

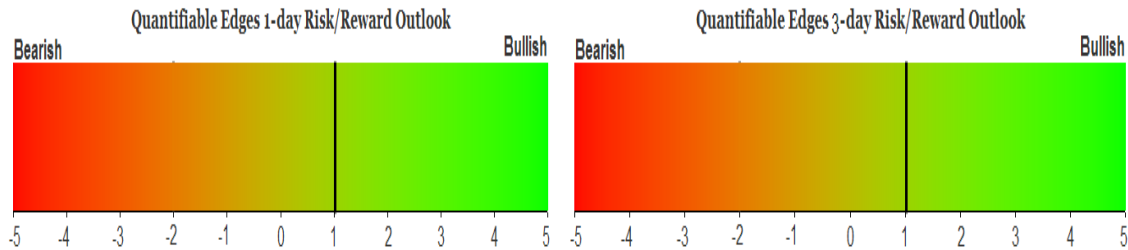
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 29, 2010

Volume 3 Issue 59

Market Overview



Tonight's Research Points

- The near dead-even close on Friday makes it a bit risky to try and draw strong conclusions from the action.
- Tuesday is a day with possible seasonal weakness.
- The Aggregator System switched to long at the close.
- The NDX Aggressive Trend Timer remained long at the close.

Short-term Outlook – *updated 3/29*

The Bottom Line

There are some bullish studies being pointed to by the Quantifinder but they are a bit in doubt because the slight down close in SPY is not confirmed by a down close in SPX. Even taking a conservative stance and ignoring them, the Aggregator turned bullish tonight. I am positioning to take advantage of possible upside over the next few days.

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 26, 2010	50 high drop 1% outside day	1-3 days	Bearish	-1.40%	-1.05%
March 25, 2010	Nasdaq NR4, Nas Up Issue % < 30%	1-4 days	Bullish	3.00%	2.30%
Active - Long Term					
March 22, 2010	SPY 25+ Days Above 10ma		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 25, 2010	Unfilled gap from 50 high	1-2 days	Bearish		

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

Friday's action was choppy and indecisive. The major indices made very little progress in either direction. The S&P closed up less than 0.1%, the Nasdaq fell 0.1%, and the Russell 2000 fell less than 0.1%. Breadth was pretty neutral as well. The NYSE Up Issues % was 51% and the Up Volume % was 60%. On the Nasdaq breadth was 49% and 50%. Volume dropped from Thursday's levels.

Results were very close to breakeven on Friday. I dealt with a similar situation in the 6/18/09 Subscriber Letter. Below is an excerpt from that letter.

While the difference between closing up slightly and closing down slightly might seem trivial, it isn't. It's not just because more studies with the requirement of a higher close are bearish and studies with the requirement of a lower close are most often bullish.

I decided to run a study on low-magnitude moves to illustrate the point of today's email. First I looked at small rises after 2 days down.

SPX closes up today after closing down the previous 2. Today's rise is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1988 - present.										
QE Lowr Clos SpikDn: daysin	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	11,765.28	57	32	25	56.14	1,546.09	-1,508.38	1.02	1.31	206.41
4	-4,290.32	57	28	29	49.12	1,319.87	-1,422.30	0.93	0.90	-75.27
3	-6,919.40	59	27	32	45.76	1,208.21	-1,235.66	0.98	0.83	-117.28
2	-5,082.11	59	30	29	50.85	896.34	-1,102.50	0.81	0.84	-86.14
1	-6,457.80	59	29	30	49.15	517.35	-715.36	0.72	0.70	-109.45

Results over the 1st 4 days are generally bearish.

I then looked at days where the 3rd day was down very slight.

SPX closes down for the 3rd day in a row. Today's drop is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1988 - present.										
QE Lowr Clos SpikDn: daysin	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	25,257.92	53	32	21	60.38	1,712.94	-1,407.43	1.22	1.85	476.56
4	21,226.50	53	31	22	58.49	1,671.43	-1,390.36	1.20	1.69	400.50
3	11,020.31	53	35	18	66.04	1,271.73	-1,860.57	0.68	1.33	207.93
2	17,648.58	53	33	20	62.26	1,241.11	-1,165.40	1.06	1.76	332.99
1	14,849.73	53	36	17	67.92	791.92	-803.48	0.99	2.09	280.18

Results across the board are much stronger here. Nearly every column is an improvement over the previous test. I also decided to run the tests from 1999-present.

SPX closes up today after closing down the previous 2. Today's rise is less than 0.2%.
Buy on close. Sell X days later. \$100k/trade. 1999 - present.

QE Lowr Clos SpikDn: daysin	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	1,680.00	23	11	12	47.83	2,077.06	-1,763.97	1.18	1.08	73.04
4	-10,128.99	23	10	13	43.48	1,631.55	-2,034.19	0.80	0.62	-440.39
3	-7,353.22	23	9	14	39.13	1,697.46	-1,616.45	1.05	0.68	-319.71
2	-6,622.90	23	10	13	43.48	1,230.59	-1,456.06	0.85	0.65	-287.95
1	-8,663.35	23	9	14	39.13	674.69	-1,052.54	0.64	0.41	-376.67

SPX closes down for the 3rd day in a row. Today's drop is less than 0.2%.
Buy on close. Sell X days later. \$100k/trade. 1999 - present.

QE Lowr Clos SpikDn: daysin	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	11,453.00	23	11	12	47.83	2,675.84	-1,498.44	1.79	1.64	497.96
4	11,604.63	23	12	11	52.17	2,384.41	-1,546.21	1.54	1.68	504.55
3	-108.95	23	13	10	56.52	1,810.31	-2,364.30	0.77	1.00	-4.74
2	9,905.76	23	15	8	65.22	1,594.57	-1,751.60	0.91	1.71	430.69
1	11,439.34	23	17	6	73.91	991.04	-901.39	1.10	3.12	497.36

One thing I did not take into account in the above tests was the long-term trend of the market. I therefore decided to re-run the 1st test that looked at slight closes up after 2 down days and break it out by times the S&P was above vs. below the 200ma. First let's look at times like the present where the S&P is above the 200ma.

SPX closes up today after closing down 2 in a row. Today's rise is less than 0.2%. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	16,901.56	45	26	19	57.78	1,506.79	-1,172.37	1.29	1.76	375.59
4	10,633.06	45	23	22	51.11	1,283.28	-858.30	1.50	1.56	236.29
3	2,368.51	46	21	25	45.65	1,237.87	-945.07	1.31	1.10	51.49
2	2,493.08	46	24	22	52.17	914.02	-883.79	1.03	1.13	54.20
1	-3,258.29	46	23	23	50.00	474.26	-615.93	0.77	0.77	-70.83

The results which appeared to be a bit bearish in the original test no longer appear so. So how does it look below the 200ma?

SPX closes up today after closing down 2 in a row. Today's rise is less than 0.2%. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-5,136.28	12	6	6	50.00	1,716.37	-2,572.41	0.67	0.67	-428.02
4	-14,923.38	12	5	7	41.67	1,488.14	-3,194.87	0.47	0.33	-1,243.62
3	-9,287.91	13	6	7	46.15	1,104.37	-2,273.45	0.49	0.42	-714.45
2	-7,575.19	13	6	7	46.15	825.64	-1,789.86	0.46	0.40	-582.71
1	-3,199.51	13	6	7	46.15	682.52	-1,042.09	0.65	0.56	-246.12

All the bearish implications of the original study were realized when the market was in a long-term downtrend. So the takeaway here is that there don't appear to be any bearish implications based on this study. I wouldn't go so far as to suggest implications are bullish, but they at least appear neutral.

To me the trickiest part of examining the day's action is in looking at the fact that while the SPX closed up slightly, the SPY actually closed down slightly. We saw how the SPX study under current circumstances was not bearish. The Quantifinder actually identified a few SPY studies that suggested bullish implications. The more compelling of the studies was from October 28th. A link to the blog post is below.

<http://quantifiableedges.blogspot.com/2009/10/based-on-this-setup-spy-has-always.html>

My contention is that while SPY did close down and meet the criteria, as an S&P 500 tracking stock it theoretically should have closed up slightly. Therefore I'm inclined to ignore the SPY studies that suggest bullish edges based on the fact that SPY closed lower. Instead I prefer to wait another day for a pattern that is a bit more clear to include in the Aggregator.

On a separate note some studies related to the CBOE Equity Put/Call Ratio have been popping up in the Quantifinder a bit this week. This is apparently due to a Tradestation data error. The Quantifinder uses Tradestation data, but I conduct the studies and analysis using the actual CBOE data downloaded from their site. So please ignore the put/call studies that may be appearing unless I point them out. The equity p/c ratio is not extremely low at this point relative to its 200ma. Readings are certainly lower than they were a few months ago but they are declining steadily and are now back to '06-'07 type levels rather than '08-'09.

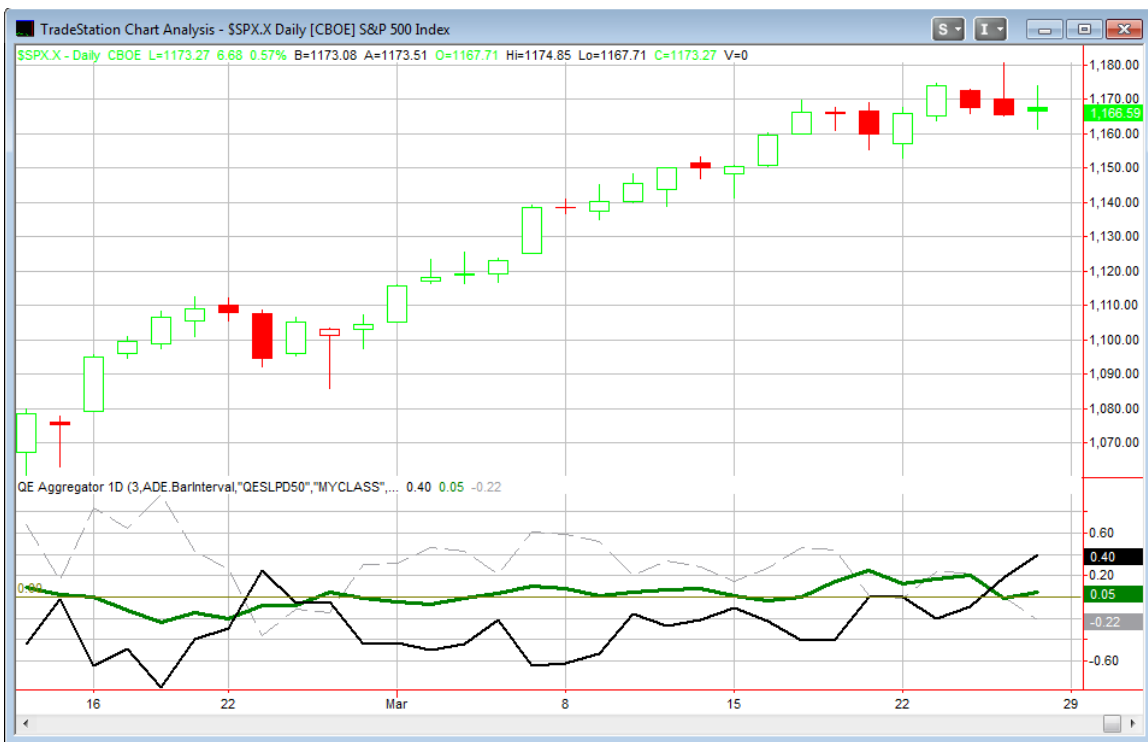
The Stock Traders Almanac noted that the end of March has had a bearish tilt over the last several years. In taking a deeper look at this I found that nearly all of the bearish bias was thanks to the next to last day in March. That would be Tuesday. Below are some stats based on the last 25 years.

Performance of the next to last trading day of March.
\$100k/trade. 1984 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$12,614.24)	Profit Factor	0.19
Gross Profit	\$2,996.21	Gross Loss	(\$15,610.45)
Total Number of Trades	25	Percent Profitable	28.00%
Winning Trades	7	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	(\$504.57)	Ratio Avg. Win:Avg. Loss	0.49
Avg. Winning Trade	\$428.03	Avg. Losing Trade	(\$867.25)
Largest Winning Trade	\$1,364.25	Largest Losing Trade	(\$3,466.02)

These numbers do show a bit of a downside tendency, and traders may want to keep that in mind on Tuesday. I'll examine it a bit more tomorrow, but personally the results aren't quite as convincing as I'd like to see to include it in formulating my bias.

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



After the consolidation the market has had over the last few days the Aggregator chart is now back in a bullish formation. The green Aggregator line moved back above 0 as the net expectation from the active studies is for upside over the next few days. Meanwhile the black Differential line shows that the SPX has underperformed expectations over the last few days. So the market is short-term oversold versus expectations and the current

expectations are positive. Historically this configuration has provided an upside edge. It also triggered an Aggregator System buy signal at the close on Friday.

Looking ahead the green Aggregator line is scheduled to remain positive tomorrow but the number of active studies is quite low now. Therefore much will depend on studies that appear on Monday. Monday's Differential pivot value is 1,173.58. In other words, it will take a close at or above this level in the SPX in order to flip the Differential line below 0.

Overall the Aggregator is suggesting a mild upside edge over the next few days and my bias is right in line with that.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/29 – somewhat bullish

In last week's intermediate-term update I showed a study that looked at other times the SPY went at least 25 days above its 10ma. With a low number of instances to examine I found that the 1st close below the 10ma never marked the beginning of a substantial selloff. In every case a new high was made in short order. Friday SPY did finally manage to close beneath its 10ma. This dip is not confirmed by SPX, as that is still a bit above its 10ma. Either way, that study remains in effect and suggests we should see at least a probe to new highs here before a substantial selloff might occur.

The Nasdaq/S&P Relative strength indicator remains bullish as well. The two outstanding intermediate-term studies with bearish implications are options related and not quite a reliable from a timing standpoint.

Looking at the big picture we've seen a little bit of a pause over the last few days, but the uptrend remains intact. To this point I'm not seeing convincing evidence that a sustained selloff is about to begin. I'll stick with the side of the current trend until I see more evidence to the contrary.

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 \$116.00 LIMIT ON CLOSE. – Based on the Aggregator I'll be looking to add more exposure should the SPY close down a bit more on Monday.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	3/26/2010	\$116.58	\$116.58	0.00%		bought on close

I will exit the SPY trade idea on an SPX close at or above the Differential pivot value of 1,173.58.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2010 Hanna Capital Management, LLC.