

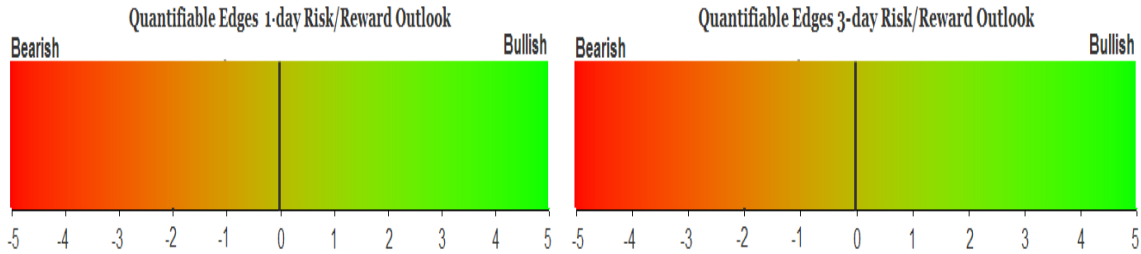
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 27, 2012

Volume 5 Issue 18

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Long

## Tonight's Research Points

- Dull trading is failing to trigger compelling studies.

## Short-term Outlook

### The Bottom Line

With mildly bullish expectations and an overbought market I am inclined to wait for a more pronounced edge before taking on new 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>				
January 26, 2012	SPX 100-day high on Fed Day	1-6 days	Bullish	1.60%
<b>Active - Long Term</b>				
January 17, 2012	Nasdaq leading SPX	int term	Bullish	
December 5, 2011	POMO activity flat to negative	int term	Bearish	
October 19, 2011	FTD on strong breadth/20day high	int term	Bullish	
<b>Dropped Tonight</b>				
January 23, 2012	SPX up 1%-2% op-ex week	1-4 days	Bearish	

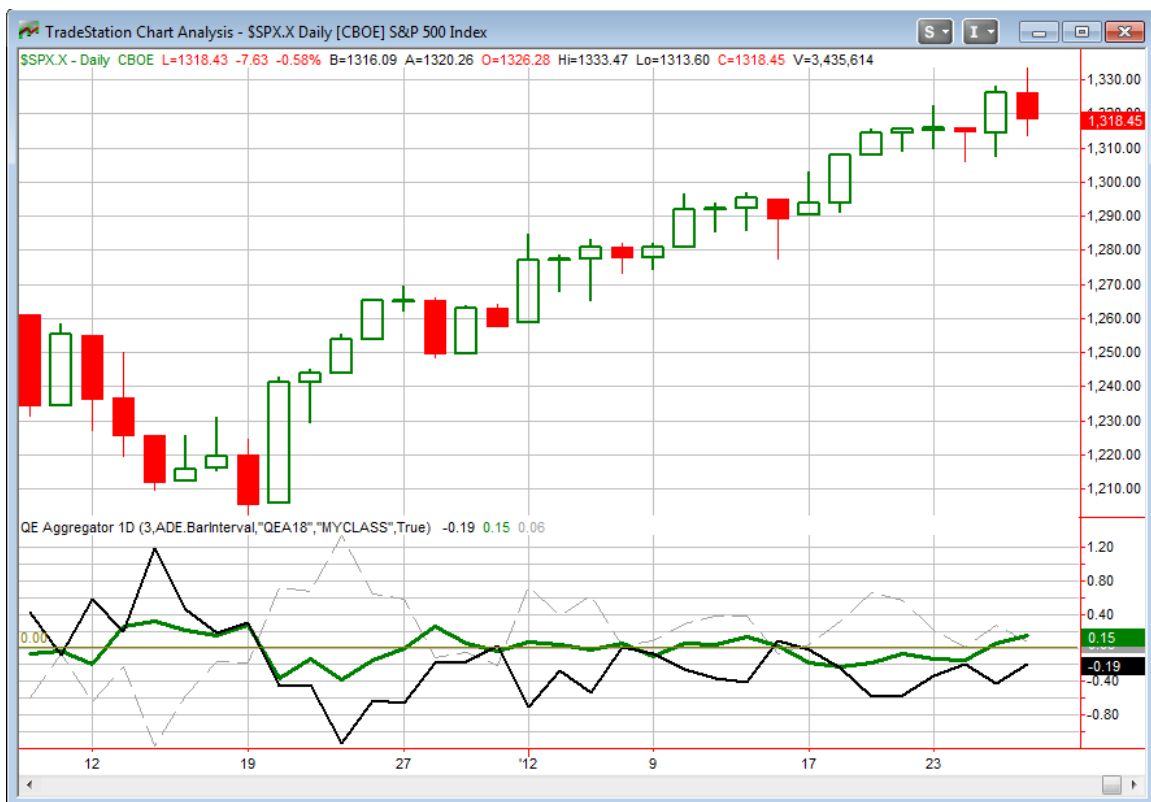
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

## The Evidence

The market gapped up fairly strongly but topped out within the 1<sup>st</sup> 30 minutes. After that it was a slow grind lower for most of the rest of the day. In the end the SPX declined 0.6%, the Nasdaq fell 0.5% and the Russell 2000 lost 0.3%. Breadth finished negative as the NYSE Up Issues % came in at 49.6% and the Up Volume % was 34%. Total NYSE volume rose for the 2<sup>nd</sup> day in a row.

Persistent uptrends can sometimes be “boring” from a research standpoint. This one is getting that way. And with today’s mild pullback from a high both the Quantifinder and my additional research failed to uncover anything compelling. The Short-Term Active Studies List is down to just 1 study, which is quite rare. Let’s first take a look at the Aggregator chart and then I’ll sum up the points I’m keeping in mind.

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



Without many inputs the green Aggregator line remains in positive territory. Readings above 0 mean net expectations from the Active List are for upside over the next few days.

Meanwhile, the black Differential Line is still below 0. A negative Differential reading means the SPX has outperformed expectations over the last few days. So net expectations are bullish but the SPX is still overbought 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 indicated as likely on the systems page shortly before the close.

Based on the current active studies, expectations are scheduled to remain positive on Friday. Of course this could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,309.91 on Friday. This is 0.6% below Thursday's close. So it will take a drop of at least this much in order for the Differential Line to turn positive.

The current setup has me in “wait and see” mode. Below are some of the bullish and bearish points I am considering:

**Bullish:**

- Momentum is strong.
- New long-term highs on Fed Days are commonly followed by more buying.
- The short-term QE Buying Power Index (POMO) is strongly positive, which could help support a further rally.

**Bearish:**

- The market remains overbought.
- SPY is long overdue for a pullback. (It has closed above the 10ma now for 25 days in a row. That has only happened 8 other times. Only 3 of them reached 30 days.)

In other words there exist a number of conflicts and we are not in a situation that typically suggests a substantial edge. I'll continue to wait for either a pullback to get long, or compelling bearish evidence to emerge in order to take another shot at a short.

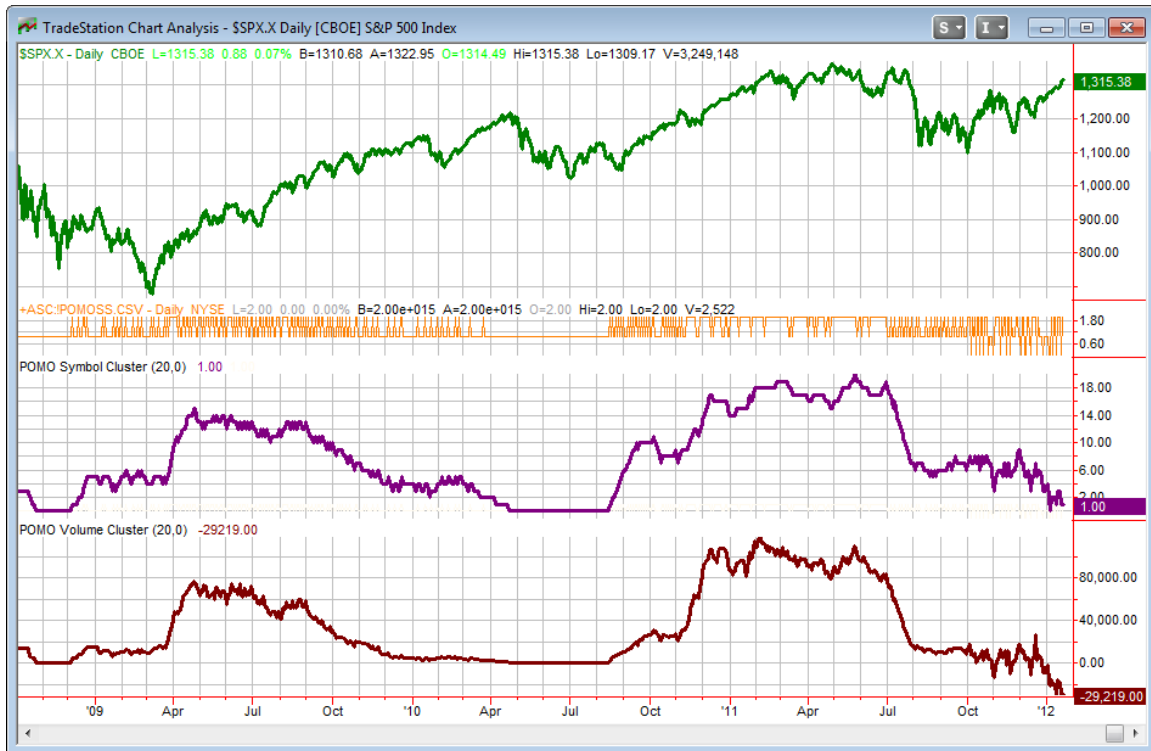
***Intermediate-term Outlook (2 weeks – 2 months)– updated 1/23 – bullish***

The SPX again hit new rally highs this week as it posted a rare all-up op-ex week. Despite overbought readings and bearish short-term studies the long-term trend and momentum pushed forward. Both continue to look good.

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>



For the first time in five weeks POMO numbers showed net gains. The fed added about \$5.9 billion to the system. But because an even bigger week came off the back end of our POMO indicator calculations, we are still seeing strongly negative net volume over the last 20 days. This should flip this upcoming week as several negative and neutral days will be falling out of the calculation and several positive days are scheduled.

The negative POMO numbers are running out of time to exhibit a bearish impact on the market. If the market can continue to rally despite all the negative readings we've seen in the last few weeks then that could be a very bullish sign. It has been several years since the market has managed to rally strongly without the aid of liquidity inflows from the Fed. The rest of January is slated to see primarily POMO buying, and that could aid in helping the market continue to rally higher over the next few weeks.

So the intermediate-term still appears to be looking up. The SPX again made new rally highs. The Nasdaq is still in a leadership position, and there also appears to be strong upside momentum with a POMO tailwind just begun. So my outlook remains bullish. From a trading standpoint this simply means I will take a more aggressive approach with longs than with shorts.

## **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>
<i>SPY(1/4)(s)</i>	<i>1/19/2012</i>	<i>\$131.22</i>	<i>\$132.56</i>	<i>-1.02%</i>		<i>covered @ \$132.56 limit</i>
DIA(s)	1/23/2012	\$126.96	\$127.06	-0.08%		System -80514

*I will cover DIA on a close < \$126.12 as per the system -80514 rules.*

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