

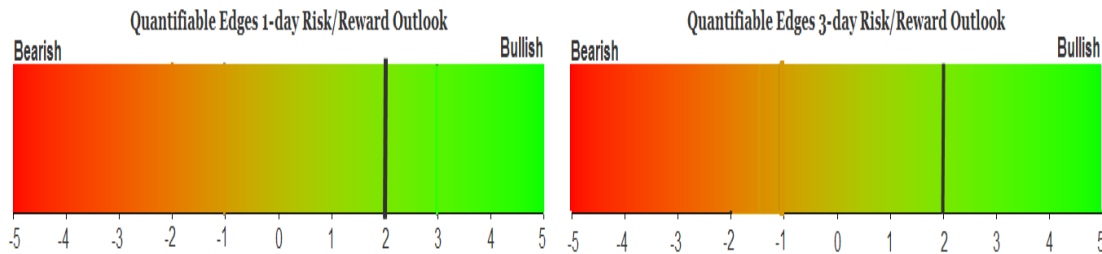
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 15, 2011

Volume 4 Issue 73

Market Overview



Tonight's Research Points

- Never has a strongly oversold SPX bounced so timidly for 2 days in a row. Unfortunately, this sideways drift doesn't appear predictive.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

Another breakeven day has the Aggregator remaining long. Bullish evidence is fading, though. I'm hoping to lighten up on my position some in order to reduce my risk.

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 | Down 4 days. Today is biggest drop. | 1-5 days | Bullish | 2.10% |
| 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 | SPY 5 low for 1st time in 2 weeks | 1-4 days | Bullish | 1.60% |
| April 13, 2011 | SPY unfilled gap. 10-low & dn 3 days | 1-2 days | Bullish | 1.90% |

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

The Evidence

Morning gaps haven't mattered the last 2 days. On Wednesday the SPX gapped higher and closed near breakeven. On Thursday it was a gap lower and a breakeven close. Perhaps the market won't gap tomorrow, and then we'll get some end-of-day movement. The end-of-day results were actually mixed. The SPX rose 0.01%, the Nasdaq fell 0.05% and the Russell 2000 gained 0.43%. Breadth came in slightly positive as the NYSE Up Issues % registered 53% and the Up Volume % was 51.5%. Total NYSE volume rose slightly from Wednesday's level.

The movement over the last two days is unprecedented from a short-term oversold condition. Such tiny moves up have never before been seen under these circumstances. I examined it a few different ways tonight. One way I looked at it was by using a 2-period RSI. The 2-period RSI is an extremely sensitive indicator. Two up days will normally push it to a number above 50. At today's close the 2-period RSI was about 8. Going back to 1960 this is the first time that two consecutive higher closes have not managed to push the 2-period RSI above 15. In fact, there've only been three instances where two days higher resulted in an RSI below 25. Those instances occurred on 8/7/75, 7/29/77, and 1/6/00. There was no consistency among these instances and the sample size is too small to draw any solid conclusions anyway.

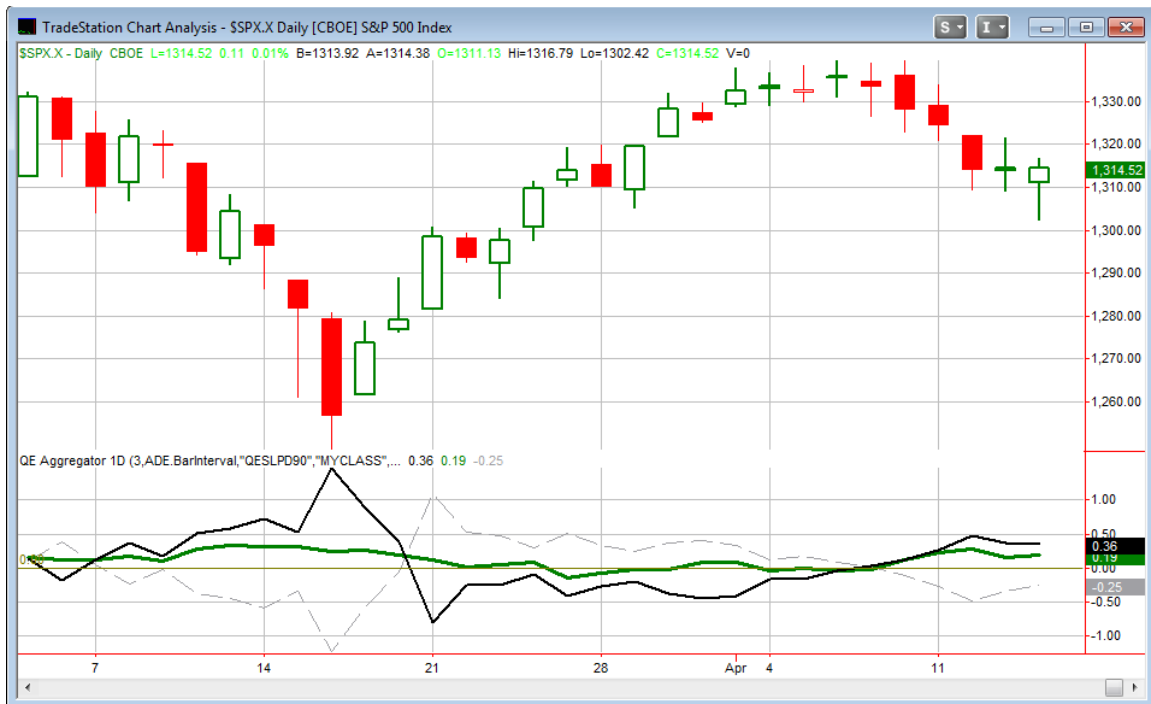
I also looked for times where 2 up days generated very low percentage gain while the market was trading below its 10ma and above its 200ma. I tried a few different percentage levels, but found no compelling evidence suggesting an edge.

Over the last two days several bullish short-term studies have expired. The sideways market action has failed to trigger new studies worthy of inclusion on the Active List. This leaves us with just one short term bullish study to go along with four intermediate-term bullish studies. So despite the complete lack of bearish evidence, bullish evidence is starting to wane. This has caused the 1 and 3-day risk/reward meters to drop from the 5/4 level down to 2/2. The lesser risk/reward outlook is leading me to look for a favorable opportunity to reduce some of my long exposure.

In Sunday night's letter I discussed in some detail the positive seasonality associated with tax day and the day after. Being that tax day is typically April 15th I noted the seasonal influence would be in play on Friday the 15th and Monday the 18th. I made a mistake.

Tomorrow is considered Emancipation Day in Washington DC. Because of this, taxes are not due until Monday the 18th. Therefore the "Tax Day" bullish bias will not be in force on Friday, but rather on Monday.

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



The green Aggregator line remained squarely positive tonight. 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 Friday. This could certainly change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,322.43. This is about 0.6% above Thursday's close. This means it would take a rise of at least this much to turn the black Differential line negative.

My exposure remains fairly high (and slightly profitable) and I still feel probabilities favor a move higher in the short-term. Still, the action over the last two days has dampened my enthusiasm as it has eroded upside evidence. Therefore, I will be looking to take some money off the table tomorrow should we close higher at all.

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

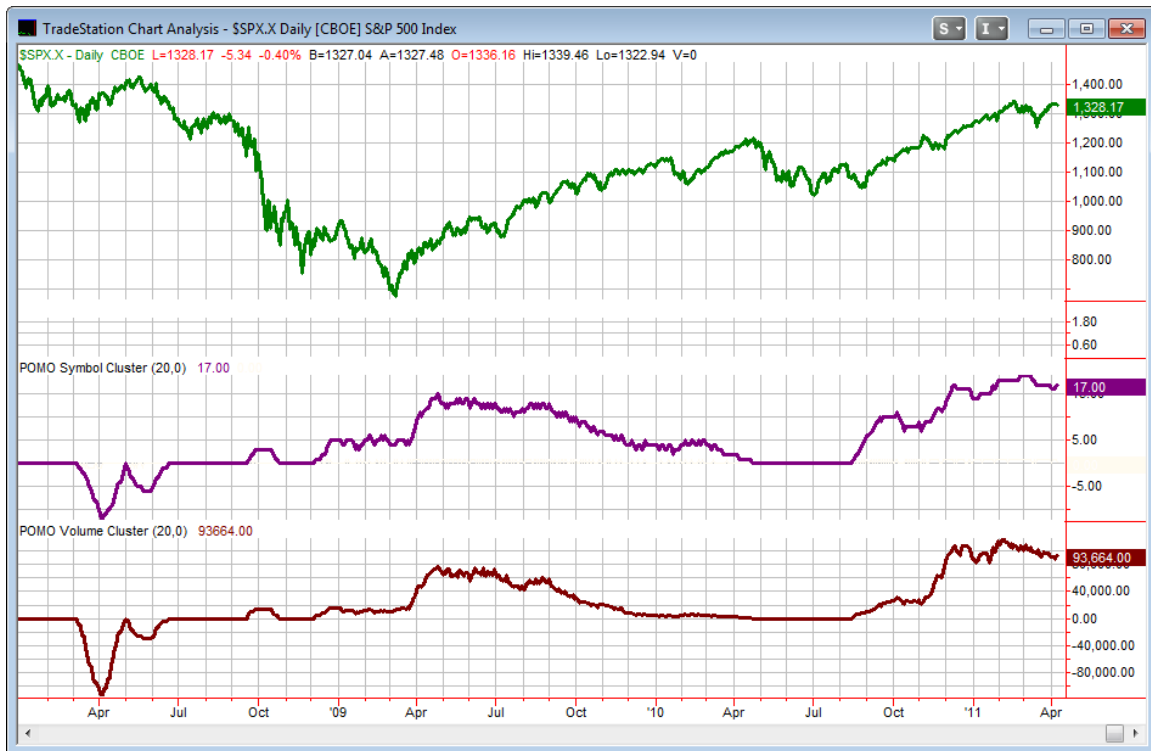
The market continues to bump against its February highs without breaking through. It has established a tight range over the last 8 days between the 3/30 gap higher and the Feb highs. A break in either direction could lead to a sharp move. Evidence at this point seems to suggest we should be seeing higher 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 | \$56.75 | -0.35% | | Aggregator |
| QQQ(1/4) | 4/12/2011 | \$56.52 | \$56.75 | 0.41% | | Aggregator |
| IJK | 4/12/2011 | \$108.61 | \$108.97 | 0.33% | | system 11111 |
| SPY(1/4) | 4/13/2011 | \$131.47 | \$131.56 | 0.07% | | 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 1,322.43 or higher. If QQQ closes higher at all I will exit 1 lot of it regardless of where SPX closes. A strong move higher in the morning may also provoke me to trail a stop intraday on part of my position. Should I elect to do so, I will send out an intraday update to gold subscribers.

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