

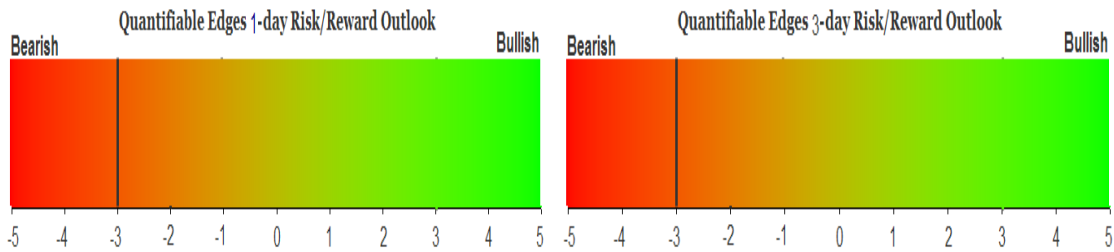
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 13, 2011

Volume 4 Issue 198

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 stretched VXO is suggesting a short-term pullback.
- 3 up days in a down market are often followed by a pullback.
- The strong breadth the last few days may be a good intermediate-term sign.
- SPY price action showed mixed results.

Short-term Outlook

The Bottom Line

Another day higher led to more bearish evidence emerging. The market is quite overdone. A runaway move is possible but unlikely. I have a mid-sized short position now and am looking to hold onto it for the time being.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 13, 2011	3 up days. No 50-day low. < 200ma.	1-3 days	Bearish	-2.90%
October 13, 2011	VXO > 15% below 10ma for 3 days	1-2 days	Bearish	-1.80%
October 12, 2011	Low vol & range 20. Close > 10ma < 200	1-2 days	Bearish	-2.40%
October 12, 2011	5 higher highs no 20-day high	1-4 days	Bearish	-2.25%
October 11, 2011	SPY gap-n-go to new 10-day high < 200	1-3 days	Bearish	-2.90%
Active - Long Term				
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%

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

The Evidence

After rallying strongly for much of the day the market gave up a large portion of its gains in the late afternoon. In the end the SPX rose 0.98%, the Nasdaq was up 0.8% and the Russell 2000 rose 1.7%. Breadth was strongly positive as the NYSE Up Issues % came in at 78% and the Up Volume % was 83%. Total NYSE volume rose from the levels of the last few days.

Wednesday came extremely close to qualifying as a Follow Through Day (FTD) as defined by the Quantifiable Edges Follow Through Day Study. In conducting the study I used the original Investors' Business Daily definition, which calls for a 1% rise on higher volume in a major index sometime after the 3rd day of a new rally attempt. I do not know if Investors' Business Daily will declare Wednesday a Follow Through Day. They may since the Russell put in such a nice gain. But the Quantifiable Edges study, which goes back to 1971, does not use the Russell 2000. It looks at the S&P 500, the Nasdaq Composite, and the Dow 30 Industrials. The reason I did not include the Russell is that it does not have history back that far and I wanted to keep the test criteria consistent. So for our purposes, with the SPX rising 0.98% and barely missing the 1% threshold, Wednesday did not qualify as a FTD. I will continue to be on the lookout for one since there are several tendencies that occur following FTDs.

The VIX and VXO have dropped sharply over the last 7 days. Today we saw a couple more VXO-related studies trigger. This first one was last seen in the 3/25/11 subscriber letter. It looks for times when the VXO becomes stretched more than 20% below its 10-day moving average. I have updated all the statistics.

VXO crosses down more than 20% below its 10ma. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1987 - 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	-39,917.91	12	3	9	25.00	2,015.68	-5,107.22	0.39	0.13	-3,326.49
4	-34,499.51	12	3	9	25.00	1,085.19	-4,195.01	0.26	0.09	-2,874.96
3	-25,763.72	12	3	9	25.00	1,360.27	-3,316.06	0.41	0.14	-2,146.98
2	-28,225.88	12	3	9	25.00	2,196.70	-3,868.44	0.57	0.19	-2,352.16
1	-8,119.54	12	5	7	41.67	905.22	-1,806.52	0.50	0.36	-676.63

Reward/risk appears to strongly favor the bears based on the limited sample size. Below I have listed all the trades assuming a 2-day holding period.

VXO crosses down more than 20% below its 10ma. SPX < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1987 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/29/87	Buy	\$244.77	4.49%	\$4,479.84
11/02/87	Sell	\$255.75		\$0.00
11/25/87	Buy	\$244.10	(5.65%)	\$4.09
11/30/87	Sell	\$230.30		(\$7,496.97)
12/23/87	Buy	\$253.16	(3.00%)	\$0.00
12/28/87	Sell	\$245.57		(\$3,543.15)
11/16/90	Buy	\$317.12	(0.57%)	\$711.90
11/20/90	Sell	\$315.31		(\$570.15)
01/18/91	Buy	\$332.22	(1.18%)	\$0.00
01/22/91	Sell	\$328.31		(\$1,321.39)
07/14/94	Buy	\$453.41	(1.07%)	\$0.00
07/18/94	Sell	\$448.55		(\$1,621.40)
10/19/98	Buy	\$1,062.40	0.71%	\$2,035.10
10/21/98	Sell	\$1,069.90		(\$404.20)
07/29/02	Buy	\$898.96	1.41%	\$1,407.48
07/31/02	Sell	\$911.62		(\$1,582.86)
05/19/08	Buy	\$1,426.63	(2.52%)	\$0.00
05/21/08	Sell	\$1,390.71		(\$2,647.40)
07/22/08	Buy	\$1,277.01	(1.91%)	\$1,104.48
07/24/08	Sell	\$1,252.57		(\$1,991.34)
10/20/08	Buy	\$985.40	(8.99%)	\$4.04
10/22/08	Sell	\$896.78		(\$11,068.59)
11/04/08	Buy	\$1,005.75	(10.03%)	\$0.00
11/06/08	Sell	\$904.88		(\$10,494.99)

This next VXO-related study was last seen in the 3/28/11 subscriber letter. It looks for stretches of 15% or more that have persisted for three days.

VXO closes over 15% below its 10ma for exactly the 3rd day in a row.
Buy SPX on close. Sell X days later. \$100k/trade. 1987 - 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	-24,052.83	19	9	10	47.37	902.67	-3,217.68	0.28	0.25	-1,265.94
4	-18,018.47	19	9	10	47.37	810.32	-2,531.14	0.32	0.29	-948.34
3	-11,120.62	19	9	10	47.37	1,151.96	-2,148.83	0.54	0.48	-585.30
2	-16,396.75	19	4	15	21.05	887.07	-1,329.67	0.67	0.18	-862.99
1	-13,099.33	19	5	14	26.32	780.12	-1,214.28	0.64	0.23	-689.44

In only 3 instances SPX failed to close below the entry price on day 1 or day 2. All 3 continued higher and did not post a close under the entry price any time in the next month. The 3 instances took place on 7/18/94, 10/19/98, & 10/2/01.

The sample size here is a bit larger. Again there appears to be a downside inclination. I find the note at the bottom of the study to be especially interesting. Nearly every case has experienced an almost immediate pullback, but those that didn't, did not pullback for a long time. Below I have listed all instances assuming a 2-day exit strategy.

VXO closes over 15% below its 10ma for exactly the 3rd day in a row. Buy on close. Sell 2 days later. \$100k/trade. 1987 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/02/87	Buy	\$255.75	(2.65%)	\$0.00
11/04/87	Sell	\$248.96		(\$5,075.18)
12/23/87	Buy	\$253.16	(3.00%)	\$0.00
12/28/87	Sell	\$245.57		(\$3,543.15)
11/14/90	Buy	\$320.39	(1.02%)	\$0.00
11/16/90	Sell	\$317.12		(\$1,687.92)
01/25/91	Buy	\$336.07	(0.07%)	\$395.01
01/29/91	Sell	\$335.84		(\$537.57)
07/18/94	Buy	\$448.55	0.68%	\$1,498.50
07/20/94	Sell	\$451.60		\$0.00
12/16/94	Buy	\$458.80	(0.37%)	\$0.00
12/20/94	Sell	\$457.10		(\$527.31)
10/19/98	Buy	\$1,062.40	0.71%	\$2,035.10
10/21/98	Sell	\$1,069.90		(\$404.20)
12/23/98	Buy	\$1,228.54	(0.25%)	\$241.38
12/28/98	Sell	\$1,225.48		(\$597.78)
10/02/01	Buy	\$1,051.33	1.74%	\$3,115.05
10/04/01	Sell	\$1,069.62		(\$935.75)
07/31/02	Buy	\$911.62	(5.20%)	\$0.00
08/02/02	Sell	\$864.24		(\$6,286.03)
08/19/02	Buy	\$950.70	(0.14%)	\$93.45
08/21/02	Sell	\$949.36		(\$2,034.90)
08/24/07	Buy	\$1,479.37	(3.18%)	\$0.00
08/28/07	Sell	\$1,432.36		(\$3,173.12)
09/20/07	Buy	\$1,518.75	(0.07%)	\$789.10
09/24/07	Sell	\$1,517.73		(\$169.00)
12/26/07	Buy	\$1,497.66	(1.28%)	\$0.00
12/28/07	Sell	\$1,478.49		(\$1,713.36)
11/05/08	Buy	\$952.77	(2.29%)	\$0.00
11/07/08	Sell	\$930.99		(\$5,515.12)
02/22/10	Buy	\$1,108.01	(0.25%)	\$51.30
02/24/10	Sell	\$1,105.24		(\$1,424.70)
06/17/10	Buy	\$1,116.04	(0.25%)	\$1,351.91
06/21/10	Sell	\$1,113.20		(\$694.20)
03/25/11	Buy	\$1,313.80	0.43%	\$451.44
03/29/11	Sell	\$1,319.44		(\$649.04)
07/01/11	Buy	\$1,339.67	(0.03%)	\$93.98
07/06/11	Sell	\$1,339.22		(\$647.50)
Avg Run-up: \$532 Avg Drawdown: -\$1,874				

The fact that the average drawdown is about 3 1/2 times the size of the average run-up is also worth considering. All in all it appears the stretched VXO is suggesting a short-term pullback. I have included this study on the active list.

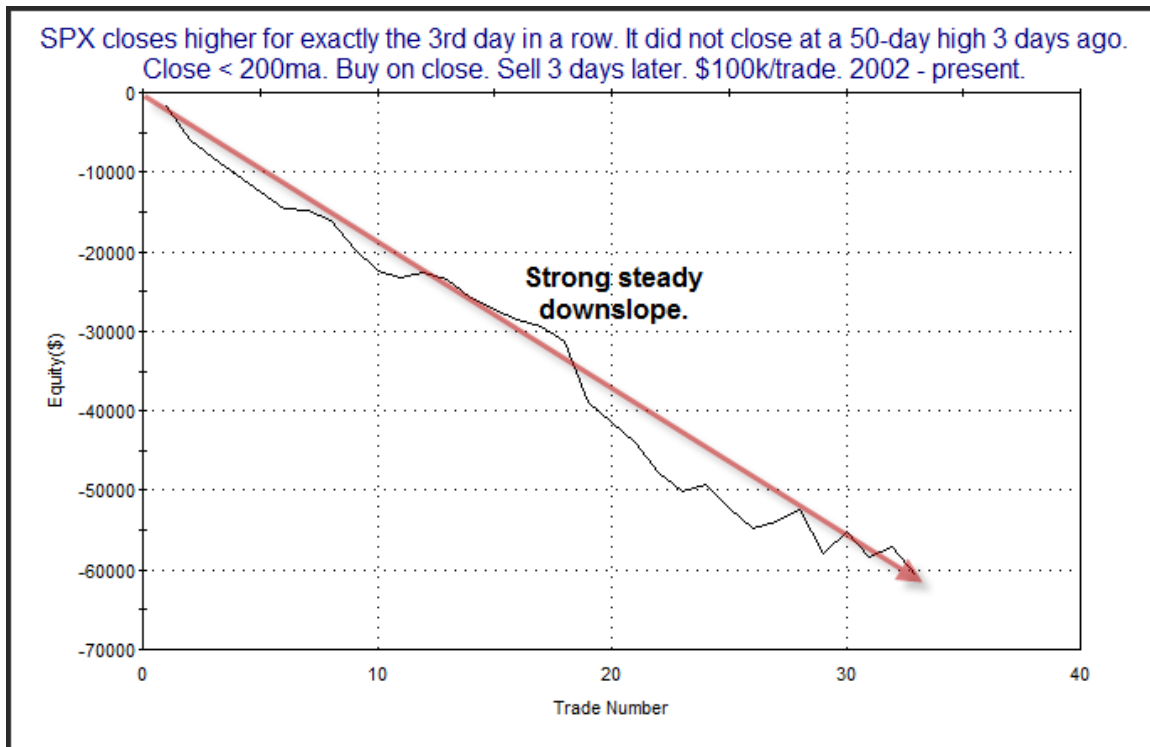
Wednesday also marked the third day in a row where the SPX closed higher. Just a few days ago in the 10/7/11 letter I looked at 3-day rises during downtrends that did not originate from a 50-day low. I also examined this in the 8/31/11 subscriber letter. The study below is identical to those, but I have shortened the lookback period some. While the downside edge has persisted since at least 1988, it has appeared more powerful since 2002. The stats below only include the period from 2002 – present.

SPX closes higher for exactly the 3rd day in a row. It did not close at a 50-day high 3 days ago.
Close < 200ma. Buy 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
10	-32,447.30	22	9	13	40.91	1,732.09	-3,695.09	0.47	0.32	-1,474.88
9	-47,333.50	25	11	14	44.00	1,526.59	-4,580.43	0.33	0.26	-1,893.34
8	-62,701.38	27	9	18	33.33	1,583.50	-4,275.16	0.37	0.19	-2,322.27
7	-48,223.22	28	9	19	32.14	1,576.70	-3,284.92	0.48	0.23	-1,722.26
6	-55,247.15	29	8	21	27.59	1,935.10	-3,368.00	0.57	0.22	-1,905.07
5	-46,400.75	30	11	19	36.67	1,636.68	-3,389.70	0.48	0.28	-1,546.69
4	-60,435.76	33	10	23	30.30	1,214.84	-3,155.83	0.38	0.17	-1,831.39
3	-60,750.08	33	6	27	18.18	1,289.70	-2,536.60	0.51	0.11	-1,840.91
2	-32,128.86	33	6	27	18.18	931.00	-1,396.85	0.67	0.15	-973.60
1	-16,936.62	33	13	20	39.39	1,035.92	-1,520.18	0.68	0.44	-513.23

30 of 33 instances (91%) closed below the entry price
at some point in the next week.

Numbers here are quite impressive across the board. The consistency, size, win/loss ratio and profit factor all support the bearish case. A profit curve built using a 3-day exit strategy is below.



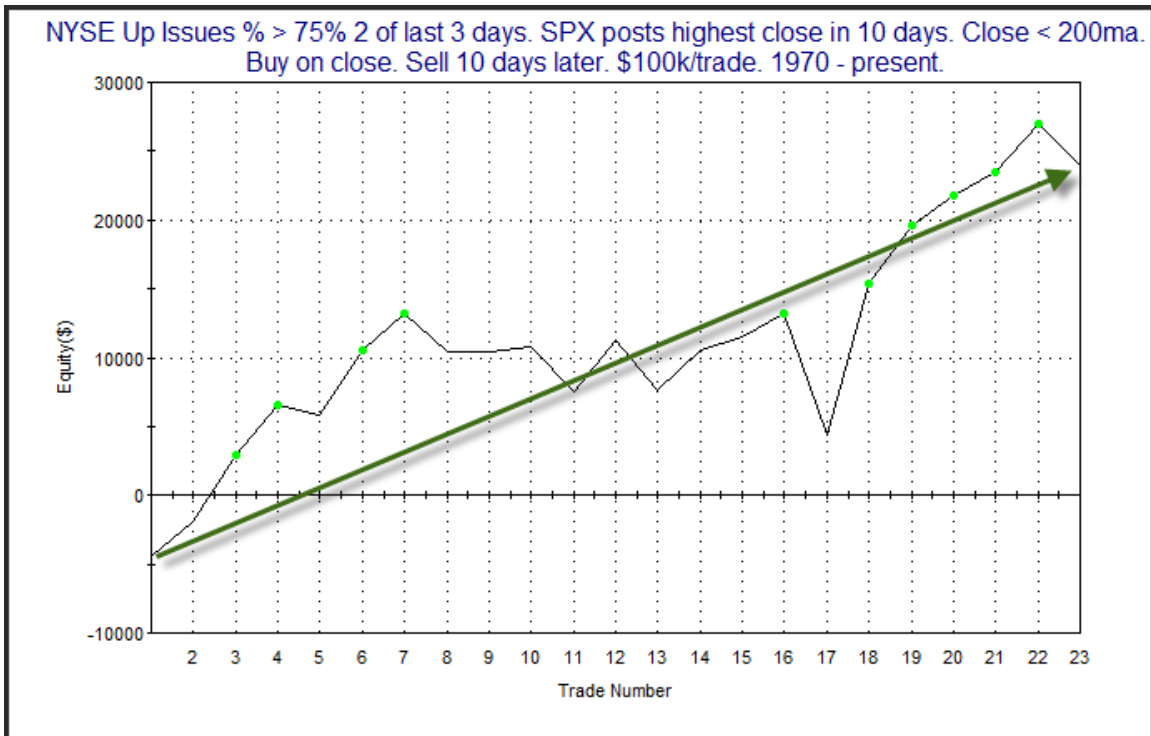
Profit curves don't get much steadier than this. The straight shot lower acts as confirmation of the bearish tendency.

There were a couple of old breadth-related studies that appeared to suggest bullish inclinations. I took a closer look tonight. In the 11/10/09 subscriber letter I showed that 2 (of 3) days of strong breadth combined with a 10-day high can be bullish. In that letter I showed overall results and also results for times above the 200ma. I did not specify how the study looked below the 200ma. So I decided to do that tonight.

NYSE Up Issues % > 75% 2 of last 3 days. SPX posts highest close in 10 days. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1970 - present.

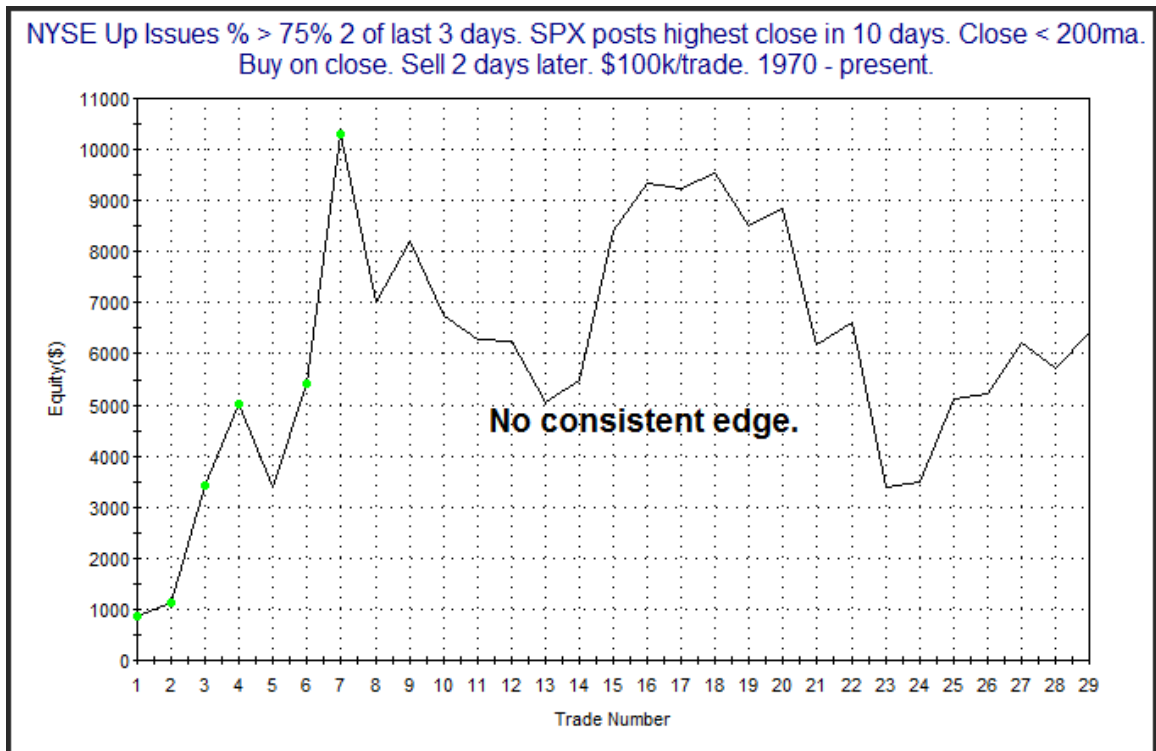
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	32,157.29	21	13	8	61.90	5,024.91	-4,145.82	1.21	1.97	1,531.30
19	34,551.20	21	14	7	66.67	4,709.90	-4,483.90	1.05	2.10	1,645.30
18	27,077.25	21	14	7	66.67	4,081.58	-4,294.98	0.95	1.90	1,289.39
17	30,208.46	21	13	8	61.90	4,577.66	-3,662.64	1.25	2.03	1,438.50
16	29,857.73	21	13	8	61.90	4,477.82	-3,544.25	1.26	2.05	1,421.80
15	33,301.37	22	13	9	59.09	4,258.34	-2,450.78	1.74	2.51	1,513.70
14	27,090.70	22	14	8	63.64	3,491.46	-2,723.73	1.28	2.24	1,231.40
13	13,290.88	22	15	7	68.18	2,633.85	-3,745.26	0.70	1.51	604.13
12	12,287.65	22	14	8	63.64	2,790.31	-3,347.08	0.83	1.46	558.53
11	8,036.33	22	13	9	59.09	3,064.16	-3,533.08	0.87	1.25	365.29
10	23,916.94	23	16	7	69.57	3,153.58	-3,791.48	0.83	1.90	1,039.87
9	19,805.50	23	15	8	65.22	3,060.91	-3,263.52	0.94	1.76	861.11
8	11,343.60	23	14	9	60.87	2,767.94	-3,045.28	0.91	1.41	493.20
7	13,777.73	23	15	8	65.22	2,607.81	-3,167.43	0.82	1.54	599.03
6	7,973.08	23	13	10	56.52	2,388.00	-2,307.10	1.04	1.35	346.66
5	6,479.72	23	13	10	56.52	2,194.95	-2,205.46	1.00	1.29	281.73
4	6,411.78	24	10	14	41.67	2,552.40	-1,365.16	1.87	1.34	267.16
3	7,705.20	25	12	13	48.00	2,169.77	-1,410.16	1.54	1.42	308.21
2	6,430.49	29	18	11	62.07	1,222.59	-1,416.01	0.86	1.41	221.74
1	3,385.66	31	17	13	54.84	788.28	-770.40	1.02	1.34	109.21

There are a lot of green numbers and the edge generally appears to be to the upside. I have highlighted the 2-day and 10-day results to take a closer look at them. The 10-day results show the highest profit %, and it is also a point where the average trade peaks for a while. The 2-day results appear to be the most consistent and impressive among the early periods. First let's look at the 10-day profit curve.



There is certainly a good amount of chop but it does start in the lower left and end near the upper right hand side of the chart. This suggests at least a moderate confirmation of the bullish edge.

But now let's look at the 2-day results, which also appeared somewhat consistent in the results table.



We see here that the upside edge, which seems apparent early on, no longer seems to be in force (if it ever was). I looked at several short-term curves and they were all equally unimpressive. So while this study may be worth keeping in mind when considering where the market may head over the next 2 weeks, it is not one that I will include on the Active List and use to generate short-term expectations.

Lastly, price action in the SPY was inconclusive. Both bullish and bearish studies triggered in the Quantifinder and when I ran the pattern a few additional ways I continued to get mixed results. One fact favoring the bulls is that the SPY closed higher but more than 1% below its daily high. This was something I showed in the [8/23/11 subscriber letter](#). On the other hand, the large unfilled gap and close above the open during a long-term downtrend is something that is often followed by a pullback. This is something I showed in the [8/12/11 letter](#). Taking other facts into account, such as the 10-day high, did not clarify the picture any. Ultimately I decided not to include any studies related to SPY price action.

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



The first thing I would note in the chart tonight is that the SPX hit the bottom of the resistance area I have been highlighting for the last few days, and quickly dropped from there. Bearish studies dominated again tonight, leaving the green Aggregator line in 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 also 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 stayed short at the close.

With short-term evidence all bearish the green Aggregator line is again set to close negative on Thursday. It would take some very compelling bullish evidence in order for this to change. Meanwhile, the Differential Pivot will be 1,190.71. This is about 1.4% below Wednesday's close. So it would take a drop of at least this much in order to flip the Differential line positive.

I currently have a 1/2 size short position on. I considered adding more to that position, but instead I will sit tight for a day. Several of the studies appear to suggest short-term bearish edges, but beyond 2-4 days they lose influence. There is also the issue of what has happened to the failures. Take, for instance, the VXO study above that requires 3

closes more than 15% below its 10ma. The 3 instances that failed trigger an SPX drop over the next 2 days all went on to rally over the next month. I don't want to get too large here and then get run over. Of course more agile traders could consider getting more heavily short and then using the resistance area shown in the chart above as a possible place to put stops just above. I'll hold off one more day but will consider that approach again tomorrow night if the market fails to move in my direction Thursday.

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 higher 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.

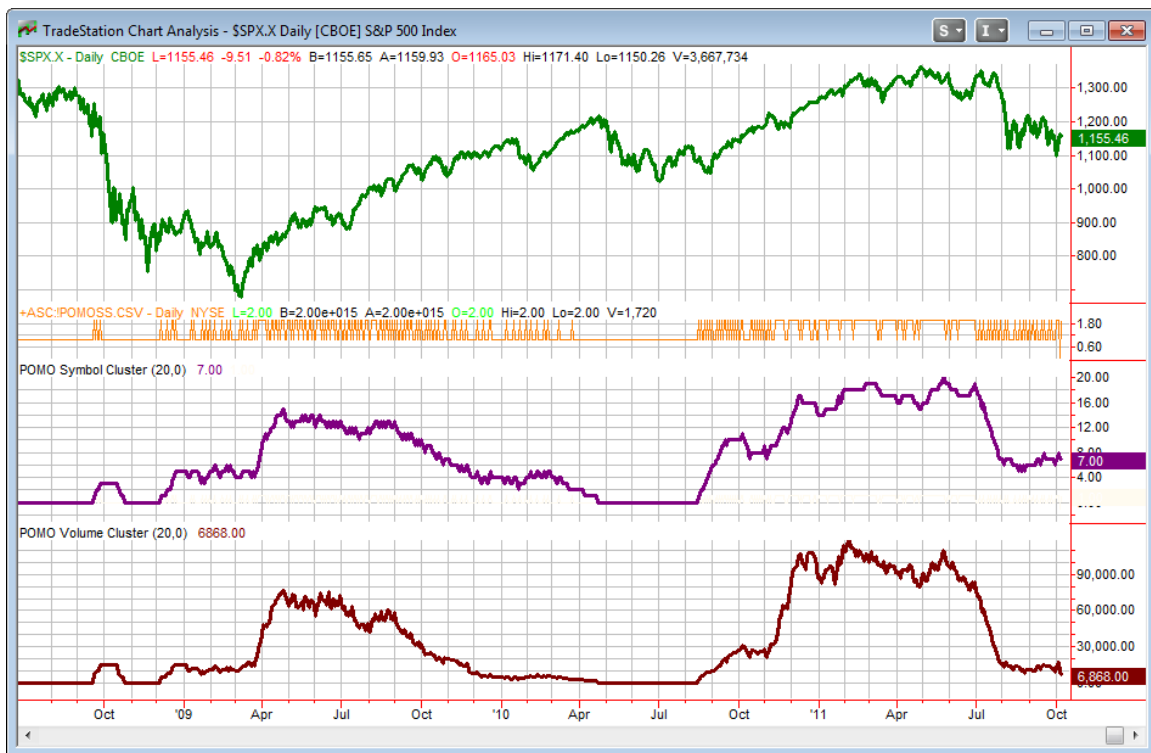
SPX closes higher for at least the 3rd day in a row and the NYSE Up Volume % > 90%. Buy on close. Sell 14 days later. \$100k/trade. 10/20/87 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
10/29/87	Buy	\$244.77	0.32%	\$5,071.44
11/18/87	Sell	\$245.55		(\$2,913.12)
05/12/89	Buy	\$313.84	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 3rd 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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	10/11/2011	\$119.58	\$120.75	-0.98%		Aggregator
SPY(1/4)(s)	10/12/2011	\$120.60	\$120.75	-0.12%		Shorted on open

I will cover both lots if the SPX closes \leq the Differential Pivot of 1,190.71.

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