

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 9, 2010

Volume 3 Issue 109

Market Overview



Tonight's Research Points

- SPX up and Russell down with a strong divergence has historically suggested short-term weakness.
- The Aggregator System turned flat at the close.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 6/9

The Bottom Line

The bounce arrived in the SPX. The weakness elsewhere was not encouraging and the bullish studies are expiring rapidly. My short-term bias is now neutral.

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				
June 10, 2010	SPX up Russ dn & 1% diff	1-3 days	Bearish	-3.00%
June 8, 2010	Up Issue % < 33.3% 2 days in a row	1-2 days	Bullish	3.00%
June 7, 2010	Gap dn 0.5% and close 1% below that	1-4 days	Bearish	-3.60%
June 7, 2010	2.5% drop on Friday	1-3 days	Bullish	2.80%
May 28, 2010	Double 90% Up Vol	1-9 days	Bullish	
Active - Long Term				
June 1, 2010	Nas/S&P Relative Strength favors Nas	int. term	Bullish	
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				
June 7, 2010	Up vol % < 3%	1-2 days	Bullish	3.20%

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

The Evidence

After testing its lows the market made a strong push in the afternoon. Still the close was mixed with largecaps leading the way and smallcaps and tech closing lower. The SPX gained about 0.8% while the Russell 2k and Nasdaq both lost between 0.1% and 0.2%. In an odd move with the smallcaps performing poorly, breadth was actually solidly positive. The NYSE Up Issues % was 60% and the Up volume % was 74%. Total NYSE came in at the highest level in about a week and a half.

One of the bullish studies fell of the Active List tonight and two more will be dropping off tomorrow. There's been a real weakening to the bullish edges. This is largely thanks to the fact that the bullish studies we'd seen over the last few days have all been very short-term.

The kind of discrepancy we saw Tuesday between large and smallcaps has typically led to short-term weakness in the past. Below I have updated a study from the 4/24/09 Subscriber Letter that demonstrates this.

SPX closes up but under the 200ma. Russell 2k closes down. SPX outperforms by at least 1%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - 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	-39,686.24	33	14	19	42.42	1,841.94	-3,445.97	0.53	0.39	-1,202.61
4	-45,717.53	33	13	20	39.39	1,707.03	-3,395.45	0.50	0.33	-1,385.38
3	-50,874.12	35	11	24	31.43	1,418.16	-2,769.74	0.51	0.23	-1,453.55
2	-42,306.50	35	12	23	34.29	1,100.57	-2,413.62	0.46	0.24	-1,208.76
1	-20,917.77	35	12	23	34.29	1,263.49	-1,568.68	0.81	0.42	-597.65

86% of instances closed below the entry price at some point in the next 3 days.

This study suggests a solid downside edge over the next few days.

There was one green study that appeared in the Quantifinder tonight, but upon closer examination, it hasn't held up well in recent years. Therefore I have eliminated it from the Quantifinder.

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



The green Aggregator line took a dip tonight to close below zero. This shows the net expectations from the active studies is for lower prices over the next few days. Meanwhile the black Differential line illustrates the SPX has strongly underperformed expectations over the last few days. So we have negative expectations but a market that is oversold versus expectations. This is considered a neutral configuration. Based on this the Aggregator System switched to neutral at the close.

Looking ahead the Aggregator is set up to remain negative over the next few days. Additional selling or bullish studies could easily change this. Meanwhile the Differential pivot will be 1,070.39. This means it would take an SPX close at or above this level in order for the Differential line to turn negative. That's about a 1% gain from Tuesday's close.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/7 neutral

I've been seeing a fair amount of evidence that suggests to me the market is in a bottoming mode. Volatility has been elevated in way that is often seen around bottoms. By that I don't just mean readings like the short vs. long term average true range, or the VIX, or other standard measures of volatility. I also mean the absolute extremes we are seeing in indicators. The 1% Up Volume % on Friday is one example. The CBI remaining elevated for a substantial period of time is another. I discussed this last week in the Letter and in the blog. A link to the blog post is below:

<http://quantifiableedges.blogspot.com/2010/06/what-cbis-extended-stay-in-double.html>

It's dangerous to get too gung-ho on an intermediate-term basis until there is some upside confirmation. Therefore my outlook will remain neutral. I'm at the ready to move to intermediate-term bullish though once we see a nice bounce with some continued follow-through.

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)

GILD - 1/3 @ \$34.82 limit (no fill)

Catapult for ETF's Trades

none

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

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. I'll sit tight with the neutral stance and wait for a better edge to enter.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	4/29/2010	\$62.60	\$50.41	-19.47%		Catapult
MON(1/3)	5/5/2010	\$60.74	\$50.41	-17.01%		Catapult
MON(1/3)	5/14/2010	\$54.79	\$50.41	-7.99%		Catapult
SPY(1/4)	5/21/2010	\$105.91	\$106.62	0.67%		Aggregator
EXC(1/3)	5/20/2010	\$40.11	\$38.50	-4.01%		<i>sold on close</i>
EXC(1/3)	5/21/2010	\$38.50	\$38.50	0.00%		<i>sold on close</i>
EXC(1/3)	6/2/2010	\$37.40	\$38.50	2.94%		<i>sold on close</i>
SPY(1/4)	6/7/2010	\$106.82	\$106.62	-0.19%		<i>sold on close</i>

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