

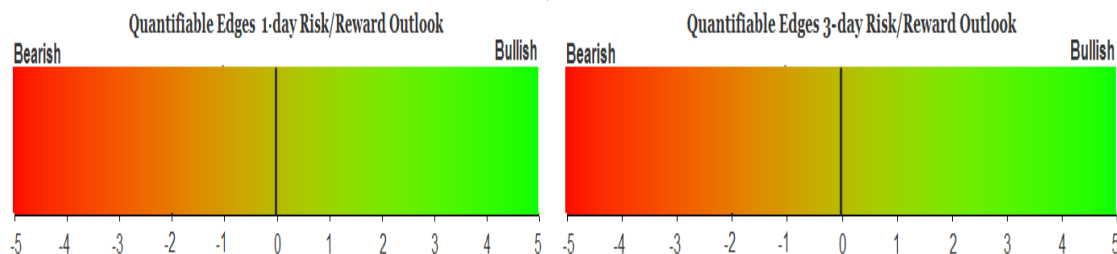
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 13, 2010

Volume 3 Issue 69

Market Overview



Tonight's Research Points

- Multiple up days on lower volume for SPY are suggesting a short and intermediate-term pullback.
- The weak put/call at new highs is again suggesting a pullback.
- The VIX:VXV is hitting new lows, which is also potentially intermediate-term bearish.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook – updated 4/13

The Bottom Line

The Aggregator remains stuck in neutral though we did see some additional evidence that a pullback is likely on its way. The evidence was of both the short and intermediate-term variety.

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 13, 2010	SPY up w/ vol low 3 days	1-3 days	Bearish		
April 13, 2010	New highwith put/call low	1-2 days	Bearish		
April 12, 2010	April Op-Ex Week	1-2 days	Bullish		
April 6, 2010	70% Up Issues 2 days in row 50 high	1-8 days	Bullish	2.30%	1.60%
Active - Long Term					
April 13, 2010	Ttl Put/Call 40-low. SPX no 0.5% up.	1-5 weeks	Bearish	-4.90%	-3.30%
April 13, 2010	VIX:VXV hits 100-day low	int. term	Bearish		
April 6, 2010	SPX and TNX hit 50-day closing highs	int. term	Bearish		
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 8, 2010	Big high vol drop from high	1-3 days	Bearish	-1.40%	-1.10%

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 put in small gains on small volume Monday. The major indices all finished up slightly. The S&P and Nasdaq gained 0.2% while the Russell 2000 gained 0.3%. Breadth was mildly positive as the NYSE Up Issues % came in at 56% and the Up Volume % was 65%. Total volume fell again and was below average.

Quite a lot showed up in the Quantifinder tonight, though the themes were all very familiar. Low volume, low put/call, low VIX:VXV Ratio.

Of the low volume related studies the one that stood out the most was from the 12/14/09 Letter. It looked at SPY rising for multiple days while SPY volume declined. I have updated the study below.

SPY rises 3 days in a row while SPY volume declines 3 days in a row. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
20	-60,581.62	32	12	20	37.50	3,196.17	-4,946.78	0.65	0.39	-1,893.18
19	-63,906.50	32	12	20	37.50	3,036.95	-5,017.49	0.61	0.36	-1,997.08
18	-55,669.14	34	13	21	38.24	2,895.13	-4,443.14	0.65	0.40	-1,637.33
17	-54,289.64	34	13	21	38.24	2,475.38	-4,117.60	0.60	0.37	-1,596.75
16	-45,929.51	34	14	20	41.18	2,681.76	-4,173.71	0.64	0.45	-1,350.87
15	-52,845.37	34	14	20	41.18	2,667.23	-4,509.33	0.59	0.41	-1,554.28
14	-50,203.29	35	14	21	40.00	2,719.60	-4,203.70	0.65	0.43	-1,434.38
13	-52,731.91	35	13	22	37.14	2,280.80	-3,744.65	0.61	0.36	-1,506.63
12	-36,137.45	35	17	18	48.57	1,783.44	-3,691.99	0.48	0.46	-1,032.50
11	-24,894.67	35	17	18	48.57	1,951.04	-3,225.68	0.60	0.57	-711.28
10	-27,967.76	35	18	17	51.43	2,146.48	-3,917.90	0.55	0.58	-799.08
9	-25,314.58	35	18	17	51.43	1,978.20	-3,583.66	0.55	0.58	-723.27
8	-19,630.94	35	17	18	48.57	1,997.21	-2,976.87	0.67	0.63	-560.88
7	-20,434.61	36	20	16	55.56	1,505.10	-3,158.54	0.48	0.60	-567.63
6	-22,812.66	36	17	19	47.22	1,461.49	-2,508.31	0.58	0.52	-633.69
5	-28,071.24	36	18	16	50.00	1,056.37	-2,942.87	0.36	0.40	-779.76
4	-25,895.31	37	15	21	40.54	1,028.20	-1,967.54	0.52	0.37	-699.87
3	-28,798.18	37	14	23	37.84	840.37	-1,763.63	0.48	0.29	-778.33
2	-10,165.85	38	17	21	44.74	986.15	-1,282.40	0.77	0.62	-267.52
1	-788.49	41	20	21	48.78	1,095.36	-1,080.75	1.01	0.97	-19.23

Notable here is that not only is the edge apparent short-term but it appears to be long-term as well. When I filter by the 200ma the results all remain negative. They are not as severe, though.

SPY rises 3 days in a row while SPY volume declines 3 days in a row. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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
20	-11,050.05	22	10	12	45.45	3,457.10	-3,801.76	0.91	0.76	-502.28
19	-18,587.01	22	9	13	40.91	3,548.03	-3,886.10	0.91	0.63	-844.86
18	-12,927.97	23	9	14	39.13	3,709.85	-3,308.33	1.12	0.72	-562.09
17	-17,040.87	23	10	13	43.48	2,935.89	-3,569.21	0.82	0.63	-740.91
16	-14,209.63	23	11	12	47.83	2,785.51	-3,737.52	0.75	0.68	-617.81
15	-20,674.40	23	11	12	47.83	2,646.46	-4,148.79	0.64	0.58	-898.89
14	-13,835.11	24	11	13	45.83	2,658.99	-3,314.16	0.80	0.68	-576.46
13	-14,978.82	24	10	14	41.67	2,528.03	-2,875.65	0.88	0.63	-624.12
12	-10,146.00	24	12	12	50.00	1,990.27	-2,835.77	0.70	0.70	-422.75
11	-8,381.00	24	12	12	50.00	1,991.79	-2,690.21	0.74	0.74	-349.21
10	-11,952.43	24	13	11	54.17	2,063.60	-3,525.39	0.59	0.69	-498.02
9	-13,001.12	24	12	12	50.00	1,890.67	-2,974.10	0.64	0.64	-541.71
8	-10,309.53	24	12	12	50.00	1,712.22	-2,571.35	0.67	0.67	-429.56
7	-6,737.50	25	14	11	56.00	1,599.80	-2,648.61	0.60	0.77	-269.50
6	-8,678.01	25	13	12	52.00	1,491.38	-2,338.83	0.64	0.69	-347.12
5	-17,056.17	25	14	10	56.00	1,077.98	-3,214.79	0.34	0.47	-682.25
4	-7,576.14	26	14	11	53.85	1,054.58	-2,030.93	0.52	0.66	-291.39
3	-7,861.06	26	12	14	46.15	882.74	-1,318.14	0.67	0.57	-302.35
2	-2,211.07	26	13	13	50.00	827.48	-997.57	0.83	0.83	-85.04
1	-2,967.30	28	13	15	46.43	612.84	-728.95	0.84	0.73	-105.98

So while not the most substantial edge we've seen, it still deserves inclusion in the Aggregator in my eyes.

The put/call ratio re-triggered a couple of studies. The one with short-term implications was just from last night's letter that looked at the SPX making a new 50-day high while the 10-day p/c ration was extremely low. I've reset that one in the Aggregator.

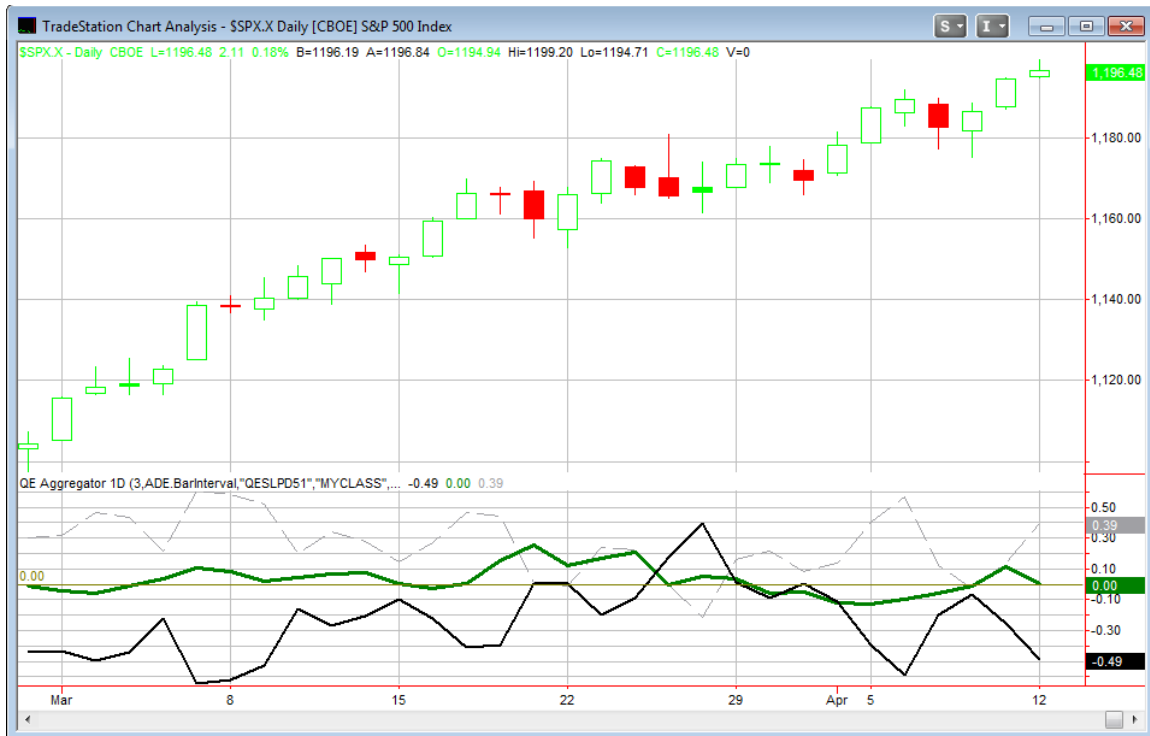
The 2nd put/call study of note was from the 12/23/09 Letter. I've reproduced it below.

CBOE Total P/C Ratio hits lowest level in 40 days while the S&P fails to manage even a 0.5% gain. Buy on close. Sell X days later. \$100k/trade. July '96 - 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
20	-63,876.66	39	13	26	33.33	2,670.24	-3,791.92	0.70	0.35	-1,637.86
19	-55,697.73	40	15	25	37.50	2,680.63	-3,836.29	0.70	0.42	-1,392.44
18	-54,046.38	40	17	23	42.50	2,266.26	-4,024.91	0.56	0.42	-1,351.16
17	-62,656.25	41	16	25	39.02	2,227.42	-3,931.80	0.57	0.36	-1,528.20
16	-50,469.77	41	19	22	46.34	2,037.19	-4,053.47	0.50	0.43	-1,230.97
15	-41,159.25	41	18	23	43.90	2,262.15	-3,559.91	0.64	0.50	-1,003.88
14	-31,725.30	41	18	23	43.90	2,368.01	-3,232.59	0.73	0.57	-773.79
13	-26,121.15	42	19	23	45.24	2,305.86	-3,040.54	0.76	0.63	-621.93
12	-21,210.60	42	20	22	47.62	2,208.62	-2,971.96	0.74	0.68	-505.01
11	-22,475.42	42	19	23	45.24	1,981.01	-2,613.67	0.76	0.63	-535.13
10	-32,585.69	42	16	26	38.10	1,929.00	-2,440.37	0.79	0.49	-775.85
9	-35,686.20	43	19	24	44.19	1,375.27	-2,575.68	0.53	0.42	-829.91
8	-28,092.67	43	18	25	41.86	1,657.46	-2,317.08	0.72	0.52	-653.32
7	-21,650.87	43	20	23	46.51	1,507.01	-2,251.79	0.67	0.58	-503.51
6	-23,051.17	43	16	27	37.21	1,412.41	-1,690.73	0.84	0.50	-536.07
5	-11,835.98	45	23	22	51.11	1,296.55	-1,893.48	0.68	0.72	-263.02
4	-4,124.49	46	22	24	47.83	1,610.95	-1,648.56	0.98	0.90	-89.66
3	-4,632.46	47	20	27	42.55	1,546.69	-1,317.27	1.17	0.87	-98.56
2	-234.13	48	23	25	47.92	1,133.78	-1,052.44	1.08	0.99	-4.88
1	-2,753.55	54	26	28	48.15	849.14	-886.83	0.96	0.89	-50.99

This one was readying to come off the Long-Term Active Studies List but I have now reactivated it as of today. Lastly, the VIX:VXV Ratio closed extremely low on Monday. This brought up an study from the June 22, 2009 letter. Again, this one was looking out several weeks as the short-term implications were weak at best.

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



The green Aggregator line is showing a reading of 0.00. In actuality it is just slightly positive at 0.004. If it were slightly negative it would show up on the chart as -0.00. This indicates a net expectation of just above flat for the next few days. Meanwhile the black Differential line is now strongly below 0. This illustrates the strong outperformance of the S&P 500 versus recent expectations. Though just barely we are again seeing both lines on opposite sides of 0. Slightly positive expectations in a strongly overbought market make for a neutral configuration. This means the Aggregator System is again flat tonight.

Looking ahead to tomorrow, the green Aggregator line is projected to be almost dead-even once again. This means tomorrow's studies will likely determine whether the Aggregator value finishes positive or negative. The pivot level for the Differential will be 1,184.35 on Tuesday. In other words it will take at or below this level in order to see the Differential flip from negative to positive. Traders should also keep in mind that after tomorrow we will be seeing the Tax Day seasonality study kick in – so if tomorrow ends up calling for a mild bearish expectation, there is a decent chance that it will only last for 1 day.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/12 somewhat bullish

As we've been seeing for a while, the market is continuing to trudge ahead, but there are some mixed signs at the moment.

Two things the market really has going for it are breadth and leadership. Leadership can be seen in the form of the Nasdaq/S&P Relative Strength indicator that we track on the charts page. As most subscribers are well aware at this point the market has made nearly all of its gains in the last 40 years when relative strength is favoring the Nasdaq. Breadth

also remains strong as the Advance/Decline line is still hitting new highs. New 52-week highs have lagged a little bit in the last few weeks but you typically need a divergence of AT LEAST two months before this will matter much and manifest itself in the form of a substantial selloff.

On the downside we see rising interest rates and complacency among options players. The complacency has been shown in studies we've looked at that have included both the VIX:VXV ratio and put/call ratios. None of these have proven to be great at exact timing, but a pullback does generally occur when you hit readings around where we have been.

Volume has been another concern. We have seen several studies lately that have suggested some of the low-volume rallies we are seeing will often lead to a pullback. It has struck me that perhaps it might be worth looking at low-volume rallies in a slightly different way.

One tool that some analysts use is the concept of Distribution Days. Distribution days are basically days where the market sells off on relatively high volume. The theory is that when clusters of these days are seen near a market high it suggests an intermediate-term selloff is likely to ensue. Back in August I posted a study that examined this. [It found the concept to be dead wrong](#). It is most often better to buy into these clusters of high-volume selloffs rather than looking for further selling.

Below I re-ran the results of that August study back to 1988 using the same parameters.

Short S&P on close of 4th distribution day within the last 12 if it is above its 200ma and has come within 1% of its 200day high in the last 12 days. Cover 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
20	-23,444.75	42	16	26	38.10	3,067.73	-2,789.56	1.10	0.68	-558.21
19	-13,934.99	42	19	23	45.24	2,776.66	-2,899.63	0.96	0.79	-331.79
18	-19,709.80	43	18	25	41.86	2,597.53	-2,658.61	0.98	0.70	-458.37
17	-24,561.58	43	14	29	32.56	2,796.48	-2,196.98	1.27	0.61	-571.20
16	-17,575.91	44	19	25	43.18	2,371.99	-2,505.75	0.95	0.72	-399.45
15	-20,928.08	44	19	25	43.18	2,242.65	-2,541.53	0.88	0.67	-475.64
14	-27,472.31	46	20	26	43.48	2,048.79	-2,632.62	0.78	0.60	-597.22
13	-23,605.57	47	19	28	40.43	2,376.08	-2,455.40	0.97	0.66	-502.25
12	-33,895.26	47	18	29	38.30	2,134.59	-2,493.72	0.86	0.53	-721.18
11	-30,321.93	47	21	26	44.68	1,531.91	-2,403.54	0.64	0.51	-645.15
10	-32,983.03	50	21	29	42.00	1,482.85	-2,211.13	0.67	0.49	-659.66
9	-31,417.17	57	23	34	40.35	1,555.74	-1,976.45	0.79	0.53	-551.18
8	-18,949.31	61	30	31	49.18	1,499.06	-2,061.97	0.73	0.70	-310.64
7	-28,801.36	65	33	32	50.77	1,143.62	-2,079.40	0.55	0.57	-443.10
6	-16,363.97	69	39	30	56.52	1,199.94	-2,105.39	0.57	0.74	-237.16
5	-23,773.09	76	35	41	46.05	1,537.10	-1,891.99	0.81	0.69	-312.80
4	-22,818.70	87	40	47	45.98	1,397.14	-1,674.56	0.83	0.71	-262.28
3	-10,693.88	102	45	57	44.12	1,262.41	-1,184.25	1.07	0.84	-104.84
2	-9,394.19	133	62	71	46.62	1,066.63	-1,063.74	1.00	0.88	-70.63
1	-9,354.53	225	97	128	43.11	764.99	-652.80	1.17	0.89	-41.58

Recall that this study looks to go short, rather than buy. Therefore you are looking at a market that typically rose following such clusters.

Next, instead of looking for clusters of distribution days, I decided to substitute days that rose on volume that was lower than the previous day's volume. Here's how those results came out.

Short S&P on close of 4th low-volume rally day within the last 12 if it is above its 200ma and has come within 1% of its 200day high in the last 12 days. Cover 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
20	13,120.79	72	27	45	37.50	3,503.32	-1,810.42	1.94	1.16	182.23
19	-5,895.61	75	26	49	34.67	3,303.96	-1,873.44	1.76	0.94	-78.61
18	-18,900.13	77	26	51	33.77	2,920.53	-1,859.49	1.57	0.80	-245.46
17	-13,391.61	77	28	49	36.36	2,934.41	-1,950.10	1.50	0.86	-173.92
16	-413.32	79	31	48	39.24	2,945.61	-1,910.99	1.54	1.00	-5.23
15	-5,288.20	82	34	48	41.46	2,642.74	-1,982.11	1.33	0.94	-64.49
14	-9,793.45	83	31	52	37.35	2,657.45	-1,772.58	1.50	0.89	-117.99
13	-18,465.24	84	31	53	36.90	2,280.87	-1,682.49	1.36	0.79	-219.82
12	-18,403.57	85	29	56	34.12	2,334.11	-1,537.37	1.52	0.79	-216.51
11	-26,667.98	91	34	57	37.36	2,029.38	-1,678.37	1.21	0.72	-293.05
10	6,235.13	96	43	53	44.79	2,209.87	-1,675.27	1.32	1.07	64.95
9	-5,306.79	101	42	59	41.58	2,179.16	-1,641.21	1.33	0.95	-52.54
8	10,014.12	109	46	63	42.20	2,246.45	-1,481.31	1.52	1.11	91.87
7	-6,014.40	119	50	69	42.02	1,645.44	-1,279.51	1.29	0.93	-50.54
6	-7,153.65	132	56	76	42.42	1,673.77	-1,327.43	1.26	0.93	-54.19
5	10,226.67	147	68	79	46.26	1,692.79	-1,327.63	1.28	1.10	69.57
4	-4,005.11	165	71	94	43.03	1,361.10	-1,070.68	1.27	0.96	-24.27
3	-17,750.27	200	87	113	43.50	1,076.17	-985.64	1.09	0.84	-88.75
2	-5,601.36	263	123	140	46.77	821.68	-761.92	1.08	0.95	-21.30
1	3,841.99	455	224	231	49.23	589.04	-554.56	1.06	1.03	8.44

It's interesting to see here that results are mixed rather than suggestive of upside as the distribution day clusters were. This isn't terribly surprising since many of the volume-related studies we see suggesting downside are due to low-volume rises rather than high-volume declines.

At this point the research is a bit half-baked, but I plan on expanding on this line of thought in the future.

So as far as the intermediate-term outlook, I like the current breadth and leadership. Interest rates, sentiment, and volume are suggesting a selloff is coming. At this point price has done nothing wrong. We are again at new highs and I'm inclined to stick with the trend until I see more convincing evidence that it is ending or done.

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 @ \$120.70 limit. An intraday move this high would mean the target for the 70% Up Issues study has been hit and its bullish influence will no longer be in place.

SPY short 1/4 index position @ \$120.00 LIMIT ON CLOSE unless Aggregator System estimate calls for flat or long near tomorrow's close. A higher close tomorrow will most likely trigger a short. With some luck we'll get both of these lots filled. I'm looking to get two lots on right away since I would anticipate this trade would be very quick thanks to the Tax Day seasonality that will arrive later in the week.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	4/5/2010	\$118.76	\$119.55	-0.67%		covered at limit
SPY(1/4)(s)	4/6/2010	\$118.76	\$119.55	-0.67%		covered at limit

Our price was barely reached on Monday.

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