

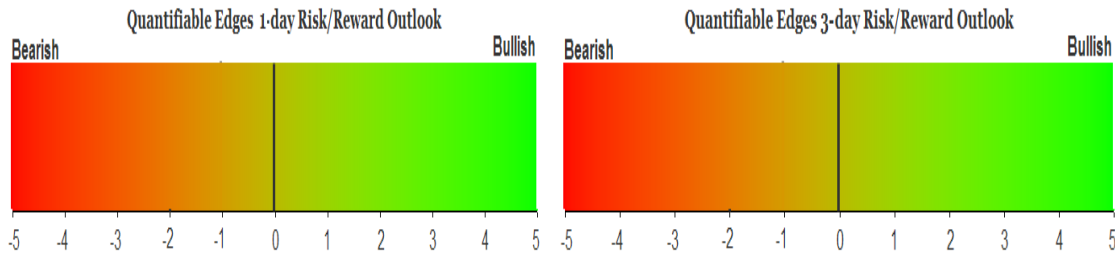
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 22, 2010

Volume 3 Issue 76

Market Overview



Tonight's Research Points

- NYSE Up Issues > 55% on a day the SPX closed down but above the 200ma suggest a bit of an upside edge over the next few days.
- The Aggregator System remained flat at the close.
- The NDX Aggressive Trend Timer switched to flat at the close.

Short-term Outlook – updated 4/22

The Bottom Line

I'm still not seeing a substantial edge. The market is caught in a range, which often leads to "wait and see" as it is now.

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 22, 2010	SPX down while NYSE Up Issues > 55%	1-3 days	Bullish	1.20%	0.90%
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 20, 2010	Bad breadth bounce	1-2 days	Bearish	-3.30%	-2.30%

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

Wednesday's action consisted of mixed, choppy trading. The QQQQ gap research from last night didn't quite trigger as QQQQ couldn't hold its overnight gap as strongly by the market open. When the day was over the SPX closed down 0.1% while the Nasdaq rose 0.2% and the Russell 2000 gained 0.7%. Breadth came in mildly positive as the NYSE Up Issues % was 56% and the Up Volume % equaled 54%. Total volume rose from Tuesday's levels.

The Quantifinder identified a study from the 5/20/09 Subscriber Letter that looked at performance following days the SPX closed down while the NYSE Up Issues % was greater than 55%. That particular study looked back to 1970. It found there to be a very marginal upside edge over the next week. Tonight I looked a little deeper at that concept. I decided to filter by the 200ma and also to shorten the backtest to the year 2000. Those results are below.

SPX closes lower while NYSE Up Issues % closes > 55%. Close > 200ma. 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	12,822.27	40	25	15	62.50	1,343.37	-1,384.13	0.97	1.62	320.56	
4	13,757.40	41	25	16	60.98	1,277.65	-1,136.50	1.12	1.76	335.55	
3	13,033.04	42	29	13	69.05	927.60	-1,066.73	0.87	1.94	310.31	
2	10,019.01	42	28	14	66.67	818.48	-921.31	0.89	1.78	238.55	
1	8,121.28	44	25	19	56.82	701.55	-495.66	1.42	1.86	184.57	

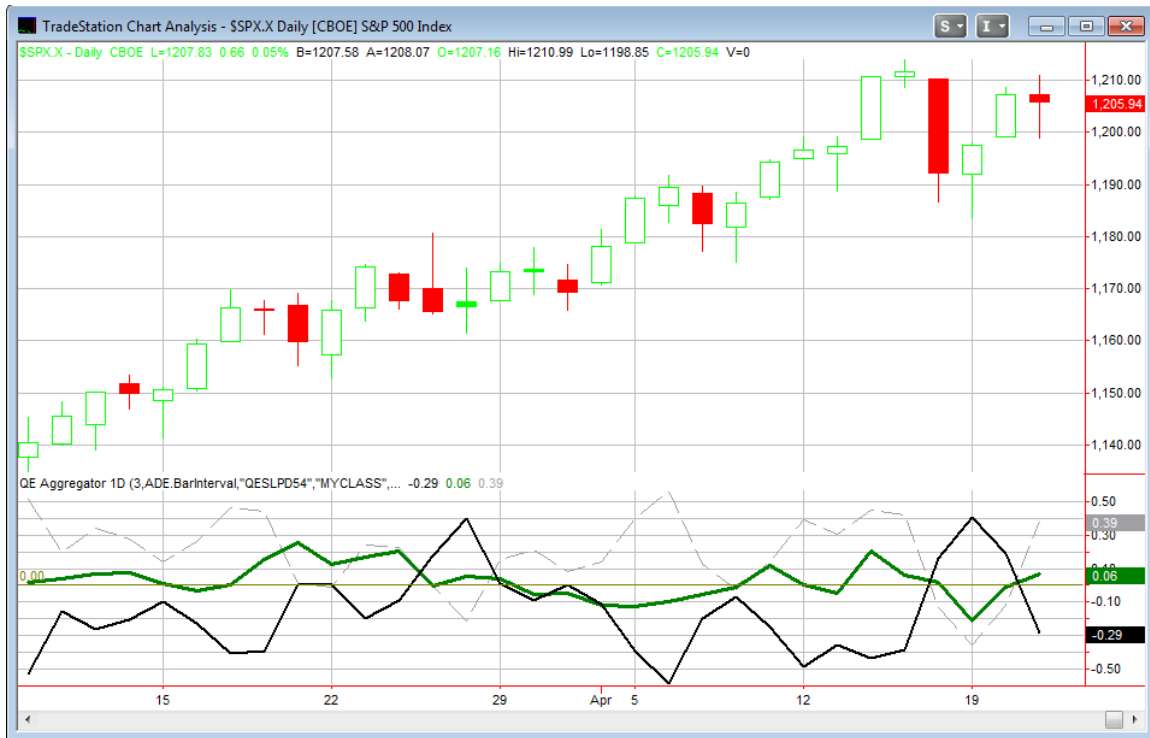
83% of instances closed above the entry price at some point in the next 3 days.

Average return over 3 days was triple that of down days with an Up Issue % <= 55%.

The edge here isn't huge but it's not bad over the 1st 3 days or so. I do think it is worthy of inclusion in the Aggregator.

I should also note that the Quantifinder was listing a put/call related study from 5/27/08. This study should not have been coming up. It is doing so because of an apparent data error in Tradestation. It should stop showing up in the next couple of days.

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



As was suggested might happen last night both lines flipped tonight. The green Aggregator line is now positive as net expectations from the Active Studies List are for upside over the next few days. Meanwhile the black Differential line is now negative since SPX has outperformed expectations over the last few days. Like last night we find both lines on opposite side of 0, which makes for a neutral configuration. In this case it now means the market is overbought with positive expectations instead of last night when it was oversold with negative expectations. With the configuration still neutral the Aggregator System remained flat.

Looking ahead to tomorrow the green Aggregator line is set up to remain positive unless new short-term bearish studies emerge. The Differential pivot value will be 1,195.91. In other words it will take an SPX close at or below this number in order to see the black Differential line flip to positive. The action is currently choppy without strongly predictive patterns. I'm in "wait and see" mode until a tradeable edge becomes more clear.

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)

Note: The CBI chart on the charts page has been showing 0 instead of 1 the last few days. This is erroneous and I will hopefully have it fixed tomorrow.

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. There were several ETF's triggering system 90609 that looked appealing but I'd rather look to these if my general outlook was more bullish. Aggressive traders could certainly pick from this list if looking for ideas.

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