

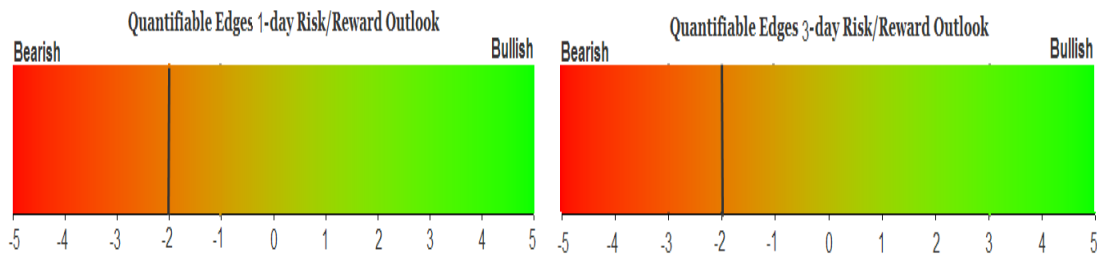
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 11, 2010

Volume 3 Issue 111

Market Overview



Tonight's Research Points

- Strong moves higher on below average volume suggest a downside edge over the next few days.
- The Aggregator System turned short at the close.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 6/11

The Bottom Line

Today's market spike put the SPX in a short-term overbought position and along with the low volume triggered some short-term bearish studies. I'm leaning short but a little cautious because of the current market position.

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 11, 2010	SPX up 2.5%-3.5% on low vol	1-3 days	Bearish	-3.20%
June 9, 2010	SPX up Russ dn & 1% diff	1-3 days	Bearish	-3.00%
June 7, 2010	Gap dn 0.5% and close 1% below that	1-4 days	Bearish	-3.60%
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 10, 2010	Gap up strong morning reverses	1-2 days	Bullish	2.20%
May 28, 2010	Double 90% Up Vol	1-9 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 huge gap up attracted lopsided buying today as the market posted some very large gains. The SPX rose just under 3%. The Nasdaq rose 2.8% and the Russell 2000 gained 3.5%. Breadth was extremely positive as the NYSE Up Issues % came in at 86% and the Up Volume % was nearly 98%. Even though volume was heavily in favor of the long side, total volume came in light.

The Up Volume % on Thursday was so strong I was only able to find a single day looking back to 1970 that was more lopsided. That was on 8/17/82. And the only other day where it breached 97% according to my data was on 3/23/09. I did loosen the requirement a little bit and looked at days with 95% and 96% up volume %. I did not find a consistent edge in just looking at single days of extreme breadth.

I looked at low volume spikes in the 5/28/10 Letter. Tonight rather than just saying the return had to be > 2.5% I bracketed Thursday's 3% move to measure performance going forward.

SPX closes up between 2.5% and 3.5% while volume is < 10ma. Buy 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	7,974.41	21	10	11	47.62	3,913.30	-2,832.60	1.38	1.26	379.73
9	-8,658.08	21	10	11	47.62	3,565.86	-4,028.79	0.89	0.80	-412.29
8	-16,063.62	22	10	12	45.45	3,297.83	-4,086.83	0.81	0.67	-730.16
7	-26,105.45	23	7	16	30.43	3,763.29	-3,278.03	1.15	0.50	-1,135.02
6	-34,458.66	24	10	14	41.67	2,738.58	-4,417.46	0.62	0.44	-1,435.78
5	-23,904.59	25	11	14	44.00	2,254.69	-3,479.01	0.65	0.51	-956.18
4	-3,474.49	25	10	15	40.00	2,631.34	-1,985.86	1.33	0.88	-138.98
3	-9,914.21	26	8	18	30.77	3,563.47	-2,134.55	1.67	0.74	-381.32
2	-4,499.93	27	12	15	44.44	1,560.79	-1,548.62	1.01	0.81	-166.66
1	753.80	27	14	13	51.85	944.07	-958.71	0.98	1.06	27.92

Choppy at first it appears there is a bit of a downside edge. On 5/28 I found that the downside tendency has been substantially stronger since around 2001. So I ran this test for that time frame as well.

SPX closes up between 2.5% and 3.5% while volume is < 10ma.
Buy 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	-6,371.89	10	4	6	40.00	4,804.39	-4,264.91	1.13	0.75	-637.19
9	-16,567.61	11	4	7	36.36	5,057.04	-5,256.54	0.96	0.55	-1,506.15
8	-23,371.98	11	3	8	27.27	4,632.01	-4,658.50	0.99	0.37	-2,124.73
7	-14,090.36	11	3	8	27.27	5,410.15	-3,790.10	1.43	0.54	-1,280.94
6	-31,774.42	12	3	9	25.00	3,955.99	-4,849.16	0.82	0.27	-2,647.87
5	-22,355.83	13	5	8	38.46	2,707.53	-4,486.69	0.60	0.38	-1,719.68
4	-3,669.78	13	4	9	30.77	4,113.99	-2,236.19	1.84	0.82	-282.29
3	-11,097.91	14	4	10	28.57	4,116.62	-2,756.44	1.49	0.60	-792.71
2	-9,252.37	15	5	10	33.33	1,653.75	-1,752.11	0.94	0.47	-616.82
1	-4,944.50	15	6	9	40.00	1,074.19	-1,265.52	0.85	0.57	-329.63

14 of 15 instances (93%) posted a close below the entry price at some point in the next week.

Instances are a bit low but the stats are compelling nonetheless.

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



With tonight's bearish study the green Aggregator line is again stuck below zero. This shows the net expectations from the active studies is for slightly lower prices over the

next few days. Meanwhile the black Differential line illustrates the SPX has outperformed expectations over the last few days. So we have negative expectations and a market that is overbought versus expectations. This combination has historically provided a downside edge and is illustrated with both lines below zero. Based on this the Aggregator System turned short at the close.

Looking ahead the Aggregator is set up to remain slightly negative tomorrow. This could easily change if we see some solid bullish evidence. Meanwhile the Differential pivot will be 1,064.81 on Friday. This means it would take an SPX close at or below this level in order for the Differential line to turn positive. That would be over a 2% drop. So without a 2% drop on Friday there is no chance the Aggregator System will trigger a long signal.

I have a few concerns with getting aggressively short at this point. First, when the market is coming off a potential intermediate-term low it can run up much faster and harder than normal as more and more shorts rush to cover. Second, even with the big move today we are still just slightly above the middle of the recent range. So there is still room to the upside. Therefore, I will be looking for short exposure, but with lower than normal aggressiveness to start.

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

GILD – 1/3 @ \$34.82 limit (no fill)

GILD – 2nd 1/3 @ \$32.91

New

GS – 1/3 @ \$133.77 limit

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 3 (GILD-2, GS)

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.

GS – buy 1/3 position @ \$133.77 limit. Based on new Catapult trigger above.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	5/21/2010	\$105.91	\$109.15	3.06%		sold on close

Subscribers were alerted via intraday update that the Aggregator was likely to signal a short this afternoon and that I was going to close the open SPY lot at the close.

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