

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 28, 2011

Volume 4 Issue 81

Market Overview



Tonight's Research Points

- Overbought in an uptrend is often a neutral setup.
- When the SPX closes at a 100-day high on a Fed Day it has consistently been followed by further gains.
- 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 still 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 28, 2011	100-day high on a Fed Day	1-6 days	Bullish	1.65%
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%
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 26, 2011	3 higher highs, lows, closes. Dn cld	1-4 days	Bullish	1.40%

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

The Evidence

The rally continued on Wednesday as the market reacted favorably to the Fed announcement. The SPX and Russell 2000 both closed up 0.6% and the Nasdaq gained 0.8%. Breadth was positive as the NYSE Up Issues % came in at 62% and the Up Volume % was 68%. Total NYSE volume rose for the 2nd day in a row.

The market is now quite overbought by a number of measures. Quantifinder studies looked at such things as the fact that the SPX has made 5 higher highs and that it is trading above its upper Bollinger Band. In general these overbought studies all showed neutral to slightly bullish inclinations. The “overbought in an uptrend” setups did not reveal a substantial edge. But there was one study that appeared worth further consideration.

In the Quantifiable Edges Guide to Fed Days I discussed Fed Days that close at new highs. The basic finding was that when the market closed at a short-term high on a Fed Day, then it was likely to pull back over the next few days. But when it closed at a long-term high, then the rally was likely to continue. Below is a study from the guide that last appeared in the 1/27/11 Subscriber Letter.

SPX closes at a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade 1994 - 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	24,235.96	22	17	5	77.27	1,836.24	-1,396.02	1.32	4.47	1,101.63
9	25,021.55	22	17	5	77.27	1,950.77	-1,628.30	1.20	4.07	1,137.34
8	28,419.38	22	19	3	86.36	1,550.87	-349.04	4.44	28.14	1,291.79
7	22,144.20	22	19	3	86.36	1,266.35	-638.79	1.98	12.56	1,006.55
6	23,199.15	22	20	2	90.91	1,223.85	-638.93	1.92	19.15	1,054.51
5	19,009.00	22	19	3	86.36	1,117.44	-740.77	1.51	9.55	864.05
4	16,140.33	22	16	6	72.73	1,240.83	-618.82	2.01	5.35	733.65
3	8,789.17	22	14	8	63.64	946.01	-556.88	1.70	2.97	399.51
2	9,618.78	22	14	8	63.64	1,018.50	-580.03	1.76	3.07	437.22
1	5,786.87	22	15	7	68.18	634.76	-533.50	1.19	2.55	263.04

All 22 instances posted a close above the entry price at some point in the next week.

This suggests further upside is likely over the next 1-2 weeks. Below I have listed all 22 instances using the 6-day exit criteria.

SPX closes at a 100-day high on a Fed Day.
Buy on close. Sell 6 days later. \$100k/trade 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
08/16/94	Buy	\$465.01	0.86%	\$868.60
08/24/94	Sell	\$469.03		(\$763.25)
03/28/95	Buy	\$503.90	0.33%	\$841.50
04/05/95	Sell	\$505.56		(\$1,623.60)
05/23/95	Buy	\$528.58	0.93%	\$1,064.07
06/01/95	Sell	\$533.49		(\$1,360.80)
07/06/95	Buy	\$553.99	1.06%	\$1,441.80
07/14/95	Sell	\$559.88		(\$169.20)
11/15/95	Buy	\$593.96	1.01%	\$1,134.00
11/24/95	Sell	\$599.97		(\$73.92)
01/31/96	Buy	\$636.01	3.15%	\$3,223.21
02/08/96	Sell	\$656.06		(\$361.10)
07/02/97	Buy	\$904.05	1.39%	\$2,113.10
07/11/97	Sell	\$916.66		(\$172.70)
02/04/98	Buy	\$1,006.90	1.71%	\$1,920.60
02/12/98	Sell	\$1,024.14		(\$656.37)
07/01/98	Buy	\$1,148.56	1.37%	\$1,598.19
07/10/98	Sell	\$1,164.35		(\$484.59)
12/22/98	Buy	\$1,203.56	2.13%	\$3,432.88
12/31/98	Sell	\$1,229.23		\$0.00
06/30/99	Buy	\$1,372.86	2.22%	\$2,337.12
07/09/99	Sell	\$1,403.28		(\$871.20)
11/16/99	Buy	\$1,420.03	(0.21%)	\$366.80
11/24/99	Sell	\$1,417.08		(\$1,460.20)
12/21/99	Buy	\$1,433.43	2.17%	\$2,737.23
12/30/99	Sell	\$1,464.47		(\$302.22)
03/21/00	Buy	\$1,493.82	0.98%	\$3,897.30
03/29/00	Sell	\$1,508.52		(\$428.34)
05/06/03	Buy	\$934.39	0.52%	\$1,403.84
05/14/03	Sell	\$939.28		(\$1,569.69)
12/14/04	Buy	\$1,203.38	0.51%	\$667.32
12/22/04	Sell	\$1,209.57		(\$831.66)
10/25/06	Buy	\$1,382.22	(1.08%)	\$520.56
11/02/06	Sell	\$1,367.34		(\$1,440.72)
05/09/07	Buy	\$1,512.58	0.01%	\$300.96
05/17/07	Sell	\$1,512.75		(\$1,396.56)
03/16/10	Buy	\$1,159.46	0.71%	\$1,312.36
03/24/10	Sell	\$1,167.72		(\$565.88)
11/03/10	Buy	\$1,197.96	1.30%	\$2,416.96
11/11/10	Sell	\$1,213.54		\$0.00
12/14/10	Buy	\$1,241.59	1.39%	\$1,424.00
12/22/10	Sell	\$1,258.84		(\$699.20)
01/26/11	Buy	\$1,296.63	0.81%	\$941.71
02/03/11	Sell	\$1,307.10		(\$1,657.81)

The average 6-day runup is \$1,635. This is comparable to
the max drawdown of \$1,657.

These are some very consistent results. The note at the bottom of the list provides an especially compelling stat. Also notable is that the runup:drawdown ratio is just about 2:1. No matter how you slice it, risk/reward has been strongly favorable for the long side.

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 Thursday. This could change if more bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,340.11. This is about 1.1% below Wednesday's close. In order for the Differential line to turn positive the SPX would need to close at least this much lower.

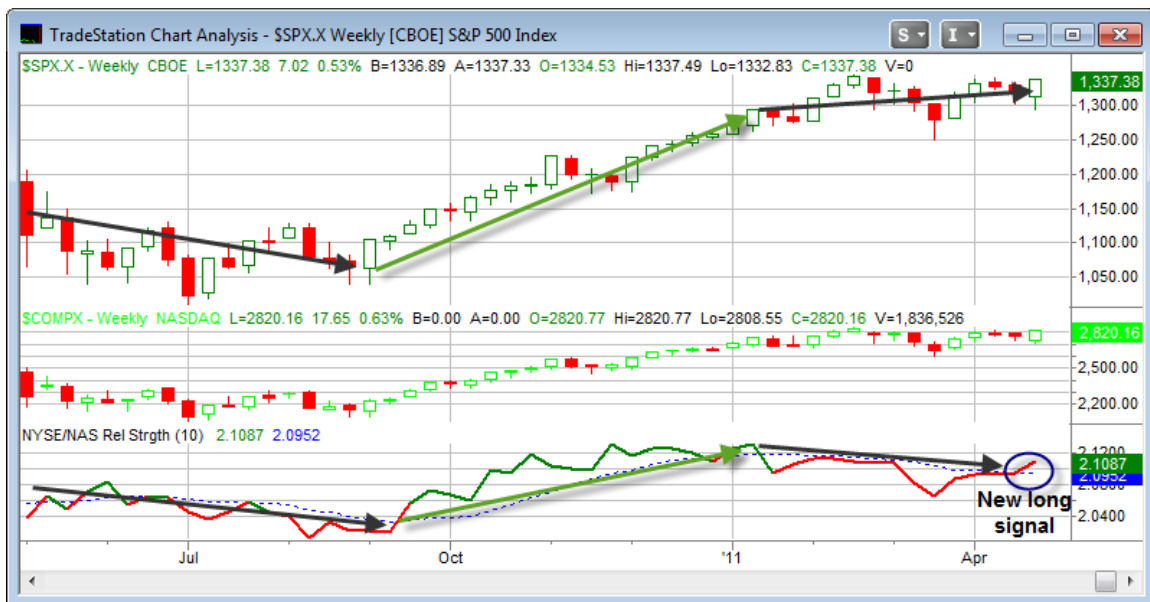
The rally remains strong and signs are suggesting it is likely to go even higher. At the same time with the market overdone short-term it is not in a place where I'm inclined to take on new long exposure. I'll again show a bit more patience and wait for a better opportunity to put additional capital 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-nasdaq-leadlag-model.html>



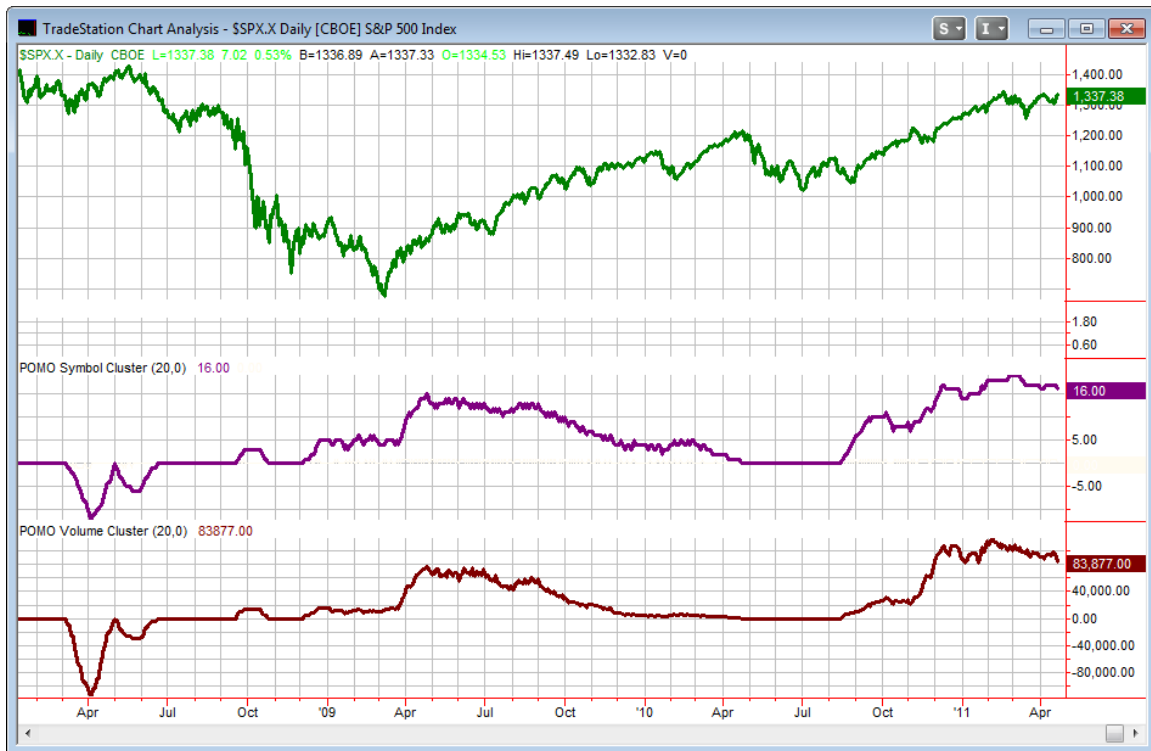
The basic idea is that the market tends to perform better when the Nasdaq leads the SPX. Historically, the SPX has made its money when the Nasdaq has been in leading position, and struggled to make headway when the Nasdaq has lagged. Looking at the action over

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	\$50.90	4.20%		System 90609

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2011 Hanna Capital Management, LLC.