

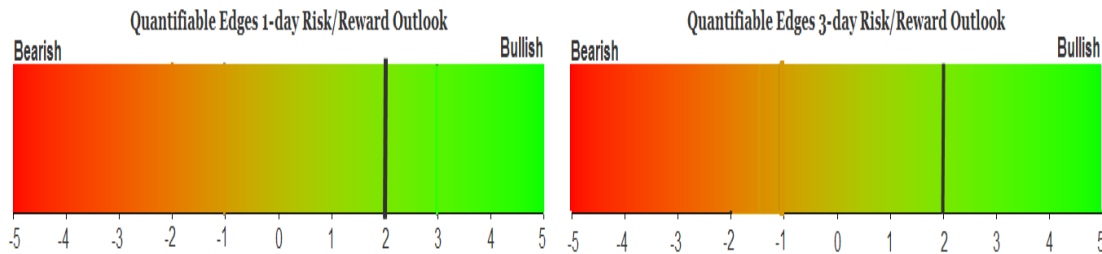
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 18, 2011

Volume 4 Issue 74

Market Overview



Tonight's Research Points

- Three higher closes that leave the SPX lower than its close 4 days ago have often been followed by another 1-4 days of upside in the past.
- Positive op-ex Fridays on strong volume *do not* suggest bearish consequences as they once did.
- The shortened week shows some strong positive seasonality with Tax Day and Holy Thursday.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

Despite closing up 3 days in a row, the Aggregator System shows the SPX is still oversold versus expectations and remains long. I've maintained a sizable long position the last few days but will be looking to exit it should the SPX close nicely higher.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 18, 2011	Up 3 days but below close of 4 days ago	1 day	Bullish	
April 18, 2011	Tax Day & Day After Bullish	1-2 days	Bullish	
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	

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

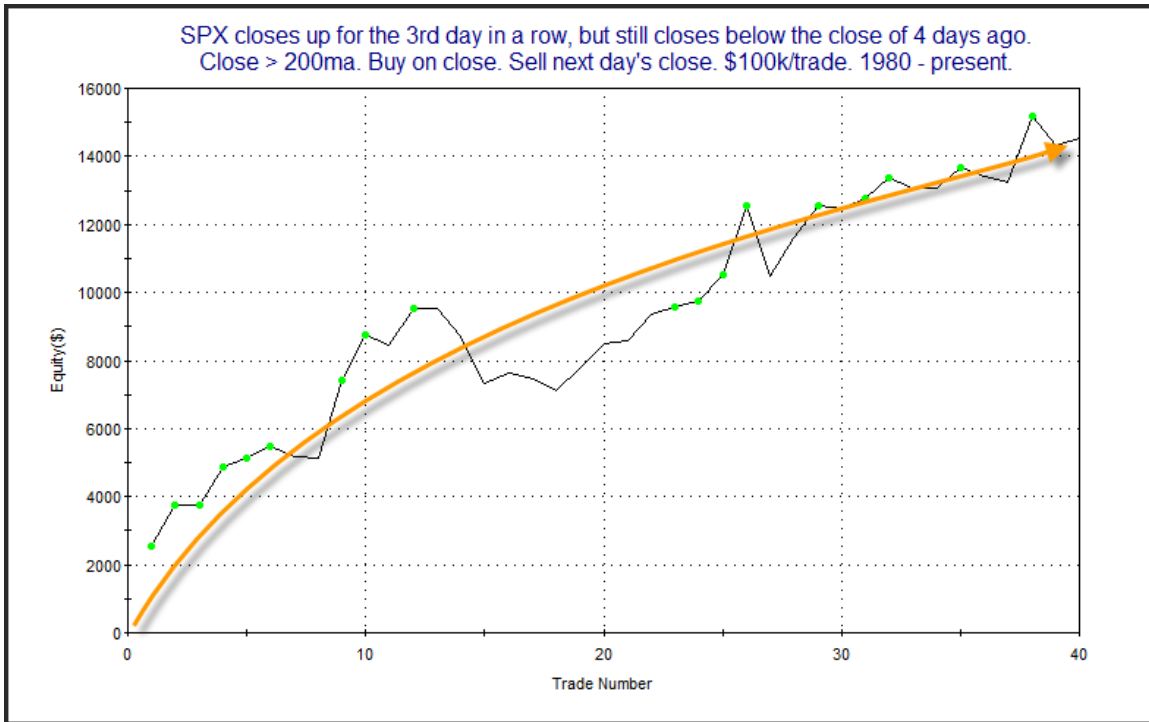
The Evidence

Friday opened with a gap higher in the SPX. After briefly pulling back to fill that gap, it then moved higher again. It peaked around 1pm and then drifted sideways for the rest of the day. Thanks to GOOG and AAPL the Nasdaq, and especially the Nasdaq 100 Index, couldn't match this and started and finished the day lower. The final numbers showed the SPX up 0.4%, the Nasdaq up 0.2% (but the Nasdaq 100 down 0.2%), and the Russell 2000 gaining 0.9%. Breadth was solidly positive as the NYSE Up Issues % came in at 66% and the Up Volume % was 64%. Total volume spiked to its highest level in about a month, largely due to options expiration.

So the SPX has now closed up 3 days in a row but still not managed to exceed short-term expectations and close above the Differential Pivot (as you'll see below). This is a rarity. It also failed to finish above the close of 4 days ago despite the 3 up days. This is also a rarity. I decided to examine other times that a 3-day rally failed to overcome a 1-day drop that occurred just prior to that rally. My results are shown below.

SPX closes higher 3 days in a row but below the close of 4 days ago. Close > 200ma. 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	
5	15,723.26	40	22	18	55.00	1,846.65	-1,383.51	1.33	1.63	393.08	
4	19,192.75	40	27	13	67.50	1,551.72	-1,746.43	0.89	1.85	479.82	
3	12,177.88	40	23	17	57.50	1,532.89	-1,357.56	1.13	1.53	304.45	
2	13,832.79	40	26	14	65.00	1,059.48	-979.54	1.08	2.01	345.82	
1	14,534.89	40	26	13	65.00	834.20	-550.34	1.52	3.03	363.37	

I found it interesting that despite the fact the market had already risen for 3 days in a row, the fourth day showed gains nearly 2/3 of the time. This even held true over the 1-4 day period, although most of the gains were realized on day 1. To see how this edge has played out over time I ran an equity curve using a 1-day hold.



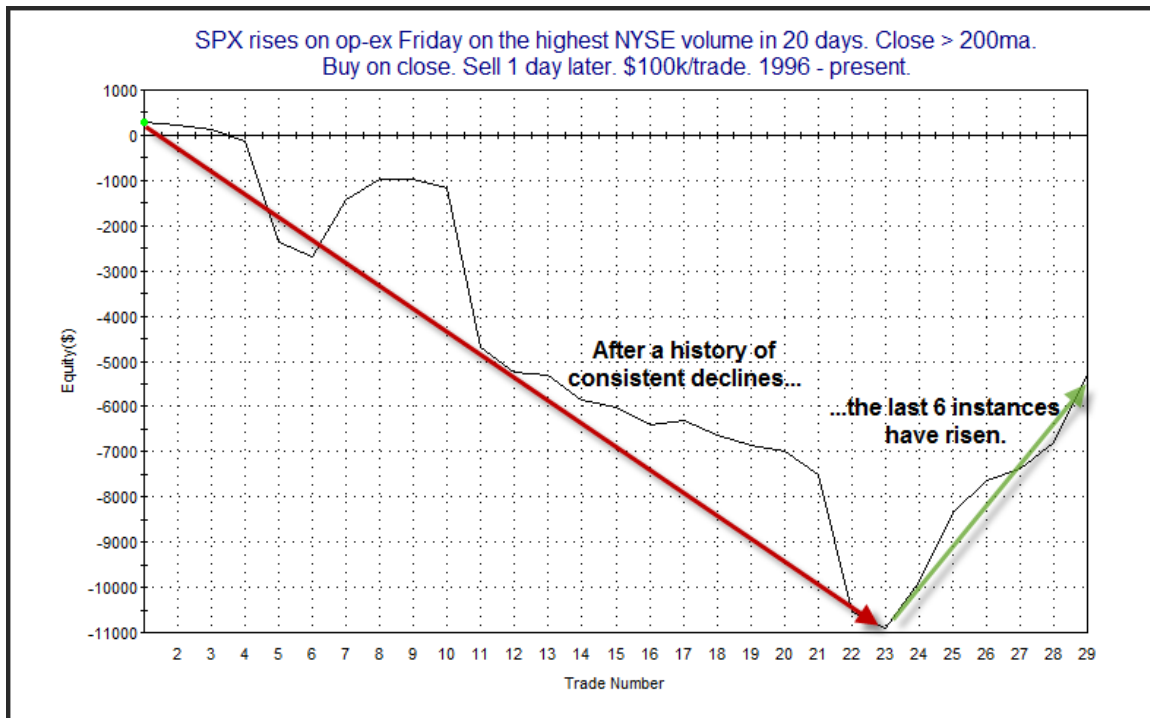
While the 1st few instances seemed to be especially strong, the fairly steady upslope is encouraging.

I always monitor the progress of studies carefully, because shifts in market dynamics will sometimes change how the market reacts to certain circumstances. An edge that seemed apparent at one point may no longer exist. And sometimes a setup may switch from bullish to bearish or bearish to bullish. It's rare but it happens. The Quantifinder showed one study tonight that seems to provide a bearish edge at one point in time. That no longer appears to be the case. The study looks at op-ex days that rise on high volume during a long-term uptrend. It last appeared in the 1/24/11 Subscriber Letter. An updated version is below.

SPX rises on op-ex Friday on the highest NYSE volume in 20 days. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1996 - 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	-5,189.41	29	13	16	44.83	1,447.38	-1,500.34	0.96	0.78	-178.95
4	-2,955.26	29	14	15	48.28	1,186.18	-1,304.12	0.91	0.85	-101.91
3	-2,307.72	29	13	16	44.83	1,063.63	-1,008.44	1.05	0.86	-79.58
2	-4,640.76	29	13	16	44.83	691.42	-851.83	0.81	0.66	-160.03
1	-5,300.31	29	11	18	37.93	700.60	-722.61	0.97	0.59	-182.77

There appears to be a possible 1-day bearish edge in looking at the results table. But the equity curve tells a much different story.




This setup stopped leading to down Mondays about a year and a half ago. Since then there have been six up Mondays in a row. That's not enough to claim a bullish setup, but it is enough for me to call it neutral and proclaim the bearish edge dead. I'll continue to monitor it to see if the bull really runs with it from here, or if the bear comes back to life, or if it no longer suggests a true edge and instead chops around for an extended period.


In last Sunday'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. Since Friday was Emancipation Day in Washington DC 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. Below is the excerpt from last Sunday's letter in which I discussed this bias.

The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April

15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market.

My research has found that some of the strongest influence occurs on tax day and the day immediately after. Below are some studies that demonstrate this.

SPX Tax Day Performance \$100k/trade. 1981 - 2010			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$11,747.45	Profit Factor	3.86
Gross Profit	\$15,852.71	Gross Loss	(\$4,105.26)
Total Number of Trades	30	Percent Profitable	73.33%
Winning Trades	22	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$391.58	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$720.58	Avg. Losing Trade	(\$513.16)
Largest Winning Trade	\$3,322.23	Largest Losing Trade	(\$1,601.32)

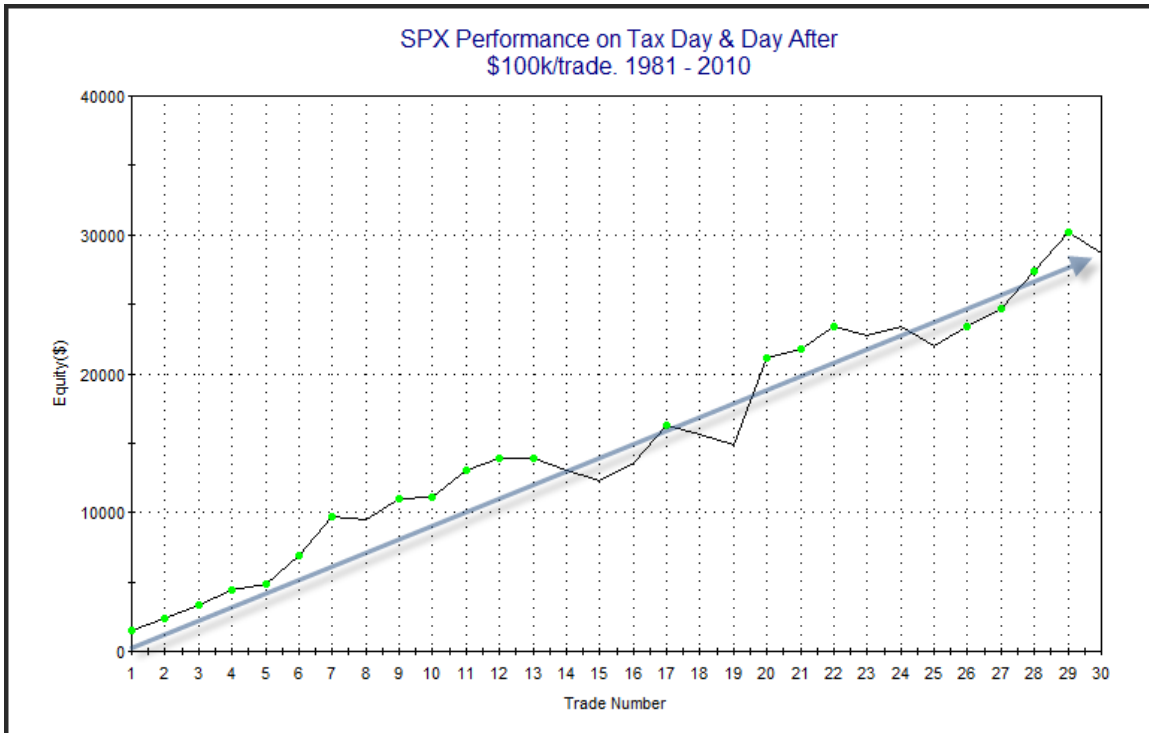
SPX Day After Tax Day Performance \$100k/trade. 1981 - 2010			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$16,758.11	Profit Factor	4.12
Gross Profit	\$22,136.77	Gross Loss	(\$5,378.66)
Total Number of Trades	30	Percent Profitable	70.00%
Winning Trades	21	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$558.60	Ratio Avg. Win:Avg. Loss	1.76
Avg. Winning Trade	\$1,054.13	Avg. Losing Trade	(\$597.63)
Largest Winning Trade	\$2,842.84	Largest Losing Trade	(\$1,602.28)

This would suggest some bullish seasonal influence ... Below are results of holding both days.

SPX Performance on Tax Day & Day After
\$100k/trade. 1981 - 2010


TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$28,682.70	Profit Factor	5.27
Gross Profit	\$35,403.74	Gross Loss	(\$6,721.04)
Total Number of Trades	30	Percent Profitable	73.33%
Winning Trades	22	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$956.09	Ratio Avg. Win:Avg. Loss	1.92
Avg. Winning Trade	\$1,609.26	Avg. Losing Trade	(\$840.13)
Largest Winning Trade	\$6,245.15	Largest Losing Trade	(\$1,518.64)

Here we see the SPX move over the two day period was a gain of nearly 1%. Over the 30 year period there were only 4 years where the market did not close above the entry price on either day 1 or day 2. Below is an equity curve showing the 2-day hold.

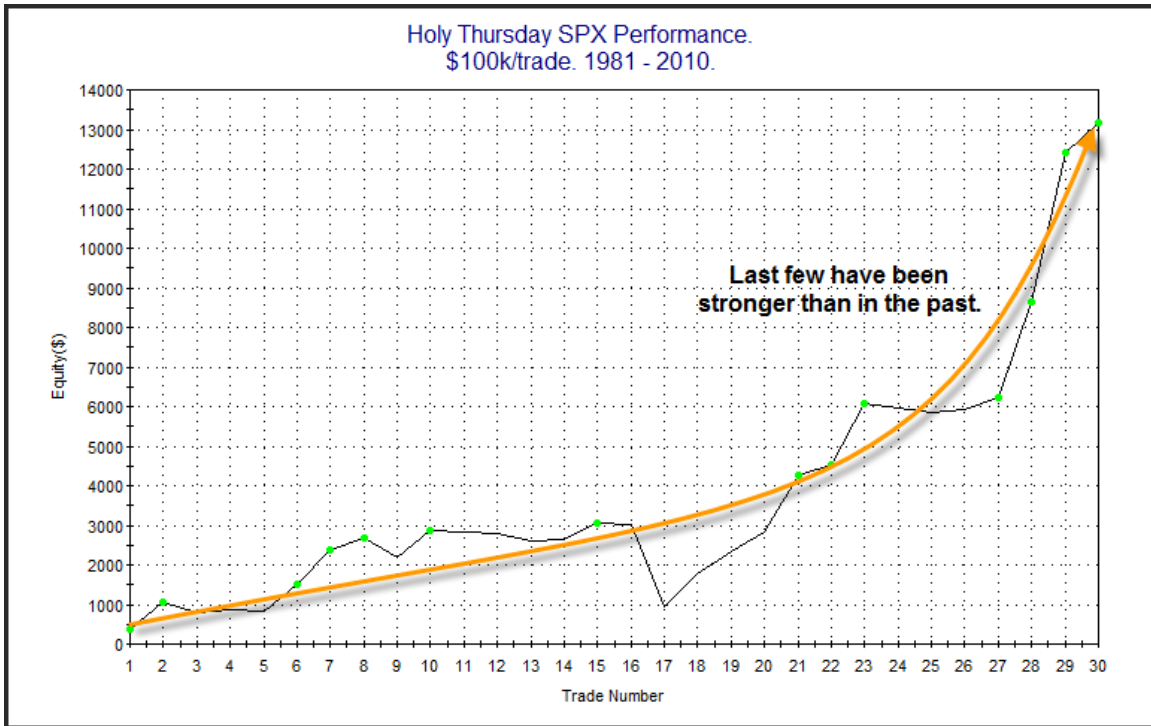


The upside edge has been steady over the years.

So Monday and Tuesday may see a bit of a bullish influence from IRA investors. (The last day for IRA contributions was also pushed to the 18th this year.) But we also have a possible seasonal influence occurring on Thursday this week. The Thursday before Easter, known as Holy Thursday has had a bit of a bullish bias over the years. This isn't unusual with holidays. Most of them see a rise heading in to a long weekend (except for Presidents' Day). Below is the SPX performance on Holy Thursday over the last 30 years.

Holy Thursday SPX Performance. \$100k/trade. 1981 - 2010.			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$13,166.33	Profit Factor	4.84
Gross Profit	\$16,598.96	Gross Loss	(\$3,432.63)
Total Number of Trades	30	Percent Profitable	66.67%
Winning Trades	20	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$438.88	Ratio Avg. Win:Avg. Loss	2.42
Avg. Winning Trade	\$829.95	Avg. Losing Trade	(\$343.26)
Largest Winning Trade	\$3,799.40	Largest Losing Trade	(\$2,097.90)

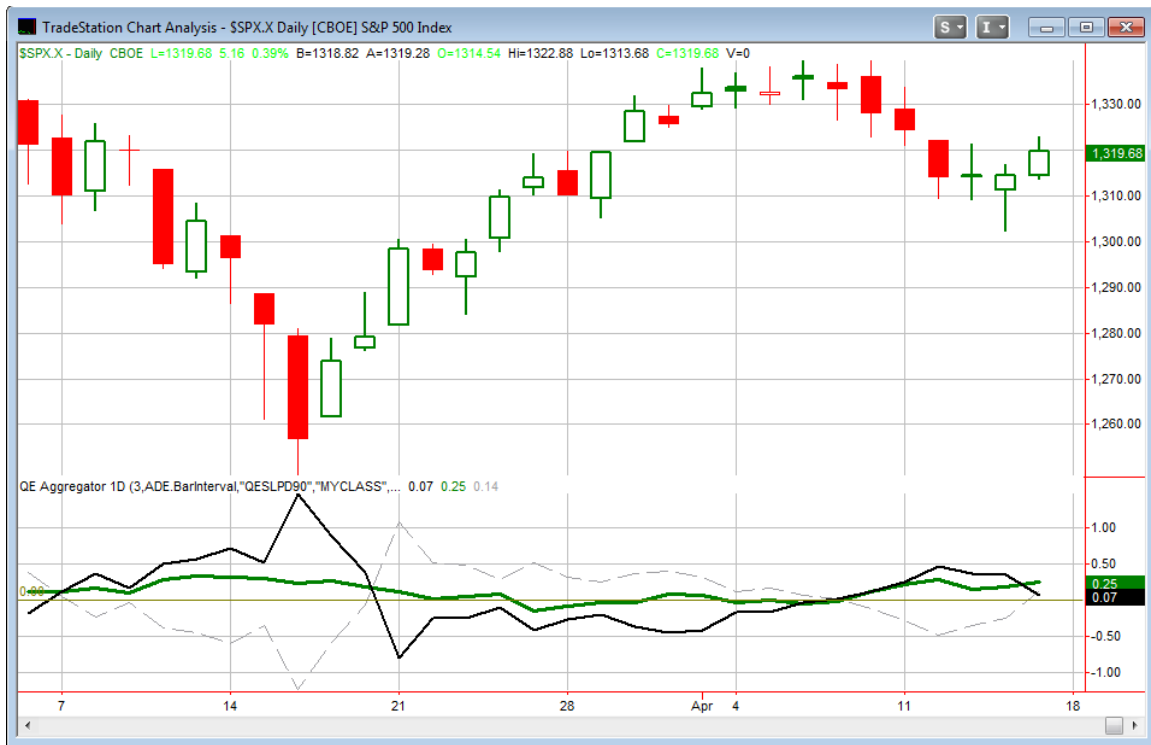
The numbers are fairly compelling – especially the ones I've circled showing that the winners have greatly outsized the losers. Below is an equity curve showing how Holy Thursday has played out over the years.



It seems the upward bias has been in effect the entire time.

It interesting to note that the Monday after Easter was a poor performer for many years. In recent times, this has not held true. The SPX has risen 6 of the last 7 Mondays following Easter, essentially voiding any seasonal bias I would attribute to that day.

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 just slightly 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 still a little 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 Monday. This could certainly change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,322.43. This is about 0.3% above Friday's close. This means it would only take a rise of this much to turn the black Differential line negative.

I've been holding a decent amount of long exposure over the last few days. With the market only marginally oversold and with a limited amount of short-term bullish evidence in place I'm more inclined to reduce my exposure than I am to increase it. Should the market manage to close above the Differential Pivot on Monday I will certainly flatten out my Aggregator-inspired longs.

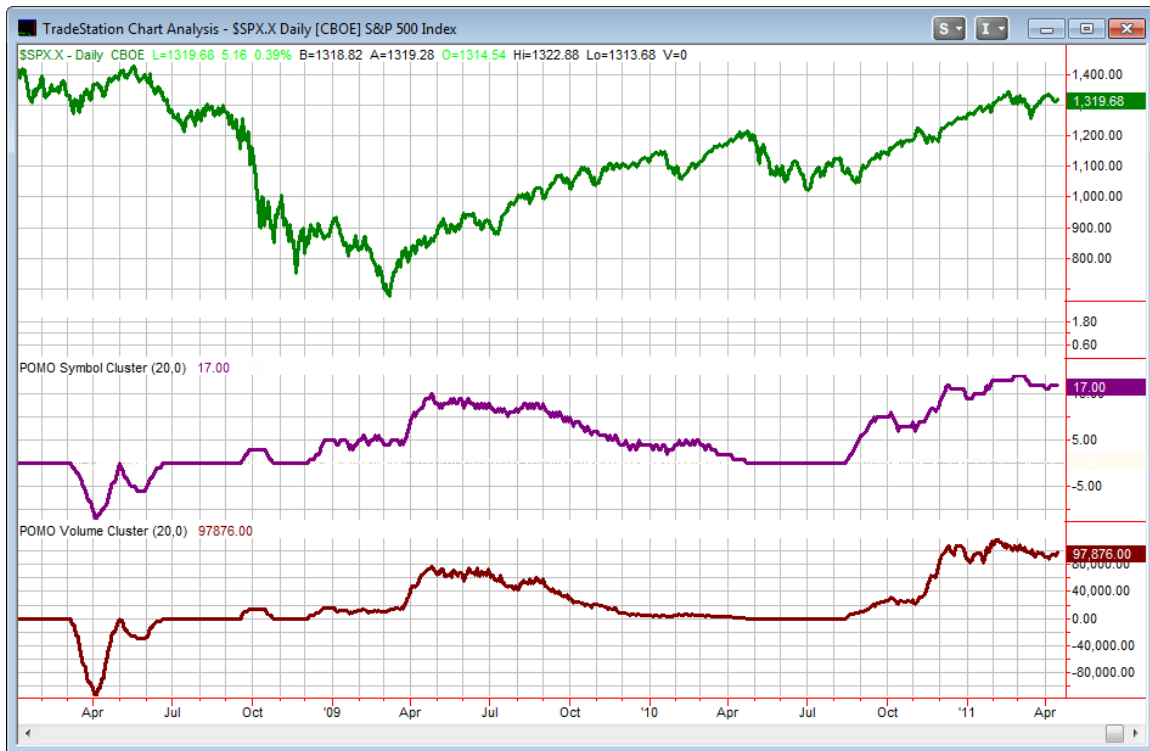
Intermediate-term Outlook (2 weeks – 2 months)– updated 4/18 – bullish

The market gave up a little ground this week but remains within a couple of percent of new highs. The mild action over the last few days failed to trigger any new intermediate-term studies. Intermediate—term studies from past weeks that still remain in effect are all bullish, with one primary driver being Fed POMO buying.

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 is at 17 again this week. The schedule calls for more buying on Monday through Wednesday of this holiday-shortened week. No buying is scheduled on Thursday. The schedule released last Tuesday is very busy. There are 18 trading days schedule for buying between April 13 and May 11. The POMO Volume indicator on the bottom of the chart is also holding firm at a high level. QE2 and the current round of POMO buying are supposed to end sometime in June. As we get closer to that date it will be interesting to see whether the market anticipates the end of the liquidity pumping and sells off or whether the pump continues to work as well as it has. Over the last several years the market has NOT performed well without Fed stimulus in place. For now I still expect it is acting as 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, breadth, and 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. There is a good amount listed on the spreadsheet, but I'll wait a day or so before taking on more exposure.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	4/11/2011	\$56.95	\$56.65	-0.53%		Aggregator
QQQ(1/4)	4/12/2011	\$56.52	\$56.65	0.23%		Aggregator
IJK	4/12/2011	\$108.61	\$109.88	1.17%		sold on close
SPY(1/4)	4/13/2011	\$131.47	\$132.04	0.43%		Aggregator

IJK hit the target according to system 1111 and was sold at the close.

I will look to exit all Aggregator positions (SPY and QQQ) should the SPX close at 1,323.21 or higher. If QQQ gaps up and opens at \$57.00 or higher I will exit one lot of it at the open. If that doesn't happen and if SPX fails to reach the Differential Pivot then I will still exit one lot of QQQ at \$56.75 LIMIT ON CLOSE.

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