

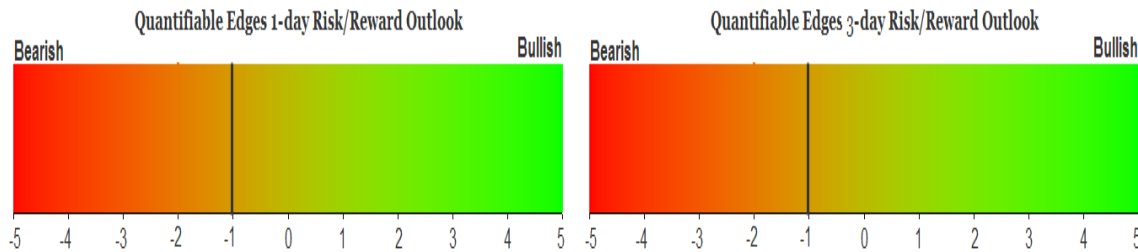
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 22, 2010

Volume 3 Issue 139

Market Overview



Tonight's Research Points

- 1% drops with bad breadth have a tendency to bounce.
- The Aggregator System changed to short.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

Despite a down day and a bullish study tonight the Aggregator System signaled a short. I'm not seeing great risk/reward so I'm going to step aside and wait for a better setup.

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 22, 2010	1% drop. No 20 high. Bad breadth.	1-9 days	Bullish	3.00%
July 20, 2010	1.75% drop then bounce less than 25%	1-3 days	Bearish	-2.20%
July 20, 2010	2% drop. Then Up Issue%>60, dn vol	1-6 days	Bearish	-5.50%
July 19, 2010	7 day high close to a 7 day low close	1-4 days	Bearish	-2.50%
July 14, 2010	75% Up Issue twice in 3 days	1-9 days	Bullish	3.30%
Active - Long Term				
July 20, 2010	Down 1 week after FTD	int term	Bearish	
July 14, 2010	75% Up Issue twice in 3 days	1-20 days	Bullish	
July 13, 2010	5 higher close from a 50-day low	int term	Bullish	
July 7, 2010	McClellan Oscillator Bottom Divergence	int term	Bullish	
July 5, 2010	5 down under 200 and 50 low	1-20 days	Bullish	
Dropped Tonight				
July 19, 2010	Unfilled gap -n- crap	1-3 days	Bearish	-3.20%
July 14, 2010	Follow Through Day	1-6 days	Bullish	
July 21, 2010				
July 16, 2010	Open/close beyond yest hi/low	1-2 days	Bearish	
July 16, 2010	SPX Up VIX Up	1-4 days	Bearish	-3.10%

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

The Evidence

After 2 strong up days to start the week the market gave back much of those gains on Wednesday. The S&P lost 1.3%, the Nasdaq 1.6%, and the Russell 1.8%. Breadth was solidly negative as the NYSE Up Issues % came in at 32% and the Up Volume % was 19%. Total volume rose on the selloff, but not to an extreme.

Very little appeared in the Quantifinder tonight. The below study, which *was* identified, was last seen in the 2/24/10 Subscriber Letter.

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	230,311.96	234	153	81	65.38	2,953.74	-2,735.93	1.08	2.04	984.24
9	269,188.10	243	170	73	69.96	2,793.21	-2,817.22	0.99	2.31	1,107.77
8	236,721.45	256	170	85	66.41	2,770.17	-2,755.38	1.01	2.01	924.69
7	222,111.06	274	171	103	62.41	2,629.27	-2,208.67	1.19	1.98	810.62
6	201,563.28	289	181	108	62.63	2,504.93	-2,331.75	1.07	1.80	697.45
5	190,931.78	314	189	125	60.19	2,336.53	-2,005.37	1.17	1.76	608.06
4	150,375.41	335	196	139	58.51	2,120.53	-1,908.26	1.11	1.57	448.88
3	158,320.11	368	229	139	62.23	1,807.21	-1,838.35	0.98	1.62	430.22
2	149,526.36	420	239	181	56.90	1,710.91	-1,433.05	1.19	1.58	356.02
1	109,833.36	472	278	194	58.90	1,152.15	-1,084.86	1.06	1.52	232.70

This particular study is suggesting a bullish edge over the next several days.

I have updated the [Aggregator](#) chart below and I have added some notes that I will discuss down further.



Despite tonight's bullish study the green Aggregator line remains below zero. The negative Aggregator line value indicates the net expectation from the Active Studies over the next few days is for downside. Meanwhile the black Differential line shows the SPX has now mildly outperformed expectations over the last 3 days. So we have negative expectations but a market that is overbought versus recent expectations. Historically this configuration has provided a downside edge. Based on this the Aggregator System turned short at the close.

With the current studies the green Aggregator line is set up to remain negative tomorrow. Of course strong bullish evidence could change this. Meanwhile the Differential pivot will be 1,065.47 tomorrow. This means it would take an SPX close at or below this level in order for the black Differential line to turn back positive. That's only about a 0.5% drop.

The setup tonight is a bit unusual and it's one I've thought quite a bit about. What's unusual is that we are getting a new short signal 1) on a sizable down day, and 2) near the lower end of the recent range. Often an Aggregator trade will be looking for a mean reversion. Here we are already back down beyond several means. The reason this is happening is that the look-back period for the Differential is effectively 3 days. Over the last 3 days that market was "supposed" to go down. It has posted a net gain. So it is "overbought" versus expectations despite the fact that it may not "look" overbought.

But despite the look of the SPX chart, the Aggregator System is providing a valid short signal. I am not going to look to trade it tonight, though. It's not due to the "look" of the chart or the fact that the SPX was down today. Rather it is because I am not finding risk/reward to be particularly favorable.

Over the last 10 day the SPX has formed a range. I've shown that range in the chart. Trading within congestion can often be tricky and the edges typically aren't as great. When you see moves like Wednesday where the market reverses the prior day's move but stays within a range there are often very few studies appearing in the Quantifinder. Edges typically occur at extremes and there aren't many extremes in the middle of congestion.

So if I'm going to trade in a trading range I prefer to be near the opposite end of the range. In other words, if this short signal was occurring near the top of the range, then resistance (risk) would be just overhead and support (potential reward) would be far below. Currently the SPX is already in the bottom 1/3 of the trading range. So potential risk (top of range) is more than twice as far away as potential reward (bottom of range). This is exactly opposite of what I'd like to see. And even if you look at the range as the last 3 days since that is the Differential lookback period, you are still in the lower half. The risk/reward ratio just isn't there as I see it.

The Aggregator is my favorite tool for helping to determine my market bias. But that's what it is – a tool. As traders we don't need to always blindly follow signals. I'm reminded of an episode of "The Office" where Michael listens to his GPS and drives his car into a lake despite seeing the lake right in front of him.

I believe there is a better chance the market will sell off more over the next few days than there is that it will rise. But with unfavorable risk/reward I'm going to step aside tonight and just pass on this trade. I don't ignore Aggregator signals very often, but I'm not willing to drive into a lake tonight.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/12 – skittishly and mildly bullish. I will switch to neutral or bearish if the market fails to bounce substantially by Tuesday.

From an intermediate-term standpoint, quite a bit of bullish evidence has emerged over the last couple of weeks. I thought I'd go through it chronologically and then point out one study I'll have my eye on this upcoming week.

When the recent selloff was hitting its low point on July 2nd this study appeared:

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.

It didn't disappoint and a bounce followed starting the very next day (7/5). When that bounce occurred it triggered this study which examined the large divergence we were seeing in the McClellan Oscillator:

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

On schedule we saw a strong move higher follow this study triggering as well. While much of the positive influence from this study appears in the 1st week, even 4 weeks out

the implications are strongly bullish, and some more details shown in the 7/5 Letter indicated that a decent chance of a new high was suggested by this setup as well.

The July 13th Subscriber Letter carried this intermediate-term bullish study.

After closing at a 50-day low, SPX then makes 5 consecutive higher closes. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1960 - 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
25	40,237.44	15	13	2	86.67	3,182.67	-568.65	5.60	36.38	2,682.50
24	40,003.67	15	14	1	93.33	2,906.91	-693.00	4.19	58.73	2,666.91
23	40,708.96	15	14	1	93.33	2,994.76	-1,217.70	2.46	34.43	2,713.93
20	25,307.77	15	11	4	73.33	2,838.72	-1,479.53	1.92	5.28	1,687.18
15	13,182.85	15	9	6	60.00	1,861.74	-595.47	3.13	4.69	878.86
10	-8,214.63	16	8	8	50.00	1,586.21	-2,613.04	0.61	0.61	-513.41
9	-12,770.97	16	8	8	50.00	1,419.53	-3,015.90	0.47	0.47	-798.19
8	-9,938.99	16	8	8	50.00	1,491.82	-2,734.19	0.55	0.55	-621.19
7	-10,049.38	16	8	8	50.00	1,544.51	-2,800.68	0.55	0.55	-628.09
6	-5,040.99	16	10	6	62.50	1,362.69	-3,111.31	0.44	0.73	-315.06
5	-5,504.10	16	9	7	56.25	1,407.27	-2,595.64	0.54	0.70	-344.01
4	-3,483.45	16	9	7	56.25	1,381.05	-2,273.27	0.61	0.78	-217.72
3	2,543.29	16	12	4	75.00	1,024.13	-2,436.56	0.42	1.26	158.96
2	-5,275.58	16	9	7	56.25	967.67	-1,997.80	0.48	0.62	-329.72
1	-5,604.17	16	11	5	68.75	573.68	-2,382.94	0.24	0.53	-350.26

Here we see a questionable short-term has consistently been followed by substantial upside over the next 4-5 weeks.

Then with the strong IBD Follow Through Day occurring on July 13th, these two additional intermediate-term studies appeared in the July 14th Letter:

NYSE Up Issues % > 75% in 2 of the last 3 days and makes a 10-day intraday high.
Buy SPx 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
20	107,484.86	36	27	9	75.00	5,166.10	-3,555.54	1.45	4.36	2,985.69
15	92,949.90	37	27	10	72.97	4,246.02	-2,169.27	1.96	5.28	2,512.16
10	71,424.42	39	30	9	76.92	3,341.47	-3,202.19	1.04	3.48	1,831.40
9	71,150.64	39	28	11	71.79	3,481.40	-2,393.52	1.45	3.70	1,824.38
8	59,700.36	39	29	10	74.36	2,916.50	-2,487.81	1.17	3.40	1,530.78
7	54,559.48	39	28	11	71.79	2,891.16	-2,399.37	1.20	3.07	1,398.96
6	47,615.27	40	30	10	75.00	2,408.70	-2,464.58	0.98	2.93	1,190.38
5	41,881.89	41	29	12	70.73	2,156.61	-1,721.65	1.25	3.03	1,021.51
4	33,006.29	43	26	17	60.47	2,019.98	-1,147.83	1.76	2.69	767.59
3	27,801.06	44	28	16	63.64	1,729.99	-1,289.92	1.34	2.35	631.84
2	15,797.54	50	31	19	62.00	1,219.09	-1,157.60	1.05	1.72	315.95
1	11,269.24	54	32	20	59.26	773.69	-674.45	1.15	1.84	208.69

93% of instances closed above the entry price at some point in the next week. In two weeks it was 98%.

Buy on the close of a Follow Through Day.
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
8	35,567.30	73	38	35	52.05	3,406.58	-2,682.36	1.27	1.38	487.22
7	34,283.01	73	41	32	56.16	3,056.14	-2,844.33	1.07	1.38	469.63
6	46,811.91	73	47	26	64.38	2,666.59	-3,019.91	0.88	1.60	641.26
5	40,182.62	73	45	28	61.64	2,506.49	-2,593.19	0.97	1.55	550.45
4	36,401.40	73	41	32	56.16	2,513.19	-2,082.49	1.21	1.55	498.65
3	33,353.47	73	41	32	56.16	2,270.76	-1,867.12	1.22	1.56	456.90
2	23,883.71	73	41	32	56.16	1,905.90	-1,695.57	1.12	1.44	327.17
1	23,336.56	73	39	34	53.42	1,166.68	-651.89	1.79	2.05	319.68

One study I'll be keeping an eye on over the next couple of days is [this one that looks at short-term implications of action just after a FTD](#). It suggests that if the market does not continue higher in the week after a FTD, then there is about a 2/3 chance of failure. On the other hand, a market that closes higher 5 days after a FTD stands about a 2/3 chance of a successful rally. So far it is not looking too promising.

So the short-term is suggesting more selling and the intermediate-term is providing a good amount of bullish evidence. But we also see a study that says the intermediate-term may be dependent on the short-term. It appears if a bounce fails to materialize shortly then the intermediate-term outlook could be in danger. The short-term outlook is for downside, but if the market ignores the current short-term tendencies and powers higher then that should bode well for the intermediate-term as well. In any case, it should be an interesting week with action that will be well worth watching and considering.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

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.

Current Open Trade Ideas

None.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2010 Hanna Capital Management, LLC.