

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 19, 2011

Volume 4 Issue 202

Market Overview



Signals Overview

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

Tonight's Research Points

- A 1% reversal for the 3rd day in a row is setting up for an up day tomorrow.
- Today's gap lower and strong close at new highs sets up a very bearish short-term pattern.
- A new 50-day high on strong breadth appears bullish both short and long-term.
- The FTD showed some positive characteristics and suggests a short and intermediate-term upside edge.

Short-term Outlook

The Bottom Line

A strong reversal hurt my shorts. Wednesday is neutral but beyond that there appears we should see a better exit point for the short than the current market position. The downside edge suggested by the Aggregator has me holding on for now.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
October 19, 2011	Gap dn then 50-day high	1-3 days	Bearish	
October 19, 2011	50-day high on 90% up vol	1-2 days	Bullish	
October 19, 2011	FTD on strong breadth/20day high	1-3 days	Bullish	
October 19, 2011	1% up 1% down 1% up	1 day	Bullish	
October 18, 2011	SPY Unfilled Gap Down from 50 high	1-2 days	Bearish	-1.10%
October 18, 2011	Unfilled gap dn after unfilled gap up	1-4 days	Bearish	-4.20%
October 17, 2011	50-day high breakout. Unfilled gap lo vo	1-5 days	Bullish	1.70%
Active - Long Term				
October 19, 2011	50-day high on 90% up vol	1-50 days	Bullish	
October 19, 2011	FTD on strong breadth/20day high	int term	Bullish	
October 17, 2011	50-day low to 50-day high in 10 days	1-20 days	Bullish	
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	
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%
Dropped Tonight				
October 17, 2011	VXO > 20% below 10ma	1-2 days	Bearish	

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

The Evidence

After selling off in the morning the market mounted a huge turnaround and rallied strongly throughout the afternoon on reports out of Europe related to debt relief. The rally was strong enough to completely wipe away Monday's losses and put the market back at new 50-day highs. The SPX finished the day up over 2%, the Nasdaq gained 1.6%, and the Russell 2000 rose 3.0%. Breadth was extremely strong as well with the NYSE Up Issues % coming in at 84% and the Up Volume % at 93%. Total NYSE volume spiked on the rise.

There is quite a bit to consider tonight in terms of studies. Therefore, I will be keeping my comments brief and showing a lot of results. This 1st study is from the 8/29/11 letter. It looked at the up and down (and up) price action in SPY over the last few days. Results are updated.

SPY closes up > 1%, then down > 1%, then up > 1%.
Buy on close. Sell next days close. \$100k/trade. 2000 - present.

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$31,147.21	Profit Factor	7.00
Gross Profit	\$36,334.93	Gross Loss	(\$5,187.72)
Total Number of Trades	20	Percent Profitable	85.00%
Winning Trades	17	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$1,557.36	Ratio Avg. Win:Avg. Loss	1.24
Avg. Winning Trade	\$2,137.35	Avg. Losing Trade	(\$1,729.24)
Largest Winning Trade	\$4,377.20	Largest Losing Trade	(\$2,348.90)

Results here appear to be extremely compelling. I only show day 1 because that is where the upside edge maxed out. For those who want more detail, below is a list of all the instances.

SPY closes up > 1%, then down > 1%, then up > 1%.
Buy on close. Sell next days close. \$100k/trade. 2000 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
04/09/01	Buy	\$114.56	1.82%	\$2,781.68
04/10/01	Sell	\$116.65		\$0.00
04/17/01	Buy	\$119.26	3.97%	\$5,648.12
04/18/01	Sell	\$124.00		\$0.00
02/22/02	Buy	\$109.64	1.65%	\$1,979.04
02/25/02	Sell	\$111.45		\$0.00
08/21/02	Buy	\$95.75	0.97%	\$1,461.60
08/22/02	Sell	\$96.68		(\$709.92)
10/10/02	Buy	\$80.63	4.38%	\$5,084.00
10/11/02	Sell	\$84.16		\$0.00
10/17/02	Buy	\$88.27	0.42%	\$950.88
10/18/02	Sell	\$88.64		(\$1,516.88)
07/07/03	Buy	\$100.70	0.45%	\$585.87
07/08/03	Sell	\$101.15		(\$526.29)
11/27/07	Buy	\$142.57	3.20%	\$3,434.90
11/28/07	Sell	\$147.13		\$0.00
03/20/08	Buy	\$132.08	2.00%	\$2,823.61
03/24/08	Sell	\$134.72		\$0.00
09/18/08	Buy	\$120.07	3.37%	\$6,206.72
09/19/08	Sell	\$124.12		\$0.00
12/02/08	Buy	\$85.27	2.40%	\$3,000.32
12/03/08	Sell	\$87.32		(\$2,496.36)
12/05/08	Buy	\$87.93	3.49%	\$5,059.65
12/08/08	Sell	\$91.00		\$0.00
12/16/08	Buy	\$91.88	(0.97%)	\$598.40
12/17/08	Sell	\$90.99		(\$1,980.16)
03/25/09	Buy	\$81.45	2.04%	\$2,269.95
03/26/09	Sell	\$83.11		(\$159.51)
05/08/09	Buy	\$92.98	(1.87%)	\$0.00
05/11/09	Sell	\$91.24		(\$2,085.50)
05/28/09	Buy	\$90.92	1.77%	\$2,472.75
05/29/09	Sell	\$92.53		(\$263.76)
05/03/10	Buy	\$120.35	(2.35%)	\$0.00
05/04/10	Sell	\$117.52		(\$2,846.90)
07/22/10	Buy	\$109.46	0.87%	\$1,013.43
07/23/10	Sell	\$110.41		(\$483.89)
08/11/11	Buy	\$117.33	0.67%	\$1,601.76
08/12/11	Sell	\$118.12		(\$42.60)
08/26/11	Buy	\$117.97	2.87%	\$2,930.62
08/29/11	Sell	\$121.36		\$0.00

Recent instances haven't been quite as strong, but the edge still appears to be solidly bullish.

Another pattern-based study gave much different results, though. The study below is from the 1/6/11 letter. It looks at gaps lower and reversals to new highs. Results are updated.

SPY gaps down to open below yesterday's close and the low of 2 days ago. It then rallies to close at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-15,847.13	10	3	7	30.00	772.02	-2,594.74	0.30	0.13	-1,584.71
4	-18,594.30	10	0	10	0.00	0.00	-1,859.43	0.00	0.00	-1,859.43
3	-21,213.51	10	1	9	10.00	648.97	-2,429.16	0.27	0.03	-2,121.35
2	-13,565.87	10	1	9	10.00	444.50	-1,556.71	0.29	0.03	-1,356.59
1	-10,231.41	10	0	10	0.00	0.00	-1,023.14	0.00	0.00	-1,023.14

While more instances would be nice, the 10-0 record and powerful returns strongly suggest an upside edge. Below I have listed all instances along with their 1-day holding period stats.

SPY gaps down to open below yesterday's close and the low of 2 days ago. It then rallies to close at a 50-day high. Buy on close. Sell 1 day later. \$100k/trade. 1997 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/30/97	Buy	\$85.28	(0.62%)	\$257.84
06/02/97	Sell	\$84.75		(\$656.32)
04/17/98	Buy	\$112.38	(0.06%)	\$160.02
04/20/98	Sell	\$112.31		(\$444.50)
03/18/99	Buy	\$132.25	(1.94%)	\$287.28
03/19/99	Sell	\$129.69		(\$1,935.36)
01/19/00	Buy	\$147.00	(1.53%)	\$0.00
01/20/00	Sell	\$144.75		(\$2,169.20)
01/26/04	Buy	\$115.87	(1.03%)	\$0.00
01/27/04	Sell	\$114.68		(\$1,052.86)
10/06/04	Buy	\$114.62	(1.02%)	\$0.00
10/07/04	Sell	\$113.45		(\$1,098.72)
05/09/07	Buy	\$151.16	(1.05%)	\$0.00
05/10/07	Sell	\$149.58		(\$1,249.29)
05/06/08	Buy	\$142.05	(1.78%)	\$0.00
05/07/08	Sell	\$139.52		(\$2,052.76)
01/19/10	Buy	\$115.06	(1.02%)	\$0.00
01/20/10	Sell	\$113.89		(\$1,807.52)
01/05/11	Buy	\$127.64	(0.20%)	\$148.77
01/06/11	Sell	\$127.39		(\$493.29)

Note that 6 of the instances saw no run-up at all the next day. This suggests an unfilled gap down occurred. Also note that none of the other 4 instances even saw run-ups as high as 0.3%. Meanwhile, every drawdown was above 0.4%.

Now let's look in more detail at the 4-day stats.

SPY gaps down to open below yesterday's close and the low of 2 days ago. It then rallies to close at a 50-day high. Buy on close. Sell 4 days later. \$100k/trade. 1997 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
05/30/97	Buy	\$85.28	(0.60%)	\$257.84
06/05/97	Sell	\$84.77		(\$1,406.40)
04/17/98	Buy	\$112.38	(0.36%)	\$942.34
04/23/98	Sell	\$111.97		(\$560.07)
03/18/99	Buy	\$132.25	(4.04%)	\$287.28
03/24/99	Sell	\$126.91		(\$5,004.72)
01/19/00	Buy	\$147.00	(3.44%)	\$0.00
01/25/00	Sell	\$141.94		(\$5,440.00)
01/26/04	Buy	\$115.87	(2.06%)	\$0.00
01/30/04	Sell	\$113.48		(\$2,856.53)
10/06/04	Buy	\$114.62	(1.82%)	\$0.00
10/12/04	Sell	\$112.53		(\$2,336.96)
05/09/07	Buy	\$151.16	(0.39%)	\$330.50
05/15/07	Sell	\$150.57		(\$1,249.29)
05/06/08	Buy	\$142.05	(1.12%)	\$0.00
05/12/08	Sell	\$140.46		(\$2,530.80)
01/19/10	Buy	\$115.06	(4.60%)	\$0.00
01/25/10	Sell	\$109.77		(\$5,187.93)
01/05/11	Buy	\$127.64	(0.16%)	\$148.77
01/11/11	Sell	\$127.43		(\$1,166.67)
Avg Run-up: \$196.67				Avg Drawdown: -\$2,773.94

Still here 5 out of 10 instances saw no run-up at all from the entry price. The largest run-up was less than 1%, and the average drawdown shown at the bottom was about 3x the largest run-up and 14x the average run-up. These are very lopsided and compelling statistics.

Exceptionally strong breadth as we saw today is quite rare when the market is hitting new intermediate-term highs. The study below is from the 11/5/10 subscriber letter. That day the study just missed triggering. Therefore the stats remain the same and there was no need to update them.

SPX closes at a 50-day high. The NYSE Up Volume % > 90%.
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
50	89,622.05	15	15	0	100.00	5,974.80	0.00	100.00	100.00	5,974.80
40	83,459.18	16	14	2	87.50	6,138.60	-1,240.61	4.95	34.64	5,216.20
30	72,836.55	17	16	1	94.12	4,578.46	-418.88	10.93	174.88	4,284.50
25	67,046.71	18	15	3	83.33	4,883.16	-2,066.88	2.36	11.81	3,724.82
20	56,300.07	19	14	5	73.68	5,001.97	-2,745.50	1.82	5.10	2,963.16
15	42,471.68	19	14	5	73.68	4,217.98	-3,316.01	1.27	3.56	2,235.35
10	31,360.26	21	13	8	61.90	3,564.52	-1,872.32	1.90	3.09	1,493.35
9	23,531.03	21	13	7	61.90	3,123.74	-2,439.66	1.28	2.38	1,120.53
8	22,351.69	21	13	8	61.90	3,153.25	-2,330.07	1.35	2.20	1,064.37
7	22,317.05	21	14	7	66.67	2,833.45	-2,478.74	1.14	2.29	1,062.72
6	26,546.97	21	14	7	66.67	2,535.55	-1,278.68	1.98	3.97	1,264.14
5	30,036.90	22	17	5	77.27	2,112.43	-1,174.87	1.80	6.11	1,365.31
4	23,712.67	23	18	5	78.26	1,770.69	-1,631.93	1.09	3.91	1,030.99
3	19,092.21	23	15	8	65.22	1,685.02	-772.88	2.18	4.09	830.10
2	19,965.82	23	18	5	78.26	1,198.37	-320.98	3.73	13.44	868.08
1	12,190.15	24	14	10	58.33	1,119.17	-347.82	3.22	4.50	507.92

22 of 24 instances (92%) close above the entry price at some point in the next week. All within 8 trading days.

As with most of my studies, instances decline because I don't allow for overlap. As I look further out the possibility for overlap increases and the number of tracked instances decreases. I find it interesting that this setup has shown strong results both short and long-term. For those that would like to review examples, below is the list of instances using the 50-day exit criteria.

SPX closes at a 50-day high. The NYSE Up Volume % > 90%.
Buy on close. Sell X days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
11/30/70	Buy	\$87.20	11.69%	\$11,815.26
02/10/71	Sell	\$97.39		\$0.00
01/27/75	Buy	\$75.37	9.91%	\$14,108.64
04/09/75	Sell	\$82.84		\$0.00
01/05/76	Buy	\$92.58	9.01%	\$10,281.60
03/16/76	Sell	\$100.92		\$0.00
04/14/78	Buy	\$92.91	1.82%	\$9,597.92
06/26/78	Sell	\$94.60		(\$172.16)
08/02/78	Buy	\$102.91	1.91%	\$4,990.94
10/12/78	Sell	\$104.88		(\$2,184.75)
08/20/82	Buy	\$113.02	19.86%	\$27,722.24
11/01/82	Sell	\$135.47		(\$928.20)
11/03/82	Buy	\$142.86	2.65%	\$4,347.78
01/14/83	Sell	\$146.64		(\$7,535.22)
08/02/84	Buy	\$157.99	3.91%	\$7,362.80
10/12/84	Sell	\$164.17		\$0.00
01/04/88	Buy	\$255.94	3.98%	\$5,779.80
03/15/88	Sell	\$266.12		(\$6,154.20)
05/12/89	Buy	\$313.84	6.38%	\$7,488.90
07/25/89	Sell	\$333.87		\$0.00
05/11/90	Buy	\$352.00	1.08%	\$5,049.52
07/24/90	Sell	\$355.79		(\$542.44)
02/11/91	Buy	\$368.58	3.85%	\$6,146.28
04/24/91	Sell	\$382.76		(\$1,734.40)
05/04/09	Buy	\$907.24	2.80%	\$5,388.90
07/15/09	Sell	\$932.68		(\$4,171.20)
08/03/09	Buy	\$1,002.63	7.04%	\$7,674.48
10/13/09	Sell	\$1,073.19		(\$2,387.88)
08/02/10	Buy	\$1,125.86	3.90%	\$4,111.36
10/12/10	Sell	\$1,169.77		(\$7,582.08)

The results are outstanding across the board. This study will be included on the intermediate-term Active List as well.

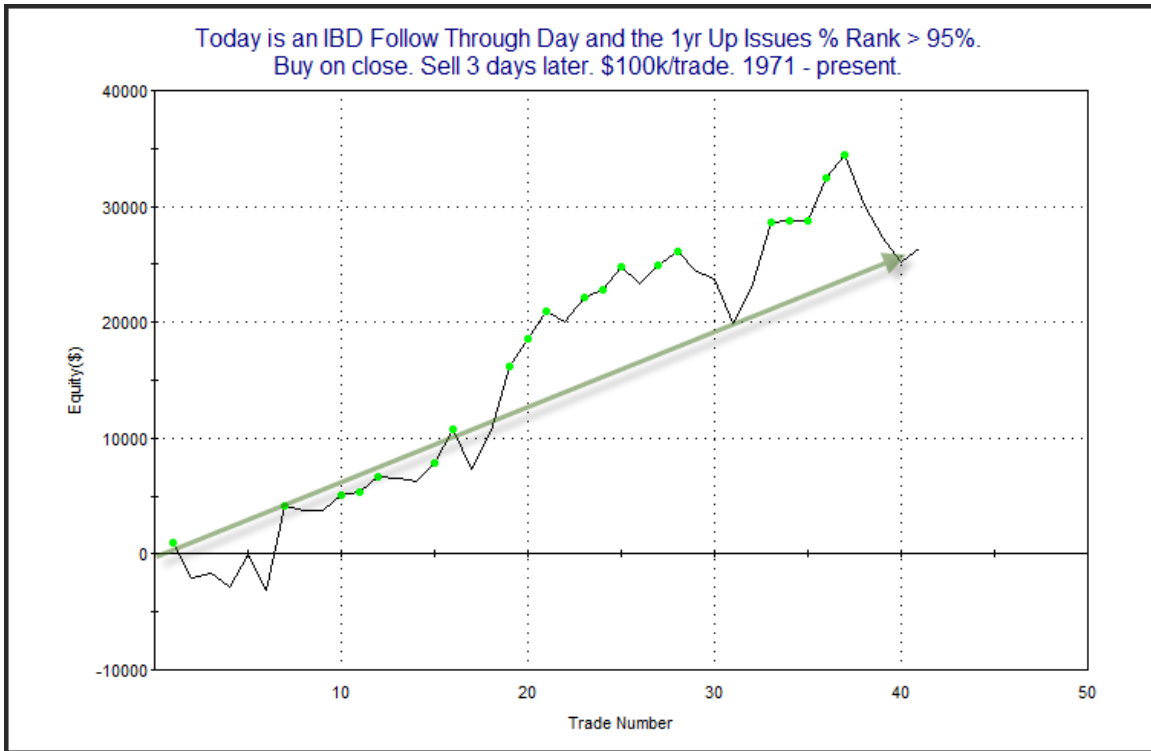
I've noted a few times lately that the rally was without an IBD Follow Through Day (FTD). That changed on Tuesday since the move up was also accompanied by an increase in volume. In the 8/24/11 letter I noted that when very strong breadth accompanied a FTD it increased the chances of success – both short and intermediate-term. Below I have updated that study.

Today is an IBD Follow Through Day and the 1yr Up Issues % Rank > 95%.
Buy on close. Sell X days later. \$100k/trade. 1971 - 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	29,395.87	41	24	17	58.54	2,981.58	-2,480.13	1.20	1.70	716.97
9	25,619.65	41	24	17	58.54	2,812.85	-2,464.04	1.14	1.61	624.87
8	15,405.11	41	21	20	51.22	3,066.96	-2,450.05	1.25	1.31	375.73
7	21,046.84	41	22	19	53.66	3,038.22	-2,410.22	1.26	1.46	513.34
6	19,261.14	41	25	16	60.98	2,445.60	-2,617.43	0.93	1.46	469.78
5	21,259.36	41	25	16	60.98	2,295.56	-2,258.11	1.02	1.59	518.52
4	26,448.89	41	25	16	60.98	2,318.99	-1,970.37	1.18	1.84	645.09
3	26,436.04	41	26	15	63.41	2,146.46	-1,958.13	1.10	1.90	644.78
2	23,689.12	41	26	15	63.41	1,746.97	-1,448.81	1.21	2.09	577.78
1	19,661.82	41	25	16	60.98	1,132.31	-540.37	2.10	3.27	479.56

35 of 41 instances (85%) closed above the entry price at some point in the next week.

Subscribers may notice that there are a few more instances than reported in the last run of this study. That is because I changed the FTD criteria just slightly. I changed the definition of “failure” from a close below the intraday selloff low to just an intraday move below the intraday selloff low. This didn’t have much of an impact on the FTD results. It did allow for a few more instances. It also is a more accurate representation of what most traders would consider a “new rally attempt”. Anyway, results here still appear strong. Below is the 3-day profit curve.



Not the smoothest curve, and there were a couple of recent instances that turned lower, but the overall slope remains up and it appears to suggest a long-side edge.

I discussed the other day that there has never been a FTD that occurred AFTER a new 50-day high. There has also never been a FTD that occurred in conjunction with a new 50-day high. But there have been some FTDs that occurred in conjunction with 20-day highs. Below is a new study that shows how they fared.

Today is a Follow Through Day. SPX closes at a 20-day high.
Buy on close. Sell X days later. \$100k/trade. 1971 - 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	30,662.77	10	8	2	80.00	4,587.19	-3,017.38	1.52	6.08	3,066.28
19	32,035.68	10	7	3	70.00	5,226.18	-1,515.87	3.45	8.04	3,203.57
18	32,976.55	10	7	3	70.00	5,363.90	-1,523.59	3.52	8.21	3,297.65
17	32,933.66	10	8	2	80.00	4,504.58	-1,551.48	2.90	11.61	3,293.37
16	31,231.23	10	8	2	80.00	4,016.45	-450.18	8.92	35.69	3,123.12
15	29,230.75	10	8	2	80.00	3,732.23	-313.55	11.90	47.61	2,923.07
14	32,289.10	10	8	2	80.00	4,241.19	-820.19	5.17	20.68	3,228.91
13	29,180.16	10	9	1	90.00	3,426.77	-1,660.80	2.06	18.57	2,918.02
12	22,476.51	10	6	4	60.00	4,186.07	-659.98	6.34	9.51	2,247.65
11	19,999.70	10	7	3	70.00	3,570.94	-1,665.63	2.14	5.00	1,999.97
10	13,635.05	10	6	4	60.00	3,250.75	-1,467.37	2.22	3.32	1,363.50
9	14,840.91	10	6	4	60.00	3,407.86	-1,401.57	2.43	3.65	1,484.09
8	14,313.54	10	5	5	50.00	4,052.04	-1,189.33	3.41	3.41	1,431.35
7	18,092.41	10	7	3	70.00	2,880.80	-691.07	4.17	9.73	1,809.24
6	18,113.86	10	9	1	90.00	2,137.93	-1,127.52	1.90	17.07	1,811.39
5	13,606.67	10	9	1	90.00	1,548.73	-331.92	4.67	41.99	1,360.67
4	12,797.82	10	8	2	80.00	1,730.64	-523.64	3.31	13.22	1,279.78
3	14,622.70	10	8	2	80.00	1,934.97	-428.51	4.52	18.06	1,462.27
2	11,960.44	10	7	3	70.00	1,860.92	-355.34	5.24	12.22	1,196.04
1	6,820.83	10	6	4	60.00	1,275.72	-208.38	6.12	9.18	682.08

Results here are impressive over both the short and intermediate-term. To get a better feel for the short-term returns I have listed the instances below.

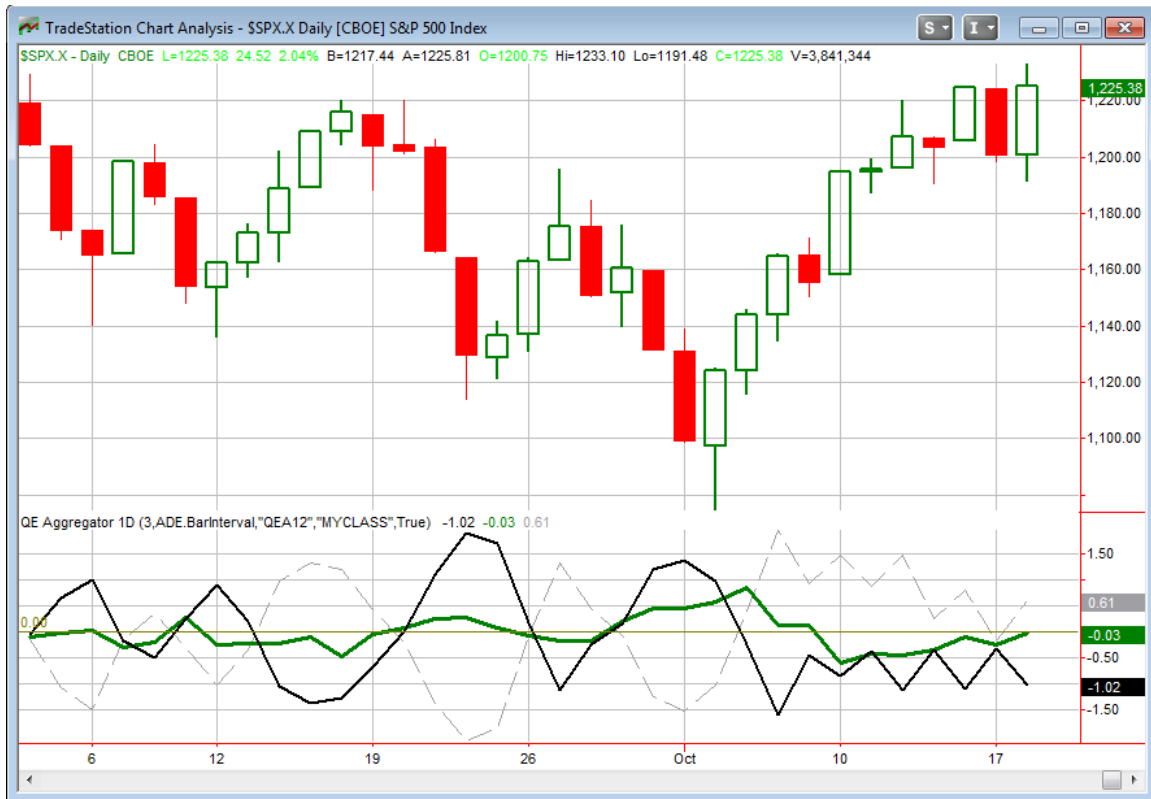
Today is a Follow Through Day. SPX closes at a 20-day high.
Buy on close. Sell 5 days later. \$100k/trade. 1971 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/01/71	Buy	\$95.54	1.44%	\$1,589.92
12/08/71	Sell	\$96.92		\$0.00
11/10/77	Buy	\$94.71	0.48%	\$1,339.85
11/17/77	Sell	\$95.16		\$0.00
12/01/78	Buy	\$96.27	0.37%	\$2,397.78
12/08/78	Sell	\$96.63		(\$944.58)
08/01/84	Buy	\$154.08	4.98%	\$7,262.31
08/08/84	Sell	\$161.75		\$0.00
10/16/85	Buy	\$187.97	0.59%	\$589.41
10/23/85	Sell	\$189.08		(\$631.89)
08/11/86	Buy	\$240.67	2.79%	\$2,971.40
08/18/86	Sell	\$247.38		(\$132.80)
10/08/86	Buy	\$236.67	0.90%	\$991.70
10/15/86	Sell	\$238.80		(\$974.82)
12/05/07	Buy	\$1,485.00	0.11%	\$2,584.19
12/12/07	Sell	\$1,486.60		(\$1,123.59)
04/01/08	Buy	\$1,370.15	(0.34%)	\$1,194.48
04/08/08	Sell	\$1,365.54		(\$825.84)
07/15/09	Buy	\$932.68	2.29%	\$2,905.05
07/22/09	Sell	\$954.07		(\$559.61)
Avg Run-up: \$2,382 Avg Drawdown: -\$519				

The run-up to drawdown ratio here is quite impressive. I'll also note that 7 of the 10 instances went on to have "successful" rallies. ("Success" means it either hit a new 200-day high or at least rose 2x as much as it had already risen off the bottom.) The 3 instances whose rallies did not succeed (circled in red) all saw run-ups of at least 2% before they eventually rolled over and made new lows.

So the Aggregator now has 2 new pattern studies, a breadth/breakout study, and a combination of FTD studies included.

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



With most of today's evidence appearing bullish the green Aggregator line rose quite a bit, but just failed to make it out of 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 is again strongly below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are slightly negative and the SPX is strongly 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 the current studies on the board the green Aggregator Line is scheduled to close moderately negative again on Wednesday. Of course new bullish evidence that emerges on could cause the Aggregator reading to flip positive. Meanwhile, the Differential Pivot will be 1,212.96. This is about 1% below Tuesday's close. So it would take a close lower of at least this much to flip the Differential Line positive. With the extreme up and down movement over the last few days the Differential Pivot will be bouncing around for the next few days, and it will drop quite a bit on Wednesday from today's level.

It was a very frustrating day, and I was a bit agitated for not taking some of my position off when I had a profit. With the bullish studies we are seeing my intermediate-term outlook is turning bullish. So I will be taking a more aggressive approach with longs

than shorts. I should also note that raw expectations for Wednesday are actually positive. This is why the 1-day risk/reward at the top of the letter is “0”. But even if the SPX does move up again tomorrow it appears there should be a better exit point for my short over the next few days. And if the anticipated pullback can drop far enough, I will be looking to get long and hopefully ride some bigger gains up.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/17 – neutral

This past week certainly changed things in a hurry. As noted above we have moved from 50-day lows to 50-day highs and also above the consolidation of the last 2 months.

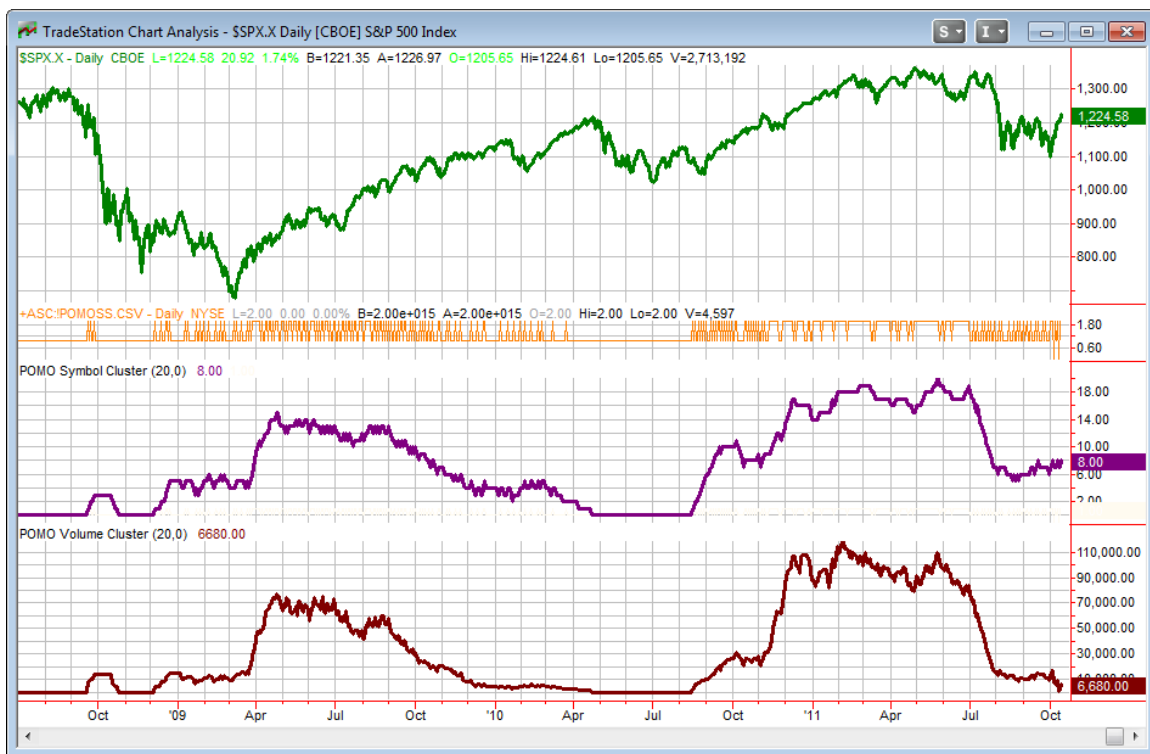
From an intermediate-term perspective, one of the more amazing things I’ve notice about this rally is that it has come without any 1% Follow Through Day (FTD) on rising volume. Investors’ Business Daily first published and popularized the concept of the Follow Through Day (FTD). Though they have changed the definition slightly over the years, I have found their original definition to be useful in several studies. My tests go back to 1971, which was the inception of the Nasdaq, and also as far as some of my volume data goes. Since that time there has never been a rally that has taken the SPX from a drawdown of at least 8% to a new 50-day high that was not inclusive of a FTD – until Friday.

This puts this rally in uncharted territory, which is always a little bit of an uncomfortable place for me. A FTD could still occur, and just because we have had a strong 9-day rally does not mean a bull market has already been missed. But a primary purpose of the FTD concept is to help in identifying market bottoms. If we are already at a 50-day high, then I would say this is one case where the FTD concept has failed us.

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>



The market began its rally almost exactly when Operation Twist began. This could be coincidental, and seems odd since the net amount of the buying has been reduced versus previous buying. This is because we have seen increased buying on the long end largely offset by selling short-dated securities. Perhaps the focus on purchasing longer-dated securities has somehow helped. It is difficult to draw any solid conclusions yet. At this point I can say we are seeing a new rally occur in conjunction with new Fed action. I may not be smart enough to fully explain “why”, but I am smart enough to know I shouldn’t dismiss it, especially after observing the impact QE1 and QE2 had on the market.

I’m somewhat neutral at this point. I’ll trade in either direction with similar aggressiveness. As we’ve seen the last couple of weeks, things can change quickly. I suspect the quick move from a 50-day low to a 50-day high may turn out to be a bullish intermediate-term sign as it has in the past. Still, I’d prefer to see some volume behind the move, and I want to see the VIX and VXO exhibit more normal behavior. If some of these things can occur this upcoming week, then I may turn outright bullish.

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	\$122.58	-2.51%		Aggregator
SPY(1/4)(s)	10/12/2011	\$120.60	\$122.58	-1.64%		Aggregator

I will cover both lots if the SPX closes \leq the Differential Pivot of 1,212.96.

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