

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 14, 2011

Volume 4 Issue 220

Market Overview



Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Flat	Flat	Flat	Flat

Tonight's Research Points

- The low volume on Friday was largely thanks to Veterans Day.
- There is some conflicting evidence based on Friday's unfilled gap and move higher.

Short-term Outlook

The Bottom Line

Nothing terribly compelling tonight from a studies standpoint. The market outlook is currently neutral with negative expectations and an oversold condition. I'm flat and awaiting the next substantial edge.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 14, 2011	SPY Up 2x. Unfill gap no 10 high.	1-3 days	Bullish	
November 14, 2011	SPY Unfill 1% Gap < 200ma	1 day	Bearish	
November 11, 2011	Weak bounce	1-4 days	Bearish	
Active - Long Term				
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	
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%
Dropped Tonight				
October 17, 2011	50-day low to 50-day high in 10 days	1-20 days	Bullish	

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

The Evidence

Light trading on Friday did nothing to dampen the upward price movement. The SPX and Nasdaq each rose about 2.0% while the Russell 2000 gained 2.7%. Breadth was extremely strong as the NYSE Up Issues % came in at 85% and the Up Volume % was 94%. Total NYSE Volume came in at the lowest level in months.

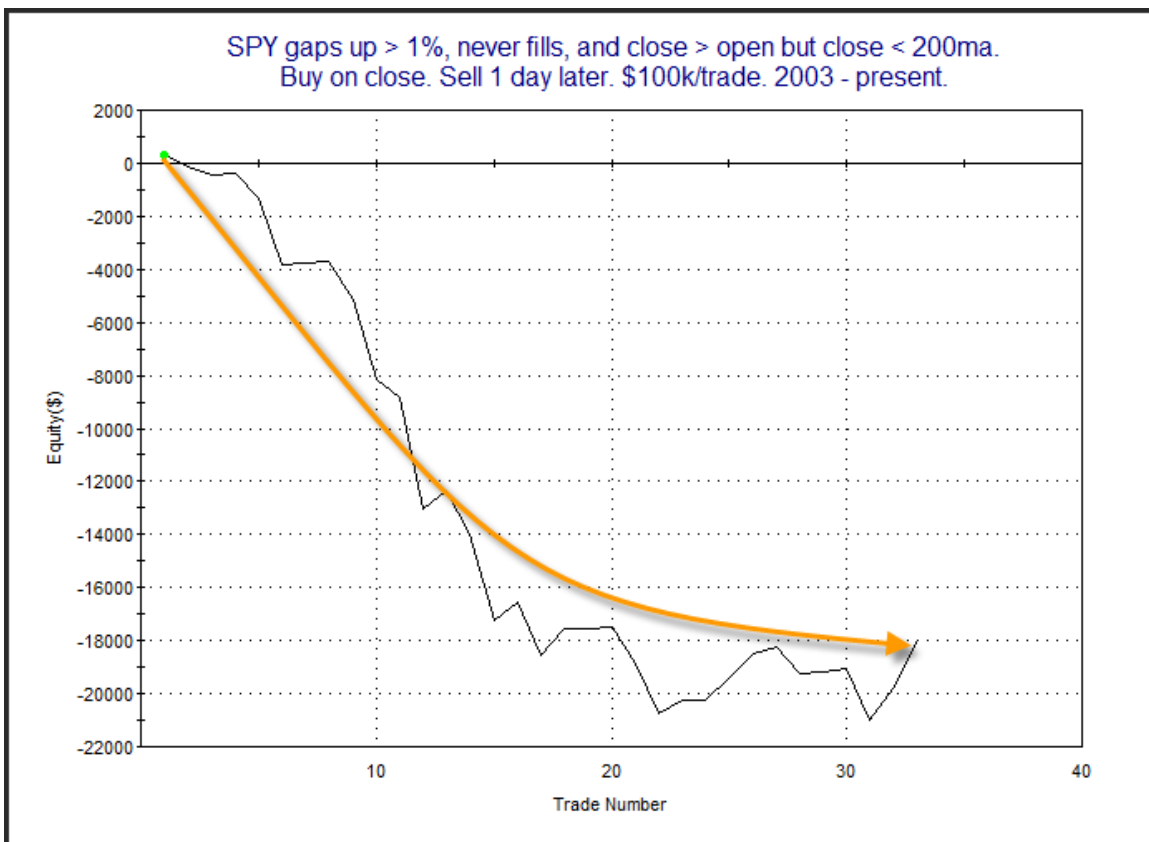
At first look it would seem the low volume was noteworthy. And the Quantifinder identified a good number of studies that considered the low volume. But Friday was Veterans Day. And on Veterans Day the bond market is closed. That often causes light volume in the stock market. I ran a study to examine just how common hitting a 20-day low in volume was on Veterans Day. I found that since 1978 (when it moved from October to November) this is the 13th time the NYSE has posted a 20-day low in volume. The means 39% of the time the volume is very low. This is often enough that I decided the studies related to 10 and 20-day lows in volume were not worth considering. But Friday wasn't just a 20-day low. It was even a 50-day low. And it is only the 3rd time that has happened. So I looked at 50-day volume lows a few different ways.

For example, I looked at times the SPX rose at least 1% while NYSE volume came in at the lowest level in 50 days. Unfortunately, there have only been 9 other instances since 1980. (Two of them were last month.) Results following these 9 instances were too inconsistent to take under consideration. And even if I just required an up close (and not a 1% gain) the results were still inconsistent and suggested no quantifiable edge. So unfortunately it appears the bottom line is that the low volume is not particularly helpful in our analysis.

There were 2 Quantifinder studies that simply looked at SPY price action and did not consider volume. The first one is from the 9/2/10 subscriber letter. I have updated the study below.

SPY gaps up > 1%, never fills, and close > open but close < 200ma. Buy on close. Sell X days later. \$100k/trade. 2003 - 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	-32,381.01	31	15	16	48.39	2,845.47	-4,691.44	0.61	0.57	-1,044.55
4	-34,649.04	32	14	18	43.75	2,442.14	-3,824.39	0.64	0.50	-1,082.78
3	-17,179.68	32	15	17	46.88	2,245.87	-2,992.22	0.75	0.66	-536.86
2	-26,400.96	33	18	15	54.55	1,443.68	-3,492.48	0.41	0.50	-800.03
1	-17,938.92	33	17	16	51.52	511.37	-1,664.51	0.31	0.33	-543.60

The stats here look fairly compelling. And when you look out 3-4 days they appear quite impressive. But when I looked at the equity curve I found that the only one that had any real appeal was the 1-day curve, which is why I highlighted it in the table and have produced that curve below.



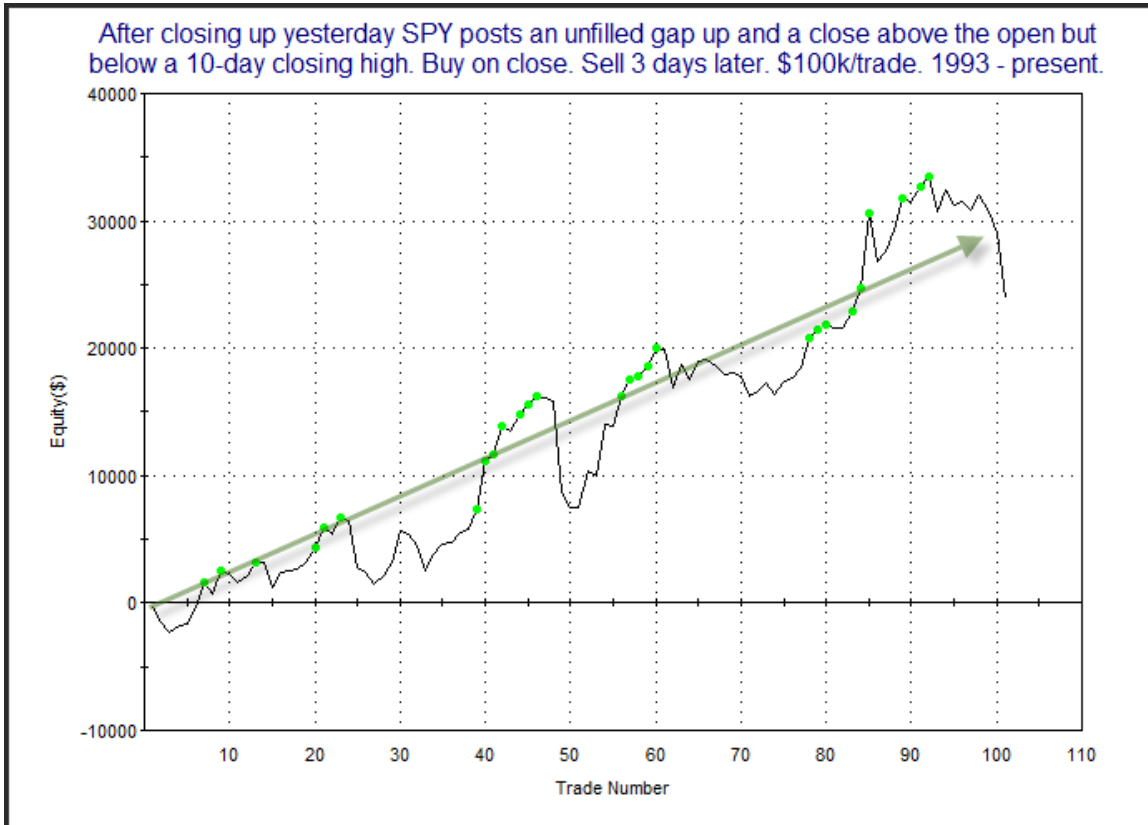
As you can see the edge appears to have lost some oomph in recent times. So I'm on alert here but still taking it under consideration.

This next study was last seen in the 5/11/11 letter. It considers 2 up days with the 2nd one exhibiting strength and yet failing to reach a 10-day high. Stats are again updated.

After closing up yesterday SPY posts an unfilled gap up and a close above the open but below a 10-day closing high. Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.

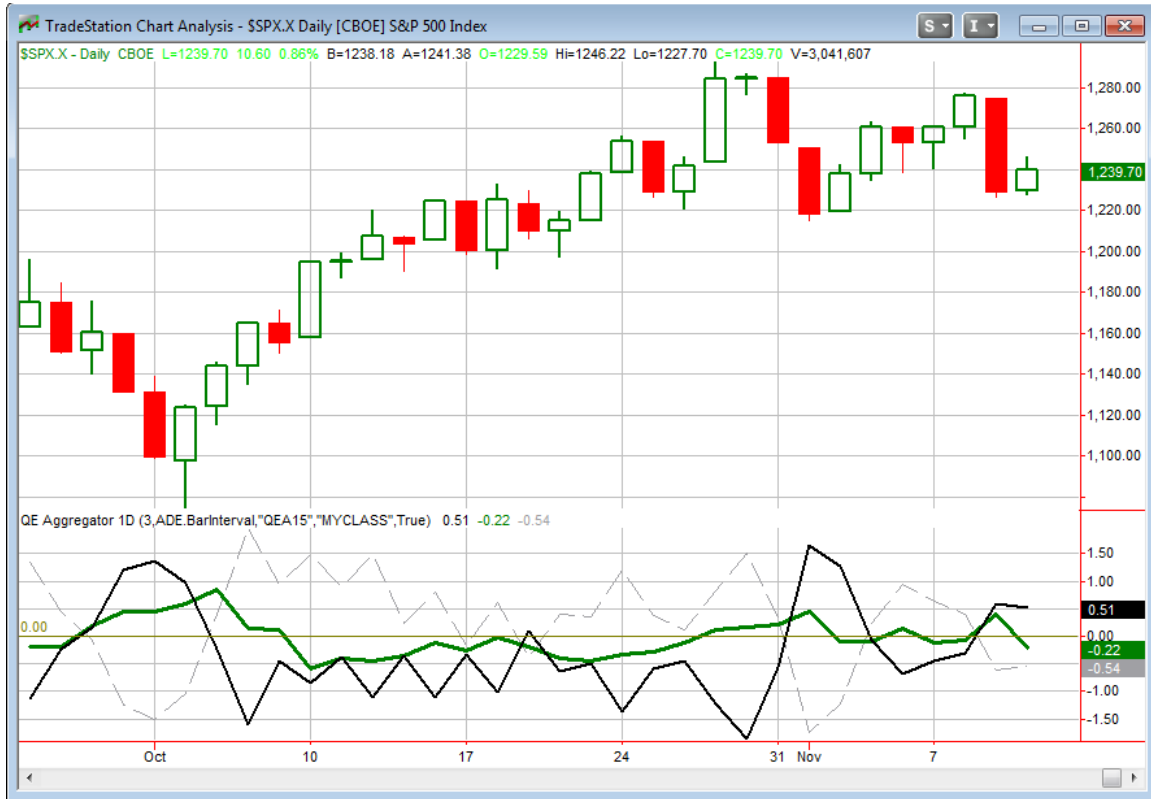
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	9,674.36	98	55	43	56.12	1,674.41	-1,916.70	0.87	1.12	98.72
4	14,392.56	99	60	39	60.61	1,379.21	-1,752.83	0.79	1.21	145.38
3	23,911.96	101	60	41	59.41	1,228.54	-1,214.65	1.01	1.48	236.75
2	14,517.93	102	58	43	56.86	1,044.19	-1,070.81	0.98	1.32	142.33
1	3,507.88	108	60	46	55.56	603.65	-711.12	0.85	1.11	32.48

This setup appears to provide a mild upside edge. Below is an equity curve assuming a 3-day holding period.



Interesting to see that both the bullish and the bearish study have struggled recently.

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



With tonight's findings the green Aggregator Line remained negative. 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 above 0. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are bearish but the SPX is already oversold versus recent expectations. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator System to remain flat at the close. This was shown on the systems page shortly before the bell.

Based on the current studies the Aggregator Line would remain negative on Monday. Of course this could easily change if more bullish evidence emerges. Meanwhile the Differential Pivot is strongly inverted at will be 1,231.00 on Monday. This is 2.6% below Friday's close. In other words, it will take an SPX decline of at least this much in order to keep the Differential line from turning negative. That seems unlikely but you never know with this news-driven market.

Short-term evidence isn't overwhelming either way and the Aggregator is neutral. I'm flat and not looking to enter anything just yet. It's rarely too long before a short-term edge emerges so I'll exercise a little patience and see what the next few days bring about.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/14 – bullish

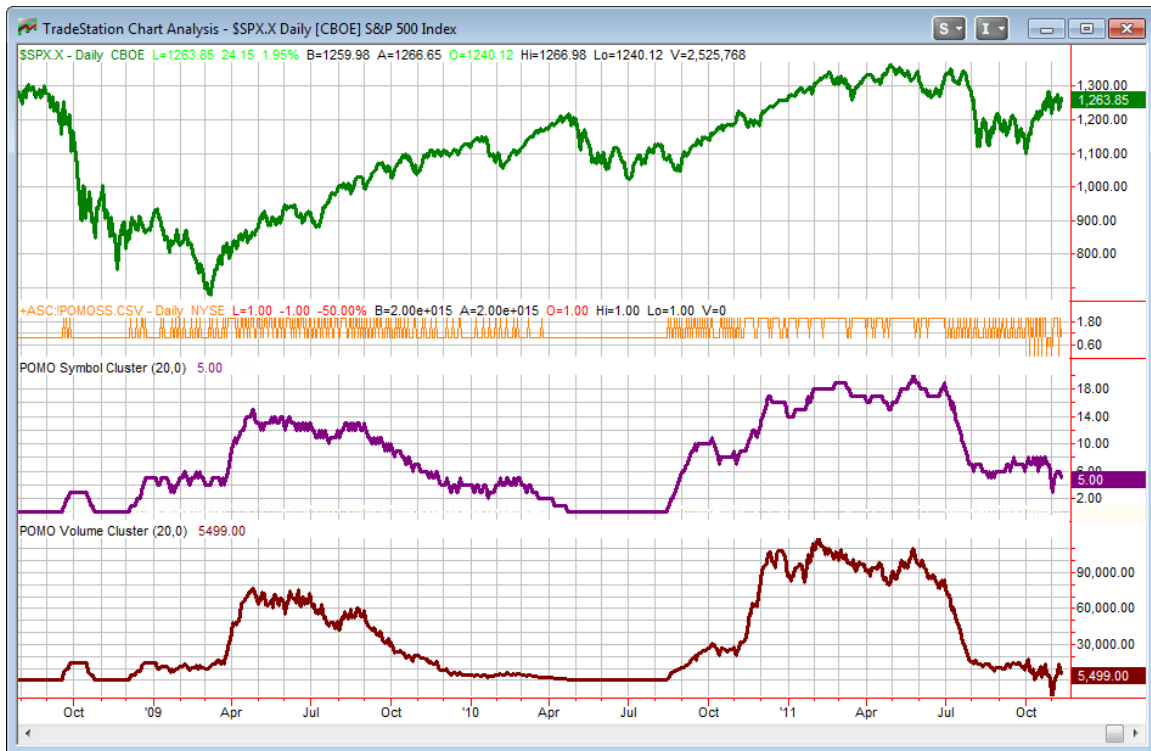
Action this week saw the market rise some overall, but the range was completely inside the previous week's range. At this point the market is nearing the October highs and could make an attempt at another leg up.

The inside week action failed to give anything new and compelling in the way of intermediate-term studies. The majority of those studies remain bullish and despite the fact that the market is still below its 200ma, the uptrend since early October appears to be in place (though weaker).

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 3rd POMO presentation linked below. (Not available for trial users.)

<http://www.quantifiableedges.com/members/pomo.php>



This week we saw 3 days of buying and 1 day of selling activity from the Fed. The buy amounts were stronger than the selling amount as well. So there was net liquidity injected and the POMO Volume Cluster indicator rose nicely. We are still seeing very mild readings.

There was a strong thrust in the market that began at basically the same time as Operation Twist. It is now clear that Operation Twist will not provide a liquidity injection similar to QE1 or QE2. The POMO Volume indicator even dipped briefly into negative territory last week. We'll see if Operation Twist can continue to act as a positive influence or if the market falters without much liquidity being injected into the system.

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 a couple of weeks ago to support their case. Bullish evidence is based on price and breadth thrusts from last month 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.

No new trade ideas tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
HNZ	11/7/2011	\$52.65	\$53.64	1.88%		system 90609
<i>SPY(1/4)</i>	<i>11/10/2011</i>	<i>\$123.15</i>	<i>\$125.83</i>	<i>2.18%</i>		<i>sold on open</i>

It appears a close in the \$52.66 - \$53.10 area could trigger an exit based on 90609 for HNZ...

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