

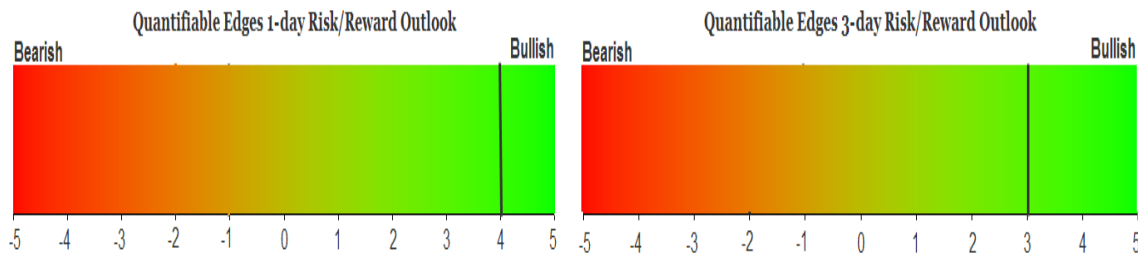
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 23, 2010

Volume 3 Issue 119

Market Overview



Tonight's Research Points

- Today's negative action prior to tomorrow's Fed Day contains bullish implications.
- The downmove was extreme enough today that it suggests an upside edge over the next several days.
- The Aggregator System changed to long.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 6/23

The Bottom Line

With the market oversold and the studies expecting a bounce I have turned bullish..

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 23, 2010	Fed Day	1 day	Bullish	
June 23, 2010	1% drop and bad breadth	1-8 days	Bullish	
June 22, 2010	SPY gap 1% close down > 15% btm rng	1-2 days	Bearish	-6.50%
June 22, 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

Sharp selling hit the market Tuesday. Like Monday the damage was done in the afternoon. The major indices all declined. The SPX dropped 1.6%, the Nasdaq 1.2% and the Russell 2000 fell 2.1%. Breadth was strongly negative as the NYSE Up Issues % came in at 21% and the Up Volume % was 7%. Total volume was up slightly on the NYSE but down a little on the Nasdaq.

Last night's strongly bearish SPY study proved to be just the warning we needed to stay sidelined for the day. Tonight is a different story, though, with nothing but green appearing in the Quantifinder. (One bearish Put/Call Ratio study misfired on bad Tradestation data. This was happening with one other study recently, and like that one I believe I will temporarily remove this study from the Quantifinder as well.)

As I discussed last night Wednesday is a Fed Day. Fed Days have historically had a bullish tendency, and that tendency has been stronger when the market struggles the previous day. This can be seen with a few studies I've published before. This first one was from the 4/28/10 blog and it looked at SPY drops over 1%.

SPY drops at least 1% the day before a Fed Day. Buy on close. Sell Fed Day close. \$100k/trade. 3/1/1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$15,752.03	Profit Factor	10.31
Gross Profit	\$17,444.82	Gross Loss	(\$1,692.79)
Total Number of Trades	14	Percent Profitable	78.57%
Winning Trades	11	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$1,125.14	Ratio Avg. Win:Avg. Loss	2.81
Avg. Winning Trade	\$1,585.89	Avg. Losing Trade	(\$564.26)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$1,141.01)

Instances are a bit low, but they couldn't get much more bullish. With a profit factor over 10 and the average trade about as positive as the worst trade was negative, risk/reward appears to heavily favor the bulls. Below I have listed all occurrences for those that would like to take a better look.

SPY drops at least 1% the day before a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/1993 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
12/18/95	Buy	\$60.63	1.07%	\$1,187.28
12/19/95	Sell	\$61.28		(\$82.45)
12/16/96	Buy	\$72.56	0.54%	\$992.16
12/17/96	Sell	\$72.95		(\$937.04)
12/10/01	Buy	\$114.38	(0.20%)	\$1,171.16
12/11/01	Sell	\$114.15		(\$419.52)
01/29/02	Buy	\$110.28	1.44%	\$2,817.66
01/30/02	Sell	\$111.87		(\$1,703.28)
05/06/02	Buy	\$105.47	(0.35%)	\$805.80
05/07/02	Sell	\$105.10		(\$540.36)
06/25/02	Buy	\$97.56	0.16%	\$604.75
06/26/02	Sell	\$97.72		(\$2,429.25)
12/09/02	Buy	\$89.50	1.34%	\$1,787.20
12/10/02	Sell	\$90.70		\$0.00
01/27/04	Buy	\$114.68	(1.14%)	\$522.60
01/28/04	Sell	\$113.37		(\$1,515.54)
03/15/04	Buy	\$111.20	0.53%	\$773.14
03/16/04	Sell	\$111.79		(\$323.64)
03/17/08	Buy	\$128.30	4.15%	\$4,198.81
03/18/08	Sell	\$133.63		\$0.00
09/15/08	Buy	\$120.09	1.67%	\$1,855.36
09/16/08	Sell	\$122.10		(\$2,570.88)
12/15/08	Buy	\$87.75	4.71%	\$4,863.53
12/16/08	Sell	\$91.88		\$0.00
08/11/09	Buy	\$99.73	1.07%	\$1,833.66
08/12/09	Sell	\$100.80		(\$220.44)
04/27/10	Buy	\$118.48	0.76%	\$1,012.80
04/28/10	Sell	\$119.38		(\$177.24)

In the new Quantifiable Edges Guide to Fed Days book I broke down the Fed Day returns based on which quartile of its daily range the SPY closed in. What I found was that the lower in the range the SPY closed, the better. Below is a table from one study that appeared in the book (and was also in the blog in January).

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.
Buy on close. Sell next day's close. \$100k/trade. 3/1/1993 - 4/30/2010.

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	\$14,751.42	Profit Factor	5.42
Gross Profit	\$18,091.63	Gross Loss	(\$3,340.21)
Total Number of Trades	26	Percent Profitable	76.92%
Winning Trades	20	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$567.36	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$904.58	Avg. Losing Trade	(\$556.70)
Largest Winning Trade	\$2,696.00	Largest Losing Trade	(\$1,141.01)

Here again we see a very strong upside tendency.

So it appears the Tuesday selloff May have provided a favorable buying opportunity at the close. The trade idea from last night was banking on this and a small SPY position was taken at the close.

When looking at Fed days in the past I have also found that the bullish tendencies have generally played out before the announcement. Since 1999 there has been a flat to slightly down tendency in the 2-4pm time frame. This can be seen in the table below, which in the past has appeared both in the Subscriber Letter and in the book.

Half-hourly performance on Fed Day from 9:30am - 4pm EST.
\$100k/trade. 1/1/1999 - 4/30/2010*. (Bar 0 = 9:30am, Bar 12 = 3:30pm.)

Fed Day Intraday: ▾ bareentry	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
12	-6,179.45	90	47	43	52.22	322.52	-496.23	0.65	0.71	-68.66
11	-5,422.68	90	38	51	42.22	343.49	-362.26	0.95	0.71	-60.25
10	12,998.57	90	55	35	61.11	441.98	-323.15	1.37	2.15	144.43
9	-4,715.71	90	42	48	46.67	395.31	-444.14	0.89	0.78	-52.40
8	771.10	90	48	40	53.33	125.05	-130.78	0.96	1.15	8.57
7	4,567.19	90	52	35	57.78	122.34	-51.28	2.39	3.54	50.75
6	2,495.47	90	47	39	52.22	108.14	-66.33	1.63	1.96	27.73
5	-1,679.20	90	38	48	42.22	123.02	-132.37	0.93	0.74	-18.66
4	4,770.82	90	47	39	52.22	198.79	-117.24	1.70	2.04	53.01
3	611.82	90	53	34	58.89	106.32	-147.74	0.72	1.12	6.80
2	4,549.28	90	54	33	60.00	177.10	-151.94	1.17	1.91	50.55
1	9,182.43	90	57	30	63.33	249.58	-168.12	1.48	2.82	102.03
0	5,404.35	90	57	31	63.33	231.97	-252.20	0.92	1.69	60.05

*Excludes 1/31/2007 since data provider's data was incomplete that day.

Based on this I'll be looking to close out my Fed Day trade at 2pm.

In addition to the Fed Day edges we also saw some bullish inclinations based on the strong selling that occurred. It actually appears we barely missed one study that was shown in the Quantifinder that looked for at least a 94% down day. The study below is from that 2/24/10 Subscriber Letter. It has not been updated.

SPX closes down over 1% and decliners double advancers. Yesterday did not close at a 20-day high. Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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	235,725.27	229	151	78	65.94	2,965.10	-2,718.01	1.09	2.11	1,029.37
9	275,998.54	238	168	70	70.59	2,801.49	-2,780.75	1.01	2.42	1,159.66
8	237,952.84	250	166	83	66.40	2,767.61	-2,668.33	1.04	2.07	951.81
7	234,252.83	268	169	99	63.06	2,640.53	-2,141.38	1.23	2.10	874.08
6	214,029.46	283	179	104	63.25	2,516.92	-2,274.03	1.11	1.90	756.29
5	198,277.21	306	186	120	60.78	2,332.79	-1,963.51	1.19	1.84	647.96
4	157,396.16	326	193	133	59.20	2,124.88	-1,900.04	1.12	1.62	482.81
3	160,749.71	357	223	134	62.46	1,831.31	-1,848.01	0.99	1.65	450.28
2	155,449.73	406	232	174	57.14	1,726.78	-1,408.99	1.23	1.63	382.88
1	103,402.22	455	268	187	58.90	1,144.88	-1,087.83	1.05	1.51	227.26

A solid hint of an upside edge.

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



The combination of strong selling and bullish studies has changed the outlook substantially tonight. The green Aggregator is now solidly above 0. 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 underperformed expectations over the last few days. So we have positive expectations and a market that is a very oversold versus expectations. This is considered a bullish configuration. It is visible when both lines are above 0. Based on this the Aggregator System changed to long.

Looking ahead the green Aggregator line is set up to remain positive tomorrow. Of course some strong bearish evidence could change that outlook. Meanwhile the Differential pivot will be 1,120.05 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.

I'm partially long and looking to get longer. Part of the position I will exit tomorrow and part I will be looking to hold as long as the Aggregator remains positive.

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 & CBI Presentation Link](#)

Open Catapult Triggers

New

LOW – buy 1/3 position @ \$21.76

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(LOW)

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 @ \$109.57 limit. – Based on short term outlook above.

LOW– buy 1/3 position @ \$21.76 limit. – Based on Catapult trade above.

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	6/22/2010	\$109.57	\$109.57	0.00%		Fed Day trade

I have finally managed to update the Catapult & CBI presentation and have created a new page on the website for educational videos. The page is currently accessible from the Charts page or by using the link below.

<http://www.quantifiableedges.com/members/videos.php>

Over the next few weeks I intend to deliver a few more videos. I will announce more about this in the next few days. The Catapult & CBI presentation is about 30 minutes in length.

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