

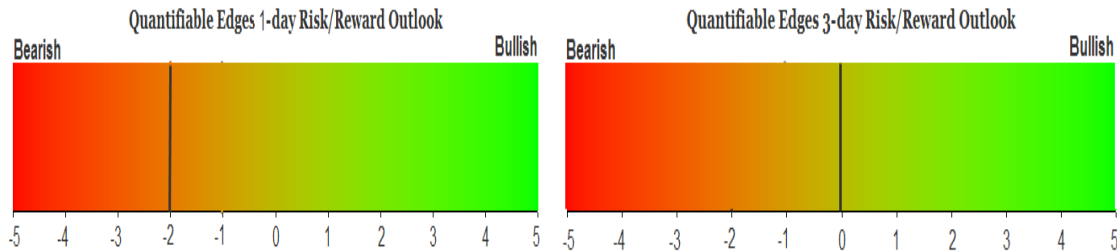
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 20, 2010

Volume 3 Issue 74

Market Overview



Tonight's Research Points

- Poor NYSE breadth on the SPX bounce today is a potential warning sign.
- Poor Nasdaq breadth used to also be a warning sign but it has been less effective lately.
- The Aggregator System changed from long to flat at the close.
- The NDX Aggressive Trend Timer stayed long at the close.

Short-term Outlook – updated 4/20

The Bottom Line

The weak breadth on Monday's bounce combined with last night's bearish study are turning expectations negative over the next few days. With the market still short-term oversold this is leaving me basically neutral.

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 20, 2010	Bad breadth bounce	1-2 days	Bearish	-3.30%	-2.30%
April 19, 2010	High vol sharp drop from 20-high	1-4 days	Bearish	-2.20%	-1.80%
April 19, 2010	Down day after 5 up closes > 200ma	1-10 days	Bullish	2.20%	1.65%
Active - Long Term					
April 19, 2010	1st drop below 10ma in long time	int. term	Bullish		
April 13, 2010	Ttl Put/Call 40-low. SPX no 0.5% up.	1-5 weeks	Bearish	-4.90%	-3.30%
April 6, 2010	SPX and TNX hit 50-day closing highs	int. term	Bearish		
February 16, 2010	Nasdaq/S&P RS Indicator Positive	int. term	Bullish		
Dropped Tonight					
April 19, 2010	Friday Selloff Studies	1 day	Bullish		
April 15, 2010	Nasdaq 90% Up Vol	1-3 days	Bullish	1.60%	1.40%

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 expected bounce arrived today but without much gusto. In fact while the SPX rose, other majors were mixed. At the close the SPX was up 0.5%, the Nasdaq fell 0.05% and the Russell sold off 0.5%. Breadth was also mixed. The NYSE Up Issues % favored decliners with a 44% reading. Up Volume %, on the other hand, finished at 57%. Total volume declined from Friday's level but was still elevated above normal levels.

The story today was the weakness of the bounce. As I mentioned in last night's Letter, weak bounces often lead to bearish consequences. The weakness was especially notable in the breadth numbers and that was the theme among the studies this evening.

The most compelling evidence came from a study that last appeared in the Feb 8th, 2010 Letter. I've updated the study below:

Yesterday SPX drops > 1.5%. Today SPX closes higher but NYSE Up Issue % < 45%. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-19,591.82	20	5	15	25.00	4,452.54	-2,790.30	1.60	0.53	-979.59
4	-21,152.15	20	4	16	20.00	3,852.35	-2,285.10	1.69	0.42	-1,057.61
3	-25,122.06	20	5	15	25.00	3,007.41	-2,677.27	1.12	0.37	-1,256.10
2	-32,290.51	20	6	14	30.00	1,845.36	-3,097.33	0.60	0.26	-1,614.53
1	-26,669.60	20	3	17	15.00	2,457.05	-2,002.40	1.23	0.22	-1,333.48

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

Since the turn of the century, action such as we saw today has consistently led to a quick selloff. The edge has basically been played out in the 1st 2 days, though.

The other breadth study that looked interesting examined days the SPX rose but the Nasdaq Up Issue % came in less than 40%. When this study was first shown in the 4/24/09 blog, the numbers were quite lopsided to the bearish side. I re-ran them tonight and the edge has not persisted over the last year. Below are the updated numbers dating back to 2001.

Nasdaq Up Issues % < 40%. SPX closes higher. Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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	-21,742.73	27	10	17	37.04	3,694.03	-3,451.95	1.07	0.63	-805.29
9	-18,002.89	27	11	16	40.74	3,565.33	-3,576.34	1.00	0.69	-666.77
8	-4,741.75	29	14	15	48.28	3,375.02	-3,466.14	0.97	0.91	-163.51
7	-13,989.02	29	15	14	51.72	2,728.82	-3,922.95	0.70	0.75	-482.38
6	-17,648.22	29	16	13	55.17	1,929.41	-3,732.21	0.52	0.64	-608.56
5	-14,675.33	29	15	14	51.72	1,995.89	-3,186.69	0.63	0.67	-506.05
4	-20,967.28	29	13	16	44.83	1,775.13	-2,752.75	0.64	0.52	-723.01
3	-22,179.52	30	12	18	40.00	1,554.18	-2,268.32	0.69	0.46	-739.32
2	-15,186.70	30	18	12	60.00	966.08	-2,714.68	0.36	0.53	-506.22
1	-5,195.91	30	15	15	50.00	865.03	-1,211.43	0.71	0.71	-173.20

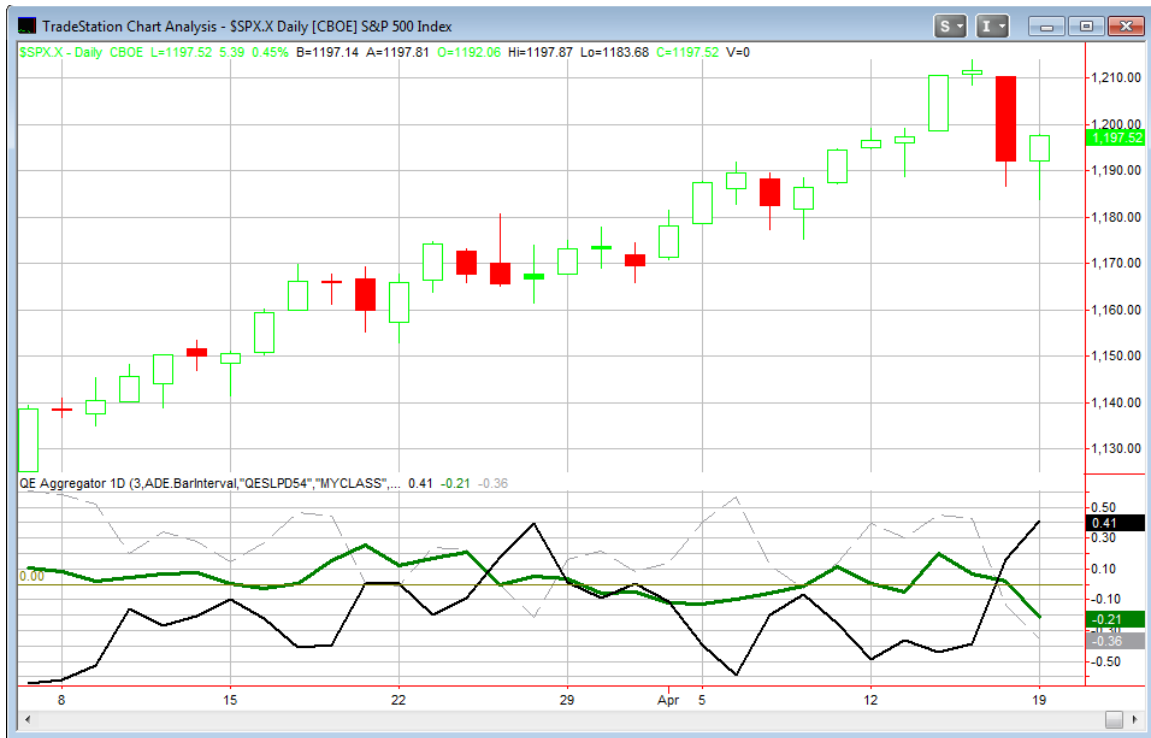
While these still appear to suggest a bearish implications they aren't nearly what they looked like a year ago. Since then there have only been 4 instances but they have all led to substantial further buying rather than the selloffs which had been common previously. Below are the 4 most recent instances and their 10-day returns.

Nasdaq Up Issues % < 40%. SPX closes higher. Buy SPX on close. Sell 10 days later. \$100k/trade. 2001 - present.			
04/23/09	Buy	\$851.92	6.51%
05/07/09	Sell	\$907.39	
07/06/09	Buy	\$898.72	5.83%
07/20/09	Sell	\$951.13	
11/04/09	Buy	\$1,046.50	6.05%
11/18/09	Sell	\$1,109.80	
12/10/09	Buy	\$1,102.35	2.19%
12/24/09	Sell	\$1,126.48	

Since it appears it may be losing its bearish edge I won't be including this study in the Aggregator for the time being. I will continue to monitor it as the recent failures may just be a product of the incredibly strong bull market we've experienced over the last year.

A few other quick notes regarding studies that appeared in tonight's Quantifinder. 1) The VIX:VXV Ratio fell back below 0.9 already and I've added that study back to the intermediate-term list. 2) The CBOE Put/Call study that showed up in the Quantifinder appears to be due to incorrect data in Tradestation.

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



Tonight's weak breadth bounce study helped to create a sizable dip in the green Aggregator line. This shows the net expectation from the active studies over the next few days is for downside. Meanwhile the black Differential line is as high as it has been in a while. This illustrates the fact that the SPX has strongly underperformed expectations over the last few days. So while expectations are now negative, the SPX is strongly oversold. This is considered a neutral configuration. The Aggregator System went flat at the close as shown was likely on the systems page about 15 minutes before the bell.

Looking ahead to tomorrow the Aggregator value is again slated to be negative. The number of studies isn't very big and the projected value is quite low, so I expect Tuesday's action and the subsequent studies to have a large impact on the final Aggregator value. The pivot level for the Differential line will be 12,14.01. So it would take an SPX close above 1,214 for the market to reach overbought. Unless this happens shorting will not be a possibility on Tuesday..

The pattern that the studies are suggesting at this point seems to be another dip down here before the market begins a new leg up. Of course it is all constantly evolving so I'll continue to take fresh looks at the data.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/19 somewhat bullish

From an intermediate-term standpoint very little has changed from last week. With Friday's VIX spike I am removing the VIX:VXV Ratio studies. Previously I had shown a beneficial alternate exit for those studies if there was a spike in the VIX to 10% over its 10ma. This was accomplished on Friday so I'm not inclined to view the VIX as suggesting complacency.

The other intermediate-term bearish studies which were related to bond action and to put/call ratios remain in effect and provide some hope for the bears.

The Nasdaq/S&P 500 Relative Strength indicator is still favoring the Nasdaq as it has since the middle of February. As we've discussed many times before this is considered bullish.

Another notable about Friday's selloff that demonstrates how persistent the uptrend has been is the fact that it caused the SPX to close below the 10ma for the 1st time since February 12th. That streak consisted of 42 trading days above the 10ma before Friday. In the 3/22/10 Letter I discussed the fact that the SPY had gone more than 25 days above its 10ma. (The SPY streak was broken on 3/26 after going 30 days.) In that Letter I showed the 5 other times since 1993 that SPY had gone at least 25 days above the 10ma. My conclusion after viewing the charts was the following..." Strong and persistent upside movement like we have seen lately hasn't just ended and lead to an immediate correction. The 1st dip has always been just that – a dip. New highs were always made in short order." With this Letter already quite long I decided not to reproduce those charts again. Instead, if you would like to view them you may find the in the intermediate-term section of the 3/22 Letter which I have provided a download link to below:

[2010-03-22 QE Weekly Research Letter.pdf](#)

Along these lines this weekend I looked for other times the SPX closed above the 10ma for at least 40 days in a row. Looking back to 1960 there were only 4 other instances – the most recent occurring in 1972. The dates when the other 4 instances finally dipped below the 10ma were Feb 1961, Oct 1968, Feb 1971, and Jan 1972. In looking at those instances I am drawn to the same conclusion as the 3/22 study referenced above. Persistent strength never just ended on that 1st pullback. The market went on to make new highs each time and the rally continued.

I should note that the NDX did NOT drop below its 10ma on Friday and it has now posted 45 straight closes above it. There has only been one other time in the history of the index that it has lasted this long and that streak ended on 6/5/89. The persistence of this rally truly has been amazing.

In summary one of the most persistent bull moves of all time has now suffered just a single down day. Any inclination to suggest a top at this point would seem premature. I tend to give trends the benefit of the doubt, and with a trend as strong as this one I'm certainly not going to bet against it without more substantial evidence.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

MON 1/3 position @ \$64.73 limit (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (MON)

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.

No new trade ideas tonight.

Open Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	4/19/2010	\$119.01	\$119.81	0.67%		bought on open

I'll look to sell the SPY lot @ a \$119.71 limit tomorrow morning.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2010 Hanna Capital Management, LLC.