

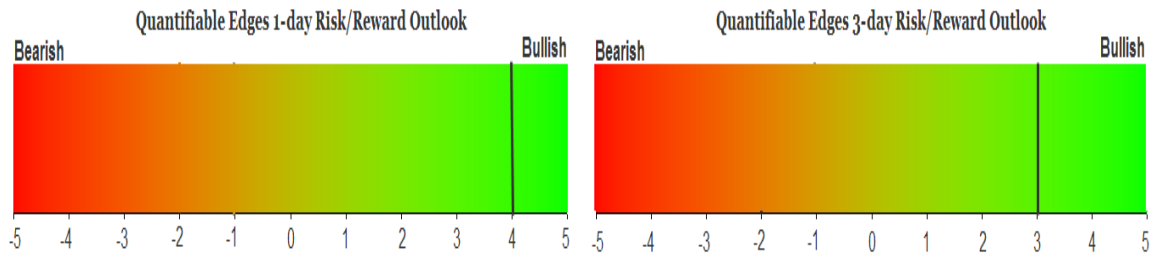
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 19, 2011

Volume 4 Issue 75

## Market Overview



## Tonight's Research Points

- Strong selloff on very weak breadth is suggesting a bounce.
- The break below the 50ma on high volume and very weak breadth suggests a 1-day upside edge.
- The recent poor closing TICK values suggest a short-term bounce as well.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

## *Short-term Outlook*

### *The Bottom Line*

The market is short-term oversold and showing more signs that it is likely to bounce. I'm long and looking to take on some individual stock/etf positions.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
April 19, 2011	1% drop & decliners double advancers	1-9 days	Bullish	
April 19, 2011	50ma break on poor breadth hi vol	1 day	Bullish	
April 19, 2011	TICK TomOscillator extremely low	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%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
April 18, 2011	Up 3 days but below close of 4 days ago	1 day	Bullish	

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

## The Evidence

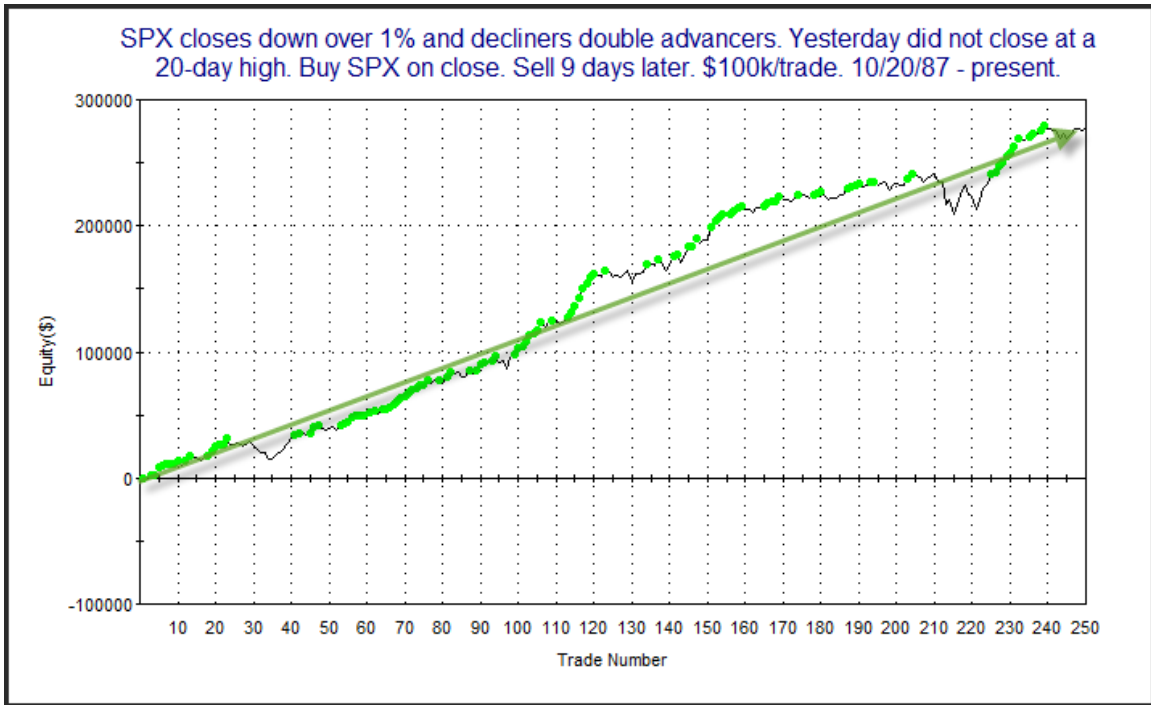
Monday was a tough day for the market. A downgrade of the US debt outlook from Standard & Poors triggered some strong selling before the open. The market never recovered and spent most of the day below its opening price. In the end the SPX and Nasdaq each lost 1.1% and the Russell 2000 lost 1.6%. Breadth was extremely weak as the NYSE Up Issues % came in just under 20% and the Up Volume % was just under 10%. Total NYSE volume edged up from Friday's level to post the highest reading in a month.

One study that appeared in the Quantifinder is the one below, which was last seen in the 3/2/11 Subscriber Letter. I have updated the results to present.

SPX closes down over 1% and decliners double advancers. Yesterday did not close at a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 10/20/87 - 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	237,598.43	240	156	84	65.00	2,981.57	-2,708.65	1.10	2.04	989.99
9	278,240.56	250	174	76	69.60	2,809.71	-2,771.69	1.01	2.32	1,112.96
8	248,881.10	263	174	88	66.16	2,789.24	-2,686.89	1.04	2.05	946.32
7	233,224.38	282	176	106	62.41	2,640.47	-2,183.94	1.21	2.01	827.04
6	211,825.13	297	185	112	62.29	2,525.77	-2,280.74	1.11	1.83	713.22
5	200,700.38	323	196	127	60.68	2,324.66	-2,007.34	1.16	1.79	621.36
4	159,516.28	345	202	143	58.55	2,127.72	-1,890.10	1.13	1.59	462.37
3	164,950.59	379	235	144	62.01	1,815.00	-1,816.48	1.00	1.63	435.23
2	156,445.32	432	246	186	56.94	1,708.65	-1,418.72	1.20	1.59	362.14
1	113,811.93	485	287	198	59.18	1,140.21	-1,077.93	1.06	1.53	234.66

**85% of instances posted a close above the entry price at some point in the next week.**

Prior to the Crash of '87, very weak breadth days were often followed by more weakness. This changed after the crash. This is the reason that I only run this test back until just after the crash. As you can see there have been a large number of instances over the last 23 years. The edge appears to be very solid as well. Below is the equity curve using a 9-day exit.



While there have been some brief dips the equity curve has been incredibly steady for such a common setup over such a long period.

In the 10/29/09 Subscriber Letter I looked at other times the SPX had crossed below its 50ma on extremely strong breadth and volume. The study gave some inclination of a short term bounce and intermediate-term choppiness. I took a fresh look at it tonight and updated the results below. I also shortened the look back period slightly.

SPX crosses down through the 50ma on 90% downside volume and the highest NYSE volume in 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 11/1/86 - present.

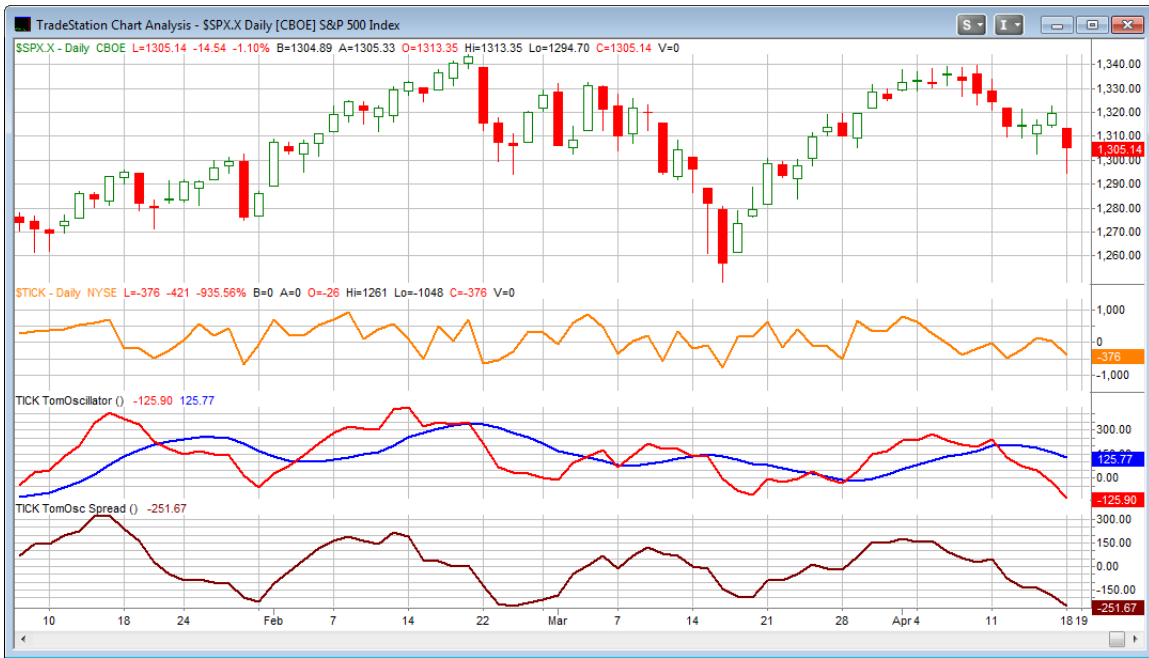
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	-15,267.39	13	8	5	61.54	2,701.49	-7,375.85	0.37	0.59	-1,174.41
19	-10,202.96	13	7	6	53.85	3,279.51	-5,526.59	0.59	0.69	-784.84
18	-15,805.78	13	6	7	46.15	3,514.88	-5,270.72	0.67	0.57	-1,215.83
17	-19,154.43	13	6	7	46.15	3,985.23	-6,152.26	0.65	0.56	-1,473.42
16	-10,104.90	13	5	8	38.46	5,010.55	-4,394.71	1.14	0.71	-777.30
15	-7,444.34	13	6	7	46.15	3,885.89	-4,394.24	0.88	0.76	-572.64
14	-9,493.32	13	7	6	53.85	3,092.59	-5,190.24	0.60	0.70	-730.26
13	-3,401.83	13	6	7	46.15	4,152.13	-4,044.94	1.03	0.88	-261.68
12	1,361.16	13	7	6	53.85	3,305.00	-3,628.98	0.91	1.06	104.70
11	9,669.12	13	8	5	61.54	2,983.18	-2,839.26	1.05	1.68	743.78
10	3,706.94	13	7	6	53.85	2,971.91	-2,849.41	1.04	1.22	285.15
9	4,976.93	13	8	5	61.54	2,996.76	-3,799.43	0.79	1.26	382.84
8	3,898.46	13	8	5	61.54	3,024.87	-4,060.10	0.75	1.19	299.88
7	10,866.74	13	8	5	61.54	3,205.36	-2,955.23	1.08	1.74	835.90
6	14,819.67	13	8	5	61.54	3,252.79	-2,240.53	1.45	2.32	1,139.97
5	11,540.22	13	7	6	53.85	3,305.97	-1,933.59	1.71	1.99	887.71
4	5,736.59	13	6	7	46.15	3,078.21	-1,818.96	1.69	1.45	441.28
3	5,275.08	13	6	7	46.15	2,363.32	-1,272.12	1.86	1.59	405.78
2	13,171.78	13	8	5	61.54	2,036.16	-623.49	3.27	5.23	1,013.21
1	8,966.78	13	13	0	100.00	689.75	0.00	100.00	100.00	689.75

What most sticks out to me here is that the last 13 instances have been followed by bounce the next day. It appears that such strong selling occurring near a highly watched moving average is often a short-term overreaction.

And this study is not the only indication suggesting that selling has become overdone short-term. One market analyst whose work I've become familiar with and whom I have a great deal of respect for is Tom McClellan. Tom created an oscillator based on the closing TICK reading on the NYSE. The oscillator takes a 10-day moving average of the closing TICK, then a 10-day moving average of that value, and then subtracts the two. In November Tom published on his website a detailed overview and description of the indicator. If you are interested in the details you may use the link below to read Tom's article on it.

[http://www.mcoscillator.com/learning\\_center/weekly\\_chart/tick\\_not\\_just\\_a\\_bloodsucking\\_insect/](http://www.mcoscillator.com/learning_center/weekly_chart/tick_not_just_a_bloodsucking_insect/)

I've been meaning to examine the indicator for some time now and was inspired tonight when Tom mentioned in his market report that it was getting extremely low. Below is a visual of the current readings using Tradestation data:



The indicator on the bottom is the difference between the red and blue lines on the pane just above the bottom. It is currently at a very low -251.67. This is the last indicator described in Tom's column (linked above). Since Tom did not give it a name I have decided to refer to it tonight as the TICK TomOscillator. The study below looks at other times during an uptrend that the TICK TomOscillator has registered below -250 while the SPX was making a 5-day low. (I initially used a 10-day low for these studies, but broadened them to 5 to get a few more instances after looking at some results.)

TICK TomOscillator < -250 and SPX closes at a 5-day low. SPX > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	18,826.33	7	5	2	71.43	4,004.53	-598.16	6.69	16.74	2,689.48
9	20,850.69	7	6	1	85.71	3,541.53	-398.48	8.89	53.33	2,978.67
8	21,382.23	7	7	0	100.00	3,054.60	0.00	100.00	100.00	3,054.60
7	14,186.37	7	7	0	100.00	2,026.62	0.00	100.00	100.00	2,026.62
6	15,037.03	7	7	0	100.00	2,148.15	0.00	100.00	100.00	2,148.15
5	9,713.36	7	6	1	85.71	1,912.20	-1,759.84	1.09	6.52	1,387.62
4	9,164.98	7	7	0	100.00	1,309.28	0.00	100.00	100.00	1,309.28
3	9,079.86	7	7	0	100.00	1,297.12	0.00	100.00	100.00	1,297.12
2	6,378.17	7	5	2	71.43	1,448.04	-431.02	3.36	8.40	911.17
1	6,715.26	7	6	1	85.71	1,194.22	-450.08	2.65	15.92	959.32

Instances are quite low here but the bullish reaction has been exceptionally strong. It is rare you see such bullishly volatile numbers when using a “close > 200ma” filter. Uptrends tend to be less volatile than downtrends so most of the time even very strong results are less forceful. Below I have listed all of the qualifying instances using an 8-day exit technique.

TICK TomOscillator < -250 and SPX closes at a 5-day low. SPX > 200ma.  
Buy SPX on close. Sell 8 days later. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
10/24/03	Buy	\$1,028.91	2.23%	\$3,155.41
11/05/03	Sell	\$1,051.81		\$0.00
02/22/05	Buy	\$1,184.17	3.20%	\$3,409.56
03/04/05	Sell	\$1,222.12		\$0.00
07/27/07	Buy	\$1,458.95	2.64%	\$3,055.92
08/08/07	Sell	\$1,497.49		(\$2,146.08)
10/01/09	Buy	\$1,029.85	4.21%	\$4,812.17
10/13/09	Sell	\$1,073.19		(\$960.30)
10/28/09	Buy	\$1,042.63	4.84%	\$4,799.40
11/09/09	Sell	\$1,093.08		(\$1,258.75)
09/23/10	Buy	\$1,124.83	3.19%	\$3,337.84
10/05/10	Sell	\$1,160.75		\$0.00
02/24/11	Buy	\$1,306.10	1.20%	\$1,989.68
03/08/11	Sell	\$1,321.82		(\$267.52)

Even the weakest one saw a gain of 1.2% over the 8 days.

To get a broader sample I also looked at a more moderate TICK TomOscillator reading.

TICK TomOscillator < -200 and SPX closes at a 5-day low. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	24,163.59	17	14	3	82.35	2,056.39	-1,541.94	1.33	6.22	1,421.39
9	23,918.09	17	14	3	82.35	2,072.15	-1,697.36	1.22	5.70	1,406.95
8	25,379.04	17	14	3	82.35	2,002.30	-884.41	2.26	10.57	1,492.88
7	17,387.79	17	13	4	76.47	1,715.68	-1,229.03	1.40	4.54	1,022.81
6	15,588.76	18	14	4	77.78	1,758.38	-2,257.13	0.78	2.73	866.04
5	14,259.85	18	12	6	66.67	1,845.38	-1,314.12	1.40	2.81	792.21
4	14,993.51	18	13	5	72.22	1,638.24	-1,260.72	1.30	3.38	832.97
3	22,407.25	20	16	4	80.00	1,800.67	-1,600.87	1.12	4.50	1,120.36
2	23,236.76	20	18	2	90.00	1,336.21	-407.47	3.28	29.51	1,161.84
1	19,566.34	26	19	7	73.08	1,354.09	-880.20	1.54	4.18	752.55

The only instance that failed to close above its entry price within 2 days triggered on 7/26/07. It took 9 days.

Results here remained extremely strong.

I did have some concern with simply using raw readings for my studies. TICK ranges have evolved over time. They are affected by the number of outstanding issues, and they also were impacted by the elimination of the uptick rule for shorting in 2007. Therefore I thought it might be worthwhile to use a relative reading rather than an absolute one. To do this I simply did a % Rank of the TICK TomOscillator over a 252-day (1 year) period. The study below is similar to the studies above but it uses a % Rank rather than the raw TICK TomOscillator reading.

TICK TomOscillator 1-yr % rank < 1% and SPX closes at a 10-day low. SPX > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	9,427.12	9	6	3	66.67	2,608.86	-2,075.34	1.26	2.51	1,047.46
9	11,313.23	9	6	3	66.67	2,813.01	-1,854.93	1.52	3.03	1,257.03
8	12,710.88	10	7	3	70.00	2,894.83	-2,517.64	1.15	2.68	1,271.09
7	10,957.77	10	8	2	80.00	1,884.12	-2,057.61	0.92	3.66	1,095.78
6	7,374.67	10	7	3	70.00	1,617.90	-1,316.88	1.23	2.87	737.47
5	3,049.53	10	6	4	60.00	1,273.47	-1,147.82	1.11	1.66	304.95
4	3,053.71	11	8	3	72.73	1,139.29	-2,020.20	0.56	1.50	277.61
3	6,321.50	12	8	4	66.67	1,134.88	-689.39	1.65	3.29	526.79
2	6,400.12	12	8	4	66.67	1,037.17	-474.30	2.19	4.37	533.34
1	10,245.96	13	12	1	92.31	932.13	-939.60	0.99	11.90	788.15

All 13 instances posted a close above the entry price on either day 1 or day 2.

Here again while instances are fairly low we see what appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below is a list of all instances with a 1-day exit.

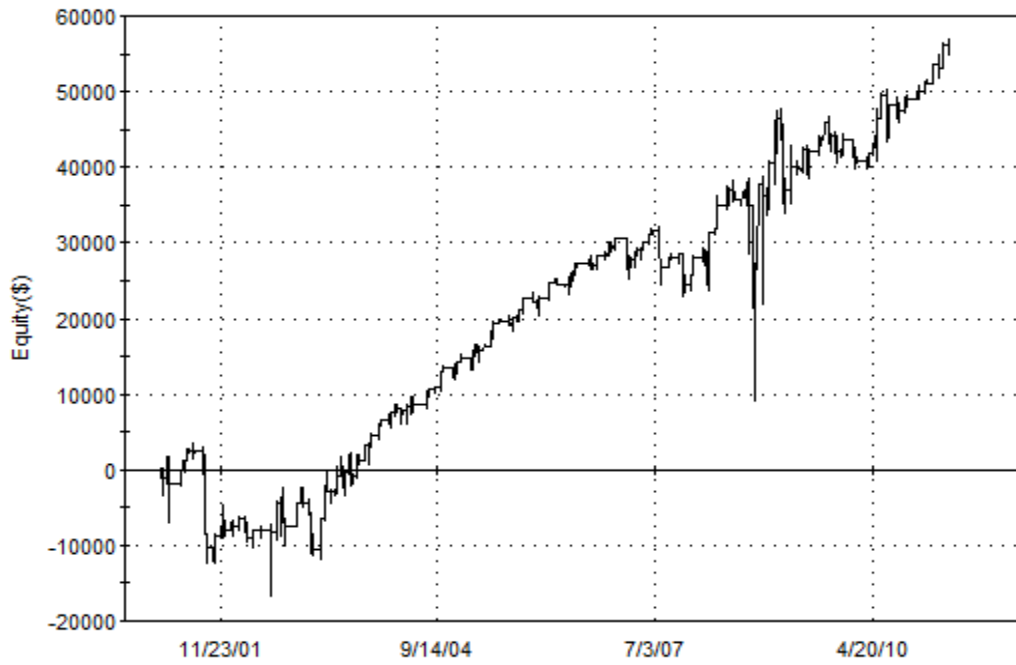
TICK TomOscillator 1-yr % rank < 1% and SPX closes at a 10-day low.  
 SPX > 200ma. Buy SPX on close. Sell 1 day later. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
07/23/98	Buy	\$1,139.74	0.09%	\$904.80
07/24/98	Sell	\$1,140.80		(\$925.68)
08/04/98	Buy	\$1,072.12	0.87%	\$1,179.24
08/05/98	Sell	\$1,081.42		(\$1,374.54)
05/25/99	Buy	\$1,284.38	1.59%	\$1,574.65
05/26/99	Sell	\$1,304.76		(\$450.45)
07/24/00	Buy	\$1,464.29	0.70%	\$811.92
07/25/00	Sell	\$1,474.47		\$0.00
06/25/03	Buy	\$975.32	1.08%	\$1,143.42
06/26/03	Sell	\$985.82		(\$155.04)
06/30/03	Buy	\$974.50	0.80%	\$893.52
07/01/03	Sell	\$982.32		(\$1,264.80)
10/24/03	Buy	\$1,028.91	0.22%	\$857.48
10/27/03	Sell	\$1,031.13		\$0.00
02/22/05	Buy	\$1,184.17	0.56%	\$785.40
02/23/05	Sell	\$1,190.80		\$0.00
02/27/07	Buy	\$1,399.14	0.55%	\$1,189.25
02/28/07	Sell	\$1,406.82		(\$176.79)
03/02/07	Buy	\$1,387.17	(0.94%)	\$337.68
03/05/07	Sell	\$1,374.12		(\$950.40)
03/05/07	Buy	\$1,374.12	1.55%	\$1,712.16
03/06/07	Sell	\$1,395.41		\$0.00
07/27/07	Buy	\$1,458.95	1.03%	\$1,287.24
07/30/07	Sell	\$1,473.91		(\$314.84)
10/28/09	Buy	\$1,042.63	2.25%	\$2,299.00
10/29/09	Sell	\$1,066.11		\$0.00

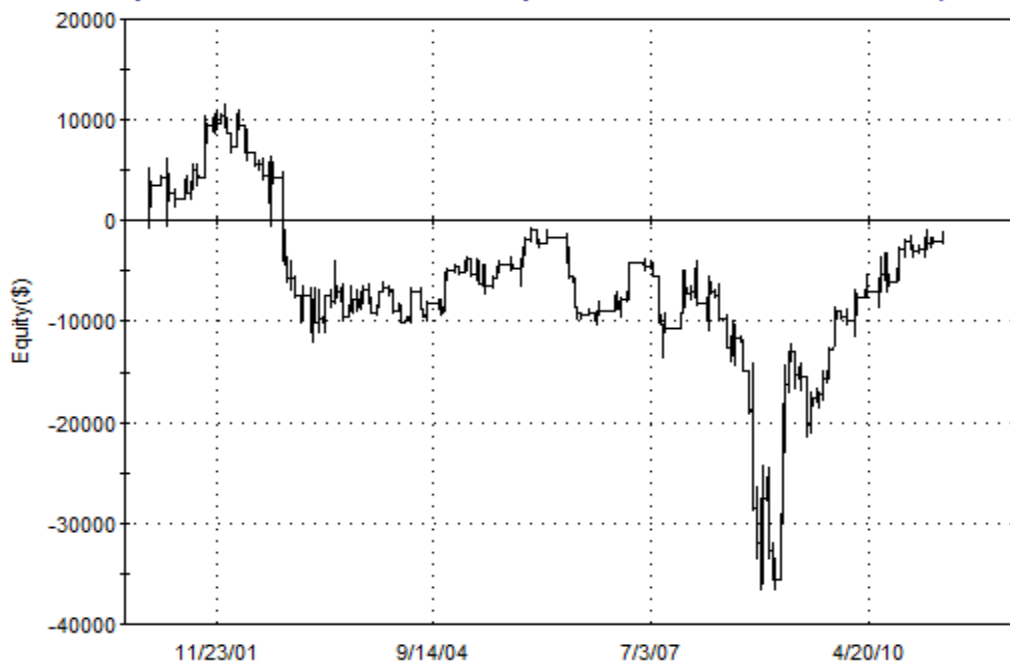
It certainly appears that extremely low readings that coincide with short-term SPX lows are strongly suggestive of a bounce in the next day or two.

The indicator also appears worth watching when it is at less extreme levels. Below are 2 equity curves. The first one looks at owning the SPX the day after the TICK TomOscillator 1-yr Rank % comes in under 20%. The 2<sup>nd</sup> one looks at TICK TomOscillator 1-yr Ranks %'s above 80%.

TICK TomOscillator 1-yr. % Rank < 20.  
Buy SPX on close. Sell next day's close. \$100k/trade. 2001 - present.

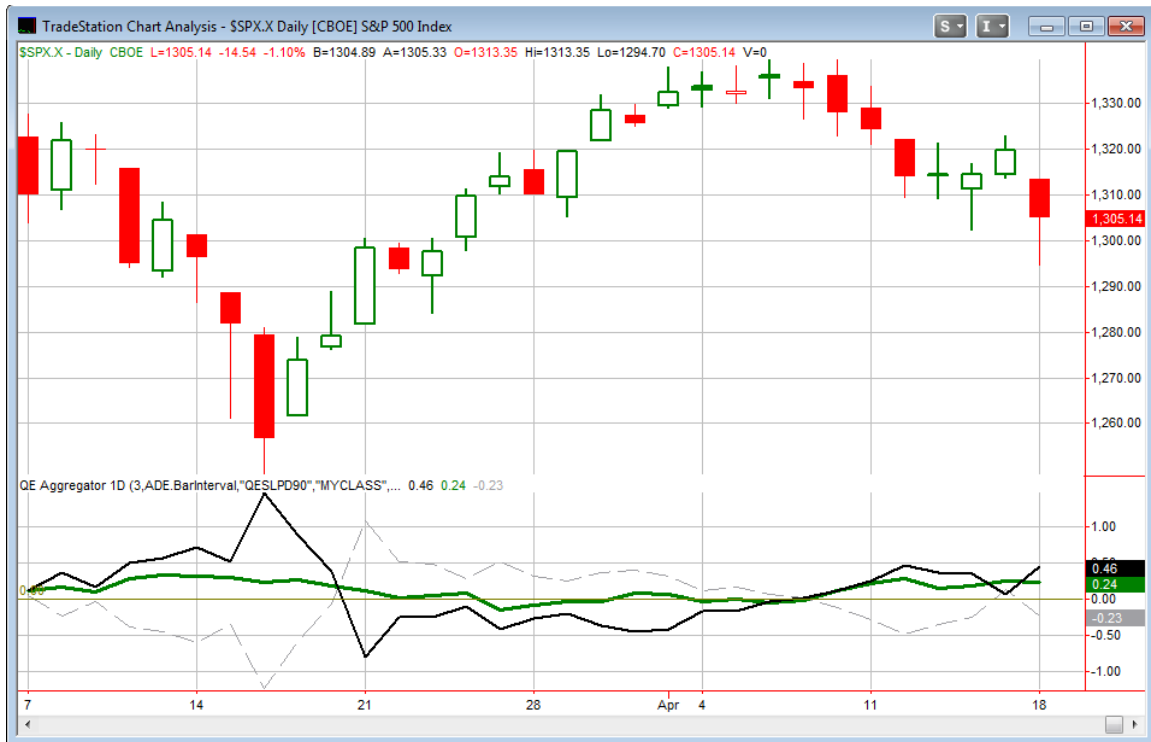


TICK TomOscillator 1-yr. % Rank > 80.  
Buy SPX on close. Sell next day's close. \$100k/trade. 2001 - present.



Based on these equity curves it appears even moderately overbought/oversold reading are worth paying attention to. I may look to explore this indicator further in the future.

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 jumped from slightly to strongly 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 Tuesday. This could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,322.66. This is about 1.3% above Monday's close. This means it would take a rise of at least this much to turn the black Differential line negative.

Despite the strong selloff on Monday the market appears primed for a bounce. The inclination appears especially strong for Tuesday when several bullish studies will be active. I'm a bit frustrated with myself that I didn't look to take some exposure off the table in a more aggressive manner the last couple of days. Neither Friday nor Monday did prices manage to reach the levels I was looking to sell at. I'd much rather be putting a new lot on now after stepping out of in the last day or two than simply holding through the pullback. It happens sometimes though and it is just part of trading. I'm optimistic about the current setup and will not be looking to exit my long index position without a strong move up tomorrow. I'm also not yet looking to add to it. I did place a couple of non-index sized trade ideas in the Trade Idea section below.

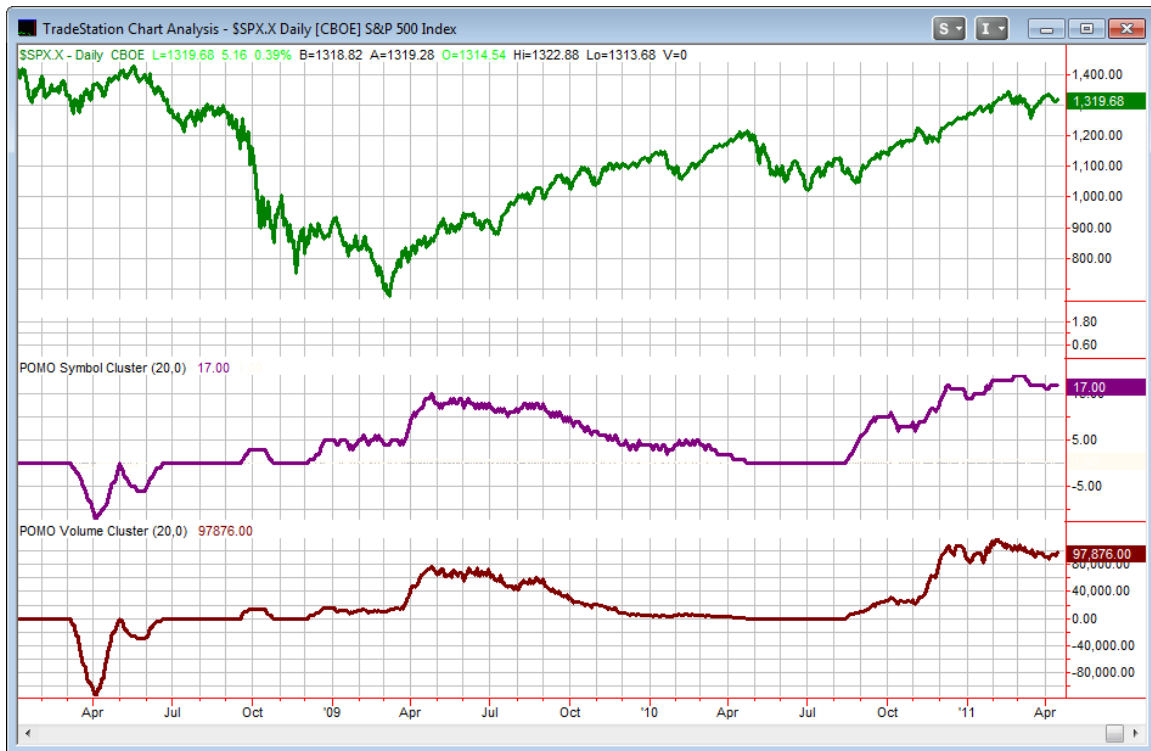
***Intermediate-term Outlook (2 weeks – 2 months)– updated 4/18 – bullish***

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 3<sup>rd</sup> 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](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.*

*EPP – Buy @ \$48.90 Limit.* Based on system 90609, this ETF also appears to be pulling back after breaking out of a large base formation. I will look to buy and manage according to 90609.

*FCX – Buy @ \$50.61 limit.* Based on system 80421. I will be using the %b >= 25 exit for this one should I receive a fill.

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
QQQ(1/4)	4/11/2011	\$56.95	\$56.25	-1.23%		Aggregator
QQQ(1/4)	4/12/2011	\$56.52	\$56.25	-0.48%		Aggregator
SPY(1/4)	4/13/2011	\$131.47	\$130.56	-0.69%		Aggregator

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