

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 17, 2011

Volume 4 Issue 158

Market Overview



Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Short	100% Long VXX	100% Long VXX	Long

Tonight's Research Points

- No new compelling directional evidence was found based on Tuesday's action.

Short-term Outlook

The Bottom Line

Without new compelling evidence tonight the studies from the last few days and the still-overbought condition of the market suggest some follow-through downside 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				
August 16, 2011	90% Up Vol on 3rd day higher	1-7 days	Bullish	
August 16, 2011	SPY up 3. Vol down 3 days.	1-3 days	Bearish	
August 16, 2011	VXO drops 15%-20%	1-2 days	Bearish	
Active - Long Term				
August 16, 2011	90% Up Vol on 3rd day higher	1-14 days	Bullish	
August 16, 2011	SPY up 3. Vol down 3 days.	1-20 days	Bearish	
August 8, 2011	SPX Down 9 of 10 days and > 7.5%	1-20 days	Bullish	13.30%
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	
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

After gapping down substantially to start the day the market traded in a wide range on Tuesday. It oscillated both well above and well below the opening price and when it was over it closed very near the 9:30 open. The SPX finished down 1%, the Nasdaq was down 1.2% and the Russell 2000 lost 1.9%. Breadth was strongly negative as the NYSE Up Issue % came in at 24% and the Up Volume % was 17%. After declining for 5 straight days the NYSE volume posted a modest rise on Tuesday.

Tuesday's action was unremarkable and the Quantifinder found little to examine. Among other things, I looked at other instances in both the SPX and the SPY of 3-day rallies on declining volume being followed by a close lower on higher volume. Results were not suggestive of an edge.

It is also notable that the market is in the middle of its 10-day range. Many edges will look for either reversals of overdone conditions, or continuations of range breakouts. None of those things occur in the middle of a range. This is why the number of studies tends to dry up when the market is trading mid-range and expand when hitting new highs or lows. From a risk/reward standpoint mid-range is also typically a much less favorable place to enter a new position.

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



Without any new studies to add the green Aggregator line remained negative tonight. Levels below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the Differential Line also stayed a little below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are negative and the SPX is moderately overbought versus recent expectations. Historically this combination has suggested a downside edge. Bearish configurations can be seen on the Aggregator chart whenever both lines are below 0. Due to this the Aggregator System remained short at the close.

Based on the current studies the green Aggregator is set up to finish slightly negative on Wednesday. New studies could easily change this, so market action will need to be monitored carefully. Meanwhile, the Differential Pivot is will be 1,181.33. This is almost 1% below Tuesday's close. So for the SPX to move out of "overbought" territory it would take a drop of at least this magnitude.

I was hoping to get a short fill on Tuesday and was a little too conservative with my entry. Had I used a straight limit order rather than limit on close, I would be short with a moderate unrealized gain. With the market now mid-range as I discussed earlier I am not inclined to initiate a new position. While I believe there is a downside edge over the next

few days, risk/reward doesn't appear strong enough from this point to get me excited about putting new capital at risk. Therefore, I will be waiting and watching closely on Wednesday.

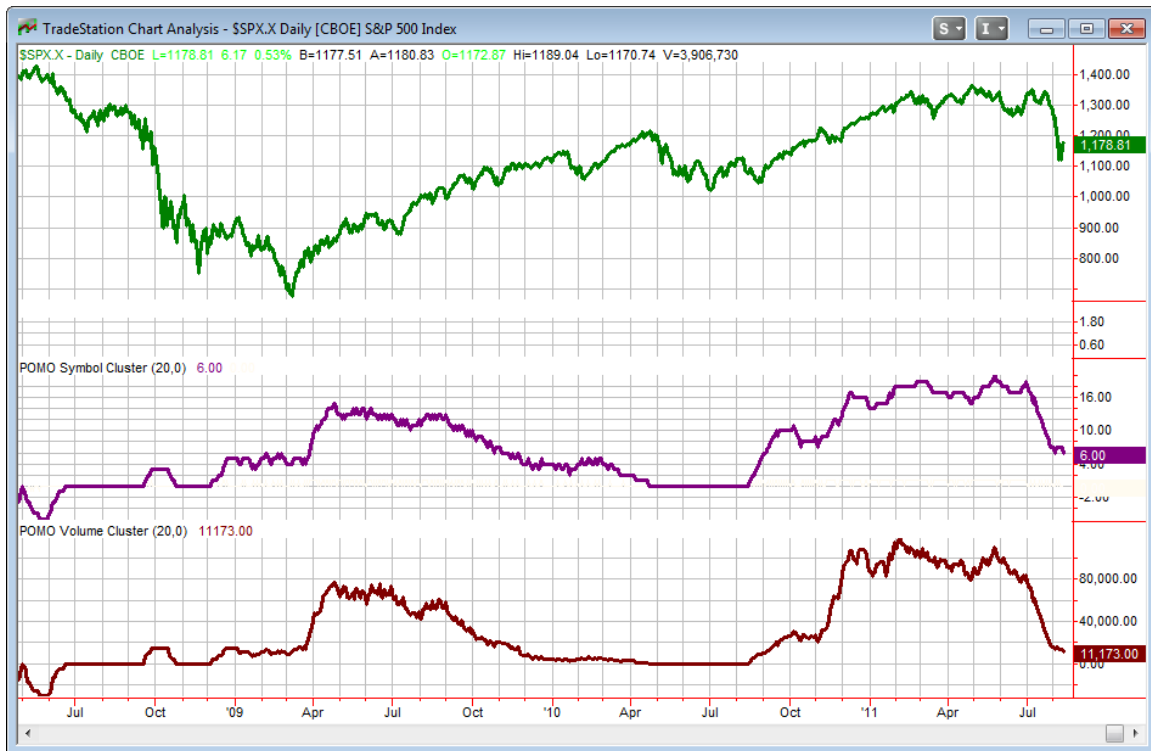
Intermediate-term Outlook (2 weeks – 2 months)– updated 8/15 – neutral

The trend is obviously down at this point. Some readings were reached this past week that were so extreme that they suggested a long-term bottom could be in place. Still, the market has yet to provide any confirmation of that beyond a few up days. To me it appears dangerous to bet big on either side at the moment.

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>



POMO indicators dipped a little more this past week. In the past when POMO stimulus ended – it ended. This time the end of QE2 marked a period of substantially less stimulus, rather than none. This made it tricky in determining whether the end of QE2 would completely pull the rug out from under the market. At this point it appears it has. The new operations schedule was released by the Fed on Wednesday and it is calling for about the same level of stimulus as we saw this past month. While there IS still liquidity pumping going on, it appears the reduced level is akin to providing a heroin addict a couple of aspirin to try and get high. The link below shows the new schedule.

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

If you click it you will notice there is a tab on the page where you can see “All Schedules” rather than just the “Current Schedule”. Clicking that tab you will see that the monthly estimate of POMO activity for last month and this month is about \$14 billion. During QE2 the level was normally around \$100 billion/month. So is the market capable of mounting a serious new bull move with the modest amount of stimulus currently being provided? So far I have seen no evidence of that.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

ALL – 1/3 @ \$24.57

Catapult for ETF's Trades

None.

Broad Market Large Cap CBI – 1 (ALL)

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.

[None tonight.](#)

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
ALL(1/3)	8/9/2011	\$24.57	\$25.67	4.48%		Catapult

Should ALL come close to an exit trigger tomorrow I will send out an intraday email.

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.