

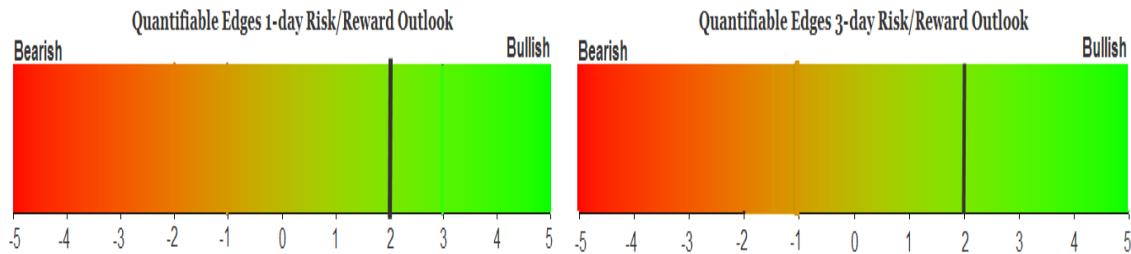
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 28, 2011

Volume 4 Issue 123

## 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 market is almost exactly back to the middle of its 2-week range. Mid-range will often be void of significant edges.

## Short-term Outlook

### The Bottom Line

It appears based on the evidence this bounce should have further to go. With the weak performance of bounces recently I am looking to take some profits and let some ride should we get a little more upside movement on Tuesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
June 27, 2011	3 down. (vol rise/FTD)	1-3 days	Bullish	2.10%
June 27, 2011	Friday 1% drop > 200ma	1-3 days	Bullish	1.40%
June 24, 2011	SPY 1% Gap Down & Partial Reversal	1-3 days	Bullish	2.30%
<b>Active - Long Term</b>				
June 22, 2011	FTD with Up Issues % 1-yr Rank > 95%	int term	Bullish	
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	POMO	int term	weakening	
October 25, 2010	SPX Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
June 23, 2011	Fed Day new high then reverse down	1-3 days	Bullish	2.05%

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

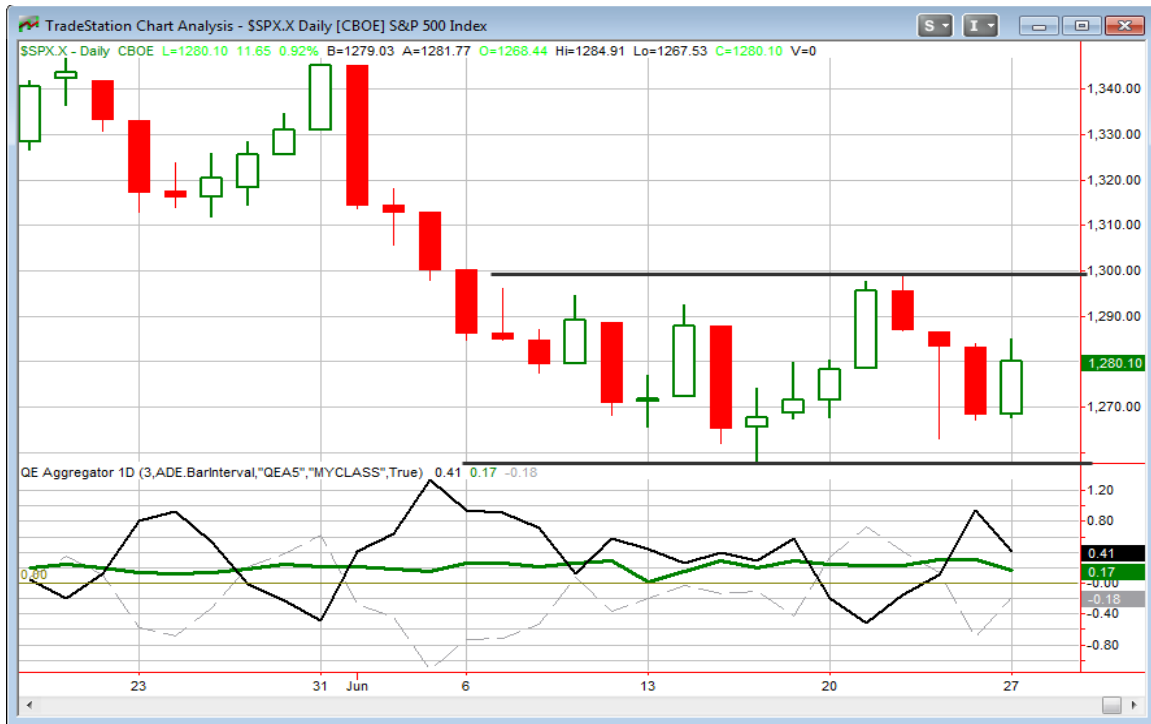
## *The Evidence*

We saw plenty of evidence over the weekend that the pullback was at a point where a bounce was becoming likely. Monday it bounced right on schedule. The major indices all closed nicely higher. The SPX and Russell 2000 rose 0.9% and the Nasdaq gained 1.3%. Breadth was strong as the NYSE Up Issues % came in at 68% and the Up Volume % was 77%. Total NYSE volume retreated from Friday's levels.

Every once in a while the market puts itself into a position where there don't appear to be any significant studies or edges. This was more common in a couple of years ago when Quantifiable Edges was tracking so many fewer studies. But we still see it from time to time. Almost always this occurs when the market is trading in the middle of its short-term range. This is again the case today. Monday's strong move higher put the SPX almost exactly in the middle of its 10-day range. More edges occur at the edges, so we'll just have to be patient and see what unfolds over the next few days.

The one indicator that stood out and that subscribers may have noticed is showing an extreme reading on the charts page is the TICK Tomoscillator. Its percent rank came in at 98% today which puts it in the top 2% of all days over the last year. In the past when I've studied the TICK Tomoscillator I've found it to be much more predictive when looking at strongly oversold readings as opposed strongly overbought ones. I did examine the current reading in relation to the current market setup a number of different ways, and found no substantial edge suggested by the setup.

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



Without any bearish studies on the short-term active list, the green Aggregator Line remained high. Readings above 0 mean net expectations from the active list are for upside over the next few days. Meanwhile, the black Differential Line also held firmly above 0. A close above 0 means the SPX has underperformed expectations over the last few days. So net expectations are positive and the SPX is substantially oversold versus recent expectations. Historically this combination has suggested an upside edge. The 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 Tuesday. This could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,293.09. This is a little over 1.1% above Monday's close. So despite Monday's rally, it will still take a strong move on Tuesday to move the SPX out of short-term oversold territory and the black Differential line back to negative.

So we have a bounce. At this point the weight of the evidence is suggesting the bounce should continue higher and last longer. I'm currently long, having scaled into to a medium-sized position over the last 2 days. If the market was in the midst of a rally, or even if it could have managed some decent multi-day rallies in the recent past, then I would be inclined to press my luck with everything. Over the last several weeks bounces have been getting punished. Therefore, rather than press it, I am going to look to take part of the position off the table on Tuesday if we get a bit more of a rally.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 6/27 – neutral**

The SPX posted a higher high than last week, a higher low than last week, and a Follow-Through Day in the middle of the week – and still it closed down on the week. In the 2/1/08 blog I looked at possible implications of action immediately after an FTD. I have updated those tests below.

Short-term performance after FTDs that failed to complete successful rallies. \$100k/trade. 1971-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	-32,145.83	35	15	20	42.86	1,852.06	-2,996.34	0.62	0.46	-918.45
4	-27,660.43	35	14	21	40.00	1,870.00	-2,563.83	0.73	0.49	-790.30
3	-26,864.21	35	15	20	42.86	1,450.39	-2,431.00	0.60	0.45	-767.55
2	-31,610.28	35	13	22	37.14	975.59	-2,013.31	0.48	0.29	-903.15
1	-3,521.06	35	17	18	48.57	591.36	-754.12	0.78	0.74	-100.60

Short-term performance after FTDs that went on to complete successful rallies. \$100k/trade. 1971-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	71,249.18	39	30	9	76.92	2,833.70	-1,529.10	1.85	6.18	1,826.90
4	61,869.64	39	27	12	69.23	2,846.70	-1,249.28	2.28	5.13	1,586.40
3	57,445.82	39	26	13	66.67	2,744.05	-1,069.20	2.57	5.13	1,472.97
2	55,597.73	39	29	10	74.36	2,260.79	-996.53	2.27	6.58	1,425.58
1	26,842.15	39	22	17	56.41	1,611.25	-506.20	3.18	4.12	688.26

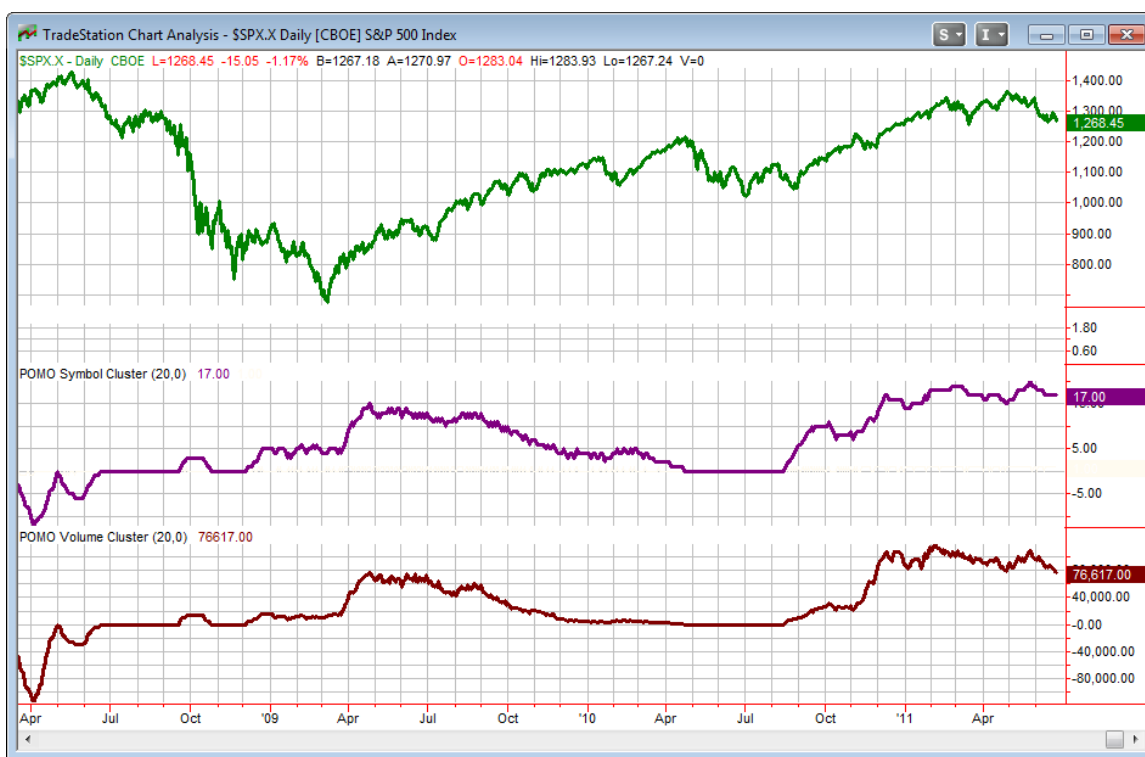
A couple of points here. First, FTDs that went on to successful rallies generally saw additional gains within the 1<sup>st</sup> week after the FTD. Likewise, FTDs that eventually failed tended to suffer losses quickly after the FTD. Another point to consider is that that the success or failure was determined with about 67% reliability within the first week after a FTD. For instance, note there were a combined 45 total trades that were in the black after 5 days. Thirty of them (or 2/3) went on to complete successful rallies. The same ratio applies for the losers. There were 29 losers after 5 days. Twenty of them ended up with failed rallies and the other 9 were successful.

For the current setup to show a winner over the 5-day period, Monday and Tuesday will need to produce strong upside results.

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>



My POMO interpretation remains similar to the last 2 weeks.

Both the POMO Days and POMO Volume indicators remain at fairly high levels. Still, they are beginning to trend lower. The current schedule calls for steady but decreased 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](http://www.newyorkfed.org/markets/tot_operation_schedule.html)

Intermediate-term studies are moderately bullish but we remain in the midst of a correction. Tuesday's FTD appears in jeopardy. It will need to right itself quickly if a rally is to emerge. A short-term bounce does appear likely, but unless it comes quickly and with substantial force the market will be looking for a lower bottom than the 6/16 low. My outlook remains neutral for now. This means I will approach both longs and shorts with some caution but 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***

*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
XIV	6/13/2011	\$17.04	\$16.11	-5.45%		split 10:1 on 6/27
SPY(1/4)	6/24/2011	\$128.27	\$127.94	-0.26%		sell @ \$128.30 limit
SPY(1/4)	6/27/2011	\$126.81	\$127.94	0.89%		Aggregator

*I'll look to take 1 lot of the SPY trade off at \$128.30. This is just below the high of the last 2 days and at the close of 2 days ago. The SPY has had a hard time getting through this level, so I'll use a move back up here to take partial profits. Note: aggressive traders could consider holding on for more. If SPY does get through this resistance area, then it could accelerate upwards. If not for the poor track record of rallies over the last 7 weeks I would be looking to hold on to the whole thing.*

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