

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 29, 2011

Volume 4 Issue 124

Market Overview



Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Flat	50% Long XIV	Flat	Flat

Tonight's Research Points

- The short-term bullish studies have reached their targets and nothing new has yet emerged.

Short-term Outlook

The Bottom Line

The short-term studies from a few days ago reached their targets with Tuesday's rally and nothing new managed to emerge. I'm flat and awaiting the next substantial edge to take a position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
None				
Active - Long Term				
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	
Dropped Tonight				
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%

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

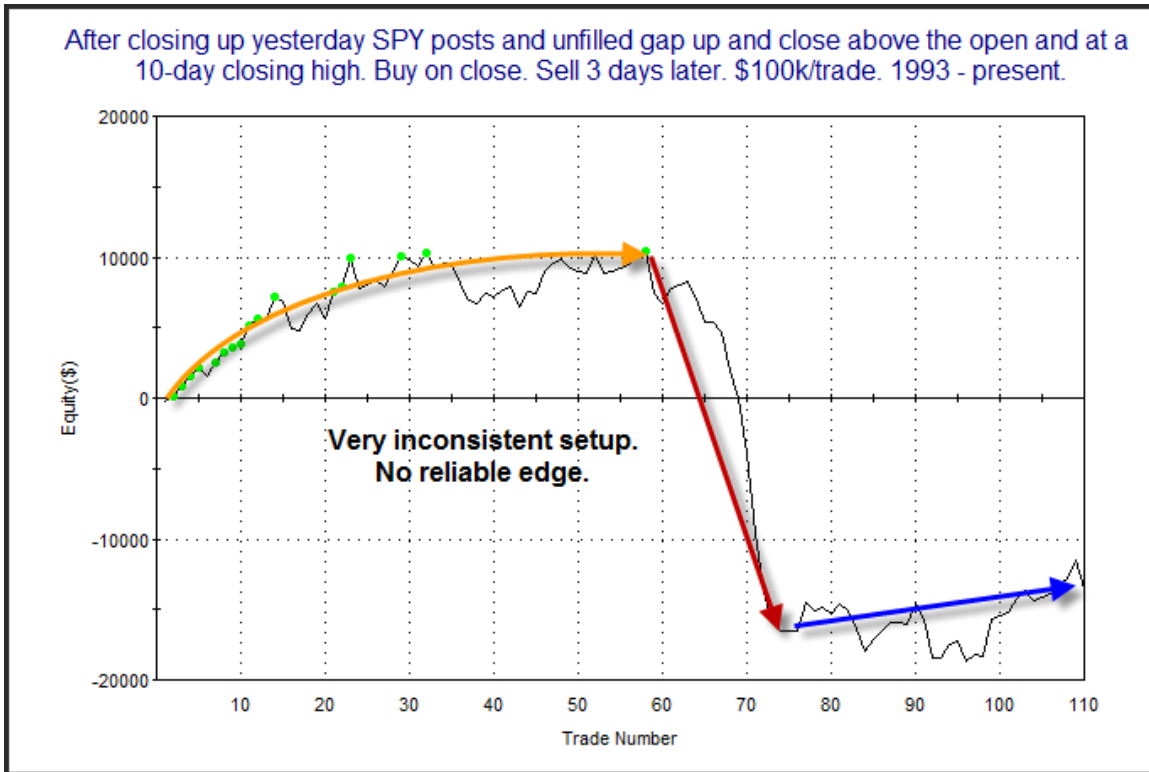
The Evidence

For the 2nd day in a row the market rallied from open to close and put in nice gains. The SPX gained 1.3% while the Nasdaq and Russell 2000 each rose 1.5%. Breadth was again strong as the NYSE Up Issues % came in at 77% and the Up Volume % was 83%. Total volume shrank for the 2nd day in a row.

In the intraday update today I mentioned a study from the 3/4/11 subscriber letter that examined unfilled up gaps and further moves higher after having closed up just the day before. I mentioned that while the quick look that was done previously seem to suggest a modest downside edge, that edge was no longer apparent. I have updated that study below.

After closing up yesterday SPY posts and unfilled gap up and close above the open and at a 10-day closing high. 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	-43,352.79	150	74	75	49.33	1,184.95	-1,747.18	0.68	0.67	-289.02
4	-44,497.59	157	84	72	53.50	1,041.48	-1,833.09	0.57	0.66	-283.42
3	-54,452.07	159	84	73	52.83	778.46	-1,641.68	0.47	0.55	-342.47
2	-27,657.47	162	92	68	56.79	608.23	-1,229.62	0.49	0.67	-170.73
1	-16,813.92	172	83	89	48.26	486.85	-642.95	0.76	0.71	-97.76

Here we see that the results table shows modestly negative expectations even though the win percentage slightly favors the bull case. To understand why I am dismissing this study tonight let's take a look at an equity curve that shows how the edge has played out over time.



While the net result of the curve is that it is lower than it started, there is no consistent, reliable edge apparent. When examining the curve on a time-based scale it appeared that much of the downside occurred when the market was in a long-term downtrend. Therefore I added a 200ma filter and ran the study again.

After closing up yesterday SPY posts and unfilled gap up and close above the open and at a 10-day closing high. 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	-4,104.17	117	61	55	52.14	1,186.21	-1,390.24	0.85	0.95	-35.08
4	2,175.86	123	73	49	59.35	1,029.34	-1,489.10	0.69	1.03	17.69
3	-8,358.55	125	76	48	60.80	735.96	-1,339.41	0.55	0.87	-66.87
2	1,128.55	128	77	49	60.16	585.40	-896.89	0.65	1.03	8.82
1	-1,636.74	137	70	67	51.09	470.08	-515.56	0.91	0.95	-11.95

Results here are along the lines of what I expected after having seen the previous equity curve. They don't suggest an edge.

So while no new studies are being added to the Active List tonight, all three from last night are being removed. Two of them are being taken down a little early since they met their profit targets Tuesday. This is leaving the short-term active list completely blank for the first time that I can remember.

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



With just the intermediate-term studies to go by the green Aggregator line managed to close just above 0. Readings above 0 mean net expectations from the active list are for upside over the next few days. Meanwhile, the strong SPX rally moved it above its Differential Pivot and caused the Differential Line to drop just below 0. A negative close means the SPX has outperformed expectations over the last few days. So net expectations are barely positive while the SPX is marginally overbought. This is considered a neutral configuration. Neutral configurations can be seen whenever both lines close on opposite sides of 0. Due to this the Aggregator System changed from long to flat at the close.

The position of the green Aggregator line on Wednesday will depend almost entirely upon what studies emerge. I will be sure to monitor the market action and studies closely

during the day. Meanwhile, the Differential Pivot will be 1,278.95. This is nearly 1.4% below Tuesday's close. So it would take a close above this level along with bearish studies emerging for a short to trigger, or a close below this level along with additional bullish evidence emerging to trigger a long.

The outlook really couldn't get much more neutral than this. I've taken profits on my index positions and am looking to also get flat my XIV position tomorrow. A big market mover tomorrow could be the Greek austerity vote. The supposition by most out there is that if it passes that will be good for the market. But after 2 up days in anticipation of it passing, perhaps the market is setting itself up for a "sell the news" scenario.

In any case, while the "Trade Ideas Results Spreadsheet" is again showing positive results, June has not been an easy month. It felt especially difficult after having been in a groove for the last several months. So I'm happy to be flat ahead of this big news release and potential market mover.

One last note is that that Tuesday's rally may end up as a good sign for the intermediate-term. In the intermediate-term outlook just below I discussed the fact that instances where the market closes above its Follow-Through Day (FTD) 5 days later the market has staged a successful rally about 2/3 of the time. Also, when it closes below the FTD close 5 days later, those instances have failed about 2/3 of the time. So with Tuesday's move placing it just above the FTD close of last Tuesday, it appears that may increase the odds of a successful intermediate-term 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

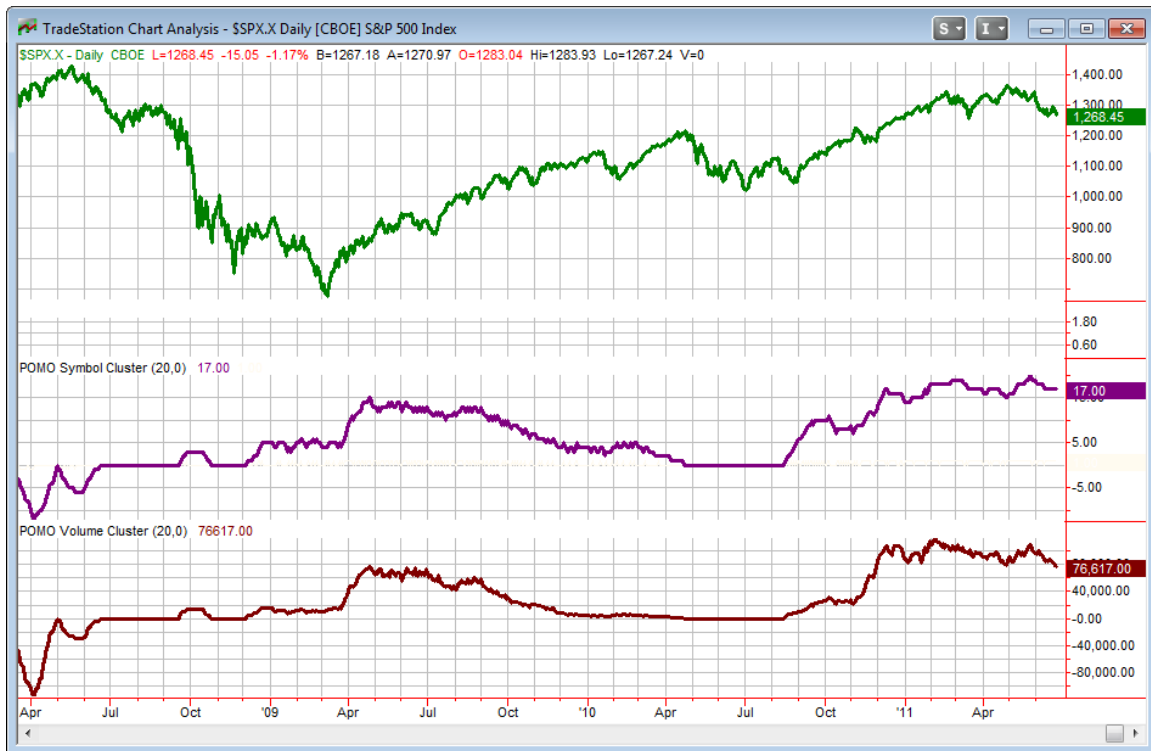
A couple of points here. First, FTDs that went on to successful rallies generally saw additional gains within the 1st week after the FTD. Likewise, FTDs that eventually failed tended to suffer losses quickly after the FTD. Another point to consider is that the success or failure was determined with about 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 3rd 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

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	\$16.74	-1.75%		sell @ \$16.74 limit
SPY(1/4)	6/24/2011	\$128.27	\$128.45	0.14%		sold on open
SPY(1/4)	6/27/2011	\$126.81	\$129.61	2.21%		sold on close

The 1st SPY lot was sold at the open as per last night's letter. The 2nd SPY lot was sold at the close as per the intraday update sent to subscribers around 2:30pm EST.

I'm going to look to take off the XIV trade at this point. The conservative system is back to flat along with the Aggregator, and while the aggressive system is still 50% long, the VIX:VXV ratio is only slightly under the 0.95 level it needs to be at. Rather than push my luck, I will look to exit this with no more than a small loss on Wednesday, using Tuesday's close as my limit price. Should we get another VIX spike or if a more substantial edge emerges, I will certainly consider taking on another XIV position. Traders may also track the progress of the VIX systems once I get the spreadsheet posted to the website on Wednesday. As a reminder I will be conducting a 3rd webinar on these systems for all subscribers tomorrow. This one will focus on some new backtest results.

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.