

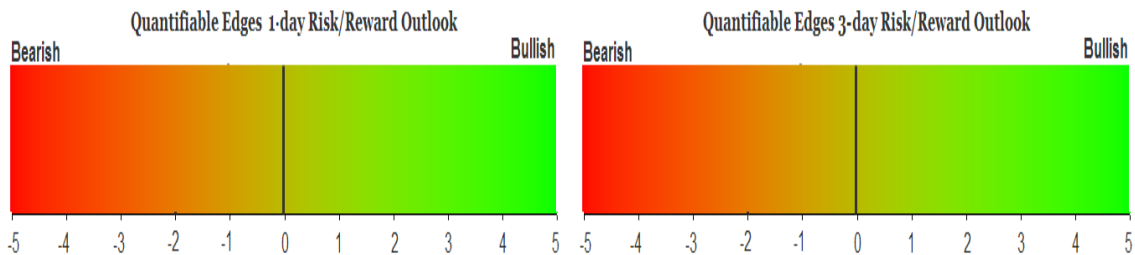
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 18, 2010

Volume 3 Issue 116

Market Overview



Tonight's Research Points

- Two days of sideways action after a big up day in an uptrend has historically favored some short-term pain for bulls.
- The weak breadth one an up day doesn't provide a potent edge when the SPX is above the 200ma.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook – updated 6/18

The Bottom Line

Some more hints suggesting a pullback, but that is only putting the net expectation from the active studies barely above breakeven. With mixed studies a strong edge isn't apparent and I'm sidelined awaiting further evidence.

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 18, 2010	1.5% up days then 2 flat days	1-5 days	Bearish	-2.30%
June 16, 2010	VXO 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

Another uneventful day on Wall St. The SPX posted the “big” move with a 0.13% gain. The Nasdaq rose 0.05% while the Russell 2000 fell 0.03%. Breadth was a bit negative as the NYSE Up Issue % came in at 49% and the Up Volume % was 39%. Total volume declined from yesterday’s levels.

It’s not odd to see the market consolidate after a strong move, but 2 days of complete flatlining is extremely unusual. So from this point is the market more likely to explode higher or to roll over? I tested similar situations below. I also filtered using the 200ma to look just at circumstances where the market was in a long-term uptrend.

After rising over 1.5% in one day, the SPX doesn't close up or down more than 0.25% on either of the next 2 days. SPX closes > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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	-35,054.96	29	18	11	62.07	1,666.60	-5,913.98	0.28	0.46	-1,208.79
9	-21,772.03	29	14	15	48.28	1,855.77	-3,183.52	0.58	0.54	-750.76
8	-14,439.11	29	14	15	48.28	1,707.45	-2,556.23	0.67	0.62	-497.90
7	-23,979.61	29	12	17	41.38	1,266.86	-2,304.82	0.55	0.39	-826.88
6	-27,444.19	29	8	21	27.59	1,482.49	-1,871.63	0.79	0.30	-946.35
5	-31,480.01	29	9	20	31.03	1,365.88	-2,188.65	0.62	0.28	-1,085.52
4	-21,639.17	30	9	21	30.00	1,194.49	-1,542.36	0.77	0.33	-721.31
3	-16,437.37	30	11	19	36.67	1,164.63	-1,539.39	0.76	0.44	-547.91
2	-10,896.54	30	12	18	40.00	908.54	-1,211.05	0.75	0.50	-363.22
1	-10,883.44	30	13	17	43.33	455.22	-988.31	0.46	0.35	-362.78

26 of 30 instances (87%) closed below the entry price at some point in the next 4 days.

Historically it appears that this type of action represents stagnation likely to lead to a pullback rather than a tight consolidation before a continuation higher.

One interesting study from the 7/22/09 Letter looked at times the Up Vol % came in under 45% while the SPX closed higher. Results were bearish but there was no long-term trend filter applied. Below I examined the results for times like now where the SPX closed above its 200ma.

NYSE Up Volume % < 45% and SPX closes up on the day. Close > 200ma. Buy 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
5	-599.33	31	17	14	54.84	1,776.17	-2,199.58	0.81	0.98	-19.33
4	-1,740.69	31	17	14	54.84	1,521.19	-1,971.49	0.77	0.94	-56.15
3	-3,818.72	32	16	16	50.00	1,369.68	-1,608.35	0.85	0.85	-119.34
2	2,382.25	34	21	13	61.76	932.23	-1,322.66	0.70	1.14	70.07
1	-4,003.94	34	16	18	47.06	738.20	-878.62	0.84	0.75	-117.76

I don't see a discernable edge in either direction based on these results.

I have added the 1st study to the Active List and updated the [Aggregator](#) chart below.



The green Aggregator line finished positive tonight, but I had to insert an extra decimal place to see that. Effectively it is about as close to breakeven as you can get. This shows the net expectation from the Active Studies list is for flat to slightly 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 slightly 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 remained flat.

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 1,111.96 tomorrow. This means it would take an SPX close at or below this level in order for the black Differential line to turn positive.

As the studies are weighted by the Aggregator formula the result is almost exactly breakeven for tonight's value. Of course this may be an instance where traders could use their own discretion and consider taking on some short exposure. What it comes down to is whether you have more faith in the 90% double breadth thrust study from 2 nights ago or in tonight's study (and the VXO stretch one from a couple of nights ago). If you are bothered by the fact that the 90% study had a relatively low number of instances, or perhaps the fact that 90% days have become more frequent the last few years, then you may find yourself favoring a pullback. On the other hand, if you have more faith in breadth measures than in using the VXO or in examining unusual price patterns, then you'd favor the bullish side.

There are many different ways to interpret the information in the letter. While I always do my best to give my most considered opinion, subscribers need to keep in mind that it is ok – and even encouraged - to trade based on their own interpretations of the studies.

For my taste there isn't a clear enough edge to try and take a new position.


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	\$136.95	2.72%		sold on open

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