

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 9, 2010

Volume 3 Issue 67

Market Overview



Tonight's Research Points

- Today's action left little to go on other than a weak equity put/call ratio.
- The price pattern in SPY narrowly missed some bearish implications.
- The Aggregator System remained short at the close.
- The NDX Aggressive Trend Timer remained long at the close.

Short-term Outlook – updated 4/9

The Bottom Line

The bias remains short, but time is about to run out on this bias unless additional short studies emerge. Should the expected pullback occur, there is a good chance it will trigger an Aggregator long signal.

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		

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

Thursday the market managed to shake off a gap down and finished positive on the day. The SPX gained 0.3% and the Nasdaq gained 0.2%. The Russell 2000 barely squeaked out a positive gain. Breadth was tilted slightly positive as the NYSE up Issues % came in at 51% and the Up Volume % was 63%. Total volume sank from Wednesday's levels.

Tonight was just one of those nights where there was very little notable occurring from a studies standpoint. The equity put/call ratio did come in quite low. Historically this has provided a decent short signal. As I discussed last week, though, this edge has flattened out over the last 10 months.

On Twitter today I mentioned how a close in SPY at new highs would set up bearish expectations. While NOT APPLICABLE to the current situation I've included below a sampling of the studies I was looking at:

**SPY gaps down and opens below the low of 2 days ago. It then closes at a 50-day high.
Buy on close. Sell X days later. \$100k/trade. 1997 - present.**

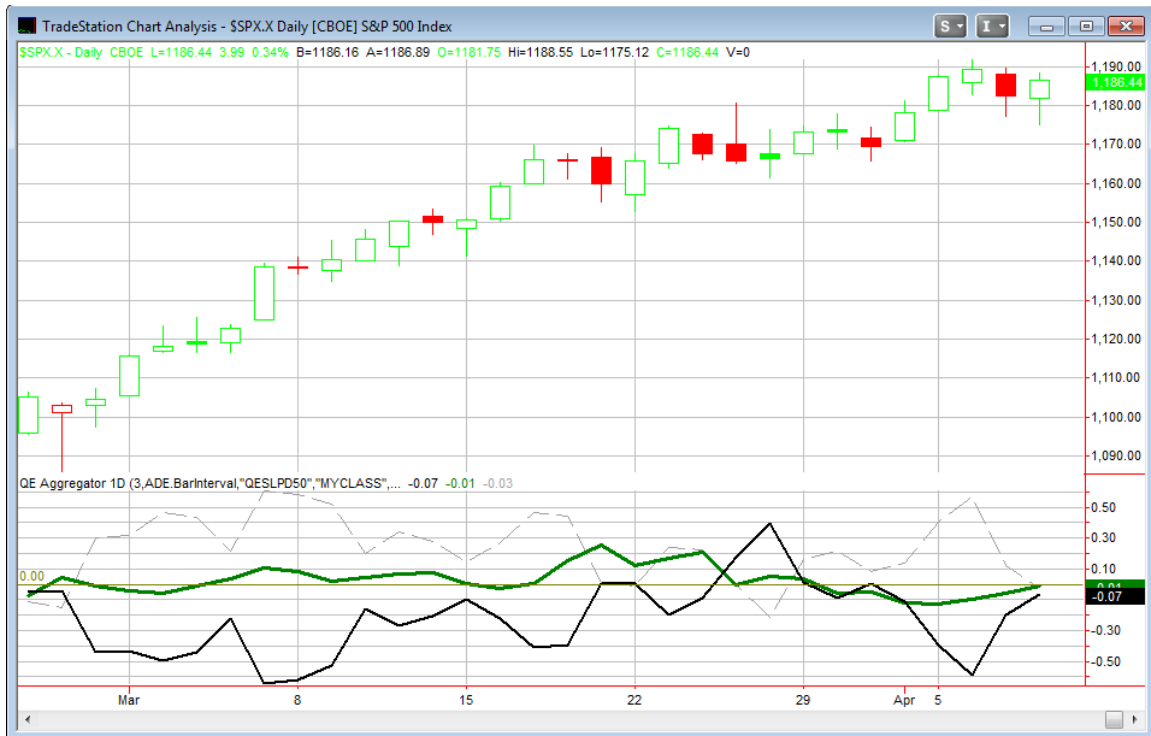
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-16,583.15	9	2	7	22.22	790.02	-2,594.74	0.30	0.09	-1,842.57
4	-18,429.87	9	0	9	0.00	0.00	-2,047.76	0.00	0.00	-2,047.76
3	-20,696.73	9	1	8	11.11	648.97	-2,668.21	0.24	0.03	-2,299.64
2	-13,174.37	9	1	8	11.11	444.50	-1,702.36	0.26	0.03	-1,463.82
1	-10,035.66	9	0	9	0.00	0.00	-1,115.07	0.00	0.00	-1,115.07

**SPY gaps down and opens below the low of 2 days ago. It then closes at a 20-day high.
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
5	-18,172.53	16	5	11	31.25	1,199.11	-2,197.10	0.55	0.25	-1,135.78
4	-24,653.09	16	3	13	18.75	1,065.08	-2,142.18	0.50	0.11	-1,540.82
3	-25,032.80	16	4	12	25.00	1,038.78	-2,432.33	0.43	0.14	-1,564.55
2	-14,786.82	16	4	12	25.00	743.91	-1,480.21	0.50	0.17	-924.18
1	-9,257.34	16	3	13	18.75	789.65	-894.33	0.88	0.20	-578.58

These numbers are definitely compelling and they will be included among the Quantifinder studies moving forward.

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

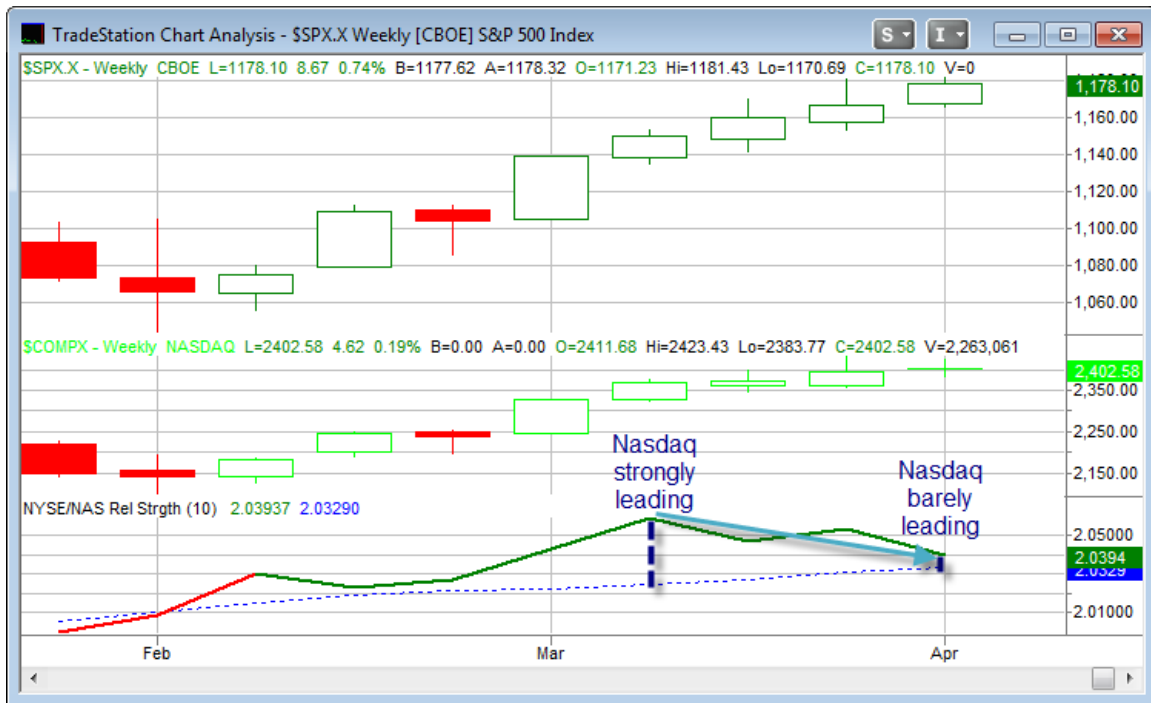


Tonight the green Aggregator line closed just barely below 0 at -0.01. This illustrates the very mild negative expectation from the active studies over the next few days. Meanwhile the black Differential line is also again below zero. This illustrates the fact that SPX has outperformed expectations over 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 therefore remains short.

Looking ahead the green Aggregator line is scheduled to turn positive tomorrow unless more bearish studies emerge. Meanwhile the Differential pivot for Friday is 1,185.35. In other words an SPX close at or below this number would flip the Differential line positive tomorrow night. It now appears entirely possible that a pullback tomorrow could lead to a long entry.

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	\$118.76	\$118.77	-0.01%		cover SP close<1185.35
SPY(1/4)(s)	4/6/2010	\$118.76	\$118.77	-0.01%		cover SP close<1185.35

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