

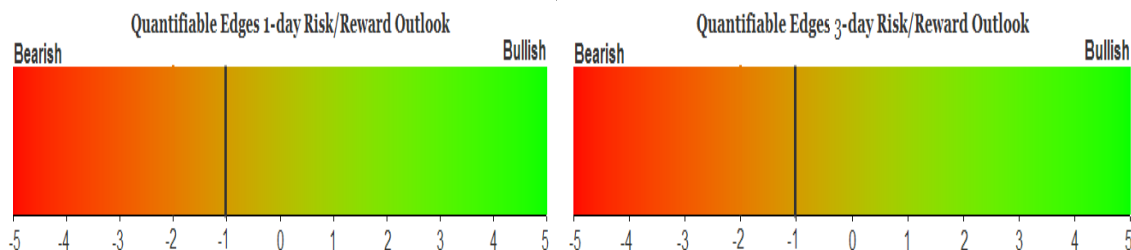
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2010

Volume 3 Issue 42

Market Overview



Tonight's Research Points

- SPX makes a higher high, but NYSE new highs contract to suggest a bearish edge.
- 2 days in a row of a gap higher, close positive, but still below the open with parameters like the present has always led to upside in the past.
- The Aggregator System remained short on Wednesday.
- The NDX Aggressive Trend Timer remains flat.

Short-term Outlook – updated 3/4

The Bottom Line

While the Aggregator remains short tonight it is unlikely to stay that way. A mix of studies are led by a strongly bullish setup that will likely lead to a signal change tomorrow.

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 4, 2010	NH's contract while SPX posts higher hi	1 day	Bearish	
March 4, 2010	2-days gap up close pos but under open	1-5 days	Bullish	2.20%
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	
Dropped Tonight				
March 3, 2010	Unfilled gap up with lower close > 200	1-3 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

A gap up led to a back and forth day in the market on Wednesday. The indices were almost unchanged with the SPX gaining 0.04%, the Nasdaq down a small fraction of a point and the Russell 2000 gaining 0.15%. Breadth was mildly positive with the NYSE Up Issue % and the Up Volume % both closing at 55%. Volume came in at the lightest level in over a week.

The Quantifinder didn't come up with much tonight, but one of the great things about this never ending quest for edges is that there is SO MUCH out there to test. I don't think I'll ever run out of ideas. New ones are sparked every day. Sometimes by my own observations, sometimes by reader feedback, sometimes through reading and sometimes by previous studies. I had some things in mind as I went through my charts tonight and I was pleasantly surprised to uncover a few new studies with immediately compelling results. It served a reminder that no matter how many hundreds or thousands according to my datof studies I plug into the Quantifinder, there will always be more to learn.

A few people pointed out to me today the contraction in 52-week highs. With the market making a short-term high you would typically expect the underlying number of stocks hitting new highs to increase over yesterday. Instead, according to my provider the NYSE new highs number dropped from 474 Tuesday to 411 on Wednesday. Below is one way to describe the contraction.

Yesterday the # of NYSE new 52-week highs was the highest in 10 days. Today SPX makes a 10-day intraday high but new highs contract. Buy on close. Sell X days later. \$100k/trade. 2000 - 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
10	-46,322.69	68	30	38	44.12	2,033.53	-2,824.44	0.72	0.57	-681.22
9	-41,666.66	69	34	35	49.28	1,744.12	-2,884.77	0.60	0.59	-603.86
8	-38,984.77	72	38	34	52.78	1,515.25	-2,840.12	0.53	0.60	-541.46
7	-22,025.87	72	41	31	56.94	1,550.45	-2,781.11	0.56	0.74	-305.91
6	-13,655.04	76	38	38	50.00	1,887.76	-2,247.10	0.84	0.84	-179.67
5	-14,204.33	80	43	37	53.75	1,337.75	-1,938.58	0.69	0.80	-177.55
4	-10,598.00	82	42	40	51.22	1,343.14	-1,675.25	0.80	0.84	-129.24
3	-16,784.07	85	42	43	49.41	1,005.42	-1,372.36	0.73	0.72	-197.46
2	-17,586.65	88	40	48	45.45	915.40	-1,129.22	0.81	0.68	-199.85
1	-24,879.66	88	36	52	40.91	422.23	-770.77	0.55	0.38	-282.72

A large portion of the negative vibe seems to occur the next day. There is some evidence that a downside inclination remains even over the next couple of weeks. I also decided to break this down by long-term trend to make sure that the edge wasn't only present below the 200ma. First let's look at instances that occurred in downtrending markets.

Yesterday the # of NYSE new 52-week highs was the highest in 10 days. Today SPX makes a 10-day intraday high but new highs contract. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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
10	-31,657.97	22	8	14	36.36	3,287.22	-4,139.69	0.79	0.45	-1,439.00
9	-29,292.56	23	10	13	43.48	2,648.97	-4,290.94	0.62	0.47	-1,273.59
8	-29,494.88	24	12	12	50.00	2,310.10	-4,768.01	0.48	0.48	-1,228.95
7	-18,297.22	24	13	11	54.17	2,340.80	-4,429.79	0.53	0.62	-762.38
6	-13,443.77	24	13	11	54.17	2,647.73	-4,351.30	0.61	0.72	-560.16
5	-13,320.97	26	13	13	50.00	2,147.45	-3,172.14	0.68	0.68	-512.35
4	-5,528.71	27	15	12	55.56	2,144.71	-3,141.62	0.68	0.85	-204.77
3	-12,029.50	28	12	16	42.86	1,799.36	-2,101.37	0.86	0.64	-429.63
2	-9,714.22	28	14	14	50.00	1,479.30	-2,173.17	0.68	0.68	-346.94
1	-12,963.58	28	12	16	42.86	595.80	-1,257.07	0.47	0.36	-462.99

As you'd expect results here are even more negative. This begs the question of whether the bearish bias even exists above the 200ma.

Yesterday the # of NYSE new 52-week highs was the highest in 10 days. Today SPX makes a 10-day intraday high but new highs contract. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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
10	-13,753.36	47	23	24	48.94	1,548.68	-2,057.21	0.75	0.72	-292.62
9	-11,912.19	47	25	22	53.19	1,330.90	-2,053.85	0.65	0.74	-253.45
8	-9,489.89	48	26	22	54.17	1,148.39	-1,788.55	0.64	0.76	-197.71
7	-3,728.65	48	28	20	58.33	1,183.50	-1,843.33	0.64	0.90	-77.68
6	-211.27	52	25	27	48.08	1,492.57	-1,389.84	1.07	0.99	-4.06
5	-883.36	54	30	24	55.56	986.87	-1,270.40	0.78	0.97	-16.36
4	-5,069.29	55	27	28	49.09	897.82	-1,046.80	0.86	0.83	-92.17
3	-4,754.57	57	30	27	52.63	687.84	-940.36	0.73	0.81	-83.41
2	-7,872.43	60	26	34	43.33	611.77	-699.36	0.87	0.67	-131.21
1	-11,916.08	60	24	36	40.00	335.45	-554.63	0.60	0.40	-198.60

While not as strong, there still does seem to be a decent downside edge on Day 1.

Last night I discussed that gaps higher that are followed by weakness later in the day are actually a better sign than if the day finishes strong. Wednesday's bar shared a lot of matching characteristics with Tuesday's. Below I looked at other times there were back to back bars with such similar traits.

SPY gaps up, makes a higher high and then closes below the open but still positive on the day and above the 200ma. It also did this yesterday.
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	19,822.88	11	11	0	100.00	1,802.08	0.00	100.00	100.00	1,802.08
4	14,946.80	11	10	1	90.91	1,576.05	-813.74	1.94	19.37	1,358.80
3	12,757.21	11	8	3	72.73	1,643.43	-130.06	12.64	33.69	1,159.75
2	10,253.67	11	9	2	81.82	1,322.74	-825.51	1.60	7.21	932.15
1	9,064.84	13	12	1	92.31	815.49	-721.00	1.13	13.57	697.30

Results here are very, very strong and are having a substantial influence on the Aggregator over the next few days. Below I listed all the trades individually with a 5-day exit trigger.

SPY gaps up, makes a higher high and then closes below the open but still positive on the day and above the 200ma. It also did this yesterday.
Buy on close. Sell 5 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
04/19/96	Buy	\$64.54	1.39%	\$1,967.23
04/26/96	Sell	\$65.44		\$0.00
11/28/97	Buy	\$95.63	3.46%	\$3,521.65
12/05/97	Sell	\$98.94		\$0.00
11/05/99	Buy	\$137.88	1.36%	\$1,522.50
11/12/99	Sell	\$139.75		\$1,305.00
12/10/99	Buy	\$141.88	0.57%	\$1,006.77
12/17/99	Sell	\$142.69		(\$1,302.40)
12/17/99	Buy	\$142.69	2.52%	\$2,863.00
12/27/99	Sell	\$146.28		(\$1,120.00)
07/13/00	Buy	\$149.78	0.57%	\$1,467.40
07/20/00	Sell	\$150.63		(\$1,020.51)
05/24/04	Buy	\$110.27	2.21%	\$2,500.56
06/01/04	Sell	\$112.71		(\$607.02)
11/02/04	Buy	\$113.55	2.93%	\$3,599.20
11/09/04	Sell	\$116.88		\$0.00
01/26/05	Buy	\$117.23	1.74%	\$2,013.08
02/02/05	Sell	\$119.27		(\$528.86)
01/25/06	Buy	\$126.66	1.37%	\$1,696.35
02/01/06	Sell	\$128.39		\$0.00
03/30/07	Buy	\$142.00	1.72%	\$1,971.20
04/09/07	Sell	\$144.44		(\$781.44)
03/03/10	Buy	\$112.30	n/a	\$0.00
open	n/a	\$112.30		\$0.00

The largest intratrade drawdown of 1.3% was smaller than all but 1 of the run-ups. Only 2 trades didn't finish up at least 1.3%.

The note at the bottom of the graphic really tells the story. Risk/reward is tilted very strongly bullish.

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



The green Aggregator line ticked higher tonight and very nearly crossed above 0. Net expectations from the active studies remain negative but just barely. Meanwhile the black Differential line is still solidly negative, illustrating the fact that the SPX has outperformed expectations over the last few days. Both lines below 0 is considered a bearish configuration and the Aggregator Systems short signal remains in place.

Looking ahead to tomorrow the green Aggregator line as presently constructed is set to turn positive. Meanwhile the pivot level for the black Differential line is rising all the way up to 1,115.61. This means any close at or below this level would turn the black Differential line positive.

It appears very unlikely that this short signal will persist beyond today. Barring some strong evidence to the contrary we will very likely see the Aggregator System suggest a flat or long bias at Thursday's close. I was a bit uncomfortable with this short-term short signal from the beginning since it had to overcome such bullish intermediate-term evidence. In any case, with the knowledge that the Aggregator is likely to turn positive tomorrow in mind, it makes sense to trail a stop lower on the SPY trade idea tomorrow should it head lower during the morning.

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

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.

SPY – buy ¼ index position at \$111.25 limit ON CLOSE. This would almost certainly trigger a long Aggregator entry and I'll be looking to get some exposure even before overnight study confirmation tomorrow.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QCOM(1/3)	2/26/2010	\$37.12	\$38.69	4.23%		sold on close
QCOM(1/3)	3/1/2010	\$36.68	\$38.69	5.48%		sold on close
SPY(1/4)(s)	3/1/2010	\$111.20	\$112.30	-0.99%		Aggregator
SPY(1/4)(s)	3/2/2010	\$112.37	\$112.30	0.06%		Aggregator

QCOM barely avoided getting stopped out intraday. After a tough start this trade turned out nicely.

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