

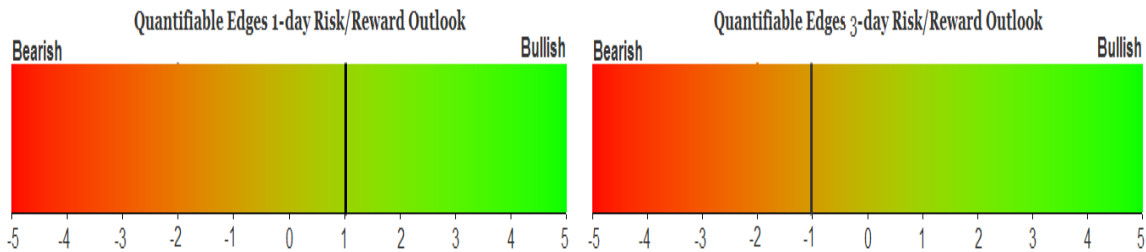
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 23, 2010

Volume 3 Issue 140

Market Overview



Tonight's Research Points

- Without a new 10-day high, the strong breadth lacks a bullish edge.
- The recent 1% Up, 1% Down, 1% Up pattern is typically broken with an up day on day 4.
- The Aggregator System remained short.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

While tonight's study is bullish, the overall net favors the bears. I'm now looking to scale into a short.

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 23, 2010	1% Up, 1% down, 1% Up	1 day	Bullish	
July 22, 2010	1% drop. No 20 high. Bad breadth.	1-9 days	Bullish	3.00%
July 20, 2010	2% drop. Then Up Issue%>60, dn vol	1-6 days	Bearish	-5.50%
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	7 day high close to a 7 day low close	1-4 days	Bearish	-2.50%
July 20, 2010	1.75% drop then bounce less than 25%	1-3 days	Bearish	-2.20%

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

The Evidence

The market continued to jerk violently back and forth on Thursday. This time it was the bulls who won out and the bears that got whacked. A morning gap never came close to filling and though some late selling left the market off its highs, the SPX still gained 2.3%. The Nasdaq was up 2.7% and the Russell 2000 gained a whopping 3.7%. Breadth was very strong as the NYSE Up Issues % came in at 75% and the Up Volume % made it just over 90%. Total volume was slightly lower on the NYSE but slightly higher on the Nasdaq.

In my Quantifinder notes this afternoon I noted some interesting research from the 2/12/10 Subscriber Letter. In that letter I showed a study that required 2 of 3 days see an Up Issue % of > 75%. I then broke out instances by those times that the market made a 10-day intraday high and those times it didn't.

Below is the 1st study from that Letter in which a 10-day high was made. (Stats are not updated.)

NYSE Up Issues % > 75% in 2 of 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 close above their entry price at some point in the next week.

Here we see a solid upside edge following such bouts of strong breadth. Now let's look at times the market failed to make a 10-day high (like Thursday). *These results are updated.*

NYSE Up Issues % > 75% 2 of last 3 days. SPX high < highest high of last 10 days. 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
10	-32,900.36	15	4	11	26.67	2,422.57	-3,871.87	0.63	0.23	-2,193.36
9	-33,399.74	16	6	10	37.50	2,388.07	-4,772.81	0.50	0.30	-2,087.48
8	-30,012.75	17	7	10	41.18	1,812.22	-4,269.83	0.42	0.30	-1,765.46
7	-21,797.26	17	7	10	41.18	2,357.89	-3,830.25	0.62	0.43	-1,282.19
6	-19,857.64	17	5	12	29.41	2,553.51	-2,718.77	0.94	0.39	-1,168.10
5	-11,328.33	17	8	9	47.06	2,002.40	-3,038.62	0.66	0.59	-666.37
4	2,655.69	17	11	6	64.71	1,590.61	-2,473.51	0.64	1.18	156.22
3	4,912.33	17	10	7	58.82	2,262.70	-2,530.67	0.89	1.28	288.96
2	-1,481.71	18	11	7	61.11	1,371.91	-2,367.52	0.58	0.91	-82.32
1	9,746.94	20	12	8	60.00	1,159.78	-521.31	2.22	3.34	487.35

Here the upside edge is no longer apparent. In fact, once you are out 1-2 weeks there appears to be a possible downside edge.

The sharp reversals from one day to the next we've seen this week are somewhat unusual. I looked tonight at other times the SPY closed up > 1% one day, then down > 1% the next and then again up > 1% the 3rd day. I found a possible edge, though it only lasts for 1 day. Below are some performance stats.

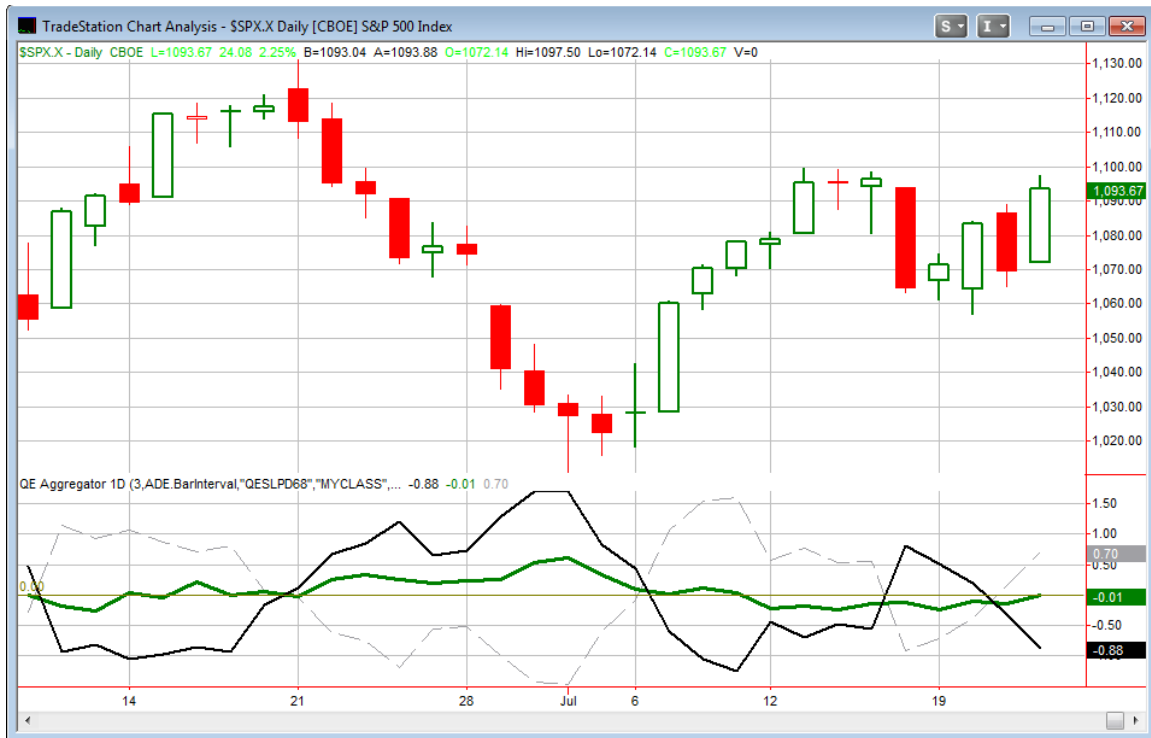
SPY closes up > 1% then down > 1% then up > 1%. Buy on close. Sell next days close. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$26,735.45	Profit Factor	6.15
Gross Profit	\$31,923.17	Gross Loss	(\$5,187.72)
Total Number of Trades	17	Percent Profitable	82.35%
Winning Trades	14	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$1,572.67	Ratio Avg. Win:Avg. Loss	1.32
Avg. Winning Trade	\$2,280.23	Avg. Losing Trade	(\$1,729.24)
Largest Winning Trade	\$4,377.20	Largest Losing Trade	(\$2,348.90)

These look very strong. One thing to realize though is that the edge has not fared as well since the end of 2008. Below I have listed all 17 instances. As you can see all 3 losers came within the last 5 trades.

SPY closes up > 1% then down > 1% then up > 1%. Buy on close. Sell next days close. \$100k/trade. 2000 - present.			
Date/Time	Signal	Price	% Profit
04/09/01	Buy	\$114.56	1.82%
04/10/01	Sell	\$116.65	
04/17/01	Buy	\$119.26	3.97%
04/18/01	Sell	\$124.00	
02/22/02	Buy	\$109.64	1.65%
02/25/02	Sell	\$111.45	
08/21/02	Buy	\$95.75	0.97%
08/22/02	Sell	\$96.68	
10/10/02	Buy	\$80.63	4.38%
10/11/02	Sell	\$84.16	
10/17/02	Buy	\$88.27	0.42%
10/18/02	Sell	\$88.64	
07/07/03	Buy	\$100.70	0.45%
07/08/03	Sell	\$101.15	
11/27/07	Buy	\$142.57	3.20%
11/28/07	Sell	\$147.13	
03/20/08	Buy	\$132.08	2.00%
03/24/08	Sell	\$134.72	
09/18/08	Buy	\$120.07	3.37%
09/19/08	Sell	\$124.12	
12/02/08	Buy	\$85.27	2.40%
12/03/08	Sell	\$87.32	
12/05/08	Buy	\$87.93	3.49%
12/08/08	Sell	\$91.00	
12/16/08	Buy	\$91.88	(0.97%)
12/17/08	Sell	\$90.99	
03/25/09	Buy	\$81.45	2.04%
03/26/09	Sell	\$83.11	
05/08/09	Buy	\$92.98	(1.87%)
05/11/09	Sell	\$91.24	
05/28/09	Buy	\$90.92	1.77%
05/29/09	Sell	\$92.53	
05/03/10	Buy	\$120.35	(2.35%)
05/04/10	Sell	\$117.52	

So while it appears this study may provide a bit of an upside edge the next day, it needs to be monitored since it may be losing its effectiveness.

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



Tonight's bullish study wasn't quite enough to move the green Aggregator line above 0. The negative Aggregator line value indicates the net expectation from the Active Studies over the next few days is for slight downside. Meanwhile the black Differential line shows the SPX has now strongly outperformed expectations over the last few days. So we have negative expectations and a market that is overbought versus recent expectations. Historically this configuration has provided a downside edge. Based on this the Aggregator System remained 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 1,077.83 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.

It appears my decision to forego a short entry last night was a good one. I will be looking to start scaling in to a position tomorrow. Details in the trade ideas section below.

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.

SPY – short 1/4 index position at \$109.90 LIMIT. If not filled by 4pm close, lower limit price to \$109.46 LIMIT ON CLOSE. With tonight's study suggesting tomorrow could be a strong day, I'll try and get a favorable entry. Normally I'd be looking to get into 2 lots tomorrow. Since my intermediate-term outlook is bullish and the short is so borderline, I'm looking to keep risk a little tighter and will only start with one lot.

Current Open Trade Ideas

None.

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