

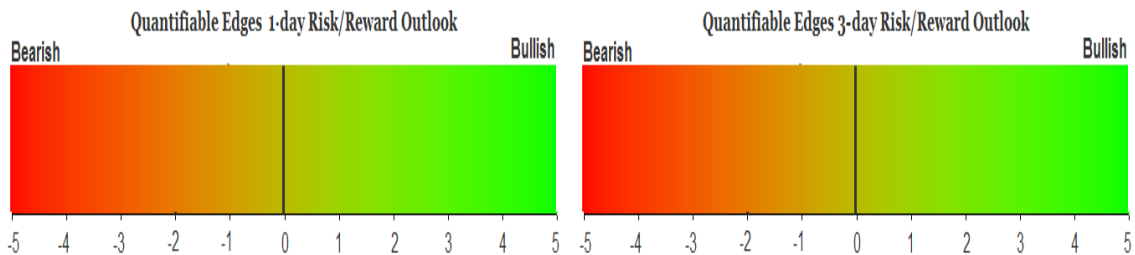
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 11, 2010

Volume 3 Issue 89

Market Overview



Tonight's Research Points

- While the market bounced nicely, volume failed to confirm the move up.
- The huge drop in the VXO suggests a quick pullback for SPX.
- The Aggregator System went flat at the close.
- The NDX Aggressive Trend Timer changed to flat at the close.

Short-term Outlook – updated 5/11

The Bottom Line

The big bounce Monday was a bit lacking from a volume standpoint. There's some evidence that the market may pullback very shortly. But with the market still oversold versus expectations going short could be dangerous. I'm basically neutral today.

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
Active				
May 11, 2010	Nas up 3% on lowest volume in 5 days	1-2 days	Bearish	
May 11, 2010	VXO drops 20% today	1-2 days	Bearish	
May 6, 2010	Gap & partial reverse from 5-day low	1-10 days	Bullish	3.30%
Active - Long Term				
April 26, 2010	No breadth divergence at new high	int. term	Bullish	
Dropped Tonight				
May 10, 2010	Mondays after down Fridays Since 3/09	1 day	Bullish	
May 7, 2010	VIX 40% above 10ma.	1-2 days	Bullish	

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

The overnight bailout news held up and the market closed substantially higher today thanks in large part to the massive morning gap. The SPX gained 4.4%, the Nasdaq 4.8% and the Russell 5.6%. Breadth was extremely positive as the NYSE Up Issues % came in at 94% and the Up Volume % at 97%. Total volume declined quite a bit on the NYSE and actually came in at the lowest levels in a week on the Nasdaq.

Volume can sometimes be tricky. I'll show a few examples of studies tonight to demonstrate. First off, when you get a bounce from a very low level that isn't confirmed by volume, that isn't a bad thing. In fact it can often be good. The below study is from the 10/30/09 Subscriber Letter.

Yesterday SPX RSI(2) closes < 5. Today the SPX closes up on lower NYSE volume. Close > 200ma. 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
10	16,681.07	27	13	14	48.15	3,283.78	-1,857.72	1.77	1.64	617.82
9	23,704.53	28	18	10	64.29	2,692.17	-2,475.45	1.09	1.96	846.59
8	17,689.79	28	18	10	64.29	2,393.81	-2,539.87	0.94	1.70	631.78
7	31,765.10	28	20	8	71.43	2,440.54	-2,130.72	1.15	2.86	1,134.47
6	27,704.22	29	20	9	68.97	2,114.36	-1,620.34	1.30	2.90	955.32
5	21,712.47	29	17	12	58.62	2,490.78	-1,719.24	1.45	2.05	748.71
4	22,487.89	31	19	12	61.29	2,061.75	-1,390.44	1.48	2.35	725.42
3	14,227.11	31	18	13	58.06	1,666.81	-1,213.49	1.37	1.90	458.94
2	17,019.45	31	20	11	64.52	1,484.02	-1,150.99	1.29	2.34	549.01
1	11,783.67	31	20	11	64.52	1,033.31	-807.50	1.28	2.33	380.12

90% of instances closed above the entry price at some point in the next week.

But when a move is especially strong from a price standpoint as it was on Monday, then you often do want to see that big move accompanied by big volume. Below is an example of this.

SPX rises 4%. Today is not the highest volume in 5 days. Buy on close. Sell X days later. \$100k/trade. 1987 - 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	All: Max Losing Trade	All: Max Winning Trade
10	-11,738.96	14	8	6	57.14	3,875.56	-7,123.90	0.54	0.73	-838.50	-15,288.57	10,921.96
9	-11,361.21	14	8	6	57.14	3,836.59	-7,008.99	0.55	0.73	-811.52	-12,531.42	8,791.78
8	-9,533.84	14	6	8	42.86	3,887.35	-4,107.24	0.95	0.71	-680.99	-11,579.04	7,458.78
7	-53,290.13	16	4	12	25.00	3,875.52	-5,732.69	0.68	0.23	-3,330.63	-21,797.40	9,599.94
6	-42,002.21	17	8	9	47.06	2,385.09	-6,787.00	0.35	0.31	-2,470.72	-15,420.70	4,652.64
5	-56,614.21	19	8	11	42.11	3,054.81	-7,368.43	0.41	0.30	-2,979.70	-14,461.05	6,915.44
4	-56,127.36	19	8	11	42.11	2,227.28	-6,722.33	0.33	0.24	-2,954.07	-10,971.63	5,800.13
3	-26,503.16	19	10	9	52.63	2,300.99	-5,501.45	0.42	0.46	-1,394.90	-11,884.77	5,198.31
2	-37,825.23	20	7	13	35.00	2,431.48	-4,218.89	0.58	0.31	-1,891.26	-9,986.13	4,479.84
1	-26,741.45	20	5	15	25.00	1,171.55	-2,173.28	0.54	0.18	-1,337.07	-5,245.02	2,860.08

So where does that leave us? Well, from my standpoint, the NYSE volume was down from the last 2 days but was still above average. Therefore I'm not inclined to read a whole lot into it.

The Nasdaq volume on the other hand was exceptionally weak. It was there that I noticed the volume study that I felt was the most compelling of the bunch. The following study is from the May 19, 2009 blog post. I have updated the stats.

Nasdaq Composite rises at least 3% while volume comes in at the lowest level in 5 days. Buy on close. Sell X days later. \$100k/trade. 1971 - 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	-74,107.49	17	5	12	29.41	2,306.72	-7,136.76	0.32	0.13	-4,359.26
4	-72,347.23	17	2	15	11.76	5,061.34	-5,497.99	0.92	0.12	-4,255.72
3	-63,296.74	17	3	14	17.65	3,068.16	-5,178.66	0.59	0.13	-3,723.34
2	-53,233.00	17	4	13	23.53	2,018.48	-4,715.92	0.43	0.13	-3,131.35
1	-17,460.95	17	7	10	41.18	1,130.15	-2,537.20	0.45	0.31	-1,027.11

Results here are strongly bearish. Since the major indices have a high correlation I also ran these results on the S&P 500, based off the Nasdaq signal.

Nasdaq Composite rises at least 3% while volume comes in at the lowest level in 5 days. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	-41,226.54	17	5	12	29.41	2,538.20	-4,493.13	0.56	0.24	-2,425.09
4	-42,718.38	17	3	14	17.65	3,066.74	-3,708.47	0.83	0.18	-2,512.85
3	-40,449.22	17	2	14	11.76	3,590.66	-3,402.18	1.06	0.15	-2,379.37
2	-36,743.97	17	4	13	23.53	1,061.12	-3,152.96	0.34	0.10	-2,161.41
1	-5,962.30	17	6	11	35.29	756.23	-954.52	0.79	0.43	-350.72

Here too you see there is solid evidence of a downside edge.

Another indicator with unusual action tonight was the VIX (and the VXO). The VXO dropped close to 32% on Monday – an incredibly high reading. Below I looked at all instances of the VXO dropping 20% or more in one day.

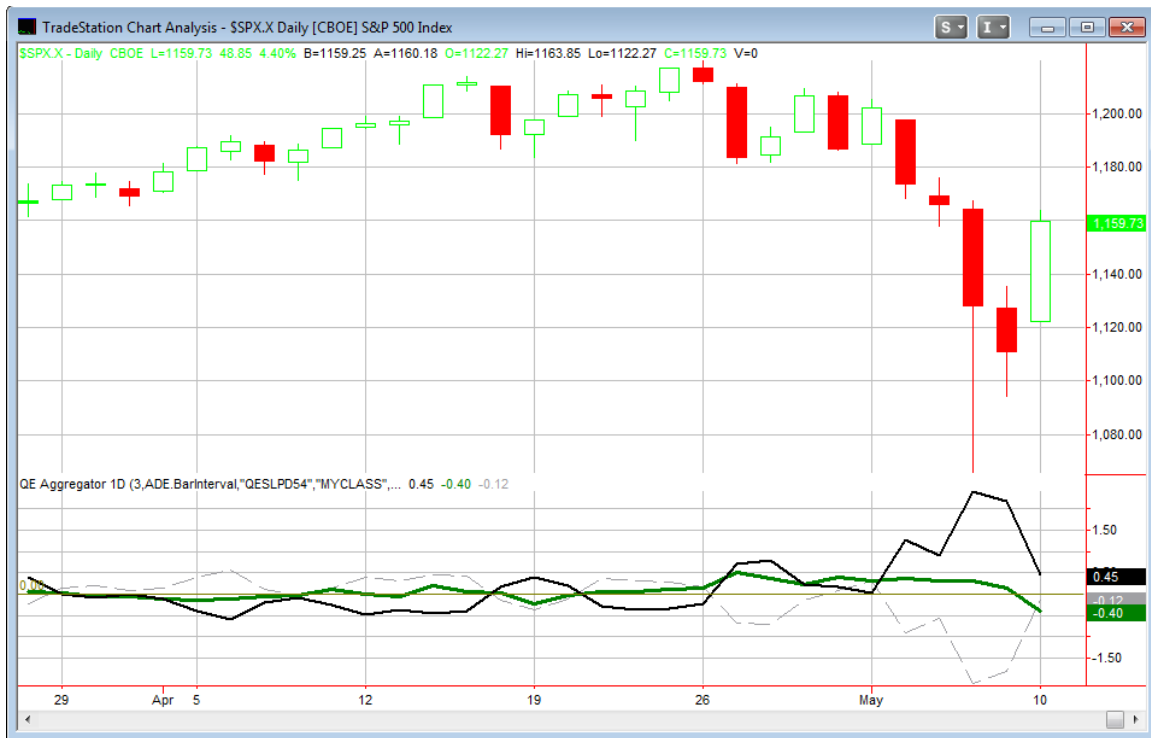
VXO drops 20% or more in one day. Buy SPX on close. Sell X days later. \$100k/trade. 1990 - present.										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-22,956.48	13	2	11	15.38	2,005.74	-2,451.63	0.82	0.15	-1,765.88
4	-23,675.72	13	5	8	38.46	662.24	-3,373.37	0.20	0.12	-1,821.21
3	-20,632.35	13	3	10	23.08	348.59	-2,167.81	0.16	0.05	-1,587.10
2	-26,504.68	13	4	9	30.77	419.99	-3,131.63	0.13	0.06	-2,038.82
1	-8,064.88	13	1	12	7.69	601.25	-722.18	0.83	0.07	-620.38

**All 13 instances closed below the entry price
on day 1 or day 2.**

In the past the downside reaction has been swift and strong.

So there is quite a bit to absorb this evening but the net implications for these studies appears to be for more downside.

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



Monday's big move changed the look of the Aggregator a bit. With tonight's bearish studies the green Aggregator line has dropped into negative territory. This shows the net expectation from the active studies is for more downside over the next few days. While it dropped quite a bit the black Differential line did remain positive. This illustrates the fact that the SPX has underperformed expectations over the last few days. Downside expected in an already somewhat oversold market is considered a neutral configuration. The Aggregator System went flat at the close.

Looking ahead the green Aggregator line is expected to remain negative tomorrow unless some strong bullish evidence emerges. The pivot level for the Differential value is 1,138. In other words it will simply take a close at or above this level in order to flip the Differential into negative territory.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/10 neutral

I actually discussed most of the intermediate-term implications in the short-term section above, so I don't have a lot more to add here tonight. One notable is that Nasdaq/S&P Relative Strength indicator which is tracked on the charts page, flipped this week so that the S&P is now leading for the 1st time in a few months. This isn't necessarily bearish, but rather a neutral position.

There were also 2 bearish studies that were eliminated from the active list on Thursday night as they met their targets with the big selloff Thursday.

As shown above, breadth and price action are suggesting new highs. Meanwhile the VIX stretch charts seen above are suggesting a bit of a consolidation is likely. In any case, judging the intermediate-term is more difficult when the short-term is so in flux. I'll be

watching the bounce closely this week and evaluating further based on the implications suggested by the bounce.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

MON - 1/3 position @ \$64.73 limit (filled @ \$62.60)

MON – 1/3 position @ \$62.25 limit (filled @ \$60.74)

AMGN -1/3 position @ \$54.46 (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3 (MON-2, AMGN)

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
MON(1/3)	4/29/2010	\$62.60	\$59.16	-5.50%		Catapult
MON(1/3)	5/5/2010	\$60.74	\$59.16	-2.60%		Catapult
SPY(1/4)	5/5/2010	\$116.56	\$115.81	-0.64%		<i>sold as per email</i>
SPY(1/4)	5/5/2010	\$116.82	\$115.81	-0.86%		<i>sold as per email</i>
SPY(1/4)	5/6/2010	\$112.94	\$115.49	2.26%		<i>sold as per email</i>

The SPY lots were exited at the open and at a stop set intraday as per the email instructions. Monday's move helped turn a somewhat scary trade into a winning one for SPY.

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.