

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 26, 2010

Volume 3 Issue 58

## Market Overview



### Tonight's Research Points

- Large key reversal days like Thursday are often followed by some downside follow through.
- The Aggregator System remained flat at the close.
- The NDX Aggressive Trend Timer remained long at the close.

### *Short-term Outlook – updated 3/26*

#### *The Bottom Line*

Thursday's action is suggesting a bit more downside seems probable. With the market oversold already the Aggregator System is in neutral. Currently the downside projections are only slated to last 1 day. This sets up Friday as a possible buying opportunity – especially if the market sells off as expected.

*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 |
|---------------------------|--|-----------------|----------------|--------------|----------------------|
| <b>Active</b>             |  |                 |                |              |                      |
| March 26, 2010            | 50 high drop 1% outside day              | 1-3 days        | Bearish        | -1.40%       | -1.05%               |
| March 25, 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%                |
| <b>Active - Long Term</b> |  |                 |                |              |                      |
| 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        |              |                      |
| <b>Dropped Tonight</b>    |  |                 |                |              |                      |
| <b>March 17, 2010</b>     | <b>100-day closing high on a Fed Day</b> | <b>1-8 days</b> | <b>Bullish</b> | <b>2.00%</b> | <b>1.70%</b>         |

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**

A gap up and move to new highs in the morning reversed strongly in the afternoon. After being up more than 1% mid-day the S&P 500 finished down 0.2%. The Nasdaq lost 0.1% and Russell 2000 got hit a bit harder with a 0.7% loss. Breath was fairly weak with the NYSE Up Issues % coming in at 41% and the Up Volume % at 43%. Total volume rose from Wednesday’s levels.

I looked at Thursday’s reversal a number of ways tonight. The consensus was that it suggested short-term bearish implications. Below is the study that most closely approximated the current situation in my eyes.

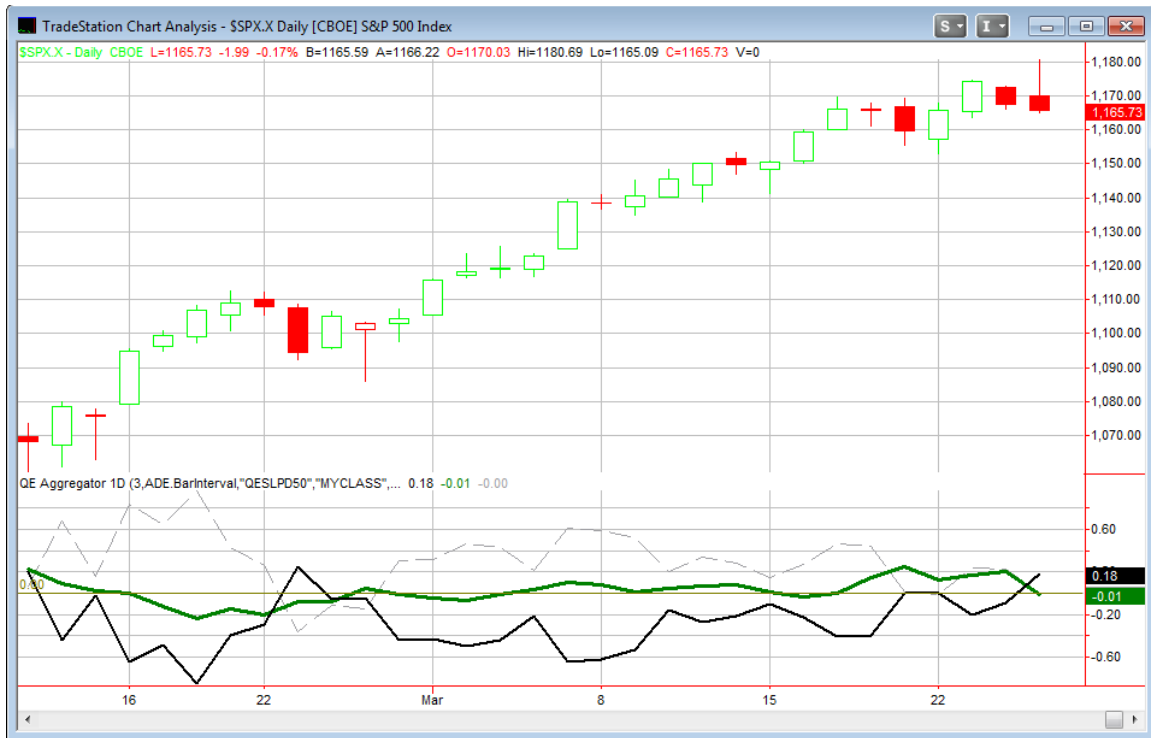
**SPX makes a 50-day intraday high and an outside day. It closes down on the day and at least 1% below the high of the day. Buy on close. Sell x days later. \$100k/trade. 1990 - present.**

| 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     | 5,403.27        | 23                | 12                  | 11                 | 52.17             | 1,777.76               | -1,448.17             | 1.23                | 1.34              | 234.92         |
| 9      | 1,115.83        | 23                | 13                  | 10                 | 56.52             | 1,423.82               | -1,739.38             | 0.82                | 1.06              | 48.51          |
| 8      | -3,447.28       | 23                | 12                  | 11                 | 52.17             | 1,339.44               | -1,774.60             | 0.75                | 0.82              | -149.88        |
| 7      | -8,456.17       | 23                | 13                  | 10                 | 56.52             | 1,077.53               | -2,246.40             | 0.48                | 0.62              | -367.66        |
| 6      | -8,503.74       | 23                | 12                  | 11                 | 52.17             | 1,201.15               | -2,083.41             | 0.58                | 0.63              | -369.73        |
| 5      | -9,494.17       | 23                | 9                   | 14                 | 39.13             | 1,479.87               | -1,629.50             | 0.91                | 0.58              | -412.79        |
| 4      | -11,416.07      | 23                | 7                   | 16                 | 30.43             | 1,811.59               | -1,506.08             | 1.20                | 0.53              | -496.35        |
| 3      | -11,361.75      | 23                | 7                   | 16                 | 30.43             | 1,191.32               | -1,231.31             | 0.97                | 0.42              | -493.99        |
| 2      | -8,048.39       | 23                | 8                   | 15                 | 34.78             | 1,176.55               | -1,164.05             | 1.01                | 0.54              | -349.93        |
| 1      | -1,159.60       | 23                | 11                  | 12                 | 47.83             | 1,019.18               | -1,030.88             | 0.99                | 0.91              | -50.42         |

**87% of instances posted a close below the entry price at some point in the next week.**

This study suggests a short-term bearish implication. Beyond 3 days or so there isn’t any indication of a probable top. In fact the only substantial top I found over the test period that began with this setup was the December of 2002 top.

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

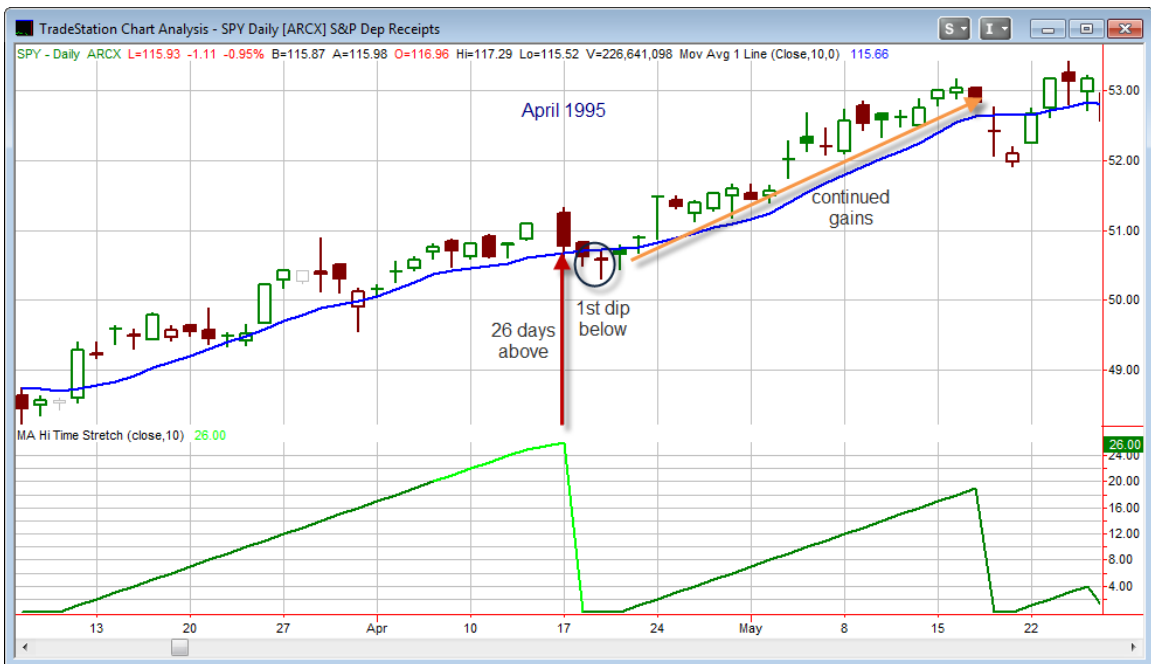
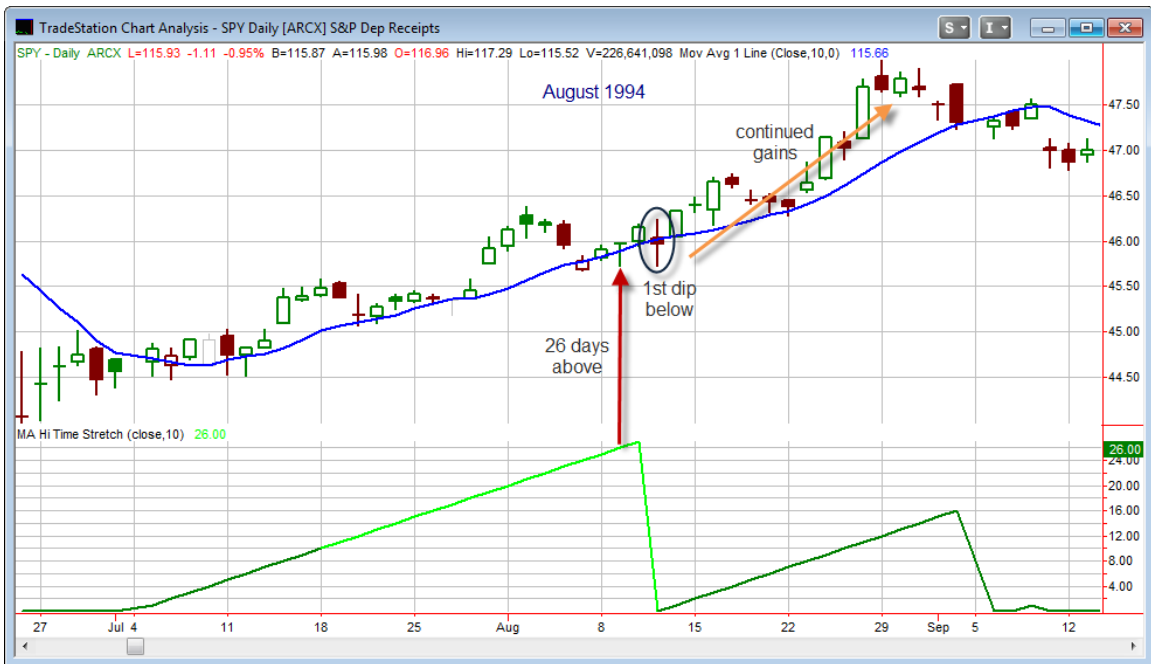


The Aggregator chart got flipped upside down Thursday. The green Aggregator line moved from positive to slightly negative as the net expectations from the studies turned to mild downside over the next few days. Meanwhile the black Differential line shot higher as today's market selloff replaced Monday's rally in the calculation. Both lines on opposite sides of 0 is considered neutral. In this case it means while expectations are slightly negative the SPX is already oversold versus expectations. The Aggregator System is again calling for a flat position based on tonight's close.

Looking ahead the green Aggregator line is currently set up to flip back to positive on Friday. This will be affected by any new studies that emerge on Friday. Meanwhile the pivot value for the Differential line will move all the way up to 1180.52. So in order for the Differential line to drop below 0 the SPX would need to close at 1,180.52 or higher. This is a very unusual situation where there is currently no long signal, but there most likely will be one on Friday unless the market rallies very strongly. With this knowledge in mind I'll be looking for intraday bottoming patterns as potential entry points on Friday.

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

Friday marked the 26<sup>th</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> 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 1<sup>st</sup> dip, though – and the 1<sup>st</sup> 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.*

*SPY – buy ¼ index position at \$116.64 LIMIT ON CLOSE. – A long trigger for the Aggregator appears very likely Friday. I'll anticipate this with a purchase on close order as long as SPX closes lower.*

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