

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 21, 2009

Volume 2 Issue 202

Market Overview



Tonight's Research Points

- While the price/volume pattern over the last 4 days might appear bearish, I find no evidence of that actually being the case.
- Failed gaps up in the NDX in the past have led to choppy/downward short-term conditions.
- Today's selloff caused the Differential line to rise and the Aggregator chart now has a neutral configuration.

Short-term Outlook – updated 10/21

The Bottom Line

The selloff that was anticipated in last night's Letter arrived today. It was a quick trade for the Aggregator System though as we're now back with a neutral outlook. I found nothing compelling for the bulls or bears in today's action. With such a low number of active studies the outlook remains volatile and unusually dependent on the current day's action.

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				
October 20, 2009	SPX & VIX both close higher on Monday	1-3 days	Bearish	-1.70%
October 19, 2009	Big drop from 10-high above 200	1-3 days	Bearish	-1.40%
October 15, 2009	Breakout above 50-day high	1-5 days	Bullish	1.80%
Active - Long Term				
October 19, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish	

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

The Evidence

Earnings news helped to gap the market up but it didn't last. The high was hit in the first few seconds of the day. It then worked its way lower until about 12:30. After hitting bottom it crept higher during the afternoon but never generated enough momentum to make up for much of the mornings losses. Breadth was weak as the NYSE Up Issues % came in at 33% and the Up Volume % at 23%. NYSE volume came in higher than Monday and above average.

So let's review the last 4 days quickly here. Thursday the SPX closed at a 50-day high on lower NYSE volume. Friday SPX closed lower and NYSE volume rose. Monday we got another 50-day closing high on lower NYSE volume. Tuesday another market drop with rising volume. That certainly *sounds* like a bearish price/volume pattern. I took a look.

Going back to 1970 I was only able to find two other instances with the same 4 day pattern where 50-day highs were being made. The 1st was 3/26/81 and it was followed by a decline of nearly a year and a half. The 2nd instance was 6/6/95 and that was followed by a 3-day consolidation and then a continuation of a massive bull market. Nothing to learn there.

But what if we look at the 4-day price/volume pattern on its own and not require new highs be made? Based on common knowledge it would still *seem* to be bearish. Below are stats going back to 1970:

Today SPX falls on higher volume. Yesterday it rose on lower volume. The day before it fell on higher volume. The day before that it rose on lower volume. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	7,240.13	29	19	10	65.52	1,921.19	-2,926.24	0.66	1.25	249.66
9	17,074.78	29	20	9	68.97	1,941.84	-2,417.99	0.80	1.78	588.79
8	14,726.61	29	19	10	65.52	1,949.86	-2,232.07	0.87	1.66	507.81
7	22,546.80	29	21	8	72.41	1,752.20	-1,781.17	0.98	2.58	777.48
6	11,468.46	29	21	8	72.41	1,522.37	-2,562.66	0.59	1.56	395.46
5	12,211.76	30	20	10	66.67	1,603.20	-1,985.23	0.81	1.62	407.06
4	13,362.52	30	21	9	70.00	1,381.38	-1,738.49	0.79	1.85	445.42
3	3,187.52	30	18	12	60.00	1,046.69	-1,304.41	0.80	1.20	106.25
2	-2,096.03	31	17	14	54.84	891.11	-1,231.78	0.72	0.88	-67.61
1	1,030.05	31	17	14	54.84	655.95	-722.94	0.91	1.10	33.23

It could be argued that the above results suggest bullish tendencies, especially over the 4-7 day period. I don't see any evidence that suggests the current 4-day price/volume pattern is bearish.

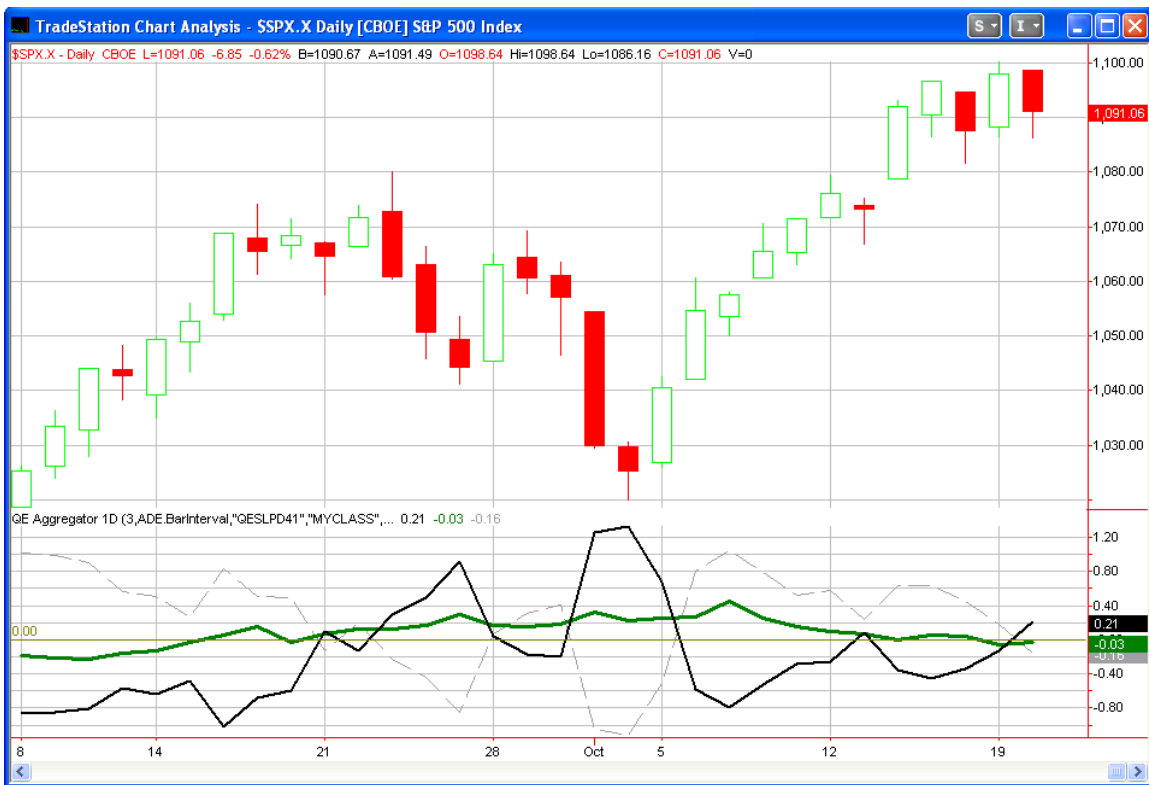
The Quantifinder identified an old gap up failure pattern in the NDX that triggered today. I've updated those results below.

NDX gaps up at least 0.5% and makes a 10-day intraday high then closes down on the day.
Buy on close. Sell X days later. \$100k/trade. 1985 - 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	472.69	30	16	14	53.33	3,697.72	-4,192.20	0.88	1.01	15.76
9	-8,338.96	30	17	13	56.67	3,027.70	-4,600.75	0.66	0.86	-277.97
8	-17,192.73	31	14	17	45.16	4,092.85	-4,381.92	0.93	0.77	-554.60
7	-6,613.99	32	14	18	43.75	4,276.98	-3,693.98	1.16	0.90	-206.69
6	-23,729.72	34	14	20	41.18	3,902.45	-3,918.20	1.00	0.70	-697.93
5	-22,644.45	34	13	21	38.24	4,138.65	-3,640.33	1.14	0.70	-666.01
4	-10,493.19	35	19	16	54.29	2,299.04	-3,385.93	0.68	0.81	-299.81
3	15,555.49	35	20	15	57.14	2,300.66	-2,030.51	1.13	1.51	444.44
2	12,690.36	35	18	17	51.43	2,032.42	-1,405.48	1.45	1.53	362.58
1	4,681.79	35	20	15	57.14	1,274.57	-1,387.31	0.92	1.22	133.77

There's a hint of a rebound before another leg down here, but I don't see a real overwhelming edge either way.

The [Aggregator](#) chart is updated below.



While the studies didn't change the selloff did move the black Differential line this evening. We see the consolidation the past few days has caused the SPX to underperform expectations. Meanwhile the green Aggregator line remains negative, illustrating net expectations of the active studies is for downside over the next few days. Slight

downside expectations and slight recent overperformance has both lines on opposing sides of zero and makes for a neutral configuration.

With choppy action and a lack of compelling evidence it appears to be a good time to sit back and wait for a better edge. I wouldn't be surprised if further selling tomorrow led to a bullish configuration at the close. Traders may check the Quantifinder and/or the systems page before the close to get an idea how edges may line up tomorrow evening.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/19 – slightly bullish

The intermediate-term outlook is unchanged since the 10/19 Letter. That Letter may be accessed using the link below:

[2009-10-19 QE Subscriber Letter.pdf](#)

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.

A neutral Aggregator and very little on the radar means I'll sit it out tonight and exercise some patience.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	10/20/2009	\$109.95	\$109.25	0.64%		stopped out intraday

The SPY trade idea from last night triggered at the open today. I placed a stop early this afternoon via email and it was hit at \$109.25. SPY ended up closing at \$109.21. With the Aggregator System switching from short to flat, the plan was to get out at the close anyway. Not the greatest performing trade idea, but even the little ones add up over time.

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