

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2011

Volume 4 Issue 182

Market Overview



Signals Overview

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

Tonight's Research Points

- In the past short-term highs and poor closes have led to gains over the next several days.
- The poor close just before a Fed Day suggest a strong upside edge for Wednesday.

Short-term Outlook

The Bottom Line

Bearish inclinations played out, though just barely. The drop Tuesday has shifted the edge from negative to positive. I have exited my shorts and am now moderately long.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 21, 2011	1% up 10-high then close down	1-7 days	Bullish	3.25%
September 21, 2011	Bottom 25% daily range b4 Fed Day	1 day	Bullish	
September 20, 2011	Low volume drop from overbought	1-2 days	Bearish	
September 20, 2011	Gap down and partial fill	1-3 days	Bullish	3.80%
September 19, 2011	Overbought post Sept opex	1-4 days	Bearish	-2.40%
Active - Long Term				
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	
July 5, 2011	QE2 Over	int term	Bearish	
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%

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

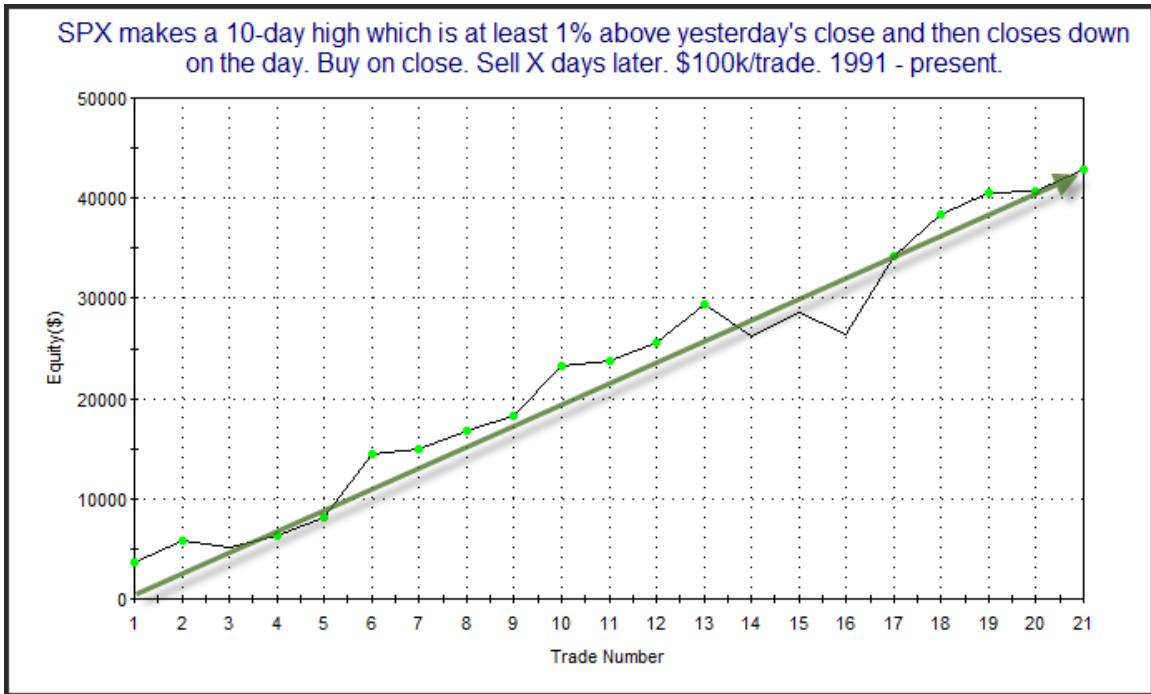
The Evidence

Expectations were for a down day, and for most of the day it appeared we weren't going to get it. But some late selling helped to push the major indices (aside from the Dow) lower. The SPX finished down 0.2%, the Nasdaq dropped 0.9%, and the Russell 2000 lost 1.7%. Breadth was also weak as the NYSE Up Issues % and Up Volume % both came in at 37%. Total NYSE volume rose slightly from Monday's level.

The strong intraday move to a short-term high and failure to hold its gains caused the SPX to trigger the study below, which was last shown in the 10/1/10 subscriber letter.

SPX makes a 10-day high which is at least 1% above yesterday's close and then closes down on the day. Buy on close. Sell X days later. \$100k/trade. 1991 - 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	23,656.10	21	14	7	66.67	2,507.51	-1,635.58	1.53	3.07	1,126.48
9	24,871.54	21	16	5	76.19	2,359.22	-2,575.21	0.92	2.93	1,184.36
8	39,485.63	21	17	4	80.95	2,809.80	-2,070.23	1.36	5.77	1,880.27
7	42,775.24	21	18	3	85.71	2,712.21	-2,014.86	1.35	8.08	2,036.92
6	37,663.74	21	16	5	76.19	2,887.56	-1,707.44	1.69	5.41	1,793.51
5	26,794.04	23	17	6	73.91	2,533.80	-2,713.44	0.93	2.65	1,164.96
4	23,194.69	23	16	7	69.57	2,298.79	-1,940.86	1.18	2.71	1,008.46
3	15,325.54	24	15	9	62.50	2,026.25	-1,674.24	1.21	2.02	638.56
2	19,983.83	24	16	8	66.67	1,936.29	-1,374.60	1.41	2.82	832.66
1	6,557.48	24	15	9	62.50	1,030.93	-989.61	1.04	1.74	273.23

Results appear strongly bullish. There seems to be an initial 2-day burst that has been followed by consistent gains up to 7 trading days out. The equity curve below assumes a 7-day holding strategy.



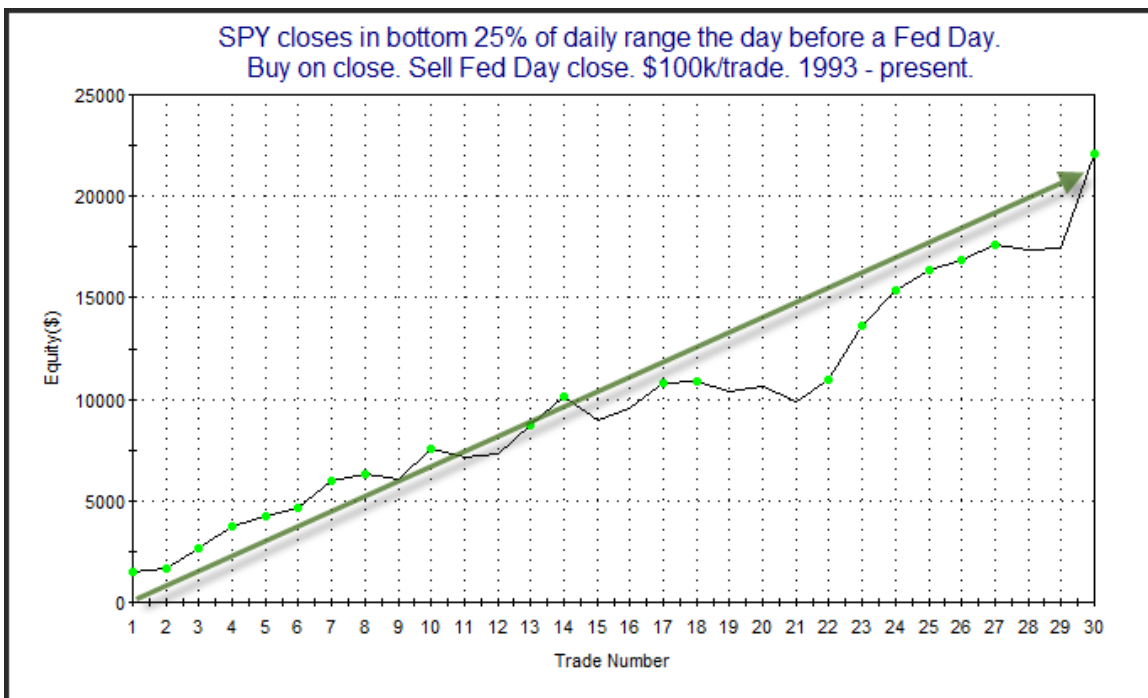
This equity curve is remarkably steady, which serves to confirm the upside edge.

I mentioned last night that Wednesday is a Fed Day. One metric I used in the Quantifiable Edges Guide to Fed Days is the SPY closing range on the day before the Fed Day. Essentially, the closer SPY finishes to the bottom of its range, the more bullish the Fed Day. The study below was last seen in the 12/14/10 letter. I have updated all results.

SPY closes in bottom 25% of daily range the day before a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$22,057.54	Profit Factor	7.73
Gross Profit	\$25,333.83	Gross Loss	(\$3,276.29)
Total Number of Trades	30	Percent Profitable	80.00%
Winning Trades	24	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$735.25	Ratio Avg. Win:Avg. Loss	1.93
Avg. Winning Trade	\$1,055.58	Avg. Losing Trade	(\$546.05)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$1,141.01)

The sample size is ample and the stats appear overwhelmingly bullish. Below is an equity curve to see how the edge has played out over time.



Again we see a strong steady upslope.

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



Today's studies caused the green Aggregator line to rise into positive territory. Levels above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the Differential Line also rallied to close just 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. Historically this combination has suggested a bullish edge. Bullish configurations can be seen on the chart whenever both lines close above 0. Due to this the Aggregator System flipped from short to long at the close.

Based on the current active studies the green Aggregator line is poised to remain above 0 on Wednesday. Of course this could change if more bearish studies emerge. Meanwhile, the Differential Pivot will be 1,206.30. This is just over 0.35% above Tuesday's close. So it won't take much of a rally on Wednesday to push the Differential Line back into negative territory.

In last night's letter I prepared for the current scenario. At the close on Tuesday the short trade ideas were closed out and a long trade idea was entered. If the bullish tendency of the Fed Day plays out and the market manages to close much higher Wednesday then the Aggregator System will either finish flat or short. An interesting note from my Fed Day research is that the vast majority of the upside gains on Fed Days are realized prior to the

2:15 announcement time. In other words, the bullish inclinations primarily play out between the close the day before and about 2pm the day of the Fed announcement. Over the long run, trying to wait for the close to take profits invites additional risk without almost any extra reward. Because of this I will be looking to sell between 2pm and 2:10pm if the SPX is above the Differential Pivot at that time. If not, I'll wait to see how the afternoon plays out before looking to take profits at the close. Details in the Trade Ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/19 – 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. 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

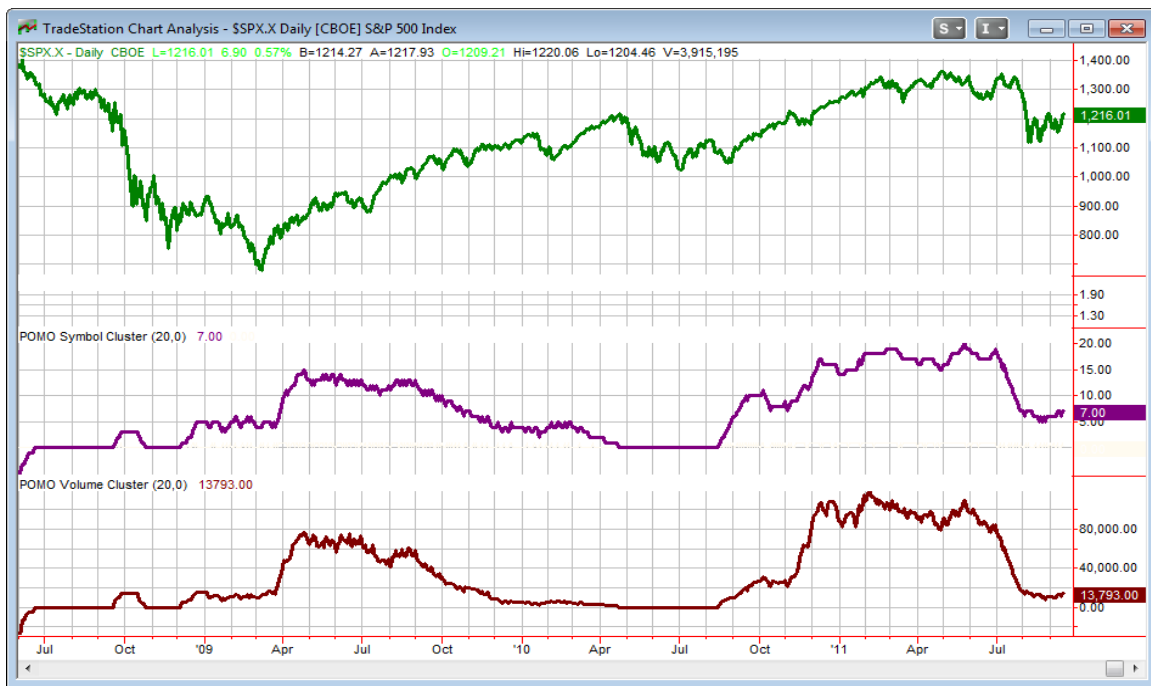
We are currently between 120 and 130 days from the 3/21/11 instance when the SPX closed at 1,298.38.

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 3rd 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.

None tonight..

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	9/14/2011	\$119.37	\$120.79	-1.19%		covered on close
SPY(1/4)(s)	9/16/2011	\$121.43	\$120.17	1.04%		covered on close
SPY(1/4)	9/20/2011	\$120.17	\$120.17	0.00%		bought on close

I will look to sell my SPY position at a \$120.59 limit between 2pm and 2:10pm. If not hit then I will cancel the order and then look to sell using the same limit price at the 4pm close.

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.