

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 20, 2011

Volume 4 Issue 97

## Market Overview



## Tonight's Research Points

- Still mid-range, the market isn't revealing any new strong edges.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is long.

## *Short-term Outlook*

### *The Bottom Line*

A small gain on Thursday now has the market outperforming recent short-term expectations. This has moved the Aggregator back to neutral and me to flat.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
May 18, 2011	SPY gap down and partial reverse up.	1-5 days	Bullish	1.90%
May 12, 2011	SPX dn 1%. Decliners 2x advancers	1-9 days	Bullish	3.05%
May 11, 2011	SPX dn 4 then Up 3. Close < 7 days ago.	1-10 days	Bullish	3.10%
<b>Active - Long Term</b>				
May 2, 2011	SPY up 3 days all lower volume	1-19 days	Bearish	
April 25, 2011	Nas/SPX relative strength favors Nas	int term	Bullish	
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	

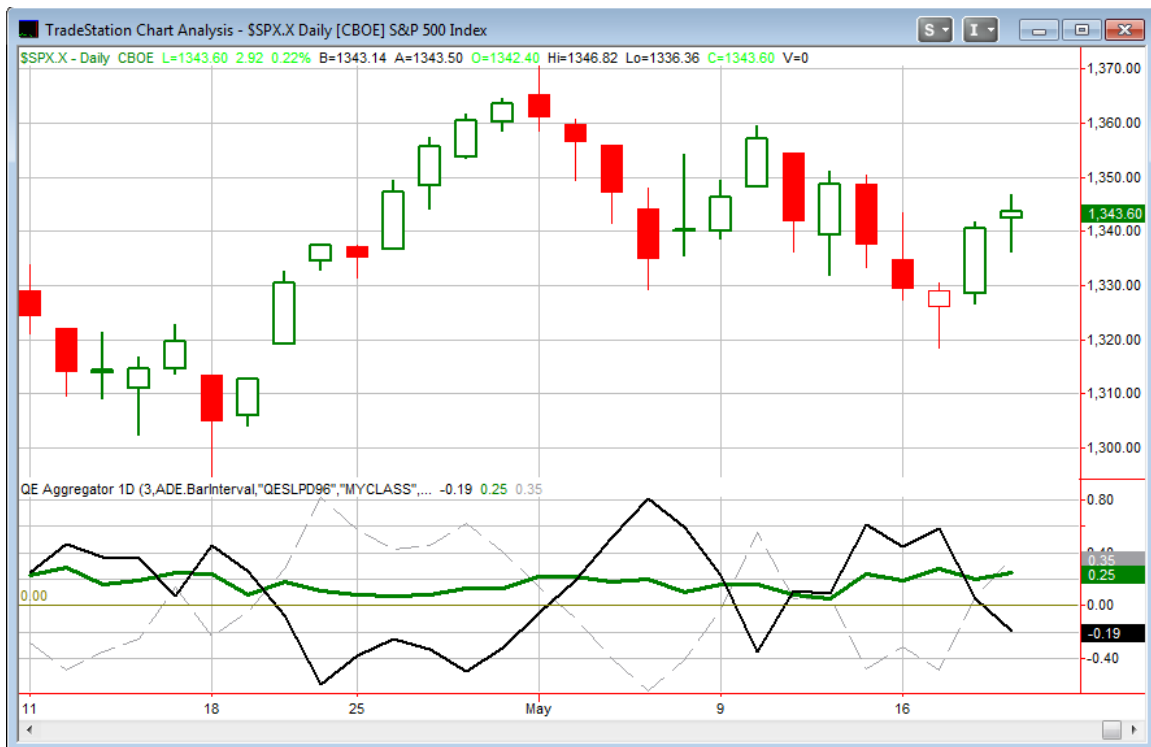
If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

## The Evidence

As seemed likely based on last night's observations the market didn't do a whole lot today. The major indices all finished moderately higher. The SPX and Russell 2000 each rose 0.2% and the Nasdaq gained 0.3%. Breadth was also moderately positive as the NYSE Up Issue % came in at 58% and the Up Volume % was 54%. Total NYSE volume fell for the 2<sup>nd</sup> day in a row.

I discussed last night how the middle of the trading range has an edge dulling effect. Thursday's quiet action did nothing to suggest a substantial short-term directional edge. The Quantifinder continues to grow and now has over 900 tracked studies. It probably comes up dry only once or twice a month these days, but every time it does it's when the market is trading in the middle of its short-term trading range. I looked at a few things tonight but found nothing even worth mentioning.

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



The green Aggregator Line remained strongly above 0 again tonight. This is largely due to complete lack of bearish studies on the short-term Active List. 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 dropped into negative territory. 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 versus recent expectations. This is considered a neutral configuration. It can be seen on the chart whenever both lines close on opposite sides of 0. Due to this the Aggregator System changed from long to flat at the close.

Without any short-term bearish studies on the Active List the green Aggregator line is again set to close above 0 on Friday. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be just 1,338.35. This is about 0.4% below Thursday's close. So it would take a drop of at least this much in order to turn the Differential Line positive again. If this occurs there is a good chance the Aggregator will again trigger a long signal.

I'm flat now and with the Aggregator at neutral. With very little on the triggers spreadsheet tonight I'm inclined to stay that way. Like I said above, a decent decline on Friday will likely trigger a long Aggregator signal. Traders may check the systems page to see how it plays out as we approach the close on Friday.

#### **Note On "Trading XIV" webinar**

First, thanks to those subscribers that attended today's webinar on "Trading XIV". There was a lot of good questions and feedback. For those people that were unable to attend but would like to see the recording, it is now available on the videos page on the member site. I've also provided a direct link below:

<http://www.quantifiableedges.com/videos/xiv/default.html>

The first minute is me doing a sound check. Sorry about that. I had trouble with the editing software and wasn't able to cut it out.

I discussed in the video how well recent XIV/Aggregator trades would have done. With the Aggregator turning back to flat tonight we can again see the big edge XIV would have provided. The Aggregator System triggered long at the 5/11/11 close and exited at the 5/19/11 close. For that trade, SPX gained just 0.11%. Over the same time frame XIV gained about 4.2%.

I will be adding the XIV Trading Systems to the website and subscriber letter for tracking starting on May 31. Comments, questions, & suggestions are all welcome – both now and after I begin tracking the new systems.

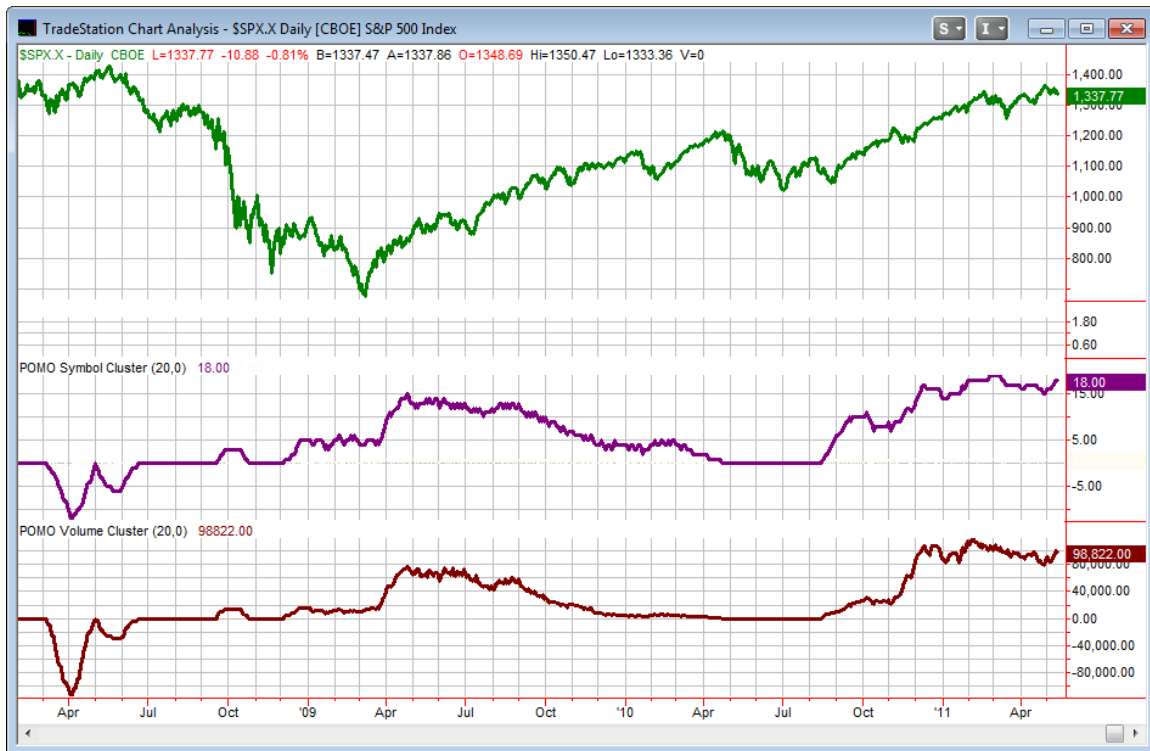
***Intermediate-term Outlook (2 weeks – 2 months)– updated 5/16 – moderately bullish***

After spending most of the week in positive territory, Friday's action left the market down slightly for the week. Nothing new appeared in the way of intermediate-term studies. The big news was the release of the new POMO schedule which happened on Wednesday afternoon.

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>



Both the POMO Days and POMO Volume indicators rose a bit this past week. This is no surprise since there was sizable buying that occurred every day. The schedule that was released on Wednesday calls for POMO this whole next week. In fact the next day without POMO buying scheduled is May 27<sup>th</sup> – the day before Memorial Day weekend.

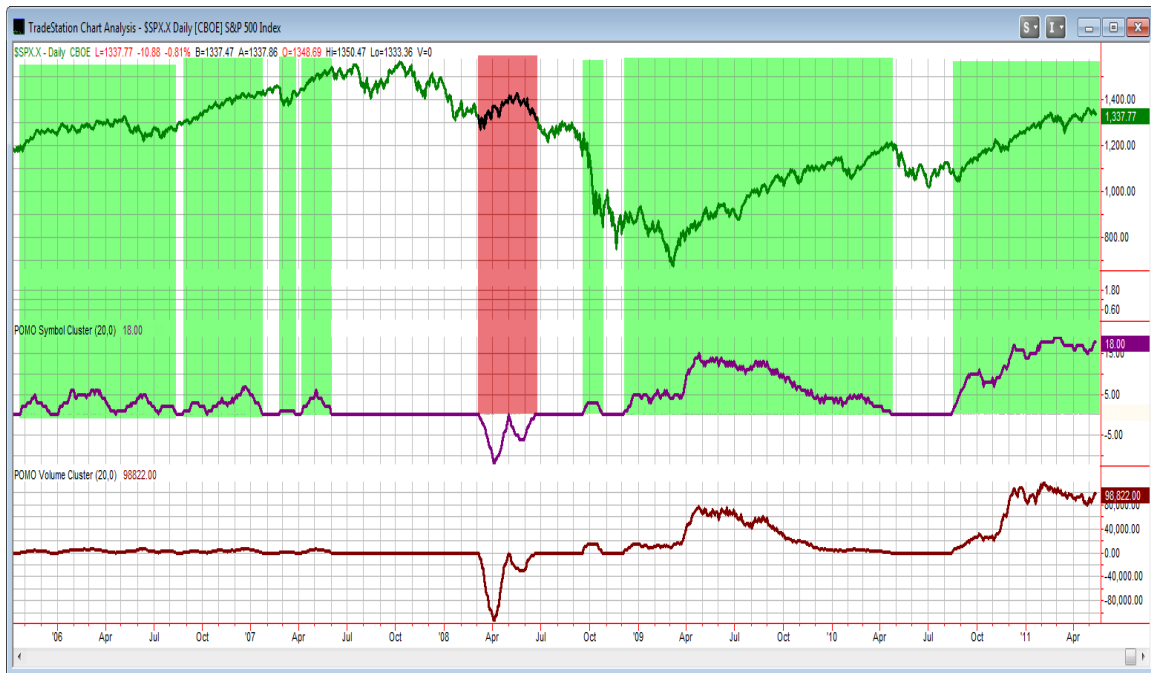
But the new POMO schedule isn't only strong through May. It shows substantial buying also into June. Between May 12<sup>th</sup> and June 9<sup>th</sup> there are 18 days of POMO buying scheduled. And though the buying is expected to end in June, it is now clear that it isn't going to happen early in the month. We'll have to wait until the next schedule is released on June 10<sup>th</sup> to see when the end of QE2 will be.

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)

The persistent part of this bull move seems to be over. Since February it has been a choppy struggle to post any new highs. Intermediate-term indications still appear to favor the bulls and new highs still seem more likely than an immediate correction. Still, I'm beginning to feel a bit more cautious. Positive seasonality typically goes out during May and with the end of QE2 looming, reduced liquidity could have a negative impact. The POMO chart below is a long-term version of the one I showed above. The green shaded

areas are times where there was some pumping over the last 20-day period. The pinkish-red shading marks the period where the Fed was selling treasuries instead of buying them. The white areas marked the times where there was no POMO activity over the previous 20 days. POMO buying didn't always seem to take effect immediately, but periods without that buying were generally dismal. The 2 lengthy periods where the POMO indicators were at 0 or below lasted from 6/1/07 through 9/19/08 (SPX lost 18.3%) and from 4/22/10 through 8/17/10 (SPX lost 9.6%).



So it is a bit early to turn bearish, and I still think this rally has some legs, but I'm no longer as gun-ho as I've been. I'll likely begin taking a bit more caution with long trades. Perhaps scaling in slower or managing positions a little tighter. I still favor the long-side over the short-side, but not as clearly.

### **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
SPY(1/4)	5/12/2011	\$134.09	\$134.19	0.07%		hit intraday stop
SPY(1/4)	5/17/2011	\$132.69	\$134.68	1.50%		sold on close

*The SPY was exited as described to gold subscribers in the intraday updates sent out today. My \$134.19 stop on the 1<sup>st</sup> lot was a poor choice and cost some profits. It was also unfortunate that the opening price just missed my sell limit at the open for that lot. That's all part of trading, though. And while it can sometimes be frustrating, it's important to take it in stride and not do a lot of second-guessing. Changing approaches every time an entry or exit doesn't work out well is no way to trade. It leads to a complete lack of confidence in one's methodology and then an inability to execute. It will also ultimately lead to the poorhouse. So while it would have been nice to do better with the first lot, that's just life. It's nice the 2<sup>nd</sup> lot posted some decent gains.*

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