

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 5, 2010

Volume 3 Issue 63

Market Overview



Tonight's Research Points

- New highs on strong breadth but weak volume have led to a pullback on a fairly consistent basis in the past.
- Nasdaq leadership is weakening which could lead to intermediate-term difficulties if Nasdaq relative weakness persists.
- The Aggregator System changed to short at the close.
- The NDX Aggressive Trend Timer remained long at the close.

Short-term Outlook – updated 4/5

The Bottom Line

Evidence continues to build suggesting a short-term pullback. There are a few wildcards out there currently in the form of the delayed reaction to Friday's employment report and Monday's Fed meeting. While these could aid in some upside follow-through on Monday, I expect short-term bearish tendencies to exert themselves soon enough.

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					
April 5, 2010	Low vol 20. SPX > 10ma & 200ma	1-3 days	Bearish	-1.10%	-0.70%
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%
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		
Dropped Tonight					
April 1, 2010	1st Day of Month	1 day	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

The market pushed higher on Thursday as beginning of month tendencies outweighed the bearish weak rally tendencies from the existing studies. The S&P rose 0.7% and the Russell 2000 gained 0.8% while the Nasdaq squeaked out a 0.2% gain. Breadth was strongly positive as the NYSE Up Issues % came in at 72% and the Up Volume % was 85%. Total volume declined.

What was so unusual about Thursday's action is that while prices hit a new high and breadth was very strong, volume was weak. We've seen a few studies lately suggesting that volume is hurting this rally's chances. I'm seeing the same thing again tonight. Below is a study that examines the combination of price, breadth, and volume that we saw on Thursday.

SPX closes at a 10-day high and above the 200ma. Today's Up Vol % is the highest Up vol % in the last 10 days. NYSE vol is lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-3,916.80	29	15	14	51.72	1,692.30	-2,092.95	0.81	0.87	-135.06
9	-10,954.41	29	16	13	55.17	1,356.71	-2,512.44	0.54	0.66	-377.74
8	-14,902.12	29	15	14	51.72	1,095.49	-2,238.18	0.49	0.52	-513.87
7	-21,948.49	29	14	15	48.28	851.35	-2,257.83	0.38	0.35	-756.84
6	-20,968.00	30	14	16	46.67	575.76	-1,814.29	0.32	0.28	-698.93
5	-14,876.92	31	15	16	48.39	596.28	-1,488.82	0.40	0.38	-479.90
4	-13,550.55	31	13	18	41.94	637.80	-1,213.44	0.53	0.38	-437.11
3	-13,095.49	32	13	19	40.63	590.79	-1,093.46	0.54	0.37	-409.23
2	-9,592.55	32	15	17	46.88	366.16	-887.35	0.41	0.36	-299.77
1	-4,250.91	32	15	17	46.88	315.19	-528.16	0.60	0.53	-132.84

88% of instances closed below the entry price at some point in the next week. And 94% did so within 6 days.

I also ran this test looking at 20 and 50-day highs. While instances were lower, results were consistent. You'll also note I filtered on the 200ma as I often do. Below are the results below the 200ma for those who are curious.

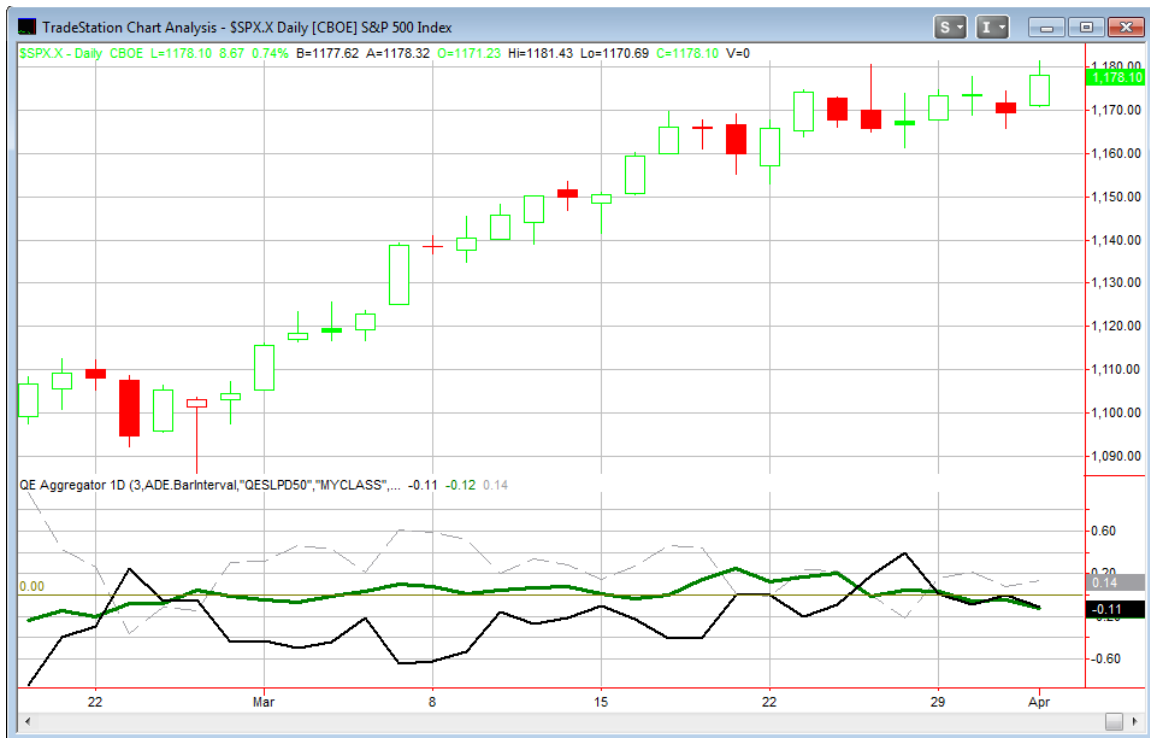
SPX closes at a 10-day high and above the 200ma. Today's Up Vol % is the highest Up vol % in the last 10 days. NYSE vol is lower than yesterday.
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10	-11,815.87	5	1	4	20.00	1,519.76	-3,333.91	0.46	0.11	-2,363.17
9	-9,609.88	5	1	4	20.00	2,369.18	-2,994.77	0.79	0.20	-1,921.98
8	-9,494.69	5	1	4	20.00	1,386.66	-2,720.34	0.51	0.13	-1,898.94
7	-13,816.87	5	0	5	0.00	0.00	-2,763.37	0.00	0.00	-2,763.37
6	-15,077.23	5	0	5	0.00	0.00	-3,015.45	0.00	0.00	-3,015.45
5	-15,782.36	5	0	5	0.00	0.00	-3,156.47	0.00	0.00	-3,156.47
4	-12,443.24	5	0	5	0.00	0.00	-2,488.65	0.00	0.00	-2,488.65
3	-5,015.66	5	1	4	20.00	1,202.74	-1,554.60	0.77	0.19	-1,003.13
2	-5,985.62	5	1	4	20.00	214.20	-1,549.96	0.14	0.03	-1,197.12
1	-5,954.50	5	1	4	20.00	123.90	-1,519.60	0.08	0.02	-1,190.90

Interestingly, there were very few instances below the 200ma. Still, I felt it appropriate to use the filter since these were so much more volatile and would have skewed the other results greatly.

It should also be noted that the Fed will be [holding a special meeting on Monday](#) that was just announced last week. I've published a substantial number of studies related to Fed Days and the action that takes place following them. Most of the studies I've published have only looked at *scheduled* Fed meetings. Monday is the first *unscheduled* Fed meeting that I can recall that has been announced beforehand. While behavior may fall in line with other scheduled Fed meetings, I believe it would be dangerous to make any assumptions in this unique case. Traders should be aware that news will likely hit in the afternoon that may affect the market.

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



With bearish short-term studies now dominating the net expectation from the Active Studies list is for downside over the next few days. This is reflected in the negative reading for the green Aggregator line. The rally on Thursday also pushed the black Differential line squarely below zero. This illustrates the fact that the S&P has outperformed expectations over the last few days. When the market is overbought versus expectations and the current expectations are for downside, that has historically provided a downside edge. The Aggregator System switched to a short signal at Thursday's close.

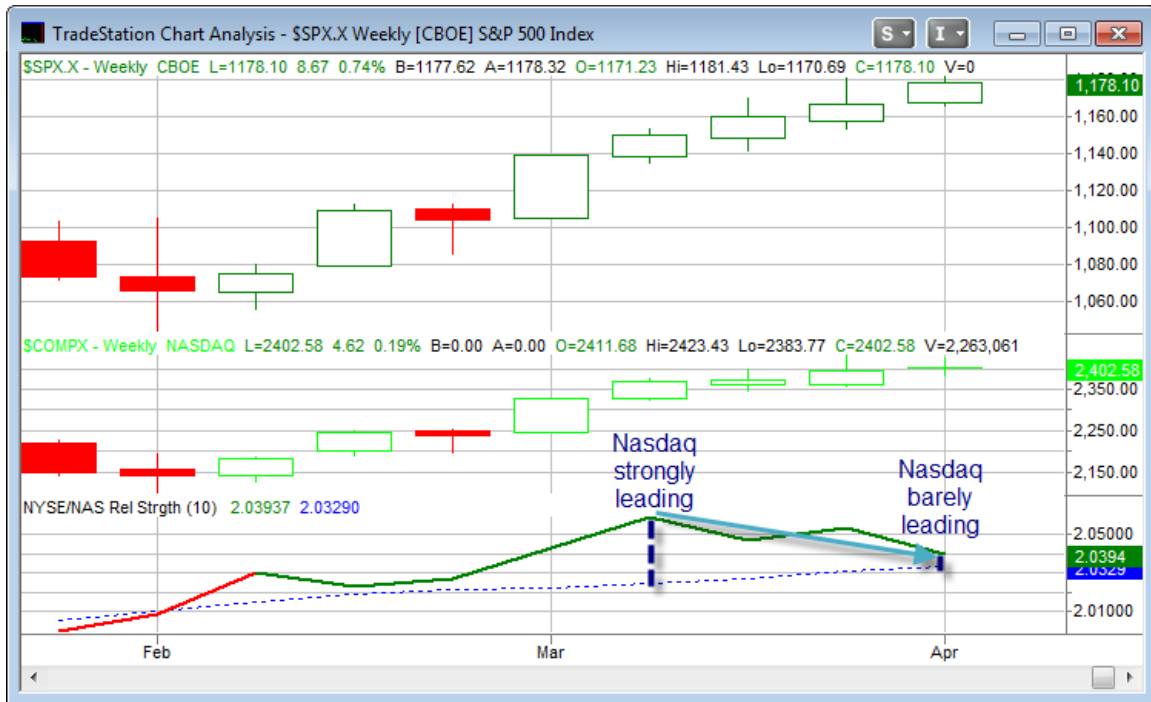
Looking ahead the green Aggregator line is configured to remain negative for the next few days. To change this some bullish studies would need to emerge. For the black Differential line to flip back positive on Monday the SPX would need to close at 1,173.57 or lower.

My short-term outlook is bearish and I'm looking to take advantage of some downside in the next few days. I may take it a bit more conservatively than normal, though. As I write this Sunday night the futures are up largely in part due to the employment report that was released Friday morning while the stock market was closed. This combined with the Fed meeting Monday are creating some unusual crosscurrents for the market to deal with. So while I am anticipating a pullback, I'm open to the idea that it might not arrive right on schedule and I will be looking to scale into my short position cautiously.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/5 slightly bullish

While the market hasn't really done anything wrong yet, it has failed to do much right recently. Volume is becoming a concern and we've seen studies this week suggesting some downside may be expected. Momentum has waned. And while the Nasdaq/S&P

500 relative strength indicator remains bullish, it's weakened quite a bit over the last few weeks. Below is a zoomed-in version of the chart that can be found on the charts page.



As a quick refresher, since the inception of the Nasdaq in 1971, nearly all of the S&P's gains have occurred while the Nasdaq was in a leading position. When the Nasdaq has been lagging the market has struggled to make any headway.

The chart above shows that while the Nasdaq is still in a leading position, that lead has been shrinking the last few weeks. It is at a point now where if the S&P outperforms this week there is a very good chance it will take over leadership.

I'm still favoring the long side but will be keeping an eye on these potential cracks.

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 @ \$117.81 limit. Based on short-term outlook above I am looking to gain some short-side exposure.

SPY – short 1/4 index position @ \$117.81 limit ON CLOSE. Should the market manage to put in a positive day I will look to add more exposure with the Fed & employment risks then put aside.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	3/31/2010	\$117.40	\$117.10	0.26%		exited at limit

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