

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 27, 2012

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## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Thursday's bounce failed to generate any compelling edges.

## Short-term Outlook

### The Bottom Line

The strong move up brought the market from oversold to overbought and the turned the Aggregator flat. I'm back to neutral.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
July 25, 2012	3 dn from 50-hi. Under 10ma > 10-low	1-4 days	Bullish	1.90%
July 24, 2012	2 unfilled down gaps >200ma. 5 low	1-5 days	Bullish	1.80%
<b>Active - Long Term</b>				
July 16, 2012	POMO modestly bullish	int term	Bullish	
June 13, 2012	FTD with modest breadth & vol	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
<b>July 26, 2012</b>	<b>SOX up 1%. Nasdaq down.</b>	<b>1 day</b>	<b>Bullish</b>	
July 23, 2012	Big drop from 50-day high	1-4 days	Bullish	1.20%

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

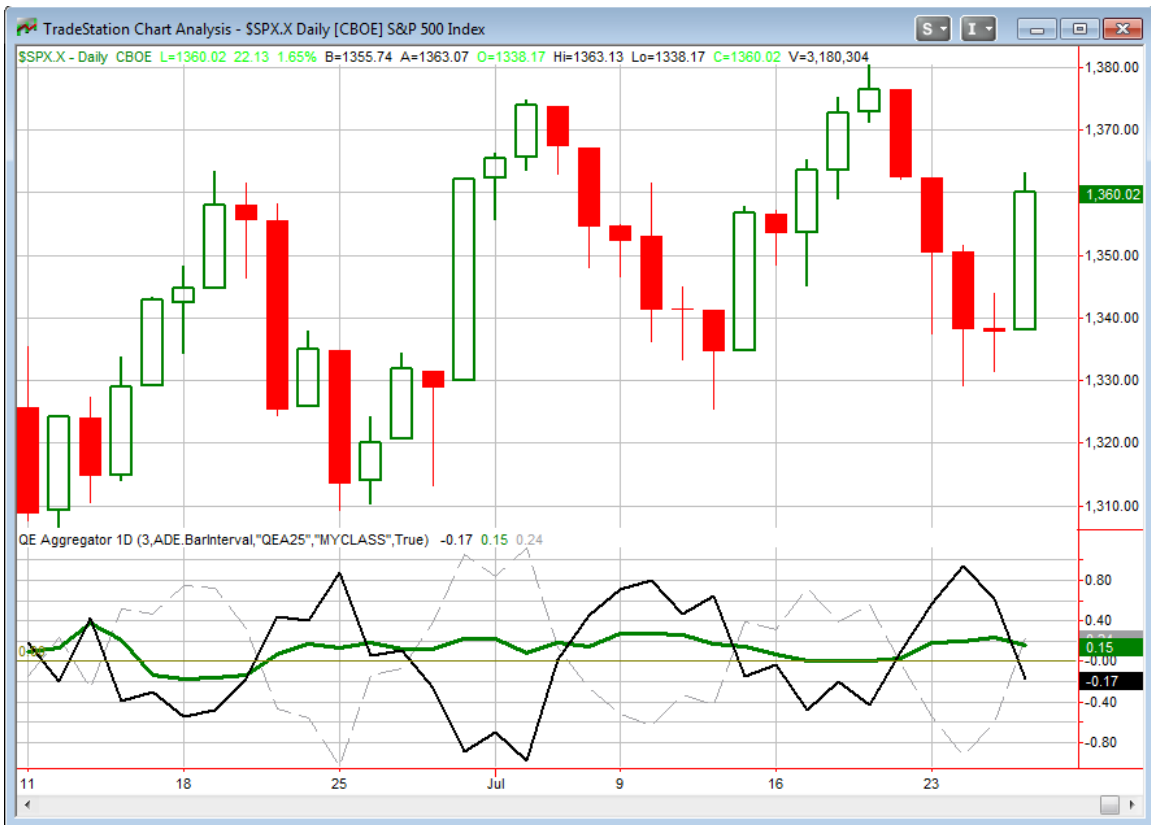
***The Evidence***

Buyers jumped back into the market on Thursday and pushed the major indices higher from the start. The SPX rallied 1.65%, the Nasdaq gained 1.4% and the Russell 2000 rose 1.0%. Breadth was solidly positive as the NYSE Up Issues % came in at 74% and the Up Volume % was 81%. Total NYSE volume was high but it faded a bit near the end of the day.

For a while it appeared volume was on track to post the highest reading in the last 20 trading days. When that happens on a day that the market rises (and it is not op-ex Friday), implications have been very strong over the next few days and weeks. Unfortunately Thursday’s volume couldn’t quite get there.

I looked at price movements a few different ways but was not struck by anything compelling. For instance, looking at other times the SPX bounced after 3-4 down days and made up the losses of the last 2 days yielded 50/50 odds and little to go on.

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



Without any bearish short-term evidence the green Aggregator Line once again closed above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line took a dive and is now squarely below 0. This means the SPX is short-term overbought versus expectations. So net expectations are bullish but the SPX is 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 meant the Aggregator System switched from long to flat at the close. This was indicated on the systems page shortly before the bell, and also mentioned in the intraday update.

Based on the current studies, expectations are slated to remain bullish on Friday. Of course that could change if bearish evidence emerges. The Differential Pivot will be 1,343.55 on Friday. This is 1.2% below Thursday's close. So it will take a big drop or a multi-day decline/consolidation to work off the short-term overbought condition from here.

There are still some studies suggesting we could have further to go, but nothing new that is terribly compelling. The QE Buying Power Index is slated to remain at 3 through the end of the month. With this in mind, it is unlikely that I will look to enter a short position before August. It would take very compelling evidence to get me to short against both an uptrend and a strong liquidity inflow. There is one Catapult that triggered tonight which I have listed below in the Catapult & CBI section.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 7/16 – slightly bullish***

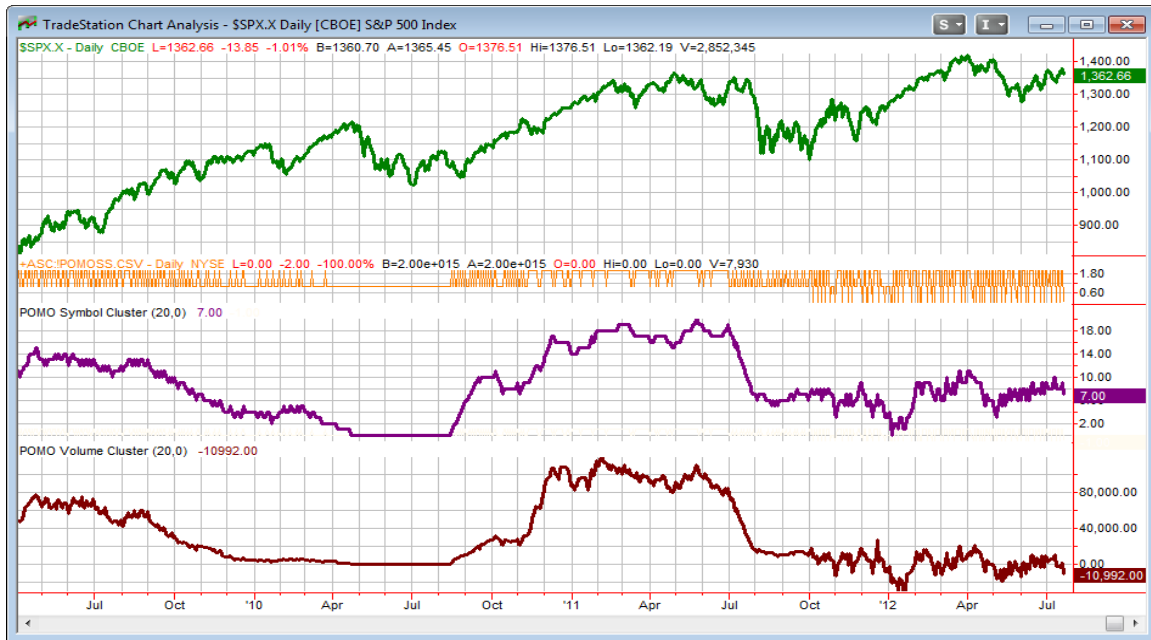
Back and forth trading this week left the market up a mild 0.4%. Making a new 50 day high was somewhat encouraging, but strong upside evidence and momentum are still lacking.

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>



As expected there were three days of POMO buying and two days of selling this past week. But the net outflows were larger than expected and amounted to \$7.5 billion. This left the intermediate-term indicators at their lowest points in quite a while, so it's not surprising to see that the market has made little progress over the last four weeks.

But from here through the end of the month POMO flows are expected to improve dramatically. There is only one selling day scheduled during the next seven trading days, with the rest all scheduled to see liquidity inflows. The net result of this buying is estimated to be about a \$12 billion inflow. The impact of this inflow is anticipated to be felt near the end of the month and the beginning of August.

Intermediate-term evidence remains mixed. I am feeling just slightly more bullish this week since we are now beyond last week's bout of POMO selling. Of course liquidity flows don't typically have an immediate impact and selling we saw this past week could continue to exert itself for several more days before the positive influence of the upcoming inflows takes over. While choppy, the trend also appears to favor the bullish case. So as has been the case recently, I am still more willing to buy oversold than I am to short overbought.

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### **Open Catapult Triggers**

*New*

*RTN – buy 1/3 @ \$54.56 limit*

### **Catapult for ETF's Trades**

*None*

### **Broad Market Large Cap CBI – 1 (RTN)**

### **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.*

***RTN – buy 1/3 position @ \$54.56 limit.** This is a Catapult trade. Catapults have done very well over the years but they can be very volatile. If you have not traded or studied them before I would encourage you to view [the Catapult & CBI presentation](#) or read more about them on the blog.*

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>7/23/2012</i>	<i>\$135.09</i>	<i>\$136.17</i>	<i>0.80%</i>		<i>sold on close</i>

*SPY was exited at the close as mentioned in the intraday update sent to gold subscribers about 1 hour before the closing bell. It was nice to take a decent profit on this trade, but it was a little frustrating trying to add the 2<sup>nd</sup> lot 3 times and just missing fills on 2 of them. Most of the time patience is rewarded. Sometimes it isn't. As it turned out I was a bit too stingy with my 2<sup>nd</sup> entry for this one. Oh well. That's trading. On to the next opportunity...*

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