

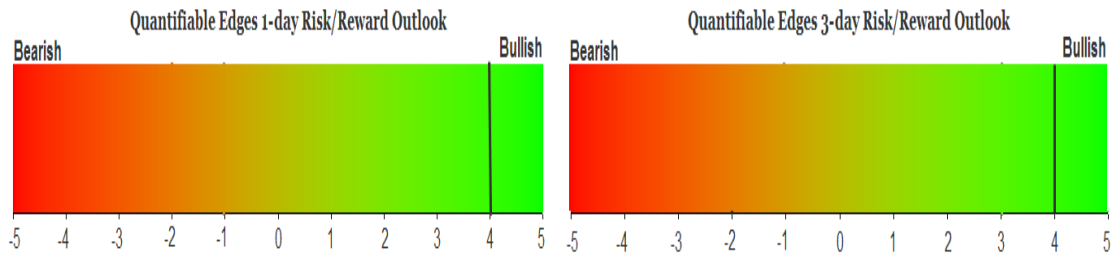
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 2, 2011

Volume 4 Issue 147

Market Overview



Signals Overview

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

Tonight's Research Points

- Tuesdays have often sparked rallies after a decline of 5 or more days.
- A close below the 200ma after such a long uptrend would not trigger a reliable long or short entry.

Short-term Outlook

The Bottom Line

The market remains strongly oversold and based on a large number of indicators it is poised for a bounce. Congressional news has weighed heavily and dominated normal trading patterns. That should be ending soon. I'm long and expect a relief rally. I am holding my final allocation of cash in case news out of Washington is not received well. I will not be putting it to work on Tuesday.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 2, 2011	Turnaround Tuesday	1-3 days	Bullish	2.90%
August 1, 2011	SPY gap dn and partial reverse	1-3 days	Bullish	1.50%
August 1, 2011	Tomoscillator < -200. SPX 5-day low.	1-2 days	Bullish	1.70%
August 1, 2011	Down last 3 days of month	1-5 days	Bullish	2.60%
July 29, 2011	4 lower lows. 20-day low. Close >200	1-8 days	Bullish	2.40%
July 28, 2011	system 110524	1-6 days	Bullish	
July 28, 2011	3 dn. Big drop.	1-5 days	Bullish	
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	
Dropped Tonight				
July 28, 2011	2% drop. Weak close.	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

Excitement over a possible debt ceiling agreement lasted until about 1 minute after the open. The market sold off hard from there. And despite a little bit of a push up in the last 90 minutes, the major indices all finished lower once again. The SPX and Nasdaq closed down 0.4% while the Russell 2000 lost 0.6%. Despite the selling breadth was mixed. The NYSE Up Issues % came in at 54% while the Up Volume % was just 37%. Total NYSE volume dipped a little from Friday's very high level.

I've discussed many times before the propensity for Tuesday to serve as a day where short-term selloffs reverse. Historically it has outperformed every other day of the week in this regard. Tonight I examined SPY performance following at least 5 straight down days going into Tuesday. Those results are below.

SPY closes down for at least the 5th day in a row. Today is Monday. Buy on close. Sell 3 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	448.49	10	5	5	50.00	2,011.48	-1,921.79	1.05	1.05	44.85
4	7,912.64	10	6	4	60.00	1,895.71	-865.41	2.19	3.29	791.26
3	17,888.90	10	9	1	90.00	2,026.63	-350.74	5.78	52.00	1,788.89
2	15,059.28	10	7	3	70.00	2,309.99	-370.23	6.24	14.56	1,505.93
1	6,560.32	10	7	3	70.00	1,564.06	-1,462.71	1.07	2.50	656.03

Instances are low but the stats are overwhelmingly bullish over the 1st 3 days. I examined each instance in a bit more detail and have listed them below assuming a 3-day holding period.

SPY closes down for at least the 5th day in a row. Today is Monday. Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/09/94	Buy	\$44.37	0.36%	\$1,058.91
05/12/94	Sell	\$44.53		(\$428.07)
04/19/99	Buy	\$129.50	5.14%	\$5,311.36
04/22/99	Sell	\$136.16		(\$386.00)
06/14/99	Buy	\$129.72	3.73%	\$4,496.80
06/17/99	Sell	\$134.56		\$0.00
11/13/00	Buy	\$135.56	1.34%	\$3,338.61
11/16/00	Sell	\$137.38		\$0.00
06/18/01	Buy	\$121.26	2.11%	\$2,513.20
06/21/01	Sell	\$123.82		(\$304.88)
09/23/02	Buy	\$83.66	2.47%	\$2,760.45
09/26/02	Sell	\$85.73		(\$2,162.95)
06/12/06	Buy	\$123.99	1.72%	\$1,910.22
06/15/06	Sell	\$126.12		(\$1,329.90)
01/07/08	Buy	\$141.19	0.07%	\$1,210.68
01/10/08	Sell	\$141.29		(\$2,470.92)
02/23/09	Buy	\$74.65	1.30%	\$5,048.03
02/26/09	Sell	\$75.62		\$0.00
08/16/10	Buy	\$108.26	(0.35%)	\$1,965.99
08/19/10	Sell	\$107.88		(\$766.09)

**All 10 instances closed above the entry price at
some point in the next 3 days.**

The individual trade stats are also very compelling. I like the fact that all 10 have bounced within 3 days.

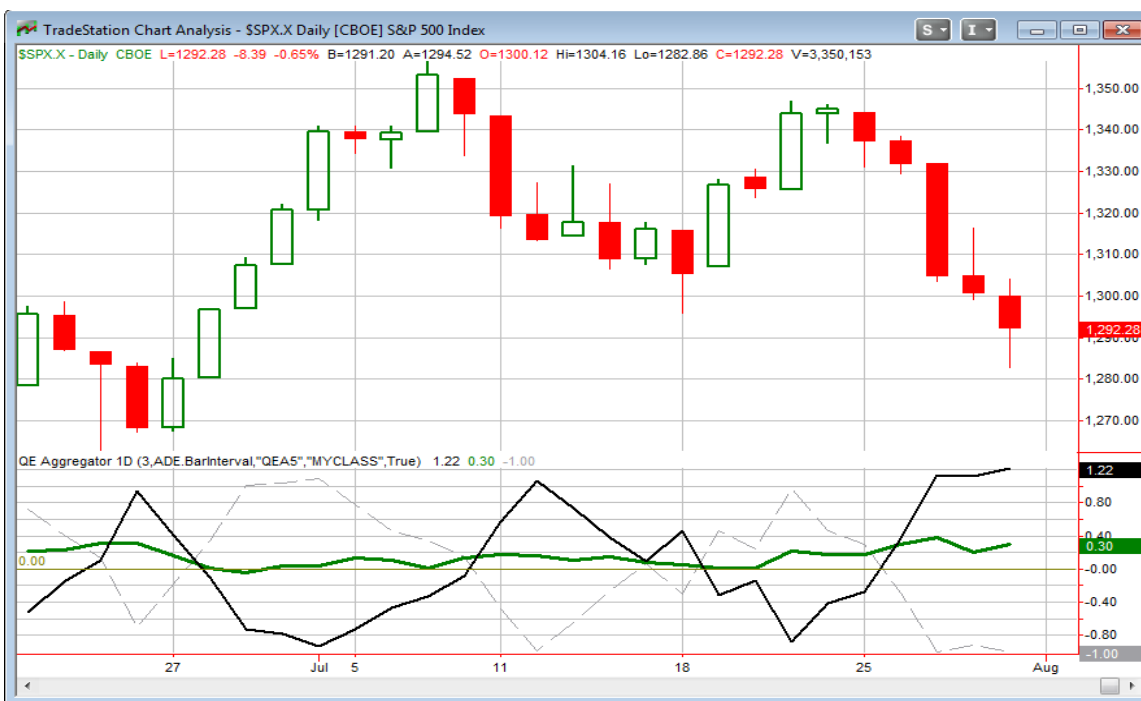
One line that many technicians had their eye on today was the 200ma. After spending much of the day below that line, the SPX did manage to close just above it. This marked the 224th day in a row that the SPX closed above its 200ma. I looked back at other times since 1960 where the SPX closed above its 200ma for at least 200 days in a row before dipping below it. Short-term results were very mixed. A stats table is below.

SPX closes < 200ma for the 1st time in over 200 days.
Buy on close. Sell X days later. \$100k/trade. 1960 - 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	-12,918.46	16	11	5	68.75	1,147.01	-5,107.12	0.22	0.49	-807.40
9	-16,805.32	16	10	6	62.50	1,698.92	-5,632.42	0.30	0.50	-1,050.33
8	-17,086.12	16	9	7	56.25	1,543.39	-4,425.24	0.35	0.45	-1,067.88
7	-22,797.09	16	5	11	31.25	1,709.58	-2,849.54	0.60	0.27	-1,424.82
6	-22,514.33	16	6	10	37.50	1,498.08	-3,150.28	0.48	0.29	-1,407.15
5	-20,420.12	16	9	7	56.25	1,130.99	-4,371.29	0.26	0.33	-1,276.26
4	-20,247.19	16	5	11	31.25	1,486.86	-2,516.50	0.59	0.27	-1,265.45
3	-22,558.70	16	8	8	50.00	1,250.51	-4,070.34	0.31	0.31	-1,409.92
2	-25,675.18	16	11	5	68.75	846.70	-6,997.78	0.12	0.27	-1,604.70
1	-3,266.83	16	7	9	43.75	862.10	-1,033.50	0.83	0.65	-204.18

Returns were inconsistent but stats are skewed negatively. This is largely thanks to the Crash of '87. In any case, the market is still holding above the 200ma, but a close below it in the next few days on its own would not trigger a reliable signal.

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



The green Aggregator line hardly budged tonight and remains strongly positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the Differential Line is also still well above 0. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are strongly positive and the SPX is oversold versus recent expectations. Historically this combination has provided a bullish 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.

With the current studies in place the green Aggregator line is again set to close above 0 on Tuesday. This is again highly unlikely to change. Meanwhile, the Differential Pivot will be 1,311.92. This is almost 2% above Monday's close. This means that it would take a rally of at least this much in order to flip the Differential Line back to negative. That's certainly possible but it still may take a multi-day move to exhaust the oversold conditions.

I'm quite long at this point. Evidence is certainly compelling, but the market is being held hostage by Washington. News has been much more important than oversold conditions or seasonality over the last week. Hopefully once the vote is over the market can begin moving more in line with historical norms. I'm going to give it a day and see how tomorrow plays out before considering any position changes.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/1 – moderately bullish

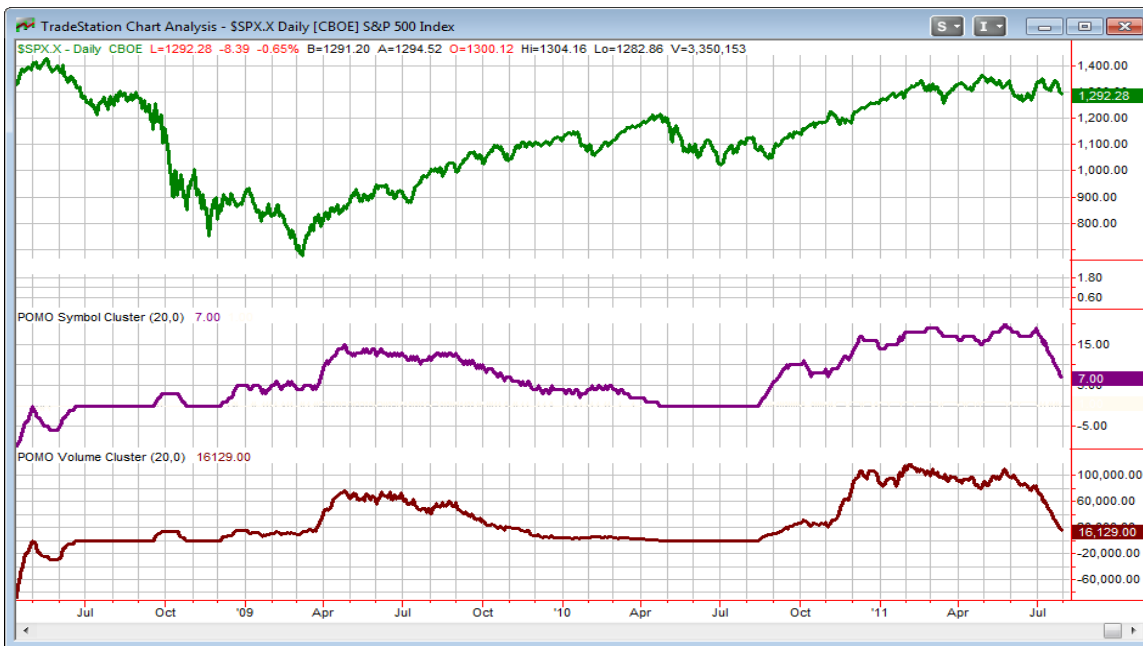
The market closed down every day this past week. Bulls failed to continue the previous week's rally and break the early July highs. As I showed above, this week's selling has brought about a strong short-term bullish edge. For the intermediate-term, not much of significance seemed to occur.

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>



It has now been a full month since the end of QE2. This means our POMO calculations no longer include QE2 pumping. The levels we are seeing above are probably close to what we can expect moving forward. While it is well below the level of stimulus the market had received over the previous 10 months or so, there still appears to be a decent amount of liquidity pumping. Whether it is enough to support the market's rally going forward is unclear, but it is well above the "0" levels that were followed by such strong selloffs over the last several years.

As of now there is only one day of buying scheduled for this week, and one day the following week. The current schedule only runs through August 9. The next schedule is set to be posted on August 10. Below is a link to the current schedule.

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

There remain a number of intermediate-term market studies suggesting positive implications. Some of them are set to expire in the next week or so though. Breadth, a high-probability Follow-Through Day signal, Nasdaq leadership, and price action and momentum are providing positive indications. The big concern remains POMO activity.

I should also note the SPX is now only barely above its 200ma. Should this level fail I will examine possible implications. Right now the combination of evidence is enough to keep me slightly favoring the bull side.

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
SPY(1/4)	7/26/2011	\$133.33	\$128.78	-3.41%		Aggregator
SPY(1/4)	7/28/2011	\$130.60	\$128.78	-1.39%		Aggregator
SPY(1/4)	7/28/2011	\$130.22	\$128.78	-1.11%		Aggregator
FAA	7/29/2011	\$30.28	\$31.40	3.70%		<i>sold on open</i>
PG	8/1/2011	\$61.43	\$61.43	0.00%		bought on close

Tip of the Day

The “current” subscriber letter may always be found by go to the members site and clicking on “Current Nightly Letter” on the left hand side of the page. If your email box is full or delivery fails for some reason this is the quickest way to access the letter. <http://www.quantifiableedges.com/members/currentn.php>

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