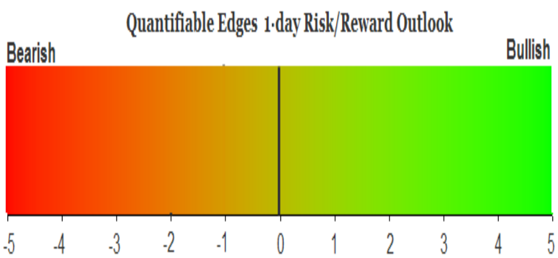
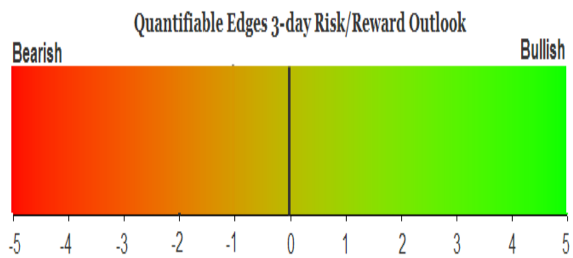
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 13, 2010 Volume 3 Issue 91

Market Overview





Tonight's Research Points

- Strong breadth 2 of the last 3 days is not bullish without an accompanying 10-day high.
- Volume while weak was not weak enough to trigger bearish studies.
- The Aggregator System went flat at the close.
- The NDX Aggressive Trend Timer remained flat at the close.

Short-term Outlook – updated 5/13

The Bottom Line

While the market ran against our position, we are back to flat tonight as expected.

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 6, 2010	Gap & partial reverse from 5-day low	1-10 days	Bullish	3.30%
Active - Long Term				
May 13, 2010	2 of 3 75% Up Issues. No 10-high.	1-2 weeks	Bearish	
April 26, 2010	No breadth divergence at new high	int. term	Bullish	
Dropped Tonight				
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	

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

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

The Evidence

The market bucked the odds a bit on Wednesday and put in a strong day higher. When it was over the SPX gained 1.4%, the Nasdaq 2.1% and the Russell 2000 rose nearly 3%. Breadth was again very strong as the NYSE Up Issue % came in at 82% and the Up Volume % at 86%. Total volume declined for the 4th straight day.

Today's action did bring about a few studies from the Quantifinder, but nothing with a real strong directional edge. I noted breadth in my intraday Quantifinder note and for the 2nd day in the last 3 it was quite strong. In the 2/12/10 Subscriber Letter I showed some studies that looked at other instances where the Up Issues % was at least 75% in 2 of the last 3 days. What I found was that the setup was generally positive unless the market failed to make a 10-day high on the 2nd strong breadth day. Below are updated results showing instances that made a 10-day high.

NYSE Up Issues % > 75% in 2 of last 3 days. High = highest high of last 10 days.
Buy SPX on close. Sell X days later. $100k/trade. 1970 - 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	71,424.42	39	30	9	76.92	3,341.47	-3,202.19	1.04	3.48	1,831.40
9	71,150.64	39	28	11	71.79	3,481.40	-2,393.52	1.45	3.70	1,824.38
8	59,700.36	39	29	10	74.36	2,916.50	-2,487.81	1.17	3.40	1,530.78
7	54,559.48	39	28	11	71.79	2,891.16	-2,399.37	1.20	3.07	1,398.96
6	47,615.27	40	30	10	75.00	2,408.70	-2,464.58	0.98	2.93	1,190.38
5	41,881.89	41	29	12	70.73	2,156.61	-1,721.65	1.25	3.03	1,021.51
4	33,006.29	43	26	17	60.47	2,019.98	-1,147.83	1.76	2.69	767.59
3	27,801.06	44	28	16	63.64	1,729.99	-1,289.92	1.34	2.35	631.84
2	15,797.54	50	31	19	62.00	1,219.09	-1,157.60	1.05	1.72	315.95
1	11,269.24	54	32	20	59.26	773.69	-674.45	1.15	1.84	208.69

As you can see these results suggests a solid upside edge. Unfortunately the SPX did NOT make a 10-day high today. Below are results from times like now.

NYSE Up Issues % > 75% in 2 of last 3 days. High < highest high of last 10 days. Buy SPX on close. Sell X days later. $100k/trade. 1970 - 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	-24,084.16	14	4	10	28.57	2,422.57	-3,377.44	0.72	0.29	-1,720.30
9	-25,100.34	15	6	9	40.00	2,388.07	-4,380.97	0.55	0.36	-1,673.36
8	-22,911.44	15	6	9	40.00	1,909.19	-3,818.51	0.50	0.33	-1,527.43
7	-14,751.96	15	6	9	40.00	2,735.37	-3,462.69	0.79	0.53	-983.46
6	-10,851.43	15	5	10	33.33	2,553.51	-2,361.90	1.08	0.54	-723.43
5	-8,955.02	15	7	8	46.67	1,939.97	-2,816.86	0.69	0.60	-597.00
4	4,662.08	15	10	5	66.67	1,517.92	-2,103.42	0.72	1.44	310.81
3	5,531.01	15	9	6	60.00	2,254.85	-2,460.44	0.92	1.37	368.73
2	786.94	16	10	6	62.50	1,430.05	-2,252.25	0.63	1.06	49.18
1	10,166.79	17	10	7	58.82	1,312.77	-422.99	3.10	4.43	598.05

Short-term it's pretty much a tossup. Once you get out a couple of weeks there actually appears to be a bit of a downside edge. Instances are a bit low, though. These results seem to suggest that strong bounces from VERY oversold levels will often pull back. It doesn't help greatly in timing the pullback though.

We saw just 2 nights ago a study that looked at strong Nasdaq moves on 5-day volume lows. Below is a copy of that study (not updated).

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

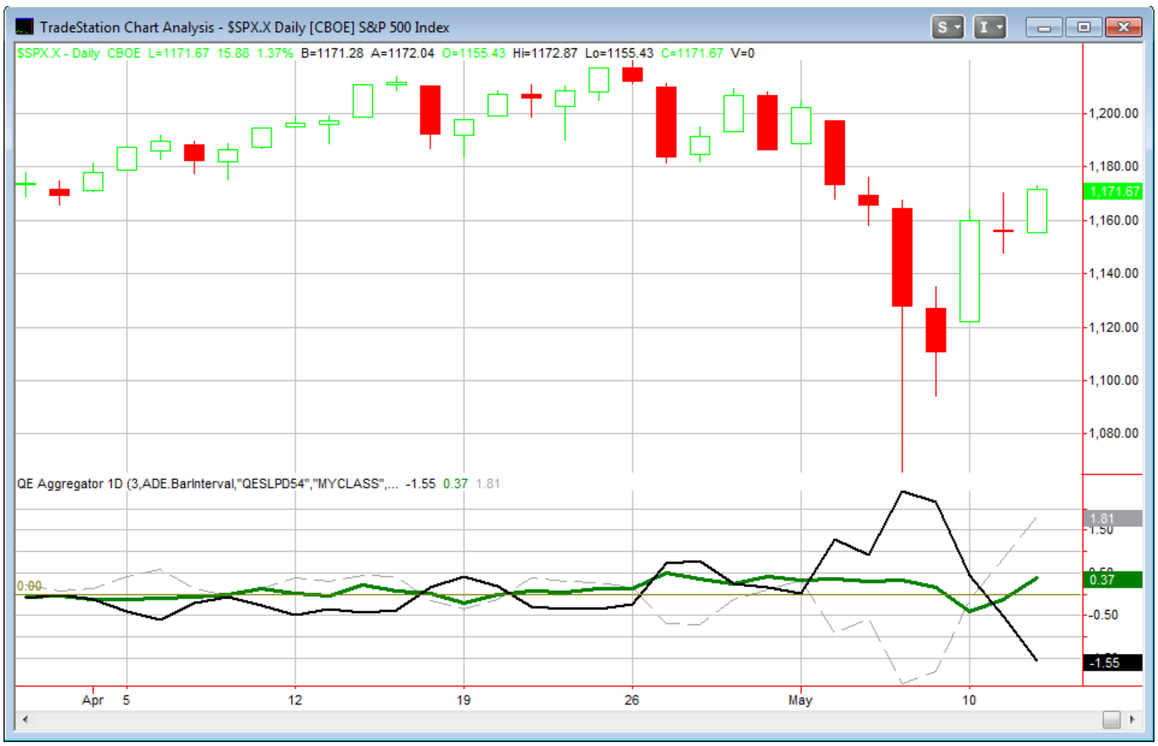
We didn't get a 3% gain tonight, but we did see the Nasdaq gain 2%. I therefore ran a similar test to examine rises between 2% - 3%.

Nasdaq closes up between 2% and 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	11,194.46	35	18	17	51.43	3,723.89	-3,284.44	1.13	1.20	319.84
4	4,708.29	36	19	17	52.78	2,802.16	-2,854.87	0.98	1.10	130.79
3	8,467.67	37	19	18	51.35	2,851.27	-2,539.25	1.12	1.19	228.86
2	8,291.23	37	22	15	59.46	1,892.03	-2,222.22	0.85	1.25	224.09
1	5,434.45	39	24	15	61.54	1,200.65	-1,558.74	0.77	1.23	139.34

Obviously the downside edge is no longer evident on these less pronounced one-day rallies.

So we are still in a bit of a nowhere land. There doesn't appear to be too strong of an edge present in either direction and it is a bit of a waiting game. I have added the breadth study to the intermediate-term list so as to keep it in mind over the next couple of weeks.

I've updated the Aggregator chart below.



With the short-term bearish studies expiring tonight the green Aggregator line flipped back to positive. This indicates net positive expectations over the next few days. The black Differential line shows that the SPX has handily beaten expectations over the last few days. So while expectations are positive the market is already overbought versus recent expectations. This shows up on the chart with both lines on opposite sides of zero and suggests a neutral configuration. The Aggregator System changed back to flat at the close.

Looking ahead if the green Aggregator line is to flip negative we will need to see more bearish evidence emerge. Meanwhile the pivot value for the black Differential line will be 1,160.44 on Thursday. This means in will take a close at or below this level for the Differential line to turn positive.

The system is back to neutral, the triggers list is quite small tonight, and I'm content to wait for a more substantial edge.

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.

<u>Catapult and Capitulative Breadth Statistics</u>

(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 – 2 (MON-2,)

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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 Pri	% Gain/Los	Stop	Notes
MON(1/3)	4/29/2010	$62.60	$56.83	-9.22%		Catapult
MON(1/3)	5/5/2010	$60.74	$56.83	-6.44%		Catapult
SPY(1/4)(s)	5/12/2010	$116.29	$117.43	-0.98%		short open cover close