

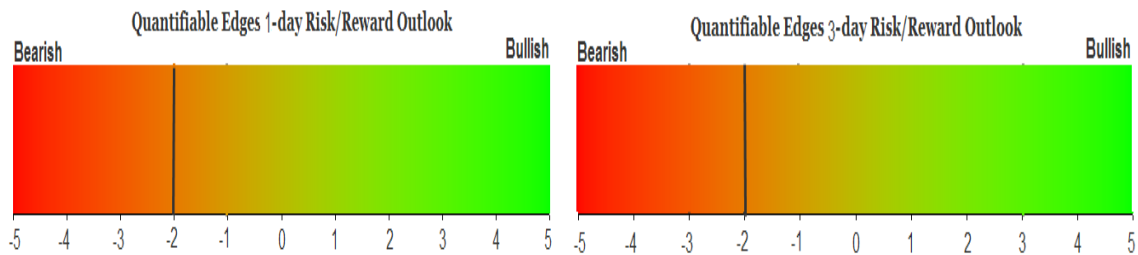
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 12, 2010

Volume 3 Issue 90

Market Overview



Tonight's Research Points

- Bounce to mid-range not generating new studies tonight.
- The Aggregator System went short at the close.
- The NDX Aggressive Trend Timer remained flat at the close.

Short-term Outlook – updated 5/13

The Bottom Line

The Aggregator is showing a mild short-side edge but it is not expected to persist for more than a day. I'll look to take advantage if the opportunity presents itself.

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 | |

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

The Evidence

After a sizable gap down to open the day the market rallied steadily until about 2pm. It then drifted lower for the last 2 hours before closing mixed. The SPX finished down 0.3% while the Nasdaq finished up 0.03% and the Russell 2000 gained 0.8%. Breadth was also mixed. The NYSE Up Issues % came in at 54% but the Up Volume % was just 41%. Total volume declined on both exchanges.

After the steep selloff and sharp bounce the last few days the market is now in a bit of a no-man's land. It's in the middle of its range while indicators are quieting a bit. The studies are more prevalent at extremes and Tuesday's action didn't bring any up in the Quantifinder. I ran some additional studies this evening and didn't uncover any substantial edges. This happens once every couple of weeks or so and I find it best to just wait patiently for the market to tip its hand rather than try and extrapolate something where there is probably nothing.

There are still several studies active and I've updated the [Aggregator](#) chart below.



The green Aggregator line remained below zero tonight as the bearish studies from last night are both still expecting more downside. Meanwhile the black Differential line also dropped below 0 as Thursday's huge drop has now fallen out of the Differential value

equation. Both lines below 0 has historically provided a downside edge. It means the market is short-term overbought versus expectations and current expectations are bearish. The Aggregator System turned short at the close on Tuesday.

Looking ahead this short signal is currently only expected to last for 1 day. Both of the bearish short-term studies are set to expire at Wednesday's close and without further bearish evidence the green Aggregator will flip back positive. Meanwhile the Differential pivot is going to drop all the way down to 1117.95. In other words in would take a close at or below this level in order for the Differential value to flip back positive.

I'll be looking to take advantage of this potential downside edge on Wednesday. But with the increased market volatility and short time window I won't be trading it aggressively.

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)

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.

SPY – short ¼ index position @ \$115.86 limit. If not filled by 10am EST then cancel order. This is based on the short-term outlook section above. I may look to trail a stop intraday. I will cover the short position at the end of the day unless the Aggregator signal as posted to the Systems page near 3:45pm EST is still saying “short”. Note while I often will take 2 lots on the 1st day, market volatility has me inclined to only trade 1 lot Wednesday.

Active Trades Table

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---------------|-------------------|--------------------|----------------------|--------------------|-------------|--------------|
| MON(1/3) | 4/29/2010 | \$62.60 | \$57.52 | -8.12% | | Catapult |
| MON(1/3) | 5/5/2010 | \$60.74 | \$57.52 | -5.30% | | Catapult |

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