

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 22, 2011

Volume 4 Issue 140

Market Overview



Signals Overview

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

Tonight's Research Points

- 75% Up Issues for the 2nd day in the last 3 and a close at a 10-day high suggest more upside over the short and intermediate-term.

Short-term Outlook

The Bottom Line

Thursday's action put the SPX strongly overbought, but it's one of those times when the market is overbought and likely to continue higher. It's too extended for me to buy, but I likely will if it pulls back in the next few days.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
July 22, 2011	Up Issue% > 75% 2 of 3. Close 10 high.	1-6 days	Bullish	2.70%
Active - Long Term				
July 22, 2011	Up Issue% > 75% 2 of 3. Close 10 high.	1-20 days	Bullish	5.50%
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	

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

The Evidence

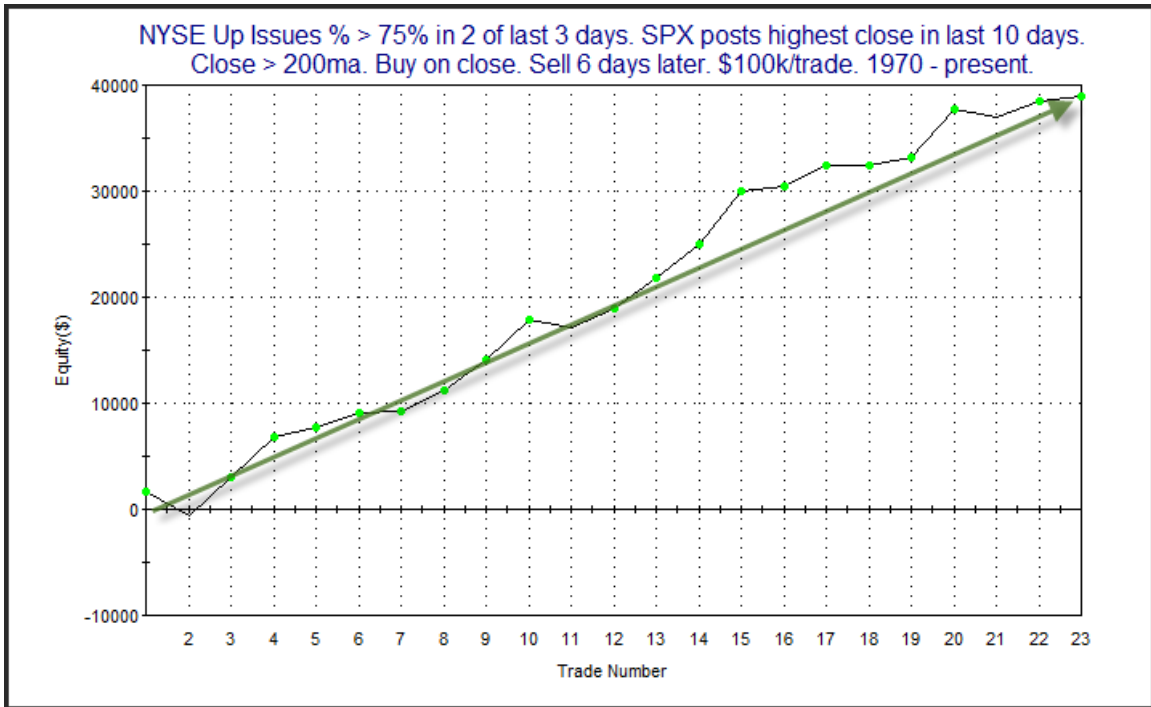
It turns out yesterday was just a pause, as the market rallied strongly for the 2nd day in the last 3. The SPX rose 1.4%, the Nasdaq was up 0.7%, and the Russell 2000 gained 1.1%. Breadth was also very positive as the NYSE Up Issues % came in at 80% and the Up Volume % was 83%. Total NYSE volume spiked higher on the rally.

Tuesday and Thursday combined for a nice breadth thrust. With Thursday's close equaling the highest close of the last ten days (exactly that of 10-days ago), the study below triggered. It was last seen in the 11/10/09 subscriber letter and I have updated the results below.

NYSE Up Issues % > 75% in 2 of last 3 days. SPX posts highest close in last 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
20	72,673.56	19	16	3	84.21	4,912.07	-1,973.20	2.49	13.28	3,824.92
19	70,576.96	20	17	3	85.00	4,593.61	-2,504.78	1.83	10.39	3,528.85
18	68,169.46	20	18	2	90.00	4,150.05	-3,265.74	1.27	11.44	3,408.47
17	65,698.31	20	18	2	90.00	4,089.68	-3,957.99	1.03	9.30	3,284.92
16	64,695.52	20	18	2	90.00	4,015.19	-3,788.93	1.06	9.54	3,234.78
15	54,962.15	20	16	4	80.00	4,043.82	-2,434.73	1.66	6.64	2,748.11
14	50,742.27	20	18	2	90.00	3,381.83	-5,065.35	0.67	6.01	2,537.11
13	48,932.78	21	17	4	80.95	3,442.08	-2,395.64	1.44	6.11	2,330.13
12	48,351.39	22	17	5	77.27	3,423.88	-1,970.90	1.74	5.91	2,197.79
11	50,348.14	22	18	4	81.82	3,193.65	-1,784.37	1.79	8.05	2,288.55
10	45,265.78	22	18	4	81.82	3,002.75	-2,195.91	1.37	6.15	2,057.54
9	43,659.47	22	17	5	77.27	3,118.12	-1,869.70	1.67	5.67	1,984.52
8	38,392.06	22	18	4	81.82	2,516.31	-1,725.40	1.46	6.56	1,745.09
7	38,493.16	22	17	5	77.27	2,580.25	-1,074.22	2.40	8.17	1,749.69
6	39,010.37	23	20	3	86.96	2,145.86	-1,302.27	1.65	10.99	1,696.10
5	32,659.62	23	18	5	78.26	1,996.35	-654.95	3.05	10.97	1,419.98
4	25,157.02	24	19	5	79.17	1,497.08	-657.52	2.28	8.65	1,048.21
3	16,066.83	24	16	8	66.67	1,382.97	-757.59	1.83	3.65	669.45
2	10,142.47	27	17	10	62.96	1,072.59	-809.16	1.33	2.25	375.65
1	5,976.39	29	17	12	58.62	692.62	-483.18	1.43	2.03	206.08

All 29 instances posted a close above the entry price at some point in the next 6 days.

Both short and intermediate-term implications appear to favor the long side. Much of the early thrust appears by day 6. An equity curve is shown below for this time frame.



This equity curve is very impressive. It appears the action over the last 3 days suggests a substantial upside edge.

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



The green Aggregator line popped higher tonight with the addition of the breadth thrust study. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the Differential Line is now strongly below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are positive and the SPX is strongly overbought versus recent expectations. This is considered a neutral configuration. It can be seen on the Aggregator chart whenever both lines are on opposite sides of 0. Due to this the Aggregator System remained flat at the close.

Without any bearish short-term studies the green Aggregator line is again set to close above 0 on Friday. This is unlikely to change unless very compelling bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,328.43. This is about 1.1% below Thursday's close. So it would take a decline of at least this much to flip the Differential Line back to positive and possibly trigger another long signal.

Tonight's study appears to be good news for the bulls, but with the SPX so short-term overbought the current level appears to be a risky entry point. I'll wait for a more favorable entry point. A pullback or consolidation in the next few days could very well do it.

Note about Friday's Quantifinder & Systems Page Updates

Due to my travel schedule it is unlikely either of these pages will be updated Friday. As strong as tonight's study is, a short Aggregator signal is highly unlikely. A long Aggregator signal would likely trigger on a close \leq the differential pivot of 1,328.43.

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

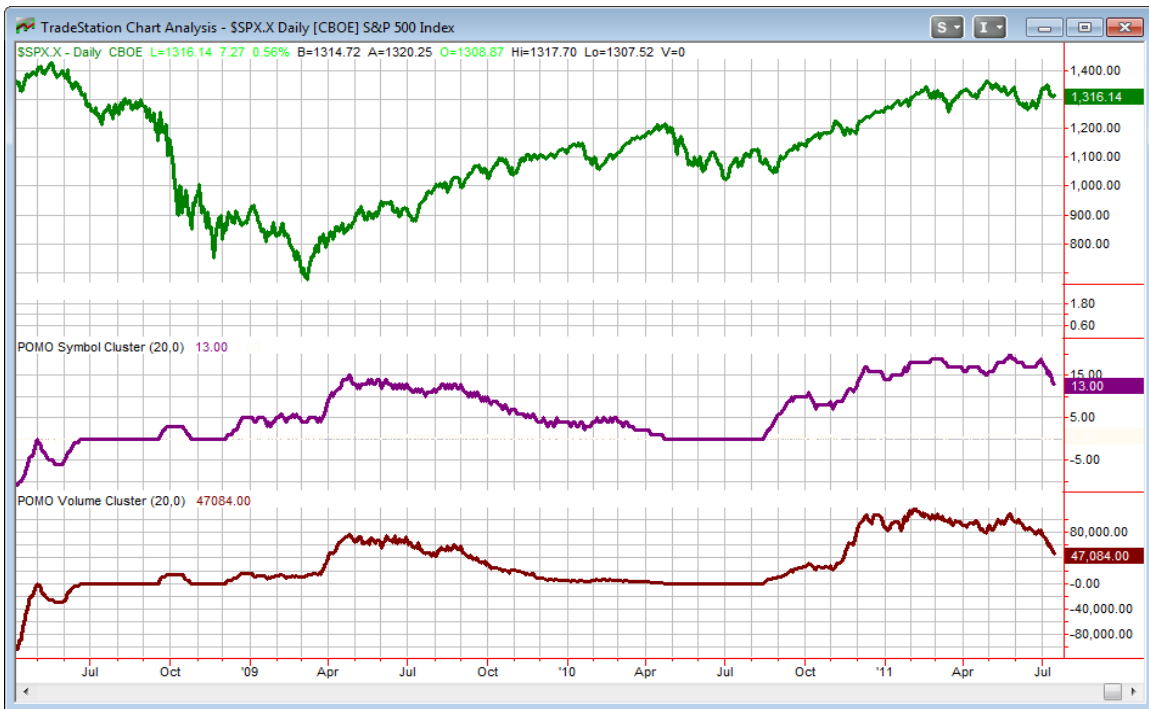
It was a fairly tough week for the market. After entering the week close to new highs, the SPX pulled back near the middle of its May-June trading range. Not much showed up with intermediate-term implications.

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.](#) Too extended to buy. Too bullish to short.

Current Open Trade Ideas

None.

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.