

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 11, 2012

Volume 5 Issue 69

Market Overview



Signals Overview

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

Tonight's Research Points

- The strong move down through the 50ma is normally good for a 1-day bounce.
- Very strong selling that put the SPX at a 20-day low while > 200ma suggests an upside edge.

Short-term Outlook

The Bottom Line

The market is extremely oversold and evidence is strongly bullish. While maintaining my current ½ index position I am looking to add exposure with some Catapult trades.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 11, 2012	System 110524	1-7 days	Bullish	2.30%
April 11, 2012	Drop through 50ma on breadth&vol	1 day	Bullish	
April 10, 2012	4 down. Biggest drop today. SPX>200m	1-5 days	Bullish	2.10%
April 10, 2012	Worst breadth & lowest volume 15 days	1-4 days	Bullish	1.90%
April 10, 2012	5 gaps down	1-3 days	Bullish	2.30%
April 9, 2012	3 Down from int-term hi w/bull factors	1-3 days	Bullish	1.85%
April 5, 2012	50-day hig to 8-day low in 2 days	1-4 days	Bullish	1.60%
April 2, 2012	SPX 3-day high. Nas/Rus down 3 days.	1-10 days	Bullish	4.30%
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	
Dropped Tonight				
April 3, 2012	NDX up > 1%. SOX down.	1-6 days	Bearish	-3.20%

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

The Evidence

The selloff intensified on Tuesday, taking the major averages down further. The SPX closed down 1.7%, the Nasdaq fell 1.8% and the Russell 2000 lost 2.4%. Breadth was extremely negative as the NYSE Up Issues % came in at 15% and the Up Volume % was 7%. Total NYSE volume hit the highest level in weeks.

There were several studies that triggered tonight. I went through the Quantifinder and pulled out the most compelling. Oddly, they both last triggered on 7/28/11. This first one below considers the fact that the move down through the 50ma came on strong breadth and volume. Results are updated.

SPX crosses down through the 50ma on 90% downside volume and the highest NYSE volume in 10 days. Buy on close. Sell next days close. \$100k/trade. 10/96 - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$9,214.54	Profit Factor		29.73
Gross Profit	\$9,535.26	Gross Loss		(\$320.72)
Total Number of Trades	15	Percent Profitable		93.33%
Winning Trades	14	Losing Trades		1
Even Trades	0			
Avg. Trade Net Profit	\$614.30	Ratio Avg. Win:Avg. Loss		2.12
Avg. Winning Trade	\$681.09	Avg. Losing Trade		(\$320.72)
Largest Winning Trade	\$2,753.79	Largest Losing Trade		(\$320.72)

The 14 for 15 record is very impressive. Of course the lone loser was the last instance in July 2011.

In the 7/28/11 letter I also looked at large losses that closed at intermediate-term lows. Another study from that letter is updated below.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1991 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	39,252.05	54	36	18	66.67	2,396.90	5,656.16	-2,613.14	-13,993.88	0.92	1.83	726.89
9	55,582.16	55	41	14	74.55	2,127.87	5,761.56	-2,261.47	-10,059.36	0.94	2.76	1,010.58
8	48,705.53	55	38	17	69.09	2,312.76	6,960.84	-2,304.67	-14,092.68	1.00	2.24	885.56
7	66,844.07	56	43	13	76.79	2,169.18	7,500.06	-2,033.14	-8,018.76	1.07	3.53	1,193.64
6	60,637.92	57	41	16	71.93	2,196.79	7,272.06	-1,839.41	-7,966.32	1.19	3.06	1,063.82
5	55,890.07	57	35	22	61.40	2,243.73	7,070.28	-1,029.12	-3,385.80	2.18	3.47	980.53
4	36,171.80	59	37	22	62.71	1,769.74	4,731.13	-1,332.21	-3,863.84	1.33	2.23	613.08
3	30,422.38	59	40	19	67.80	1,377.68	4,277.94	-1,299.20	-5,331.20	1.06	2.23	515.63
2	31,209.23	60	40	20	66.67	1,204.88	4,809.66	-849.30	-3,863.25	1.42	2.84	520.15
1	13,968.09	62	40	22	64.52	726.47	5,117.46	-685.93	-2,162.04	1.06	1.93	225.29

Results here are quite bullish. Some subscribers may recognize the setup as system 110524. Results below are also updated and they utilize the system exit strategy rather than a simple day count.

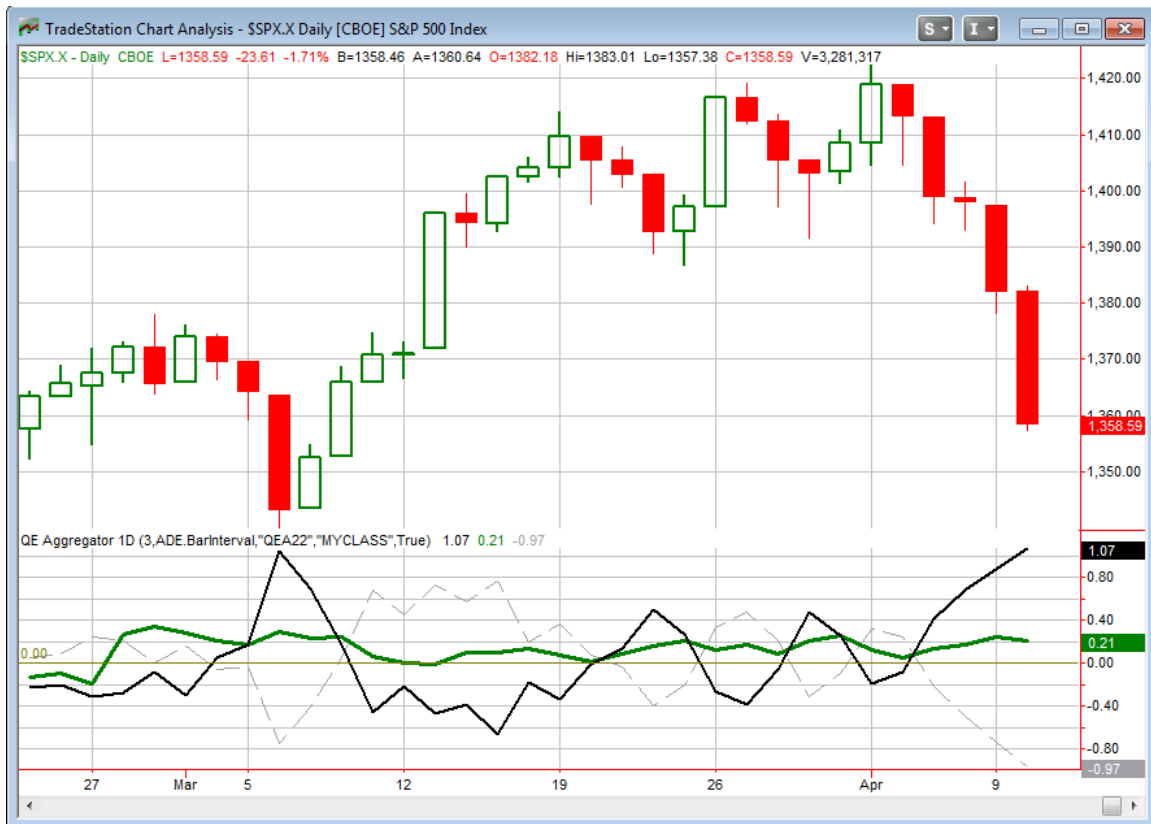
SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$60,841.47	Profit Factor	4.32
Gross Profit	\$79,184.91	Gross Loss	(\$18,343.44)
Total Number of Trades	56	Percent Profitable	82.14%
Winning Trades	46	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$1,086.45	Ratio Avg. Win:Avg. Loss	0.94
Avg. Winning Trade	\$1,721.41	Avg. Losing Trade	(\$1,834.34)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$7,630.40)

As you can see, waiting for a reversion to exit has often been a good way to go. You'll note the largest losing trade has increased from the last time I ran the stats. That is because the 7/28/11 instance suffered the worst loss of the bunch.

As you'll see in the Catapult & CBI section below, there were 6 S&P 100 stocks that triggered Catapult setups today. While a CBI reading of 6 is only moderately bullish, the fact that it went from 0 to 6 in 1 day is notable. Going back to 1995, there has never before been a jump this large after closing at 0 the day before. Also worth considering is that there are several stocks that could trigger Catapults again tomorrow. Ten is considered strongly oversold and likely to bounce. If the market sells off further on Wednesday then 10 should be easily achievable;

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



The Aggregator chart now appears to suggesting a strong upside edge. The green Aggregator Line is strongly 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 now as far above zero as it has been in a long time. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are very bullish and the SPX is strongly 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 projected on the systems page before the bell.

Based on the current studies, expectations are scheduled to remain positive on Wednesday. It would take some extremely bearish evidence to change this. Meanwhile, the Differential Pivot will be well above current prices at 1,402.02 on Wednesday. This is 3.2% above Tuesday's close. A rally this strong on Wednesday is highly unlikely. We will probably need to see a multi-day move higher from here to move the market back into oversold territory.

There still appears to be a substantial upside edge. I said last night that I wanted to see compelling evidence from the CBI before adding more index exposure. The quick jump

to 6 makes it tempting, but I will give it one more day. If we get more selling tomorrow, a CBI of 10+ would be achieved very easily and it would compel me to increase my index exposure. For tonight, I will simply be looking to take small positions in the 6 Catapult trades.

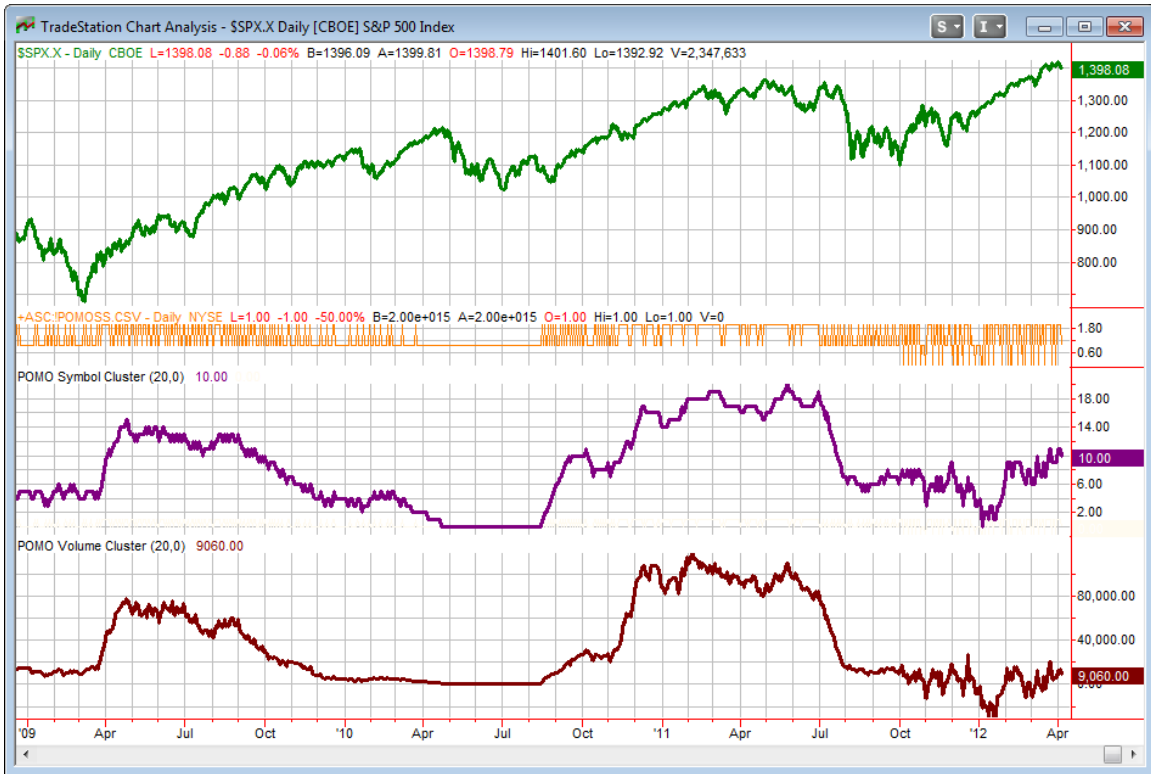
Intermediate-term Outlook (2 weeks – 2 months)– updated 4/9 – neutral

Despite positive seasonality the market failed to make progress in this shortened week. The SPX declined a mild 0.75% from last week's close. This week's action didn't bring about any new intermediate-term edges, but there are still some things to consider.

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.)

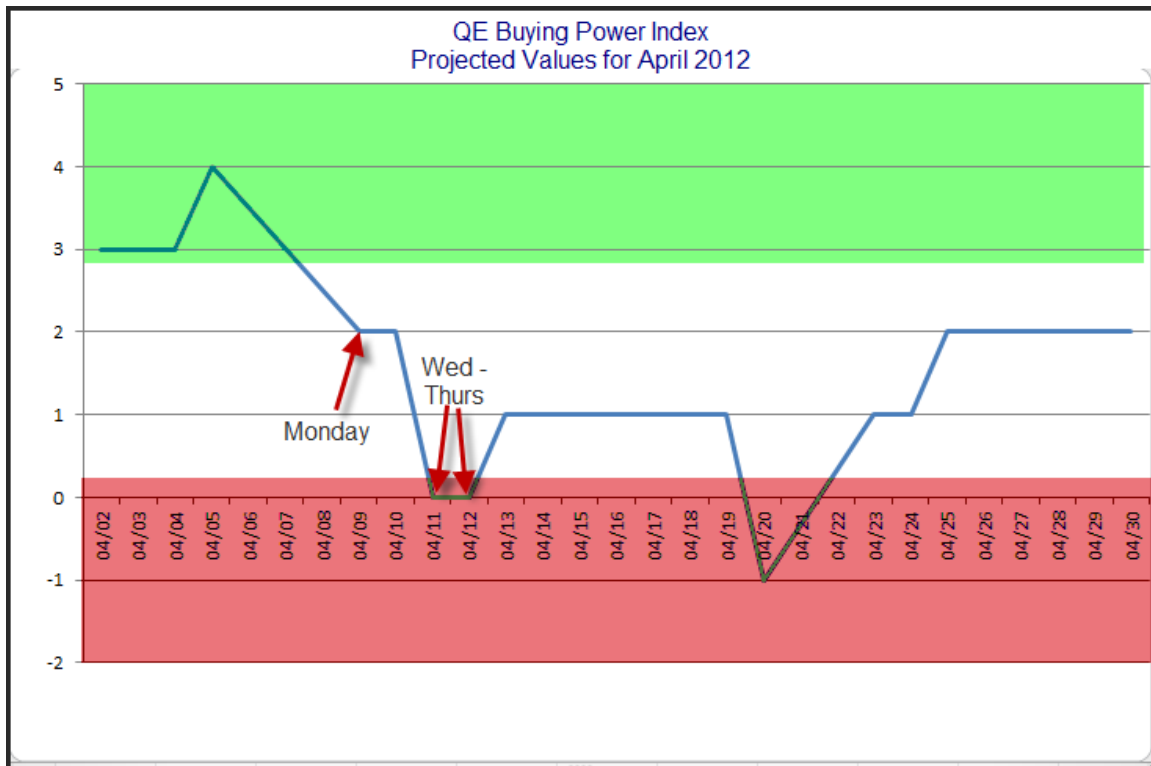
<http://www.quantifiableedges.com/members/pomo.php>



This past week saw strong inflows in the amount of just over \$12.5 billion. This was accomplished with 3 days of buying, and 1 day of inactivity. This kept the intermediate-term POMO indicators near the top of their recent range.

The liquidity flows are about to worsen, though. This upcoming week is scheduled for three days of buying and two days of selling with total net inflows of only about \$1 billion. And over the next three weeks there is expected to be about \$13 billion in net POMO outflows. As I did last week, I think it is worth pointing out the April projected QE Buying Power Index. The chart below is taken from the QE Buying Power Index information page.

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



I added a few arrows here to point out what's happening this week. As you can see, Monday the index is set to drop down to "2". Of course "3" or higher is considered bullish. After spending most of March at 3 or above, the index will not see that level again in April. This means the QE Buying Power Swing System cannot trigger long for the rest of the month. There will be a few opportunities for shorts to trigger. The first of those opportunities will be on Wednesday and Thursday of this upcoming week. So if the market does bounce in the early part of this upcoming week as the short-term outlook above suggests is likely, there is a chance it could set up a short trade on either Wednesday or Thursday.

I have continually been surprised at how well the market has performed over the last few months considering the very slight inflows provided by Operation Twist. If the market is going to suffer an intermediate-term pullback, POMO flows suggest it could get going here soon.

Aside from the poor POMO schedule, we also need to be mindful of breadth divergences, and possible negative impacts from rising interest rates. Intermediate-term bullish indicators are still active, but they no longer appear to substantially overwhelm the

bearish ones. I am not calling a top. I do not see a strong intermediate-term downside edge. But I am now wary and no longer excited about the bull case. Therefore I have moved my market outlook to neutral. I am still willing to take both longs and shorts, but I won't get overly aggressive with either.

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

New

BAX @ \$57.67 (buy 1/3 at limit)

IBM @ \$202.37 (buy 1/3 @ limit)

JPM @ \$42.96 (buy 1/3 @ limit)

KO @ \$72.02 (buy 1/3 @ limit)

QCOM @ \$66.25 (buy 1/3 @ limit)

TGT @ \$56.40 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6/6(BAX, IBM, JPM, KO, QCOM, TGT)

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.

BAX - buy 1/3 position @ \$57.67 limit

IBM – buy 1/3 position @ \$202.37 limit

JPM - buy 1/3 position @ \$42.96 limit

KO - buy 1/3 position @ \$72.02 limit

QCOM - buy 1/3 position @ \$66.25 limit

TGT- buy 1/3 position @ \$56.40 limit

All of the above are from the Catapult section. While Catapults have done well over the years, they have a tendency to be very volatile. For more detailed information on the Catapult strategy you may view the Catapult & CBI presentation.

[Catapult & CBI Presentation Link](#)

More information and ideas on trading Catapults can be found in the Catapult Exit Designer package available to subscribers on the Downloads page.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/6/2012	\$8.48	\$10.40	22.64%	\$10.40	stopped out
SPY(1/4)	4/5/2012	\$139.38	\$135.90	-2.50%		Aggregator
SPY(1/4)	4/9/2012	\$138.03	\$135.90	-1.54%		bought on open

XIV – I can't think of another trade where I was more disappointed with a 22% + gain. The VIX has risen now for a record 8 days in a row and caused a large pullback in XIV. There still may be an upside edge in this security, but it was time to step aside and take profits off the table.

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