

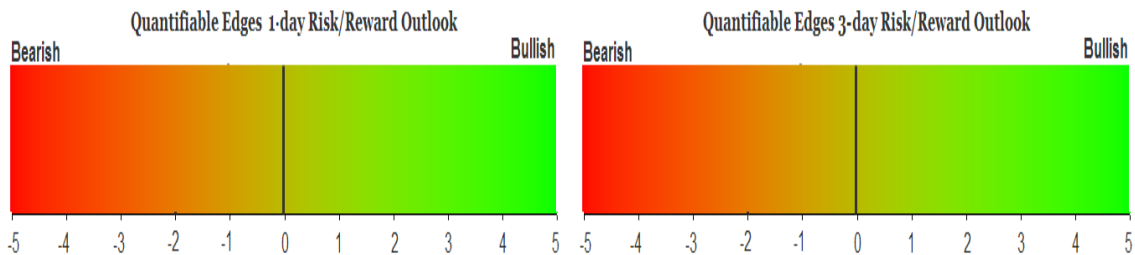
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 21, 2010

Volume 3 Issue 117

## Market Overview



## Tonight's Research Points

- Several indicators including the VIX, SPY range and SPY volume are suggesting complacency. In a downtrend these would suggest bearish implications. At this point they simply serve as a warning sign that the market may struggle to move higher.
- With the 3/10 Offset HV extremely low, ORB's carry an edge for daytrading.
- A large gap higher from a high area suggest intraday downside tendencies.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained flat.

## Short-term Outlook – updated 6/21

### The Bottom Line

Evidence is neutral. The Aggregator system is flat. The NDX timer is flat. The systems triggers spreadsheet is blank. For the swing time-frame I am not seeing a convincing edge. The current environment does suggest some possible day-trading edges which I discuss below.

## 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
<b>Active</b>				
June 18, 2010	1.5% up days then 2 flat days	1-5 days	Bearish	-2.30%
June 16, 2010	2nd 90% up day	1-10 days	Bullish	5.40%
<b>Active - Long Term</b>				
June 21, 2010	Nas/SPX Relative Strength favors Nas	int. term	Bullish	
April 26, 2010	No breadth divergence at new high	int. term	Bullish	
<b>Dropped Tonight</b>				
June 16, 2010	VXO 15% below 10ma	1-3 days	Bearish	-2.60%

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

### ***The Evidence***

The market was open for trading on Friday but nobody seemed to notice. After gapping up a little, prices oscillated all day and generally finished just over breakeven. The SPX, Nasdaq, and Russell 2k all gained between 0.1% and 0.2%. Breadth was mildly positive as the NYSE Up Issue % and the Up Volume % both came in at 55%. Total volume was up slightly – partially thanks to options expiration. SPY volume was extremely light, though.

Friday's action was unusual in a number of ways and this was noted by several Quantifinder studies. Options expiration tends to come with strong volume and relatively high volatility. To see an op-ex day that had extremely narrow range was unusual, as was the low SPY volume. In addition to the narrow range and low SPY volume we also saw the VIX fall further. It is now stretched nearly 20% below its 10ma. All this while the SPX was closing at a 20-day high.

When the market is in a long-term downtrend much of the above would suggest a selloff is imminent. At times the market is trading above the 200ma, the downside influence is not evident with the studies shown by the Quantifinder. Below are a few examples from the 11/23/09 Subscriber Letter.

This first one looks at the low range/volume combination in the SPY without a trend filter applied.

SPY posts lowest volume in 20 days on lowest range in 20 days.  
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
20	-54,806.33	51	24	27	47.06	2,725.53	-4,452.56	0.61	0.54	-1,074.63
19	-56,512.16	51	25	26	49.02	2,548.85	-4,624.37	0.55	0.53	-1,108.08
18	-54,891.66	53	25	28	47.17	2,542.80	-4,230.78	0.60	0.54	-1,035.69
17	-61,792.60	54	25	28	46.30	2,569.08	-4,500.70	0.57	0.51	-1,144.31
16	-58,527.43	54	28	26	51.85	2,347.64	-4,779.28	0.49	0.53	-1,083.84
15	-55,576.90	54	28	26	51.85	2,126.44	-4,427.59	0.48	0.52	-1,029.20
14	-48,195.58	56	34	22	60.71	2,037.61	-5,339.75	0.38	0.59	-860.64
13	-40,227.04	56	36	20	64.29	2,032.85	-5,670.49	0.36	0.65	-718.34
12	-30,713.91	57	34	23	59.65	1,973.18	-4,252.26	0.46	0.69	-538.84
11	-28,012.68	59	34	25	57.63	1,927.63	-3,742.08	0.52	0.70	-474.79
10	-26,631.47	60	33	27	55.00	2,125.23	-3,583.85	0.59	0.72	-443.86
9	-20,067.62	60	34	26	56.67	2,102.04	-3,520.66	0.60	0.78	-334.46
8	-3,805.46	63	37	26	58.73	2,082.56	-3,110.00	0.67	0.95	-60.40
7	-8,277.56	63	34	29	53.97	2,212.33	-2,879.19	0.77	0.90	-131.39
6	-5,322.03	64	34	30	53.13	1,965.07	-2,404.48	0.82	0.93	-83.16
5	-21,140.23	67	30	37	44.78	1,853.53	-2,074.22	0.89	0.72	-315.53
4	-31,754.55	67	30	37	44.78	1,468.57	-2,048.96	0.72	0.58	-473.95
3	-19,409.65	71	32	39	45.07	1,437.96	-1,677.55	0.86	0.70	-273.38
2	-16,541.34	73	33	39	45.21	1,090.87	-1,347.18	0.81	0.69	-226.59
1	-18,958.57	74	33	41	44.59	755.08	-1,070.15	0.71	0.57	-256.20

It appears to suggest bearish implications both short and intermediate-term. But if we break it out based on the long-term trend you see there is a substantial difference. First let's look at instances above the 200ma.

SPY posts lowest volume in 20 days on lowest range in 20 days. 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
20	381.31	32	15	17	46.88	2,818.44	-2,464.43	1.14	1.01	11.92
19	7,696.50	32	18	14	56.25	2,408.79	-2,547.27	0.95	1.22	240.52
18	14,600.15	33	19	14	57.58	2,575.38	-2,452.29	1.05	1.43	442.43
17	4,754.59	34	19	14	55.88	2,415.28	-2,938.27	0.82	1.12	139.84
16	10,744.37	34	21	13	61.76	2,320.08	-2,921.34	0.79	1.28	316.01
15	11,735.90	34	22	12	64.71	2,018.33	-2,722.28	0.74	1.36	345.17
14	11,726.18	35	23	12	65.71	1,987.34	-2,831.88	0.70	1.35	335.03
13	15,519.75	35	25	10	71.43	1,852.87	-3,080.19	0.60	1.50	443.42
12	6,617.33	36	21	15	58.33	1,907.53	-2,229.38	0.86	1.20	183.81
11	2,088.63	37	20	17	54.05	2,050.68	-2,289.71	0.90	1.05	56.45
10	-6,281.84	37	19	18	51.35	1,970.58	-2,429.05	0.81	0.86	-169.78
9	-6,406.23	37	20	17	54.05	1,859.80	-2,564.83	0.73	0.85	-173.14
8	-386.32	40	23	17	57.50	1,866.93	-2,548.57	0.73	0.99	-9.66
7	-5,711.93	40	22	18	55.00	1,683.69	-2,375.17	0.71	0.87	-142.80
6	-2,527.35	41	20	21	48.78	1,651.95	-1,693.63	0.98	0.93	-61.64
5	-2,654.89	43	21	22	48.84	1,381.16	-1,439.06	0.96	0.92	-61.74
4	-2,874.72	43	21	22	48.84	1,235.09	-1,309.62	0.94	0.90	-66.85
3	-313.70	46	22	24	47.83	1,100.11	-1,021.51	1.08	0.99	-6.82
2	6,148.95	48	26	21	54.17	838.78	-745.68	1.12	1.39	128.10
1	2,834.82	49	24	25	48.98	642.75	-503.65	1.28	1.23	57.85

What I see here does not suggest bearish implications but rather a market that struggles to make headway. So not real bad news, but certainly not good news for the bulls.

Now let's examine those times the setup occurs below the 200ma.

SPY posts lowest volume in 20 days on lowest range in 20 days. 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
20	-55,641.20	20	9	11	45.00	2,570.68	-7,161.57	0.36	0.29	-2,782.06
19	-64,169.56	20	8	12	40.00	2,550.27	-7,047.64	0.36	0.24	-3,208.48
18	-69,351.05	21	7	14	33.33	2,111.23	-6,009.26	0.35	0.18	-3,302.43
17	-67,399.57	21	6	15	28.57	3,056.10	-5,715.74	0.53	0.21	-3,209.50
16	-70,030.34	21	7	14	33.33	2,430.31	-6,217.32	0.39	0.20	-3,334.78
15	-68,204.28	21	6	15	28.57	2,522.86	-5,556.10	0.45	0.18	-3,247.82
14	-61,165.14	22	11	11	50.00	2,142.74	-7,703.21	0.28	0.28	-2,780.23
13	-58,757.49	22	11	11	50.00	2,441.91	-7,783.50	0.31	0.31	-2,670.80
12	-39,653.78	22	13	9	59.09	2,079.24	-7,409.32	0.28	0.41	-1,802.44
11	-31,751.33	23	14	9	60.87	1,751.83	-6,253.00	0.28	0.44	-1,380.49
10	-23,344.69	24	14	10	58.33	2,335.11	-5,603.62	0.42	0.58	-972.70
9	-17,149.11	24	14	10	58.33	2,448.11	-5,142.26	0.48	0.67	-714.55
8	-6,766.10	24	14	10	58.33	2,436.80	-4,088.14	0.60	0.83	-281.92
7	-5,537.23	24	12	12	50.00	3,181.49	-3,642.93	0.87	0.87	-230.72
6	-4,163.18	24	14	10	58.33	2,412.38	-3,793.65	0.64	0.89	-173.47
5	-18,485.34	24	9	15	37.50	2,955.73	-3,005.79	0.98	0.59	-770.22
4	-28,879.83	24	9	15	37.50	2,013.36	-3,133.34	0.64	0.39	-1,203.33
3	-19,095.95	25	10	15	40.00	2,181.23	-2,727.21	0.80	0.53	-763.84
2	-22,690.29	25	7	18	28.00	2,027.18	-2,048.92	0.99	0.38	-907.61
1	-21,793.39	25	9	16	36.00	1,054.62	-1,955.31	0.54	0.30	-871.74

As you can see here the edge is substantial.

I went through many different iterations and combinations of volume, range, VIX movement, and op-ex tendencies. The bottom line was that there was no clear and substantial edge. I am therefore not using any new studies as Aggregator inputs tonight.

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



The green Aggregator line finished mildly positive again tonight. This shows the net expectation from the Active Studies list is for slightly higher prices over the next few days. Meanwhile the black Differential line illustrates the SPX has slightly outperformed expectations over the last few days. So we have somewhat positive expectations and a market that is a little 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 1,116.72 tomorrow. This means it would take an SPX close at or below this level in order for the black Differential line to turn positive. Note that this is less than a point from Friday's close, so a close lower on Monday would likely trigger a buy for the Aggregator System.

### ***A possible trading edge***

One indicator that is giving a very extreme reading currently is the 3/10 Offset Historical Volatility reading that can be found on the charts page. This indicator measures the historical volatility over the last 3 days versus the 10 days prior to that. When extremely low readings are reached it suggests a range expansion is likely to occur. We consider a very low reading to be below 0.25. Historically, readings that low have occurred about

9% of the time. The current reading is 0.05, which is especially rare. You may read more on the indicator here:

<http://quantifiableedges.blogspot.com/2009/07/what-happens-after-sharp-contraction-in.html>

So the indicator tells us that a big move is about to occur. It doesn't tell us which direction that big move is going to be. We'd need to rely on our other studies for that information. Unfortunately, we're not seeing especially strong evidence there for either the bull or bear case at the moment. That doesn't mean there isn't a way to trade this market, though. With the 3/10 Offset HV this low, and a relatively neutral Aggregator, I'll be ready to take an opening range breakout in either direction tomorrow should the market exhibit a tight, well-defined range in the first 30 minutes or so of trading.

In the past I have found Opening Range Breakouts to have a quantifiable edge under these types of circumstances. Subscribers may want to review the old ORB Study detailing this research by using the link below.

[ORBs Study.pdf](#)

### ***Thoughts on a possible gap higher***

As I write this evening I note the futures are gapping substantially higher. When already at a relatively high level, a large gap up will often lead to an intraday selloff. Below is a link to a study that appeared on the blog last year that addresses such situations.

<http://quantifiableedges.blogspot.com/2009/08/large-gaps-up-from-1-month-high.html>

Readers should note that while the SPX did close up at a new 20-day high on Friday, both the SPY and the futures were down slightly. Therefore, while in the spirit of this study, there is no way tomorrow's action will qualify for it.

### ***Intermediate-term Outlook (2 weeks – 2 months)– updated 6/14 - slightly bullish***

There has been some notable action as of late that is suggesting the market should continue higher over the intermediate-term.

One positive indication is that the Nasdaq/S&P 500 Relative Strength indicator as tracked on the website flipped back to favoring the Nasdaq this past week. More information on this indicator can be found using the link below.

<http://quantifiableedges.blogspot.com/2009/05/simple-powerful-timing-indicator.html>

The break above the high point of the possible double-bottom pattern this week is also a potentially positive sign.

And as I've noted recently the recent strong breadth thrusts suggest positive implications over the intermediate-term.

The low volume, narrow range, and extremely low VIX are worth monitoring, but for now I favor the long-side when looking out over the next several weeks.

### **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.*

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