

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 8, 2010

Volume 3 Issue 66

Market Overview



Tonight's Research Points

- Relatively strong high volume drops from 10-day high levels in an uptrend more often lead to further selling than an immediate rebound.
- The Aggregator System remained short at the close.
- The NDX Aggressive Trend Timer remained long at the close.

Short-term Outlook – updated 4/8

The Bottom Line

While all of the bearish studies from yesterday either expired or hit their target prices, tonight's study keeps the short-term bearish bias in place.

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 8, 2010	Big high vol drop from high	1-3 days	Bearish	-1.40%	-1.10%
April 6, 2010	70% Up Issues 2 days in row 50 high	1-8 days	Bullish	2.30%	1.60%
Active - Long Term					
April 6, 2010	SPX and TNX hit 50-day closing highs	int. term	Bearish		
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					
<i>April 7, 2010</i>	<i>Equity P/C very low. SPX 50 high.</i>	<i>1-2 days</i>	<i>Bearish</i>	<i>-1.30%</i>	<i>-1.00%</i>
<i>April 6, 2010</i>	<i>SPY 10 high and low vol 20</i>	<i>1-2 days</i>	<i>Bearish</i>	<i>-1.30%</i>	<i>-0.80%</i>
April 5, 2010	High breadth 10, vol lower, SPX hi 10	1-3 days	Bearish	-1.10%	-0.70%
March 31, 2010	SPX up 3. Vol lower. Pct gain low.	1-5 days	Bearish	-1.70%	-1.30%

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 rare pullback occurred on Wednesday. The major indices all closed lower with the SPX falling 0.6% and the Russell and Nasdaq both dropping close to 0.25%. Breadth was weak as the NYSE Up Issues % came in at 35% and the Up Volume % was at 38%. Total volume came in at the highest level in over 2 weeks on both exchanges.

The Quantifinder tonight identified a study that looked at relatively strong drops from highs when the market was in a long-term uptrend. That study last appeared in the 1/19/10 Letter. I've updated the results table below:

Yesterday SPX closes at 10-day high. Today it suffers the largest drop in 10 days on the highest volume in 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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	-6,011.33	32	15	17	46.88	1,832.77	-1,970.75	0.93	0.82	-187.85
4	-9,576.70	32	14	18	43.75	1,629.46	-1,799.40	0.91	0.70	-299.27
3	-11,269.89	32	13	19	40.63	1,131.71	-1,367.48	0.83	0.57	-352.18
2	-4,985.30	32	15	17	46.88	832.63	-1,027.93	0.81	0.71	-155.79
1	141.88	32	16	16	50.00	607.03	-598.17	1.01	1.01	4.43

This isn't the most high-powered edge we've seen but it does provided a subtle hint that there may be a bearish edge present over the next few days. I also filtered the results a few different ways, such as using a 50-day high or a 200-day high. No matter how I sliced it results remained quite similar to these.

I should note that this study did not appear in the Intraday Quantifinder. When the Intraday Quantifinder was last run about 3:15, volume was not running at a pace that indicated it was likely to be the highest of the last 2 weeks.

Notable from the Active Studies list is that the Equity Put/Call study from last night achieved its price target in one day. This barely happened as the SPX just touched past the target price intraday. Once this happened it appeared that there would be no bearish studies left on the active list. This is what prompted me to project a neutral Aggregator bias at this level unless breadth came in 2 to 1 negative. As it turned out my projection based on the intraday Quantifinder was off. Since I began publishing the "likely signals" before the bell in September of 2009, this is only the 2nd time that my projection has been off. It's rare but it will happen every once in a while as market conditions may change late in the day in unexpected ways and trigger studies that I couldn't anticipate as we get closer to the 4pm close.

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

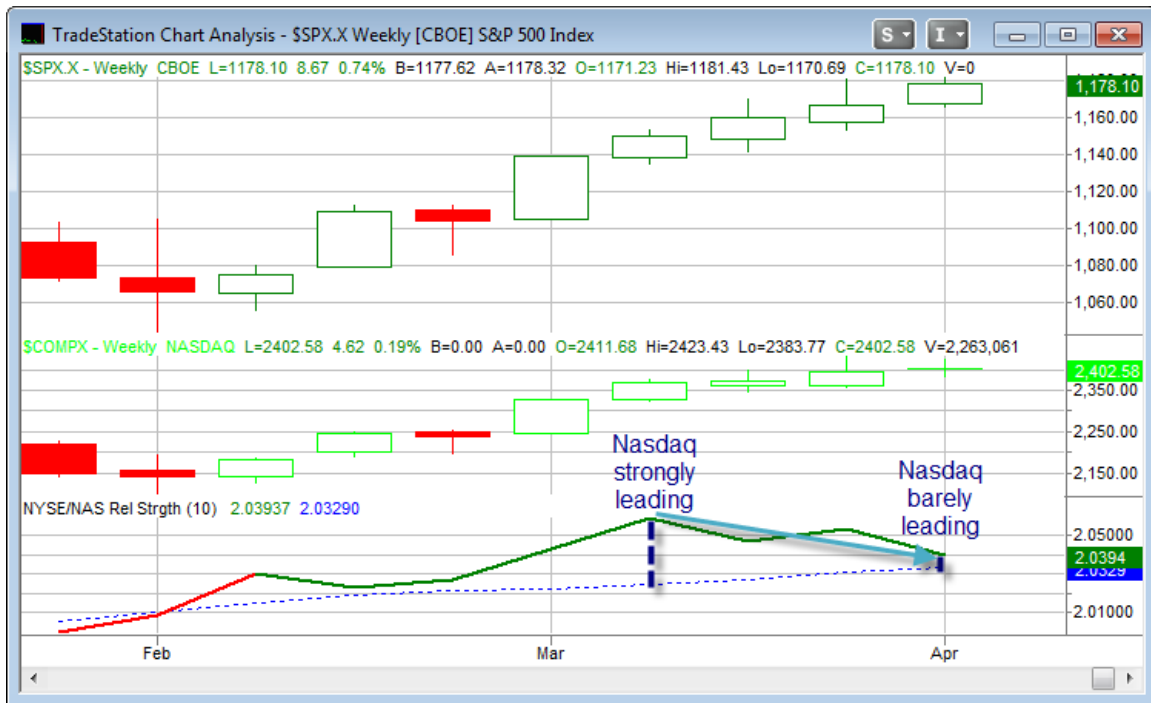


Tonight's study was enough to keep the green Aggregator line in negative territory for another day. This means the net expectation for the active studies over the next few days is for downside. Meanwhile the black Aggregator line remained squarely below 0 as well. This illustrates the fact that SPX has easily outperformed expectations over the last few days. Both lines again below zero means the market remains in a state that is overbought with negative expectations. Historically this has provided a downside edge. The Aggregator System remains therefore remains short.

Looking ahead the green Aggregator line is scheduled to once again close in negative territory based on the current active studies. As always this is liable to change depending on what studies emerge tomorrow. Meanwhile the Differential pivot for Thursday is actually above Wednesday's close at 1,183.95. In other words an SPX close at or below this number would flip the Differential line positive tomorrow night. It will take a bit of a rally tomorrow in order for the Differential to remain negative.

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.

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	4/5/2010	\$118.25	\$118.36	-0.09%		covered on close
SPY(1/4)(s)	4/5/2010	\$118.76	\$118.36	0.34%		cover SP close<1183.96
SPY(1/4)(s)	4/6/2010	\$118.76	\$118.36	0.34%		cover SP close<1183.96

The 1st SPY lot was covered at the close as I indicated I would do in the intraday note sent to subscribers.

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