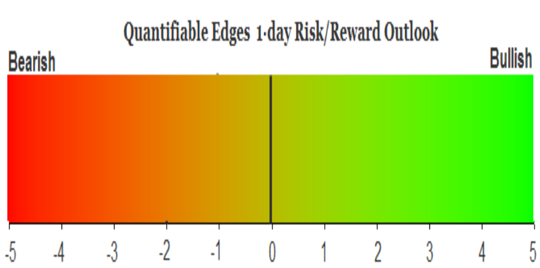
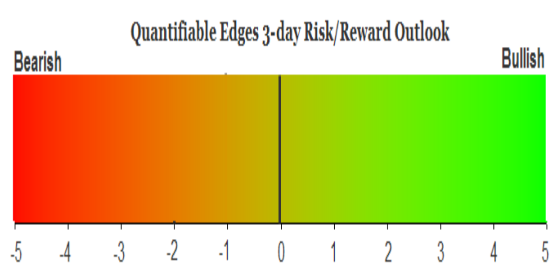
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 27, 2011 Volume 4 Issue 80

Market Overview





Tonight's Research Points

- Fed Days are generally bullish, but bullish inclinations no longer hold when the day before closes at a 20-day high and in the top 25% of its range.
- The unfilled breakaway gap to a new 50-day high suggests an upside edge.
- The constant closes in the upper end of the daily range suggest a pullback.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

Expectations remain positive but the SPX is still overbought. I won't look to add more exposure until a better setup avails itself.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 27, 2011	SPY 8-day avg closing range > 75%	1-2 days	Bearish	-1.40%
April 27, 2011	Unfilled gap to new 50-day high	1-5 days	Bullish	1.70%
April 26, 2011	Low vol 20. SPX >10ma & 2--ma.	1-2 days	Bearish	-1.10%
April 26, 2011	3 higher highs, lows, closes. Dn close.	1-4 days	Bullish	1.40%
Active - Long Term				
April 25, 2011	Nas/SPX relative strength favors Nas	int term	Bullish	
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 20, 2011	***WR7 Down High Vol then NR7***	***1-5 days***	***Bullish***	***2.10%***
April 21, 2011	***Unfilled gap up. 2nd day up. No 10***	***1-3 days***	***Bullish***	
April 19, 2011	***1% drop & decliners double advanc***	***1-9 days***	***Bullish***	***3.00%***
April 25, 2011	VIX < lower BB 2 in a row. SPX >200ma	1-2 days	Bearish	-1.05%

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

The market put in a strong day Tuesday. It gapped higher to start the day and never looked back. When it was over the SPX, Nasdaq, and Russell were all at new multi-year highs. Gains on the day were 0.9% for the SPX, 0.8% for the Nasdaq and 1.1% for the Russell 2000. Breadth was strong as the NYSE Up Issues % came in at 72% and the Up Volume % was 70%. Total NYSE volume spiked to the highest level in over a week.

I mentioned last night that Wednesday is a Fed Day. In general Fed Days have been strongly positive days. I also discussed last night that 2 things to watch out for were the closing level of the SPY within its daily range and whether or not SPX closed at a new 20-day high. Closes in the upper quartile of the daily range have led to a greatly reduced Fed Day edge, and 20-day highs the day before have led to no substantial edge. Studies demonstrating these concepts can be found in the Quantifinder tonight. They are from the 1/27/10 Subscriber Letter and the 12/14/10 Subscriber Letter. I decided tonight to see how the combination performed. Those results are below.

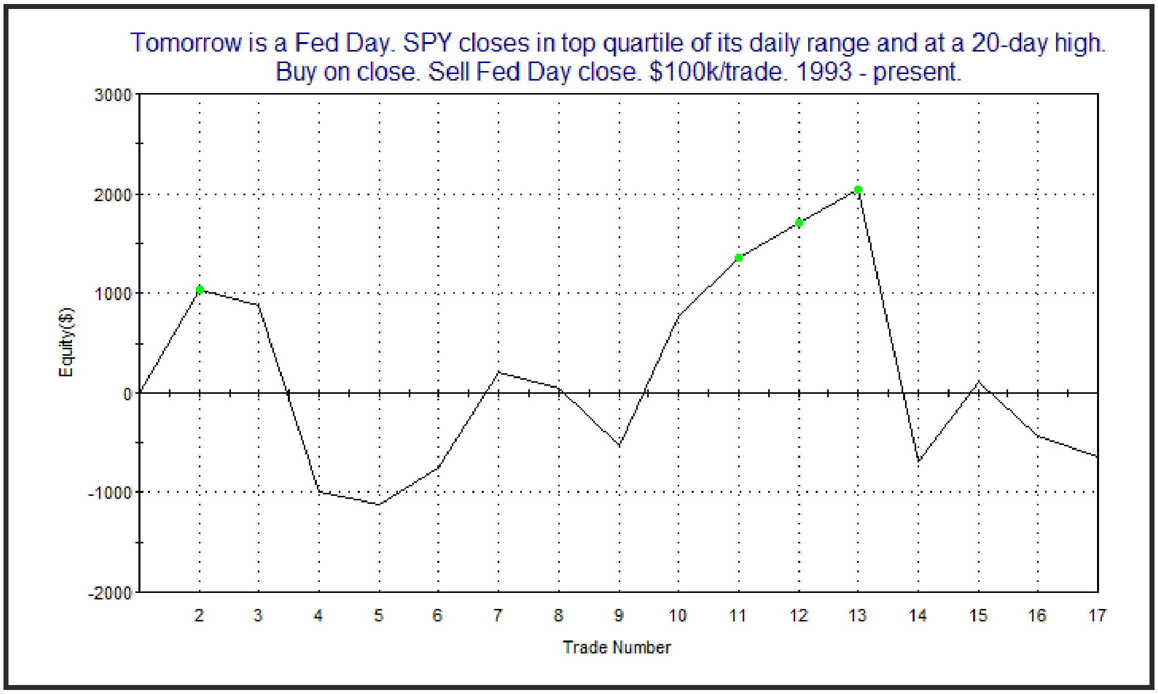
Tomorrow is a Fed Day. SPY closes in top quartile of its daily range and at a 20-day high.
Buy on close. Sell Fed Day close. $100k/trade. 1993 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	($637.08)	Profit Factor	0.90
Gross Profit	$5,733.97	Gross Loss	($6,371.05)
Total Number of Trades	17	Percent Profitable	47.06%
Winning Trades	8	Losing Trades	8
Even Trades	1		
Avg. Trade Net Profit	($37.48)	Ratio Avg. Win:Avg. Loss	0.90
Avg. Winning Trade	$716.75	Avg. Losing Trade	($796.38)
Largest Winning Trade	$1,294.72	Largest Losing Trade	($2,739.69)

Results here suggest no substantial edge. Below is the equity curve.



The Fed Day doesn't appear to be providing any edge.

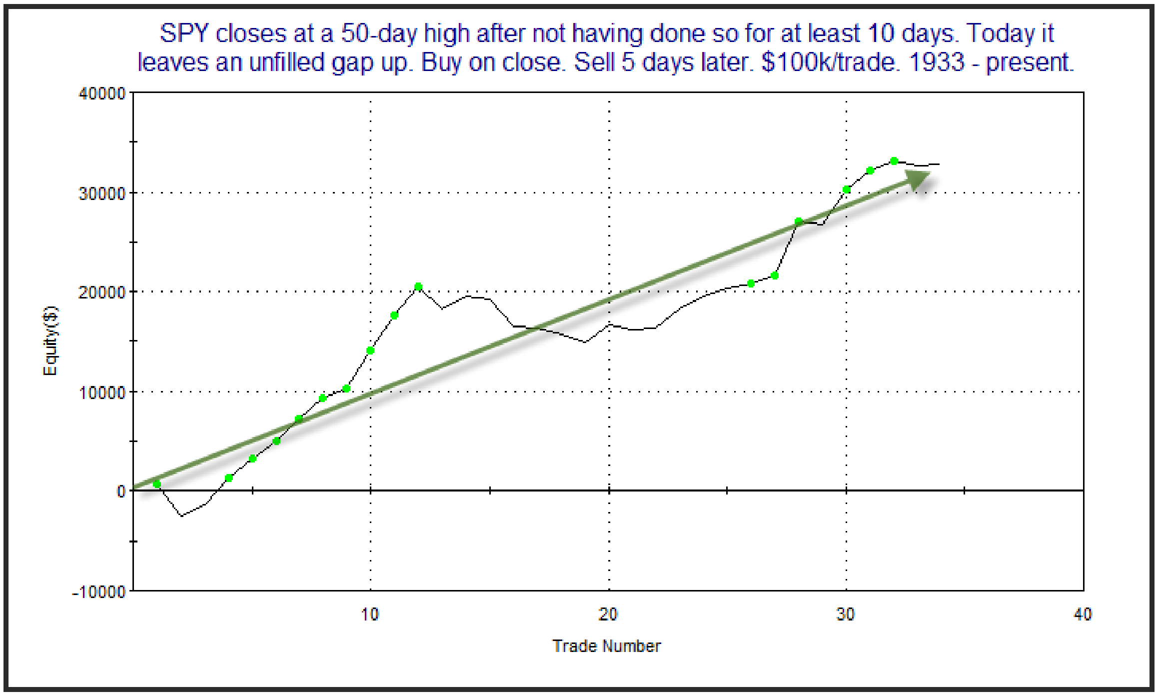
Several studies triggered that looked at the new closing high in the SPX. When a 50-day high is made for the first time in a while, that can be considered a breakout. In the past I've found 10 days to be a reasonable sized base period. Of the studies that triggered the most substantial and applicable looked at 50-day breakouts that occurred in conjunction with an unfilled up-gap versus those that didn't. The first study below looks at instances where SPY broke out and posted an unfilled gap. It was last seen in the 9/21/10 subscriber letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. Buy on close. Sell X days later. $100k/trade. 1993 - 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	32,878.39	34	24	10	70.59	1,837.09	-1,121.18	1.64	3.93	967.01
4	23,712.11	34	25	9	73.53	1,416.13	-1,299.00	1.09	3.03	697.42
3	20,311.52	34	25	9	73.53	1,253.06	-1,223.89	1.02	2.84	597.40
2	12,915.59	34	23	11	67.65	929.03	-768.37	1.21	2.53	379.87
1	4,983.07	34	24	10	70.59	549.85	-821.33	0.67	1.61	146.56

30 of 34 instances (88%) posted a close above the entry price at some point in the next 4 days.

Results here are strong. Below is an equity curve using a 5-day holding period.



The nice upslope on the equity curve confirms the bullish inclinations.

Technicians will often use the term "breakaway gap". This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn't immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let's look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same. This study also appeared in the 9/21/10 Letter, I have NOT updated this one.

SPY closes at a 50-day high after not having done so for at least 10 days. No unfilled gap today. Buy on close. Sell X days later. $100k/trade. 1993 - 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	-15,890.08	35	15	20	42.86	1,258.86	-1,738.65	0.72	0.54	-454.00
9	-9,118.75	35	15	20	42.86	1,469.62	-1,558.16	0.94	0.71	-260.54
8	-4,726.50	35	17	18	48.57	1,204.38	-1,400.05	0.86	0.81	-135.04
7	-3,439.05	35	17	18	48.57	899.15	-1,040.26	0.86	0.82	-98.26
6	2,163.49	35	21	14	60.00	1,021.47	-1,377.67	0.74	1.11	61.81
5	888.97	35	20	15	57.14	1,059.69	-1,353.65	0.78	1.04	25.40
4	-2,701.06	35	17	18	48.57	1,120.86	-1,208.65	0.93	0.88	-77.17
3	1,957.36	35	18	17	51.43	1,140.05	-1,091.97	1.04	1.11	55.92
2	-1,497.59	36	18	18	50.00	700.55	-783.75	0.89	0.89	-41.60
1	501.03	36	19	16	52.78	486.74	-546.69	0.89	1.06	13.92

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

Another important feature of the "breakaway gap" is that it is actually a breakaway. Let's look at the unfilled gap higher to a new 50-day high again but this time filter on only those instances that were not preceded by a base formation. (Also from 9/21/10 and NOT updated.)

SPY closes at a 50-day high. It is **not** the 1st 50-day high in the last 10 days. Today it leaves an unfilled gap up. Buy on close. Sell X days later. $100k/trade. 1993 - 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	-32,144.01	104	45	58	43.27	889.01	-1,243.96	0.71	0.55	-309.08
4	-14,277.98	112	61	50	54.46	812.08	-1,276.30	0.64	0.78	-127.48
3	-9,743.75	121	66	54	54.55	704.07	-1,040.97	0.68	0.83	-80.53
2	-2,300.63	130	71	58	54.62	570.15	-737.61	0.77	0.95	-17.70
1	-6,682.97	141	68	72	48.23	380.41	-452.09	0.84	0.79	-47.40

These results imply that a proper base is needed. Gaps to new highs that aren't breakaway gaps may instead mark exhaustion and simply don't carry the same upside edge.

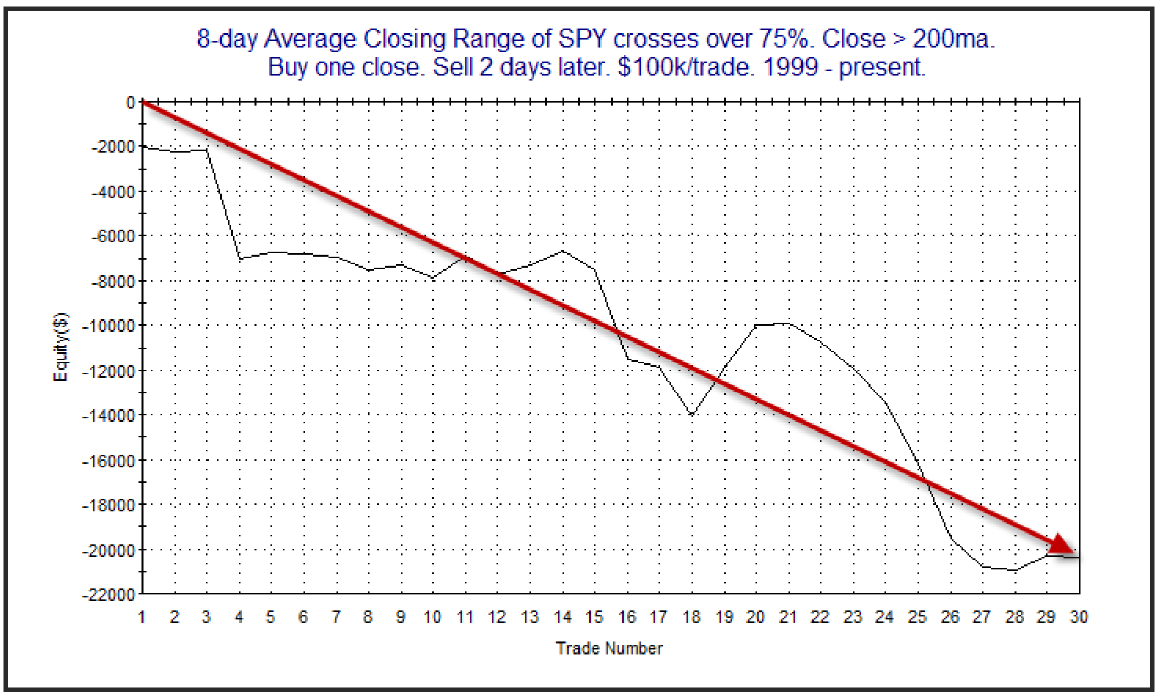
Over the last week and a half the SPY has been closing the day relatively well. Consistent strong closes at the end of the day rarely continue for very long. The study below was last seen on 2/14/11. It uses an 8-day average of the closing % range. When this measure has become overdone that has commonly been followed by a market pullback. The results have been updated.

8-day Average Closing Range of SPY crosses over 75%. Close > 200ma.
Buy one close. Sell X days later. $100k/trade. 1999 - 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	-22,153.24	26	12	14	46.15	922.80	-2,373.34	0.39	0.33	-852.05
4	-18,806.99	26	11	15	42.31	968.44	-1,963.99	0.49	0.36	-723.35
3	-17,429.63	27	10	17	37.04	864.00	-1,533.51	0.56	0.33	-645.54
2	-20,356.90	30	10	20	33.33	736.44	-1,386.06	0.53	0.27	-678.56
1	-9,880.04	30	13	17	43.33	275.96	-792.21	0.35	0.27	-329.33

25 of 30 instances (83%) posted a close below the entry price on either day 1 or day 2.

Results here suggest a short-term bearish edge. Below is an equity curve using a 2-day exit strategy.



Despite the last few trades the slope of the curve remains down as it has all along.

The strong rally on Tuesday also meant several short-term bullish studies have met their targets and have been removed from the Active List. They can be seen in bold, italicized blue on the list.

I have updated the Aggregator chart below.

The green Aggregator line barely budged again tonight and remains well 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 still below 0. Readings below 0 mean the SPX has outperformed expectations over the last few days. So net expectations are for upside but the SPX is already overbought. This is considered a neutral configuration. A neutral configuration is visible on the chart whenever the green Aggregator and black Differential lines finish on opposite sides of zero. Due to this the Aggregator System remained flat.

The green Aggregator line is again set to close above 0 on Wednesday. This could change if more bearish evidence emerges. Meanwhile, the Differential Pivot will be

1,342.32. This is about 0.4% below Tuesday's close. In order for the Differential line to turn positive the SPX would need to close at least this much lower.

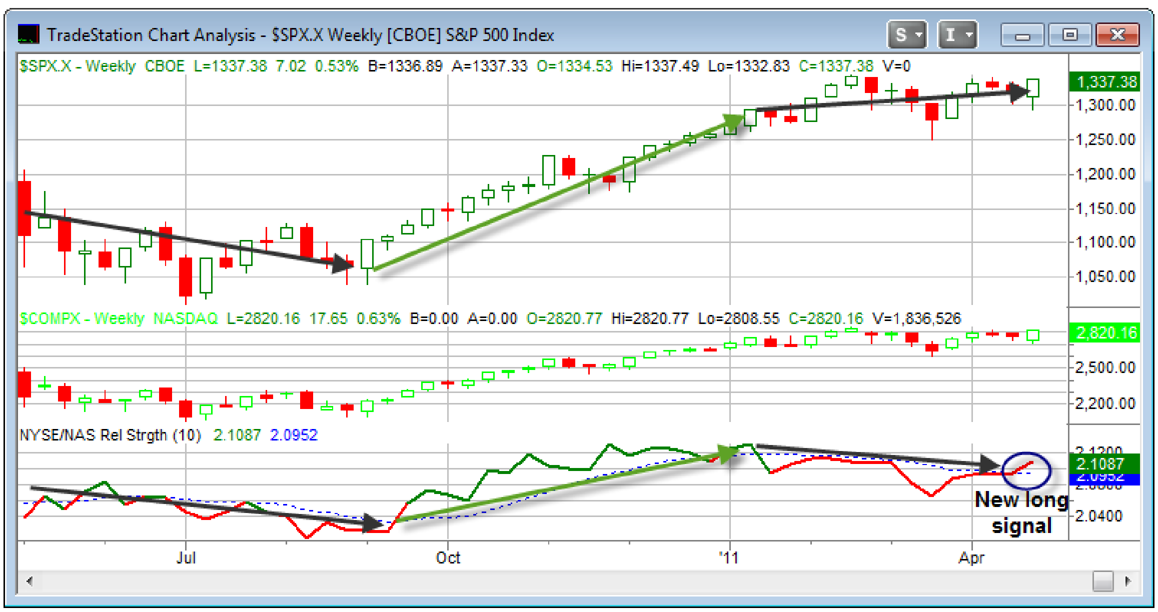
Overall the breakout on Tuesday looks good. I expect we will see some more upside follow through. At the same time with the market overdone short-term it is not in a place where I'm inclined to take on new long exposure. I'll show a bit more patience and wait for a better opportunity to put additional capital to work.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/25 – bullish

After 2 down weeks the market made some nice gains this past week. One encouraging sign in addition to prices rising is that the Nasdaq is now taking leadership back over from the SPX. For relative strength I use a 10-week measure. The chart below is updated each week on the charts page. Detailed write-ups for those who would like a refresher may be found using the following links.

http://quantifiableedges.blogspot.com/2009/05/simple-powerful-timing-indicator.html

http://quantifiableedges.blogspot.com/2009/06/tweaking-nasdaqs-leadlag-model.html

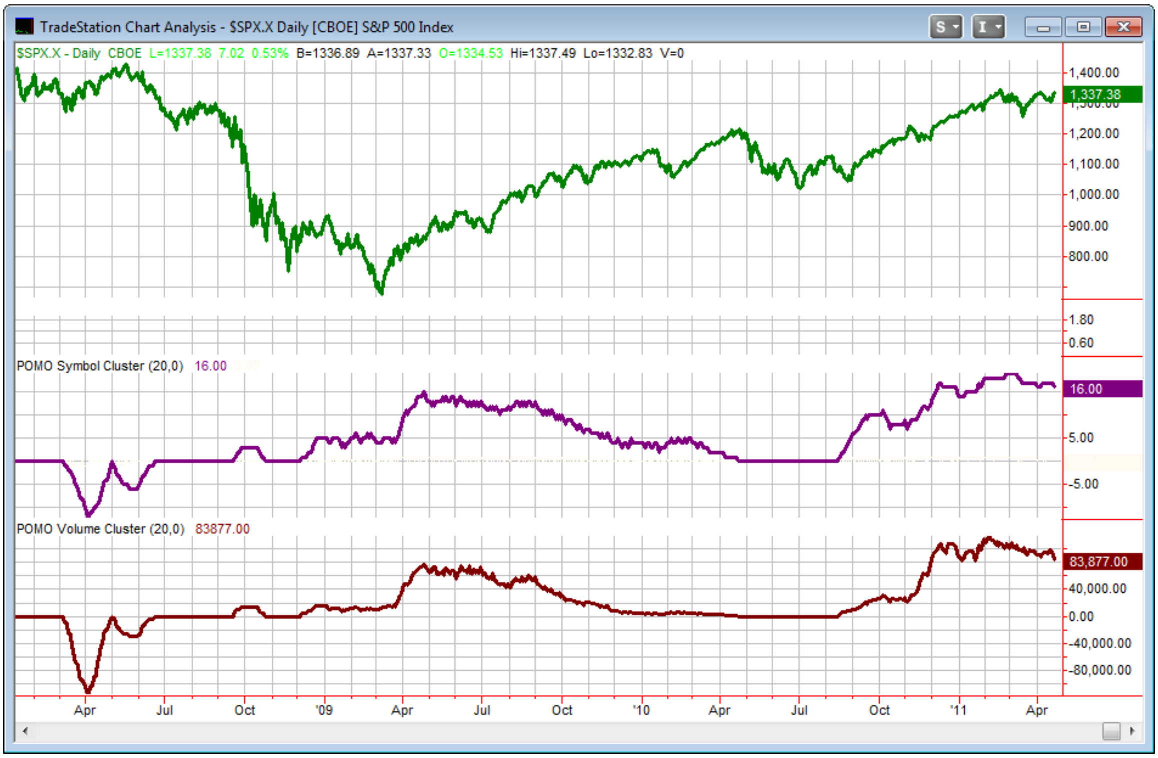


The basic idea is that the market tends to perform better when the Nasdaq leads the SPX. Historically, the SPX has made its money when the Nasdaq has been in leading position, and struggled to make headway when the Nasdaq has lagged. Looking at the action over the recent 11 months or so in the above chart, you can see this tendency has generally held true. Therefore, I view the Nasdaq's recent leadership as an intermediate-term 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 indicators have pulled back a little recently. The days indicator is at 16 and the POMO Volume indicator is down near the low end of its recent range. The schedule calls for buying every day this week except for Wednesday. And the 1st week in May there is buying scheduled every day. So with 9 of the next 10 days scheduled for buying I don't expect to see these indicators drift lower. I instead expect POMO to continue to act as a wind at the markets back. Monitoring POMO activity and news will become increasingly important as we near the end of the QE2 stimulus in June.

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, relative strength, 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
EPP	4/19/2011	$48.85	$50.86	4.11%		System 90609