

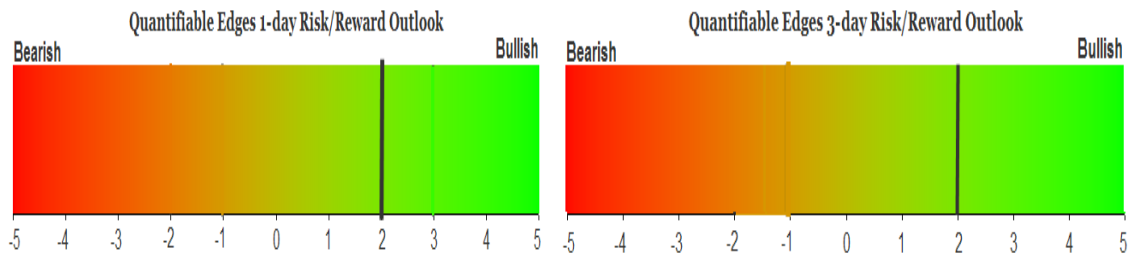
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 20, 2010

Volume 3 Issue 96

Market Overview



Tonight's Research Points

- Breadth measures are beginning to hit levels that have historically suggested a bounce.
- The Aggregator System remained long at the close.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 5/20

The Bottom Line

The market remains strongly oversold. Studies tonight showed fairly mild expectations though. With a good amount of exposure already on, I'll hold off a day or so before possibly adding more index exposure.

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 18, 2010	1% drop on 2:1 neg breadth	1-10 days	Bullish	
Active - Long Term				
May 17, 2010	Nasdaq/SPX Relative Strength Indicator	int. term	Bullish	
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 18, 2010	Bad Breadth Bounce Studies	1-2 days	Bearish	-2.30%
May 17, 2010	5% Up Vol. SPX > 200ma or > 10day low	1-3 days	Bullish	3.80%
May 14, 2010	Gap lower then outside day down	1-4 days	Bullish	2.10%
May 6, 2010	Gap & partial reverse from 5-day low	1-10 days	Bullish	3.30%

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

The Evidence

A sizable gap down Wednesday morning led to choppy intraday action. When it was over the market closed very near where it began the day – but well below Tuesday’s close. The SPX finished down 0.5%, the Nasdaq 0.8% and the Russell 2000 dropped 1.25%. Breadth was again very neagative. The NYSE Up Issue % came in at 22% and the Up Volume % was 35%. Total volume rose on both exchanges.

The market has been oversold for several days now. Today’s decline was typical of recent action and not extraordinary on its own. The most remarkable aspect of it is just that certain stats are now hitting deeper levels of oversold.

Tonight’s Quantifinder identified 2 studies that suggested the selloff may be nearing a bounce point. Both of these were related to the strongly oversold breadth readings we are now seeing. This 1st study from the 1/22/2010 Subscriber Letter looked at times decliners doubled advancers for 2 days in a row and the SPX was above its 200ma.

NYSE Up Issues % < 33.3% for the 2nd day in a row. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	8,270.70	27	12	15	44.44	2,359.93	-1,336.56	1.77	1.41	306.32
9	15,409.89	27	17	10	62.96	1,794.85	-1,510.25	1.19	2.02	570.74
8	19,519.88	27	17	10	62.96	1,994.09	-1,437.96	1.39	2.36	722.96
7	11,243.22	28	18	10	64.29	1,639.64	-1,827.04	0.90	1.62	401.54
6	5,496.64	29	15	14	51.72	1,588.18	-1,309.00	1.21	1.30	189.54
5	6,161.61	29	14	15	48.28	1,629.29	-1,109.89	1.47	1.37	212.47
4	4,909.03	29	14	15	48.28	1,713.80	-1,272.28	1.35	1.26	169.28
3	8,005.11	30	18	12	60.00	1,098.66	-980.89	1.12	1.68	266.84
2	2,981.01	31	17	14	54.84	914.43	-897.45	1.02	1.24	96.16
1	3,367.88	40	23	17	57.50	915.16	-1,040.05	0.88	1.19	84.20

The edge here is quite mild. In the 1/22 Letter I showed that this setup actually performed much better when the SPX was below its 200ma. In a downtrend the setup was both more explosive and more reliable.

This 2nd study is from the 6/25/08 blog. I’ve updated the results below.

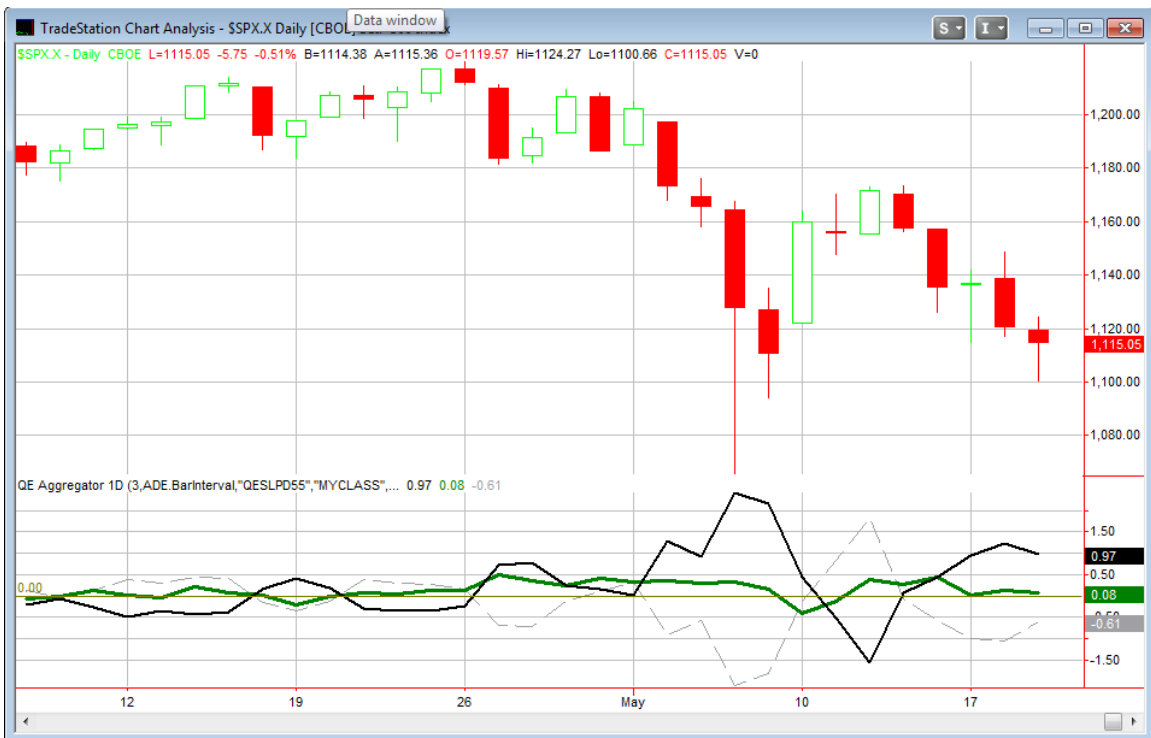
Up Issues 10-day Exp MA % crosses under 37.5%.
Buy on close. Sell X days later. \$100k/trade. 1994 - present.

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	61,867.70	31	22	9	70.97	4,483.33	-4,085.07	1.10	2.68	1,995.73
9	58,739.90	32	24	8	75.00	3,933.03	-4,456.59	0.88	2.65	1,835.62
8	33,053.01	32	19	13	59.38	4,651.50	-4,255.81	1.09	1.60	1,032.91
7	44,532.11	33	22	11	66.67	4,099.38	-4,150.40	0.99	1.98	1,349.46
6	31,662.05	34	21	13	61.76	3,977.56	-3,989.74	1.00	1.61	931.24
5	28,299.91	37	20	17	54.05	3,554.73	-2,517.34	1.41	1.66	764.86
4	25,414.78	37	22	15	59.46	3,085.98	-2,831.79	1.09	1.60	686.89
3	22,850.71	39	25	14	64.10	2,844.98	-3,448.12	0.83	1.47	585.92
2	26,411.71	41	25	16	60.98	2,767.89	-2,674.10	1.04	1.62	644.19
1	27,981.28	41	23	18	56.10	2,253.80	-1,325.34	1.70	2.17	682.47

The average trade is good – especially day 1, but the winning % isn't very high. Again I'd say while this suggested an upside edge it wasn't a very big one.

With a price & breadth study active from last night, I don't view either of tonight's studies as compelling enough to include in the Aggregator.

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



Not much change tonight. The green Aggregator line remains above zero as the net expectations from the active studies is for more upside over the next few days. Meanwhile the black Differential line illustrates the SPX has substantially underperformed expectations over the last few days. Oversold with positive expectations has historically provided a bullish edge. Based on this the Aggregator System remains long.

Looking ahead some bearish studies will need to emerge if the green Aggregator line is going to turn negative in the near future. The Differential pivot for Thursday is 1,144.73. This means it would take an SPX close at or above this level in order for the Differential line to turn negative.

With tonight's studies suggesting only mild edges and having added 2 lots of index exposure on Wednesday, I will not be looking to add new index exposure on Thursday. I'd prefer to see a more compelling new study before adding the final piece. There was one new Catapult trade tonight which I have listed below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/17 neutral

One positive intermediate-term indicator that emerged Friday was the Nasdaq/S&P 500 Relative Strength again began to favor the Nasdaq. I've discussed this indicator several times before, but for those who would like a refresher, below is a link to the original post:

<http://quantifiableedges.blogspot.com/2009/05/simple-powerful-timing-indicator.html>

The 2 strong up days on Monday and Wednesday last week that occurred without the SPX managing to hit a 10-day high suggest bearish implications. Below is the study from the Wednesday night letter that illustrated this:

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

Bottom line right now is that risk is elevated and intermediate-term signals are mixed. There is a high amount of uncertainty and although a bounce appears likely, what's beyond that is unclear. Using a bit extra caution when considering risk management and

also looking to the short-term analysis to aide more in guiding decisions are two steps traders may want to consider.

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)

MON – 1/3 position @ \$55.54 limit (filled @ \$54.79)

NEW

EXC – 1/3 position @ \$40.59 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4 (MON-3, EXC)

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.

EXC – buy 1/3 position at \$40.59 limit. This is a Catapult trade.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pri	% Gain/Los	Stop	Notes
MON(1/3)	4/29/2010	\$62.60	\$56.34	-10.00%		Catapult
MON(1/3)	5/5/2010	\$60.74	\$56.34	-7.24%		Catapult
MON(1/3)	5/14/2010	\$54.79	\$56.34	2.83%		Catapult
SPY(1/4)	5/14/2010	\$115.12	\$111.76	-2.92%		Aggregator
SPY(1/4)	5/14/2010	\$111.77	\$111.76	-0.01%		Aggregator
SPY(1/4)	5/14/2010	\$111.76	\$111.76	0.00%		Aggregator

MON rallied nearly 4% on Wednesday and is now close to hitting an exit trigger. Should it hit its trigger or trade close to it I will notify subscribers via intraday email alert.

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