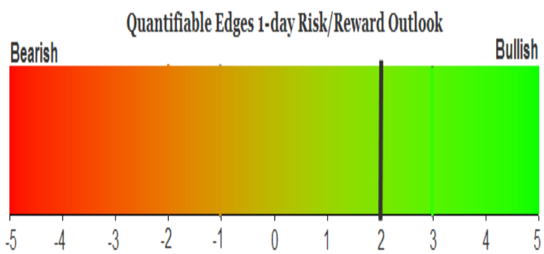
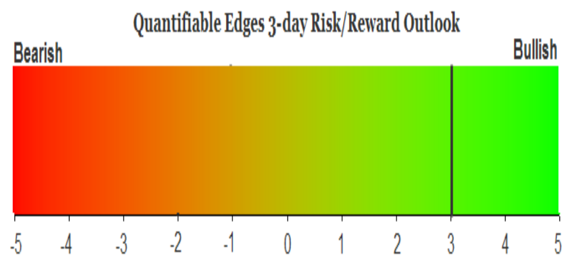
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 25, 2010 Volume 3 Issue 99

Market Overview





Tonight's Research Points

- Steadily weak break has triggered an intermediate-term bearish signal.
- The Aggregator System remained long at the close.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 5/25

The Bottom Line

It appears another leg down may have begun before the bounce even got going much. Prices & emotions are extremely overdone and a multi-day short-covering rally should ensue in the next few days.

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 24, 2010	VIX new high SPX no new low	1-4 days	Bullish	2.60%
May 24, 2010	90% Up Vol after new low / 90%dn	1-2 days	Bearish	-2.80%
May 21, 2010	CBI spikes over 10	1-4 days	Bullish	
May 18, 2010	1% drop on 2:1 neg breadth	1-10 days	Bullish	
Active - Long Term				
May 25, 2010	Rat Adj McClellan < -60 for 6 in row	1-20 days	Bearish	-5.80%
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.

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

The Evidence

It appeared based on last night's studies that Monday could be subject to a pullback, but that after that the market was like to continue its bounce. We'll have to see how the next few days play out, but the market did drop on Monday, with a good bit of the selling occurring in just the last 15 minutes. The SPX and Russell 2000 ended down 1.3% while the Nasdaq lost 0.7%. Breadth was solidly negative with the NYSE Up Issues % coming at 38% and the Up volume % at 25%. Total NYSE volume fell to the lowest level in over a week.

The selling has been extremely persistent over the past 3 weeks. It has also been extremely broad. One study that appeared in the Quantifinder looked at other times the Ratio Adjusted McClellan Oscillator closed below -60 for 6 days in a row. I've updated that study from the 2/1/10 letter below:

Ratio Adjusted McClellan Oscillator closes < -60 for six days in a row.
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
20	-35,815.20	21	6	15	28.57	5,421.29	-4,556.20	1.19	0.48	-1,705.49
19	-31,391.93	21	9	12	42.86	3,348.94	-5,127.70	0.65	0.49	-1,494.85
18	-25,030.92	21	8	13	38.10	4,423.87	-4,647.84	0.95	0.59	-1,191.95
17	-33,705.67	21	8	13	38.10	3,782.34	-4,920.34	0.77	0.47	-1,605.03
16	-30,794.51	21	7	14	33.33	4,319.71	-4,359.47	0.99	0.50	-1,466.41
15	-26,663.79	21	7	14	33.33	4,584.15	-4,196.63	1.09	0.55	-1,269.70
14	-23,519.12	21	7	14	33.33	4,395.33	-3,877.60	1.13	0.57	-1,119.96
13	-18,276.31	21	7	14	33.33	4,057.81	-3,334.35	1.22	0.61	-870.30
12	-16,099.85	21	7	14	33.33	3,530.69	-2,915.33	1.21	0.61	-766.66
11	-14,179.95	21	8	13	38.10	2,994.40	-2,933.47	1.02	0.63	-675.24
10	-19,055.87	21	8	13	38.10	2,956.31	-3,285.10	0.90	0.55	-907.42
9	-16,116.88	21	9	12	42.86	2,267.18	-3,043.46	0.74	0.56	-767.47
8	-12,721.51	21	7	14	33.33	3,121.26	-2,469.31	1.26	0.63	-605.79
7	-17,997.28	21	6	15	28.57	3,404.01	-2,561.42	1.33	0.53	-857.01
6	-16,929.44	21	6	15	28.57	3,248.21	-2,427.91	1.34	0.54	-806.16
5	-22,226.04	21	8	13	38.10	2,382.18	-3,175.65	0.75	0.46	-1,058.38
4	-23,696.08	21	8	13	38.10	1,667.68	-2,849.04	0.59	0.36	-1,128.38
3	-22,518.20	21	9	12	42.86	1,557.34	-3,044.52	0.51	0.38	-1,072.30
2	365.28	21	12	9	57.14	1,406.10	-1,834.21	0.77	1.02	17.39
1	-1,977.05	22	12	9	54.55	818.64	-1,311.20	0.62	0.83	-89.87

Short term results are a bit choppy and largely dependent on 1 large decline. Further out though the consistency is quite compelling. I've included this study in the intermediate-term outlook.

There was also a study in the Quantifinder tonight that suggested a large down day that was also down for the VXO has short-term positive implications. I also ran this for the VIX tonight and the results were not consistent. Therefore I elected not to include it.

I've updated the Aggregator chart below.

Again 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. While the last few days has been rough, oversold with positive expectations has historically provided a bullish edge. Based on this the Aggregator System remains long.

Looking ahead more bearish studies will need to emerge if the green Aggregator line is going to turn negative tomorrow. The Differential pivot for Tuesday is 1,075. This means it would take an SPX close at or above this level in order for the Differential line to turn negative. Thanks to Friday's big drop falling out of the Differential equation the target has become much easier to reach.

At this point, though after hours has been brutal and the market is down close to 2% as I type. Below is a study that looks at other times the SPY gapped lower and the open was below the 10-day closing low. I broke out the results by the size of the down gap.

SPY gaps down X% this morning and opens below the 10-day closing low. Buy at 9:31. Sell at 4pm. $100k/trade. 1998 - present.										
QE Gap ID 1pct: gapamt	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
1.00	23,923.87	58	30	28	51.72	2,072.93	-1,366.58	1.52	1.63	412.48
1.25	20,121.74	41	19	22	46.34	2,591.46	-1,323.46	1.96	1.69	490.77
1.50	21,708.09	31	16	15	51.61	2,778.43	-1,516.46	1.83	1.95	700.26
1.75	19,866.80	25	13	12	52.00	3,007.32	-1,602.36	1.88	2.03	794.67
2.00	26,300.93	18	11	7	61.11	3,326.16	-1,469.54	2.26	3.56	1,461.16

While the winning %'s aren't heavily positive, the risk/reward is solid across the board – especially on the larger gaps. Volatility is high as can be seen by looking at the average wins and average losses.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/24 neutral

Bear markets don't ordinarily start with a furious selloff from a very high level in a market exhibiting broad strength. Instead they form a slow topping pattern while breadth will deteriorate ahead of price. There's no assurance that this time won't be different, but when you go from a strong, broad, persistent bull market like we had just 3 weeks ago, to a deeply oversold condition like we have now, it doesn't seem advisable to be positioning aggressively short for an intermediate-term trade.

One the other hand we've had 1 up day at this point and the studies associated with the bounce so far are mixed. Intermediate-term traders will no doubt be watching for a Follow Through Day in the coming days. I'd encourage you to review the Quantifiable Edges posts associated with follow-though days before one actually occurs.

So my outlook remains neutral. I'll continue to look more towards short-term analysis to aid my buy/sell decisions until the intermediate-term becomes a bit more clear.

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)
EXC – 1/3 position @ $40.59 limit (filled @ $40.11)
EXC – 1/3 @ $39.31 limit
AAPL – 1/3 @ $237.76 limit
ABT – 1/3 @ $46.48 limit
ALL – 1/3 @ $30.07 limit
CSCO – 1/3 @ $23.31 limit
DIS – 1/3 @ $31.99 limit

F – 1/3 @ $10.80 limit
GOOG – 1/3 @ $475.01 limit
MMM – 1/3 @ $79.58 limit
MSFT – 1/3 @ $27.11 limit
ORCL – 1/3 @ $22.35 limit
QCOM – 1/3 @ $35.59 limit
XOM – 1/3 @ $60.33 limit
MSFT– 1/3 position @ $26.84 limit
ORCL– 1/3 position @ $22.16 limit
GOOG – 1/3 position @ $472.05 limit (not yet filled)
DELL – 1/3 position @ $13.35 limit (not yet filled)
NEW
MSFT – final 1/3 @ $26.27
UTX – 1/3 position @ $$66.13

Catapult for ETF's Trades
Several – see the 5/21 letter for ETF triggers.

Broad Market Large Cap CBI – 23 (MON-3, EXC-2, AAPL, ABT, ALL, CSCO, DIS, F, GOOG-2, MMM, MSFT-3, ORCL-2, QCOM, XOM, DELL, UTX)

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.

From the Catapult section above:
GOOG – 1/3 position @ $472.05 limit
DELL – 1/3 position @ $13.35 limit
MSFT– 1/3 position @ $26.84 limit
ORCL– 1/3 position @ $22.16 limit

I'm keeping open the 2 unfilled orders from Monday. The index trade is fully on and my focus is on the Catapult and CBI trades during wicked selloffs like we are now experiencing.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	4/29/2010	$62.60	$53.93	-13.85%		Catapult
MON(1/3)	5/5/2010	$60.74	$53.93	-11.21%		Catapult
MON(1/3)	5/14/2010	$54.79	$53.93	-1.57%		Catapult
SPY(1/4)	5/14/2010	$115.12	$107.71	-6.44%		Aggregator
SPY(1/4)	5/19/2010	$111.77	$107.71	-3.63%		Aggregator
SPY(1/4)	5/19/2010	$111.76	$107.71	-3.62%		Aggregator
SPY(1/4)	5/21/2010	$105.91	$107.71	1.70%		Aggregator
EXC(1/3)	5/20/2010	$40.11	$38.94	-2.92%		Catapult
EXC(1/3)	5/21/2010	$38.50	$38.94	1.14%		Catapult
AAPL(1/3)	5/21/2010	$232.82	$246.76	5.99%		Catapult
ABT(1/3)	5/21/2010	$45.48	$47.56	4.57%		Catapult
ALL(1/3)	5/21/2010	$29.51	$29.84	1.12%		Catapult
CSCO(1/3)	5/21/2010	$22.67	$23.37	3.09%		Catapult
DIS(1/3)	5/21/2010	$31.40	$32.48	3.44%		Catapult
F(1/3)	5/21/2010	$10.25	$11.01	7.41%		Catapult
GOOG(1/3)	5/21/2010	$469.06	$477.16	1.73%		Catapult
MMM(1/3)	5/21/2010	$78.42	$79.59	1.49%		Catapult
MSFT(1/3)	5/21/2010	$26.63	$26.27	-1.35%		Catapult
ORCL(1/3)	5/21/2010	$21.62	$22.28	3.05%		Catapult
QCOM(1/3)	5/21/2010	$35.10	$35.67	1.62%		Catapult
XOM(1/3)	5/21/2010	$59.16	$60.19	1.74%		Catapult
QQQQ(1/3)	5/21/2010	$43.64	$44.66	2.34%		Catapult
MSFT(1/3)	5/22/2010	$26.84	$26.27	-2.12%		Catapult
ORCL(1/3)	5/22/2010	$22.04	$22.28	1.09%		Catapult