

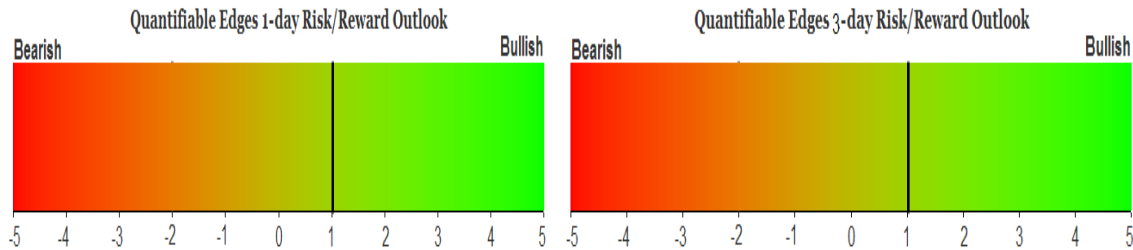
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 23, 2010

Volume 3 Issue 55

Market Overview



Tonight's Research Points

- QQQQ posted the 2nd outside day in a row. This suggests bullish implications.
- The Aggregator System barely remained long at the close.
- The NDX Aggressive Trend Timer barely remained long at the close.

Short-term Outlook – updated 3/23

The Bottom Line

The bias is for additional upside but it is a fairly weak bias. The active studies is extremely low and the Differential value is almost dead even.

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	Avg MM - 1/3 Std Dev
Active					
March 17, 2010	100-day closing high on a Fed Day	1-8 days	Bullish	2.00%	1.70%
Active - Long Term					
March 22, 2010	25+ Days Above 10ma	int. term	Bullish		
March 10, 2010	Ttl Put/Call 40-low. SPX no 0.5% up.	1-5 weeks	Bearish	-4.90%	-3.30%
February 22, 2010	VIX:VXV Ratio falls below 0.9	int. term	Bearish		
February 16, 2010	Nasdaq/S&P RS Indicator Positive	int. term	Bullish		
Dropped Tonight					
March 22, 2010	SPX Down Friday over last year	1 day	Bullish		
March 19, 2010	SPX down. RSI(2) > 90. Close > 200ma	1-2 days	Bullish	1.10%	0.80%

If the avg max move – 1/3 Std Dev is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

The market got off to a rough start with a sizable gap down, but the low was made almost immediately and the market trudged higher most of the day. When it was over the SPX was up 0.5%, the Nasdaq 0.9% and the Russell 2000 1.4%. Breadth was solidly positive as the NYSE Up Issue % was 65% and the Up Volume % was 73%. Total volume declined and was below average.

This was the 2nd day in a row that the SPX posted a WR7 bar. A WR7 means today's range was the widest in 7 days. Unfortunately, back to back WR7 bars aren't usually predictive when they close in opposite directions. Upside edges do exist if you find back to back WR7's and they either both close up or both close down.

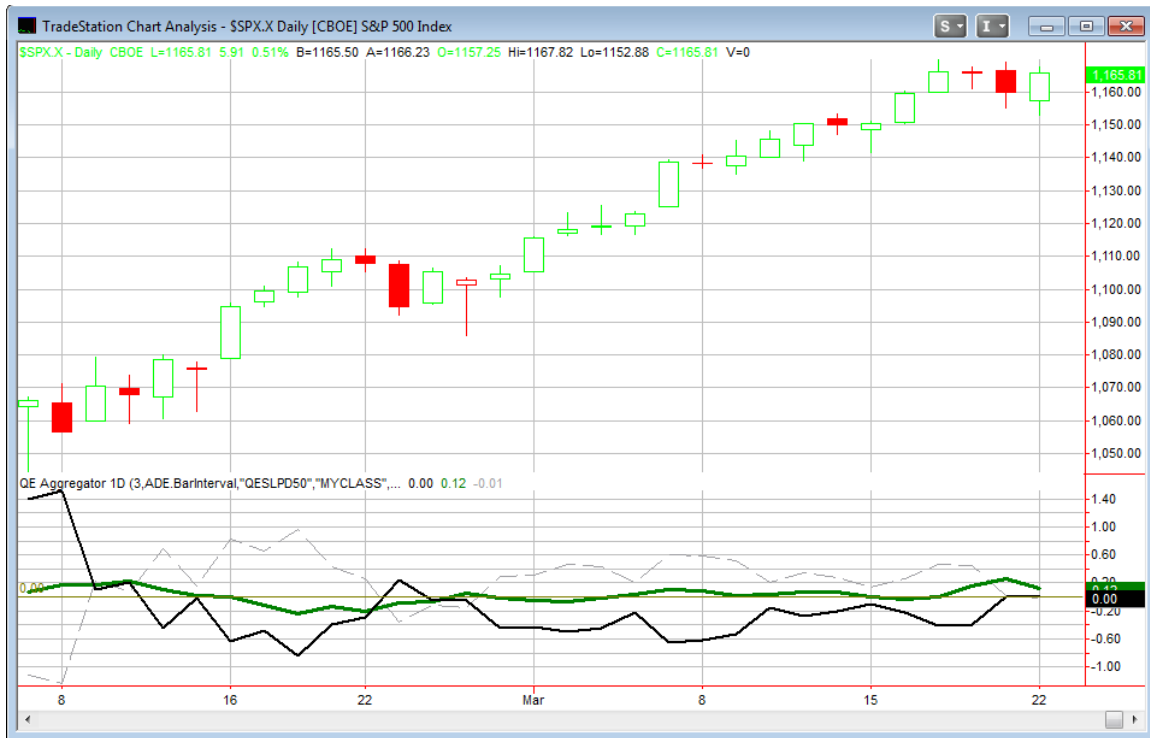
In the 12/7 Letter I showed the positive implication of QQQQ having 2 consecutive outside days. I have updated that study below. (Note: The 12/7/09 study mistakenly included a 200ma filter. I've eliminated that tonight since it made little difference and instances are a bit low anyway.)

QQQQ posts 2 outside days in a row. 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
5	34,219.73	17	13	4	76.47	2,991.18	-1,166.42	2.56	8.33	2,012.93
4	33,350.49	17	14	3	82.35	2,718.57	-1,569.81	1.73	8.08	1,961.79
3	33,386.15	18	13	5	72.22	2,955.09	-1,005.99	2.94	7.64	1,854.79
2	16,965.73	18	14	4	77.78	1,724.50	-1,794.32	0.96	3.36	942.54
1	14,544.40	18	13	5	72.22	1,302.07	-476.50	2.73	7.10	808.02

Implications are quite strong for the QQQQ. Interestingly, I also check to see how SPY did when QQQQ set up this way. Results were not nearly as consistent and struggled to suggest an edge. QQQQ's bullish setup won't necessarily drag the S&P up as well.

I created quite a few additional studies tonight but failed to spot anything very compelling.

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

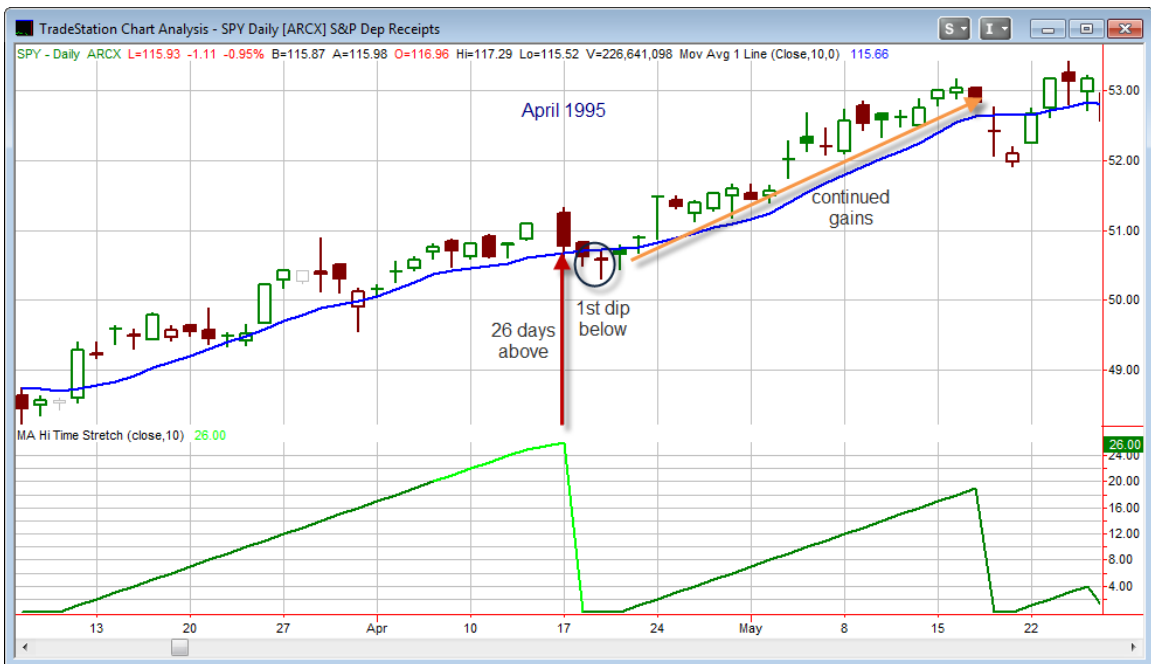
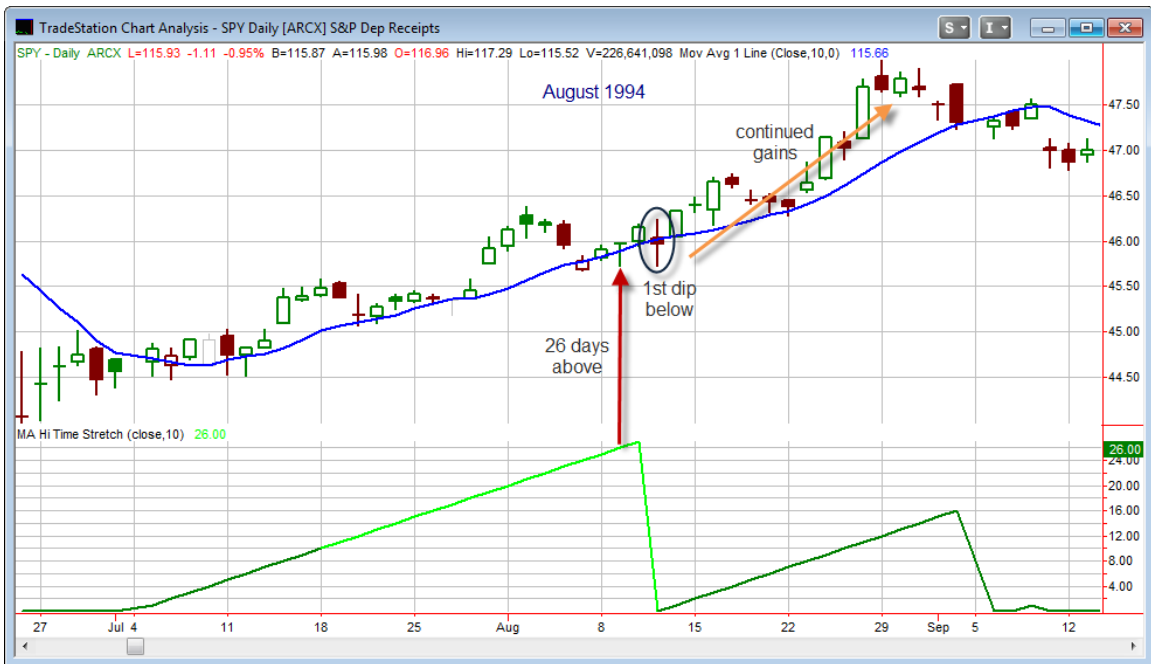


Without the addition of any short-term bearish studies tonight the green Aggregator line has remained above zero (and short-term bullish). Meanwhile the black Differential line closed almost exactly at 0 for the second day in a row. The final value was 0.0049, which was rounded to 0.00 on the chart. This means that the market has performed almost exactly in line with expectations over the last couple of days. On the one hand that may suggest projections have been quite good the last few days. The problem is with the perceived edge so close to 0, the current edge is marginal. The Aggregator System remains long after just missing its exit at the close.

Looking ahead the green Aggregator line will remain positive over the next few days unless additional bearish studies emerge. The pivot level for the Differential value will move higher to 1,167.29 on Tuesday. In other words it will take a close at or above this number in order for the Differential line to drop below 0.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/22 – somewhat bullish

Friday marked the 26th day in a row that the SPY has closed above its 10-day moving average. This is fairly rare to see. Since its inception in 1993 there have only been 5 other instances where SPY had a run of 25 days or more. In examining these other instances I found 2 strong consistencies. First, a dip below the 10ma came pretty soon after. Second, the 1st pullback below the 10ma never marked the top. Below are charts of all the instances to illustrate this. The indicator in the bottom pane shows the number of days the SPY has closed above its 10ma.







Strong and persistent upside movement like we have seen lately hasn't just ended and lead to an immediate correction. The 1st dip has always been just that – a dip. New highs were always made in short order. After these new highs were made there may have been a loss of momentum that turned into a substantial top. It never came on the 1st dip, though – and the 1st dip is what we are waiting for at the moment. The caveat here is obviously the very low sample size, but I'm not seeing a whole lot that says a strong sustained selloff is likely.

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.

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/19/2010	\$115.96	\$116.59	0.54%		

Sell 1/2 open position @ \$116.59 limit. With the Aggregator System so very close to an exit on Monday, I'll look to lock in some profits.

Sell remaining open position on close of 1,167.29 or higher for SPX. A move this high would flip the Differential and move the Aggregator System to either flat or short.

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