

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 2, 2012

Volume 5 Issue 63

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing | NDX Trend Timer |
|------------|----------------|------------------|-----------------|
| Long | 100% Long XIV | Flat | Long |

Tonight's Research Points

- 1st Day of the month is seasonally bullish – especially under current circumstances.
- The 1st week in April has done especially well over the last 18 years.
- A 3-day high in the SPX along with the NDX and/or Russell closing down 3 days in a row has been followed by very bullish results over the last 14 years.
- When the VIX and SPX have both closed up on a Friday that has typically been followed by a bit of a dip over the next 1-3 days.
- The projected QE Buying Power Index for April is out and after week 1, liquidity flows do not appear bullish..

Short-term Outlook

The Bottom Line

The Aggregator remains bullish. Evidence is suggesting we should see more upside, and the market is still oversold. I am long and looking to get longer.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|---------------------------|--------------------------------------|-----------|---------|--------------|
| Active | | | | |
| April 2, 2012 | 1st Week In April Seasonally Strong | 1-4 days | Bullish | 2.10% |
| April 2, 2012 | SPX 3-day high. Nas/Rus down 3 days. | 1-10 days | Bullish | 4.30% |
| April 2, 2012 | VIX up SPX up > 200ma. Friday. | 1-3 days | Bearish | -1.30% |
| March 23, 2012 | 3-day pullback from 50-high | 1-6 days | Bullish | 2.60% |
| Active - Long Term | | | | |
| March 14, 2012 | SPX & TNX hit 50-day highs | 1-50 days | Bearish | |
| March 14, 2012 | 50-day high on strong breadth | 1-50 days | Bullish | 8.00% |
| March 5, 2012 | Negative breadth divergences | int term | Bearish | |
| February 1, 2012 | Golden Cross | int term | Bullish | |
| January 17, 2012 | Nasdaq leading SPX | int term | Bullish | |
| December 5, 2011 | POMO activity flat to negative | int term | Bearish | |

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

The Evidence

A morning selloff was followed by a quick bounce and then a lot of sideways chop. The result was a mixed market. The SPX finished rose 0.4% while the NASDAQ dropped 0.1% and the Russell 2000 fell 0.2%. Breadth finished positive as the NYSE Up Issues % came in at 58% and the Up Volume % was 67%. Volume rose, but was not extreme.

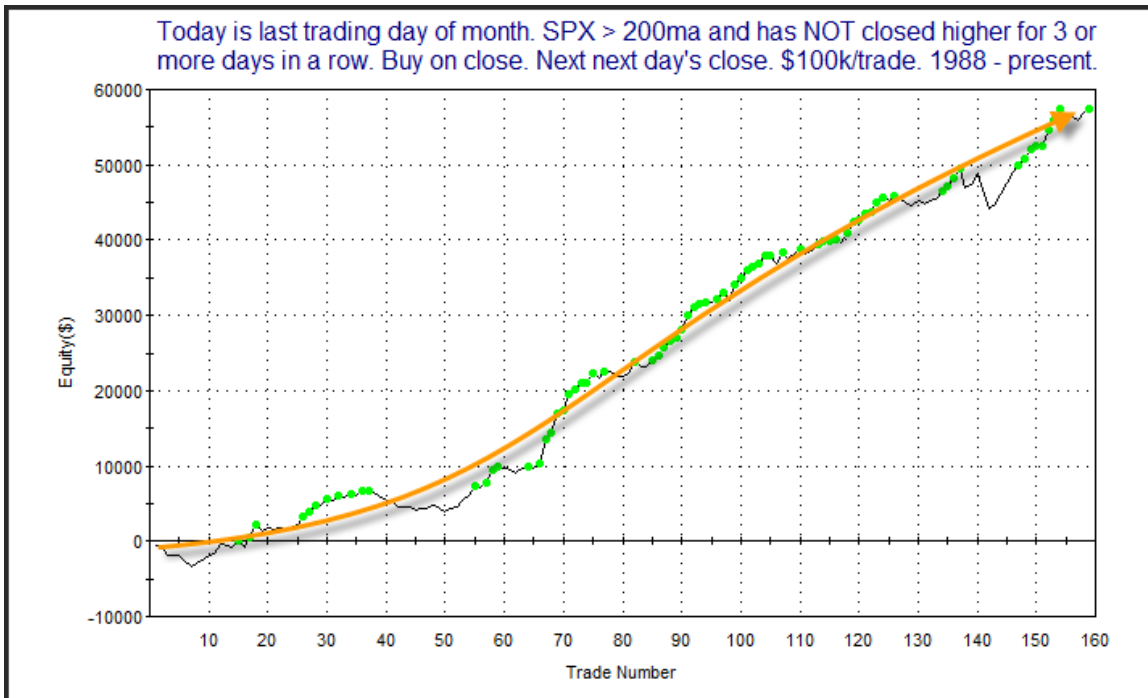
There's quite a bit to discuss tonight as far as short-term edges, so I'll get right to it.

I've discussed many times in the past that the first trading day of the month has been seasonally bullish. This has especially been true for the SPX when it has been in an uptrend. And we have also seen studies that showed the bullish tendency was not prevalent when the SPX was already short-term overbought. One study, for instance, defined overbought as having closed up three days in a row. So I combined those concepts and concocted the following study.

Today is last trading day of month. SPX > 200ma and has NOT closed higher for 3 or more days in a row. Buy on close. Next next day's close. \$100k/trade. 1988 - present.

| TradeStation Performance Summary | | | Collapse ^ |
|----------------------------------|-------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | \$57,528.82 | Profit Factor | 2.99 |
| Gross Profit | \$86,409.57 | Gross Loss | (\$28,880.75) |
| Total Number of Trades | 159 | Percent Profitable | 67.30% |
| Winning Trades | 107 | Losing Trades | 52 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$361.82 | Ratio Avg. Win:Avg. Loss | 1.45 |
| Avg. Winning Trade | \$807.57 | Avg. Losing Trade | (\$555.40) |
| Largest Winning Trade | \$3,119.10 | Largest Losing Trade | (\$2,617.60) |

As you would expect with the market in an uptrend and not strongly overbought short-term, first day of month seasonality appears quite strong. Below is an equity curve that shows how the edge has played out over time.



The steady upslope appears to confirm the bullish edge.

Another seasonality-related study from the Quantifinder appeared in the 3/31/11 Subscriber Letter. It noted that the first week in April has been especially strong over the last 18 years. I have updated that study below.

| Buy SPX at close of last trading day in March. Sell X days later. \$100k/trade. 1994 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
| 5 | 18,859.34 | 18 | 15 | 3 | 83.33 | 4,435.97 | 1,596.26 | -1,694.86 | -2,745.12 | 0.94 | 4.71 | 1,047.74 |
| 4 | 25,007.28 | 18 | 16 | 2 | 88.89 | 4,701.25 | 1,725.14 | -1,297.52 | -1,831.35 | 1.33 | 10.64 | 1,389.29 |
| 3 | 19,380.48 | 18 | 15 | 3 | 83.33 | 5,578.75 | 1,806.73 | -2,573.49 | -4,909.74 | 0.70 | 3.51 | 1,076.69 |
| 2 | 17,400.07 | 18 | 13 | 5 | 72.22 | 4,563.75 | 1,885.97 | -1,423.51 | -4,638.84 | 1.32 | 3.44 | 966.67 |
| 1 | 8,614.52 | 18 | 14 | 4 | 77.78 | 3,559.50 | 864.96 | -873.71 | -1,532.16 | 0.99 | 3.46 | 478.58 |

As you can see, the statistics here strongly favor the bulls. Below is the full list of trades using a 4-day exit strategy.

Buy SPX at close of last trading day in March.
Sell 4 days later. \$100k/trade. 1994 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|-----------|--------|------------|----------|--------------------|
| 03/31/94 | Buy | \$445.76 | 1.15% | \$1,196.16 |
| 04/07/94 | Sell | \$450.88 | | (\$2,217.60) |
| 03/31/95 | Buy | \$500.71 | 1.07% | \$1,271.61 |
| 04/06/95 | Sell | \$506.07 | | (\$101.49) |
| 03/29/96 | Buy | \$645.50 | 1.60% | \$1,721.72 |
| 04/04/96 | Sell | \$655.86 | | \$0.00 |
| 03/31/97 | Buy | \$757.12 | 0.10% | \$576.84 |
| 04/04/97 | Sell | \$757.90 | | (\$1,726.56) |
| 03/31/98 | Buy | \$1,101.76 | 1.78% | \$2,720.70 |
| 04/06/98 | Sell | \$1,121.40 | | (\$582.30) |
| 03/31/99 | Buy | \$1,286.37 | 3.15% | \$3,324.86 |
| 04/07/99 | Sell | \$1,326.89 | | (\$282.59) |
| 03/31/00 | Buy | \$1,498.58 | 0.18% | \$1,839.42 |
| 04/06/00 | Sell | \$1,501.31 | | (\$5,423.22) |
| 03/30/01 | Buy | \$1,160.34 | (0.77%) | \$788.62 |
| 04/05/01 | Sell | \$1,151.46 | | (\$5,878.10) |
| 03/28/02 | Buy | \$1,147.39 | (1.83%) | \$39.15 |
| 04/04/02 | Sell | \$1,126.34 | | (\$2,410.77) |
| 03/31/03 | Buy | \$848.18 | 3.62% | \$4,412.07 |
| 04/04/03 | Sell | \$878.85 | | (\$38.61) |
| 03/31/04 | Buy | \$1,126.21 | 1.95% | \$2,143.68 |
| 04/06/04 | Sell | \$1,148.17 | | (\$0.88) |
| 03/31/05 | Buy | \$1,180.57 | 0.30% | \$775.32 |
| 04/06/05 | Sell | \$1,184.06 | | (\$1,079.40) |
| 03/31/06 | Buy | \$1,294.87 | 1.09% | \$1,381.38 |
| 04/06/06 | Sell | \$1,309.04 | | (\$12.32) |
| 03/30/07 | Buy | \$1,420.86 | 1.61% | \$1,681.40 |
| 04/05/07 | Sell | \$1,443.76 | | (\$314.30) |
| 03/31/08 | Buy | \$1,322.69 | 3.61% | \$4,366.50 |
| 04/04/08 | Sell | \$1,370.40 | | \$0.00 |
| 03/31/09 | Buy | \$797.87 | 4.71% | \$5,967.50 |
| 04/06/09 | Sell | \$835.48 | | (\$1,818.75) |
| 03/31/10 | Buy | \$1,169.43 | 1.11% | \$1,901.45 |
| 04/07/10 | Sell | \$1,182.45 | | \$0.00 |
| 03/31/11 | Buy | \$1,325.83 | 0.73% | \$1,016.25 |
| 04/06/11 | Sell | \$1,335.54 | | \$0.00 |

Everything here seems to confirm the bullish tendency.

One aspect of recent market action that is interesting and suggestive of an upside edge is the fact that despite the rise in the SPX to a new 3-day high, the NASDAQ 100 and the Russell 2000 both closed lower for at least the third day in a row. I've looked at this a number of different ways in the past and will review some of those studies below. This

first study was last seen in the 1/24/11 Subscriber Letter. It used the Russell. Stats are updated.

| Russell 2000 closes down for at least the 3rd day in a row while the SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present. | | | | | | | | | | | | |
|--|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
| 10 | 43,926.64 | 11 | 11 | 0 | 100.00 | 10,577.93 | 3,993.33 | 0.00 | 0.00 | 100.00 | 100.00 | 3,993.33 |
| 9 | 37,220.59 | 11 | 10 | 1 | 90.91 | 8,209.02 | 3,729.91 | -78.48 | -78.48 | 47.53 | 475.27 | 3,383.69 |
| 8 | 33,289.20 | 11 | 10 | 1 | 90.91 | 9,347.15 | 3,338.35 | -94.32 | -94.32 | 35.39 | 353.94 | 3,026.29 |
| 7 | 34,665.86 | 11 | 8 | 3 | 72.73 | 9,614.11 | 4,462.30 | -344.17 | -451.44 | 12.97 | 34.57 | 3,151.44 |
| 6 | 31,899.76 | 11 | 9 | 2 | 81.82 | 9,598.49 | 3,750.81 | -928.76 | -1,407.60 | 4.04 | 18.17 | 2,899.98 |
| 5 | 25,232.78 | 11 | 9 | 2 | 81.82 | 7,700.66 | 3,094.18 | -1,307.41 | -2,075.04 | 2.37 | 10.65 | 2,293.89 |
| 4 | 24,955.20 | 11 | 9 | 2 | 81.82 | 7,217.86 | 2,945.86 | -778.76 | -992.31 | 3.78 | 17.02 | 2,268.65 |
| 3 | 18,735.31 | 11 | 9 | 2 | 81.82 | 4,839.33 | 2,200.68 | -535.41 | -887.22 | 4.11 | 18.50 | 1,703.21 |
| 2 | 17,750.56 | 11 | 9 | 2 | 81.82 | 5,134.01 | 2,025.06 | -237.48 | -434.97 | 8.53 | 38.37 | 1,613.69 |
| 1 | 10,405.20 | 12 | 8 | 4 | 66.67 | 4,708.01 | 1,526.88 | -452.46 | -764.46 | 3.37 | 6.75 | 867.10 |

Every instance posted at least 1 close above the entry price at some point in the next week.

As you can see, stats are overwhelmingly bullish right off the bat, and they stay strong through the first two weeks. Instances are a bit low, but I have listed them all below.

Russell 2000 closes down for at least the 3rd day in a row while the SPX closes at a 3-day high. Buy SPX on close. Sell 10 days later. \$100k/trade. 1998 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|-----------|--------|------------|----------|--------------------|
| 11/13/98 | Buy | \$1,125.72 | 4.40% | \$5,917.12 |
| 12/01/98 | Sell | \$1,175.28 | | \$0.00 |
| 06/03/99 | Buy | \$1,299.59 | 3.33% | \$3,415.44 |
| 06/18/99 | Sell | \$1,342.84 | | (\$886.92) |
| 03/15/00 | Buy | \$1,392.16 | 6.88% | \$11,410.41 |
| 03/30/00 | Sell | \$1,487.95 | | (\$0.71) |
| 11/09/01 | Buy | \$1,120.31 | 2.61% | \$3,833.23 |
| 11/27/01 | Sell | \$1,149.50 | | (\$1,957.11) |
| 08/07/03 | Buy | \$974.12 | 1.94% | \$3,762.78 |
| 08/22/03 | Sell | \$993.06 | | (\$29.58) |
| 12/04/03 | Buy | \$1,069.72 | 1.77% | \$1,984.62 |
| 12/19/03 | Sell | \$1,088.67 | | (\$1,516.83) |
| 07/14/05 | Buy | \$1,226.50 | 0.63% | \$1,510.65 |
| 07/29/05 | Sell | \$1,234.18 | | (\$434.97) |
| 07/09/09 | Buy | \$882.68 | 10.94% | \$10,973.43 |
| 07/24/09 | Sell | \$979.26 | | (\$1,115.31) |
| 07/06/10 | Buy | \$1,028.06 | 4.04% | \$6,925.80 |
| 07/21/10 | Sell | \$1,069.59 | | \$0.00 |
| 01/21/11 | Buy | \$1,283.35 | 2.78% | \$3,041.50 |
| 02/07/11 | Sell | \$1,319.05 | | (\$635.25) |
| 02/28/12 | Buy | \$1,372.18 | 1.61% | \$1,961.28 |
| 03/14/12 | Sell | \$1,394.28 | | (\$2,314.80) |

The 2009 instance appears to be a bit of an outlier, but numbers are strong all around.

On 6/20/11 I ran the same study using the NDX. When doing so I also found that it was worth filtering out those instances where the NDX was closing at a 50-day low. Obviously we are far from a 50-day low right now. I have rerun the stats below.

NDX closes down for at least the 3rd day in a row (without closing at a 50-day low) while the SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 42,290.74 | 12 | 11 | 1 | 91.67 | 8,261.56 | 3,847.72 | -34.20 | -34.20 | 112.51 | 1,237.57 | 3,524.23 |
| 9 | 40,243.07 | 12 | 12 | 0 | 100.00 | 8,209.02 | 3,353.59 | 0.00 | 0.00 | 100.00 | 100.00 | 3,353.59 |
| 8 | 39,839.85 | 12 | 12 | 0 | 100.00 | 9,347.15 | 3,319.99 | 0.00 | 0.00 | 100.00 | 100.00 | 3,319.99 |
| 7 | 37,879.62 | 12 | 11 | 1 | 91.67 | 9,614.11 | 3,479.36 | -393.30 | -393.30 | 8.85 | 97.31 | 3,156.64 |
| 6 | 35,325.69 | 12 | 11 | 1 | 91.67 | 9,598.49 | 3,242.52 | -342.00 | -342.00 | 9.48 | 104.29 | 2,943.81 |
| 5 | 27,201.90 | 12 | 11 | 1 | 91.67 | 7,700.66 | 2,521.97 | -539.77 | -539.77 | 4.67 | 51.40 | 2,266.82 |
| 4 | 26,134.17 | 12 | 11 | 1 | 91.67 | 7,217.86 | 2,427.74 | -570.96 | -570.96 | 4.25 | 46.77 | 2,177.85 |
| 3 | 21,506.85 | 12 | 10 | 2 | 83.33 | 5,558.47 | 2,253.15 | -512.31 | -955.89 | 4.40 | 21.99 | 1,792.24 |
| 2 | 20,588.88 | 12 | 9 | 3 | 75.00 | 5,134.01 | 2,508.61 | -662.86 | -1,611.20 | 3.78 | 11.35 | 1,715.74 |
| 1 | 15,197.67 | 12 | 8 | 4 | 66.67 | 4,708.01 | 2,144.27 | -489.11 | -801.27 | 4.38 | 8.77 | 1,266.47 |

Every instance posted at least 1 close above the entry price at some point in the next week.

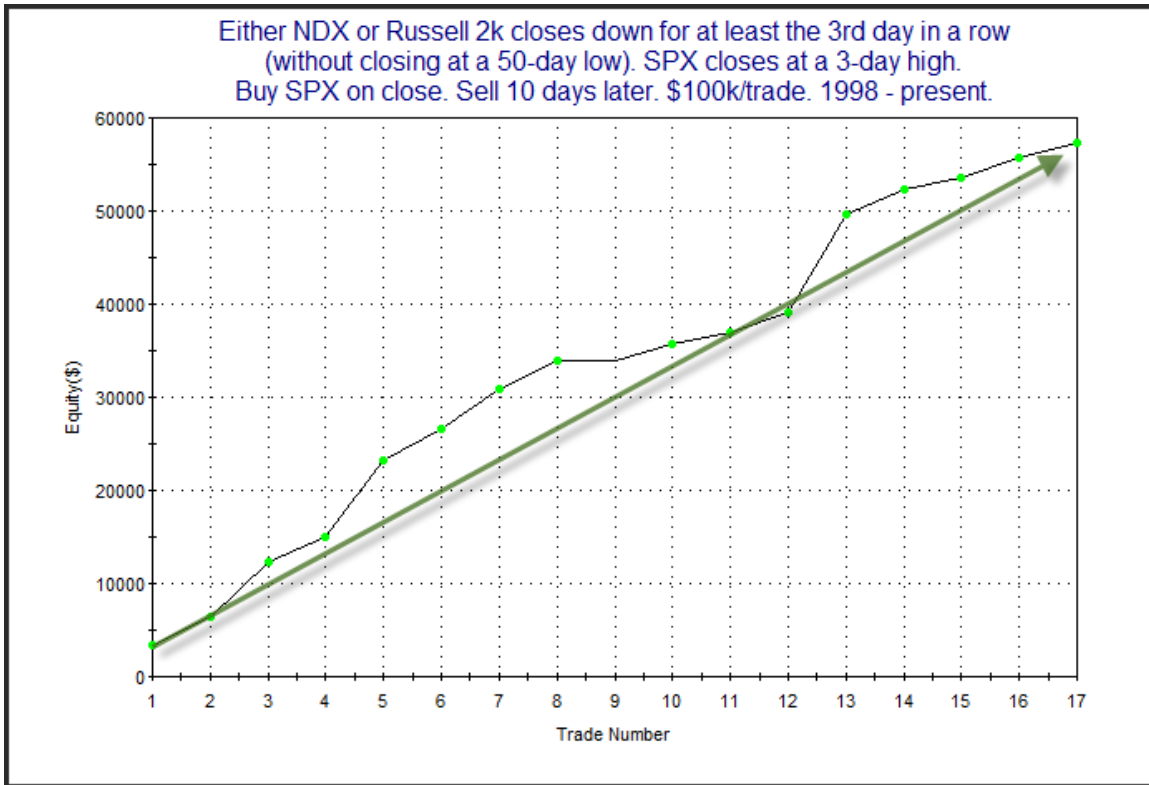
Here again everything appears bullish from the start and the strong statistics seem to carry through over a period of at least two weeks. In the 1/24/11 subscriber letter I also did an either/or setup so as to have more instances for generating expectations. I've updated that study (and added the 50-day low filter) below.

Either NDX or Russell 2k closes down for at least the 3rd day in a row (without closing at a 50-day low). SPX closes at a 3-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 57,397.00 | 17 | 16 | 1 | 94.12 | 10,577.93 | 3,589.45 | -34.20 | -34.20 | 104.95 | 1,679.27 | 3,376.29 |
| 9 | 52,640.82 | 17 | 16 | 1 | 94.12 | 8,209.02 | 3,294.96 | -78.48 | -78.48 | 41.98 | 671.75 | 3,096.52 |
| 8 | 51,488.94 | 17 | 16 | 1 | 94.12 | 9,347.15 | 3,223.95 | -94.32 | -94.32 | 34.18 | 546.90 | 3,028.76 |
| 7 | 47,866.41 | 17 | 13 | 4 | 76.47 | 9,614.11 | 3,791.71 | -356.45 | -451.44 | 10.64 | 34.57 | 2,815.67 |
| 6 | 45,081.27 | 17 | 14 | 3 | 82.35 | 9,598.49 | 3,377.20 | -733.17 | -1,407.60 | 4.61 | 21.50 | 2,651.84 |
| 5 | 34,595.40 | 17 | 15 | 2 | 88.24 | 7,700.66 | 2,480.68 | -1,307.41 | -2,075.04 | 1.90 | 14.23 | 2,035.02 |
| 4 | 35,147.67 | 17 | 15 | 2 | 88.24 | 7,217.86 | 2,447.01 | -778.76 | -992.31 | 3.14 | 23.57 | 2,067.51 |
| 3 | 28,039.59 | 17 | 14 | 3 | 82.35 | 5,558.47 | 2,084.22 | -379.85 | -887.22 | 5.49 | 25.61 | 1,649.39 |
| 2 | 27,549.21 | 17 | 14 | 3 | 82.35 | 5,134.01 | 2,005.28 | -174.91 | -434.97 | 11.46 | 53.50 | 1,620.54 |
| 1 | 16,404.76 | 18 | 12 | 6 | 66.67 | 4,708.01 | 1,625.15 | -516.17 | -801.27 | 3.15 | 6.30 | 911.38 |

Every instance posted at least 1 close above the entry price at some point in the next week.

Now we have a decent number of instances, and the stats are still overwhelmingly bullish. The average return is nearly 1% on day one and almost 3 1/2% after two weeks. Below is an equity curve that assumes a 10-day holding period.

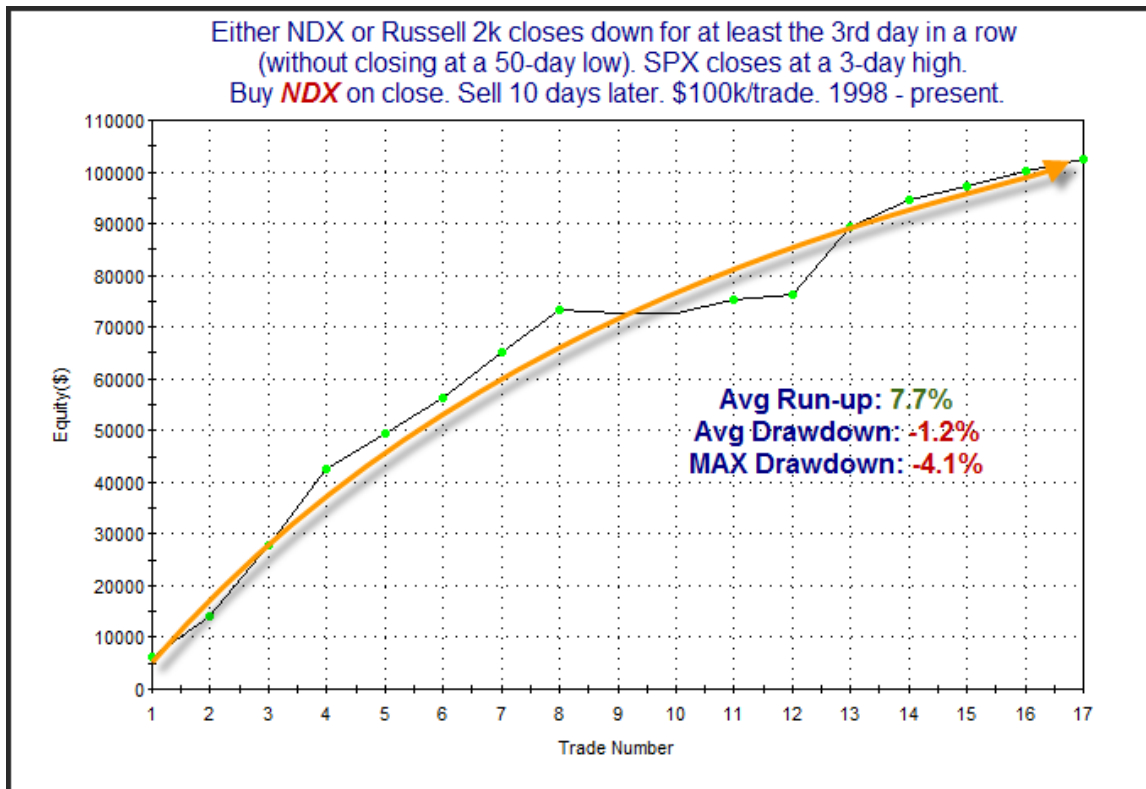


Nothing wrong with this curve. Of course so you may be thinking, "Would we better off buying one of the oversold indices, rather than the SPX?". I ran that analysis as well. When looking at the Russell 2000, the numbers really weren't much different. But the NDX numbers were substantially stronger, so I've shown them below.

Either NDX or Russell 2k closes down for at least the 3rd day in a row (without closing at a 50-day low). SPX closes at a 3-day high. Buy **NDX** on close. Sell X days later. \$100k/trade. 1998 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 102,631.63 | 17 | 15 | 2 | 88.24 | 14,765.35 | 6,888.47 | -347.71 | -621.60 | 19.81 | 148.58 | 6,037.15 |
| 9 | 98,889.51 | 17 | 16 | 1 | 94.12 | 14,526.97 | 6,320.23 | -2,234.22 | -2,234.22 | 2.83 | 45.26 | 5,817.03 |
| 8 | 90,489.08 | 17 | 16 | 1 | 94.12 | 13,793.28 | 5,781.06 | -2,007.90 | -2,007.90 | 2.88 | 46.07 | 5,322.89 |
| 7 | 79,503.27 | 17 | 14 | 3 | 82.35 | 13,478.40 | 5,892.99 | -999.55 | -2,453.64 | 5.90 | 27.51 | 4,676.66 |
| 6 | 74,717.44 | 17 | 14 | 3 | 82.35 | 12,734.64 | 5,487.96 | -704.69 | -1,042.59 | 7.79 | 36.34 | 4,395.14 |
| 5 | 62,009.25 | 17 | 15 | 2 | 88.24 | 11,203.20 | 4,314.67 | -1,355.43 | -1,646.87 | 3.18 | 23.87 | 3,647.60 |
| 4 | 55,427.82 | 17 | 15 | 2 | 88.24 | 8,835.48 | 3,940.65 | -1,840.98 | -2,995.98 | 2.14 | 16.05 | 3,260.46 |
| 3 | 39,228.73 | 17 | 14 | 3 | 82.35 | 7,788.11 | 3,100.33 | -1,391.97 | -3,361.68 | 2.23 | 10.39 | 2,307.57 |
| 2 | 47,978.99 | 17 | 13 | 4 | 76.47 | 10,921.40 | 3,844.68 | -500.46 | -988.77 | 7.68 | 24.97 | 2,822.29 |
| 1 | 24,704.87 | 18 | 13 | 5 | 72.22 | 5,474.91 | 2,279.67 | -986.17 | -1,757.43 | 2.31 | 6.01 | 1,372.49 |

Here we see an average gain of over 6% for the 2-week timeframe. And the strong start is followed by a steady climb over the two-week period. Below I have produced an equity curve that shows how the edge has played out over time. It assumes a 10-day hold.



While a few of the early trades seem to be especially strong, the upslope has remained impressive throughout. With this study taken into consideration, I am interested in taking on some long exposure in the NDX.

Not all the news was good on Friday, though. Even with the SPX rising, the VIX managed to close up a bit. The VIX will typically trade in a direction opposite the SPX, so it is unusual that they both close higher. On Fridays, the VIX has a natural tendency to dip in the afternoon, so it is most unusual to see them both close higher on Friday. The study below is from the 5/9/11 subscriber letter. It examines other instances of the VIX and SPX both closing higher on a Friday while the SPX is in an uptrending market. All stats are updated.

SPX and VIX both close higher. Today is Friday. SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1996 - present.

| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Max Winning Trade | All: Avg Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 5 | -10,584.20 | 46 | 19 | 27 | 41.30 | 4,290.80 | 1,464.44 | -1,422.54 | -3,118.36 | 1.03 | 0.72 | -230.09 |
| 4 | -15,207.76 | 47 | 20 | 27 | 42.55 | 4,275.84 | 1,088.02 | -1,369.19 | -4,306.02 | 0.79 | 0.59 | -323.57 |
| 3 | -15,520.55 | 47 | 17 | 30 | 36.17 | 3,000.26 | 973.19 | -1,068.83 | -3,727.50 | 0.91 | 0.52 | -330.22 |
| 2 | -12,746.36 | 47 | 19 | 28 | 40.43 | 2,380.51 | 807.07 | -1,002.88 | -3,595.20 | 0.80 | 0.55 | -271.20 |
| 1 | -10,410.44 | 47 | 15 | 32 | 31.91 | 1,530.15 | 486.55 | -553.40 | -2,361.45 | 0.88 | 0.41 | -221.50 |

44 of 47 instances (94%) closed below the entry price at some point in the next week.

As you can see, there appears to be a decent downside edge suggested by this study. That edge primarily plays out over the first three days. Below is an equity curve showing how the edge has played out assuming that 3-day hold.

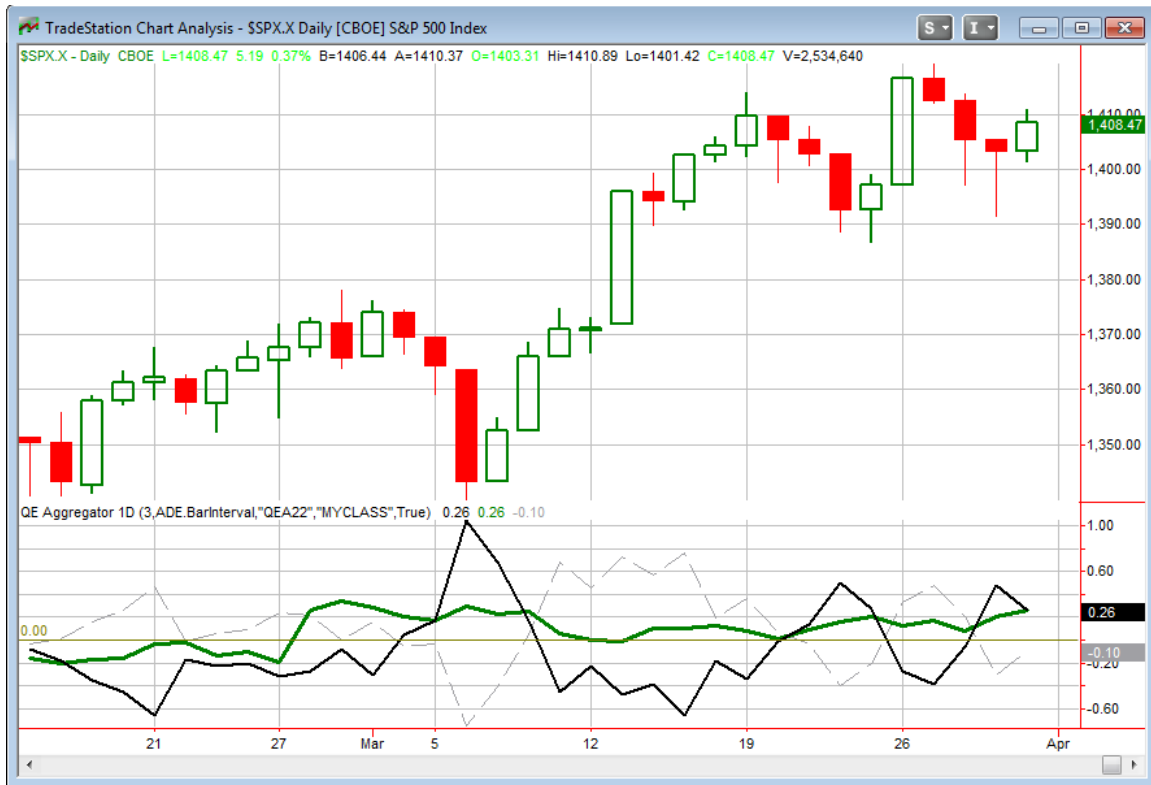


A few recent instances have not seen much downside, but the general downslope certainly remains intact. I find this study worthy of inclusion in the Aggregator.

It is also worth noting that the QE Buying Power Index is scheduled to be strong this week. Liquidity flows should be helpful in boosting the market. (But as you'll see in the

intermediate-term section below, the rest of April does not look so great from a liquidity flow perspective.)

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



Tonight's studies did not change the look of the Aggregator chart greatly. The green Aggregator Line remained nicely positive. Readings above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line is also well above 0. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are bullish and the SPX is overbought versus recent expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This meant the Aggregator System remained long at the close. This was noted on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Monday. Of course this could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,410.89 on Monday. This is only about 0.2% above Friday's close. This means it will only require a moderate up day to move the Differential Line back below zero.

So my outlook is bullish, but a move up would quickly flip the SPX from oversold to overbought. QQQ is more oversold, and it also showed significantly better potential in the study shown earlier. Therefore, I will look to add more index exposure, but I will add it using QQQ rather than SPY.

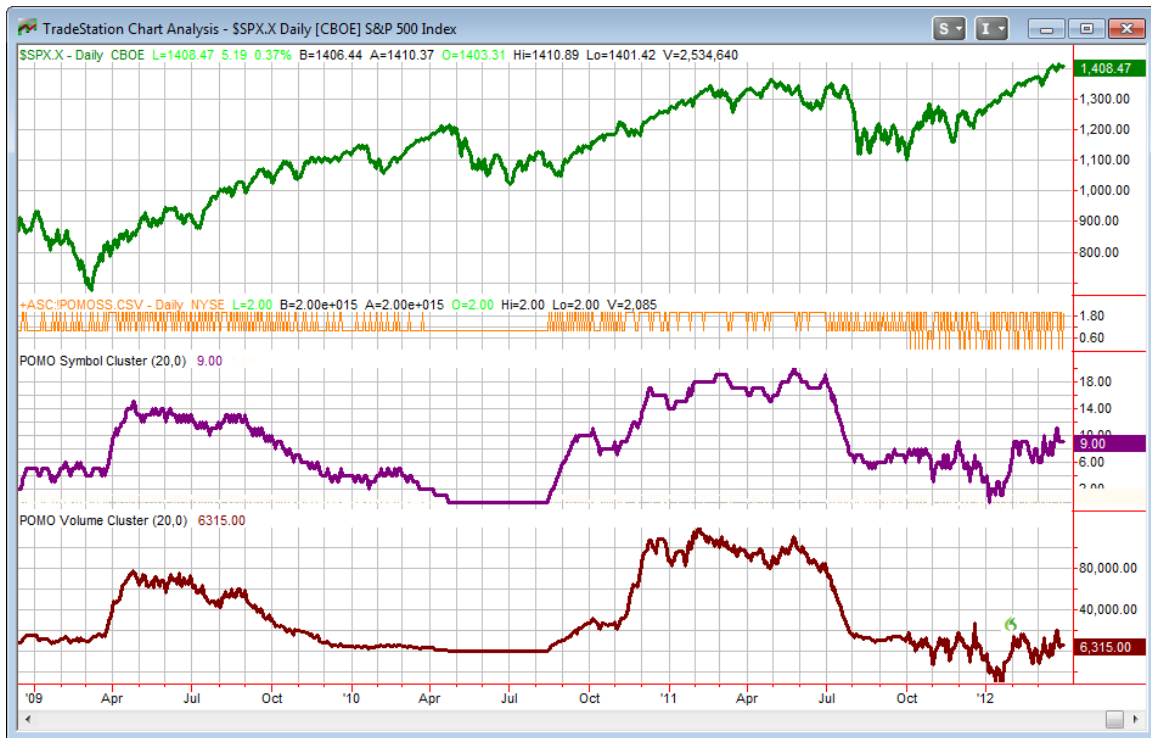
Intermediate-term Outlook (2 weeks – 2 months)– updated 4/2 – moderately bullish

The market closed up again this week, and new highs were made on Monday before pulling back the next few days. No new studies emerged with intermediate-term implications, but the uptrend still appears to be squarely intact.

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.)

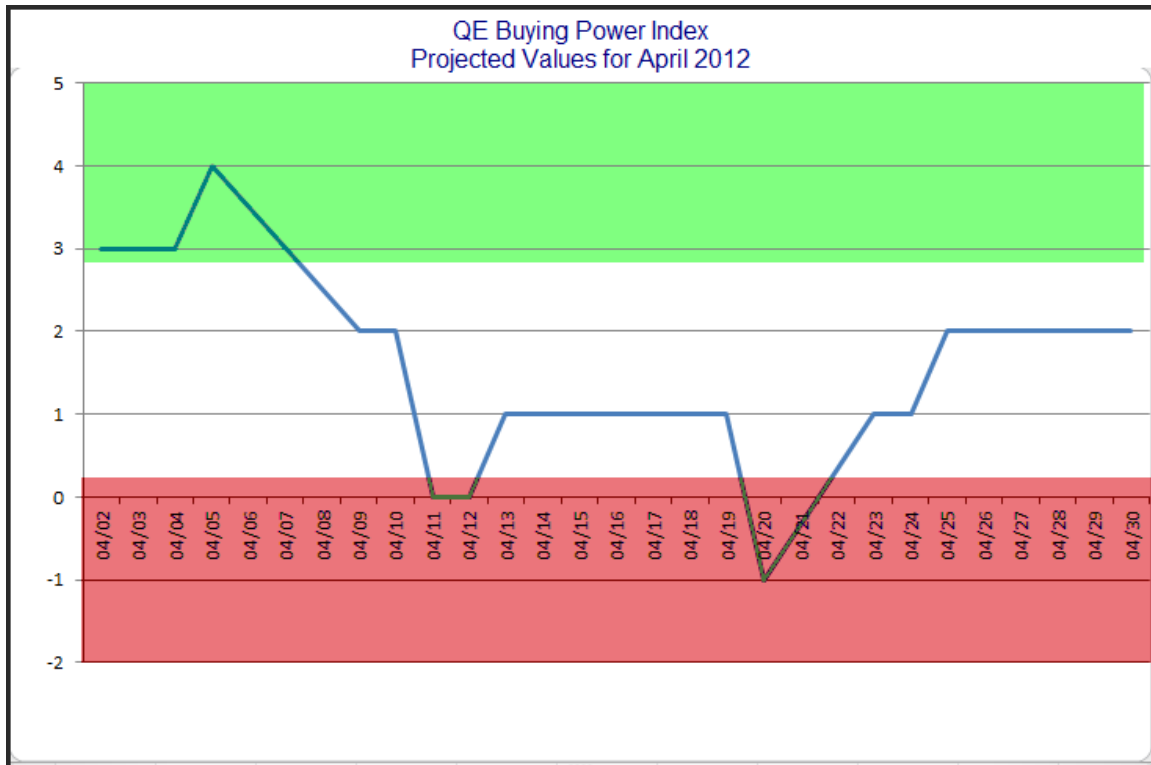
<http://www.quantifiableedges.com/members/pomo.php>



This past week saw net outflows in the amount of just over \$8 billion. This was accomplished with 3 moderate days of buying, and 2 strong days of selling. The net result was that both of our intermediate-term POMO indicators dipped slightly. We should see the indicators improve this upcoming week with 3 days of buying scheduled for a total inflow of over \$12 billion.

The rally has managed to continue despite only a moderate amount of help from POMO over the past 3 to 4 months. There is no QE3 scheduled at this point, and though Operation Twist is helping to provide some support for the market, I don't believe it is enough to prevent an intermediate-term market correction. I don't believe that correction would start this week, but the next chart suggests it could begin any time after that.

On Friday afternoon the Fed released its POMO buying scheduled for April. I inputted the data into my spreadsheet and created the estimated QE Buying Power Index for April. Compared to the steady buying in March, which can be seen in last week's intermediate-term update, April is front-loaded and looks a lot different.



As you can see, the first four days of April are the only four in which the QE Buying Power Index will be posting a bullish reading of 3 or above. Additionally, there will be 3 trading days where the QE Buying Power Index is at a bearish 0 or below. Those days are the 11th, the 12th, and the 20th.

With April being so front-loaded, pullbacks after week one may not be as buyable as they were in March. And unlike March, with some periods below zero, negative liquidity may provide opportunities to short overbought conditions.

Without a strong quantitative easing policy liquidity shocks could hit the market at any time. But with liquidity, seasonality, and priced-based evidence all suggesting an upside edge, it appears unlikely a strong pullback would begin this upcoming week. Following this week we will need to be especially mindful of breadth divergences, negative liquidity, and possible negative impacts from rising interest rates. At this point we are still seeing more bullish intermediate-term evidence than bearish. The persistent uptrend, the leading Nasdaq, and positive price action are all hinting at a continuation upwards. So I'm still moderately bullish, as I have been for the past few weeks. I am looking

forward to see what other studies emerge this upcoming week, but with the current mix of evidence and POMO flows turning negative starting next week, it may not be long until my intermediate-term outlook switches to neutral.

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.

QQQ – buy ¼ index position @ \$67.55 limit. The Aggregator is long, QQQ is oversold, and the study in the short-term outlook section has me more interested in this than SPY. So I'm taking the 2nd lot of my index position here.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|--------|----------------|
| XIV(1/2) | 3/6/2012 | \$8.48 | \$12.27 | 44.69% | \$9.49 | Aggressive VIX |
| HPQ(1/3) | 3/23/2012 | \$23.03 | \$23.83 | 3.47% | | exit on open |
| SPY(1/4) | 3/29/2012 | \$140.23 | \$140.81 | 0.41% | | Aggregator |
| | | | | | | |

HPQ – HPQ hit its exit target. It will be exited on Monday at the open.

SPY – I will exit SPY at the close if SPX closes >= the Differential Pivot of 1,410.89.

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