

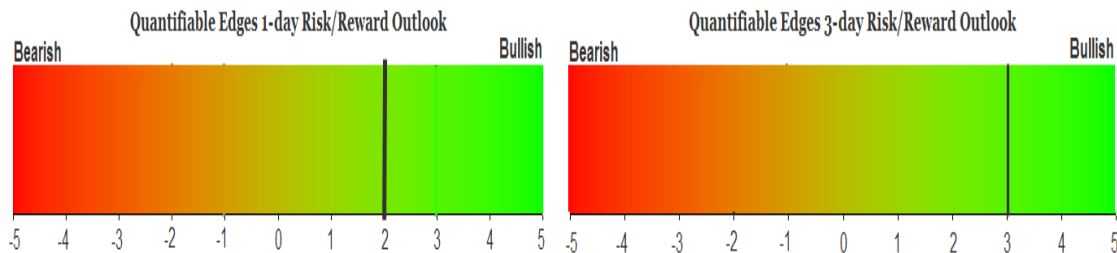
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 27, 2010

Volume 3 Issue 101

Market Overview



Tonight's Research Points

- The McClellan Oscillator has remained strongly negative for longer than any time since 1987.
- Today failed gap and close at a new low in the SPY suggests a bounce.
- A large gap up tomorrow from a 10-day low on Wednesday suggests the market will likely to continue to rise throughout the day.
- The Aggregator System remained long at the close.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 5/27

The Bottom Line

A frustrating day for the bulls but the short-term outlook is still suggesting a bounce.

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 27, 2010	Failed Gap higher close bottom of range	1-2 days	Bullish	
May 26, 2010	NYSE Up Issues < 40% on up day	1-2 days	Bearish	
May 26, 2010	Bounce off test of lows	1-3 days	Bullish	2.30%
May 24, 2010	VIX new high SPX no new low	1-4 days	Bullish	2.60%
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	
Dropped Tonight				
May 21, 2010	CBI spikes over 10	1-4 days	Bullish	

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

The Evidence

A gap higher and morning rally couldn't hold as the market reversed and plunged late in the day. The damage wasn't huge but top to bottom for the day it felt like a lot. In the end the SPX closed down 0.6% and the Nasdaq fell 0.7%. The Russell 2000 did manage a higher close as it finished up 0.4%. Breadth was actually somewhat positive. The NYSE Up Issues % came in at 61% while the Up Volume % was 54%. Total volume didn't change much from Tuesday.

Even with the positive breadth today the Ratio Adjusted McClellan Oscillator failed to climb back above -60. When looking over long historical periods the Ratio Adjusted McClellan Oscillator is preferable to the standard McClellan Oscillator because the number of issues traded on the NYSE has changed so much over time that using the standard McClellan Oscillator for long-term comparisons wouldn't work well. With the number of issues being traded today a -60 reading is about the equivalent of -190 for the standard McClellan Oscillator. Anyway, this now marks the 9th day in a row that the Ratio Adjusted McClellan Oscillator has closed below -60. This hasn't happened since immediately following the Crash of '87 nearly 23 years ago. This shows just how extreme this selloff has been.

Readers may recall that many of the breadth studies I show look back to just after the Crash of '87. This is because the crash caused some changes in market behavior. One of those changes was that extreme breadth readings began to lead to reversals rather than continuations. Because of this extreme readings have not sustained for long periods (until this past 9 days). And while we haven't had a string like the current one since '87, between '69 and '87 there were 8 of them. They were on 11/10/69, 4/24/70, 11/9/73, 4/8/74, 8/1/75, 10/27/78, 2/28/80, and 6/8/82.

Today's pattern of a failed gap higher is something I've looked at a few different ways before. The 5/21/09 Subscriber Letter had a couple of studies in it that I have updated below.

SPY gaps up at least 0.25% and makes a high at least 0.5% above the open. It then closes down on the day. Buy SPX on close. Sell X days later. \$100k/trade. 1993 - 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	24,791.47	56	35	21	62.50	2,814.31	-3,509.97	0.80	1.34	442.70
4	32,467.83	58	33	25	56.90	2,714.45	-2,284.36	1.19	1.57	559.79
3	46,249.81	59	36	23	61.02	2,651.42	-2,139.18	1.24	1.94	783.90
2	43,918.12	61	40	21	65.57	2,219.66	-2,136.59	1.04	1.98	719.97
1	314.34	62	38	24	61.29	1,215.95	-1,912.16	0.64	1.01	5.07

The first 2-3 days here hint of an upside edge following what many might view as a bearish bar. I also found at the time that closing near the bottom of the day's range improved the bullish case. Below I take another look at that.

SPY gaps up at least 0.25% and makes a high at least 0.5% above the open. It then closes down on the day and in the bottom 25% of its range. Buy SPX on close. Sell X days later. \$100k/trade. 1993 - 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	24,101.49	45	29	16	64.44	2,981.27	-3,897.21	0.76	1.39	535.59
4	28,902.57	48	27	21	56.25	2,884.75	-2,332.65	1.24	1.59	602.14
3	47,165.58	48	30	18	62.50	2,767.98	-1,993.00	1.39	2.31	982.62
2	46,911.22	48	32	16	66.67	2,458.36	-1,984.76	1.24	2.48	977.32
1	13,895.63	49	30	19	61.22	1,251.28	-1,244.36	1.01	1.59	283.58

85% of instances closed above the entry price at some point in the next 4 days.

So the numbers here are even stronger. But one thing to note about Wednesday was that it closed at its lowest level in a while. I decided to filter the above study one more way to see whether a new closing low might alter the results.

SPY gaps up at least 0.25% and makes a high at least 0.5% above the open. It then closes down on the day and in the bottom 25% of its range. Today's close is the lowest in 10 days.
Buy SPX on close. Sell X days later. \$100k/trade. 1993 - 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	16,623.77	14	8	6	57.14	6,334.29	-5,675.09	1.12	1.49	1,187.41
4	15,076.72	15	8	7	53.33	5,266.67	-3,865.23	1.36	1.56	1,005.11
3	35,086.48	15	12	3	80.00	4,087.23	-4,653.42	0.88	3.51	2,339.10
2	36,449.37	15	13	2	86.67	3,630.29	-5,372.19	0.68	4.39	2,429.96
1	9,735.05	15	11	4	73.33	1,669.73	-2,158.01	0.77	2.13	649.00

With the SPY closing at a 10-day low these results are the most bullish by far.

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



The green Aggregator line again remained above zero tonight as the net expectations from the active studies is for upside over the next few days. Meanwhile the black Differential line illustrates the SPX has 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 Wednesday is 1,078.93.

This means it would take an SPX close at or above this level in order for the Differential line to turn negative.

So the Aggregator is again suggesting a bounce here.

SPECIAL LATE-NIGHT FUTURES STUDY

As I get ready to complete the letter the S&P futures are up over 2%. Going back to 2003 there have been 9 times the SPY has gapped up at least 1.5% after closing at a 10-day low. Every time it has risen more between the open and the close. Below I've listed all the instances.

After closing at a 10-day low, SPY gaps up at least 1.5%. Buy on open. Sell at 4pm close. \$100k/trade. 2003 - present.					
Date/Time	Signal	Price	% Profit	Run-up	DrawDown
03/11/08 09:30	Buy	\$130.71	1.28%	\$1,338.75	
03/11/08 16:00	Sell	\$132.38			(\$1,346.40)
09/18/08 09:30	Buy	\$118.05	2.15%	\$3,167.78	
09/18/08 16:00	Sell	\$120.59			(\$3,599.75)
10/13/08 09:30	Buy	\$93.87	7.45%	\$7,593.45	
10/13/08 16:00	Sell	\$100.86			(\$745.50)
10/28/08 09:30	Buy	\$87.34	7.63%	\$7,767.76	
10/28/08 16:00	Sell	\$94.00			(\$3,214.64)
11/21/08 09:30	Buy	\$77.46	3.74%	\$3,960.30	
11/21/08 16:00	Sell	\$80.36			(\$4,024.80)
01/21/09 09:30	Buy	\$81.93	2.58%	\$2,818.20	
01/21/09 16:00	Sell	\$84.04			(\$1,781.20)
03/04/09 09:30	Buy	\$71.24	0.69%	\$2,286.89	
03/04/09 16:00	Sell	\$71.73			(\$1,164.49)
03/10/09 09:30	Buy	\$69.52	3.87%	\$4,098.30	
03/10/09 16:00	Sell	\$72.21			(\$215.70)
05/10/10 09:30	Buy	\$115.82	0.28%	\$716.29	
05/10/10 16:00	Sell	\$116.14			(\$785.33)

Should tonight's gap hold until the morning open we could see a short-covering rally ensue. Do note that drawdowns have been sizable in several instances (last column).

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-through 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

ABT - 1/3 @ \$46.48 limit

ALL - 1/3 @ \$30.07 limit

CSCO - 1/3 @ \$23.31 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

DELL - 1/3 position @ \$13.35 limit (not yet filled)

MSFT - final 1/3 @ \$26.27

NEW

EXC - final 1/3 @ \$38.06 limit

GILD - 1/3 @ \$34.82 limit

Catapult for ETF's Trades

Several - see the 5/21 letter for ETF triggers.

Broad Market Large Cap CBI - 19 (MON-3, EXC-2, ABT, ALL, CSCO, MMM, MSFT-3, ORCL-2, QCOM, XOM, DELL)

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:

EXC - final 1/3 position @ \$38.06 limit

GILD - 1/3 position @ \$34.82 limit

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	4/29/2010	\$62.60	\$52.66	-15.88%		Catapult
MON(1/3)	5/5/2010	\$60.74	\$52.66	-13.30%		Catapult
MON(1/3)	5/14/2010	\$54.79	\$52.66	-3.89%		Catapult
SPY(1/4)	5/14/2010	\$115.12	\$107.17	-6.91%		Aggregator
SPY(1/4)	5/19/2010	\$111.77	\$107.17	-4.12%		Aggregator
SPY(1/4)	5/19/2010	\$111.76	\$107.17	-4.11%		Aggregator
SPY(1/4)	5/21/2010	\$105.91	\$107.17	1.19%		Aggregator
EXC(1/3)	5/20/2010	\$40.11	\$38.06	-5.11%		Catapult
EXC(1/3)	5/21/2010	\$38.50	\$38.06	-1.14%		Catapult
AAPL(1/3)	5/21/2010	\$232.82	\$249.33	7.09%		hit intraday stop
ABT(1/3)	5/21/2010	\$45.48	\$47.17	3.72%		Catapult
ALL(1/3)	5/21/2010	\$29.51	\$29.53	0.07%		Catapult
CSCO(1/3)	5/21/2010	\$22.67	\$22.89	0.97%		Catapult
DIS(1/3)	5/21/2010	\$31.40	\$33.07	5.32%		sold on close
F(1/3)	5/21/2010	\$10.25	\$11.36	10.83%		hit intraday stop
GOOG(1/3)	5/21/2010	\$469.06	\$481.08	2.56%		hit intraday stop
MMM(1/3)	5/21/2010	\$78.42	\$79.17	0.96%		Catapult
MSFT(1/3)	5/21/2010	\$26.63	\$25.01	-6.08%		Catapult
ORCL(1/3)	5/21/2010	\$21.62	\$21.91	1.34%		Catapult
QCOM(1/3)	5/21/2010	\$35.10	\$34.88	-0.63%		Catapult
XOM(1/3)	5/21/2010	\$59.16	\$59.31	0.25%		Catapult
QQQQ(1/3)	5/21/2010	\$43.64	\$44.89	2.86%		hit intraday stop
MSFT(1/3)	5/24/2010	\$26.84	\$25.01	-6.82%		Catapult
ORCL(1/3)	5/24/2010	\$22.04	\$21.91	-0.59%		Catapult
GOOG(1/3)	5/25/2010	\$468.15	\$481.08	2.76%		hit intraday stop
DELL(1/3)	5/25/2010	\$13.05	\$13.25	1.53%		Catapult
MSFT(1/3)	5/25/2010	\$25.65	\$25.01	-2.50%		Catapult
UTX(1/3)	5/25/2010	\$64.34	\$66.59	3.50%		hit intraday stop

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.