

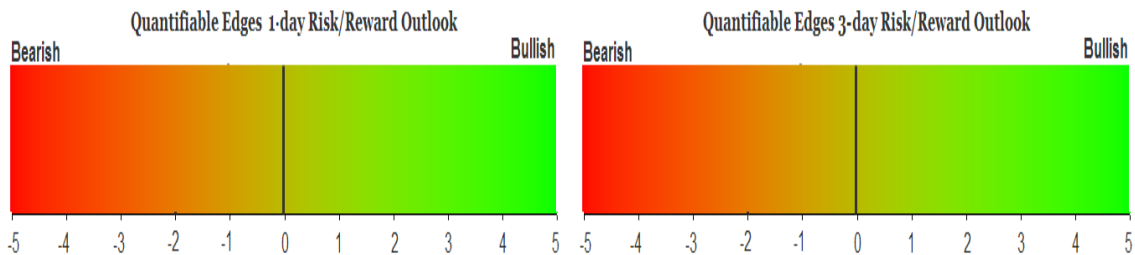
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2010

Volume 3 Issue 115

Market Overview



Tonight's Research Points

- The VIX continues to drop, though the setup identified tonight is basically neutral when the SPX is above its 200ma.
- The Aggregator System turned flat at the close.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook – updated 6/17

The Bottom Line

Positive expectations but an overbought market have me waiting for a pullback to enter.

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 16, 2010	VIX 15% below 10ma	1-5 days	Bearish	-2.60%
June 16, 2010	2nd 90% up day	1-10 days	Bullish	5.40%
Active - Long Term				
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.

The Evidence

After recovering from a sizable gap down the market closed almost right at breakeven. The SPX closed down 0.62 points and the Nasdaq was up 0.05 points. The Russell 2000 actually moved a little as it closed down 0.4%. Breadth was somewhat negative as the NYSE Up Issues % was 39% and the Up Volume % came in at 36%. Total volume was up slightly on the NYSE but lower on the Nasdaq.

One former study that appeared in the Quantifinder tonight looked at the fact that the VIX has been making 20-day lows while the SPX has not been making 20-day highs. When I last looked at this study in the 3/1 Letter I noticed a striking performance difference when the SPX was above vs. below the 200ma. Below the 200ma there was a substantial suggestion of a downside tendency. Above the 200ma it was not as obvious. I've updated results below. The difference at this point is huge since there doesn't appear to be any substantial edge above the 200ma. First let's review instances below the 200ma.

VIX makes a new 20-day low for at least the 3rd time in the last 10 days. SPX has 0 20-day highs in the last 10 days. SPX < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
20	-28,825.16	6	0	6	0.00	0.00	-4,804.19	0.00	0.00	-4,804.19
19	-27,331.72	6	0	6	0.00	0.00	-4,555.29	0.00	0.00	-4,555.29
18	-25,080.14	6	0	6	0.00	0.00	-4,180.02	0.00	0.00	-4,180.02
17	-25,351.36	6	0	6	0.00	0.00	-4,225.23	0.00	0.00	-4,225.23
16	-24,702.64	6	0	6	0.00	0.00	-4,117.11	0.00	0.00	-4,117.11
15	-21,706.25	6	0	6	0.00	0.00	-3,617.71	0.00	0.00	-3,617.71
14	-17,926.11	6	0	6	0.00	0.00	-2,987.69	0.00	0.00	-2,987.69
13	-9,966.20	6	1	5	16.67	2,345.68	-2,462.38	0.95	0.19	-1,661.03
12	-13,545.88	6	1	5	16.67	1,555.43	-3,020.26	0.51	0.10	-2,257.65
11	-10,902.07	6	1	5	16.67	2,029.58	-2,586.33	0.78	0.16	-1,817.01
10	-17,084.06	6	1	5	16.67	624.66	-3,541.74	0.18	0.04	-2,847.34
9	-16,383.93	6	2	4	33.33	437.39	-4,314.68	0.10	0.05	-2,730.66
8	-16,102.99	6	2	4	33.33	852.99	-4,452.24	0.19	0.10	-2,683.83
7	-11,008.17	6	2	4	33.33	1,785.83	-3,644.96	0.49	0.24	-1,834.70
6	-12,670.73	6	2	4	33.33	2,214.31	-4,274.84	0.52	0.26	-2,111.79
5	-15,529.50	7	2	5	28.57	2,038.89	-3,921.46	0.52	0.21	-2,218.50
4	-16,553.58	7	1	6	14.29	461.10	-2,835.78	0.16	0.03	-2,364.80
3	-10,551.31	7	1	6	14.29	2,041.57	-2,098.81	0.97	0.16	-1,507.33
2	-5,198.66	8	3	5	37.50	1,131.00	-1,718.33	0.66	0.39	-649.83
1	219.61	10	5	5	50.00	889.17	-845.24	1.05	1.05	21.96

So instances are quite low here but they all head lower – and by a substantial amount.

But here's the current situation above the 200ma.

VIX makes a new 20-day low for at least the 3rd time in the last 10 days. SPX has 0 20-day highs in the last 10 days. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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
15	3,677.32	9	5	4	55.56	2,920.46	-2,731.25	1.07	1.34	408.59
14	8,689.99	9	5	4	55.56	3,140.31	-1,752.89	1.79	2.24	965.55
13	5,716.83	9	5	4	55.56	2,708.19	-1,956.03	1.38	1.73	635.20
12	6,649.23	9	5	4	55.56	2,414.21	-1,355.46	1.78	2.23	738.80
11	6,315.09	9	6	3	66.67	2,018.12	-1,931.21	1.05	2.09	701.68
10	6,063.28	10	8	2	80.00	1,499.77	-2,967.45	0.51	2.02	606.33
9	2,626.97	10	6	4	60.00	1,878.91	-2,161.62	0.87	1.30	262.70
8	-1,236.79	10	5	5	50.00	1,700.13	-1,947.49	0.87	0.87	-123.68
7	-4,890.21	10	5	5	50.00	1,632.41	-2,610.45	0.63	0.63	-489.02
6	-5,590.92	10	5	5	50.00	1,968.26	-3,086.44	0.64	0.64	-559.09
5	-4,079.60	10	5	5	50.00	1,879.36	-2,695.28	0.70	0.70	-407.96
4	-5,981.82	10	5	5	50.00	1,328.63	-2,524.99	0.53	0.53	-598.18
3	-1,660.61	10	5	5	50.00	1,433.93	-1,766.05	0.81	0.81	-166.06
2	-121.34	12	7	5	58.33	967.26	-1,378.43	0.70	0.98	-10.11
1	-2,284.40	15	8	7	53.33	677.42	-1,100.53	0.62	0.70	-152.29

Basically a toss-up.

One study that has been constantly appearing is the one that looks at CBOE Equity Put/Call Ratios more than 25% below their 200ma. This keeps popping up due to some bad data in Tradestation. I have therefore simply turned off this study for now. I will manually keep an eye on this ratio – something I typically do anyway.

So not much of a surprise that a market that was almost completely flat really didn't contribute anything to the Aggregator today.

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



After dipping below 0 last night the Aggregator has popped back above it tonight. This shows the net expectation from the Active Studies list is for higher prices over the next few days. Meanwhile the black Differential line illustrates the SPX has strongly outperformed expectations over the last few days. So we have positive expectations and a market that is overbought versus expectations. This is considered a neutral configuration. Neutral configurations are visible whenever the lines are on opposite sides of 0. Based on this the Aggregator System turned flat at the close.

Looking ahead the green Aggregator line is set up to remain positive tomorrow. Of course some additional bearish evidence could change that outlook. Meanwhile the Differential pivot will be 1,084.30 tomorrow. This means it would take an SPX close at or below this level in order for the black Differential line to turn positive.

So the short bias only lasted a day. It will look like a “win” but this one was hardly worth it if you traded it from close to close. There are very few studies currently active so action over the next few days will go a long way in determining the short-term aggregate expectations.


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

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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	\$137.06	2.80%		exit on open

GS hit its intraday target today. Once a target is hit Catapults are typically sold the next morning. This is the case here and I will use tomorrow's opening price as the exit. An email was sent out during the day alerting subscribers of this.

The SPY trade idea from last night did not trigger since it did not fill within the 1st 30 minutes of trading.

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