

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 9, 2011

Volume 4 Issue 217

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- No new studies triggered on Tuesday.

## Short-term Outlook

### The Bottom Line

Short-term evidence is hinting at a pullback and the SPX is moderately overbought. This has the Aggregator System suggesting a downside edge. I have a small short position and no intention of increasing it under current circumstances.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
November 8, 2011	Low volume up day >10ma < 200ma	1-2 days	Bearish	
<b>Active - Long Term</b>				
October 30, 2011	SPX & bond yields hit 50-day highs	1-50 days	Bearish	
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	
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%

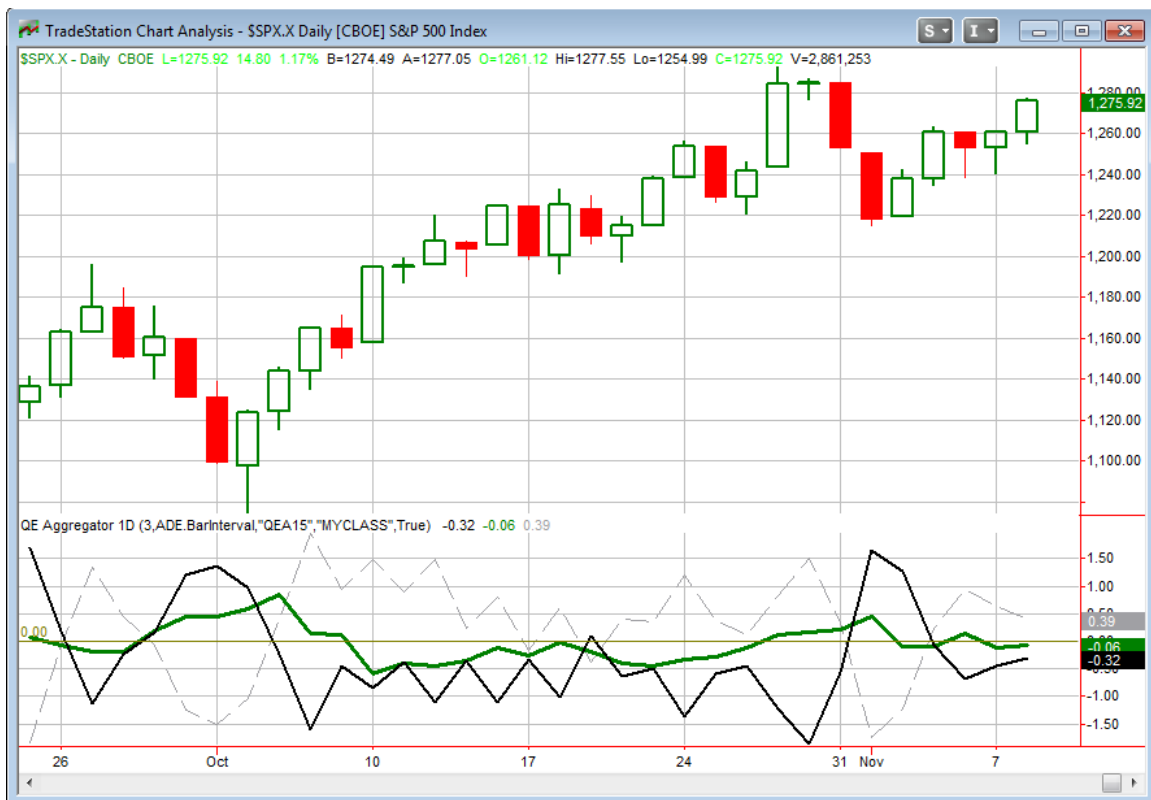
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

## The Evidence

It was another rally Tuesday on European news (this time Italy). The SPX and Nasdaq both gained 1.2% while the Russell 2000 rose 1.4%. Breadth was strongly positive as the NYSE Up Issues % came in at 73% and the Up Volume % was 82%. Total NYSE volume rose a bit from Monday's levels.

With close to 1000 studies now part of the Quantifinder we don't often see it come up blank these days. But it did. And when it does it can be a reminder that there is not a strong quantifiable edge at the moment. The market has been range-bound since it's big up day 9 days ago. It is now approaching the top of that range. Volume and breadth readings are currently unimpressive and I have not noted any price action or indicators that are strongly suggestive. I examined a few ideas tonight, but I don't like to look too hard when nothing is obvious. Looking too hard could lead to excessive data mining.

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



The green Aggregator Line remains 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 is also below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are marginally negative and the SPX is moderately overbought versus recent expectations. Historically this configuration has provided a bearish edge. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator System to remain short at the close.

The short-term Active List is again light on studies. Activity on Wednesday and the studies that arise from it will therefore have a strong impact on the Aggregator value. If no new studies arise then the Aggregator Line would actually turn slightly positive based on the intermediate-term studies. Meanwhile the Differential Pivot will be 1,252.02 on Wednesday. This is nearly 1.9% below Tuesday's close. So for the Differential Line to move into positive territory it would take a decline of at least this much.

I have a small short position on based on the bearish Aggregator. I have no intention of adding to that position at this time. It is likely that I will exit the short tomorrow at the close if no new bearish evidence arises.

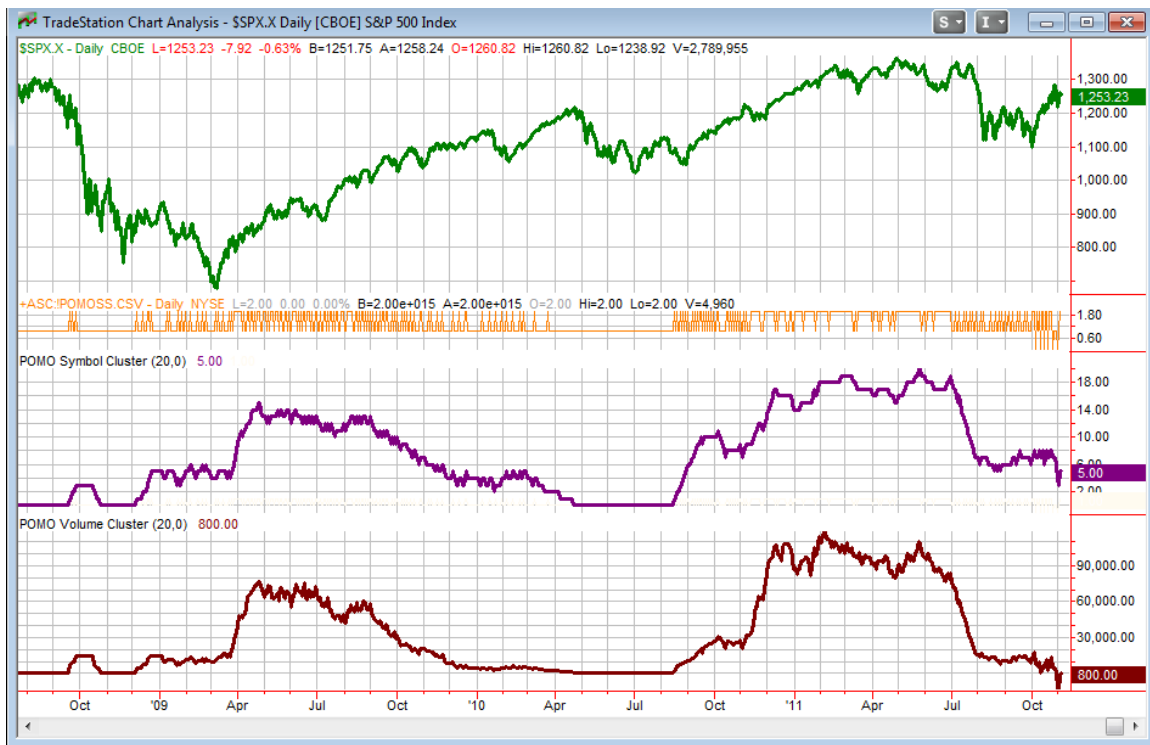
***Intermediate-term Outlook (2 weeks – 2 months)– updated 11/7 – bullish***

After 4 strong weeks in a row the market suffered its first down week. At this point it just appears to be a pause in the move higher, as most of the intermediate-term evidence remains positive.

I do have some concern with the POMO action, though. 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 (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) 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>



Again this past week we saw 2 days of buying and 1 day of selling activity from the Fed. But as has been the case recently, selling days when the Fed drains liquidity from the system have been larger than buying days where they inject liquidity. The net result over the last 4 weeks is a very mild positive number. And for the 1<sup>st</sup> time since Spring 2008 the net number went negative briefly this past week.

There was a strong thrust in the market that began at basically the same time as Operation Twist. At this point it is becoming clear that Operation Twist will not provide a liquidity injection similar to QE1 or QE2. The net numbers may actually be negative. If that turns out to be the case, POMO activity could end up as a strong negative influence on the market. I'll continue to monitor the situation closely.

Overall there still appears to be more favoring the bulls at this point than the bears. I'm currently considering POMO activity as neutral. Bears can look to our SPX/TNX study from last week to support their case. Bullish evidence is based on price and breadth thrusts from a few weeks ago as well as the positive aspects of the IBD Follow Through Day in October. I think this rally has further to go, and we will soon be entering a very bullish time of year for the market. So as I mentioned above, I'm more inclined to favor longs than shorts. I also may look to hold some longs a bit longer if circumstances allow.

## **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**

<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>
HNZ	11/7/2011	\$52.65	\$53.83	2.24%		system 90609
SPY (1/4)(s)	11/8/2011	\$126.92	\$127.88	-0.76%		Aggregator

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