

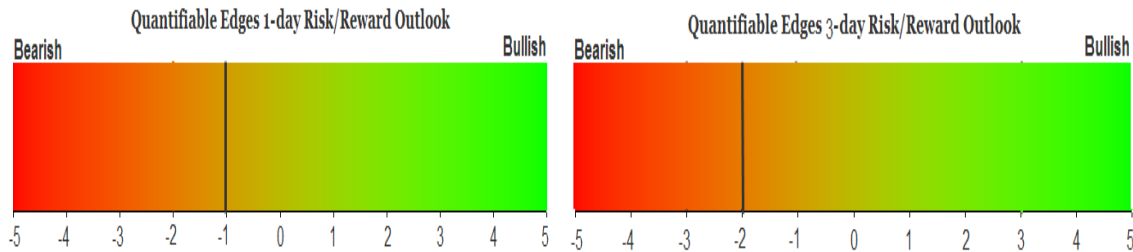
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 3, 2010

Volume 3 Issue 41

Market Overview



Tonight's Research Points

- Strong gains at the beginning of the month are often given back in short order.
- 3 Up days without a confirming volume pattern suggest mild downside.
- Tuesday's weak finish is actually a positive.
- The Aggregator System remained short on Tuesday.
- The NDX Aggressive Trend Timer remains flat.

Short-term Outlook – updated 3/3

The Bottom Line

Indications today are a bit mixed but the Aggregator is still favoring some downside. I'll sit tight with my small short position.

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
March 3, 2010	Unfilled gap up with lower close > 200	1-3 days	Bullish	1.20%
March 3, 2010	No up vol pattern 3 up days > 200ma	1-4 days	Bearish	-1.40%
March 2, 2010	75% Up Issue % on 1st day then up	1-5 days	Bearish	-1.70%
March 1, 2010	VIX 3 lows SPX 0 highs last 10 days	1-4 days	Bearish	-2.00%
February 24, 2010	1% drop and up issue % < 33.33%	1-9 days	Bullish	3.00%
Active - Long Term				
February 22, 2010	VIX:VXV Ratio falls below 0.9	int. term	Bearish	
February 22, 2010	Good 5 days after FTD	int. term	Bullish	
February 16, 2010	Nasdaq/S&P RS Indicator Positive	int. term	Bullish	
February 12, 2010	IBD Follow Through Day	int. term	Bullish	
February 8, 2010	Worden %>200ma - %>40ma > 40	3 - 7 weeks	Bullish	
January 13, 2010	No bearish divergence at high	int. term	Bullish	

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

The Evidence

A gap up on Tuesday led to some intraday strength. Ultimately the indices were unable to hold on to those intraday gains and they all closed in the lower end of their ranges. Still the opening gaps generally held and some gains were managed. The SPX gained 0.2%, the Nasdaq 0.3% and the Russell a strong 0.9%. Breadth was solidly positive with the NYSE Up Issues % coming in at 69% and the Up Volume % at 64%. Total volume rose and was above average on both exchanges.

The Quantifinder only came up with one study tonight from the 5/30/08 Subscriber Letter. I decided to take a new look at that study.

SPX closes higher at least 3 days in a row. NYSE Volume declines at least one of the last 2 days. 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: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-32,534.34	167	85	82	50.90	1,547.35	-2,000.72	0.77	0.80	-194.82
4	-59,113.37	180	84	96	46.67	1,292.72	-1,746.90	0.74	0.65	-328.41
3	-70,891.43	190	87	103	45.79	1,116.59	-1,631.41	0.68	0.58	-373.11
2	-46,722.20	211	101	110	47.87	823.98	-1,181.31	0.70	0.64	-221.43
1	-36,394.98	299	140	159	46.82	654.75	-805.41	0.81	0.72	-121.72

This time I shortened the look back period to 1998 since the bearish influence didn't seem to take effect until around then.

I also took a peek at the above test using a 200ma filter.

SPX closes higher at least 3 days in a row. NYSE volume declines at least one of the last 2 days. Close > 200ma. 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: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-3,582.09	121	64	57	52.89	1,349.46	-1,578.02	0.86	0.96	-29.60
4	-18,262.57	130	64	66	49.23	1,197.16	-1,437.59	0.83	0.81	-140.48
3	-17,013.43	139	70	69	50.36	1,004.09	-1,265.21	0.79	0.81	-122.40
2	-4,024.10	155	80	75	51.61	713.57	-814.79	0.88	0.93	-25.96
1	-11,987.74	223	107	116	47.98	483.62	-549.44	0.88	0.81	-53.76

This suggests a very mild downside edge.

Last night I showed how the SPX has performed following times where the 1st day of the month saw strong upside breadth. Even more compelling was the study that examined what happened if the following day also finished higher. That study is shown below again tonight.

Yesterday was the 1st day of month and Up Issue % was 75% or greater. Today the market again closed higher. Buy on close. Sell x days later. \$100k/trade. 11/87 - 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	-14,294.95	12	1	11	8.33	1,812.02	-1,464.27	1.24	0.11	-1,191.25
4	-14,338.92	12	4	8	33.33	598.87	-2,091.80	0.29	0.14	-1,194.91
3	-10,950.94	12	5	7	41.67	755.97	-2,104.40	0.36	0.26	-912.58
2	-4,158.70	12	4	8	33.33	785.08	-912.38	0.86	0.43	-346.56
1	-4,034.45	12	5	7	41.67	268.51	-768.14	0.35	0.25	-336.20

In the past, the kind of early month strength we've seen the last 2 days has faded fast. It's also been very consistent.

Lastly, when the market puts in a bar like today there are always people suggesting that the weak finish is a bad sign for the upmove. These claims are generally unfounded. I ran a test of performance following unfilled upside gaps that make a 20-day high. Below I've broken out the results by times the SPY closed above the open versus times where it closed below the open.

First let's look at those times where the finish was relatively strong:

SPY posts a 20-day intraday high & a low above yesterday's close. It then closes ABOVE the open and above the 200ma. Buy on close. Sell X 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	5,660.93	111	57	52	51.35	1,083.08	-1,078.35	1.00	1.10	51.00
4	7,684.00	121	67	53	55.37	1,001.35	-1,120.87	0.89	1.13	63.50
3	1,501.68	132	75	56	56.82	728.72	-949.15	0.77	1.03	11.38
2	-3,487.55	139	71	67	51.08	589.35	-676.59	0.87	0.92	-25.09
1	3,663.97	148	76	71	51.35	449.06	-429.08	1.05	1.12	24.79

There doesn't appear to be any edge in either direction here. Now let's examine times like the present where SPY closed below the open.

SPY posts a 20-day intraday high & a low above yesterday's close. It then closes **BELOW** the open but above the 200ma. Buy on close. Sell X 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	11,576.11	22	12	10	54.55	1,799.02	-1,001.21	1.80	2.16	526.19
4	12,634.59	22	16	6	72.73	1,162.71	-994.79	1.17	3.12	574.30
3	15,390.96	24	17	6	70.83	1,176.21	-767.44	1.53	4.34	641.29
2	12,103.09	25	16	9	64.00	1,107.99	-624.98	1.77	3.15	484.12
1	4,543.86	26	15	11	57.69	644.65	-465.99	1.38	1.89	174.76

22 of 26 instances (85%) closed above the entry price at some point in the next 3 days.

These results are substantially better than earlier where the finish was good. Rather than worrying about the weak finish bulls should be excited by it.

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



Little changed tonight with the Aggregator configuration. The green Aggregator line has dipped a little further below 0. This shows the net expectations from the active studies is for downside over the next few days. The black Differential line is also in negative territory since the SPX has outperformed expectations over the last few days. Short-term bearish expectations combined with recent outperformance have historically added up to a downside edge. The Aggregator System remains short.

Looking ahead over the next few days, the green Aggregator line is set up to remain in negative territory. The pivot number for the Differential line Tuesday is 1,103.92. In other words, it would take a SPX close at or below this number in order to flip the Differential line above 0 as of Wednesday's close.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/1 – bullish

In the last couple of weeks we've seen several studies that have suggested intermediate-term implications. This week I am not seeing any new compelling intermediate-term evidence. There is a fair amount listed on the active studies list, though and I thought it might be a good idea to go over some of it.

I'll first discuss the bearish studies. The 1st one to note was from the February 1st letter. It examined the persistently weak breadth that was evident at the time as measured by the Ratio Adjusted McClellan Oscillator. Time has run out on that study as the month is now over. It was followed by another leg down but the market turned soon after and the intermediate-term influence was never exerted.

The other bearish study on the intermediate-term list is the VIX:VXV ratio dropping below 0.9. This study was discussed and updated in detail last week. It hasn't been a great timing device but rather has provided hints of downside to come. It also hasn't performed as well over the last year and a half as it had before that.

There are two bullish studies active that examined market breadth. The first was from mid-January. It suggested that since there was no breadth divergence when the January highs were hit that it was unlikely a significant top was being put in. The 2nd breadth related study was from the Feb 8th Letter and looked at the extremely low number of stocks trading above their 40ma versus those above their 200ma. This ratio suggested that the longer-term upmove was likely to re-exert itself over the shorter-term selloff.

There are also two studies listed that relate to IBD follow through days (FTD). February 11th gave us a valid follow FTD using the classic IBD definition which requires a 1% rise on higher volume. In recent years they have changed that requirement to several times and it now sits at 1.7% in their latest version. [My testing suggested that changing of this requirement was not an effective idea.](#) Interestingly, there still has not been a FTD based on the new definition but the Feb 11th classic FTD is still in effect. The other FTD study shown above was from last week and it suggested that the market rising in the week after the classic FTD was a good sign.

The last study shown above is the Nasdaq/S&P 500 Relative Strength Indicator which is shown on the charts page and updated each week. Currently the indicator is suggesting the Nasdaq is exerting relative strength over the S&P 500. This has historically been a good sign for the market and accounted for most of the gains in the S&P since 1971. Unfortunately we are not getting confirmation of this model from the NDX Aggressive Trend Timer System. February was a slow month for the system as it was in cash all but 1 day. It was a good 1 day as the NDX gained 1.29% on that day while the system was long. So while the Nasdaq/S&P RS Indicator from above is positive, I would prefer if it was confirmed by the NDX Aggressive Timer System.

So similar to last week we have a short-term sell signal from the Aggregator, but the intermediate-term still looks fairly bright. I still expect that we will be testing the January highs. For me to remove that expectation I'll need to see some additional bearish evidence of intermediate-term consequence or at the very least some elimination of the current bullish evidence.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

QCOM bought 1/3 position @ \$37.12

QCOM bought 1/3 position @ \$36.68

QCOM @ buy 1/3 position @ \$35.56 (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(QCOM-3)

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.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QCOM(1/3)	2/26/2010	\$37.12	\$37.93	2.18%		Catapult
QCOM(1/3)	3/1/2010	\$36.68	\$37.93	3.41%		Catapult
SPY(1/4)(s)	3/1/2010	\$111.20	\$112.20	-0.90%		Aggregator
SPY(1/4)(s)	3/2/2010	\$112.37	\$112.20	0.15%		Aggregator

QCOM just barely missed its exit trigger. I'll send out updated trigger levels in the morning. Nothing wrong with taking a little off the table here after the bounce yesterday if traders are so inclined.

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