

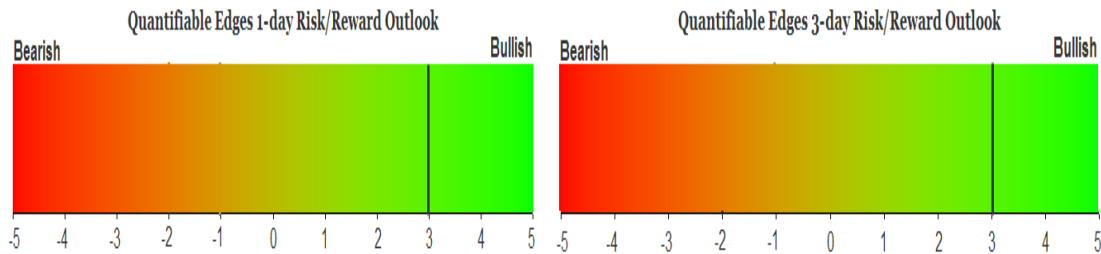
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 10, 2011

Volume 4 Issue 111

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 unfilled gap up and close higher would be bullish from a short-term low, but from an intermediate-term low bullish inclinations are no longer apparent.

Short-term Outlook

The Bottom Line

I expect more upside in the next few days. Still, with the weakness the market has shown over the last week despite numerous bullish studies I'm inclined to lighten up on my long positions a bit should we close higher on Friday.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---------------------------|---|------------|---------|--------------|
| Active | | | | |
| 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 | |
| Dropped Tonight | | | | |
| 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 | |

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

The Evidence

The market finally put in an up day, but what looked very positive going in to the last hour ended up with moderate gains. In the end the SPX gained 0.7%, the Nasdaq was up 0.4% and the Russell 2000 rose 0.6%. Breadth was solidly positive but not terribly strong. The NYSE Up Issues % came in at 63% and the Up Volume % was 76%. Total NYSE volume declined from Wednesday's level.

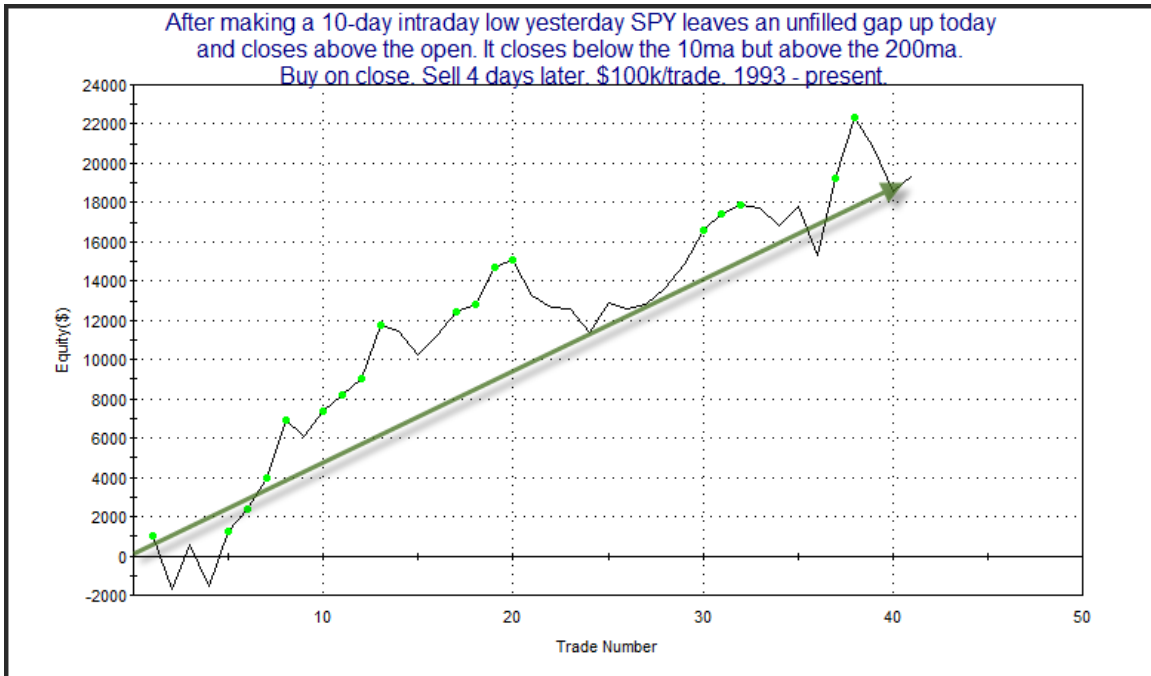
Today's SPY pattern brought about a study from the 2/28/11 letter. The excerpt below is from that letter. I have updated the results.

The price action in SPY showed some real strength in that it gapped up, never filled, and closed above the open. When the market is coming off an oversold level in an uptrend and is still not overbought, this pattern will often be followed by further gains. This is demonstrated in the study below.

| After making a 10-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma. 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 | 23,192.87 | 36 | 22 | 14 | 61.11 | 2,140.36 | -1,706.79 | 1.25 | 1.97 | 644.25 |
| 9 | 29,416.15 | 37 | 20 | 17 | 54.05 | 2,541.82 | -1,260.01 | 2.02 | 2.37 | 795.03 |
| 8 | 30,278.05 | 37 | 25 | 12 | 67.57 | 1,957.61 | -1,555.19 | 1.26 | 2.62 | 818.33 |
| 7 | 32,647.07 | 38 | 25 | 12 | 65.79 | 2,158.45 | -1,776.17 | 1.22 | 2.53 | 859.13 |
| 6 | 22,117.30 | 40 | 23 | 17 | 57.50 | 1,952.77 | -1,340.96 | 1.46 | 1.97 | 552.93 |
| 5 | 16,111.81 | 40 | 24 | 16 | 60.00 | 1,621.05 | -1,424.58 | 1.14 | 1.71 | 402.80 |
| 4 | 19,402.79 | 41 | 26 | 15 | 63.41 | 1,460.85 | -1,238.62 | 1.18 | 2.04 | 473.24 |
| 3 | 5,201.87 | 43 | 23 | 20 | 53.49 | 1,149.20 | -1,061.48 | 1.08 | 1.25 | 120.97 |
| 2 | 4,903.23 | 43 | 24 | 19 | 55.81 | 1,034.85 | -1,049.11 | 0.99 | 1.25 | 114.03 |
| 1 | 1,096.65 | 43 | 19 | 23 | 44.19 | 855.89 | -659.36 | 1.30 | 1.07 | 25.50 |

93% of instances posted a close above the entry price at some point in the next week.

Results here appear to suggest a solid edge over the next several days. With 93% showing further gains at some point in the next week, the reliability of the setup appears very good. To get an idea of how the edge has played out over time I have run the equity curve below using a 4-day exit parameter.



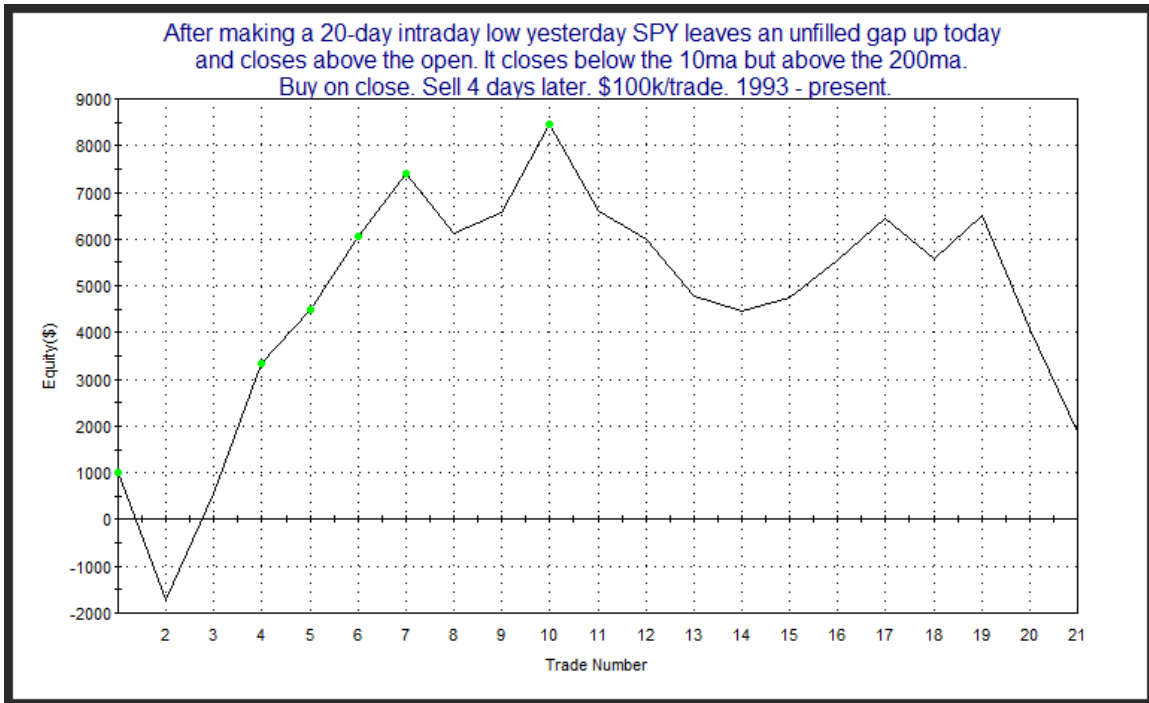
The slope has remained upwards for a long time. While it isn't perfectly smooth it does appear to confirm the upside edge suggested by the stats table.

But we aren't just at a short-term 10-day low. The market is making a 50-day low as well. When the market is hitting intermediate-term lows rather than just short-term lows then this pattern has struggled. The study below demonstrates this.

After making a 20-day intraday low yesterday SPY leaves an unfilled gap up today and closes above the open. It closes below the 10ma but above the 200ma.
Buy on close. Sell 4 days later. \$100k/trade. 1993 - present.

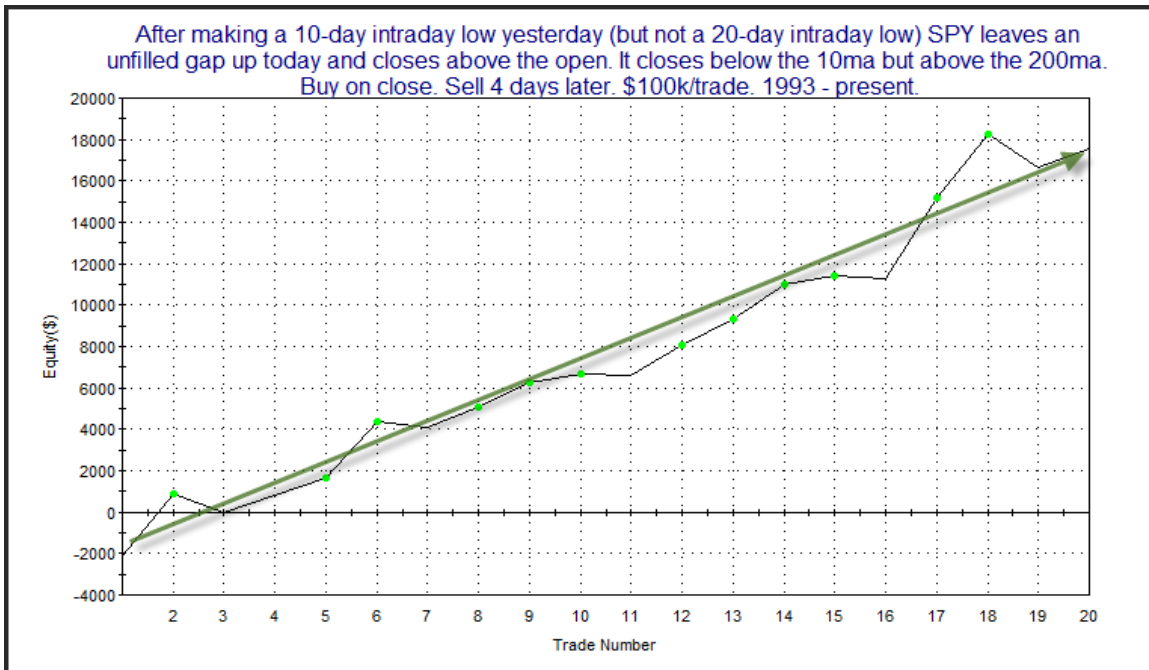
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Avg Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | -1,320.15 | 20 | 9 | 11 | 45.00 | 1,894.24 | -1,669.85 | 1.13 | 0.93 | -66.01 |
| 4 | 1,874.56 | 21 | 12 | 9 | 57.14 | 1,280.57 | -1,499.14 | 0.85 | 1.14 | 89.26 |
| 3 | -6,569.15 | 22 | 10 | 12 | 45.45 | 801.48 | -1,215.33 | 0.66 | 0.55 | -298.60 |
| 2 | -3,194.98 | 22 | 11 | 11 | 50.00 | 807.32 | -1,097.77 | 0.74 | 0.74 | -145.23 |
| 1 | 1,288.63 | 22 | 9 | 13 | 40.91 | 933.30 | -547.01 | 1.71 | 1.18 | 58.57 |

And here is the equity curve using a 4-day exit.



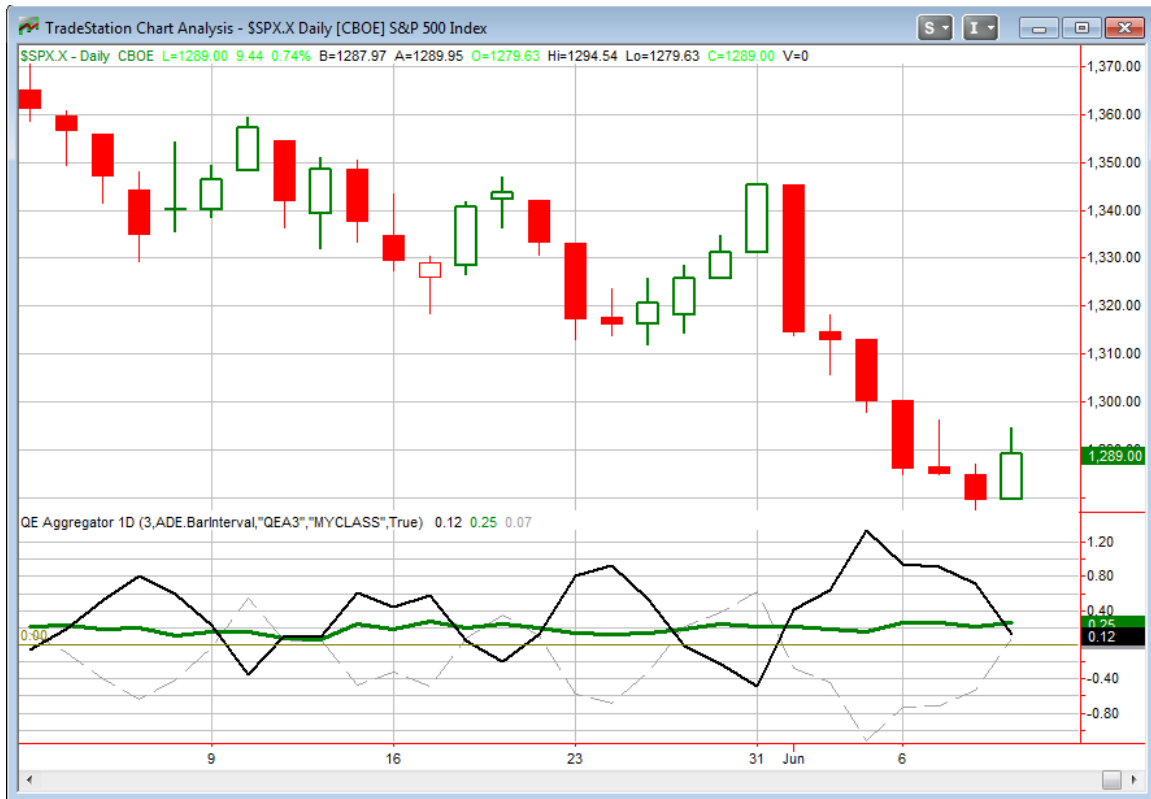
No edge is suggested here.

Lastly let's look at the curve when the market has just made a 10-day low but not a 20-day low.



It appears the ideal setup here is one where the market is making short-term lows but not intermediate-term lows. With intermediate-term lows now being made the bullish inclinations of the pattern are in question. It no longer appears worthy of inclusion in the Aggregator.

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 still 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 still a little oversold versus recent expectations. 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 Friday. This is unlikely to change. Meanwhile, the Differential Pivot will be 1,293.54. This is about 0.4% above

Thursday's close. So I won't take too much of a rally on Friday to flip the Differential line and turn the long Aggregator signal to flat.

I have a high amount of long exposure already. It appears the bounce should have some more to it, but action lately has been historically abnormal which has raised a red flag. As I've been saying the last few days, without a VIX spike or a CBI spike above 10 I'm not inclined to add the last bit of exposure.

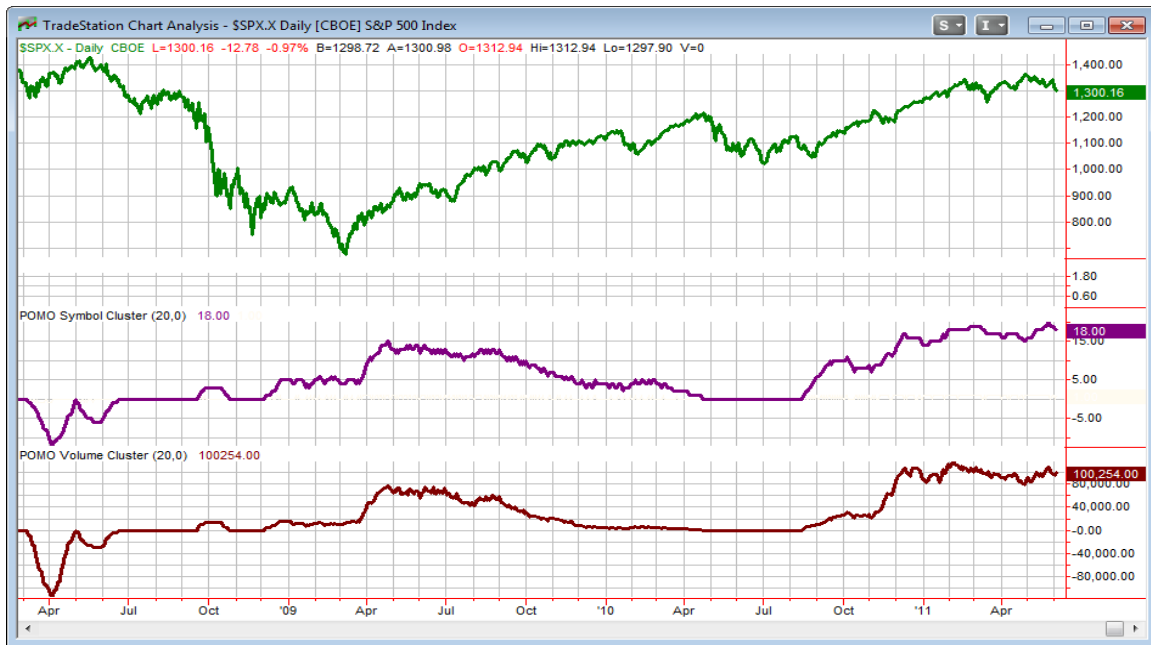
Intermediate-term Outlook (2 weeks – 2 months)– updated 6/6 – very slightly bullish

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

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)

BRK.B – 1/3 position @ \$74.33 (not filled)

BAC – 1/3 position @ \$10.54

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6(4)(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.

No new trade ideas tonight.

BRK.B missed filling by \$0.01. If you were more aggressive and took a position, then good for you – you should be profitable currently. I am going to take BRK.B off for now. Should it pull back over the next few days then I may again consider trying to take a position in it.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-----------|------------|-------------|---------------|-------------|------|----------------------|
| MRK(1/3) | 5/27/2011 | \$36.38 | \$35.99 | -1.07% | | stopped out intraday |
| MRK(1/3) | 6/2/2011 | \$36.15 | \$35.99 | -0.44% | | stopped out intraday |
| SPY(1/4) | 6/2/2011 | \$131.87 | \$129.40 | -1.87% | | Aggregator |
| SPY(1/4) | 6/3/2011 | \$130.15 | \$129.40 | -0.58% | | Aggregator |
| ABT(1/3) | 6/3/2011 | \$51.04 | \$51.56 | 1.02% | | sold on open |
| LOW(1/3) | 6/3/2011 | \$23.18 | \$22.77 | -1.77% | | Catapult |
| LOW(1/3) | 6/6/2011 | \$23.07 | \$22.77 | -1.30% | | Catapult |
| AEP(1/3) | 6/6/2011 | \$37.43 | \$37.46 | 0.08% | | Catapult |
| SPY(1/4) | 6/6/2011 | \$129.04 | \$129.40 | 0.28% | | Aggregator |
| LOW(1/3) | 6/8/2011 | \$22.72 | \$22.77 | 0.22% | | Catapult |
| BAC(1/3)) | 6/9/2011 | \$10.54 | \$10.65 | 1.04% | | bought @ limit |
| | | | | | | |

MRK hit the intraday stop sent out to gold subscribers around noon. Those who did not take it may sell on the open.

I will look to sell 2 lots of SPY if SPX closes \geq the Differential Pivot of 1,293.54.

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.