

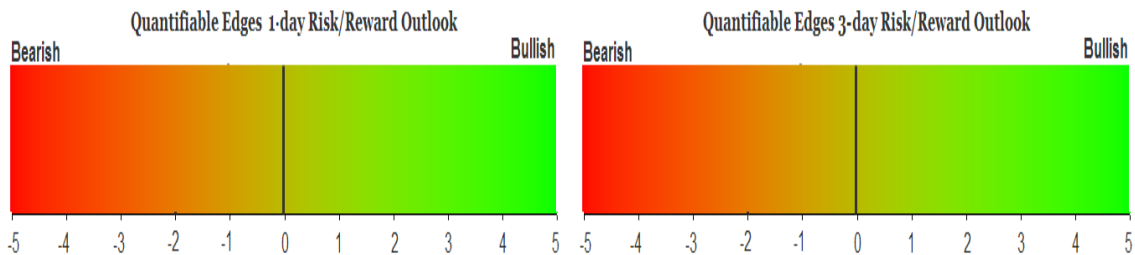
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 15, 2010

Volume 3 Issue 113

Market Overview



Tonight's Research Points

- The gap up, strong morning, and reversal down pattern indicates an upside edge.
- Strong breadth near a short-term high and a down close suggest short-term bullish implications.
- The Aggregator System turned flat at the close.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 6/15

The Bottom Line

The late-day pullback led to some bullish studies which flipped the net expectations and caused the Aggregator System to turn flat at the close. I'm waiting for a better edge before looking to take new trades.

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 15, 2010	SPX 5-high & dn close. Up Iss% > 60	1-2 days	Bullish	1.30%
June 15, 2010	SPY gap up good morn bad afternoon	1-2 days	Bullish	2.20%
June 14, 2010	Low vol 20 days positive close up rng	1-2 days	Bearish	-1.20%
June 14, 2010	Up Issue % > 66.67 2nd day under 200	1-2 days	Bearish	-3.00%
June 11, 2010	SPX up 2.5%-3.5% on low vol	1-3 days	Bearish	-3.20%
June 7, 2010	Gap dn 0.5% and close 1% below that	1-4 days	Bearish	-3.60%
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				
June 14, 2010	Gap down 0.5% close up & top 10% rng	1 day	Bearish	

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

The Evidence

A gap up and early move higher rolled over in the afternoon. After being up over 1% earlier in the day the SPX closed down 0.2%. The Nasdaq closed breakeven. The Russell 2000 actually held up all right and finished with a 0.5% gain. Breadth was positive as the NYSE Up Issues % closed at 61% and the Up Volume % closed at 52%. Total volume was up slightly but still below normal levels.

If the action today with the gap up, morning rally and then afternoon failure seems familiar, that's because we just saw it last Wednesday. I've again updated the study I showed in Thursday's (6/10/10) Subscriber Letter.

SPY gaps up over 0.25%. It then trades over 0.5% above the open before reversing and closing down on the day and over 0.5% below the open. It also closes in the bottom 25% of its daily range. Buy 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	28,642.18	43	29	14	67.44	3,031.07	-4,232.78	0.72	1.48	666.10
4	31,430.34	46	27	19	58.70	2,893.82	-2,458.04	1.18	1.67	683.27
3	49,125.64	47	31	16	65.96	2,683.43	-2,128.80	1.26	2.44	1,045.23
2	50,295.22	47	33	14	70.21	2,465.67	-2,219.41	1.11	2.62	1,070.11
1	17,205.63	47	29	18	61.70	1,401.91	-1,302.77	1.08	1.73	366.08

87% of instances closed above the entry price at some point in the next week.

As I said last week, the edge is only very short-term but the study does suggest we should see a bounce in the next day or so.

Another interesting study that appeared looked at other times the market made a recent short-term high, then pulled back but the breadth remained squarely positive. I've updated the results below from the study that originally appeared in the 7/22/08 subscriber letter.

SPX makes a 5-day intraday high either today or yesterday. SPX closes lower today. NYSE Up Issues % > 60%. Buy SPX at close. Sell X days later. \$100k/trade. 1978 - 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	3,062.00	31	16	15	51.61	1,796.35	-1,711.97	1.05	1.12	98.77
4	13,219.03	32	14	18	43.75	2,556.57	-1,254.06	2.04	1.59	413.09
3	15,244.50	32	17	15	53.13	1,830.61	-1,058.39	1.73	1.96	476.39
2	13,332.56	32	19	13	59.38	1,362.12	-965.21	1.41	2.06	416.64
1	9,383.96	32	18	14	56.25	981.36	-591.46	1.66	2.13	293.25

Again we are looking at 1-3 days of possible positive influence.

A negative that showed up today was that the QQQQ and SPY volume were once again hitting 20-day lows. This also occurred Friday and was factored into last night's estimates already. I therefore made sure not to enter a duplicate study into the Aggregator today.

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



With tonight's bullish studies the green Aggregator line has flipped back above zero. This shows the net expectation from the active studies is for higher 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 positive expectations but a market that is overbought versus expectations. This is considered a neutral configuration and is illustrated with both lines on opposite sides of zero. Based on this the Aggregator System turned flat at the close.

Looking ahead the Aggregator is set up to remain slightly positive tomorrow. With the Aggregator fairly close to 0 and most of the current studies very short-term, it could easily sway in either direction depending on tomorrow's action. Meanwhile the Differential pivot will be 1,082.82 on Monday. This means it would take an SPX close at or below this level in order for the Differential line to turn positive.

Prior to the last 20 minutes of the day, the SPX had remained positive all day and the Aggregator appeared likely to remain negative rather than neutral. As the outlook changed rapidly with the plunge into negative territory in the last 20 minutes I worked to update the Quantifinder and Systems pages with information. I did not send out a separate email to exit the open SPY position at the close. I may have done so if the reversal had occurred earlier in the day. I often try not to send last minute exits since many subscribers might not be able to react quickly enough to the emails.

So traders that noticed the change in outlook by following the Quantifinder and/or Systems pages may have already taken a quick profit on the short SPY position. (Note that I send out notification via twitter whenever those pages are updated.) I'll look to exit the short trade idea as of Tuesday morning as described in the trade ideas section below.


Intermediate-term Outlook (2 weeks – 2 months)– updated 6/14 neutral


Before I discuss my outlook I'd like to show my version of a study that several subscribers asked me about this week. Somewhere it was published that drops of 13% or more in a 30-day period typically meant the market was likely to drop at least another 10%. Not knowing the exact parameters for this study, I created my own version.

A table showing all of the results is below.

SPX closes at least 13% below its 30-day high after not having done so for at least 20 days. Buy on close. Sell 20 days later. \$100k/trade. 1960 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
05/25/62	Buy	\$59.47	(11.80%)	\$268.96
06/25/62	Sell	\$52.45		(\$11,800.62)
08/29/66	Buy	\$74.53	4.79%	\$7,442.55
09/27/66	Sell	\$78.10		\$0.00
05/12/70	Buy	\$77.85	(2.06%)	\$860.28
06/09/70	Sell	\$76.25		(\$10,991.04)
11/26/73	Buy	\$96.58	(3.81%)	\$1,417.95
12/24/73	Sell	\$92.90		(\$4,574.70)
07/10/74	Buy	\$79.99	3.33%	\$6,250.00
08/07/74	Sell	\$82.65		(\$1,750.00)
08/21/74	Buy	\$73.51	(4.65%)	\$0.00
09/19/74	Sell	\$70.09		(\$11,301.60)
12/06/74	Buy	\$65.01	9.24%	\$9,320.28
01/07/75	Sell	\$71.02		\$0.00
08/21/75	Buy	\$83.07	3.38%	\$4,583.43
09/19/75	Sell	\$85.88		(\$1,178.94)
03/17/80	Buy	\$102.25	0.37%	\$3,390.19
04/15/80	Sell	\$102.63		(\$4,425.81)
09/18/81	Buy	\$116.25	2.53%	\$6,037.20
10/16/81	Sell	\$119.19		(\$5,211.60)
10/16/87	Buy	\$282.69	(13.11%)	\$0.00
11/13/87	Sell	\$245.63		(\$23,379.19)
08/22/90	Buy	\$316.55	(1.60%)	\$3,143.70
09/20/90	Sell	\$311.47		(\$3,269.70)
08/28/98	Buy	\$1,027.25	2.09%	\$3,768.45
09/28/98	Sell	\$1,048.70		(\$8,463.25)
03/12/01	Buy	\$1,180.30	(3.62%)	\$1,472.52
04/09/01	Sell	\$1,137.58		(\$8,325.24)
09/17/01	Buy	\$1,038.77	4.93%	\$5,797.44
10/15/01	Sell	\$1,089.98		(\$9,025.92)
07/02/02	Buy	\$948.09	(3.85%)	\$4,774.35
07/31/02	Sell	\$911.62		(\$18,103.05)
09/23/02	Buy	\$833.70	7.92%	\$7,969.43
10/21/02	Sell	\$899.72		(\$7,738.57)
01/22/08	Buy	\$1,310.51	3.78%	\$6,498.76
02/20/08	Sell	\$1,360.02		(\$3,074.96)
07/15/08	Buy	\$1,214.90	6.15%	\$8,056.50
08/12/08	Sell	\$1,289.60		(\$287.82)
09/29/08	Buy	\$1,106.42	(23.27%)	\$5,544.90
10/27/08	Sell	\$848.92		(\$23,995.80)
01/20/09	Buy	\$805.22	(2.09%)	\$9,007.36
02/18/09	Sell	\$788.42		(\$3,073.96)

 = instances that did NOT close 10% below entry within 75 days

 = instances whose 30-day high was also the 250-day high

The % profit column only shows 1-month results. Different time periods didn't look any more bearish. The suggestion that the current drop means we are in for at least another 10% downside doesn't seem to hold true if you limit the time frame to 75 days (a little over 3 ½ months). You can see this by noticing all the instances with the purple circle. I also marked the 4 times where the 30-day drop occurred when the market was coming off its high (green outlined boxes). This would match the current situation. None of those 4 saw an additional 10% drop. Based on these results it doesn't appear that the recent 13% market drop carries dire implications moving forward.

Overall the intermediate-term still remains a bit unclear to me. We reached some pretty hefty oversold extremes a couple of weeks ago that suggested a potential bottom could be appearing. Additionally there had been no breadth divergence at the highs which suggested an ordinary correction was much more likely than a new bear market.

There was a follow-through day on 6/2 that also marked the 2nd 90% up day within a week. Studies at that time suggested that perhaps the bottom was in place. Then the market tumbled right back down near its lows. The closing lows were broken but the intraday lows just barely held. So now the market is again trying to ramp higher. The last 2 times the SPX has closed above 1,100 it has quickly been struck back. A strong move through that area could complete a double bottom formation and lead to a rally.

In the short-term section we saw ample evidence that a pullback seemed likely. Also, while the NDX Aggressive Trend Timer is still on a buy signal the Nasdaq/S&P Relative Strength indicator now favors the S&P – which is no longer bullish. Often when the market is coming out of an intermediate-term bottom the Nasdaq and its higher beta will lead the S&P. So I'd like to see the Nasdaq regain some strength this week as well.

I'll watch the upper end of the recent range around 1106 to be broken before getting too bullish and I'll look at a close below the lower end of the range around 1040 as a potential bearish sign. Until one of those things happens I likely won't get too aggressive either way.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) - (Catapult Presentation Part 2)

Open Catapult Triggers

GS – 1/3 @ \$133.77 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (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.

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GS(1/3)	6/11/2010	\$133.33	\$133.44	0.08%		Catapult
SPY(1/4)(s)	6/14/2010	\$110.52	\$109.51	0.91%		cover @ \$109.51 limit

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