

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 21, 2010

Volume 3 Issue 75

Market Overview



Tonight's Research Points

- If the QQQQ manages to gap up strongly tomorrow that would trigger a study that suggests a move lower from open to close.
- The Aggregator System remained flat at the close.
- The NDX Aggressive Trend Timer stayed long at the close.

Short-term Outlook – updated 4/21

The Bottom Line

No substantial swing-trade index edge is apparent. One study shown below suggests a big gap up in QQQQ could be daytrade shortable.

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		

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

Despite the bounce starting poorly on Monday it gained momentum on Tuesday. The major indices all closed higher. The SPX and Nasdaq rose 0.8% while the Russell 2000 gained 1.4%. Breadth was strongly positive with the NYSE Up Issues % coming in at 80% and the Up Volume % at 81%. Total volume declined on both the NYSE and the Nasdaq.

As happens occasionally the Quantifinder failed to come up with anything substantial this evening. This occurs on average about once every 9-10 days. Most often it occurs at times like now when the market has just reversed and is in the middle of its recent range.

There was some notable action. I saw several people note the VIX movement today. The VIX fell over 9% while the SPX rose less than 1%. This appears to be a large drop for a day that only really saw mild gains. It would seem such a sharp drop in the VIX could signal complacency. I ran a few tests tonight to see if I could decipher an advantage. Basically, no matter how I looked at it, there was no evidence of a downside edge. There were slight suggestions of upside but they were not strong enough to warrant tracking.

The big news after the bell was Apple's strong earnings. They helped propel the futures higher. The 8pm EST after-hours closing price for QQQQ (of which AAPL makes up about 17%) was \$50.16. This is close to a 1% rise from the 4pm closing price and also close to putting QQQQ at a new high. I ran a study below that looked at other times the QQQQ gapped up 1% or more to a new 20-day high.

QQQQ gaps up over 1% and to a new 20-day high.
Buy at 9:31am. Sell at 4pm close. \$100k/trade. 2000 - present.

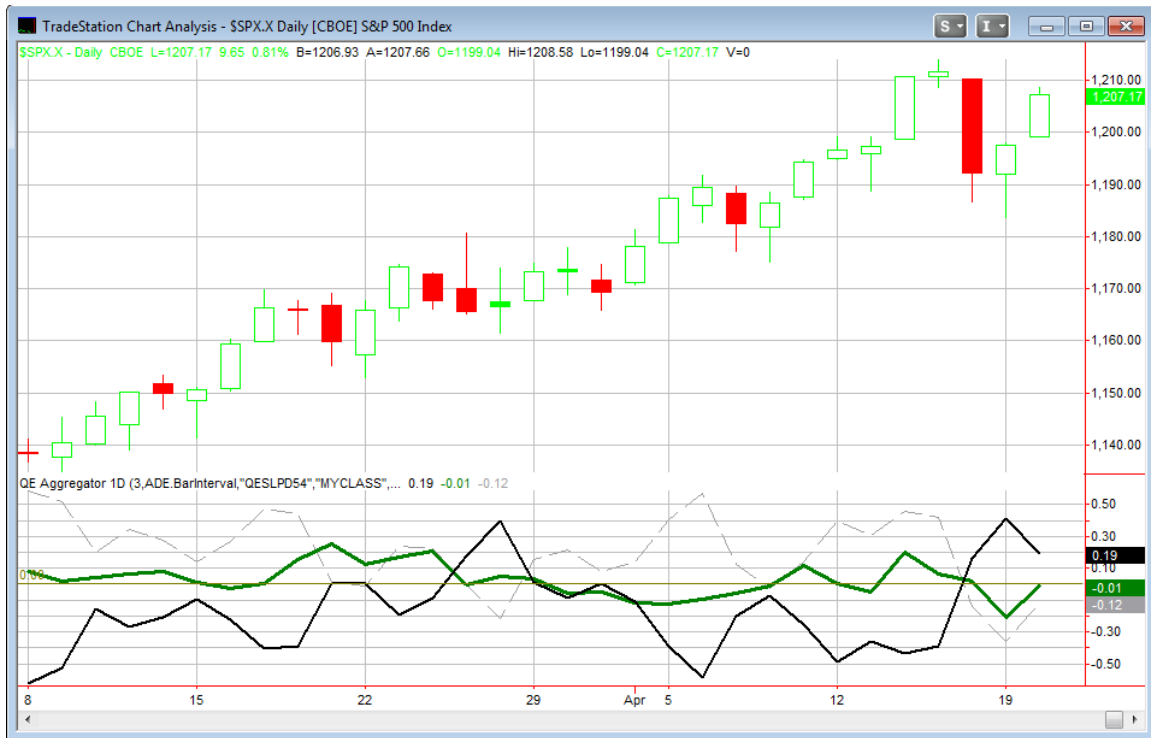
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$12,652.51)	Profit Factor	0.33
Gross Profit	\$6,168.10	Gross Loss	(\$18,820.61)
Total Number of Trades	17	Percent Profitable	23.53%
Winning Trades	4	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	(\$744.27)	Ratio Avg. Win:Avg. Loss	1.07
Avg. Winning Trade	\$1,542.03	Avg. Losing Trade	(\$1,447.74)
Largest Winning Trade	\$3,153.50	Largest Losing Trade	(\$3,402.60)

Should the overnight gains hold and the QQQQ manage to open at \$50.25 or higher, odds seem to favor a drop from open to close. Below is a list of all the instances:

QQQQ gaps up over 1% and to a new 20-day high.
Buy at 9:31am. Sell at 4pm close.\$100k/trade. 2000 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
10/15/02 09:31	Buy	\$23.48	0.43%	\$468.38
10/15/02 16:00	Sell	\$23.58		(\$1,277.40)
10/28/02 09:31	Buy	\$25.00	(2.68%)	\$160.00
10/28/02 16:00	Sell	\$24.33		(\$3,320.00)
11/04/02 09:31	Buy	\$26.13	(0.50%)	\$1,913.50
11/04/02 16:00	Sell	\$26.00		(\$1,262.91)
11/21/02 09:31	Buy	\$26.95	3.15%	\$3,339.00
11/21/02 16:00	Sell	\$27.80		(\$296.80)
01/13/03 09:31	Buy	\$27.35	(1.72%)	\$438.72
01/13/03 16:00	Sell	\$26.88		(\$2,266.72)
06/02/03 09:31	Buy	\$30.10	(2.19%)	\$332.20
06/02/03 16:00	Sell	\$29.44		(\$2,624.38)
06/06/03 09:31	Buy	\$31.15	(3.40%)	\$1,027.20
06/06/03 16:00	Sell	\$30.09		(\$3,466.80)
08/22/03 09:31	Buy	\$33.25	(2.35%)	\$360.84
08/22/03 16:00	Sell	\$32.47		(\$2,435.67)
10/15/03 09:31	Buy	\$35.78	(1.59%)	\$167.64
10/15/03 16:00	Sell	\$35.21		(\$2,095.50)
11/03/04 09:31	Buy	\$37.81	(1.24%)	\$237.96
11/03/04 16:00	Sell	\$37.34		(\$1,745.04)
11/05/04 09:31	Buy	\$38.00	(0.21%)	\$420.96
11/05/04 16:00	Sell	\$37.92		(\$1,026.09)
11/03/05 09:31	Buy	\$39.70	0.63%	\$982.02
11/03/05 16:00	Sell	\$39.95		(\$50.36)
05/02/08 09:31	Buy	\$49.05	(0.63%)	\$183.42
05/02/08 16:00	Sell	\$48.74		(\$1,446.98)
03/19/09 09:31	Buy	\$30.02	(1.07%)	\$133.24
03/19/09 16:00	Sell	\$29.70		(\$1,865.36)
04/30/09 09:31	Buy	\$34.32	(0.12%)	\$1,689.54
04/30/09 16:00	Sell	\$34.28		(\$815.64)
06/01/09 09:31	Buy	\$35.72	1.96%	\$2,183.22
06/01/09 16:00	Sell	\$36.42		(\$307.89)
08/28/09 09:31	Buy	\$40.90	(1.12%)	\$439.92
08/28/09 16:00	Sell	\$40.44		(\$1,808.56)

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



The green Aggregator line rose but still stayed below 0 tonight. This means the net expectation from the active studies list is for downside over the next few days. Meanwhile the black Differential is still above 0, showing the SPX has underperformed expectations over the last few days. Negative expectations in an oversold market means a neutral configuration. The Aggregator System remained flat tonight.

Looking ahead to tomorrow there could be some substantial changes in the Aggregator chart. With bearish studies beginning to drop off, the green Aggregator line is set up to rise back above zero. Of course this could change if new bearish studies emerge on Wednesday. Meanwhile, with last Friday's big drop exiting the Differential calculation the Differential pivot value will drop all the way to 1,195.46. So the SPX would need to close below this number in order for the Differential to remain positive. Otherwise it will drop into negative territory.

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	\$120.56	1.30%		sold on open

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