

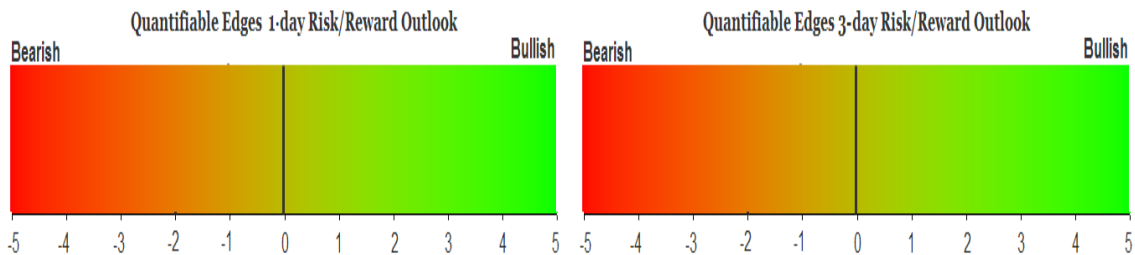
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 22, 2010

Volume 3 Issue 118

Market Overview



Tonight's Research Points

- SPX selloff suggests a bullish edge.
- Using SPY and taking into account the strong gap up and the finish well off the lows the implications appears substantially more bearish.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer is now long.

Short-term Outlook – updated 6/22

The Bottom Line

While not entirely clear, Monday's selling pattern appears to be short-term bearish. The market is a bit oversold though, so I'll wait a day. With Wednesday being a Fed Day, I'll be looking to buy tomorrow's close unless there is a strong close.

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 19, 2010	SPY gap 1% close down > 15% btm rng	1-2 days	Bearish	-6.50%
June 19, 2010	SPX close lower after up 1% new 10-hi	1-2 days	Bullish	1.75%
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%
Active - Long Term				
June 21, 2010	Nas/SPX Relative Strength favors Nas	int. term	Bullish	
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

A large gap open never gained further traction and the selling accelerated as the afternoon wore on. After being up more than 1% to start the day the major indices all closed lower. The SPX closed down 0.4% the Nasdaq lost 0.9% and the Russell 2k lost 1%. Breadth was a bit negative as the NYSE Up Issues % came in at 42% and the Up Volume % was 44%. Total volume sank on both exchanges.

Hopefully some intraday traders were able to take advantage of Sunday night's and Monday morning's research and capture some downside. Two points were made coming into this morning that suggested a downside intraday edge. First, the ORB's study which I pointed to last night suggested an opening range breakout in either direction could be nicely profitable. Second, the large gap up from a high level was shown both in a blog post mentioned in last night's letter, and the new blog post this morning (post alert sent via twitter – <http://twitter.com/gerob>). So whether you took an early entry based on the large gap up or whether you took a break of the 1st 30-minute low around \$112.60, there was plenty of downside to profit from.

Looking ahead to tomorrow, I've looked at Monday's pattern a number of ways. Most of them suggest bearish consequences – but not all. One study that would favor the bulls over the short term is below.

SPX makes a 10-day high, a high at least 1% above yesterdays close, and closes down on the day. Buy on close. Sell X days later. \$100k/trade. 1991 - 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	28,765.29	21	16	5	76.19	2,600.49	-2,568.51	1.01	3.24	1,369.78
4	24,804.86	21	15	6	71.43	2,343.18	-1,723.81	1.36	3.40	1,181.18
3	17,141.08	22	14	8	63.64	2,049.49	-1,443.98	1.42	2.48	779.14
2	22,229.86	22	16	6	72.73	1,936.29	-1,458.46	1.33	3.54	1,010.45
1	7,711.21	22	14	8	63.64	1,073.25	-914.28	1.17	2.05	350.51

Strong numbers even though most of the edge is realized in the 1st 2 days.

Two things that stuck out with the action though were 1) the fact that the market gapped up large to start the day, and 2) that while it went from strongly positive to solidly negative the market did close well off its lows. In the past I've shown how bounces in

the last few minutes of the day will often reduce an upside edge. In this case we see that the late day bounce has always been followed by a pullback in the next couple of days.

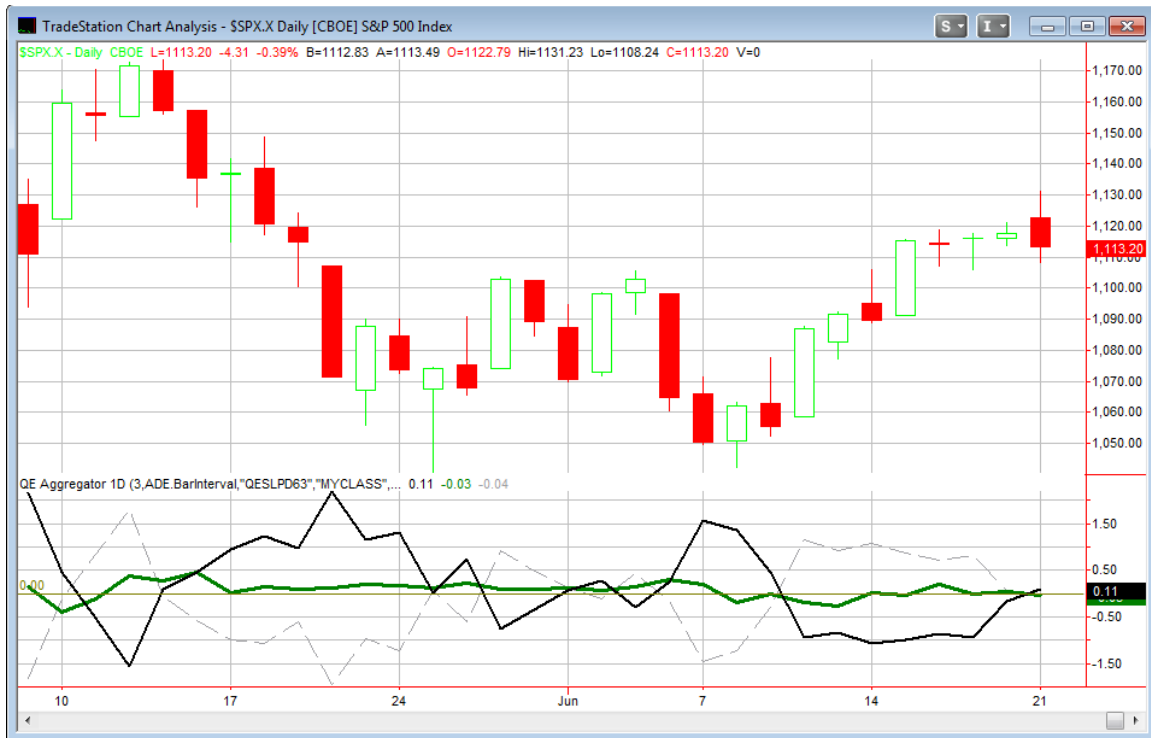
SPY gaps up 1% and then closes down on the day but above the bottom 15% of its daily range. Buy on close. Sell X days later. \$100k/trade. 1993 - present.										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-9,284.27	7	4	3	57.14	1,969.89	-5,721.28	0.34	0.46	-1,326.32
4	-12,241.99	7	3	4	42.86	913.90	-3,745.92	0.24	0.18	-1,748.86
3	-15,749.85	7	0	7	0.00	0.00	-2,249.98	0.00	0.00	-2,249.98
2	-23,522.96	7	0	7	0.00	0.00	-3,360.42	0.00	0.00	-3,360.42
1	-20,124.21	7	2	5	28.57	1,438.92	-4,600.41	0.31	0.13	-2,874.89

Instances are low but when stats are this overwhelming I make sure not to ignore them. Below I have listed all the instances along with a 2-day exit strategy.

SPY gaps up 1% and then closes down on the day but above the bottom 15% of its daily range. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
08/13/97	Buy	\$92.28	(2.84%)	\$1,115.49
08/15/97	Sell	\$89.66		(\$2,869.95)
08/28/98	Buy	\$103.38	(3.21%)	\$628.55
09/01/98	Sell	\$100.06		(\$9,428.25)
10/06/98	Buy	\$98.59	(2.03%)	\$1,460.16
10/08/98	Sell	\$96.59		(\$6,459.18)
10/28/02	Buy	\$89.61	(0.20%)	\$390.25
10/30/02	Sell	\$89.43		(\$2,910.15)
10/14/08	Buy	\$99.85	(6.09%)	\$0.00
10/16/08	Sell	\$93.77		(\$13,323.31)
11/10/08	Buy	\$92.63	(7.35%)	\$0.00
11/12/08	Sell	\$85.82		(\$8,103.29)
03/03/09	Buy	\$70.07	(1.81%)	\$3,995.60
03/05/09	Sell	\$68.80		(\$2,711.30)
06/21/10	Buy	\$111.41	n/a	\$0.00
open	n/a	\$111.41		\$0.00

You'll note that every instance saw an intraday low at least 2.7% below the entry price at some point in the next 2 days. I looked at the SPY reversal a number of other ways as well. Bearish numbers appeared under most circumstances. The above study was the most compelling in my eyes.

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



A bit of a surprise tonight. While it appeared the green Aggregator line was likely to close in the green, tonight's research actually pushed it below zero for the day. I noted this might happen on the systems page, but was still a little surprised that it actually occurred. I will get the probable signal wrong on occasion as we approach the close. This is the 3rd or 4th time it has happened since last September when I began posting "probable signals" before the close. So the green Aggregator line finished mildly negative tonight. This shows the net expectation from the Active Studies list is for slightly lower prices over the next few days. Meanwhile the black Differential line illustrates the SPX has slightly underperformed expectations over the last few days. So we have somewhat negative expectations and a market that is a little oversold 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 turn back to positive tomorrow. Of course some additional bearish evidence could change that outlook. Meanwhile the Differential pivot will be 1,117.90 tomorrow. This means it would take an SPX close at or above this level in order for the black Differential line to turn negative. Without a decent move higher the Aggregator is likely to turn bullish.

Traders should note that Tuesday is also the last day before Wednesday's Fed Day. Fed Days have historically had a bullish bias. In the new QE Guide to Fed Days book, I

noted that buying the day before the Fed Day carried a substantial edge as long as the close was not in the top 25% of the daily range. I'll talk more the Fed Day tomorrow night, but I will look to take a trade tomorrow afternoon should the market close properly. Details are in the trade ideas section below.

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.

SPY – buy ¼ index position on close that is NOT in the top 25% of the daily range. In all likelihood I'll look to exit this position around 2pm on Wednesday just prior to the announcement.

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