

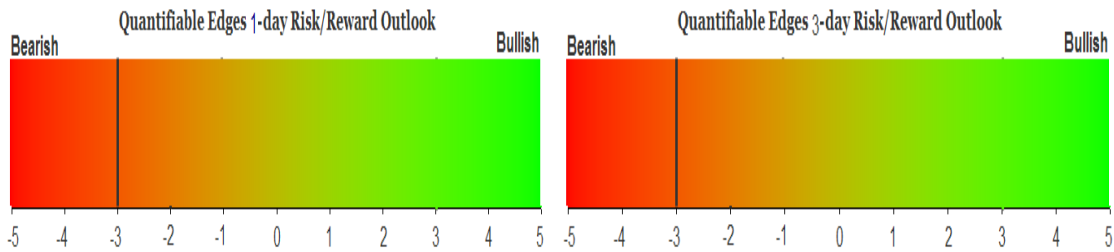
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 11, 2011

Volume 4 Issue 196

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The VXO is now stretched to the point where the SPX will tend to struggle.
- The Gap-n-Go to new short-term highs is typically bearish.
- A 2<sup>nd</sup> 90% Up Vol % day within 5 days appears intermediate-term bearish.

## Short-term Outlook

### The Bottom Line

Bearish studies and an overbought market have me looking to take on short exposure.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
October 11, 2011	SPY gap-n-go to new 10-day high <200	1-3 days	Bearish	-2.90%
October 11, 2011	VXO > 15% below 10ma.	1-3 days	Bearish	-3.60%
October 7, 2011	3/10 offset hv < 0.25. RSI(3) > 70.	1-3 days	Bearish	
<b>Active - Long Term</b>				
October 11, 2011	2nd 90% up vol in a week	1-14 days	Bullish	
October 7, 2011	90% Up Volume on 3rd day up.	1-14 days	Bullish	
September 12, 2011	Nasdaq leading SPX	int term	Bullish	
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>October 10, 2011</b>	<b>Columbus Day</b>	<b>1 day</b>	<b>Bullish</b>	
<b>October 10, 2011</b>	<b>1st down day after post-bottom th</b>	<b>1-2 days</b>	<b>Bullish</b>	
<b>October 7, 2011</b>	<b>3 up from 50-day low.</b>	<b>1-2 days</b>	<b>Bullish</b>	
<b>October 5, 2011</b>	<b>5 lower lows. 50-day low. Up close</b>	<b>1-4 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***

Like Columbus, the rally Monday started in Europe. When it was over the major indices were all substantially higher. The SPX rose 3.4%, the Nasdaq was up 3.5% and the Russell 2000 gained 4.4%. Breadth was exceptionally positive as the NYSE Up Issues % came in at 91% and the Up Volume % was 94%. Total NYSE Volume was the lightest in over a month.

The first bit of information to consider is the volume. As a bond holiday it is understood that volume will typically be a bit light. But is the extremely low level really attributable to Columbus Day? Since 1980 this was the 20<sup>th</sup> time that Columbus Days posted the lowest volume in at least 20 days. That means volume has been this low about 63% of the time. That is certainly often enough that I am comfortable ignoring volume indications and volume-related studies.

One potential problem indicator for the bulls is the VXO. It's been dropping fast and closed the day 18% below its 10ma. Such rapid down moves often see a quick reversion, and that reversion to the upside in the VXO normally means a move down in the SPX. In the 8/18/11 subscriber letter I showed how the setup in the study below has been particularly bearish since 2002. All stats are updated.

VXO crosses down more than 15% below its 10ma on a closing basis. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 2002 - 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	-40,299.61	16	4	12	25.00	1,937.37	-4,004.09	0.48	0.16	-2,518.73
4	-31,996.48	17	4	13	23.53	1,340.68	-2,873.78	0.47	0.14	-1,882.15
3	-46,022.80	19	2	17	10.53	1,550.82	-2,889.67	0.54	0.06	-2,422.25
2	-39,939.47	19	5	14	26.32	1,073.87	-3,236.35	0.33	0.12	-2,102.08
1	-9,536.11	19	7	12	36.84	1,109.26	-1,441.74	0.77	0.45	-501.90

As you can see losers have swamped winners over the last 10 years, and they've also been stronger than the winners. This skews risk/reward strongly in favor of the bears. The table below shows all 18 instances and assumes a 3-day exit strategy.

VXO crosses down more than 15% below its 10ma on a closing basis. SPX < 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 2002 - present.

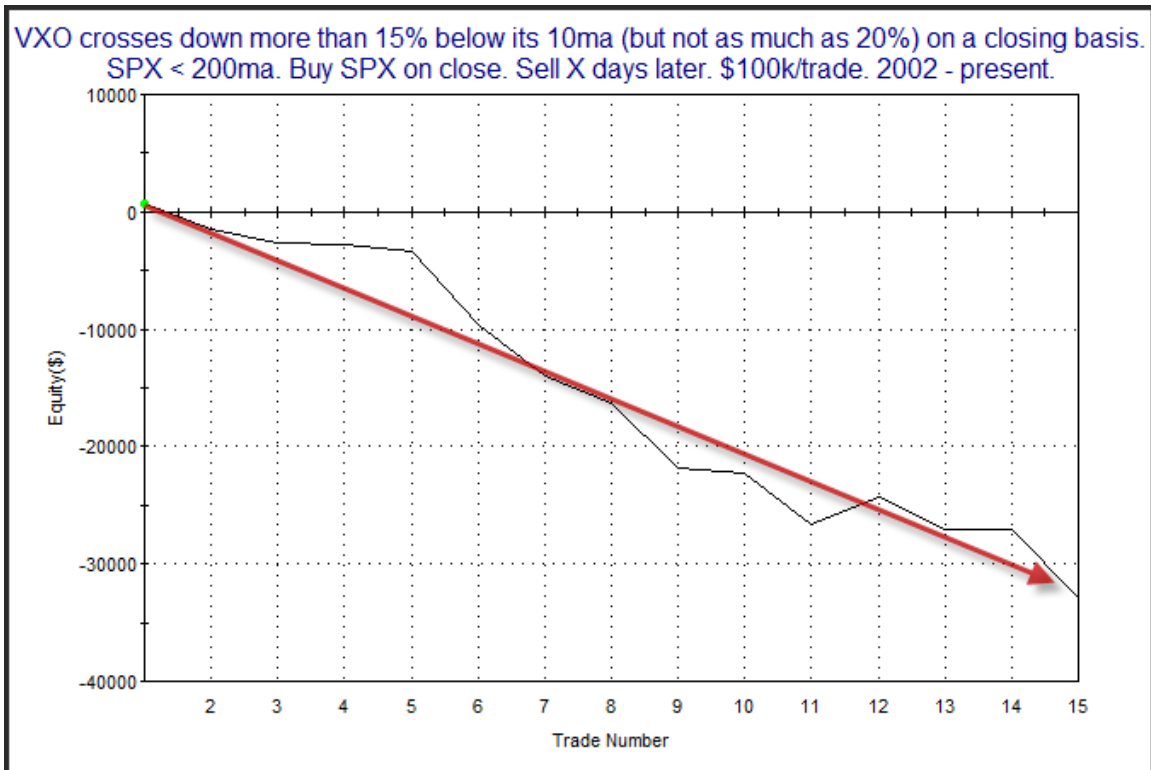
Date/Time	Signal	Price	% Profit	Run-up Drawdown
07/29/02	Buy	\$898.96	(1.59%)	\$1,407.48
08/01/02	Sell	\$884.66		(\$1,829.28)
08/15/02	Buy	\$930.25	0.77%	\$2,238.44
08/20/02	Sell	\$937.43		(\$1,502.28)
11/21/02	Buy	\$933.76	(2.19%)	\$375.57
11/26/02	Sell	\$913.31		(\$2,316.55)
06/15/06	Buy	\$1,256.16	(1.28%)	\$8.69
06/20/06	Sell	\$1,240.12		(\$1,500.21)
06/21/06	Buy	\$1,252.20	(0.13%)	\$73.47
06/26/06	Sell	\$1,250.56		(\$850.83)
12/21/07	Buy	\$1,484.50	(0.55%)	\$961.45
12/27/07	Sell	\$1,476.27		(\$578.88)
05/19/08	Buy	\$1,426.63	(2.26%)	\$0.00
05/22/08	Sell	\$1,394.35		(\$2,647.40)
07/22/08	Buy	\$1,277.01	(1.51%)	\$1,104.48
07/25/08	Sell	\$1,257.77		(\$1,991.34)
10/20/08	Buy	\$985.40	(7.84%)	\$4.04
10/23/08	Sell	\$908.11		(\$12,822.96)
11/03/08	Buy	\$966.30	(6.36%)	\$4,244.63
11/06/08	Sell	\$904.88		(\$6,855.68)
11/26/08	Buy	\$887.68	(4.38%)	\$959.84
12/02/08	Sell	\$848.81		(\$8,062.88)
12/19/08	Buy	\$887.88	(2.22%)	\$0.00
12/24/08	Sell	\$868.15		(\$3,448.48)
01/28/09	Buy	\$874.09	(5.57%)	\$0.00
02/02/09	Sell	\$825.43		(\$6,979.08)
05/27/10	Buy	\$1,103.06	(0.42%)	\$0.00
06/02/10	Sell	\$1,098.38		(\$2,985.30)
06/02/10	Buy	\$1,098.38	(4.36%)	\$663.39
06/07/10	Sell	\$1,050.47		(\$4,415.32)
07/08/10	Buy	\$1,070.25	2.34%	\$2,716.53
07/13/10	Sell	\$1,095.34		(\$199.95)
07/13/10	Buy	\$1,095.34	(2.78%)	\$340.34
07/16/10	Sell	\$1,064.88		(\$2,913.82)
09/03/10	Buy	\$1,104.51	(0.03%)	\$518.40
09/09/10	Sell	\$1,104.18		(\$1,202.40)
08/17/11	Buy	\$1,193.88	(5.87%)	\$0.00
08/22/11	Sell	\$1,123.82		(\$6,041.57)
<b>Avg Run-up: \$822 Avg Drawdown: -\$3,639</b>				

With the average drawdown over 4x the size of the average run-up, the reward/risk ration is strongly positive. The 4 boxed instances are those that actually saw the VXO fall more than 20% below its 10ma – not just 15%. In the 8/18 letter I also isolated those instances where the stretch was 15%-20%. I have updated that study.

VXO crosses down more than 15% below its 10ma (but not as much as 20%) on a closing basis.  
 SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 2002 - 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	-15,403.61	12	4	8	33.33	1,937.37	-2,894.14	0.67	0.33	-1,283.63
4	-10,296.79	13	4	9	30.77	1,340.68	-1,739.94	0.77	0.34	-792.06
3	-32,868.90	15	2	13	13.33	1,550.82	-2,766.96	0.56	0.09	-2,191.26
2	-27,973.39	15	4	11	26.67	991.03	-2,903.41	0.34	0.12	-1,864.89
1	-6,367.10	15	5	10	33.33	1,388.75	-1,331.09	1.04	0.52	-424.47

This doesn't appear to eliminate any support for the bears. Below is an equity curve.



The strong, steady equity curve appears to confirm the downside edge.

The price action in SPY also triggered some bearish studies this evening. The one below is from the 7/14/10 subscriber letter. It examines large unfilled gaps that make short-term intraday highs. Results are all updated.

SPY gaps up at least 1% above yesterday's close. It never fills gap, makes a 10-day intraday high, and closes > open. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-23,520.38	17	7	10	41.18	1,612.24	-3,480.61	0.46	0.32	-1,383.55
4	-23,430.85	18	6	12	33.33	1,346.53	-2,625.83	0.51	0.26	-1,301.71
3	-25,131.27	18	4	14	22.22	1,474.13	-2,216.27	0.67	0.19	-1,396.18
2	-20,684.95	19	10	9	52.63	504.38	-2,858.75	0.18	0.20	-1,088.68
1	-15,784.63	19	8	11	42.11	425.74	-1,744.60	0.24	0.18	-830.77

**17 of 19 instances (89.5%) closed below the entry price at some point in the next 3 days.**

“Gap-n-Go” scenarios like Monday often see the market pull back over the next few days. For those that would like to take a closer look at this setup I have provided the full list of instances below assuming a 3-day exit strategy.

SPY gaps up at least 1% above yesterday's close. It never fills gap, makes a 10-day intraday high, and closes > open. Close < 200ma. Buy on close. Sell 3 days later. \$100k/trade. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/14/98	Buy	\$103.44	(1.39%)	\$1,748.46
09/17/98	Sell	\$102.00		(\$1,603.56)
12/05/00	Buy	\$137.72	(2.72%)	\$1,023.66
12/08/00	Sell	\$133.97		(\$2,947.56)
12/11/00	Buy	\$138.63	(3.04%)	\$562.38
12/14/00	Sell	\$134.41		(\$3,316.60)
04/18/01	Buy	\$124.00	(1.42%)	\$1,483.04
04/23/01	Sell	\$122.24		(\$1,684.54)
11/13/01	Buy	\$114.55	(0.17%)	\$741.20
11/16/01	Sell	\$114.36		(\$1,002.80)
05/14/02	Buy	\$110.22	0.62%	\$934.21
05/17/02	Sell	\$110.90		(\$843.51)
10/15/02	Buy	\$88.70	(0.07%)	\$676.20
10/18/02	Sell	\$88.64		(\$3,133.06)
04/01/08	Buy	\$136.61	0.20%	\$988.20
04/04/08	Sell	\$136.89		(\$658.80)
11/04/08	Buy	\$100.41	(6.52%)	\$298.50
11/07/08	Sell	\$93.86		(\$10,298.25)
12/08/08	Buy	\$91.00	(3.36%)	\$1,240.74
12/11/08	Sell	\$87.94		(\$3,985.74)
01/28/09	Buy	\$87.39	(5.50%)	\$0.00
02/02/09	Sell	\$82.58		(\$6,955.52)
03/23/09	Buy	\$82.22	1.08%	\$1,313.28
03/26/09	Sell	\$83.11		(\$3,842.56)
04/02/09	Buy	\$83.43	(2.13%)	\$1,425.62
04/07/09	Sell	\$81.65		(\$2,300.16)
04/09/09	Buy	\$85.81	(0.65%)	\$850.45
04/15/09	Sell	\$85.25		(\$2,563.00)
04/29/09	Buy	\$87.39	3.99%	\$4,095.52
05/04/09	Sell	\$90.88		(\$766.48)
05/06/09	Buy	\$92.14	(0.98%)	\$1,171.80
05/11/09	Sell	\$91.24		(\$2,018.10)
07/13/10	Buy	\$109.66	(2.74%)	\$382.62
07/16/10	Sell	\$106.66		(\$2,924.31)
08/29/11	Buy	\$121.36	(0.35%)	\$1,769.45
09/01/11	Sell	\$120.94		(\$1,168.66)

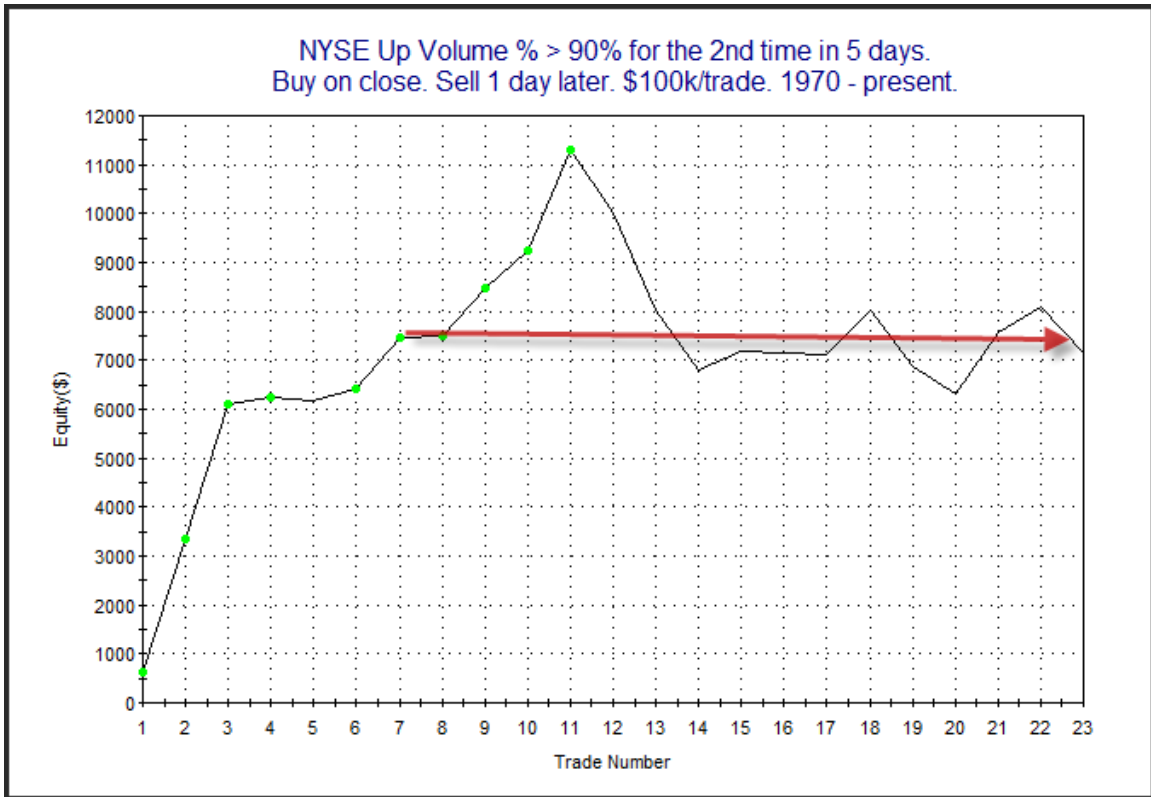
The individual results look just as bearish as the summary ones above.

And while the bearish studies ruled the day there was some good news for the bulls. Today was the 2<sup>nd</sup> 90% Up Volume day within 5 days. In the past this has been a positive sign for the intermediate-term. I've updated results from the 9/2/10 Subscriber Letter below.

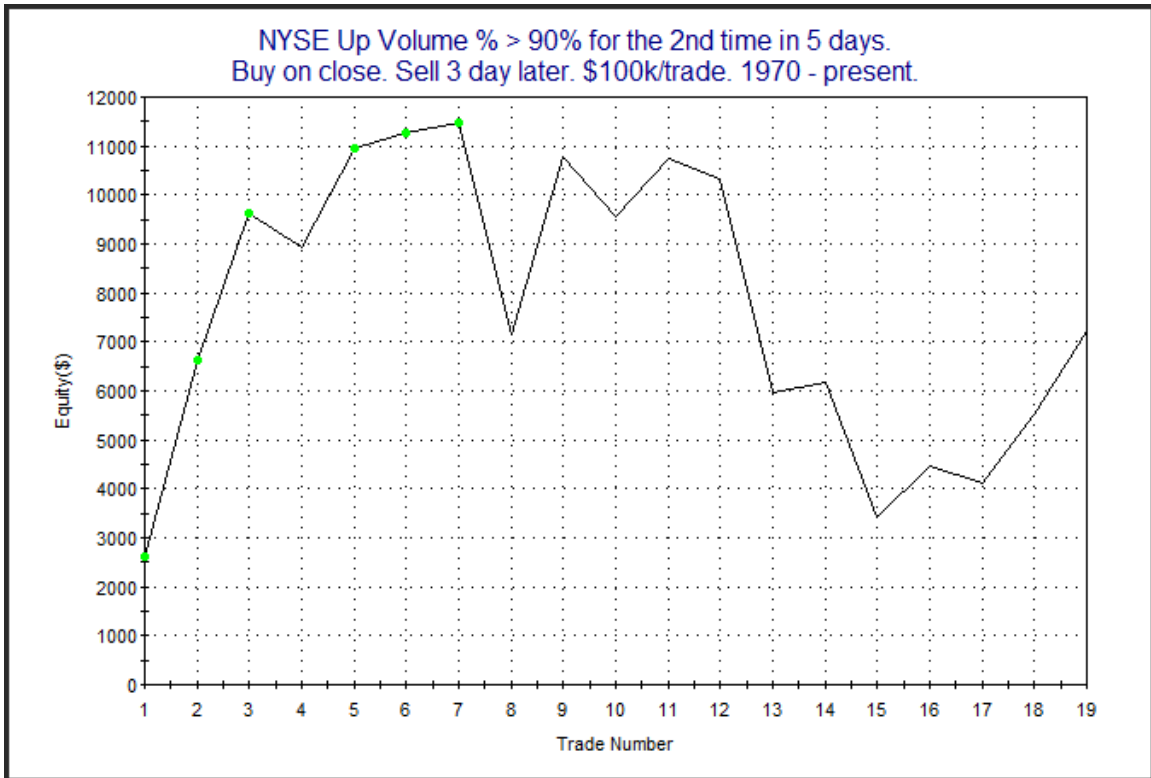
NYSE Up Volume % > 90% for the 2nd time in 5 days.  
Buy on close. Sell X days later. \$100k/trade. 1970 - present.

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
20	58,618.98	13	10	3	76.92	6,421.74	-1,866.14	3.44	11.47	4,509.15
19	55,881.35	13	11	2	84.62	5,519.27	-2,415.33	2.29	12.57	4,298.57
18	57,710.88	13	11	2	84.62	5,586.27	-1,869.02	2.99	16.44	4,439.30
17	58,126.14	13	10	3	76.92	6,125.02	-1,041.37	5.88	19.61	4,471.24
16	64,466.19	14	13	1	92.86	5,005.44	-604.52	8.28	107.64	4,604.73
15	59,325.76	14	12	2	85.71	5,056.99	-679.08	7.45	44.68	4,237.55
14	58,599.37	14	13	1	92.86	4,581.08	-954.72	4.80	62.38	4,185.67
13	56,482.62	14	13	1	92.86	4,465.65	-1,570.80	2.84	36.96	4,034.47
12	38,256.20	15	12	3	80.00	4,024.01	-3,343.98	1.20	4.81	2,550.41
11	35,890.25	15	12	3	80.00	3,792.64	-3,207.13	1.18	4.73	2,392.68
10	35,409.84	15	11	4	73.33	4,158.26	-2,582.76	1.61	4.43	2,360.66
9	35,555.76	15	13	2	86.67	3,125.72	-2,539.27	1.23	8.00	2,370.38
8	28,769.65	15	12	3	80.00	3,110.95	-2,853.93	1.09	4.36	1,917.98
7	27,208.28	16	10	6	62.50	4,049.79	-2,214.93	1.83	3.05	1,700.52
6	6,610.26	16	8	8	50.00	3,179.55	-2,353.27	1.35	1.35	413.14
5	3,631.64	17	8	9	47.06	3,055.59	-2,312.56	1.32	1.17	213.63
4	17,637.53	17	9	8	52.94	2,891.07	-1,047.76	2.76	3.10	1,037.50
3	7,232.83	19	12	7	63.16	1,782.05	-2,021.69	0.88	1.51	380.68
2	405.97	21	12	9	57.14	1,426.45	-1,856.83	0.77	1.02	19.33
1	7,134.91	23	14	9	60.87	1,034.41	-816.31	1.27	1.97	310.21

Some traders might be inclined to believe that even the very short-term stats suggest an upside edge. I don't believe so. The reason is not in the stats. It is in the equity curve.



While the 1-day numbers are potentially bullish, the equity curve shows no consistency. Next is the 3-day curve.



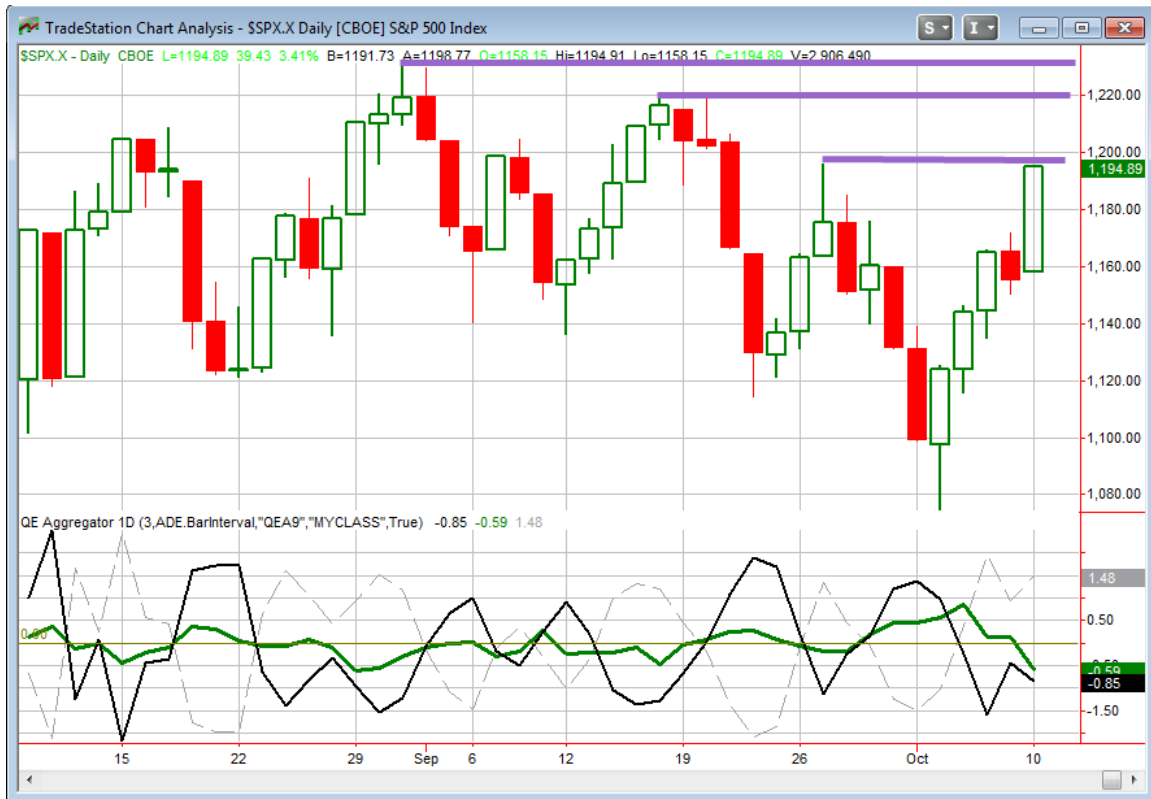
More of the same here. Looking at these equity curves encourages me to avoid considering this setup as a short-term edge. But if you look out over a few weeks the bullish edge does appear to be squarely in place. Below is a list of all qualifying instances.

NYSE Up Volume % > 90% for the 2nd time in 5 days.  
Buy on close. Sell 14 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/29/71	Buy	\$93.41	7.33%	\$7,329.50
12/17/71	Sell	\$100.26		\$0.00
08/20/82	Buy	\$113.02	7.03%	\$10,440.04
09/10/82	Sell	\$120.97		(\$928.20)
08/02/84	Buy	\$157.99	5.73%	\$6,831.92
08/22/84	Sell	\$167.05		\$0.00
01/05/87	Buy	\$252.19	7.10%	\$11,388.96
01/23/87	Sell	\$270.10		(\$23.76)
08/31/07	Buy	\$1,473.99	3.51%	\$4,338.25
09/21/07	Sell	\$1,525.75		(\$2,324.90)
11/28/07	Buy	\$1,469.01	(0.96%)	\$3,710.08
12/18/07	Sell	\$1,454.97		(\$2,268.48)
11/26/08	Buy	\$887.68	1.89%	\$3,491.04
12/17/08	Sell	\$904.42		(\$8,062.88)
03/12/09	Buy	\$750.74	8.04%	\$10,933.93
04/01/09	Sell	\$811.08		(\$1,101.24)
05/27/10	Buy	\$1,103.06	1.18%	\$1,411.20
06/17/10	Sell	\$1,116.04		(\$5,480.10)
07/13/10	Buy	\$1,095.34	2.79%	\$2,908.36
08/02/10	Sell	\$1,125.86		(\$3,499.86)
09/01/10	Buy	\$1,080.29	5.00%	\$6,283.60
09/22/10	Sell	\$1,134.28		\$0.00
09/24/10	Buy	\$1,148.67	2.19%	\$3,106.77
10/14/10	Sell	\$1,173.81		(\$1,461.60)
12/01/10	Buy	\$1,206.07	4.02%	\$4,079.50
12/21/10	Sell	\$1,254.60		\$0.00
08/11/11	Buy	\$1,172.64	3.94%	\$4,935.95
08/31/11	Sell	\$1,218.89		(\$4,381.75)

I'll be adding this study to the intermediate-term active list.

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



With the bearish studies tonight the green Aggregator line took a sharp dive into negative territory. Readings below 0 mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line remains 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 overbought versus recent expectations. Historically this combination has provided a bearish edge. Bearish configurations are visible on the chart whenever both lines close below 0. Due to this the Aggregator System changed from flat to short at the close.

With all bullish short-term studies having reached their targets, there are only bearish short-term studies remaining. The green Aggregator line is currently set to close negative again on Tuesday. It would take some very compelling bullish evidence in order for this to change. Meanwhile, the Differential Pivot will be 1,182.40. This is about 1.0% below Monday's close. So it would take a drop of at least this much in order to flip the Differential line positive.

The SPX is squarely overbought and there appears to be a substantial downside edge. It is also near several resistance levels, which I show on the chart above. Between the studies, the overbought SPX, the long-term downtrend, and the negative intermediate-term outlook, I am inclined to begin building a short position a bit quicker than usual. Details are in the Trade Ideas section below.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 10/10 – slightly bearish**

New lows were made this week but they were quickly followed by strong buying. The market is trying to carve out a bottom but to this point there have been few clues as to whether it will be successful. I suspect we will see more studies with intermediate-term implications this upcoming week.

There was one study that triggered on Thursday night with intermediate-term implications. Extremely strong breadth occurring after there has already been a rally of a few days will often help to kick off a further move to the upside over the next 2-3 weeks. This can be seen in the study below, which last appeared in the 8/16/11 subscriber letter.

SPX closes higer for at least the 3rd day in a row and the NYSE Up Volume % > 90%. Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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
20	30,884.79	16	10	6	62.50	4,685.94	-2,662.43	1.76	2.93	1,930.30
19	24,295.23	16	11	5	68.75	3,713.93	-3,311.61	1.12	2.47	1,518.45
18	26,677.11	16	12	4	75.00	3,449.55	-3,679.38	0.94	2.81	1,667.32
17	32,076.57	16	11	5	68.75	4,024.64	-2,438.89	1.65	3.63	2,004.79
16	34,462.02	16	12	4	75.00	3,618.49	-2,239.97	1.62	4.85	2,153.88
15	33,166.10	17	12	5	70.59	3,668.62	-2,171.47	1.69	4.05	1,950.95
14	35,527.81	17	15	2	88.24	2,696.46	-2,459.53	1.10	8.22	2,089.87
13	28,604.70	18	14	4	77.78	2,345.57	-1,058.30	2.22	7.76	1,589.15
12	24,509.61	18	14	4	77.78	2,188.52	-1,532.42	1.43	5.00	1,361.64
11	23,145.77	18	11	7	61.11	2,534.41	-676.11	3.75	5.89	1,285.88
10	24,931.29	18	13	5	72.22	2,610.27	-1,800.43	1.45	3.77	1,385.07
9	21,787.14	18	13	5	72.22	2,259.75	-1,517.91	1.49	3.87	1,210.40
8	15,691.15	18	13	5	72.22	2,141.96	-2,430.86	0.88	2.29	871.73
7	20,988.83	18	12	6	66.67	2,446.42	-1,394.69	1.75	3.51	1,166.05
6	12,740.05	18	11	7	61.11	2,184.08	-1,612.11	1.35	2.13	707.78
5	8,101.47	18	13	5	72.22	1,796.47	-3,050.52	0.59	1.53	450.08
4	6,465.60	18	13	5	72.22	1,447.35	-2,470.00	0.59	1.52	359.20
3	-972.56	18	11	7	61.11	1,345.71	-2,253.63	0.60	0.94	-54.03
2	2,036.36	18	14	4	77.78	818.75	-2,356.54	0.35	1.22	113.13
1	6,232.88	18	9	9	50.00	961.74	-269.20	3.57	3.57	346.27

After a brief consolidation, results appear to strongly favor the bull case, especially over the 2-3 week timeframe. Below I have listed all instances assuming a 14-day holding period.

SPX closes higher for at least the 3rd day in a row and the NYSE Up Volume % > 90%. Buy on close. Sell 14 days later. \$100k/trade. 10/20/87 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/29/87	Buy	\$244.77	0.32%	\$5,071.44
11/18/87	Sell	\$245.55		(\$2,913.12)
05/12/89	Buy	\$313.84	3.72%	\$3,746.04
06/02/89	Sell	\$325.52		\$0.00
05/11/90	Buy	\$352.00	3.17%	\$3,271.68
06/01/90	Sell	\$363.15		(\$17.04)
01/02/03	Buy	\$909.03	(2.39%)	\$2,862.20
01/23/03	Sell	\$887.34		(\$3,535.40)
03/17/03	Buy	\$862.79	1.86%	\$3,807.65
04/04/03	Sell	\$878.85		(\$2,197.65)
03/21/07	Buy	\$1,435.04	0.27%	\$944.61
04/11/07	Sell	\$1,438.87		(\$1,803.66)
11/26/08	Buy	\$887.68	1.89%	\$3,491.04
12/17/08	Sell	\$904.42		(\$8,062.88)
03/12/09	Buy	\$750.74	8.04%	\$10,933.93
04/01/09	Sell	\$811.08		(\$1,101.24)
04/02/09	Buy	\$834.38	2.10%	\$4,908.75
04/23/09	Sell	\$851.92		(\$2,362.15)
07/15/09	Buy	\$932.68	7.82%	\$7,965.08
08/04/09	Sell	\$1,005.65		(\$559.61)
08/21/09	Buy	\$1,026.13	1.62%	\$2,138.85
09/11/09	Sell	\$1,042.73		(\$3,313.52)
11/09/09	Buy	\$1,093.08	0.23%	\$1,875.51
11/30/09	Sell	\$1,095.63		(\$849.94)
03/05/10	Buy	\$1,138.70	2.37%	\$3,653.13
03/25/10	Sell	\$1,165.73		(\$330.60)
07/13/10	Buy	\$1,095.34	2.79%	\$2,908.36
08/02/10	Sell	\$1,125.86		(\$3,499.86)
09/03/10	Buy	\$1,104.51	4.00%	\$3,995.10
09/24/10	Sell	\$1,148.67		(\$1,202.40)
07/01/11	Buy	\$1,339.67	0.40%	\$1,243.94
07/22/11	Sell	\$1,345.02		(\$3,237.50)
08/15/11	Buy	\$1,204.49	(2.53%)	\$2,176.26
09/02/11	Sell	\$1,173.97		(\$6,922.20)

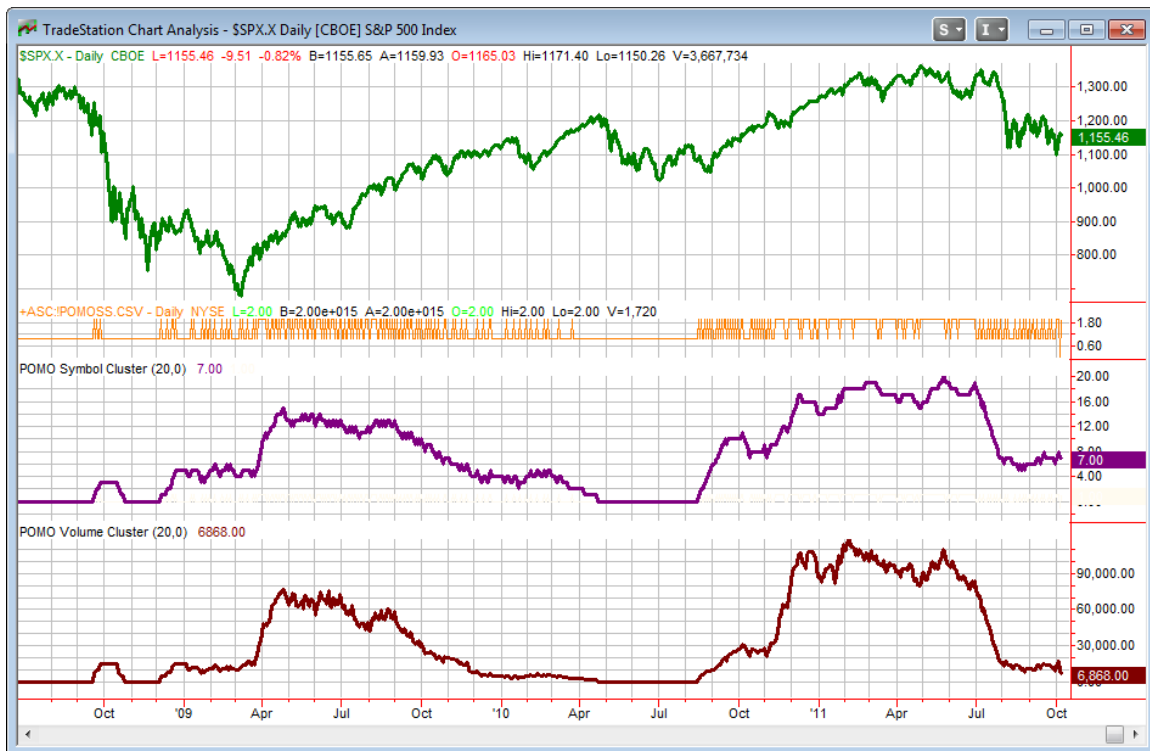
The August instance was a loser, but there still appears to be a healthy upside edge.

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>



Operation Twist kicked in this week. The Fed began buying more long-dated securities and selling some short-term ones. This came in the form of small amounts of buying on Mon, Tues, Wed, and Fri and a large amount of selling on Thursday. The result of the transactions was a small amount of net buying. Two weeks ago I discussed how the effect of Operation Twist may end up helping some sectors and hurting others. It is a bit soon to see how it will all play out, but below is an early scorecard showing how the sectors have perform both since operations began this past week and since the announcement 13 trading days ago.

Sector ETF Returns			
Symbol	Description	%Change this week	%Chg since announcement
IYR	iShares DJ US R/E Index Tr	(2.00)	(10.56)
IYZ	iShares DJ US Telecom Sect Ind	(1.62)	(7.43)
XLU	S&P Sel Utilities Spdr Fund	(0.65)	(2.57)
XLF	S&P Sel Financial Spdr Fund	0.17	(5.51)
XLV	S&P Sel Health Care Spdr Fund	0.54	(3.36)
XLP	S&P Sel Consum Staples Spdr Fu	1.38	(1.86)
XLK	S&P Sel Technology Spdr Fund	2.97	(2.25)
XLI	S&P Sel Industrial Spdr Fund	3.83	(3.50)
IYT	iShares DJ Transp Avg Ind Fd	3.87	(4.32)
XLE	S&P Sel Energy Spdr Fund	4.08	(7.19)
XLY	S&P Sel Consum Discretion'y Sp	4.27	(3.07)
XLB	S&P Sel Materials Spdr Fund	6.03	(7.41)

Real estate and telecom appear to be the losers so far. At this point there does not appear to be a clear leader. It will be interesting to see how this plays out over the next several weeks and months.

The market is trying to mount a rally. So far there has not been much indication that a new rally is likely to be successful. I suspect we will see more directional clues over the next few days. At this point I am not seeing any reason to start betting heavily on the long side. The market is only a few short days off its lows. I'll give this rally attempt some time to prove itself before taking a bullish stance.

### **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 @ \$119.58 LIMIT.** Based on short-term outlook above. I will look to begin scaling in to a short position.*

***SPY – short ¼ index position @ \$0.50 > the 1<sup>st</sup> fill AT CLOSE .** Based on short-term outlook above. With resistance levels nearby, solid bearish evidence, a slightly bearish intermediate-term outlook, and a long-term downtrend in place I will look to quickly up the size to a ½ position..*

### **Current Open Trade Ideas**

None.

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