

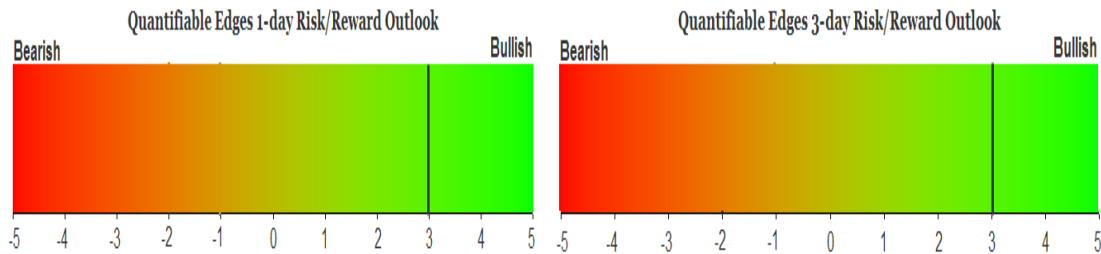
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 13, 2011

Volume 4 Issue 112

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 TICK Tomoscillator reading is extremely low and suggesting a market bounce.
- The McClellan Oscillator is also very low. With the market at 50-day lows this too is suggesting a short-term upside edge.
- The Aggregator System has been long for an unusually long time. Past occurrences have seen the market fall in line and bounce in the next few days.
- The unfilled gap down in the SPY is triggering conflicting studies. I show them but feel they cancel each other out.
- June 30th is POMO end. This indicator is unlikely to provide a bullish influence much longer.

Short-term Outlook

The Bottom Line

The market appears poised for a bounce, but it has been acting historically abnormal for the last several days. I am already partially long, but won't be adding to the position without a VIX and/or CBI spike to suggest the final sellers have capitulated.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
June 13, 2011	McClellan Osc % Rank < 2%. SPX 50 low	1-6 days	Bullish	3.70%
June 13, 2011	TICK Tomoscillator very low	1-2 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 1, 2011	SPX up. High vol 20.	1-10 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

Thursday's positive action failed to carry over into Friday. The market open lower and suffered constant selling until 2pm. At 2pm the Fed released its POMO schedule and that seemed to have a positive effect – especially on the banks. But the POMO bounce only lasted an hour, and then the market rolled right back over and finished near its lows. In the end the damage was pretty steep. The SPX lost 1.4%, the NASDAQ dropped 1.5%, and the Russell 2000 finished down 1.7%. Selling was very broad as the NYSE Up Issues % came in at 18% and the Up Volume % was 16%. Total volume rose from Thursday's levels.

There's a lot to examine tonight. Some evidence seems to offer a clear edge and other evidence isn't quite as clear. I'll present the most compelling studies 1st and then when I get to those studies that I found less compelling I will let you know in case you want to skip over them.

One indicator that is now providing some extreme readings that are typically followed by bounce is the TICK Tomoscillator. The TICK Tomoscillator is the brain child of Tom McClellan of [McClellan Financial Publications](#). It uses the NYSE closing TICK readings to measure recent end-of-day sentiment. I first introduced the TICK Tomoscillator in the 4/19/11 subscriber letter. Several studies from that letter triggered again tonight. For those that are not familiar with the TICK Tomoscillator, you may find a detailed description in the [May 13th blog](#). The TICK Tomoscillator posted an extremely low reading of -252.33. This pushed the Tomoscillator % Rank down below 1%. Subscribers

may find Tomoscillator readings on the charts page every night. The TICK Tomoscillator is also included in the QE Indicators/Functions for Tradestation package which can be downloaded by all subscribers for free. Most of the TICK Tomoscillator-related studies below are from the 4/19/11 subscriber letter. All of them include updated stats.

This first study looks at TICK Tomoscillator readings below -250 that occur in conjunction with a 5-day low in the SPX.

TICK Tomoscillator < -250 and SPX closes at a 5-day low. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	22,738.81	8	6	2	75.00	3,989.19	-598.16	6.67	20.01	2,842.35
9	25,112.77	8	7	1	87.50	3,644.46	-398.48	9.15	64.02	3,139.10
8	25,825.95	8	8	0	100.00	3,228.24	0.00	100.00	100.00	3,228.24
7	18,392.21	8	8	0	100.00	2,299.03	0.00	100.00	100.00	2,299.03
6	18,876.55	8	8	0	100.00	2,359.57	0.00	100.00	100.00	2,359.57
5	12,912.96	8	7	1	87.50	2,096.11	-1,759.84	1.19	8.34	1,614.12
4	11,453.34	8	8	0	100.00	1,431.67	0.00	100.00	100.00	1,431.67
3	11,530.10	8	8	0	100.00	1,441.26	0.00	100.00	100.00	1,441.26
2	8,294.89	8	6	2	75.00	1,526.15	-431.02	3.54	10.62	1,036.86
1	7,283.74	8	7	1	87.50	1,104.83	-450.08	2.45	17.18	910.47

Instances here are quite low, but the results couldn't be any more bullish. It is rare you see such bullish volatile numbers when using a "close > 200ma" filter. Uptrends tend to be less volatile than downtrends so most of the time even very strong results are less forceful. Below I have listed all of the qualifying instances using an 8-day exit technique.

TICK Tomoscillator < -250 and SPX closes at a 5-day low. SPX > 200ma.
Buy on close. Sell 8 days later. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/24/03	Buy	\$1,028.91	2.23%	\$3,155.41
11/05/03	Sell	\$1,051.81		\$0.00
02/22/05	Buy	\$1,184.17	3.20%	\$3,409.56
03/04/05	Sell	\$1,222.12		\$0.00
07/27/07	Buy	\$1,458.95	2.64%	\$3,055.92
08/08/07	Sell	\$1,497.49		(\$2,146.08)
10/01/09	Buy	\$1,029.85	4.21%	\$4,812.17
10/13/09	Sell	\$1,073.19		(\$960.30)
10/28/09	Buy	\$1,042.63	4.84%	\$4,799.40
11/09/09	Sell	\$1,093.08		(\$1,258.75)
09/23/10	Buy	\$1,124.83	3.19%	\$3,337.84
10/05/10	Sell	\$1,160.75		\$0.00
02/24/11	Buy	\$1,306.10	1.20%	\$1,989.68
03/08/11	Sell	\$1,321.82		(\$267.52)
04/18/11	Buy	\$1,305.14	4.48%	\$4,515.92
04/29/11	Sell	\$1,363.61		(\$88.92)

**Average drawdown was 0.6%. Average runup was 3.6%.
Min runup was 1.9%.**

Even the weakest one saw a gain of 1.2% over the 8 days. But the market is in an unusual position right now. Not only is it above the 200ma, but it also closed at a 50-day low. To me this suggests we are not clearly in an uptrend or clearly in a downtrend. I therefore decided to see what the results would look like with such a negative TICK Tomoscillator reading when the market was at a 50-day low.

There were only three instances, and the consistency didn't carry out several days like it did in the first test. They did all see a bounce the next day though. I've listed the three instances below.

TICK Tomoscillator < -250 and SPX closes at a 50-day low.
Buy on close. Sell next day's close. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
08/31/98	Buy	\$957.55	3.83%	\$4,487.60
09/01/98	Sell	\$994.25		(\$1,825.20)
07/27/07	Buy	\$1,458.95	1.03%	\$1,287.24
07/30/07	Sell	\$1,473.91		(\$314.84)
02/23/09	Buy	\$743.33	4.01%	\$4,309.44
02/24/09	Sell	\$773.14		\$0.00

In the 4/19/11 Subscriber Letter I also loosened the Tomoscillator reading requirement in order to get a broader sample size. I decided to update that study as well tonight.

TICK Tomoscillator < -200 and SPX closes at a 5-day low. SPX > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	32,195.25	19	16	3	84.21	2,301.32	-1,541.94	1.49	7.96	1,694.49
9	31,731.51	19	16	3	84.21	2,301.47	-1,697.36	1.36	7.23	1,670.08
8	33,296.88	19	16	3	84.21	2,246.88	-884.41	2.54	13.55	1,752.47
7	25,355.57	19	15	4	78.95	2,018.11	-1,229.03	1.64	6.16	1,334.50
6	22,759.66	20	16	4	80.00	1,986.76	-2,257.13	0.88	3.52	1,137.98
5	20,152.79	20	14	6	70.00	2,002.68	-1,314.12	1.52	3.56	1,007.64
4	19,681.15	20	15	5	75.00	1,732.32	-1,260.72	1.37	4.12	984.06
3	27,017.31	22	18	4	81.82	1,856.71	-1,600.87	1.16	5.22	1,228.06
2	27,590.98	22	20	2	90.91	1,420.30	-407.47	3.49	34.86	1,254.14
1	20,897.66	28	21	7	75.00	1,288.53	-880.20	1.46	4.39	746.34

The only instance that failed to close above its entry price within 2 days triggered on 7/26/07. It took 9 days.

Results here remained extremely strong.

Lastly, in that letter I also looked at a study that included the Tomoscillator % Rank reading rather than just the raw reading. That study also provided compelling evidence and I have updated it below.

TICK Tomoscillator 1-year % Rank < 1% and SPX closes at 10-day low. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	13,339.60	10	7	3	70.00	2,795.09	-2,075.34	1.35	3.14	1,333.96
9	15,575.31	10	7	3	70.00	3,020.02	-1,854.93	1.63	3.80	1,557.53
8	17,154.60	11	8	3	72.73	3,088.44	-2,517.64	1.23	3.27	1,559.51
7	15,163.61	11	9	2	81.82	2,142.09	-2,057.61	1.04	4.68	1,378.51
6	11,214.19	11	8	3	72.73	1,895.60	-1,316.88	1.44	3.84	1,019.47
5	6,249.13	11	7	4	63.64	1,548.63	-1,147.82	1.35	2.36	568.10
4	5,342.07	12	9	3	75.00	1,266.96	-2,020.20	0.63	1.88	445.17
3	8,771.74	13	9	4	69.23	1,281.03	-689.39	1.86	4.18	674.75
2	8,316.84	13	9	4	69.23	1,134.89	-474.30	2.39	5.38	639.76
1	10,814.44	14	13	1	92.86	904.16	-939.60	0.96	12.51	772.46

All 14 instances posted a close above the entry price on either day 1 or day 2.

Here again while instances are fairly low we see what appears to be a strong inclination for the market to bounce immediately, and then eventually follow through with more upside. Below is a list of all instances with a 1-day exit.

TICK Tomoscillator 1-year % Rank < 1% and SPX closes at 10-day low. SPX > 200ma
Buy SPX on close. Sell next day's close. \$100k/trade. 1998 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/23/98	Buy	\$1,139.74	0.09%	\$904.80
07/24/98	Sell	\$1,140.80		(\$925.68)
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)
07/24/00	Buy	\$1,464.29	0.70%	\$811.92
07/25/00	Sell	\$1,474.47		\$0.00
06/25/03	Buy	\$975.32	1.08%	\$1,143.42
06/26/03	Sell	\$985.82		(\$155.04)
06/30/03	Buy	\$974.50	0.80%	\$893.52
07/01/03	Sell	\$982.32		(\$1,264.80)
10/24/03	Buy	\$1,028.91	0.22%	\$857.48
10/27/03	Sell	\$1,031.13		\$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)
03/02/07	Buy	\$1,387.17	(0.94%)	\$337.68
03/05/07	Sell	\$1,374.12		(\$950.40)
03/05/07	Buy	\$1,374.12	1.55%	\$1,712.16
03/06/07	Sell	\$1,395.41		\$0.00
07/27/07	Buy	\$1,458.95	1.03%	\$1,287.24
07/30/07	Sell	\$1,473.91		(\$314.84)
10/28/09	Buy	\$1,042.63	2.25%	\$2,299.00
10/29/09	Sell	\$1,066.11		\$0.00
04/18/11	Buy	\$1,305.14	0.57%	\$574.56
04/19/11	Sell	\$1,312.62		(\$88.92)

It seems no matter how you slice it the TICK Tomoscillator is strongly suggesting a bounce.

A few Quantifinder studies that appeared looked at Friday's sizable drop (> 1%) on 2:1 negative breadth and suggested an upside edge. My concern with these studies was that they didn't take into account the fact that we are now at an intermediate-term low. So keeping the 1% drop and 2:1 negative breadth parameters the same, I also included a 50-day low filter. Those results are below.

SPX drops 1% and NYSE decliners double advancers. Close = lowest close in 50 days.
Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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	76,366.67	70	47	23	67.14	3,285.93	-3,394.43	0.97	1.98	1,090.95
9	91,733.46	71	47	24	66.20	3,713.36	-3,449.77	1.08	2.11	1,292.02
8	58,285.91	73	44	29	60.27	3,293.85	-2,987.71	1.10	1.67	798.44
7	65,289.46	77	45	32	58.44	3,275.90	-2,566.44	1.28	1.79	847.92
6	49,669.10	79	44	35	55.70	3,327.79	-2,764.39	1.20	1.51	628.72
5	61,177.75	88	49	39	55.68	2,922.22	-2,102.85	1.39	1.75	695.20
4	6,844.55	97	53	44	54.64	2,103.10	-2,377.72	0.88	1.07	70.56
3	59,028.35	109	69	40	63.30	2,305.15	-2,500.68	0.92	1.59	541.54
2	45,490.50	123	68	55	55.28	2,139.51	-1,818.11	1.18	1.45	369.84
1	30,433.36	147	84	63	57.14	1,583.40	-1,628.13	0.97	1.30	207.03

What we see here is a moderate upside inclination. But 1% drops and 2:1 negative breadth are not terribly extreme readings when you are trading at 50 day lows and the market is typically more volatile. I decided to compare the above results with buying any 50-day low.

SPX closes at a 50-day low.
Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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	65,135.67	80	50	30	62.50	3,326.35	-3,372.72	0.99	1.64	814.20
9	79,322.16	88	54	34	61.36	3,604.14	-3,391.22	1.06	1.69	901.39
8	84,903.41	95	59	36	62.11	3,339.27	-3,114.27	1.07	1.76	893.72
7	94,670.55	99	58	41	58.59	3,244.93	-2,281.35	1.42	2.01	956.27
6	67,571.20	107	64	43	59.81	3,027.26	-2,934.27	1.03	1.54	631.51
5	69,093.13	116	65	51	56.03	2,756.48	-2,158.39	1.28	1.63	595.63
4	34,983.84	137	84	53	61.31	2,020.45	-2,542.15	0.79	1.26	255.36
3	85,750.50	153	101	52	66.01	2,023.99	-2,282.16	0.89	1.72	560.46
2	81,251.05	185	108	77	58.38	2,014.46	-1,770.27	1.14	1.60	439.19
1	70,467.36	263	154	109	58.56	1,436.08	-1,382.46	1.04	1.47	267.94

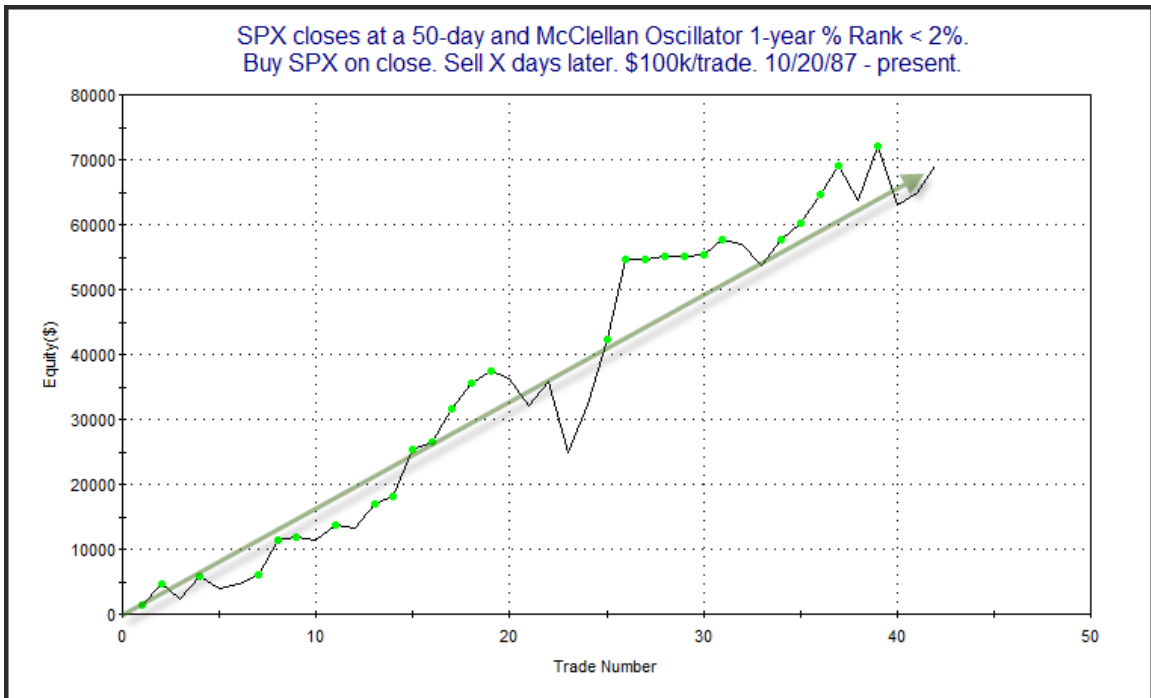
What we see here is that results are almost identical even without considering the 1-day price action and negative breadth. Of course the recent action has been quite negative for more than just one day. The TICK Tomoscillator is not the only indicator that is beginning to show extreme readings. Rather than just considering one day of breath I decided to take into account the somewhat extreme readings now being shown by the McClellan Oscillator. On [the charts page I show a measure of the McClellan Oscillator](#) that considers a full year of readings and assigns a percent rank to it. (This calculation is also included in the QE Indicators/Functions for Tradestation package.) The 1-year %

Rank fell under 2% on Friday. I decided to look at other times this had happened in conjunction with a 50-day low.

**SPX closes at a 50-day and McClellan Oscillator 1-year % Rank < 2%.
Buy SPX on close. Sell X days later. \$100k/trade. 10/20/87 - 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	54,845.37	38	27	11	71.05	3,466.29	-3,522.22	0.98	2.42	1,443.30
9	55,777.51	38	29	9	76.32	3,266.29	-4,327.21	0.75	2.43	1,467.83
8	54,137.61	38	25	13	65.79	3,634.61	-2,825.21	1.29	2.47	1,424.67
7	48,985.47	39	26	13	66.67	3,470.32	-3,172.53	1.09	2.19	1,256.04
6	68,965.15	42	31	11	73.81	3,497.94	-3,588.28	0.97	2.75	1,642.03
5	64,558.51	42	25	17	59.52	3,931.85	-1,984.57	1.98	2.91	1,537.11
4	41,620.52	44	27	17	61.36	2,962.54	-2,256.95	1.31	2.08	945.92
3	42,823.45	47	33	14	70.21	2,530.44	-2,905.80	0.87	2.05	911.14
2	49,853.03	57	35	22	61.40	2,768.41	-2,138.25	1.29	2.06	874.61
1	45,280.76	77	48	29	62.34	1,939.85	-1,649.38	1.18	1.95	588.06

Evidence here is quite a bit more compelling, and appears worth taking under consideration. To confirm the possible upside edge I also examined the equity curve using a 6-day exit strategy.



What we see here a strong and relatively steady upslope.

So there are some fairly compelling studies suggesting an upside edge over the next few days. Of course this has been the case for over a week now. As I've noted numerous times in the last few days the market has been acting in a historically abnormal manner and ignoring what has been fairly overwhelming short-term upside evidence. The aggregator has been on a buy signal for the last eight days. This is an unusually long period of time for a buy signal to persist. Short signals may sometimes last a little longer than buy signals because of the markets tendency to drift higher steadily while downmoves are often more choppy. And while the percent drop over the last 8 days has not been especially fierce, it has begun to feel a bit discouraging as a trader. I decided to go back and look at all other Aggregator buy signals that lasted at least 8 days and see how the market has fared afterwards.

There were 8 other instances that lasted this long. Three of those closed out the next day, and the longest any of them lasted was the 11/08 instance which was a full 13 days. The table below shows all instances assuming you bought on day 8 of the Aggregator signal and then sold when it closed out.

Buy SPX if Aggregator System has been on buy signal for 8 days. Sell when Aggregator buy closes. \$100k/trade. 2/25/2008 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/17/08	Buy	\$850.75	0.12%	\$1,772.55
11/24/08	Sell	\$851.81		(\$12,790.44)
11/03/09	Buy	\$1,045.41	0.10%	\$1,481.05
11/04/09	Sell	\$1,046.50		(\$24.70)
05/06/10	Buy	\$1,128.15	2.80%	\$3,141.60
05/10/10	Sell	\$1,159.73		(\$2,992.00)
05/24/10	Buy	\$1,073.65	2.74%	\$2,777.91
05/27/10	Sell	\$1,103.06		(\$3,056.91)
07/01/10	Buy	\$1,027.37	3.20%	\$3,251.44
07/07/10	Sell	\$1,060.27		(\$1,109.68)
11/18/10	Buy	\$1,196.69	0.25%	\$272.24
11/19/10	Sell	\$1,199.73		(\$601.75)
03/16/11	Buy	\$1,256.88	3.30%	\$3,452.30
03/21/11	Sell	\$1,298.38		\$0.00
04/19/11	Buy	\$1,312.62	1.35%	\$1,523.04
04/20/11	Sell	\$1,330.36		\$0.00

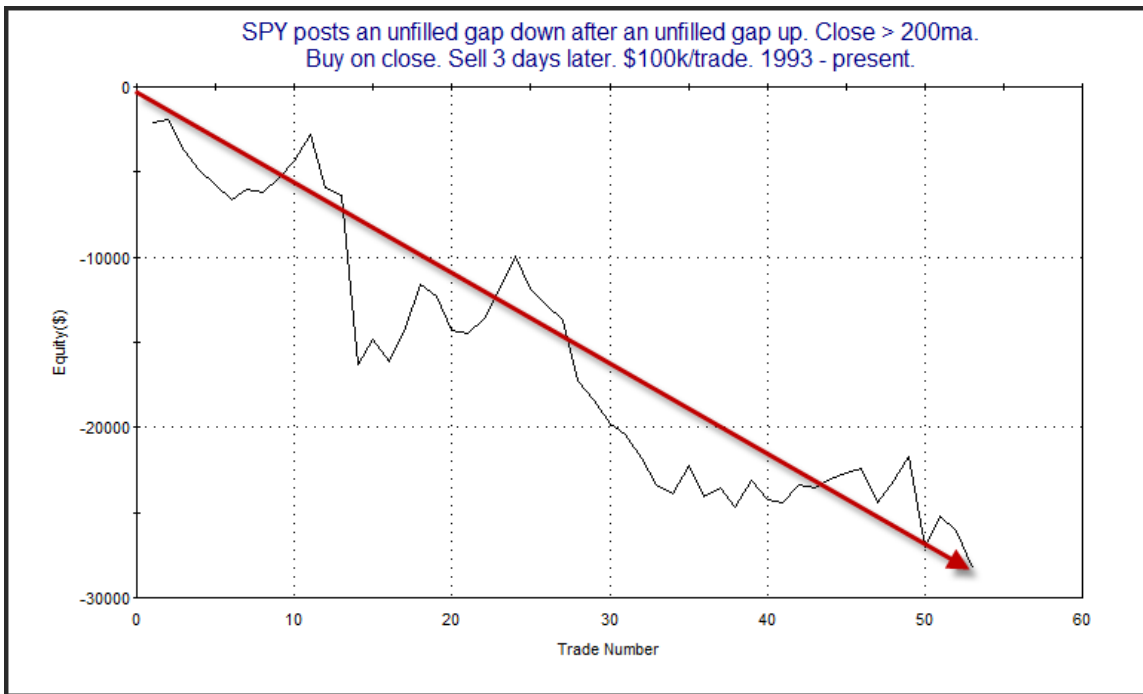
Current circumstances are different than any of those above, but there appears to be an upside edge. The market will only act in a historically abnormal manner for so long before a real bounce is bound to occur. And while all the instances above would have been winners from day 8 until the trade was closed, several of them were extremely volatile with sizable intraday drawdowns. So while there is still an upside edge, that doesn't mean the market is immune from more selling in the short-term. I have a fairly sizable long position on right now. I've been saying for the last few days that I will not add the final piece of that position until I see either a strong spike in the VIX or a move over 10 in the CBI. I maintain that outlook.

Lastly, below I am going to share some additional studies that appeared in the Quantifinder. Individually they appear to suggest an edge. But they all look at the SPY price pattern and Friday's unfilled gap, and the 1st set is bearish while the 2nd set appears bullish. Therefore, while I found these tests individually compelling, I decided due to the conflict among them that I would not include any of them on the Active Studies list. Still, I thought they were worth examining in case subscribers opinions differed than my own and you elected to incorporate some of them in your thinking.

This first group of studies is from the 5/12/11 Subscriber Letter. I have updated the results below.

SPY posts an unfilled gap down after an unfilled gap up. Close > 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
5	-16,944.92	51	21	30	41.18	1,554.78	-1,653.18	0.94	0.66	-332.25
4	-11,604.59	52	22	30	42.31	1,398.45	-1,412.35	0.99	0.73	-223.17
3	-28,252.96	53	21	32	39.62	1,193.48	-1,666.12	0.72	0.47	-533.07
2	-21,203.33	54	22	31	40.74	863.05	-1,296.47	0.67	0.47	-392.65
1	-198.48	54	26	27	48.15	673.75	-656.14	1.03	0.99	-3.68

These results would suggest a short-term bearish edge. Using the 3-day exit strategy I ran an equity curve to see how consistent the edge has been.



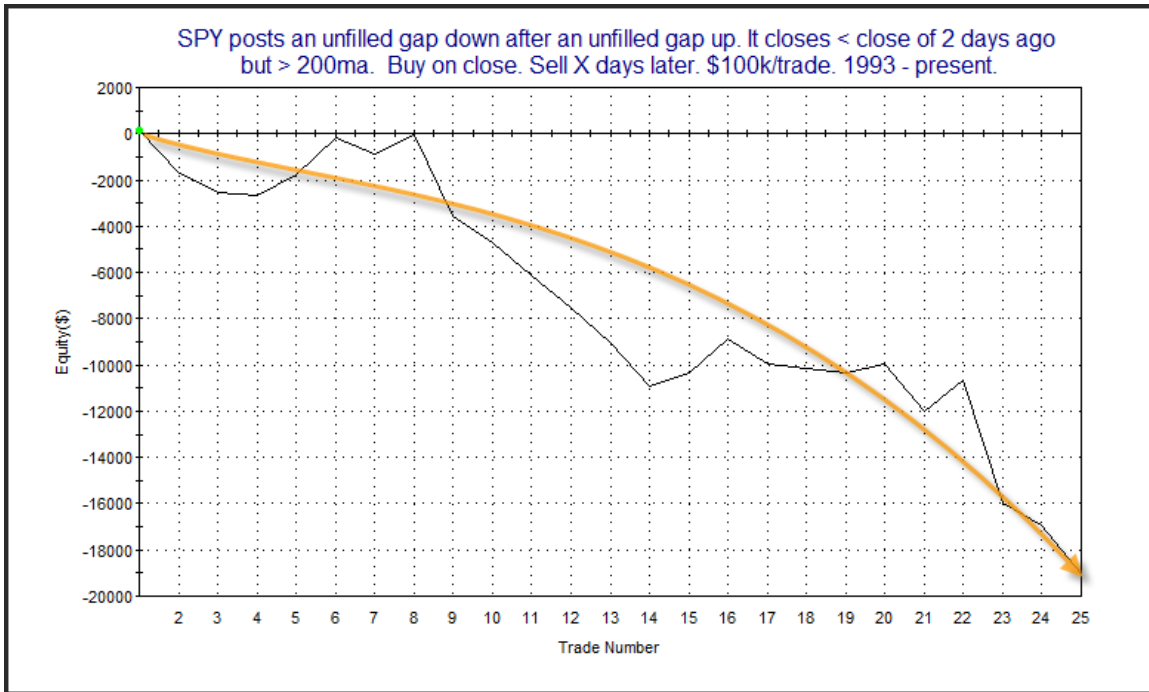
Certainly returns have been choppy, but it's at new lows and the trend down has been in place a very long time. On 5/12 I also wondered whether the fact that the gap down day was more powerful than the gap up day would make any difference. So I filtered the test 1 more time to only include those instances where the SPY closed below the close of 2 days ago (meaning the down day lost more than the up day gained). Those results are below.

SPY posts an unfilled gap down after an unfilled gap up. It closes < close of 2 days ago but > 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
5	-7,482.99	24	9	15	37.50	1,389.50	-1,332.57	1.04	0.63	-311.79
4	-5,695.82	24	10	14	41.67	1,251.96	-1,301.10	0.96	0.69	-237.33
3	-19,068.23	25	8	17	32.00	898.89	-1,544.67	0.58	0.27	-762.73
2	-16,890.06	25	7	17	28.00	728.39	-1,293.46	0.56	0.23	-675.60
1	-665.02	25	11	13	44.00	547.95	-514.81	1.06	0.90	-26.60

22 of 25 instances (88%) close below the entry price at some point in the next week.

Results here didn't change dramatically. They appear just slightly more bearish than the first set of results. Below is the equity curve using a 3-day exit strategy.



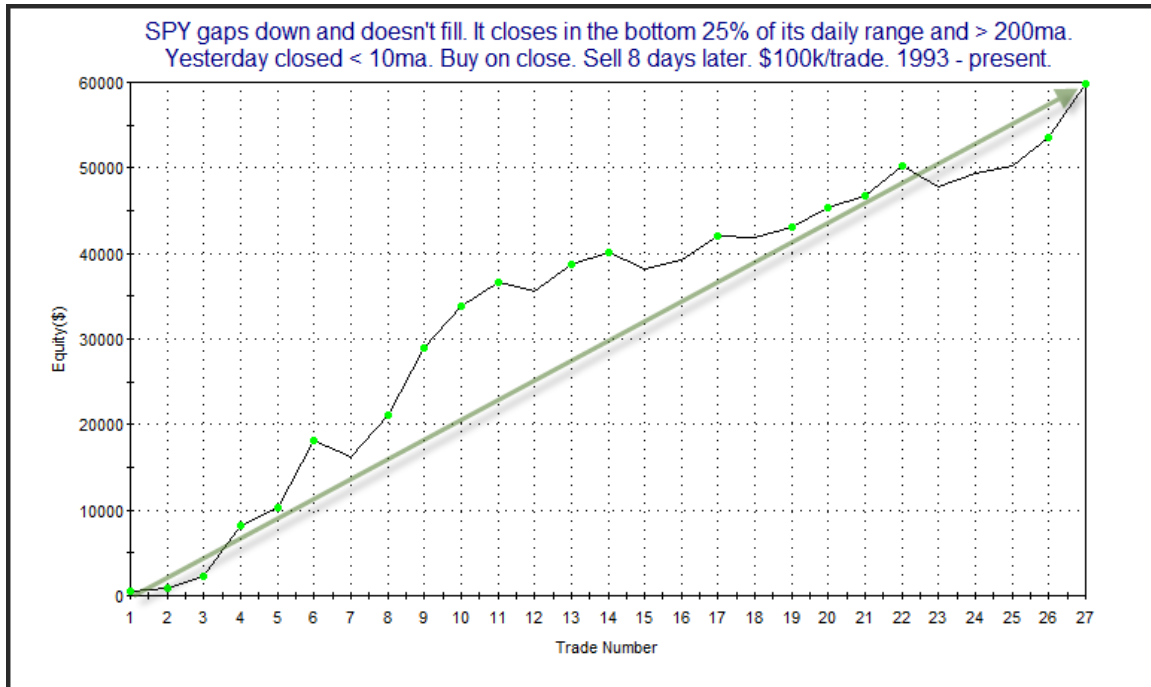
Again the curve appears to confirm the downside edge suggested by the stats table.

But another study from the 12/18/09 subscriber letter brought the above results into question in my mind. That study is shown below.

SPY gaps down and doesn't fill. It closes in the bottom 25% of its daily range and > 200ma. Yesterday closed < 10ma. 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	55,813.25	26	20	6	76.92	3,038.67	-826.70	3.68	12.25	2,146.66
9	58,480.94	27	22	5	81.48	2,806.29	-651.50	4.31	18.95	2,165.96
8	59,900.91	27	22	5	81.48	3,067.00	-1,514.63	2.02	8.91	2,218.55
7	53,228.91	27	22	5	81.48	2,824.84	-1,783.51	1.58	6.97	1,971.44
6	43,289.67	27	19	8	70.37	2,850.56	-1,358.88	2.10	4.98	1,603.32
5	37,940.50	27	18	9	66.67	2,680.85	-1,146.10	2.34	4.68	1,405.20
4	31,113.10	29	20	9	68.97	2,087.84	-1,182.64	1.77	3.92	1,072.87
3	29,081.61	30	22	8	73.33	1,773.85	-1,242.89	1.43	3.92	969.39
2	28,222.25	30	24	6	80.00	1,520.20	-1,377.09	1.10	4.42	940.74
1	21,343.69	30	23	7	76.67	1,114.35	-612.34	1.82	5.98	711.46

The gap down and selloff here appear to suggest an immediate and substantial upside edge. Below is an equity curve assuming an 8-day hold.



Equity curves don't look much stronger and steadier than this. I decided tonight to also see whether the edge held up if the pattern appeared at a 50-day low.

SPY gaps down and doesn't fill. It closes in the bottom 25% of its daily range and at a 50-day low. 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	56,738.26	36	22	14	61.11	5,422.94	-4,469.03	1.21	1.91	1,576.06
9	55,348.73	36	26	10	72.22	4,654.50	-6,566.82	0.71	1.84	1,537.46
8	59,873.43	36	26	10	72.22	4,485.26	-5,674.33	0.79	2.06	1,663.15
7	54,153.96	36	25	11	69.44	4,010.67	-4,192.06	0.96	2.17	1,504.28
6	57,900.68	37	27	10	72.97	3,742.51	-4,314.72	0.87	2.34	1,564.88
5	45,760.36	37	24	13	64.86	3,590.18	-3,108.00	1.16	2.13	1,236.77
4	23,728.02	39	21	18	53.85	3,261.51	-2,486.87	1.31	1.53	608.41
3	30,372.07	41	26	15	63.41	2,467.70	-2,252.55	1.10	1.90	740.78
2	22,964.54	42	21	21	50.00	2,751.15	-1,657.60	1.66	1.66	546.77
1	11,640.04	43	24	19	55.81	1,608.66	-1,419.36	1.13	1.43	270.70

While not quite as strong as the previous test, there certainly seems to be an upside edge under these circumstances as well.

As I indicated above, due to the conflicting nature of these SPY studies I did not include any of them in the Aggregator. It will be interesting to see how they play out over time. Of course the overall weight of the evidence is strongly bullish no matter how I lay it out.

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



The green Aggregator Line is still well above 0 and at a very high level. 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 extended 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 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 Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 1,288.64. This is about 1.4% above

Friday's close. So we will either need a very strong day on Monday or a multi-day rally at this point in order for the Aggregator System to come off the buy signal.

I have a high amount of long exposure already. As I mentioned above, to add my final piece of index exposure I will require a spike in the VIX or the CBI. With or without that I expect we should see a bounce in the coming days. I am willing to add some minor exposure through additional Catapult trades at this point.

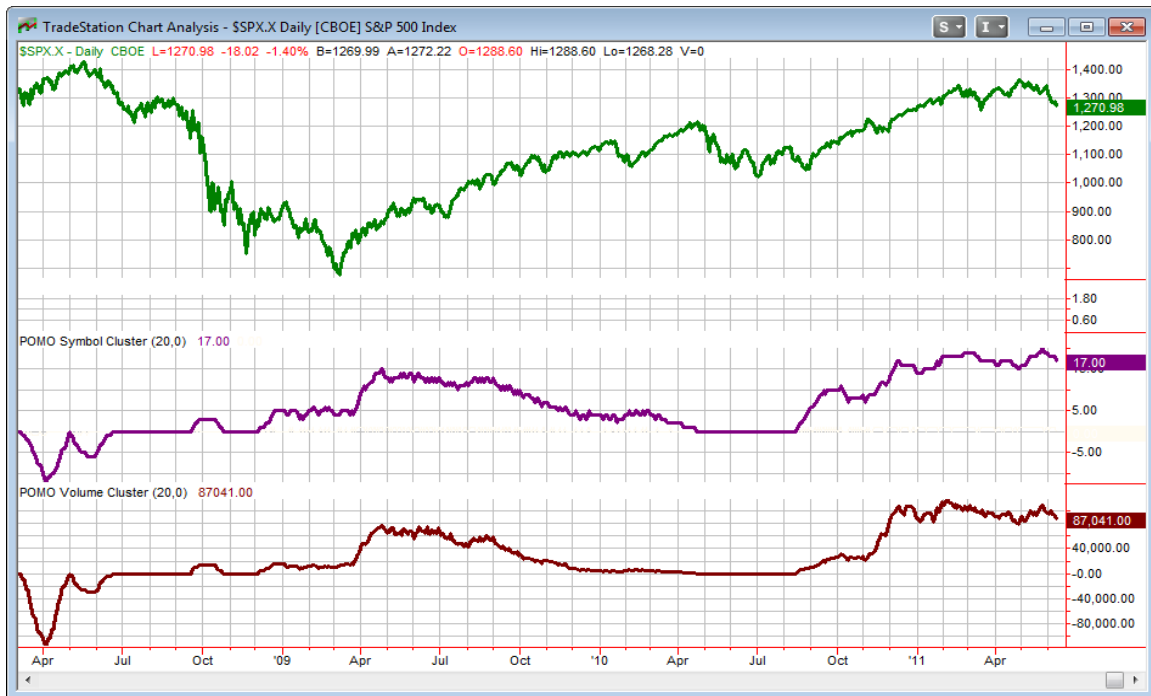
Intermediate-term Outlook (2 weeks – 2 months)– updated 6/13 – neutral

It was another tough week in the market. We are now down 6 weeks in a row. Perhaps the biggest development is that the POMO schedule was released on Friday and we can now see the end of QE2.

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 at high levels. Still, they are beginning to trend lower. The current schedule calls for steady buying until the end of the month, but after that there will be little in the way of Fed stimulus. Starting July 1 we will see these indicators begin to head back towards the 0 line. There are 2 small days of buying currently scheduled in July which is associated with the reinvestment of principal payments rather than the \$600billion of QE2 money. The past few times POMO stimulus was halted, it took the market about a month after the halt until prices began to decline.

For those that would like to view the current schedule I have provided a link below.

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

Intermediate-term studies are still slightly in favor of the bulls, but that may not last long with POMO exiting the equation. The bears may also point to the divergence in the number of new highs in the NYSE that I discussed a couple of weeks ago. The studies found on the intermediate-term active list at the top of this letter consider breadth, momentum, and intermediate-term mean reversion. I expect we will get a bounce here in the short-term as suggested by the short-term section above. That bounce could carry forward for another few weeks. I don't have great confidence that it will surpass the May highs. After the next few weeks the picture becomes less clear in my eyes. I'm moving the intermediate-term outlook to neutral. I will approach both longs and shorts with some caution but at this point I am willing to bet either way should short-term evidence suggest an edge.

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)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 5(3)(LOW(3), AEP, 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.

BRK.B – buy 1/3 position @ \$74.15 limit. – This catapult did not fill on Thursday and I pulled it off the board on Friday. It closed Friday at a new low and still seems capable of putting in a nice bounce. I will look to enter on Monday. The limit price is a little above Friday's close. If it gaps up this will give us a little better chance of getting a fill versus using Friday's close as the limit. It is a slightly more aggressive entry than I normally attempt.

XIV – buy @ \$172.00 limit ON CLOSE. – I put this trade idea out there some last week and didn't get a fill. The 1st VIX systems signals are already active. A VIX spike 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 recent lows.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/2/2011	\$131.87	\$127.53	-3.29%		Aggregator
SPY(1/4)	6/3/2011	\$130.15	\$127.53	-2.01%		Aggregator
LOW(1/3)	6/3/2011	\$23.18	\$22.25	-4.01%		Catapult
LOW(1/3)	6/6/2011	\$23.07	\$22.25	-3.55%		Catapult
AEP(1/3)	6/6/2011	\$37.43	\$37.12	-0.83%		Catapult
SPY(1/4)	6/6/2011	\$129.04	\$127.53	-1.17%		Aggregator
LOW(1/3)	6/8/2011	\$22.72	\$22.25	-2.07%		Catapult
BAC(1/3))	6/9/2011	\$10.54	\$10.80	2.47%		sell on open

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