

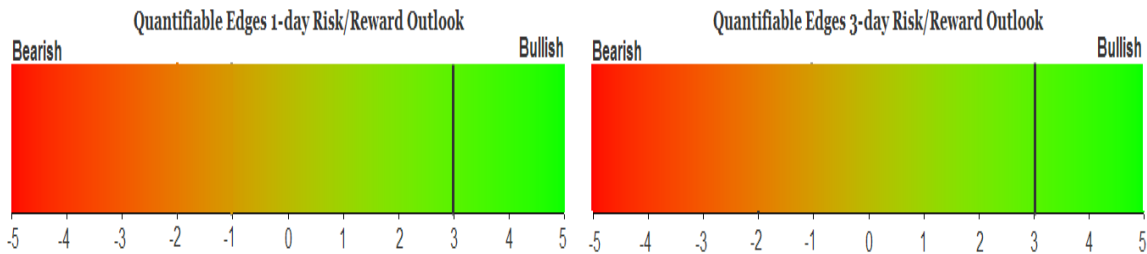
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 20, 2011

Volume 4 Issue 76

## Market Overview



## Tonight's Research Points

- After a wide range, high volume, down day, narrow range days are typically a good sign for the bulls.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

## *Short-term Outlook*

### *The Bottom Line*

The market is once again attempting to bounce. I expect more follow through in the coming days and am still holding quite a bit long.

## *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 20, 2011	WR7 Down High Vol then NR7	1-5 days	Bullish	2.10%
April 19, 2011	1% drop & decliners double advancers	1-9 days	Bullish	
<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>				
<b>April 19, 2011</b>	<b>50ma break on poor breadth hi vol</b>	<b>1 day</b>	<b>Bullish</b>	
<b>April 19, 2011</b>	<b>TICK Tom Oscillator extremely low</b>	<b>1 day</b>	<b>Bullish</b>	
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%

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

## The Evidence

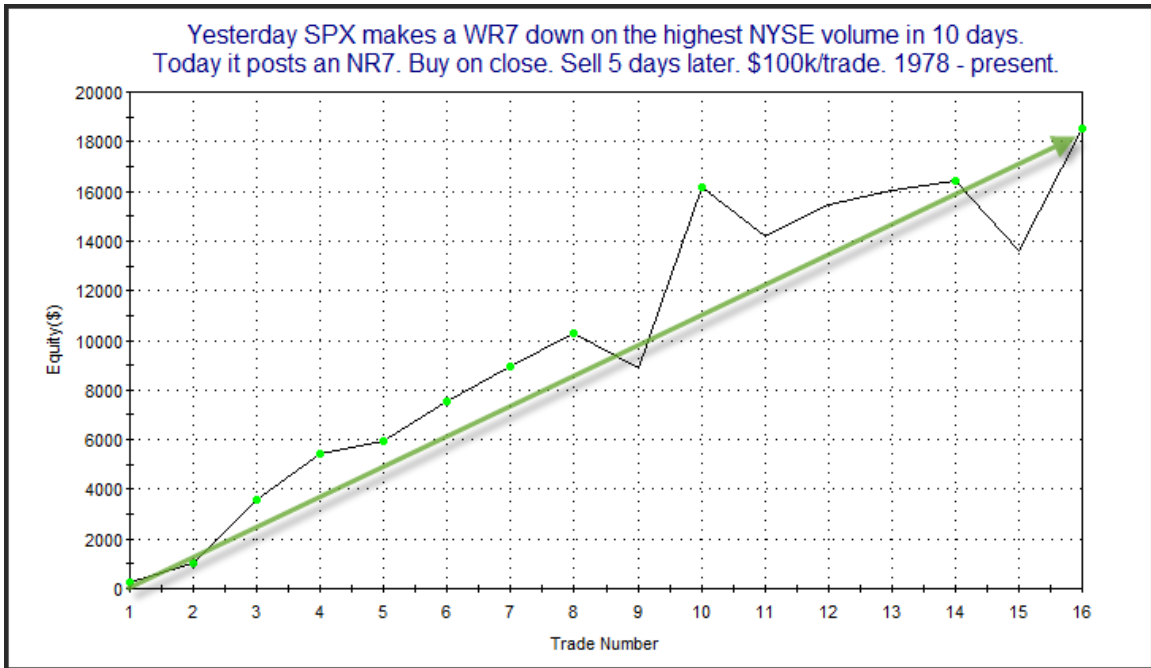
Trading action was muted on Tuesday but the major indices all managed to tack on some gains and finish near their highs. The SPX closed up 0.6%, the Nasdaq rose 0.4% and the Russell 2000 added 0.2%. Breadth was solidly positive as the NYSE Up Issues % came in at 65% and the Up Volume % was 70%. Total volume back off the levels seen over the past week.

Today's range was the tightest of the last 7 trading days in the SPX. This is known as an NR7 day. (NR stands for Narrow Range.) In the 6/24/08 blog I showed how NR7 days that were preceded a high volume drop the day before suggested a bullish edge. Another study that was last seen in the 10/5/09 letter showed NR7s that are preceded by WR7s (widest range of the last 7 days) that close down also carry a bullish edge. The combination of these two studies is the most compelling and that was last found in the 9/3/09 Subscriber Letter. That study I have updated below:

Yesterday SPX makes a WR7 down on the highest NYSE volume in 10 days. Today it posts an NR7. Buy on close. Sell X days later. \$100k/trade. 1978 - 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	22,071.00	16	12	4	75.00	2,859.83	-3,061.73	0.93	2.80	1,379.44
9	27,165.10	16	12	4	75.00	3,014.53	-2,252.32	1.34	4.02	1,697.82
8	26,179.20	16	11	5	68.75	3,200.82	-1,805.96	1.77	3.90	1,636.20
7	21,336.51	16	10	6	62.50	3,092.84	-1,598.64	1.93	3.22	1,333.53
6	17,292.22	16	10	6	62.50	2,532.53	-1,338.85	1.89	3.15	1,080.76
5	18,538.00	16	13	3	81.25	1,904.24	-2,072.38	0.92	3.98	1,158.63
4	14,371.24	16	11	5	68.75	2,002.17	-1,530.53	1.31	2.88	898.20
3	4,301.16	16	10	6	62.50	1,470.12	-1,733.34	0.85	1.41	268.82
2	3,448.19	16	11	5	68.75	980.02	-1,466.40	0.67	1.47	215.51
1	938.90	16	9	7	56.25	840.17	-946.10	0.89	1.14	58.68

**15 of 16 instances (94%) posted a close above the entry price at some point in the next week. The lone holdout was 9/18/01, which took 8 trading days before posting a profitable close.**

The stats here suggest a bullish edge. To see how the edge has played out over time I have included below an equity curve using a 5-day holding period.



The relatively steady move from lower left to upper right is comforting. In all, I believe this study is worth inclusion on the Active List.

With 4 bullish studies dropping of the list tonight evidence is a bit light. It will be important to monitor action tomorrow in case bearish evidence emerges. I should also note that Thursday is Holy Thursday, which as I outlined in Sunday night's letter, has provided a positive seasonal bias.

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



The green Aggregator line dipped a little but still remained a good amount above 0. 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 also squarely 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 could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,327.38. 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.

It's been a choppy ride lately, but the market looks ready to make another attempt at a rally. The studies suggest bullish implications and the market's recent underperformance leaves plenty of room for upside. With a decent amount of exposure already on, I'm not looking to add more tomorrow, but I am looking for a bit more before exiting. Details in the trade ideas section below.

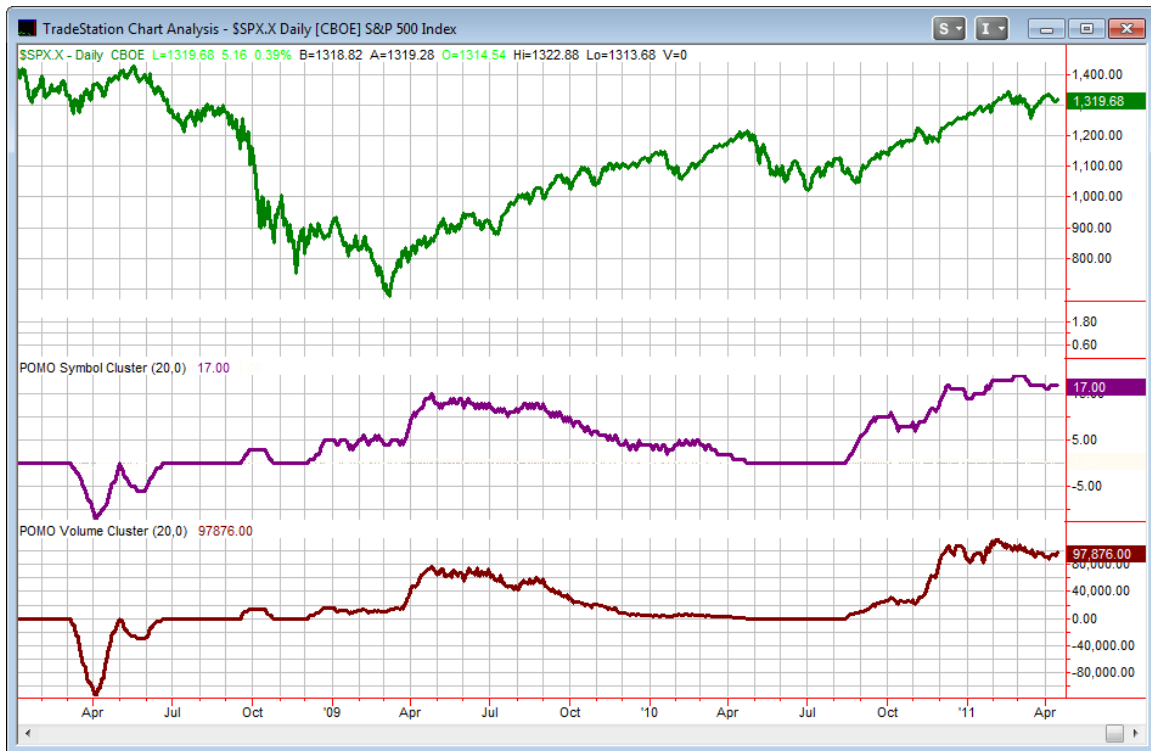
***Intermediate-term Outlook (2 weeks – 2 months)– updated 4/18 – bullish***

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.

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	\$56.60	-0.61%		Aggregator
QQQ(1/4)	4/12/2011	\$56.52	\$56.60	0.14%		Aggregator
SPY(1/4)	4/13/2011	\$131.47	\$131.31	-0.12%		Aggregator
EPP	4/19/2011	\$48.85	\$49.09	0.49%		System 90609

I will exit both QQQ positions and the SPY position should the SPX close at or above the Differential Pivot of 1,327.38. I considered exiting one of the QQQ positions if we get a sizable gap up. I decided not to look to do this since the market is still oversold and could run if it gaps higher.

After realizing FCX, one trade idea from last night's letter, was set to release earnings on Wednesday morning, and seeing it gap up large on Tuesday, I decided to pull the plug on the open order. I notified subscribers of the cancellation via intraday update email this morning. At this point that looks like it may turn out to be the wrong decision since FCX did pull back to the limit price and then rallied nicely. Still, I prefer not to buy strong pullbacks just prior to an earnings release. There is an extra element of risk that I would rather not deal with. There is also always the chance that the pre-earnings selloff occurred because people in the know wanted out. So I may miss out on a nice winner here, but that's ok for me under these circumstances.

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