

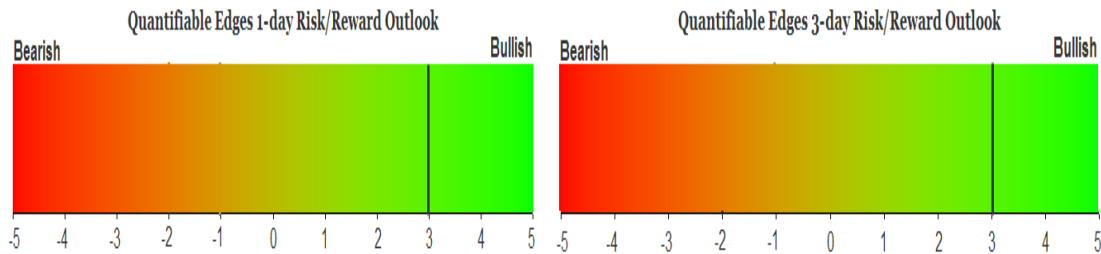
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 9, 2011

Volume 4 Issue 110

Market Overview



Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Long	100% Long XIV	100% Long XIV	Flat

Tonight's Research Points

- The extremely low TICK with the SPX closing at a short-term low has commonly been followed by a bounce the next day.

Short-term Outlook

The Bottom Line

I remain long and expecting a bounce. The market is strongly oversold and there is a good amount of bullish evidence. The only worry at this point is that the market may be acting outside of historical norms.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 9, 2011	Low TICK 100. SPx 5-low	1 day	Bullish	
June 7, 2011	1 drop to 50-low on weak vol	1-3 days	Bullish	
June 7, 2011	2 unfilled gaps & 5 low	1-5 days	Bullish	
June 3, 2011	Dn 2 days(early month & big/small drop)	1-9 days	Bullish	
June 2, 2011	system 110524	1-7 days	Bullish	
June 2, 2011	2% drop. Bottom of range > 200ma	1-7 days	Bullish	
June 2, 2011	system 110524	1-7 days	Bullish	
Active - Long Term				
May 31, 2011	4 Weeks Down. Close > 40ma.	1-10 weeks	Bullish	9.00%
March 22, 2011	3 Days Up Issues % > 70%	8 months	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

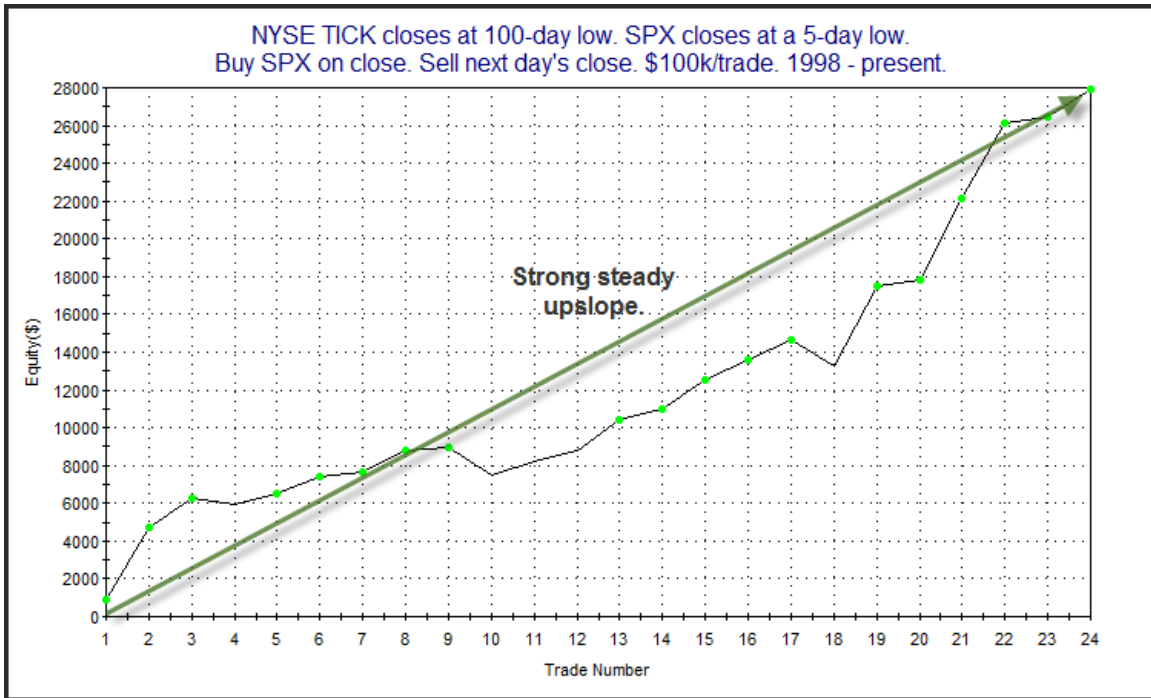
The market just can't attract buyers. We still haven't had an up day yet this month in the SPX. Wednesday saw the SPX lose 0.4%, the Nasdaq drop 1.0%, and the Russell 2000 fall 1.2%. Breadth was also very weak. The NYSE Up Issues % came in at 26% and the up volume % was 23%. Total NYSE volume rose for the 1st time in over a week.

One study that showed up initially in the Quantifinder tonight looked at times the TICK Tomoscillator % Rank closed < 1%. There was an error with the Quantfinder and actually the TICK Tomoscillator % Rank closed near 11. Still low but not in the bottom 1% initially suggested. But while the study should not have triggered, it did draw my attention to today's closing TICK. At -839 it came in at the lowest level in over a year.

So I ran some tests to see how the market performed when the TICK closed at long-term lows while the SPX was closing at a short-term low. Results suggested a substantial upside edge for the following day. Below is a results table from one of the studies I examined.

NYSE TICK closes at 100-day low. SPX closes at a 5-day low. Buy SPX on close. Sell next day's close. \$100k/trade. 1998 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$27,928.32	Profit Factor	9.82
Gross Profit	\$31,094.43	Gross Loss	(\$3,166.11)
Total Number of Trades	24	Percent Profitable	87.50%
Winning Trades	21	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$1,163.68	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	\$1,480.69	Avg. Losing Trade	(\$1,055.37)
Largest Winning Trade	\$4,342.48	Largest Losing Trade	(\$1,506.56)
Max. Consecutive Winning Trades	7	Max. Consecutive Losing Trades	1

Everything above suggests a strong upside edge for the next day. Below is an equity curve to see how the edge has played out over time.



The strong steady upslope acts as confirmation of the setup's bullish tendencies.

I also did a quick filter to see the instances that occurred while the SPX was above the 200ma. Below are those results.

NYSE TICK closes at 100-day low. SPX closes at a 5-day low but > 200ma.
Buy SPX on close. Sell next day's close. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
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)
08/30/99	Buy	\$1,324.02	(0.27%)	\$694.50
08/31/99	Sell	\$1,320.41		(\$1,283.25)
07/17/03	Buy	\$981.73	1.18%	\$1,264.52
07/18/03	Sell	\$993.32		(\$3.03)
02/04/04	Buy	\$1,126.53	0.18%	\$408.32
02/05/04	Sell	\$1,128.61		(\$183.92)
03/10/04	Buy	\$1,123.91	(1.52%)	\$180.40
03/11/04	Sell	\$1,106.79		(\$1,587.52)
05/10/04	Buy	\$1,087.12	0.77%	\$779.87
05/11/04	Sell	\$1,095.49		\$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)
03/05/07	Buy	\$1,374.12	1.55%	\$1,712.16
03/06/07	Sell	\$1,395.41		\$0.00
06/07/07	Buy	\$1,490.72	1.14%	\$1,141.68
06/08/07	Sell	\$1,507.67		(\$221.77)
07/27/07	Buy	\$1,458.95	1.03%	\$1,287.24
07/30/07	Sell	\$1,473.91		(\$314.84)
02/04/10	Buy	\$1,063.11	0.29%	\$377.88
02/05/10	Sell	\$1,066.19		(\$1,749.34)

The consistency is very good. The volatility and average trade are dampened a bit, though. The average trade now gains about \$600 instead of \$1,000. I decided this TICK study was worth including in the Active Studies List.

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



The green Aggregator Line is still 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 also well above 0. Readings above 0 mean the SPX has underperformed expectations over the last few days. So net expectations are clearly positive and the SPX is strongly oversold versus recent expectations. While it hasn't played out over the last few days, historically this has provided an upside edge. This configuration can be seen on the chart whenever both lines close above 0. Due to this the Aggregator System remained long at the close.

The green Aggregator line is again set to close above 0 on Thursday. This is unlikely to change. Meanwhile, the Differential Pivot will be 1,293.76. This is about 1.1% above Wednesday's close. It will again be a tall order to flip either line and the Aggregator still appears to be suggesting a multi-day bounce here.

Despite being oversold and exhibiting strongly bullish inclinations based on the studies the market still cannot muster a bounce. Wednesday marked only the 8th time since 1993 that the SPX has managed to close lower 6 days in a row. Six of the previous seven were trading higher three days later. Results weren't overwhelming, and with the small sample size I decided not to make a detailed study of it. But we are at a point now where

everything I look at suggests the market should bounce. I am already quite long. As I indicated the last few days I am not interested in putting on the final piece of my index position unless we get a spike in the CBI or in the VIX. There was some action in the Catapults tonight as one stock hit its exit target and two others triggered new entries. Details in the Catapult and trade ideas sections below.

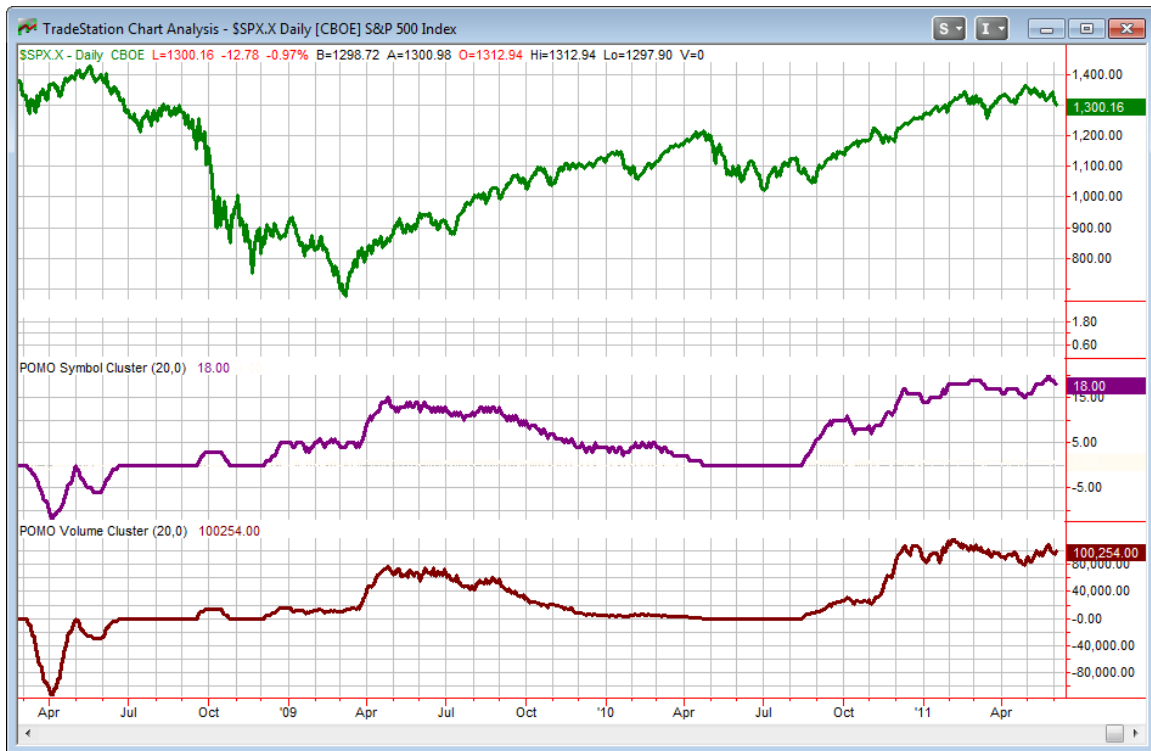
Intermediate-term Outlook (2 weeks – 2 months)– updated 6/6 – very slightly bullish

The SPX broke above its upper trend channel this past week and was promptly slapped back into it. Breakout failures can be bad signs and this action may suggest some caution. From a quantitative standpoint, not much was accomplished this past week. Therefore I am going to keep discussion in this section fairly short. There is one big intermediate-term indicator to watch this week, and that is POMO – specifically Friday’s schedule release.

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>



Both the POMO Days and POMO Volume indicators remain extremely elevated. The liquidity pump continues to inject massive amounts of money into the system. But that pump is supposed to be shut off very soon. This week we very well may see exactly when the end will come and how much POMO volume is left. QE2 has been slated to end in June, but to this point no exact date has been provided. On Friday the next POMO schedule is set to be released, which will show scheduled activity for the next month. Many people are assuming the end of June will mark the end of POMO. We should see the date in this upcoming release. It could be that Thursday will be the last POMO day, and it could be that POMO may continue into July. While neither seem likely, it is likely that POMO uncertainty will be relieved. How the market responds to the end date will be interesting. The past few times POMO stimulus was halted, it took the market about a month after the halt until prices began to decline. In this case, they may already have begun their decline in anticipation of the end. Can the market continue a long-term trend higher without the aid of POMO? We'll soon see.

For those that would like to view the upcoming schedule through June 10th I have provided a link below. This link can also be used Friday afternoon to see the new schedule.

http://www.newyorkfed.org/markets/tot_operation_schedule.html

The intermediate-term studies still appear to favor the bullish case, though the trend over the last month plus has certainly been down. I'm still a bit more wary of the short side, though that doesn't mean I'm necessarily inclined to quickly take aggressive long positions. Instead, I'll continue to play both sides fairly conservatively until the intermediate-term outlook provides more clarity.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

MRK – 1/3 position @ 36.38

MRK – 1/3 position @ \$36.21 (2nd lot)

LOW – 1/3 position @ \$23.59

LOW – 1/3 position @ \$23.40(2nd lot)

AEP – 1/3 position @ \$37.51

LOW – 1/3 position @ \$22.87(3rd lot)

New

BRK.B – 1/3 position @ \$74.33

BAC – 1/3 position @ \$10.54

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 7(4)(MRK(2), LOW(3), AEP, BAC, BRK.B)

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.

XIV – buy @ \$172 LIMIT ON CLOSE. I put this trade idea out there the last few nights and will again tonight. The 1st VIX systems signals are already active. A VIX spike Wednesday would seem an excellent opportunity to go long XIV. If we do get a spike, it would likely be the last straw before the market bounces (and the VIX declines again). The limit on close price here is near the lows of the last couple of days.

BAC – buy 1/3 position @ \$10.54 limit. Based on Catapult system as listed above.

BRK.B – buy 1/3 position @ \$74.33limit. Based on Catapult system as listed above.

If you are new to Catapults I'd encourage you to learn more about them. The place to start would be the Catapult & CBI presentation, which can be found on the videos page. I've also linked to it below.

<http://www.quantifiableedges.com/videos/QE20100621.html>

Or for traders that would like to take a detailed look at the trades, you can see all of the ones that were tracked by the subscriber letter on the Trade Idea Results Spreadsheet (downloadable near the bottom of the systems page). One thing that I would note is that while the trades have done very well over the years, they have also been very volatile and there were some sizable losses along the way.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MRK(1/3)	5/27/2011	\$36.38	\$35.79	-1.62%		Catapult
MRK(1/3)	6/2/2011	\$36.15	\$35.79	-1.00%		Catapult
SPY(1/4)	6/2/2011	\$131.87	\$128.42	-2.62%		Aggregator
SPY(1/4)	6/3/2011	\$130.15	\$128.42	-1.33%		Aggregator
ABT(1/3)	6/3/2011	\$51.04	\$51.53	0.96%		sell on open
LOW(1/3)	6/3/2011	\$23.18	\$22.72	-1.98%		Catapult
LOW(1/3)	6/6/2011	\$23.07	\$22.72	-1.52%		Catapult
AEP(1/3)	6/6/2011	\$37.43	\$37.66	0.61%		Catapult
SPY(1/4)	6/6/2011	\$129.04	\$128.42	-0.48%		Aggregator
LOW(1/3)	6/8/2011	\$22.72	\$22.72	0.00%		Catapult

ABT hit its target price and will be sold at the open.

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