday. This is unlikely to change unless very strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,328.66. This is about 1.1% above Wednesday's close. This means it would take a rise of at least this much to turn the black Differential line negative.

I have a fairly large amount of exposure on already. Evidence is still pointing to a move higher over the next several days. Still, there is always a chance that this pullback has not played itself out yet. The $131 level in SPY was tested the last 2 days. Both days the market dipped just slightly below it before recovering. Should that level break in the next day or so, it could spark more selling.

Traders who are inclined to use stops could look at this area as a reasonable place to put one. I generally do not use stops under these kinds of circumstances with subscriber letter trade ideas. In my eyes, there is an upside edge and a high risk of a possible shakeout. I don't suggest new trade ideas intraday so if the trade idea gets closed out there would be no way for me to re-enter. That's ok in my eyes. If I maintain my position as long as there is an edge and exit it when the edge no longer exists I will generally be happy with my execution. Of course traders should handle positions in a way that best fits their plan and ability to execute.

I examined the low VIX last night to see if selloffs like this one "need" a washout. They don't. Still, it could happen. And with the VIX low and the CBI still at 0, I am not inclined to add the final lot to the index position at this point. The failure to put in a meaningful bounce over the last few days has been a test of patience, and it "feels" like the market hasn't managed to go my way yet. Still, in looking at the Trade Ideas section below, you'll note that the open trade ideas are actually slightly positive. This is a nice position to be in - a sizable position, a small profit, and solid upside evidence. I'm going to let it ride for now.

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

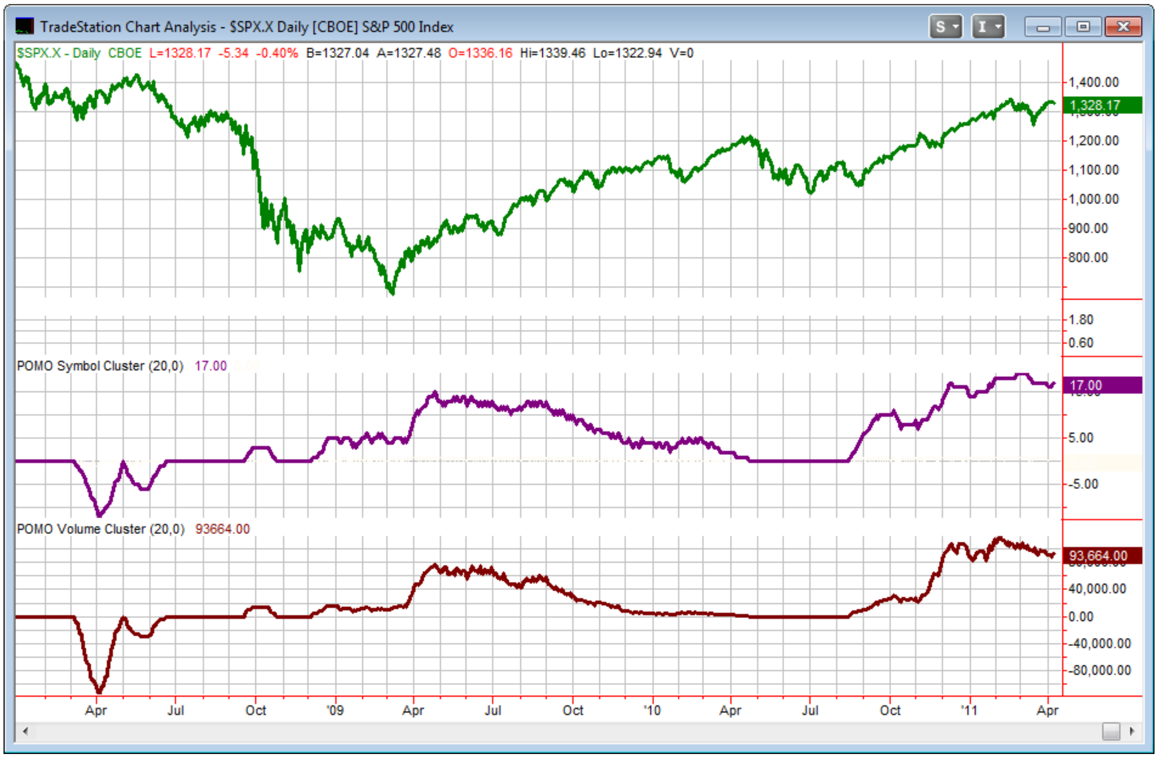
The market continues to bump against its February highs without breaking through. It has established a tight range over the last 8 days between the 3/30 gap higher and the Feb highs. A break in either direction could lead to a sharp move. Evidence at this point seems to suggest we should be seeing higher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

No new trade ideas tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	4/11/2011	$56.95	$56.85	-0.18%		Aggregator
QQQ(1/4)	4/12/2011	$56.52	$56.85	0.58%		Aggregator
IJK	4/12/2011	$108.61	$109.00	0.36%		system 11111
SPY(1/4)	4/13/2011	$131.47	$131.46	-0.01%		Aggregator

IJK is close to triggering its exit according to System 11111. A decent up day tomorrow should do the job.

I will look to exit all Aggregator positions (SPY and QQQ) should the SPX close at 1,328.66 or higher.

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