

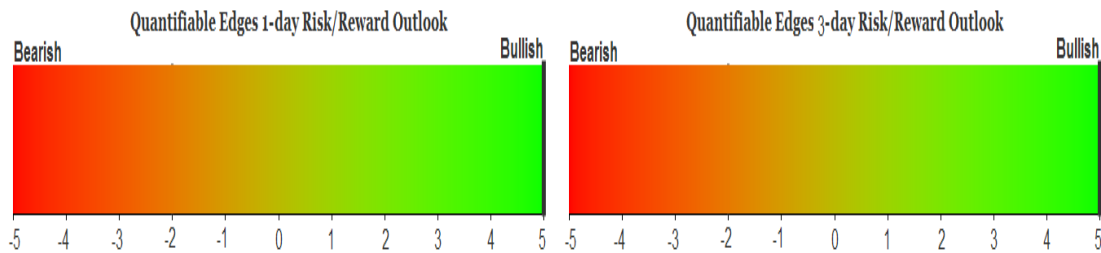
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 5, 2010

Volume 3 Issue 127

Market Overview



Tonight's Research Points

- 5 lower closes at a 50-day low under the 200ma have marked both short and intermediate-term turning points.
- Friday's narrow range inside day suggests bearish short-term implications.
- Stops have historically been a poor tool when used in market similar to the present.
- A large divergence in the McClellan Oscillator would imply a bounce from these levels could succeed both short and long-term.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer has now changed to short.

Short-term Outlook – updated 7/5

The Bottom Line

Extremely oversold and bullish studies dominating the outlook. The market remains overdue for a bounce. The NDX Aggressive Trend Timer, which has had a tough time the last few months but has been very good over the long haul, did flip to the short side.

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				
July 5, 2010	Inside day nr3 under 200ma	1-3 days	Bearish	
July 5, 2010	5 down under 200 and 50 low	1-4 days	Bullish	2.40%
July 2, 2010	2-day RSI < 2 & 50 low	1-3 days	Bullish	4.40%
June 30, 2010	CBI moves to 10 or higher	1-4 days	Bullish	
June 30, 2010	1% Gap then down to 50-low close	1-5 days	Bullish	4.70%
Active - Long Term				
July 5, 2010	5 down under 200 and 50 low	1-20 days	Bullish	
Dropped Tonight				
July 1, 2010	2 Down Days to finish quarter	1-2 days	Bullish	
June 23, 2010	1% drop and bad breadth	1-8 days	Bullish	1.90%

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

The Evidence

Despite strongly oversold conditions, overdone fear, and positive seasonal forces the bears once again Friday managed to push the market lower. For those counting that makes 12 down days in a row for the NDX. This surpasses the former record streak of 9 down days in March of 1994. The market was lower almost the entire day on Friday, but in the last hour it rose and with 15 minutes to go it was just above breakeven. The last 10 minutes saw traders rushing for the exits prior to the 3-day weekend. When it was over the SPX and Nasdaq were down 0.5% and the Russell 200 dropped about 1%. Breadth was squarely negative with the NYSE Up Issues % coming in at 40% and the Up Volume % at 27%. Total volume dropped from Thursday levels as people headed out early for the holiday.

Quantifinder studies were mixed today with two of them standing out above others. The first was a bullish study that looked at times the SPX closed lower 5 days in a row, below the 200ma, and at a 50-day low. It was from the 2/23/09 Letter. I have re-worked the logic slightly and re-run the results below.

SPX closes lower for at least the 5th day in a row. It also closes under the 200ma and at a 50-day low. At least one of these conditions was not present yesterday.
Buy on close. Sell X days later. \$100k/trade. 1973 - 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	91,528.80	37	27	10	72.97	5,049.51	-4,480.79	1.13	3.04	2,473.75
15	63,238.82	39	26	13	66.67	4,323.45	-3,782.38	1.14	2.29	1,621.51
10	60,591.83	44	27	17	61.36	3,972.62	-2,745.23	1.45	2.30	1,377.09
9	64,150.62	44	29	15	65.91	3,478.94	-2,449.25	1.42	2.75	1,457.97
8	60,167.73	44	31	13	70.45	3,051.09	-2,647.39	1.15	2.75	1,367.45
7	44,164.57	45	29	16	64.44	3,004.24	-2,684.90	1.12	2.03	981.43
6	42,243.37	45	29	16	64.44	2,942.74	-2,693.50	1.09	1.98	938.74
5	49,443.79	45	30	15	66.67	2,614.11	-1,931.98	1.35	2.71	1,098.75
4	47,213.33	45	30	15	66.67	2,357.50	-1,567.45	1.50	3.01	1,049.19
3	25,860.93	45	24	20	53.33	2,434.03	-1,627.79	1.50	1.79	574.69
2	20,387.96	45	28	17	62.22	1,658.49	-1,532.33	1.08	1.78	453.07
1	21,089.93	45	28	17	62.22	1,306.29	-910.95	1.43	2.36	468.67

89% of instances closed higher than the entry price at some point in the next week.

As it did in Feb of 2009 this study appears to suggest solidly bullish implications for both the short and intermediate-term. I have therefore included it in both spots on the Active Studies List.

The bearish studies that appeared looked at the fact that SPY formed a low-range inside day under the 200ma. I examined this in the 1/23/09 Subscriber Letter. I have updated results of that study below:

SPY posts an inside day under the 200ma. Today is the smallest range in 3 days.
Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-17,895.32	58	31	27	53.45	3,271.80	-4,419.30	0.74	0.85	-308.54
9	-14,115.60	59	34	25	57.63	2,659.26	-4,181.22	0.64	0.86	-239.25
8	-10,153.44	62	35	27	56.45	2,383.94	-3,466.34	0.69	0.89	-163.77
7	-34,421.00	66	30	35	45.45	2,583.33	-3,197.74	0.81	0.69	-521.53
6	-54,869.30	70	29	41	41.43	2,311.64	-2,973.34	0.78	0.55	-783.85
5	-47,286.66	73	32	40	43.84	2,012.88	-2,792.47	0.72	0.58	-647.76
4	-38,294.73	81	38	43	46.91	1,948.92	-2,612.88	0.75	0.66	-472.77
3	-47,772.23	88	40	48	45.45	1,929.62	-2,603.27	0.74	0.62	-542.87
2	-35,666.44	94	43	49	45.74	1,268.37	-1,840.94	0.69	0.60	-379.43
1	-29,480.01	96	42	54	43.75	995.44	-1,320.16	0.75	0.59	-307.08

This would suggest a downside edge over the next few days. Last week when I looked at inside days in a slightly different way I found that SPY volume also mattered. When they weren't accompanied by very low volume they tended to be a bit more bearish. I examined the study above in this manner. While SPY volume was lower on Friday, it was not the lowest reading of the last 5 days.

SPY posts an inside day under the 200ma. Today is the smallest range in 3 days. It is **not** the lowest volume in the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-58,550.14	42	19	23	45.24	2,421.30	-4,545.86	0.53	0.44	-1,394.05
9	-47,300.94	43	21	21	48.84	2,070.27	-4,322.69	0.48	0.48	-1,100.02
8	-44,797.76	44	20	24	45.45	1,822.01	-3,384.91	0.54	0.45	-1,018.13
7	-46,501.07	47	19	27	40.43	1,811.48	-2,997.01	0.60	0.43	-989.38
6	-64,020.65	48	19	29	39.58	1,546.49	-3,220.82	0.48	0.31	-1,333.76
5	-57,870.54	50	20	30	40.00	1,490.47	-2,922.66	0.51	0.34	-1,157.41
4	-53,640.94	50	20	30	40.00	1,520.45	-2,801.66	0.54	0.36	-1,072.82
3	-51,830.46	52	23	29	44.23	1,444.52	-2,932.91	0.49	0.39	-996.74
2	-33,621.03	52	21	29	40.38	1,022.02	-1,899.43	0.54	0.39	-646.56
1	-29,348.06	53	21	32	39.62	702.21	-1,377.95	0.51	0.33	-553.74

So we see here that results are quite a bit more bearish under these circumstances. Not evident in the above table is that there was a very large outlier in October of 2008. To perhaps better estimate the potential negative influence I eliminated that instance and reran the test.

SPY posts an inside day under the 200ma. Today is the smallest range in 3 days. It is **not** the lowest volume in the last 5 days. Buy on close. Sell X days later. \$100k/trade. 1994 - present. **Excludes 10/1/2008.**

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	-36,129.70	41	19	22	46.34	2,421.30	-3,733.38	0.65	0.56	-881.21
9	-33,344.13	42	21	20	50.00	2,070.27	-3,840.99	0.54	0.57	-793.91
8	-32,132.45	43	20	23	46.51	1,822.01	-2,981.42	0.61	0.53	-747.27
7	-22,771.91	46	19	26	41.30	1,811.48	-2,199.62	0.82	0.60	-495.04
6	-42,185.69	47	19	28	40.43	1,546.49	-2,556.03	0.61	0.41	-897.57
5	-41,898.99	49	20	29	40.82	1,490.47	-2,472.70	0.60	0.42	-855.08
4	-39,839.11	49	20	29	40.82	1,520.45	-2,422.35	0.63	0.43	-813.04
3	-42,066.72	51	23	28	45.10	1,444.52	-2,688.95	0.54	0.44	-824.84
2	-28,696.11	51	21	28	41.18	1,022.02	-1,791.37	0.57	0.43	-562.67
1	-25,723.25	52	21	31	40.38	702.21	-1,305.47	0.54	0.36	-494.68

So even without the large outlier the results are decidedly negative over the next few days. Both this and the bullish test above are included in tonight's Aggregator.

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



Once again we see the green Aggregator line again remains well above 0. This represents higher net expectations from the Active Studies over the next few days. Meanwhile the black Differential line illustrates the SPX has substantially underperformed expectations over the last few days. So we have positive expectations and a market that is oversold versus recent expectations. This setup has historically provided a bullish edge. The Aggregator configuration is considered bullish whenever both lines are above 0. Based on this the Aggregator System is again long.

Looking ahead the green Aggregator line is set up to remain positive tomorrow. Of course strong bearish evidence could change that outlook. Meanwhile the Differential pivot will be 1,041.01 tomorrow. This means it would take an SPX close at or above this level in order for the black Differential line to turn negative. That would be a sizable up day.

Should a stop be considered in the current environment?

I've scaled into an index position during this sell off and now I'm essentially "all in". Over the course of the last few days we have seen studies that have strongly suggested a substantial upside edge. And yet despite these conditions the market has continued to fall. So the question now is, should I be incorporating a stop (or already have one in place) to take my loss and step out of the market during conditions that now appear to be historically abnormal?

Unfortunately there is no "right" answer to this. Risk has become elevated as the market is exhibiting weakness that has never before been seen by some measures. (NDX consecutive down days for one.) My experience and analysis tell me that I am better off holding and re-evaluating the edge each night. Or if in a trade based on a particular oversold setup I believe it's best to wait for an exit to trigger rather than panic out because I'm underwater in a scary market. To demonstrate why I believe this a discussion of stops is appropriate.

From my testing and personal experience I have found stops to be a poor risk management tool.

For one, they don't protect against overnight risk. The NYSE is only open 6 ½ hours a day, 5 days per week. If anything happens that will cause the market to move strongly against you outside of that time – you are not protected. Futures traders have a bit better protection since futures are open most of the time. The only true protection, though, is with options. I don't intend to get into a detailed options discussion here but would encourage traders to explore them as a risk management tool.

A second drawback to stops is that when trading mean reversion strategies, the farther stretched you are from the mean the larger the edge generally is. In other words, the stop will typically kick in at a point when there is a strong edge in the direction of your trade. It's not a point that you should be exiting.

Of course philosophical discussions is not what Quantifiable Edges is about. So let's look at some numbers. One setup that has been triggering the last few days is the RSI(2) < 2 and the market is at a 50-day low. I decided to create a simple system from a setup like this to demonstrate my point. First, I decided to use SPY, rather than SPX. This is

because SPY opens, highs and lows are more accurate. So to get a decent number of instances I also eliminated the 50-day low requirement. With that I created the simple system below:

SPY RSI(2) closes under 2. Buy on close. Sell when RSI(2) closes over 50. \$100k/trade. 1993 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$53,353.57	Profit Factor	12.97
Gross Profit	\$57,810.09	Gross Loss	(\$4,456.52)
Total Number of Trades	37	Percent Profitable	86.49%
Winning Trades	32	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$1,441.99	Ratio Avg. Win:Avg. Loss	2.03
Avg. Winning Trade	\$1,806.57	Avg. Losing Trade	(\$891.30)
Largest Winning Trade	\$7,638.95	Largest Losing Trade	(\$3,102.40)

The exit isn't optimized. I just chose 50 because it implied the market was now moving from short-term oversold to short-term overbought. The numbers here are all impressive, and a strong edge is suggested.

A trade would have last triggered on 6/24 that would still be open based on these parameters. At this point the trade would be about 5.85% underwater, which is actually bigger than the largest loss. So is the system better with a stop in place? If so, what would be reasonable? A tight 1%-2%? How about 3%, which is the size of the largest loss? How about twice that? Or 3 times that? A 10% loss? Bigger?

The system above has had a max intraday drawdown of a little over 16%, so I ran stats for stops from 1% through 17%. Note that results for a 17% stop would be the same as results with no stop. The results table is below.

SPY RSI(2) closes under 2. Buy on close. Sell when RSI(2) closes over 50. Set stop at X% below entry price. \$100k/trade. 1993 - present. (Not including open trade.)											
X%	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	All: Max Losing Trade
17	53,353.57	37	32	5	86.49	1,806.57	-891.30	2.03	12.97	1,441.99	-3,102.40
16	36,030.91	37	31	6	83.78	1,822.30	-3,410.08	0.53	2.76	973.81	-16,003.98
15	37,029.91	37	31	6	83.78	1,822.30	-3,243.58	0.56	2.90	1,000.81	-15,004.98
14	38,028.91	37	31	6	83.78	1,822.30	-3,077.08	0.59	3.06	1,027.81	-14,005.98
13	38,778.16	37	31	6	83.78	1,822.30	-2,952.21	0.62	3.19	1,048.06	-13,256.73
12	38,778.16	37	31	6	83.78	1,822.30	-2,952.21	0.62	3.19	1,048.06	-13,256.73
11	38,778.16	37	31	6	83.78	1,822.30	-2,952.21	0.62	3.19	1,048.06	-13,256.73
10	38,778.16	37	31	6	83.78	1,822.30	-2,952.21	0.62	3.19	1,048.06	-13,256.73
9	43,033.90	37	31	6	83.78	1,822.30	-2,242.92	0.81	4.20	1,163.08	-9,000.99
8	36,020.70	37	30	7	81.08	1,882.65	-2,922.70	0.64	2.76	973.53	-8,001.99
7	37,255.70	37	30	7	81.08	1,882.65	-2,746.27	0.69	2.94	1,006.91	-7,764.40
6	38,254.70	37	30	7	81.08	1,882.65	-2,603.56	0.72	3.10	1,033.91	-7,764.40
5	40,110.90	37	30	7	81.08	1,882.65	-2,338.39	0.81	3.45	1,084.08	-5,006.40
4	33,265.28	37	29	8	78.38	1,878.06	-2,649.81	0.71	2.57	899.06	-4,720.58
3	21,400.30	37	27	10	72.97	1,748.74	-2,581.57	0.68	1.83	578.39	-4,720.58
2	-5,929.22	37	20	17	54.05	1,523.24	-2,140.82	0.71	0.84	-160.25	-4,720.58
1	-13,274.69	37	13	24	35.14	1,594.32	-1,416.70	1.13	0.61	-358.78	-4,720.58

The results here are worth studying closely. You see that tight stops tend to negatively affect stats like “Net Profit”, “% Profitable”, “Profit Factor” and “Average Trade”. Of course it may be worth trading off some profits for peace of mind and lowering of risk. But what is evident here is that stops don’t lower risk – they increase it.

Look first at “Average Losing Trade”. You’ll see there that tight stops generally fail in their purpose. When using stops as small as 1% and 2% you see that the *average* loss is actually larger than the stop. This is thanks to overnight risk. You’ll also note that the smallest “average losing trade” is in the row where no stop was used. So on average, total risk has been lower without stops than with any fixed level of stops.

But I think the most compelling evidence against stops can be found in the last column, “Max Losing Trade”. For most people the use of stops is implemented to avoid the Black Swan trade that does big damage to the account. What we see in the last column is that stops haven’t helped at all when looking to avoid the big loser. Without stops the max losing trade was 3.1%. Even using a stop as small as 1% the max losing trade was nearly 5%. In other words even the tightest stops had an effect opposite than they were supposed to. Not only did they not protect against the big loss, but they caused it to be larger.

I also ran the same tests using QQQQ. QQQQ would've triggered on 6/25 and would currently be 7.7% underwater based on the above system. Below are the QQQQ system results:

QQQQ RSI(2) closes under 2. Buy on close. Sell when RSI(2) closes over 50. Set stop at X% below entry price. \$100k/trade. 1993 - present.											
X%	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	All: Max Losing Trade
11	90,377.44	32	28	4	87.50	3,347.76	-839.95	3.99	27.90	2,824.30	-2,065.04
10	72,770.94	32	27	5	84.38	3,190.50	-2,674.51	1.19	6.44	2,274.09	-10,012.74
9	73,781.40	32	27	5	84.38	3,190.50	-2,472.42	1.29	6.97	2,305.67	-9,002.28
8	74,761.24	32	27	5	84.38	3,190.50	-2,276.45	1.40	7.57	2,336.29	-8,022.44
7	75,771.70	32	27	5	84.38	3,190.50	-2,074.36	1.54	8.31	2,367.87	-7,011.98
6	68,048.24	32	26	6	81.25	3,228.26	-2,647.77	1.22	5.28	2,126.51	-6,522.06
5	63,516.58	32	25	7	78.13	3,291.31	-2,680.90	1.23	4.38	1,984.89	-5,383.56
4	48,004.28	32	23	9	71.88	3,248.86	-2,968.84	1.09	2.80	1,500.13	-5,383.56
3	49,437.47	32	23	9	71.88	3,248.86	-2,809.60	1.16	2.96	1,544.92	-5,383.56
2	17,618.08	32	18	14	56.25	2,698.64	-2,211.25	1.22	1.57	550.57	-5,383.56
1	18,465.45	32	16	16	50.00	2,832.92	-1,678.83	1.69	1.69	577.05	-5,383.56

More of the same here. In this case the largest intraday drawdown has been just over 10%, so therefore 11% is the same as “no stop” in the above table. Again all the stats are substantially better with no stop than with any percent-based stop. And in this case the worst trade is only 2% without a stop, but 5.4% with even a 1% stop.

The numbers aren't this compelling with every system, but it is a theme I have consistently found when testing. From a historical perspective, stops appear to be an ineffective tool.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/5 - neutral

One indicator that is showing an intermediate-term bottom may be nearby is the McClellan Oscillator. The chart below shows the S&P 500 in the top panel, the McClellan Oscillator in the 2nd panel, and the Ratio Adjusted McClellan Oscillator in the 3rd panel. The ratio adjusted version is normally better for long-term historical comparisons so I will use that when appropriate.

Notice on the chart that while the SPX is making new lows, the McClellan Oscillator is well above its lows. You can also see the divergence is quite large – even when using the Ratio Adjusted McClellan Oscillator.



You'll often hear technical traders suggest that breadth or momentum divergences can help to signal important turning points. The McClellan Oscillator is really both, since it measures the momentum of breadth. I ran some studies this weekend to see how helpful a McClellan Oscillator divergence might be and whether large divergences provide a further edge.

I set the study up as follows:

- 1) I required the market be in an established downtrend by virtue of the fact that it is closing at least at a 100-day low.
- 2) I viewed any close up from a 100-day low as a potential bottom.
- 3) I defined a "successful" intermediate-term bottom as a move that went from that 100-day low all the way to eventually close at a 100-day high. If it made a new 100-day low before making a 100-day high then the intermediate-term rally attempt was a failure. The next up close would mark the beginning of the next attempt.
- 4) I didn't require the McClellan Oscillator reading on the exact day to mark the lowest reading of the last 100 days. Instead I compared the 10-day McClellan Oscillator low to the 100-day McClellan Oscillator low. If they were equal that suggested recent readings were not forming an intermediate-term divergence. If the 10-day low was higher than the 100-day low then a divergence existed.
- 5) I then examined all rally attempts (up closes from a 100-day low) and separated them by those that occurred with a McClellan Oscillator divergence and those that didn't. I wanted to see if there was a substantial difference in returns based on the divergence status of the McClellan Oscillator.

Since 1950 there have been 41 “successful” rally attempts. Thirty of those 41 (73%) occurred when there was a divergence in place. Below are the stats associated with all rally attempts with divergences in place.

Yesterday the market closed at a 100-day low. Today it closes higher. The lowest McClellan Oscillator reading of the last 10 days is above the lowest McClellan Oscillator reading of the last 100 days. Buy on Close. Sell if SPX closes below buy price or if it closes at a 100-day high. \$100k/trade. 1950 - present.

TradeStation Performance Summary Collapse ↕			
All Trades			
Total Net Profit	\$131,552.21	Profit Factor	1.59
Gross Profit	\$354,937.38	Gross Loss	(\$223,385.17)
Total Number of Trades	149	Percent Profitable	20.13%
Winning Trades	30	Losing Trades	119
Even Trades	0		
Avg. Trade Net Profit	\$882.90	Ratio Avg. Win:Avg. Loss	6.30
Avg. Winning Trade	\$11,831.25	Avg. Losing Trade	(\$1,877.19)
Largest Winning Trade	\$30,811.26	Largest Losing Trade	(\$14,196.58)

A terrible system to actually trade, but it does appear to suggest that there is an upside edge when the market is coming off a low and a divergence is in place. Now let’s look at times it wasn’t.

Yesterday the market closed at a 100-day low. Today it closes higher. The lowest McClellan Oscillator reading of the last 10 days is equal to the lowest McClellan Oscillator reading of the last 100 days. Buy on Close. Sell if SPX closes below buy price or if it closes at a 100-day high. \$100k/trade. 1950 - present.

TradeStation Performance Summary Collapse ↕			
All Trades			
Total Net Profit	(\$44,834.93)	Profit Factor	0.66
Gross Profit	\$85,286.41	Gross Loss	(\$130,121.34)
Total Number of Trades	69	Percent Profitable	15.94%
Winning Trades	11	Losing Trades	58
Even Trades	0		
Avg. Trade Net Profit	(\$649.78)	Ratio Avg. Win:Avg. Loss	3.46
Avg. Winning Trade	\$7,753.31	Avg. Losing Trade	(\$2,243.47)
Largest Winning Trade	\$19,395.00	Largest Losing Trade	(\$10,550.43)

Stats here are quite a bit weaker. The bottom line is you’d rather have a divergence in place when trying to catch a bottom. But now let’s consider whether the size of the divergence might matter. To fairly compare divergence sizes over long periods of time, I need to use the Ratios Adjusted McClellan Oscillator. The current difference between

Friday's reading and the low reading a few weeks ago is a whopping 82 points. I looked at all divergences of 65 points or greater.

Yesterday the market closed at a 100-day low. Today it closes higher. The lowest Ratio Adjusted McClellan Oscillator reading of the last 10 days is above the lowest McClellan Oscillator reading of the last 100 days by at least 65 points. Buy on Close. Sell if SPX closes below buy price or if it closes at a 100-day high. \$100k/trade. 1950 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$69,749.38	Profit Factor	4.03
Gross Profit	\$92,776.69	Gross Loss	(\$23,027.31)
Total Number of Trades	16	Percent Profitable	43.75%
Winning Trades	7	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$4,359.34	Ratio Avg. Win:Avg. Loss	5.18
Avg. Winning Trade	\$13,253.81	Avg. Losing Trade	(\$2,558.59)
Largest Winning Trade	\$20,900.12	Largest Losing Trade	(\$14,196.58)

Stats here substantially more impressive than the others we've seen. Below I have listed all instances.

Yesterday the market closed at a 100-day low. Today it closes higher. The lowest Ratio Adjusted McClellan Oscillator reading of the last 10 days is above the lowest McClellan Oscillator reading of the last 100 days by at least 65 points. Buy on Close. Sell if SPX closes below buy price or if it closes at a 100-day high. \$100k/trade. 1950 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
07/11/69	Buy	\$95.77	(1.27%)	\$417.60
07/14/69	Sell	\$94.55		(\$1,639.08)
07/16/69	Buy	\$95.18	(1.74%)	\$1,606.50
07/22/69	Sell	\$93.52		(\$2,131.50)
02/12/74	Buy	\$90.94	(0.70%)	\$11,110.89
04/24/74	Sell	\$90.30		(\$1,131.97)
08/05/74	Buy	\$79.29	(1.01%)	\$5,346.64
08/13/74	Sell	\$78.49		(\$1,841.06)
10/04/74	Buy	\$62.34	20.90%	\$24,172.28
01/27/75	Sell#2	\$75.37		\$0.00
09/17/75	Buy	\$82.37	12.40%	\$12,710.58
01/05/76	Sell#2	\$92.58		(\$169.96)
11/11/76	Buy	\$99.64	(1.10%)	\$8,354.99
03/30/77	Sell	\$98.54		(\$1,464.38)
03/07/78	Buy	\$87.36	9.63%	\$9,884.16
04/24/78	Sell#2	\$95.77		(\$446.16)
11/15/78	Buy	\$92.71	10.54%	\$10,780.00
03/27/79	Sell#2	\$102.48		(\$129.36)
11/08/79	Buy	\$100.30	11.76%	\$12,562.20
01/21/80	Sell#2	\$112.10		\$0.00
12/07/87	Buy	\$228.76	18.56%	\$18,555.02
03/17/88	Sell#2	\$271.22		(\$30.59)
12/18/00	Buy	\$1,322.74	(1.30%)	\$1,777.50
12/19/00	Sell	\$1,305.60		(\$1,315.50)
12/21/00	Buy	\$1,274.86	(1.54%)	\$8,463.78
02/21/01	Sell	\$1,255.27		(\$1,692.60)
08/09/04	Buy	\$1,065.22	(0.19%)	\$1,285.26
08/12/04	Sell	\$1,063.23		(\$223.20)
08/13/04	Buy	\$1,064.80	9.10%	\$9,008.91
11/04/04	Sell#2	\$1,161.67		\$0.00
10/28/08	Buy	\$940.51	(14.24%)	\$7,102.00
11/19/08	Sell	\$806.58		(\$14,238.98)

The last instance posted a large loss. Prior to that results were overwhelmingly positive. Another helpful way to examine the data is to show how the setup looked “X Days Later” as I often do.

Yesterday the market closed at a 100-day low. Today it closes higher. The lowest Ratio Adjusted McClellan Oscillator reading of the last 10 days is above the lowest McClellan Oscillator reading of the last 100 days by at least 65 points.
Buy on Close. Sell X days later. \$100k/trade. 1950 - 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	52,869.75	13	10	3	76.92	7,525.55	-7,461.91	1.01	3.36	4,066.90
15	32,111.38	13	9	4	69.23	5,926.91	-5,307.71	1.12	2.51	2,470.11
10	33,039.92	13	10	3	76.92	4,920.18	-5,387.31	0.91	3.04	2,541.53
9	31,321.94	13	9	4	69.23	4,997.56	-3,414.03	1.46	3.29	2,409.38
8	32,694.56	13	9	4	69.23	4,528.81	-2,016.17	2.25	5.05	2,514.97
7	39,314.58	13	10	3	76.92	4,908.61	-3,257.18	1.51	5.02	3,024.20
6	41,973.34	13	11	2	84.62	4,121.01	-1,678.90	2.45	13.50	3,228.72
5	45,547.00	13	11	2	84.62	4,269.94	-711.17	6.00	33.02	3,503.62
4	33,448.07	14	11	3	78.57	3,159.71	-436.25	7.24	26.56	2,389.15
3	29,916.22	16	12	4	75.00	3,004.27	-1,533.76	1.96	5.88	1,869.76
2	23,808.79	16	13	3	81.25	2,307.51	-2,062.94	1.12	4.85	1,488.05
1	14,960.73	16	12	4	75.00	1,585.47	-1,016.23	1.56	4.68	935.05

These are some extremely positive results – especially over the 1st week. So I may have beaten this one to death a little bit, but the McClellan Oscillator is very worth watching at this point. If the market can turn higher and create a sizable divergence as appears likely, then that would be a very positive sign for both the short and intermediate-term.

Of course at the moment the market couldn't be acting more poorly. I've moved my outlook back to neutral and will wait for some upside confirmation before getting too excited about long-side intermediate-term prospects.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

LOW – 1/3 position @ \$21.76
AMZN – 1/3 position @\$118.33
RTN – 1/3 position @\$50.38 limit
MSFT – 1/3 position @ \$24.53 limit
MON – 1/3 position @ \$48.27 limit
MSFT – 1/3 position @ \$24.31 limit
MON – 1/3 position @ \$47.80 limit
MSFT – 1/3 position @ \$23.31 limit (all in)
MON – 1/3 position @ \$47.34 limit (all in)
WAG – 1/3 position @ \$26.49 limit
MDT – 1/3 position @ \$36.21 limit
GD – 1/3 position @ \$59.43 limit
GD – 1/3 position @ \$58.56 limit
GD – 1/3 position @ \$58.50 limit
WY– 1/3 position @ \$35.14 limit
WFC– 1/3 position @ \$25.18 limit
RTN– 1/3 position @ \$47.73 limit

NEW

WY– 1/3 position @ \$34.49 limit
WFC– 1/3 position @ \$24.88 limit
RTN– 1/3 position @ \$47.58 limit
LOW – 1/3 position @ \$20.27 limit
GE– 1/3 position @ \$13.88 limit
GOOG– 1/3 position @ \$436.55 limit

Catapult for ETF's Trades

QQQQ @ \$43.37 limit

Broad Market Large Cap CBI – 23 (LOW, AMZN, RTN-2, MSFT-3, MON-3, WAG, MDT, GD-3, WY, WFC)

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.

WY– 1/3 position @ \$34.49 limit
WFC– 1/3 position @ \$24.88 limit
RTN– 1/3 position @ \$47.58 limit
LOW – 1/3 position @ \$20.27 limit
GE– 1/3 position @ \$13.88 limit
GOOG– 1/3 position @ \$436.55 limit

All based on Catapults.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	6/23/2010	\$109.57	\$102.20	-6.73%		Aggregator
LOW	6/23/2010	\$21.71	\$20.27	-6.63%		Catapult
SPY	6/24/2010	\$108.69	\$102.20	-5.97%		Aggregator
SPY	6/25/2010	\$107.42	\$102.20	-4.86%		Aggregator
AMZN	6/25/2010	\$118.14	\$109.14	-7.62%		Catapult
RTN	6/28/2010	\$50.38	\$47.58	-5.56%		Catapult
MSFT	6/28/2010	\$24.51	\$23.27	-5.06%		Catapult
MON	6/28/2010	\$48.27	\$46.54	-3.58%		Catapult
F	6/29/2010	\$10.12	\$10.58	4.55%		Sold at open
MSFT	6/29/2010	\$24.13	\$23.27	-3.56%		Catapult
MON	6/29/2010	\$46.84	\$46.54	-0.64%		Catapult
MSFT	6/30/2010	\$23.30	\$23.27	-0.13%		Catapult
MON	6/30/2010	\$46.68	\$46.54	-0.30%		Catapult
WAG	6/30/2010	\$26.47	\$26.36	-0.42%		Catapult
MDT	6/30/2010	\$36.16	\$36.03	-0.36%		Catapult
GD	6/30/2010	\$58.92	\$58.70	-0.37%		Catapult
QQQQ	6/30/2010	\$43.23	\$42.47	-1.76%		Aggregator
SPY	6/30/2010	\$103.92	\$102.20	-1.66%		Aggregator
GD	7/1/2010	\$58.56	\$58.70	0.24%		Catapult
GD	7/2/2010	\$58.50	\$58.70	0.34%		Catapult
WY	7/2/2010	\$35.14	\$34.49	-1.85%		Catapult
WFC	7/2/2010	\$25.18	\$24.88	-1.19%		Catapult
RTN	7/2/2010	\$47.73	\$47.58	-0.31%		Catapult

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