

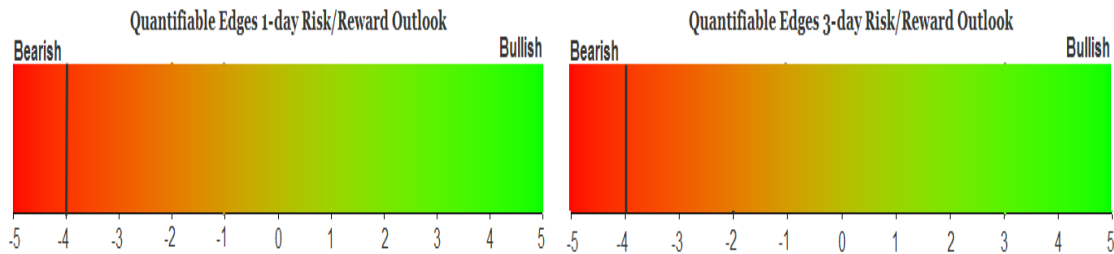
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 19, 2011

Volume 4 Issue 180

## Market Overview



## Signals Overview

| Aggregator | Aggressive VIX | Conservative VIX | NDX Trend Timer |
|------------|----------------|------------------|-----------------|
| Short      | 75% Long VXX   | 100% Short SPY   | Flat            |

## Tonight's Research Points

- This upcoming week is the most bearish from a seasonal standpoint.
- When the market is short-term overbought going into September post op-ex then it has performed even worse.
- The narrow range and relatively weak rally on Friday combined with the overbought condition suggest a downside edge.

## *Short-term Outlook*

### *The Bottom Line*

The market is overbought and action is suggesting a downside edge. It is also coming at the most probable time of the year for a short to succeed. I'm partially short and looking to up my position further.

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

| Study Date                | Description                           | Time span       | Bias           | Avg Max Move |
|---------------------------|---------------------------------------|-----------------|----------------|--------------|
| <b>Active</b>             |                                       |                 |                |              |
| September 19, 2011        | Overbought low range, under 200ma.    | 1-2 days        | Bearish        | -1.70%       |
| September 19, 2011        | Overbought post Sept opex             | 1-4 days        | Bearish        | -2.40%       |
| September 16, 2011        | 3/10 HV < 0.25. RSI(2) > 90.          | 1-2 days        | Bearish        | -2.40%       |
| September 16, 2011        | 3 70% Up Issue Days                   | 1-2 days        | Bullish        | 2.20%        |
| September 15, 2011        | 3 up days. Today biggest. Close < 200 | 1-3 days        | Bearish        | -3.00%       |
| September 13, 2011        | SPX up. VIX up. Monday < 200ma        | 1-5 days        | Bearish        | -3.60%       |
| <b>Active - Long Term</b> |                                       |                 |                |              |
| September 12, 2011        | Nasdaq leading SPX                    | int term        | Bullish        |              |
| 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%       |
| <b>Dropped Tonight</b>    |                                       |                 |                |              |
| <b>September 15, 2011</b> | <b>SPY up 1% but 1% below high</b>    | <b>1-2 days</b> | <b>Bullish</b> |              |

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

***The Evidence***

It was a clean sweep this past week for the bulls, as the market closed higher all 5 days. On Friday the SPX and Nasdaq gained 0.6% while the Russell 2000 rose 0.1%. Breadth was moderately positive as the NYSE Up Issues % came in at 50.3% and the Up Volume % was 55.6%. With a big boost from options expiration activity, total NYSE volume spiked higher.

While the market kept rising the last few days I continue to see indications that a pullback is likely. And with regards to seasonality, there isn't a more reliable time of the year to have a pullback. Since 1961 the week following the 3<sup>rd</sup> Friday in September has produced the most bearish results. In the 9/20/10 subscriber letter I showed a table with the best and worst weeks of the year. I have updated that table below.

SPX weekly performance for based on the month specified after the Friday specified.  
\$100/trade. 1961 - present. Top 10 and bottom 10 results shown.

|    | Month | Friday | 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 |
|----|-------|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 1  | 1     | 4      | 44,281.46       | 51                | 32                  | 19                 | 62.75             | 2,136.95               | -1,268.47             | 1.68                | 2.84              | 868.26         |
| 2  | 10    | 4      | 37,751.45       | 50                | 30                  | 20                 | 60.00             | 2,392.76               | -1,701.57             | 1.41                | 2.11              | 755.03         |
| 3  | 4     | 2      | 38,178.96       | 51                | 34                  | 17                 | 66.67             | 1,850.76               | -1,455.70             | 1.27                | 2.54              | 748.61         |
| 4  | 12    | 4      | 31,017.69       | 50                | 33                  | 17                 | 66.00             | 1,527.89               | -1,141.33             | 1.34                | 2.60              | 620.35         |
| 5  | 5     | 4      | 31,197.20       | 51                | 30                  | 21                 | 58.82             | 1,923.02               | -1,261.59             | 1.52                | 2.18              | 611.71         |
| 6  | 9     | 2      | 30,489.61       | 50                | 33                  | 17                 | 66.00             | 1,761.56               | -1,626.00             | 1.08                | 2.10              | 609.79         |
| 7  | 3     | 2      | 29,612.21       | 51                | 31                  | 20                 | 60.78             | 1,738.98               | -1,214.81             | 1.43                | 2.22              | 580.63         |
| 8  | 11    | 3      | 24,800.52       | 50                | 31                  | 19                 | 62.00             | 1,656.75               | -1,397.83             | 1.19                | 1.93              | 496.01         |
| 9  | 12    | 2      | 23,755.31       | 50                | 31                  | 19                 | 62.00             | 1,278.66               | -835.95               | 1.53                | 2.50              | 475.11         |
| 10 | 3     | 1      | 21,475.12       | 51                | 29                  | 22                 | 56.86             | 1,619.76               | -1,158.99             | 1.40                | 1.84              | 421.08         |
| 39 | 5     | 1      | -6,326.00       | 51                | 20                  | 31                 | 39.22             | 1,561.68               | -1,211.60             | 1.29                | 0.83              | -124.04        |
| 40 | 7     | 3      | -8,030.71       | 51                | 26                  | 25                 | 50.98             | 1,562.52               | -1,946.25             | 0.80                | 0.83              | -157.46        |
| 41 | 1     | 3      | -8,261.87       | 51                | 27                  | 24                 | 52.94             | 1,292.71               | -1,798.54             | 0.72                | 0.81              | -162.00        |
| 42 | 6     | 2      | -8,362.71       | 51                | 26                  | 24                 | 50.98             | 1,472.70               | -1,943.87             | 0.76                | 0.82              | -163.97        |
| 43 | 2     | 3      | -10,968.16      | 51                | 23                  | 28                 | 45.10             | 1,125.88               | -1,316.55             | 0.86                | 0.70              | -215.06        |
| 44 | 5     | 3      | -14,282.67      | 51                | 26                  | 25                 | 50.98             | 1,191.03               | -1,809.98             | 0.66                | 0.68              | -280.05        |
| 45 | 9     | 1      | -15,801.61      | 51                | 26                  | 25                 | 50.98             | 1,373.43               | -2,060.44             | 0.67                | 0.69              | -309.84        |
| 46 | 6     | 3      | -21,415.58      | 51                | 22                  | 29                 | 43.14             | 1,186.46               | -1,638.54             | 0.72                | 0.55              | -419.91        |
| 47 | 10    | 3      | -24,660.96      | 50                | 21                  | 29                 | 42.00             | 1,527.57               | -1,956.55             | 0.78                | 0.57              | -493.22        |
| 48 | 9     | 3      | -34,933.53      | 50                | 17                  | 33                 | 34.00             | 1,368.77               | -1,763.71             | 0.78                | 0.40              | -698.67        |

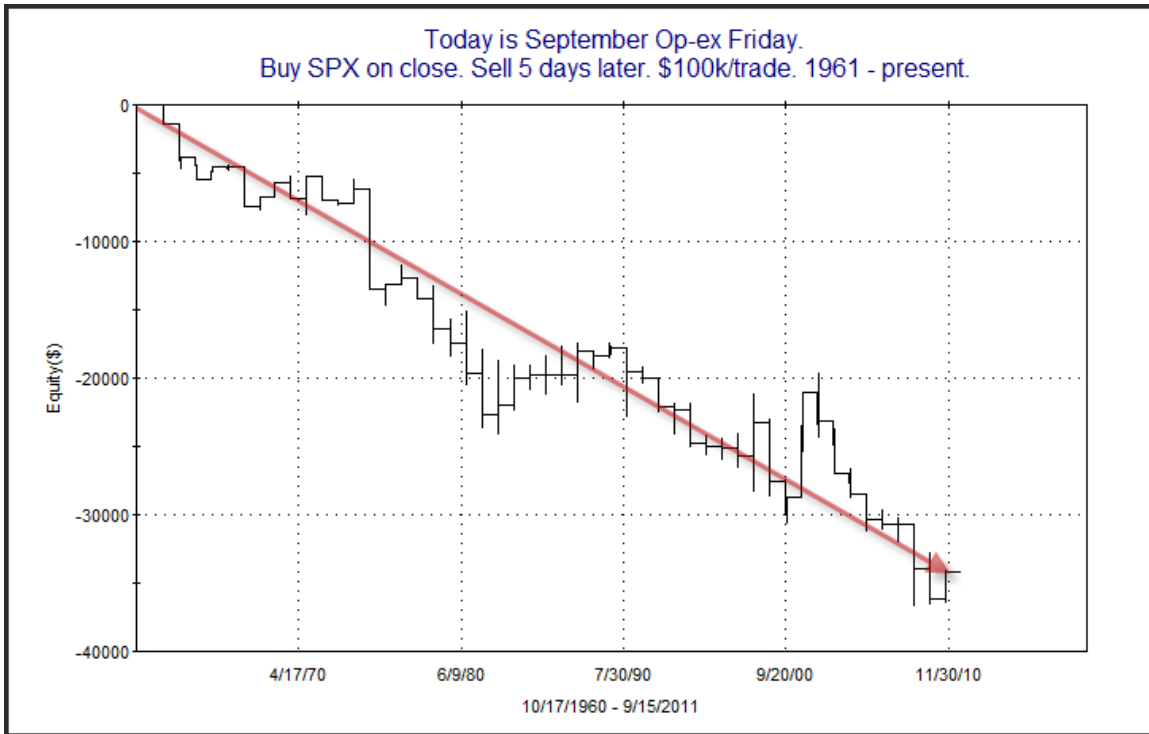
To make it a little neater and to keep the number of instances consistent I did not include weeks after the 5<sup>th</sup> Friday in these results. Just Fridays 1-4. If you look at the bottom line you will see we the worst results occur following the 3<sup>rd</sup> Friday of the 9<sup>th</sup> month. That is this upcoming week. I also ran the study back to 1988 to get a more recent picture.

SPX weekly performance for based on the month specified after the Friday specified.  
\$100/trade. 1988 - present. Top 10 and bottom 10 results shown.

|    | Month | Friday | 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 |
|----|-------|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|-----------------------|---------------------|-------------------|----------------|
| 1  | 1     | 4      | 28,907.81       | 24                | 15                  | 9                  | 62.50             | 2,611.87               | -1,141.13             | 2.29                | 3.81              | 1,204.49       |
| 2  | 10    | 2      | 25,191.73       | 23                | 16                  | 7                  | 69.57             | 2,649.36               | -2,456.86             | 1.08                | 2.46              | 1,095.29       |
| 3  | 4     | 2      | 25,898.15       | 24                | 15                  | 9                  | 62.50             | 2,605.37               | -1,464.72             | 1.78                | 2.96              | 1,079.09       |
| 4  | 10    | 4      | 23,670.42       | 23                | 16                  | 7                  | 69.57             | 2,368.26               | -2,031.67             | 1.17                | 2.66              | 1,029.15       |
| 5  | 5     | 4      | 23,818.28       | 24                | 16                  | 8                  | 66.67             | 2,165.64               | -1,353.99             | 1.60                | 3.20              | 992.43         |
| 6  | 3     | 2      | 18,651.23       | 24                | 16                  | 8                  | 66.67             | 1,987.46               | -1,643.52             | 1.21                | 2.42              | 777.13         |
| 7  | 11    | 3      | 16,392.83       | 23                | 13                  | 10                 | 56.52             | 1,991.50               | -949.66               | 2.10                | 2.73              | 712.73         |
| 8  | 12    | 2      | 15,392.92       | 23                | 18                  | 5                  | 78.26             | 1,170.07               | -1,133.66             | 1.03                | 3.72              | 669.26         |
| 9  | 9     | 2      | 14,940.56       | 23                | 16                  | 7                  | 69.57             | 1,669.50               | -1,681.63             | 0.99                | 2.27              | 649.59         |
| 10 | 11    | 4      | 14,844.39       | 23                | 16                  | 7                  | 69.57             | 1,379.29               | -1,032.04             | 1.34                | 3.05              | 645.41         |
| 39 | 8     | 1      | -5,484.37       | 24                | 11                  | 13                 | 45.83             | 1,302.01               | -1,523.58             | 0.85                | 0.72              | -228.52        |
| 40 | 3     | 3      | -5,765.99       | 24                | 7                   | 17                 | 29.17             | 2,826.00               | -1,502.82             | 1.88                | 0.77              | -240.25        |
| 41 | 6     | 1      | -7,127.90       | 24                | 10                  | 14                 | 41.67             | 1,198.21               | -1,365.00             | 0.88                | 0.63              | -297.00        |
| 42 | 10    | 3      | -7,395.83       | 23                | 10                  | 13                 | 43.48             | 1,765.01               | -1,926.61             | 0.92                | 0.70              | -321.56        |
| 43 | 1     | 1      | -6,450.11       | 20                | 11                  | 9                  | 55.00             | 1,334.09               | -2,347.23             | 0.57                | 0.69              | -322.51        |
| 44 | 2     | 3      | -14,275.58      | 24                | 10                  | 14                 | 41.67             | 847.79                 | -1,625.25             | 0.52                | 0.37              | -594.82        |
| 45 | 6     | 3      | -15,413.79      | 24                | 8                   | 16                 | 33.33             | 1,299.68               | -1,613.20             | 0.81                | 0.40              | -642.24        |
| 46 | 1     | 3      | -15,583.99      | 24                | 11                  | 13                 | 45.83             | 1,030.36               | -2,070.62             | 0.50                | 0.42              | -649.33        |
| 47 | 10    | 1      | -15,368.64      | 23                | 12                  | 11                 | 52.17             | 1,861.37               | -3,427.74             | 0.54                | 0.59              | -668.20        |
| 48 | 9     | 3      | -16,065.09      | 23                | 5                   | 18                 | 21.74             | 2,565.25               | -1,605.08             | 1.60                | 0.44              | -698.48        |

As you can see, looking at the more recent time period the week following the 3<sup>rd</sup> Friday in September is still the worst. Other notable bearish weeks that are coming up include the weeks after the 1<sup>st</sup> and 3<sup>rd</sup> Fridays in October.

I also reproduced a graphic to show how this upcoming week has played out over time.



As you can see the bearish tendency has been pretty consistent over the last 50 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying Sept. op-ex Friday and then selling X days later from 1990 – 2010.

Today is September Op-ex Friday.  
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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      | -16,315.48      | 21                | 4                   | 17                 | 19.05             | 3,062.79               | -1,680.39             | 1.82                | 0.43              | -776.93        |
| 4      | -16,927.41      | 21                | 4                   | 17                 | 19.05             | 2,287.06               | -1,533.86             | 1.49                | 0.35              | -806.07        |
| 3      | -12,296.51      | 21                | 5                   | 16                 | 23.81             | 2,100.70               | -1,425.00             | 1.47                | 0.46              | -585.55        |
| 2      | -11,414.49      | 21                | 7                   | 14                 | 33.33             | 1,092.14               | -1,361.39             | 0.80                | 0.40              | -543.55        |
| 1      | -7,425.88       | 21                | 6                   | 15                 | 28.57             | 1,063.49               | -920.46               | 1.16                | 0.46              | -353.61        |

The only year that did not post at least 1 close below the entry price during the week was 2001.

The consistency and net results appear quite strong. I note the only instance that didn't post a lower close at some point during the following week was in 2001. And the 9/11 attacks certainly made for unusual circumstances that year.

Not only are we looking at the worst week of the year coming up, but the market is overbought short-term. Seasonal edges combined with overbought/oversold readings will often produce strong results. The study below looks at any time since 1990 you bought op-ex Friday when both Friday and Thursday closed up.

| Today is September Op-ex Friday. SPX has closed up at least 2 days in a row.<br>Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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  | -14,221.52      | 8                 | 0                   | 8                  | 0.00              | 0.00                   | -1,777.69             | 0.00                | 0.00              | -1,777.69      |
| 4  | -14,206.22      | 8                 | 0                   | 8                  | 0.00              | 0.00                   | -1,775.78             | 0.00                | 0.00              | -1,775.78      |
| 3  | -13,202.27      | 8                 | 0                   | 8                  | 0.00              | 0.00                   | -1,650.28             | 0.00                | 0.00              | -1,650.28      |
| 2  | -10,073.34      | 8                 | 2                   | 6                  | 25.00             | 108.07                 | -1,714.92             | 0.06                | 0.02              | -1,259.17      |
| 1  | -5,149.51       | 8                 | 2                   | 6                  | 25.00             | 262.90                 | -945.88               | 0.28                | 0.09              | -643.69        |

Instances are lower than I prefer but the results are extremely bearish. In no case was there an instance where the SPX closed above the entry price on Wednesday, Thursday, *or* Friday. Most of the damage was done by Thursday. Below is the list of instances.

| Today is September Op-ex Friday. SPX has closed up at least 2 days in a row.<br>Buy on close. Sell 4 days later. \$100k/trade. 1990 - present. |        |            |          |                 |
|--|--------|------------|----------|-----------------|
| Date/Time  | Signal | Price      | % Profit | Run-up Drawdown |
| 09/20/91   | Buy    | \$387.91   | (0.37%)  | \$164.48        |
| 09/26/91   | Sell   | \$386.48   |          | (\$889.22)      |
| 09/18/92   | Buy    | \$422.92   | (1.05%)  | \$0.00          |
| 09/24/92   | Sell   | \$418.47   |          | (\$1,633.12)    |
| 09/20/96   | Buy    | \$687.01   | (0.17%)  | \$561.15        |
| 09/26/96   | Sell   | \$685.86   |          | (\$870.00)      |
| 09/19/97   | Buy    | \$950.50   | (1.32%)  | \$1,059.45      |
| 09/25/97   | Sell   | \$937.91   |          | (\$1,377.60)    |
| 09/17/99   | Buy    | \$1,335.42 | (4.09%)  | \$231.62        |
| 09/23/99   | Sell   | \$1,280.77 |          | (\$4,300.88)    |
| 09/17/04   | Buy    | \$1,128.55 | (1.79%)  | \$263.12        |
| 09/23/04   | Sell   | \$1,108.36 |          | (\$1,804.00)    |
| 09/16/05   | Buy    | \$1,237.87 | (1.88%)  | \$0.00          |
| 09/22/05   | Sell   | \$1,214.62 |          | (\$2,601.60)    |
| 09/19/08   | Buy    | \$1,255.08 | (3.65%)  | \$0.00          |
| 09/25/08   | Sell   | \$1,209.27 |          | (\$5,947.91)    |

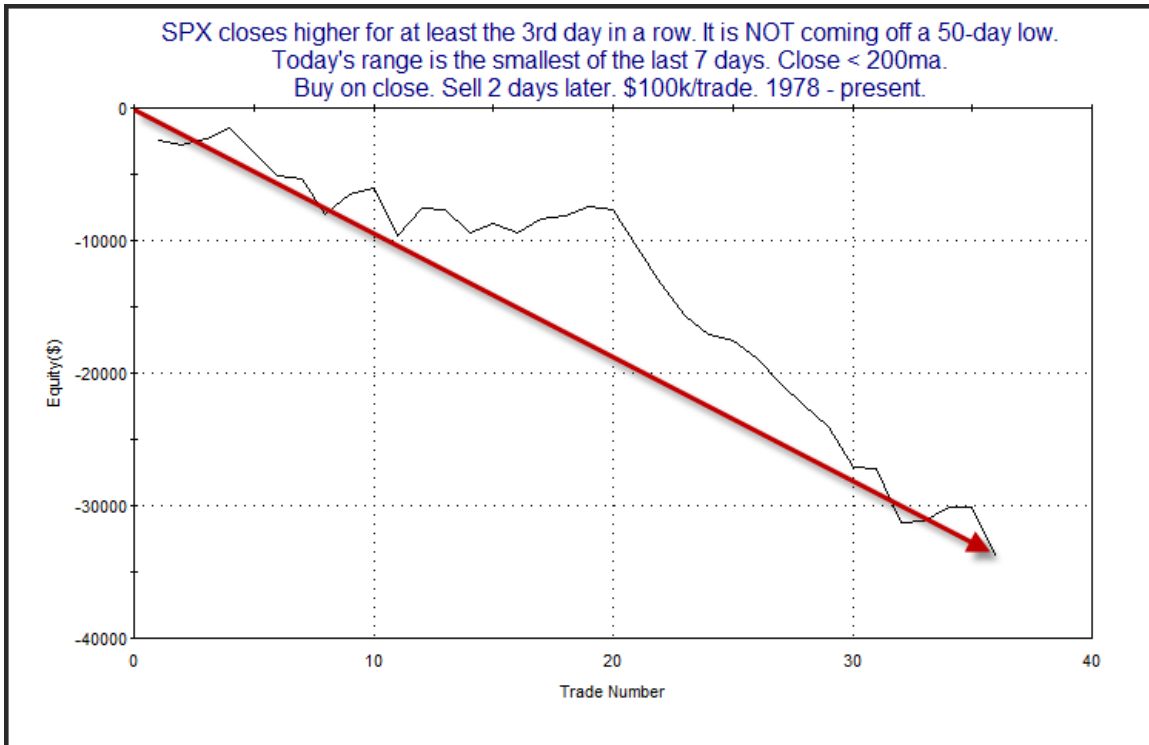
Notable above is that 3 of the 8 instances never rose above Friday's close during the next 4 days, and only 1 instance (1997) rose as much as 1% above the entry price. I think I've taken this seasonal study about as far as it can go tonight, and I'm sure you all get the point by now.

The Quantifinder also indentified a number of studies that combined Friday's action with the overbought condition of the market to suggest a strong downside edge. Below are a couple of the more compelling ones.

In the 9/3/10 subscriber letter I combined a few conditions that are apt to suggest a downside edge. These include fact that the bounce has not originated from an intermediate-term low, a long-term downtrend is in place, and that Friday was an NR7 day. An NR7 day is a day that shows the narrowest range of the last 7 days. I have updated all results.

| SPX closes higher for at least the 3rd day in a row. It is NOT coming off a 50-day low.<br>Today's range is the smallest of the last 7 days. Close < 200ma.<br>Buy on close. Sell X days later. \$100k/trade. 1978 - 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   | -28,172.90      | 35                | 18                  | 17                 | 51.43             | 1,172.43               | -2,898.63             | 0.40                | 0.43              | -804.94        |
| 4   | -21,848.94      | 35                | 17                  | 18                 | 48.57             | 952.22                 | -2,113.15             | 0.45                | 0.43              | -624.26        |
| 3   | -29,038.37      | 35                | 13                  | 22                 | 37.14             | 1,175.20               | -2,014.36             | 0.58                | 0.34              | -829.67        |
| 2   | -33,851.07      | 36                | 11                  | 25                 | 30.56             | 846.93                 | -1,726.69             | 0.49                | 0.22              | -940.31        |
| 1   | -9,973.20       | 37                | 17                  | 20                 | 45.95             | 845.73                 | -1,217.53             | 0.69                | 0.59              | -269.55        |

As you can see the results table suggests a substantial downside edge over the next 1-2 days. Below is an equity curve using a 2-day exit strategy that shows how the edge has played out over time.



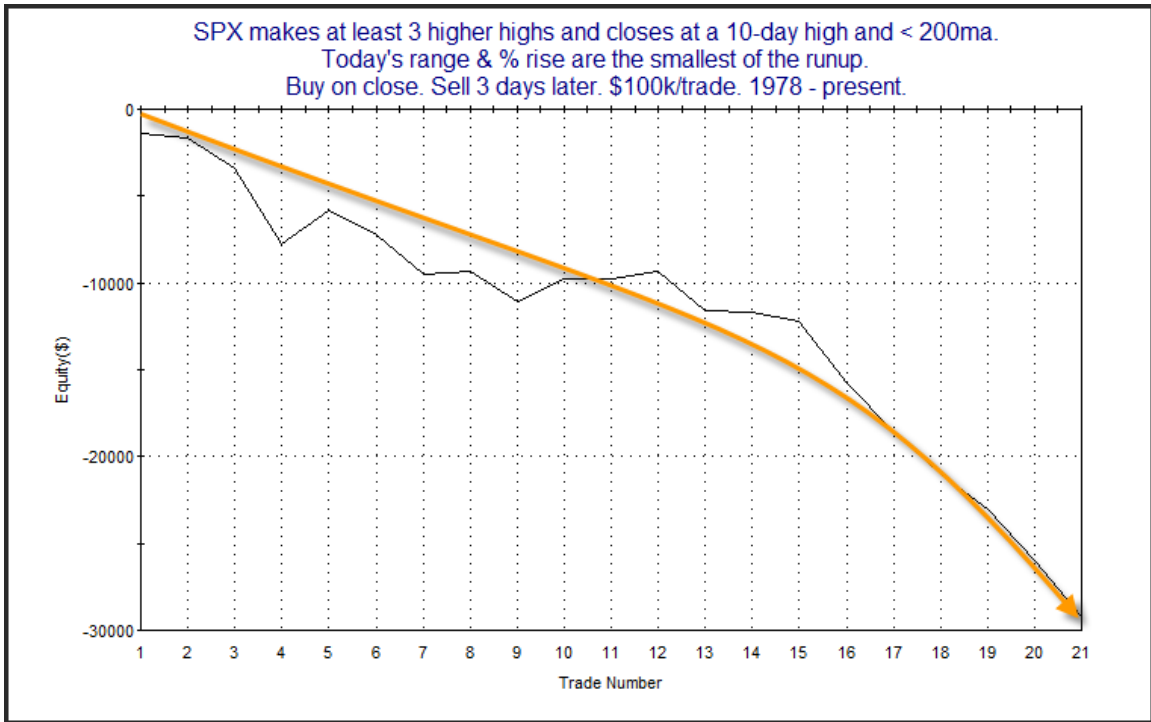
The downward slope seems to confirm the bearish edge suggested by the results table.

Another study with compelling results included some of the same parameters, but also considered the fact that Friday's rise was the smallest of the recent run. It was last seen in the 4/20/09 letter. I have updated that study below.

SPX makes at least 3 higher highs and closes at a 10-day high and < 200ma.  
 Today's range & % rise are the smallest of the runup.  
 Buy on close. Sell X days later. \$100k/trade. 1978 - 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      | -17,506.41      | 21                | 10                  | 11                 | 47.62             | 1,187.79               | -2,671.30             | 0.44                | 0.40              | -833.64        |
| 4      | -23,796.02      | 21                | 8                   | 13                 | 38.10             | 1,060.36               | -2,482.99             | 0.43                | 0.26              | -1,133.14      |
| 3      | -29,207.48      | 21                | 5                   | 16                 | 23.81             | 750.56                 | -2,060.02             | 0.36                | 0.11              | -1,390.83      |
| 2      | -23,119.08      | 21                | 4                   | 17                 | 19.05             | 789.99                 | -1,545.83             | 0.51                | 0.12              | -1,100.91      |
| 1      | -2,996.99       | 22                | 12                  | 10                 | 54.55             | 541.11                 | -949.03               | 0.57                | 0.68              | -136.23        |

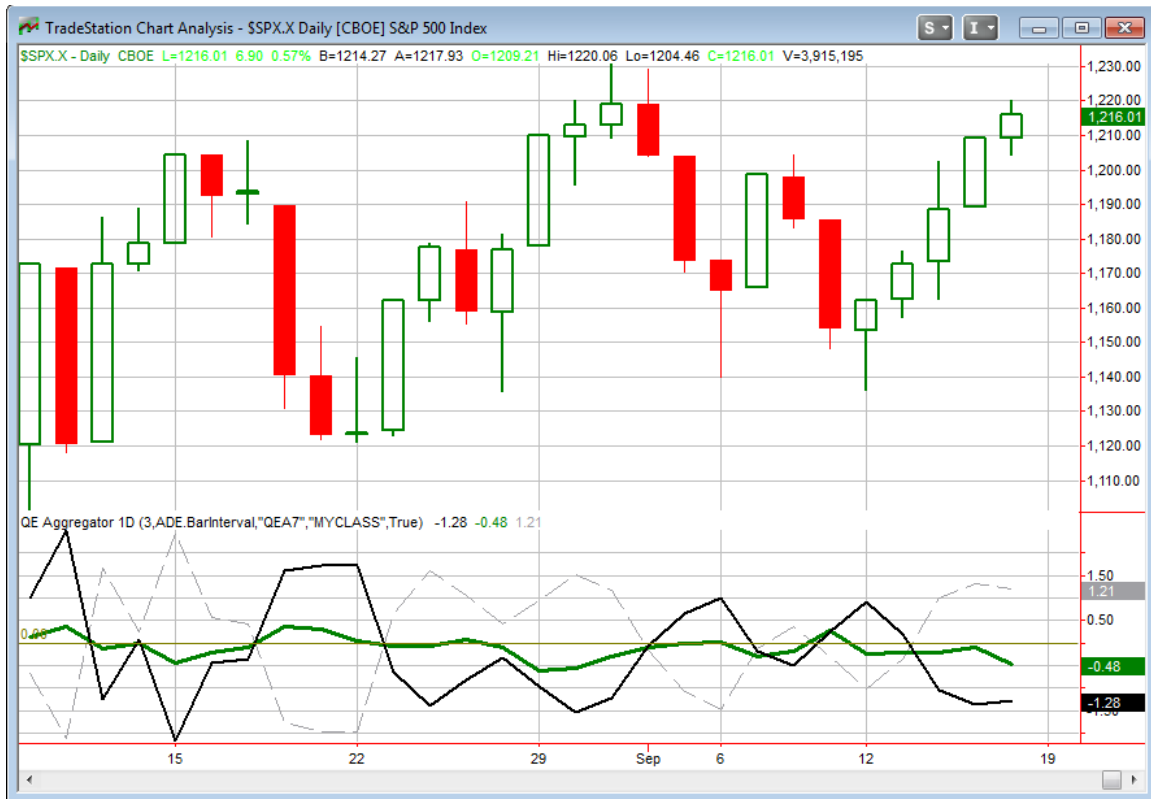
Here again we see a downside edge. Below is the equity curve using a 3-day holding period.



Always sloping down, the edge seems to be more potent recently.

So despite the strong run of the last week, short-term evidence all seems to be pointing south.

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



Today's studies caused the green Aggregator line to drop even further into negative territory. Levels below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the Differential Line remains below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are strongly negative and the SPX is well overbought versus recent expectations. Historically this combination has suggested a bearish edge. Bearish configurations can be seen on the chart whenever both lines close below 0. Due to this the Aggregator System remained short at the close.

Based on the current active studies the green Aggregator line is poised to close below 0 again on Monday. Of course this could change if bullish studies emerge. Meanwhile, the Differential Pivot will be 1,179.93. This is 3.0% below Friday's close. A drop this large is highly unlikely. A more likely scenario is a multi-day move lower.

I have a mid-sized short position on at the moment. Should the market defy the odds and continue higher on Monday I will increase that short position even further. This seems to be an opportune time for the market to drop a bit over the next few days.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 9/12 – slightly bearish**

The move higher this week was impressive. It did manage to (re)trigger one study with intermediate-term bullish consequences. Tuesday, Wednesday, and Thursday all closed strongly higher and the NYSE Up Issues % exceeded 70% each of those days. The study below is one that I last showed in the 3/21/11 subscriber letter and it has been active since then. Results are now updated to include the March instance as well.

| NYSE Up Issues % > 70% for exactly the 3rd day in a row.<br>Buy SPX on close. Sell X days later. \$100k/trade. 1967 - 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 |
| 200  | 189,454.67      | 11                | 9                   | 2                  | 81.82             | 21,290.18              | -1,078.45             | 19.74               | 88.84             | 17,223.15      |
| 190  | 202,941.78      | 11                | 11                  | 0                  | 100.00            | 18,449.25              | 0.00                  | 100.00              | 100.00            | 18,449.25      |
| 180  | 211,208.63      | 11                | 11                  | 0                  | 100.00            | 19,200.78              | 0.00                  | 100.00              | 100.00            | 19,200.78      |
| 170  | 193,444.27      | 12                | 12                  | 0                  | 100.00            | 16,120.36              | 0.00                  | 100.00              | 100.00            | 16,120.36      |
| 160  | 190,654.63      | 12                | 12                  | 0                  | 100.00            | 15,887.89              | 0.00                  | 100.00              | 100.00            | 15,887.89      |
| 150  | 189,374.17      | 12                | 12                  | 0                  | 100.00            | 15,781.18              | 0.00                  | 100.00              | 100.00            | 15,781.18      |
| 140  | 174,839.16      | 12                | 12                  | 0                  | 100.00            | 14,569.93              | 0.00                  | 100.00              | 100.00            | 14,569.93      |
| 130  | 155,443.51      | 13                | 12                  | 1                  | 92.31             | 13,423.27              | -5,635.69             | 2.38                | 28.58             | 11,957.19      |
| 120  | 113,065.79      | 14                | 11                  | 3                  | 78.57             | 11,457.94              | -4,323.86             | 2.65                | 9.72              | 8,076.13       |
| 110  | 103,997.85      | 14                | 13                  | 1                  | 92.86             | 8,823.79               | -10,711.47            | 0.82                | 10.71             | 7,428.42       |
| 100  | 99,235.46       | 14                | 11                  | 3                  | 78.57             | 10,146.31              | -4,124.64             | 2.46                | 9.02              | 7,088.25       |
| 90   | 112,768.01      | 14                | 12                  | 2                  | 85.71             | 9,908.26               | -3,065.58             | 3.23                | 19.39             | 8,054.86       |
| 80   | 107,007.12      | 14                | 13                  | 1                  | 92.86             | 8,710.02               | -6,223.12             | 1.40                | 18.20             | 7,643.37       |
| 70   | 81,378.73       | 14                | 13                  | 1                  | 92.86             | 6,916.22               | -8,532.18             | 0.81                | 10.54             | 5,812.77       |
| 60   | 79,636.48       | 15                | 12                  | 3                  | 80.00             | 8,170.87               | -6,137.98             | 1.33                | 5.32              | 5,309.10       |
| 50   | 82,845.62       | 16                | 13                  | 3                  | 81.25             | 8,232.64               | -8,059.59             | 1.02                | 4.43              | 5,177.85       |
| 40   | 59,218.37       | 16                | 13                  | 3                  | 81.25             | 7,175.85               | -11,355.88            | 0.63                | 2.74              | 3,701.15       |
| 30   | 51,386.67       | 17                | 12                  | 5                  | 70.59             | 6,129.03               | -4,432.34             | 1.38                | 3.32              | 3,022.75       |
| 20   | 55,813.17       | 17                | 14                  | 3                  | 82.35             | 5,110.66               | -5,245.36             | 0.97                | 4.55              | 3,283.13       |
| 10   | 29,308.43       | 18                | 14                  | 4                  | 77.78             | 3,219.27               | -3,940.32             | 0.82                | 2.86              | 1,628.25       |

**We are currently between 120 and 130 days from the 3/21/11 instance when the SPX closed at 1,298.38.**

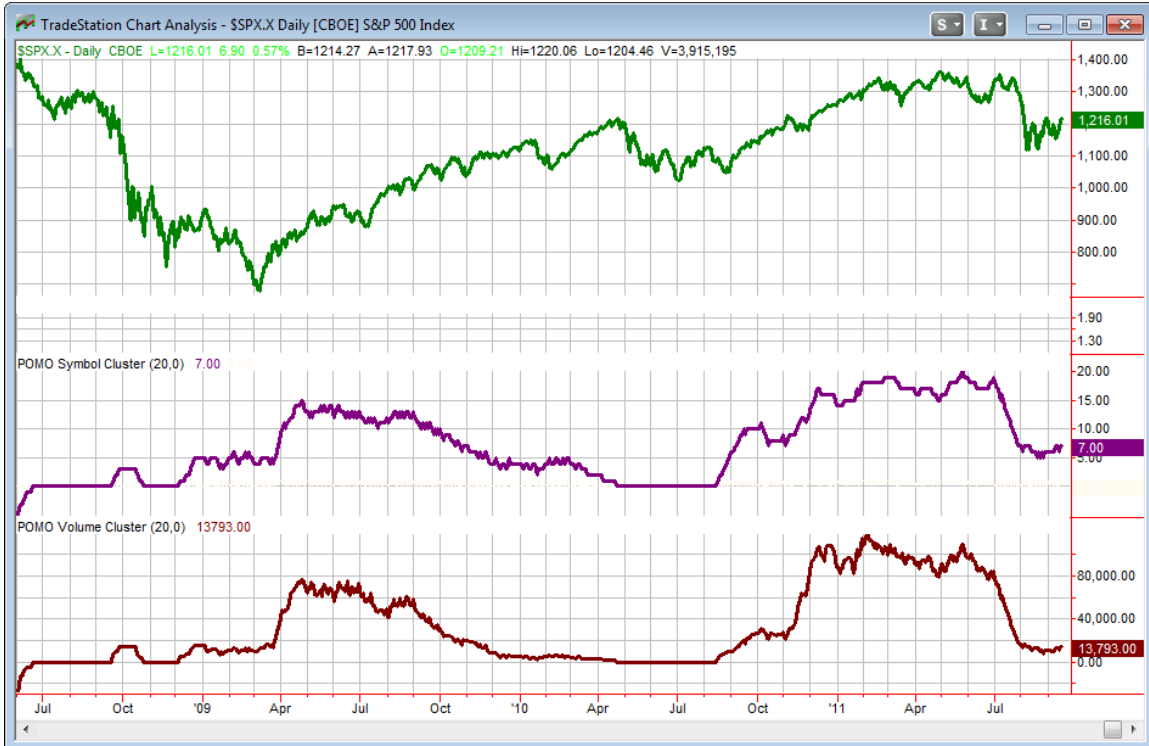
While the March instance is still “active” this repeat occurrence on Thursday may be seen as a positive sign.

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 3<sup>rd</sup> POMO presentation linked below. (Not available for trial users.)

<http://www.quantifiableedges.com/members/pomo.php>



POMO indicators barely budged and remain relatively low. The purchase amounts over the last month are extremely close to the \$14 billion number shown on the Fed's website. Stimulus still remains well below the levels that helped propel the market higher during QE1 and QE2. We keep waiting for the market to prove it can rally without substantial stimulus. So far it has not managed to do so.

While indicators remain mixed, I'm still inclined to slightly favor the short side. Bearish studies are associated with volume, liquidity (POMO), and seasonality. Bulls may find hope in the August FTD study, the breadth study that retriggered this week, and the leading position of the Nasdaq. At this point I remain 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 – short ¼ index position @ \$121.53 LIMIT ON CLOSE.** Based on short-term outlook above, I'll be looking to put on a 3<sup>rd</sup> lot if the SPY closes higher again tomorrow.*

## **Current Open Trade Ideas**

| <b>Symbol</b> | <b>Entry Date</b> | <b>Entry Price</b> | <b>Current Price</b> | <b>% Gain/Loss</b> | <b>Stop</b> | <b>Notes</b>               |
|---------------|-------------------|--------------------|----------------------|--------------------|-------------|----------------------------|
| SPY(1/4)(s)   | 9/14/2011         | \$119.37           | \$122.14             | -2.32%             |             | current price div adjusted |
| SPY(1/4)(s)   | 9/16/2011         | \$121.43           | \$121.52             | -0.07%             |             | Aggregator                 |
|               |                   |                    |                      |                    |             |                            |

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.