

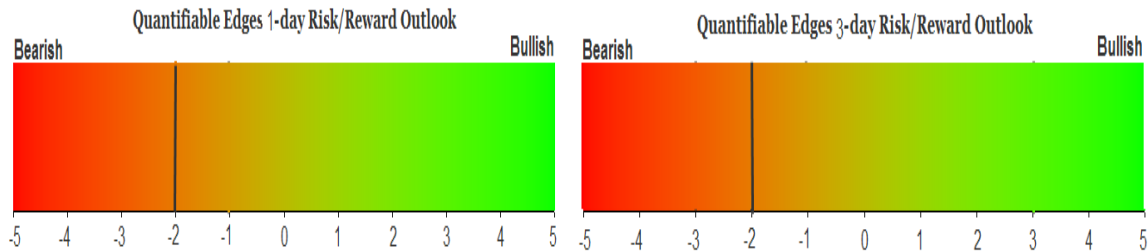
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 31, 2010

Volume 3 Issue 61

## Market Overview



## Tonight's Research Points

- The low volume and weak advances Tuesday suggest a pullback is likely.
- Breadth was also weak, but an edge isn't evident above the 200ma the way it is below the 200ma.
- The Aggregator System flipped from long to short at the close.
- The NDX Aggressive Trend Timer remained long at the close.

## Short-term Outlook – updated 3/31

### The Bottom Line

The long bias the last few days has played itself out. The with the low volume and mild point rise on Tuesday the market now appears to be setting up for a pullback. I'm looking to take advantage of a potential pullback, but am being a bit cautious with position size since this is a counter-trend trade.

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 31, 2010	Low vol 20. SPX > 10ma & 200ma	1-3 days	Bearish	-1.20%	-0.80%
March 31, 2010	SPX up 3. Vol lower. Pct gain low.	1-5 days	Bearish	-1.70%	-1.30%
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>					
March 26, 2010	50 high drop 1% outside day	1-3 days	Bearish	-1.40%	-1.05%

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**

Tuesday was another day where very little happened. The major indices finished slightly higher. The SPX was up 0.05 points, while the Nasdaq and Russell 2000 each added about 0.25%. Breadth was somewhat weak. The NYSE Up Issues % finished just shy of 50%, but the Up Volume % was only 41%. NYSE volume came in at the lowest level in over a month.

The move up today was weak from several standpoints. Breadth, volume and the actual percent gained were all very low. The Quantifinder identified several bearish studies associated with these kind of weak rallies.

One of the more compelling studies was from the 12/3/09 Subscriber Letter. It looked at multi-day rises that occurred with low volume and a weak price advance. I've updated that study below.

SPX advances for at least the 3rd day in a row. Volume falls both today and yesterday. Today's rise is the smallest of the upmove. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 6/1/97 - 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	-13,983.53	29	10	19	34.48	1,555.19	-1,554.50	1.00	0.53	-482.19	
4	-8,578.98	29	10	19	34.48	1,701.82	-1,347.22	1.26	0.66	-295.83	
3	-5,325.99	29	13	16	44.83	1,282.16	-1,374.63	0.93	0.76	-183.65	
2	-5,224.81	29	10	19	34.48	1,036.03	-820.27	1.26	0.66	-180.17	
1	-3,766.72	30	13	17	43.33	622.41	-697.53	0.89	0.68	-125.56	

83% of instances closed below the entry price at some point in the next 4 days.

Implications here are fairly bearish – especially considering the fact that it includes a long-term trend filter.

Not only was volume low compared to yesterday, but as I noted above it actually came I at the lowest level in over a month. The intraday Quantifinder did not pick up on this when I ran it around 3pm, because it wasn't running that low then. The last hour didn't experience a normal sized pickup in volume. After the bell it became evident just how low it had become. Below is a study from the 11/18/09 Subscriber Letter. It looks at extremely low volume days during an uptrend.

NYSE volume is the lowest in 20 days. SPX closes above both the 200ma and the 10ma. Buy on close. Sell X days later. \$100k/trade. 6/1/97 - 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	-17,313.61	60	28	32	46.67	1,198.92	-1,590.10	0.75	0.66	-288.56
4	-21,653.46	65	30	35	46.15	840.60	-1,339.19	0.63	0.54	-333.13
3	-20,898.36	67	29	38	43.28	851.47	-1,199.76	0.71	0.54	-311.92
2	-17,454.93	72	31	41	43.06	745.66	-989.52	0.75	0.57	-242.43
1	-5,848.36	88	49	39	55.68	477.05	-749.32	0.64	0.80	-66.46

This setup also seems to suggest a downside edge.

The other weakness we saw with Tuesday's bounce was in the breadth numbers. Below is a breadth-related study from the Quantifinder. It last appeared in the 7/22/09 Subscriber Letter.

NYSE Up Vol % < 45% and SPX closes up on the day. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-37,461.80	43	19	24	44.19	2,844.24	-3,812.60	0.75	0.59	-871.20
9	-38,509.03	43	19	24	44.19	2,663.84	-3,713.42	0.72	0.57	-895.56
8	-26,082.10	45	21	24	46.67	2,409.12	-3,194.73	0.75	0.66	-579.60
7	-25,491.22	46	24	22	52.17	2,230.03	-3,591.45	0.62	0.68	-554.16
6	-27,517.85	47	21	26	44.68	2,182.94	-2,821.52	0.77	0.62	-585.49
5	-24,033.43	47	19	28	40.43	2,130.74	-2,304.20	0.92	0.63	-511.35
4	-27,214.52	47	21	26	44.68	1,644.05	-2,374.60	0.69	0.56	-579.03
3	-27,895.95	49	19	30	38.78	1,545.34	-1,908.58	0.81	0.51	-569.31
2	-33,347.58	50	25	25	50.00	940.40	-2,274.30	0.41	0.41	-666.95
1	-23,364.89	50	20	30	40.00	822.18	-1,326.95	0.62	0.41	-467.30

Like the previous 2 studies we looked at this one also seems to suggest a downside edge. This study doesn't incorporate a long-term trend filter though. When I incorporated that I found that the downside edge doesn't hold up when the market is trading above the 200ma. This can be seen in the results below.

NYSE Up Vol % < 45% and SPX closes up on the day. Close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	19,753.95	27	16	11	59.26	2,914.43	-2,443.36	1.19	1.73	731.63
9	14,096.90	27	16	11	59.26	2,433.04	-2,257.43	1.08	1.57	522.11
8	13,885.33	27	17	10	62.96	2,030.48	-2,063.28	0.98	1.67	514.27
7	12,200.30	28	19	9	67.86	1,852.83	-2,555.93	0.72	1.53	435.73
6	1,167.95	28	17	11	60.71	1,738.38	-2,580.42	0.67	1.04	41.71
5	3,307.39	28	15	13	53.57	1,906.36	-1,945.23	0.98	1.13	118.12
4	1,151.35	28	15	13	53.57	1,631.17	-1,793.55	0.91	1.05	41.12
3	1,091.39	29	15	14	51.72	1,380.70	-1,401.36	0.99	1.06	37.63
2	3,843.72	30	19	11	63.33	945.98	-1,284.53	0.74	1.27	128.12
1	-1,779.13	30	15	15	50.00	713.54	-832.15	0.86	0.86	-59.30

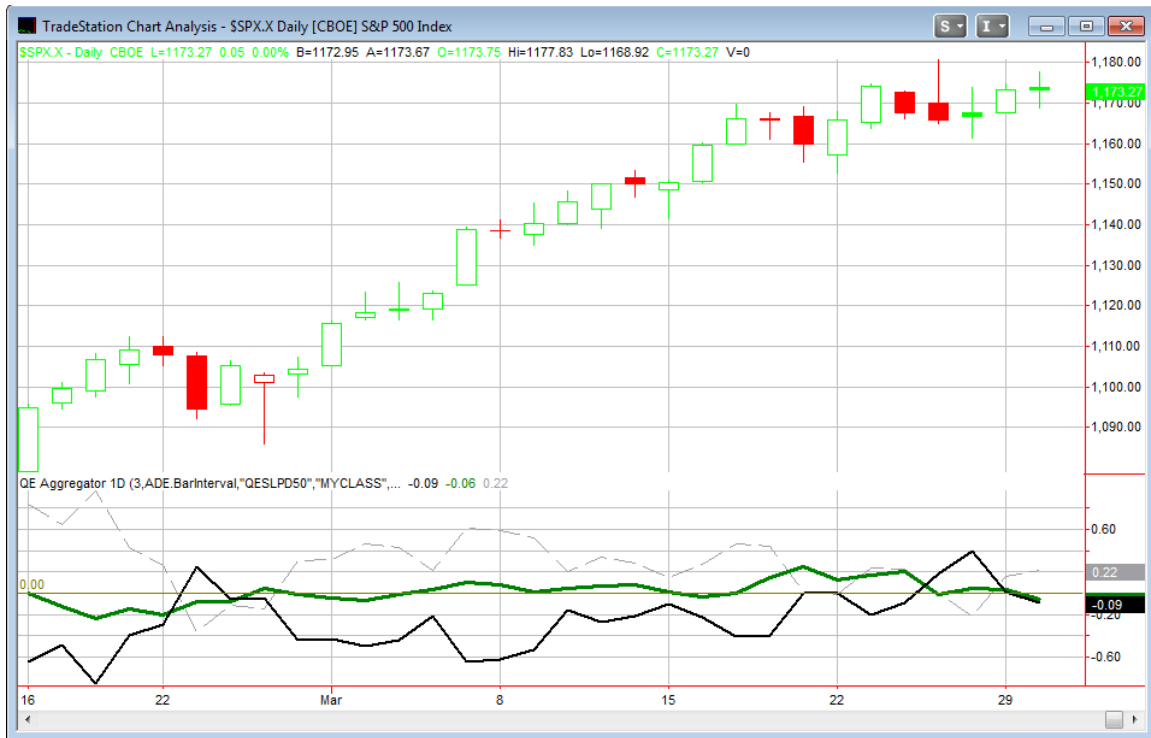
Of course if there is no edge present when the SPX is in a long-term uptrend, that would mean the downtrend numbers must be very compelling. While we obviously don't qualify currently I have produced them for you to see.

NYSE Up Vol % < 45% and SPX closes up on the day. Close < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-56,775.56	17	4	13	23.53	1,962.48	-4,971.19	0.39	0.12	-3,339.74
9	-52,976.04	17	3	14	17.65	3,894.77	-4,618.60	0.84	0.18	-3,116.24
8	-39,967.43	18	4	14	22.22	4,018.34	-4,002.91	1.00	0.29	-2,220.41
7	-37,691.52	18	5	13	27.78	3,663.39	-4,308.34	0.85	0.33	-2,093.97
6	-28,685.80	19	4	15	21.05	4,072.29	-2,998.33	1.36	0.36	-1,509.78
5	-27,340.82	19	4	15	21.05	2,972.18	-2,615.30	1.14	0.30	-1,438.99
4	-28,365.87	19	6	13	31.58	1,676.25	-2,955.64	0.57	0.26	-1,492.94
3	-28,987.34	20	4	16	20.00	2,162.75	-2,352.40	0.92	0.23	-1,449.37
2	-37,191.30	20	6	14	30.00	922.74	-3,051.98	0.30	0.13	-1,859.57
1	-21,585.76	20	5	15	25.00	1,148.10	-1,821.75	0.63	0.21	-1,079.29

**19 of 20 instances (95%) closed below the entry price at some point in the next 3 days.**

These numbers are extremely powerful and certainly worth tracking going forward.

So with the top 1<sup>st</sup> 2 studies above to consider I've updated the [Aggregator](#) chart below.



Tuesday's action made for a quick change to the Aggregator configuration. Both the green Aggregator and the black Differential lines dropped below 0 tonight. The Aggregator line shows that the net expectations from the active studies is now for downside and the black Differential line shows the SPX has outperformed expectations over the last few days. Both lines below 0 has historically provided a downside edge. It turned the Aggregator signal from long to short tonight. I post the likely signal 10-15 minutes before the bell each day to the systems page. Today I noted that a close higher of 1 point or less should trigger a short signal and in fact that is what we got. To be notified when the systems page is updated you may sign up to follow me on twitter at <http://twitter.com/qerob>

Looking ahead tonight's studies are strong enough to keep the Aggregator line negative for the next few days unless some stronger bullish studies emerge. The Differential pivot on Wednesday will be 1,169.52. In other words it will take a close at or below this level in order to flip the Differential value back to positive.

The Aggregator is suggesting a pullback is now becoming likely. In the trade ideas section I'll look to take advantage of this. I do plan on trading with a bit lower position size initially. This relentless uptrend has steamrolled numerous downside edges the last few months. I will frequently trade counter trend (or counter intermediate-term bias) more conservatively than if I was trading with the greater trend.

***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 1<sup>st</sup> 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 – short 1/4 index position @ \$117.40 limit. Based on short-term outlook above.*

### **Active Trades Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
SPY(1/4)	3/26/2010	\$116.58	\$117.43	0.73%		avg exit price shown

*As per the instructions last night 1/2 of the SPY position was sold on the open and 1/2 on the close.*

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