

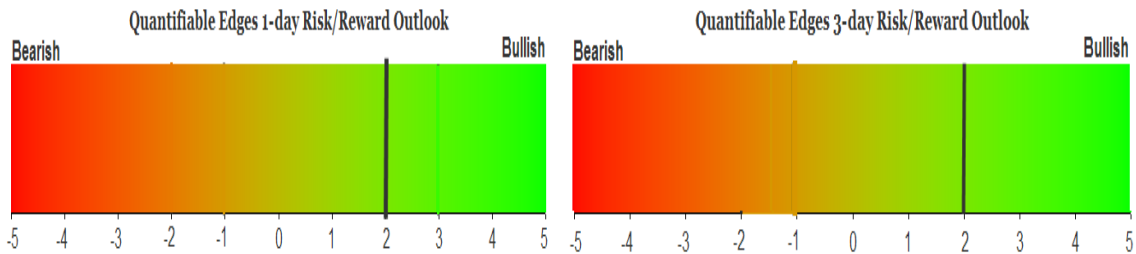
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 19, 2011

Volume 4 Issue 137

Market Overview



Signals Overview

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

Tonight's Research Points

- Some strong selling fails to inspire new bullish evidence once again.

Short-term Outlook

The Bottom Line

The Aggregator remains positive but new bullish evidence remains lacking. I'm continuing a conservative approach and simply holding a small long position.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 13, 2011	Pullback slowing	1-5 days	Bullish	2.50%
Active - Long Term				
July 5, 2011	QE2 Over	int term	Bearish	
July 5, 2011	3 days higher. Up vol % > 90% today.	1-20 days	Bullish	5.00%
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%
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
July 12, 2011	SPY 2 unfilled dn gaps.5-low & >200ma	1-5 days	Bullish	1.70%
July 5, 2011	5 days higher. >200 & < 50-high	1-10 days	Bullish	2.00%

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

The Evidence

Most of Monday was pretty rough for the market. Late in the day it bounced back some and finished in the top half of its intraday range. Still, the final numbers were poor. The SPX lost 0.8%, the Nasdaq closed down 0.9%, and the Russell 2000 fell 1.6%. Breadth was much worse than the averages would've suggested with the NYSE Up Issues % at 15% and the Up volume % at just 9%. Total NYSE volume dipped below the levels of the last 4 days.

Breadth was incredibly extreme for such a moderate selloff. In fact I could only find 2 other times going back to 1970 in which over 90% of the NYSE volume was to the downside and the SPX fell LESS than 1%. The other 2 instances took place on 10/11/76 and 3/5/07. The 2007 instance marked the bottom of a sharp 2-week selloff. The market did pull back and test that low several days later but it held and a new rally ensued. The 1976 instance also came after some strong selling but didn't mark any kind of significant turning point. So while the breadth was exceptional I don't see how it is terribly predictive.

I feel like a broken record, but once again the selling failed to inspire much suggesting a strong edge – either bullish or bearish. The one study that appeared in the Quantifinder tonight was actually neutral. It simply noted the fact that the VIX is again stretched over 10% above its 10ma. In fact it jumped to 14%. But as I discussed last week the real strong edge doesn't occur until it is 25% above its 10ma.

Below is an excerpt from the 10/2/09 Subscriber Letter that discusses these 10% stretches. **Stats are not updated.**

While VIX spikes 10% or more above their 10-day moving average are often cited, they're not reliable ... Below is a study to exemplify this.

VIX crosses over and closes more than 10% above its 10ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1991 - 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: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
10	91,584.21	154	91	63	59.09	2,627.75	-2,341.92	1.12	1.62	594.70
9	79,993.01	158	98	60	62.03	2,568.05	-2,861.27	0.90	1.47	506.28
8	68,254.34	161	100	61	62.11	2,255.49	-2,578.59	0.87	1.43	423.94
7	78,215.90	166	97	69	58.43	2,444.67	-2,303.15	1.06	1.49	471.18
6	87,024.24	174	105	69	60.34	2,208.43	-2,099.44	1.05	1.60	500.14
5	100,182.37	179	110	69	61.45	1,938.26	-1,638.05	1.18	1.89	559.68
4	70,264.33	191	113	78	59.16	1,758.23	-1,646.35	1.07	1.55	367.88
3	29,889.47	205	117	88	57.07	1,472.79	-1,618.49	0.91	1.21	145.80
2	8,115.51	219	118	101	53.88	1,292.79	-1,430.04	0.90	1.06	37.06
1	6,849.83	219	114	105	52.05	897.51	-909.20	0.99	1.07	31.28

While positive, the 1st 2 days don't even keep up long-term with market drift. This isn't a study to base a trade on.

The short-term studies list is shrinking fast. Two of the three remaining studies expired today and the last one is only in effect through Tuesday. With the intermediate-term studies leaning to the upside the Aggregator will still maintain a positive value even without new bullish evidence emerging. That said, it won't take much bearish evidence at this point to flip the Aggregator negative and the short-term estimates will pretty much be at the whim of any new studies over the next few days.

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



With the outstanding bullish studies near the end of their influence the green Aggregator line is now only mildly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the Differential Line moved a bit further above 0. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are positive and the SPX is oversold versus recent expectations. Historically this combination has offered an upside edge. It can be seen on the Aggregator chart whenever both lines are above 0. Due to this the Aggregator System remained long at the close.

Without any bearish short-term studies the green Aggregator line is again set to close above 0 on Tuesday. This could easily change if compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,314.19. This is about 0.7% above Monday's close. So a close higher of this amount would flip the Differential line negative and remove the Aggregator long signal.

The situation therefore is largely the same as the last few days. The Aggregator is pointing higher, but bullish evidence remains weak at best and despite the selling I am not seeing anything new and compelling that suggests a strong upside edge. I've been holding a moderate 25% index position and at this point I don't see a good reason to increase it.

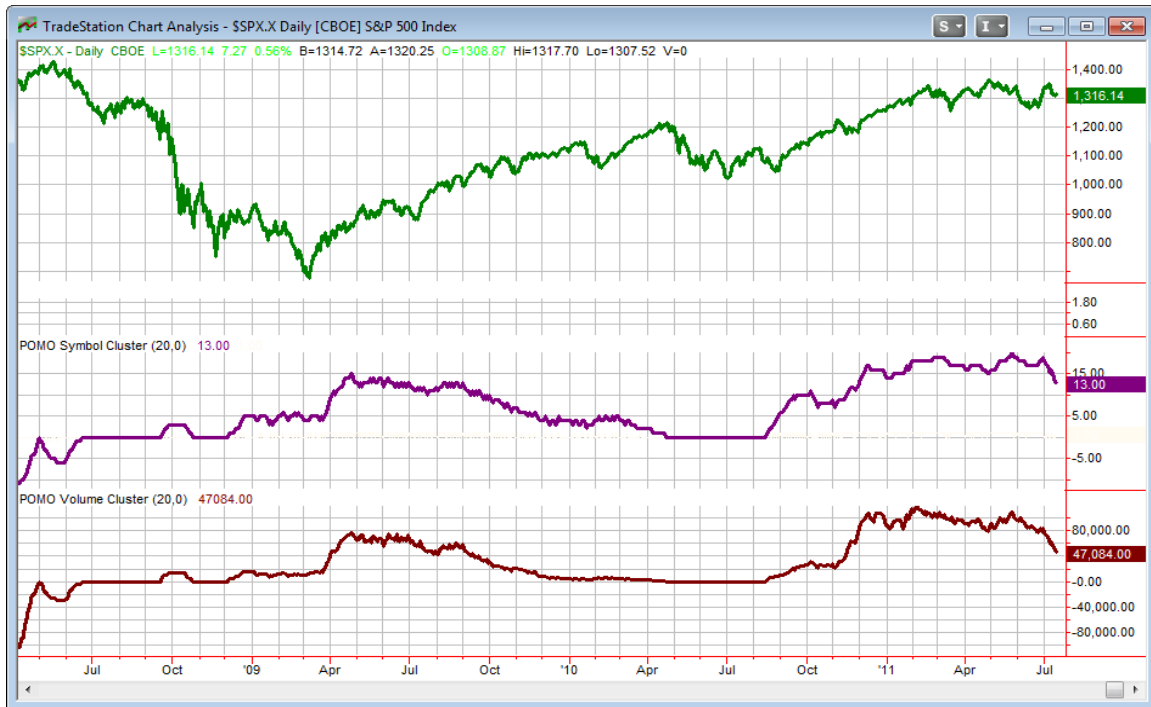
Intermediate-term Outlook (2 weeks – 2 months)– updated 7/11 – mildly bullish

It was a fairly tough week for the market. After entering the week close to new highs, the SPX pulled back near the middle of its May-June trading range. Not much showed up with intermediate-term implications.

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>



Even with QE2 now over there were 2 days of POMO buying this past week. In looking at the upcoming schedule it appears 2 days a week may be par for the course for a while. So even without QE2, there will still be a decent amount of liquidity pumping occurring. It certainly isn't at the levels that the market was accustomed to, but it does not appear the POMO indicators above will be hitting 0 any time soon. The "Days" indicator may even settle in around 7-8, which is far higher than I anticipated. Below is a copy of the upcoming schedule.

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

I had been considering the end of QE2 as a strongly negative market influence, but perhaps I should be considering it mildly bearish to neutral at this point. After being used to massive amounts of liquidity, I certainly don't think the current POMO schedule will act as a positive. I thought I might be phasing out this chart for a while, but I think it will still be important to monitor for a while.

There remain a number of intermediate-term market positives that can be pointed to. The Intermediate-Term Active List at the top of the letter shows there is still a high-probability Follow-Through Day signal active, the Nasdaq is leading the SPX, breadth has issued bullish intermediate-term signals, and price action has as well. The combination of evidence is enough to keep me slightly favoring the bull side for the time being.

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.** One possible encouraging sign is that we are seeing more and more securities trigger numbered systems. Stocks like COST and PFE, along with several others, appear primed for a bounce. More aggressive traders, or those who are currently more optimistic than me, could consider some of the setups shown on the triggers spreadsheet.*

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/12/2011	\$131.69	\$130.61	-0.82%		sell on SPX close > 1,314.18

Should we rally and finish above the Differential pivot I will exit the SPY trade idea at the close.

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