

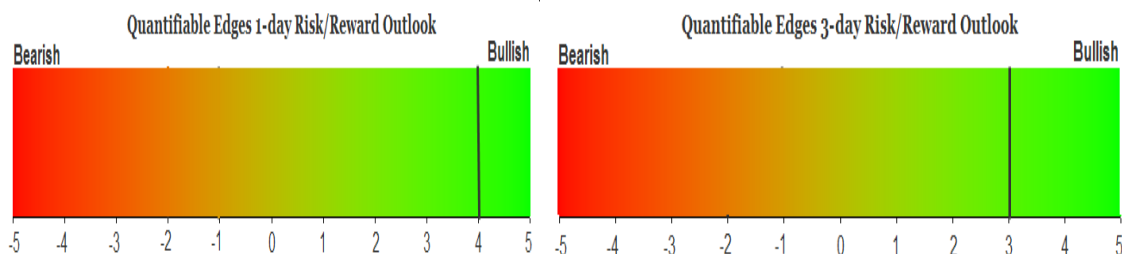
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 7, 2011

Volume 4 Issue 172

Market Overview



Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Long	75% Long XIV	100% Long SPY	Long

Tonight's Research Points

- Large gaps lower and partial reversals often suggest an upside edge.

Short-term Outlook

The Bottom Line

There is strong evidence tonight based on SPY's pattern. I'm looking to take advantage of possible upside by adding long exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 7, 2011	2% Gap Down Partial Fill. C>O. C<200ma	1-2 days	Bullish	
September 6, 2011	1% drop prior to 3-day US weekend	1-4 days	Bearish	-3.20%
September 6, 2011	33% Up Vol 2 days < 200ma	1-2 days	Bullish	
September 6, 2011	2.5% drop on a Friday	1-2 days	Bullish	
Active - Long Term				
September 6, 2011	1% drop prior to 3-day US weekend	1-20 days	Bearish	
August 24, 2011	IBD Follow Through Day strong breadth	int term	Bullish	
August 16, 2011	SPY up 3. Vol down 3 days.	1-20 days	Bearish	
July 5, 2011	QE2 Over	int term	Bearish	
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%
Dropped Tonight				
September 6, 2011	1% unfilled gap down on jobs day	1 day	Bearish	

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

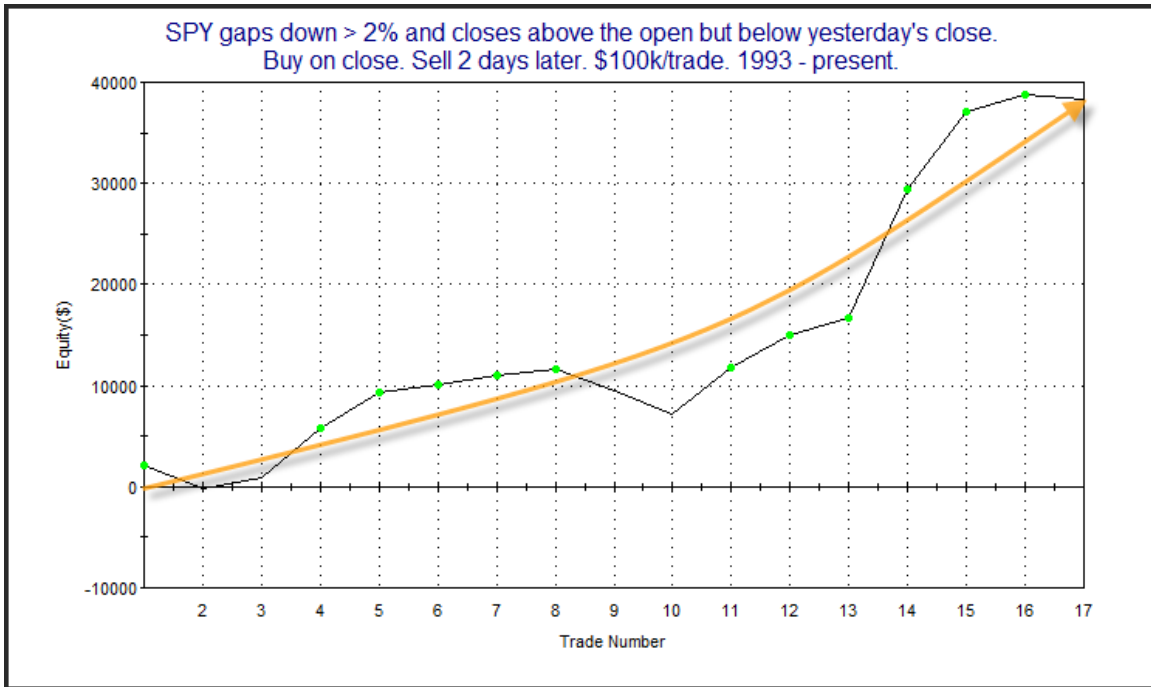
The Evidence

Foreign markets got hit hard Monday while the US was closed. This led to a gap down of over 2% in the futures and a tough start to the holiday shortened week. But the opening price came extremely close to marking the absolute low of the day, and though the market didn't quite fill its opening gap it finished strongly and well above the open. Despite the strong close breadth still came in squarely negative. The NYSE Up Issues % registered 27.5% and Up Volume % was 21.5%. Total NYSE volume rose quite a bit from Friday's low levels.

Large gaps down that partially reverse will often suggest an upside edge. This is something that was demonstrated in the study below that last appeared in the 11/30/09 letter. All stats are updated.

SPY gaps down > 2% and closes above the open but below yesterday's close. 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	35,454.18	16	10	6	62.50	4,834.49	-2,148.45	2.25	3.75	2,215.89
4	32,416.09	17	12	5	70.59	4,022.78	-3,171.46	1.27	3.04	1,906.83
3	24,565.10	17	12	5	70.59	2,861.92	-1,955.60	1.46	3.51	1,445.01
2	38,273.79	17	13	4	76.47	3,498.21	-1,800.75	1.94	6.31	2,251.40
1	21,554.55	17	10	7	58.82	3,136.41	-1,401.36	2.24	3.20	1,267.91

Over the next 1-2 days there appears to be a substantial upside edge. The equity curve below seems to support this theory.



While the curve is not perfectly flat the recent steepening of the slope is a positive sign. I wondered if the edge would continue to hold up if I added a few simple filters. Below I added a long-term average to see how that might affect results.

SPY gaps down > 2%, closes above the open but below yesterday's close and below the 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	32,858.00	9	7	2	77.78	5,840.42	-4,012.45	1.46	5.09	3,650.89
4	28,565.90	10	8	2	80.00	4,777.51	-4,827.10	0.99	3.96	2,856.59
3	19,977.79	10	8	2	80.00	3,198.46	-2,804.96	1.14	4.56	1,997.78
2	35,880.80	10	8	2	80.00	5,046.68	-2,246.33	2.25	8.99	3,588.08
1	25,699.87	10	8	2	80.00	3,685.84	-1,893.41	1.95	7.79	2,569.99

It appears the limited number of instances that have occurred below the 200ma have done exceptionally well over the past 18 years. These results are even better than the first test that didn't include the 200ma filter.

As the day wore on Tuesday I ran the Quantifinder a few times. I found that as the market moved higher the number of bullish studies appeared to decrease. I thought it

might be worthwhile to see if the strong intraday action had any impact on the 1-2 day expectations. I ran that test below.

SPY gaps down > 2% and closes > 1% above the open but below yesterday's close. 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	37,434.11	8	7	1	87.50	5,840.42	-3,448.80	1.69	11.85	4,679.26
4	31,494.95	9	8	1	88.89	4,777.51	-6,725.16	0.71	5.68	3,499.44
3	20,232.49	9	8	1	88.89	3,198.46	-5,355.22	0.60	4.78	2,248.05
2	38,122.16	9	8	1	88.89	5,046.68	-2,251.30	2.24	17.93	4,235.80
1	25,674.40	9	7	2	77.78	4,208.75	-1,893.41	2.22	7.78	2,852.71

Results here appear to be the most bullish of all, quelling concerns about the positive intraday action.

I was also curious to see how such a setup would perform if the filter were added that required the market to refrain from making a short-term intraday low. One thing I changed in this test is that I only required the size of the gap down to be 1% rather than 2%. There were only six instances that qualified. I have listed them all below along with their 1-day returns.

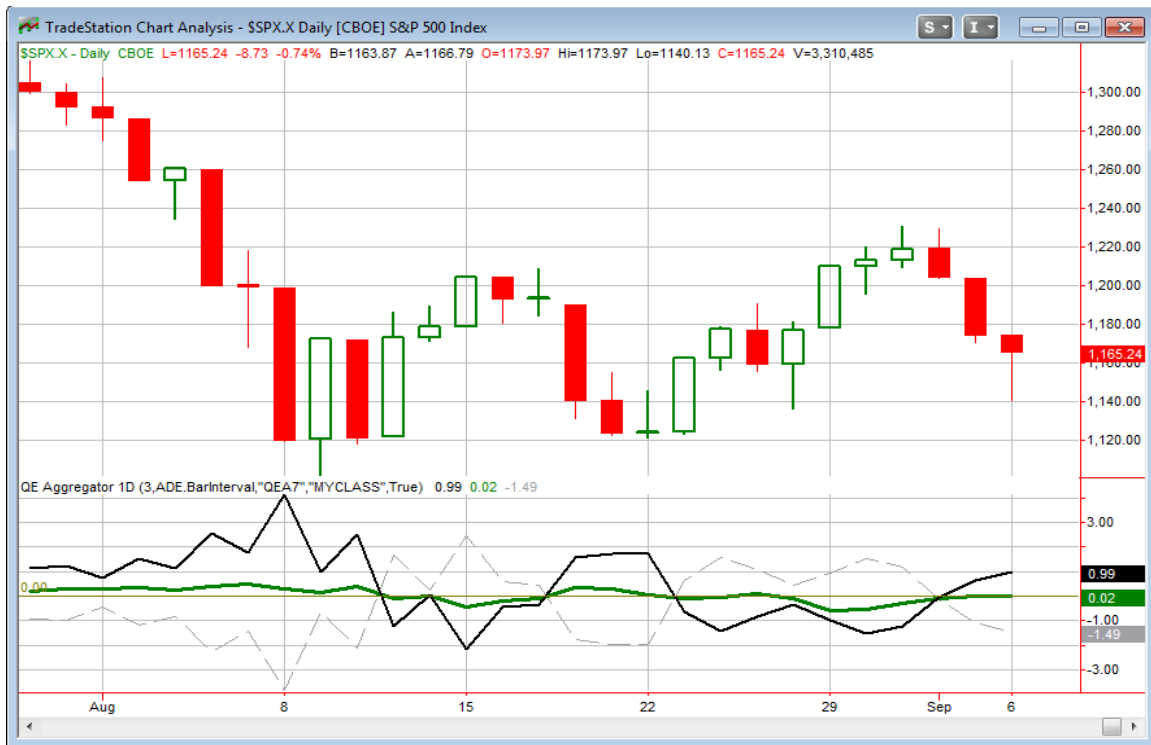
SPY rises > 1% from open to close. It fails to make a 10-day intraday low, closes down and < 200ma. Buy on close. Sell 1 day later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/21/98	Buy	\$102.03	0.83%	\$1,597.40
09/22/98	Sell	\$102.88		\$0.00
09/25/98	Buy	\$104.25	1.14%	\$1,975.54
09/28/98	Sell	\$105.44		\$0.00
10/21/99	Buy	\$129.00	0.84%	\$1,720.50
10/22/99	Sell	\$130.09		\$0.00
10/17/08	Buy	\$93.21	6.01%	\$6,314.08
10/20/08	Sell	\$98.81		\$0.00
02/02/09	Buy	\$82.58	1.40%	\$2,153.80
02/03/09	Sell	\$83.74		(\$435.60)
07/30/10	Buy	\$110.27	2.26%	\$2,419.02
08/02/10	Sell	\$112.76		\$0.00

Minimum run-up was 1.6%. Only 1 instance had ANY drawdown and that was less than 0.5%.

One-day returns are used here because results do not suggest an edge beyond 1 day. And while instances are low upside reward appears to swamp downside risk to an extent that is rarely seen. It's also notable that five of the six instances left unfilled upside gaps the next day.

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



The large gap down and partial reversal higher provided such solid short-term edges that the green Aggregator line flipped from negative to positive. Levels above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the further selling caused the Differential Line to remain 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. This is considered a bullish configuration. Bullish configurations can be seen on the chart whenever both lines close above 0. Due to this the Aggregator System changed from flat to long at the close.

Based on the current studies the Aggregator line is set to slip back below zero on Wednesday. Meanwhile, the Differential Pivot will be 1,192.20. This is about 2.3% above Tuesday's close. So unless the SPX rallies at least this much the differential line will remain positive, suggesting an oversold market.

With the Aggregator turning positive and compelling short-term evidence suggested by tonight's studies, I'm inclined to take a shot at the long side. With the studies really only providing a very short term upside edge, I won't be looking to stick around for long. If more bullish evidence emerges during the day on Wednesday I may hold my position into Thursday. But if my studies suggest no edge or perhaps a very slight bullish one then there is a good chance I will be looking to exit my position on Wednesday's close.

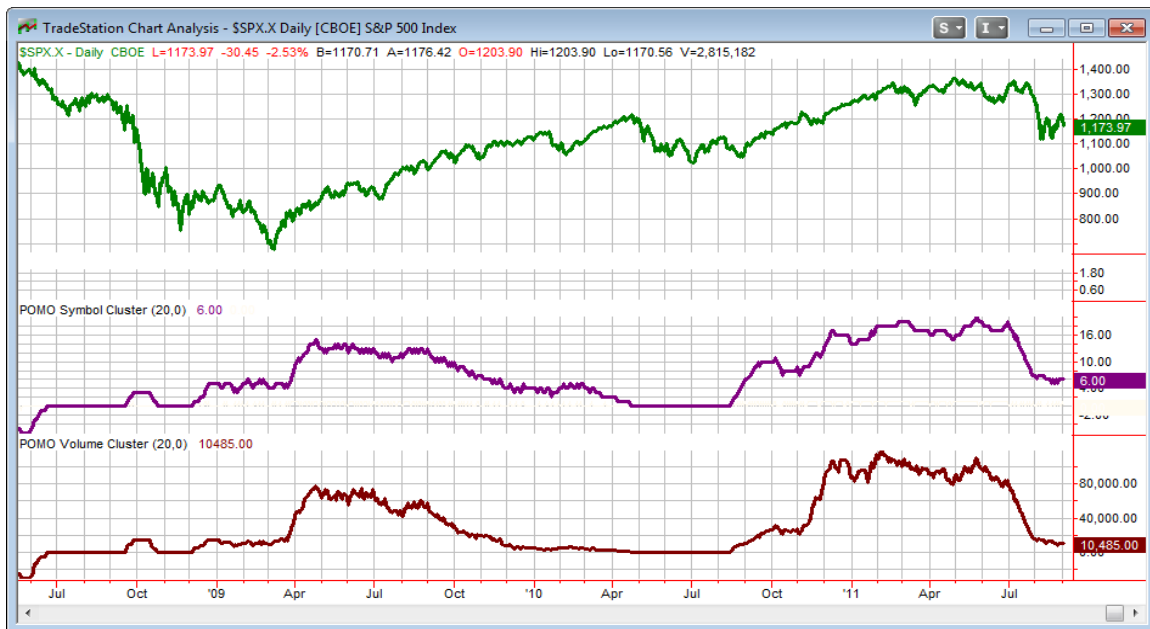
Intermediate-term Outlook (2 weeks – 2 months)– updated 9/6 – slightly bearish

Thursday and Friday's losses wiped out the gains from Monday through Wednesday and the market finished moderately lower this past week. Intermediate-term bullish evidence is fairly weak right now, with the most prominent bullish study being based on the 8/23 Follow-Through Day.

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 continue to flat line. While the Fed's published schedule is calling for about \$14billion in purchases each month, actual purchases have been a bit below that

level. We keep waiting for the market to prove it can rally without substantial stimulus. So far it has not managed to do so.

Intermediate-term indicators remain mixed, but now appear to have a downside tilt. Bearish studies are associated with volume, liquidity (POMO), and seasonality. Bulls may find hope in the August FTD study and the breadth study from several months back. Though I'm not wed to either direction I'm now somewhat inclined to play the short side a little more aggressively and take a more conservative approach to longs.

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.

SPY – buy ¼ index position @ \$117.00 Limit. If not filled in 1st hour of trading, cancel order. Based on short-term outlook above. Should the Aggregator suggest a neutral or negative bias as we approach the close I will likely exit my position. To determine this I will keep a close eye on the Quantifinder. I will also make sure to send out an intraday update if I decide to exit on the close.

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.