

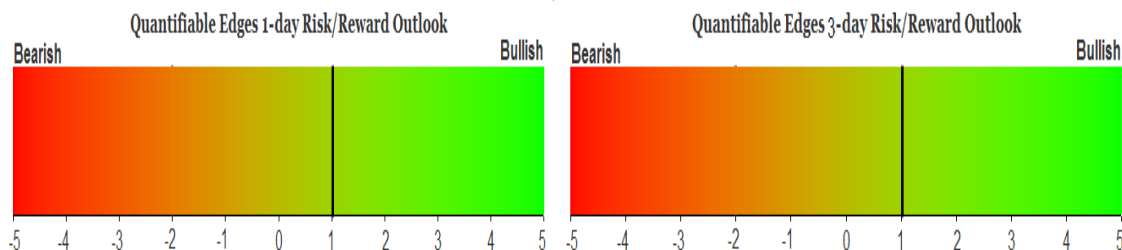
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 25, 2010

Volume 3 Issue 57

Market Overview



Tonight's Research Points

- Gaps downs from 50-day highs that don't fill have a moderate tendency to lead to more short-term selling.
- Nasdaq NR4 on weak breadth provides an upside edge for both the Nasdaq and the SPX.
- The Aggregator System remained flat at the close.
- The NDX Aggressive Trend Timer changed to long at the close.

Short-term Outlook – updated 3/25

The Bottom Line

Some conflicting evidence tonight although the bullish case is quite a bit stronger. Still, with the market overbought my trading approach suggests patience. Unless the market rallies some tomorrow there is a good chance of a long entry triggering via the Aggregator system. The NDX Timer bought back into the market after stepping aside for a day.

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 10, 2010	Unfilled gap from 50 high	1-2 days	Bearish		
March 25, 2010	Nasdaq NR4, Nas Up Issue % < 30%	1-4 days	Bullish	3.00%	2.30%
March 17, 2010	100-day closing high on a Fed Day	1-8 days	Bullish	2.00%	1.70%
Active - Long Term					
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		

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

After gapping down a bit to open the day the market did very little. Ranges were narrow across the board. When it was over the SPX lost 0.6%, the Nasdaq 0.7% and the Russell 2000 1.0%. Breadth was weak as the NYSE Up Issues % came in at 34% and the Up Volume % at 43%. Total volume somehow rose during this narrow range affair.

While the Quantifinder came up empty there were a few things to look at tonight which produced interesting results. Unfilled gaps down from very high levels have a tendency to attract a bit more selling. The study below exemplifies this.

Unfilled gap down from 50-day high. Close > 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	1,154.77	60	29	31	48.33	1,315.93	-1,193.78	1.10	1.03	19.25
4	-1,377.00	61	30	31	49.18	1,049.79	-1,060.34	0.99	0.96	-22.57
3	-8,936.86	61	27	34	44.26	674.69	-798.63	0.84	0.67	-146.51
2	-13,700.56	66	28	38	42.42	698.63	-875.32	0.80	0.59	-207.58
1	-5,408.75	66	31	35	46.97	600.60	-686.50	0.87	0.77	-81.95

The edge isn't huge and it is typically exhausted after about 2 days, but I still think it's worth considering.

I mentioned the narrow ranges and the weak breadth above. The Nasdaq's breadth was even weaker than the NYSE. I ran a study tonight that looked at other times the Nasdaq exhibited very weak breadth but saw a narrow-range bar form.

Nasdaq posts lowest range in 4 days while Nasdaq Up Issue % < 30%. 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	65,488.96	20	16	4	80.00	5,387.92	-5,179.44	1.04	4.16	3,274.45
9	64,802.09	20	16	4	80.00	5,297.60	-4,989.90	1.06	4.25	3,240.10
8	51,304.20	20	16	4	80.00	4,410.59	-4,816.30	0.92	3.66	2,565.21
7	38,085.94	20	14	6	70.00	4,390.03	-3,895.75	1.13	2.63	1,904.30
6	51,170.88	20	15	5	75.00	4,928.41	-4,551.05	1.08	3.25	2,558.54
5	47,278.22	20	14	6	70.00	4,677.24	-3,033.86	1.54	3.60	2,363.91
4	45,274.38	20	14	6	70.00	4,337.02	-2,573.97	1.68	3.93	2,263.72
3	42,163.95	21	16	5	76.19	3,057.40	-1,350.90	2.26	7.24	2,007.81
2	26,387.87	22	13	9	59.09	3,270.14	-1,791.55	1.83	2.64	1,199.45
1	22,012.26	22	14	8	63.64	2,492.89	-1,611.02	1.55	2.71	1,000.56

21 of 22 instances (95%) closed above the open at some point in the next 4 days.

These results are quite compelling.

I also took a look at how the SPX performed when the Nasdaq set up this way.

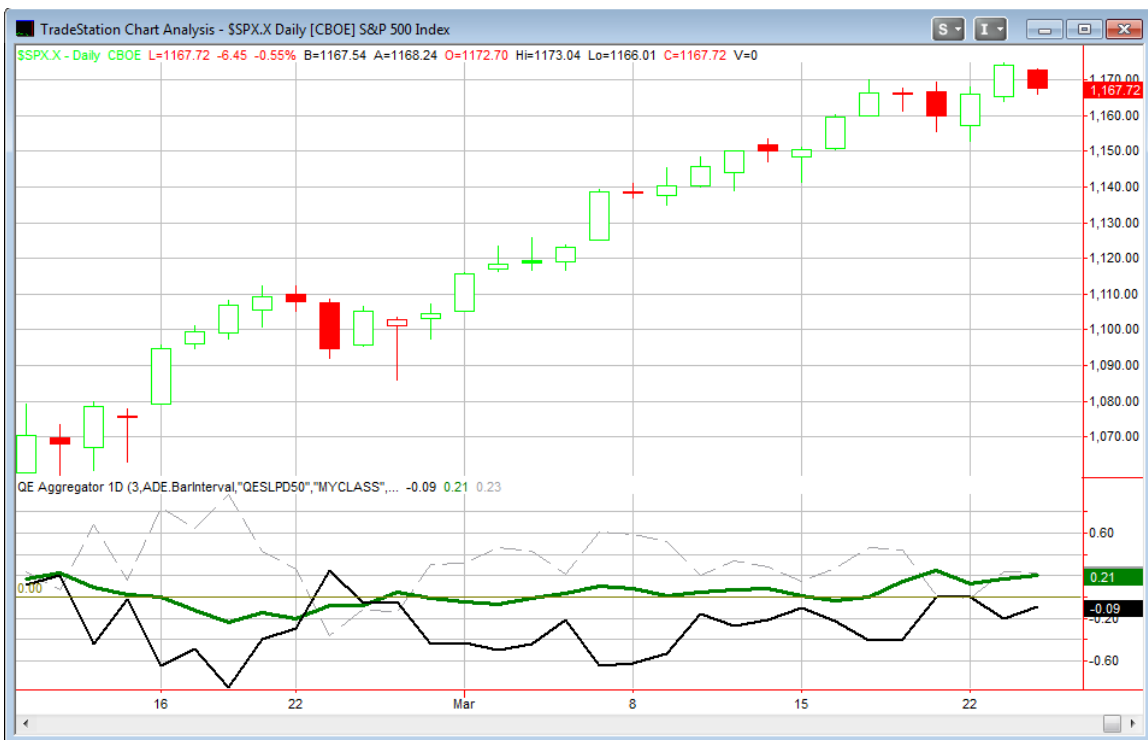
**Nasdaq posts lowest range in 4 days while Nasdaq Up Issue % < 30%.
Buy SPX on close. Sell X days later. \$100k/trade. 2000 - present.**

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	57,011.10	20	14	6	70.00	4,972.07	-2,099.65	2.37	5.53	2,850.56
9	53,998.83	20	16	4	80.00	4,045.10	-2,680.71	1.51	6.04	2,699.94
8	45,449.96	20	14	5	70.00	4,130.87	-2,476.43	1.67	4.67	2,272.50
7	34,029.46	20	12	8	60.00	4,224.90	-2,083.66	2.03	3.04	1,701.47
6	41,941.00	20	14	6	70.00	4,277.32	-2,990.25	1.43	3.34	2,097.05
5	37,564.33	20	14	6	70.00	3,582.98	-2,099.56	1.71	3.98	1,878.22
4	35,310.90	20	14	6	70.00	3,499.46	-2,280.26	1.53	3.58	1,765.55
3	32,879.68	21	15	6	71.43	2,629.65	-1,094.17	2.40	6.01	1,565.70
2	22,942.38	22	13	9	59.09	2,757.64	-1,434.10	1.92	2.78	1,042.84
1	22,654.16	22	17	5	77.27	1,843.46	-1,736.92	1.06	3.61	1,029.73

100% of instances posted at least 1 close above the entry price within the next 5 days.

Here again we see consistent strength following this kind of Nasdaq action. It's quite rare to see such compelling results with so few filters. The October 27, 2008 instance was an outlier with a massive but even not including that results were very very strong.

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

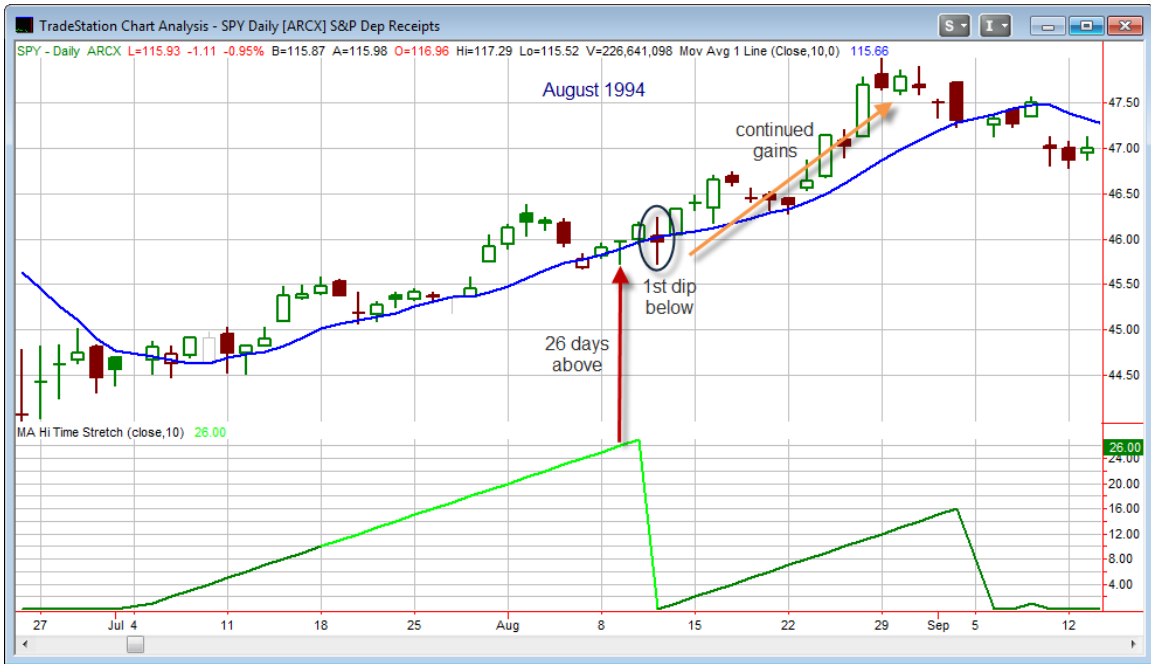


The green Aggregator line remains squarely above 0 as the net expectation from the active studies is for more upside. Meanwhile the black Differential is well below zero. This illustrates the SPX has outperformed expectations over the last few days. Positive expectations and an overbought market make for a neutral configuration. The Aggregator System remains flat tonight.

Looking ahead expectations are expected to remain bullish over the next several days unless we see some substantial bearish evidence emerge. For Thursday the Differential pivot is going to move up to 1,171.93. In other words, a close below this level will see the Differential line flip to positive. In order for the Differential to remain below 0 the SPX is going to have to rally over 4 points tomorrow.

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. – A long trigger for the Aggregator appears very possible on Thursday. Traders may check out the systems page before the bell to see if it's likely to happen. Should the market sell off further I'd anticipate looking for some long exposure in tomorrow night's letter.

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