

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 3, 2010

Volume 3 Issue 147

Market Overview



Tonight's Research Points

- Weak volume on a breakout like Monday is a good thing.
- Another positive is the fact that it based for at least a week before making a new 50-day high.
- The very strong breadth at a new high is also bullish.
- The unfilled gap up to a new high is a mildly bearish for the next few days.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

Great breakout on Monday. I'll wait for a pullback though it may not be necessary.

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				
August 3, 2010	50-day breakout on lower vol	1-5 days	Bullish	1.80%
August 3, 2010	50 high 90% volume	1-3 days	Bullish	3.20%
August 3, 2010	SPY unfilled gap to a high	1-2 days	Bearish	-1.30%
August 2, 2010	Weak up day after 2+ down days	1-3 days	Bearish	-1.60%
Active - Long Term				
August 3, 2010	50 high 90% volume	1-25 days	Bullish	
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 30, 2010	3 days down. 3/10 HV < 0.25	1-3 days	Bullish	2.00%
July 28, 2010	Higher hi, higher low streak, dn close	1-4 days	Bullish	1.60%

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

The Evidence

The market gapped up strongly to start the day and never looked back. The gap put the SPY over its 200ma and the strong intraday action allowed it to close at its highest level since mid-May. The numbers were solid all around as the SPX gained 2.2%, the Nasdaq gained 1.8% and the Russell 2000 gained 1.7%. Breadth was very strong as the NYSE Up Issues % came in at 84% and the Up Volume % was 93%. Total volume was the lightest since Wednesday.

As far as breakouts to new intermediate-term highs go, this was just right. The strong breadth was a plus and so was the weak volume.

Many traders believe that strong volume should accompany breakouts, and while this *may* be true for individual stocks, it is not true for market indices. I've discussed this a number of times but it is always worth rehashing. In the March 12, 2010 Subscriber Letter I compared fresh breakouts to new highs that occur on lower volume to those that occur on higher volume. I've updated the results of those studies below. First I'll look at cases like the present where the breakout came on lower volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy on close. Sell X days later. 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	21,178.93	44	25	19	56.82	2,554.89	-2,247.01	1.14	1.50	481.34
15	25,726.18	45	29	16	64.44	2,349.24	-2,650.10	0.89	1.61	571.69
10	17,423.07	47	24	23	51.06	2,038.39	-1,369.49	1.49	1.55	370.70
9	26,220.44	47	31	16	65.96	1,610.57	-1,481.71	1.09	2.11	557.88
8	36,743.01	47	34	13	72.34	1,572.68	-1,286.77	1.22	3.20	781.77
7	35,205.57	47	32	15	68.09	1,499.48	-851.85	1.76	3.76	749.05
6	41,495.02	47	34	13	72.34	1,536.24	-825.92	1.86	4.86	882.87
5	46,117.55	47	36	11	76.60	1,641.99	-1,181.30	1.39	4.55	981.22
4	33,674.00	47	35	12	74.47	1,320.39	-1,044.98	1.26	3.69	716.47
3	33,802.67	47	33	14	70.21	1,290.48	-627.36	2.06	4.85	719.21
2	18,880.36	47	32	15	68.09	909.67	-681.95	1.33	2.85	401.71
1	9,593.45	47	31	15	65.96	500.31	-394.41	1.27	2.62	204.12

44 of 47 instances (94%) closed above the entry price at some point in the next week.

The 1st week shows some strong follow through on a very consistent basis. A bit hit or miss after that but the strong initial thrust makes this an attractive short-term setup.

Now let's look at times where the volume rose on the breakout.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday. Buy on close. Sell X days later. 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	8,074.31	116	56	60	48.28	3,666.53	-3,287.52	1.12	1.04	69.61
15	31,981.81	121	63	58	52.07	3,052.05	-2,763.75	1.10	1.20	264.31
10	11,625.32	124	61	63	49.19	2,438.95	-2,176.99	1.12	1.08	93.75
9	14,794.67	124	60	63	48.39	2,344.16	-1,997.70	1.17	1.12	119.31
8	11,975.07	124	65	59	52.42	1,979.89	-1,978.27	1.00	1.10	96.57
7	28,829.44	124	64	60	51.61	1,954.98	-1,604.82	1.22	1.30	232.50
6	28,747.75	124	70	54	56.45	1,654.40	-1,612.23	1.03	1.33	231.84
5	23,718.66	124	63	61	50.81	1,679.26	-1,345.49	1.25	1.29	191.28
4	11,265.09	124	67	57	54.03	1,324.28	-1,358.97	0.97	1.15	90.85
3	20,862.14	124	72	52	58.06	1,168.62	-1,216.89	0.96	1.33	168.24
2	24,910.48	124	75	48	60.48	918.36	-915.97	1.00	1.57	200.89
1	21,756.54	124	76	48	61.29	584.48	-472.16	1.24	1.96	175.46

This was a lot more common and a lot less reliable – both short and intermediate-term.

I also looked at this in the 4/26/10 Subscriber Letter, though in that Letter I only required a base of 5 days. I did this because the market hadn't yet gone 10 days without a new 50-day high, so the above studies didn't qualify under that situation. But another interesting thing I did in that letter was to examine whether the basing period made any difference. I've pasted an excerpt below (stats not updated).

The requirement that the market has not closed at a new high for 5 days was included to show that this is a fresh breakout and not a market that is already extended upwards and has been making new highs for multiple days. To see the effect of this filter I ran a few tests that demanded different periods without new highs. This first one looks at a 1-day holding period.

SPX closes at a 50 day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 1 day later. \$100k/trade. 1996 - 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	4,462.22	25	17	8	68.00	408.31	-309.88	1.32	2.80	178.49
9	4,462.22	25	17	8	68.00	408.31	-309.88	1.32	2.80	178.49
8	4,542.32	26	18	8	69.23	390.08	-309.88	1.26	2.83	174.70
7	8,739.10	32	24	8	75.00	467.42	-309.88	1.51	4.53	273.10
6	10,042.36	35	27	8	77.14	463.76	-309.88	1.50	5.05	286.92
5	7,869.62	43	31	12	72.09	435.09	-468.17	0.93	2.40	183.01
4	8,031.08	49	34	15	69.39	411.37	-397.03	1.04	2.35	163.90
3	9,130.23	55	37	18	67.27	470.77	-460.46	1.02	2.10	166.00
2	4,647.93	64	41	23	64.06	460.58	-618.95	0.74	1.33	72.62
1	2,272.09	91	53	38	58.24	488.97	-622.20	0.79	1.10	24.97
0	-892.09	211	94	85	44.55	449.30	-507.37	0.89	0.98	-4.23

Here you see that fresh breakouts tend to do better than extended conditions. The "0 days" row shows a slight negative expectation. Stats once you get out about 5 days look pretty strong and remain so as you go farther out.

I also ran this same test with a 3-day holding period.

SPX closes at a 50 day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 3 days later. \$100k/trade. 1996 - 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	21,765.77	25	20	5	80.00	1,316.36	-912.28	1.44	5.77	870.63
9	21,765.77	25	20	5	80.00	1,316.36	-912.28	1.44	5.77	870.63
8	22,458.19	26	21	5	80.77	1,286.65	-912.28	1.41	5.92	863.78
7	29,882.00	32	26	6	81.25	1,356.74	-898.88	1.51	6.54	933.81
6	29,408.80	35	27	8	77.14	1,320.02	-778.98	1.69	5.72	840.25
5	29,800.15	43	32	11	74.42	1,183.93	-735.04	1.61	4.69	693.03
4	32,231.06	49	37	12	75.51	1,113.18	-746.39	1.49	4.60	657.78
3	28,574.85	55	40	15	72.73	1,110.07	-1,055.19	1.05	2.81	519.54
2	26,126.14	64	42	22	65.63	1,155.50	-1,018.40	1.13	2.17	408.22
1	23,427.05	88	53	35	60.23	1,166.42	-1,096.95	1.06	1.61	266.22
0	17,065.60	150	82	68	54.67	1,057.00	-1,023.66	1.03	1.25	113.77

Results here suggest a similar conclusion. You are better off buying breakouts that haven't made a new high for at least a week or so than you are buying any new high. Anything beyond a week shows fairly consistent results.

The weak volume wasn't the only positive with the breakout today. The very strong breadth has also been a good sign in the past. Below is a study from the 11/17/09 Subscriber Letter that shows extreme breadth days occurring at new highs have a strong tendency to follow through.

SPX closes at a 50-day high while the NYSE Up Volume % close > 90%.
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
21	66,250.56	16	13	3	81.25	5,314.80	-947.29	5.61	24.31	4,140.66
20	59,416.79	17	13	4	76.47	5,105.66	-1,739.19	2.94	9.54	3,495.11
19	56,188.99	17	14	3	82.35	4,568.72	-2,591.04	1.76	8.23	3,305.23
18	52,597.01	17	13	4	76.47	4,768.23	-2,347.49	2.03	6.60	3,093.94
17	45,628.34	17	13	4	76.47	4,442.24	-3,030.20	1.47	4.76	2,684.02
16	43,842.00	17	12	5	70.59	4,744.13	-2,657.51	1.79	4.28	2,567.18
15	45,653.48	17	13	4	76.47	4,391.20	-2,858.02	1.54	4.99	2,685.50
14	35,151.48	18	13	5	72.22	4,142.55	-3,740.34	1.11	2.88	1,952.86
13	30,920.05	18	13	5	72.22	3,773.18	-3,626.26	1.04	2.71	1,717.78
12	33,165.24	18	11	7	61.11	4,500.07	-2,333.65	1.93	3.03	1,842.51
11	37,504.81	18	11	7	61.11	4,264.55	-1,343.60	3.17	4.99	2,083.60
10	35,501.76	18	12	6	66.67	3,824.66	-1,732.36	2.21	4.42	1,972.32
9	25,265.04	18	11	6	61.11	3,476.45	-2,162.66	1.61	2.95	1,403.61
8	24,873.22	18	12	6	66.67	3,305.37	-2,465.20	1.34	2.68	1,381.85
7	24,220.47	18	12	6	66.67	3,197.44	-2,358.14	1.36	2.71	1,345.58
6	25,043.14	18	12	6	66.67	2,797.62	-1,421.39	1.97	3.94	1,391.29
5	29,139.19	19	15	4	78.95	2,331.05	-1,456.62	1.60	6.00	1,533.64
4	23,823.24	19	16	3	84.21	1,935.10	-2,379.47	0.81	4.34	1,253.85
3	20,616.55	19	14	5	73.68	1,778.35	-856.06	2.08	5.82	1,085.08
2	20,893.52	19	17	2	89.47	1,261.72	-277.87	4.54	38.60	1,099.66
1	13,553.71	20	14	6	70.00	1,119.17	-352.45	3.18	7.41	677.69

All these numbers look bullish for the short and intermediate-term, from the % wins to the win/loss ratio to the profit factor to the average trade. One thing I didn't do with this test though was to require a base period as I discussed earlier. So tonight I re-ran the above test with a base-period requirement.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE Up Volume % > 90%. 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
25	50,143.03	10	9	1	90.00	5,867.85	-2,667.60	2.20	19.80	5,014.30
20	45,876.72	10	7	3	70.00	7,144.22	-1,377.60	5.19	12.10	4,587.67
15	38,685.53	10	7	3	70.00	6,262.94	-1,718.35	3.64	8.50	3,868.55
10	35,095.45	10	8	2	80.00	4,657.74	-1,083.25	4.30	17.20	3,509.55
9	29,807.00	10	7	2	70.00	4,616.82	-1,255.38	3.68	12.87	2,980.70
8	26,436.14	10	8	2	80.00	3,968.24	-2,654.88	1.49	5.98	2,643.61
7	26,064.35	10	8	2	80.00	3,950.95	-2,771.63	1.43	5.70	2,606.44
6	21,595.12	10	8	2	80.00	3,382.30	-2,731.65	1.24	4.95	2,159.51
5	24,817.77	10	8	2	80.00	3,549.12	-1,787.58	1.99	7.94	2,481.78
4	17,452.07	10	8	2	80.00	2,867.70	-2,744.75	1.04	4.18	1,745.21
3	21,710.82	10	9	1	90.00	2,432.15	-178.50	13.63	122.63	2,171.08
2	17,810.14	10	10	0	100.00	1,781.01	0.00	100.00	100.00	1,781.01
1	12,193.10	10	9	1	90.00	1,362.43	-68.80	19.80	178.23	1,219.31

As you probably suspected these results were even better. Two days out all 10 instances were above their trigger price. And the further you look out in time the more positive the net trade expectations become. One interesting note is that all of these instances occurred on an increase in volume over the previous day. Monday is the first time the above setup would have triggered while volume sank.

Very positive breadth on down volume in general is not a bad thing, though – especially short term. This was seen in the 2/17/10 Subscriber Letter. I’ve updated that study below as well.

NYSE Up Volume % > 90% while NYSE Volume declines. SPX > 200ma. 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	3,944.90	8	5	3	62.50	3,281.24	-4,153.77	0.79	1.32	493.11
9	6,602.19	8	6	2	75.00	2,548.25	-4,343.64	0.59	1.76	825.27
8	2,769.42	8	5	3	62.50	2,766.26	-3,687.30	0.75	1.25	346.18
7	4,452.78	8	4	4	50.00	2,863.01	-1,749.82	1.64	1.64	556.60
6	1,551.04	8	3	5	37.50	3,149.32	-1,579.39	1.99	1.20	193.88
5	4,164.02	8	4	4	50.00	2,345.72	-1,304.71	1.80	1.80	520.50
4	6,647.68	8	6	2	75.00	1,752.16	-1,932.65	0.91	2.72	830.96
3	7,819.80	8	5	3	62.50	1,939.66	-626.17	3.10	5.16	977.48
2	7,684.90	8	7	1	87.50	1,151.75	-377.37	3.05	21.36	960.61
1	2,809.62	8	4	4	50.00	1,155.88	-453.47	2.55	2.55	351.20

Even without requiring an intermediate-term high instances were very low. With so few to track I decided to list them all below using the 2-day exit strategy.

NYSE Up Volume % > 90% while NYSE Volume declines. SPX > 200ma. Buy SPX on close. Sell 2 days later. \$100k/trade. 1970 - present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
11/23/84	Buy	\$166.91	(0.38%)	\$0.00
11/27/84	Sell	\$166.28		(\$928.45)
11/20/86	Buy	\$242.05	2.23%	\$2,457.35
11/24/86	Sell	\$247.44		(\$33.04)
01/02/87	Buy	\$246.44	2.57%	\$3,057.75
01/06/87	Sell	\$252.77		\$0.00
03/06/07	Buy	\$1,395.41	0.46%	\$888.92
03/08/07	Sell	\$1,401.89		(\$338.67)
08/29/07	Buy	\$1,463.76	0.70%	\$1,204.28
08/31/07	Sell	\$1,473.99		(\$850.68)
08/03/09	Buy	\$1,002.63	0.01%	\$444.51
08/05/09	Sell	\$1,002.72		(\$823.68)
02/16/10	Buy	\$1,094.87	1.09%	\$1,216.67
02/18/10	Sell	\$1,106.75		(\$13.65)
05/10/10	Buy	\$1,159.73	1.03%	\$1,130.04
05/12/10	Sell	\$1,171.67		(\$1,033.72)

So it seems the combination of breadth and volume on the breakout today was near perfect, and there is a lot suggesting higher prices in both the short and intermediate-term.

There was one study that appeared in the Quantifinder with bearish implications. It looked at unfilled gaps to new highs in the SPY and I have updated below. It last appeared in the 7/16/09 Subscriber Letter.

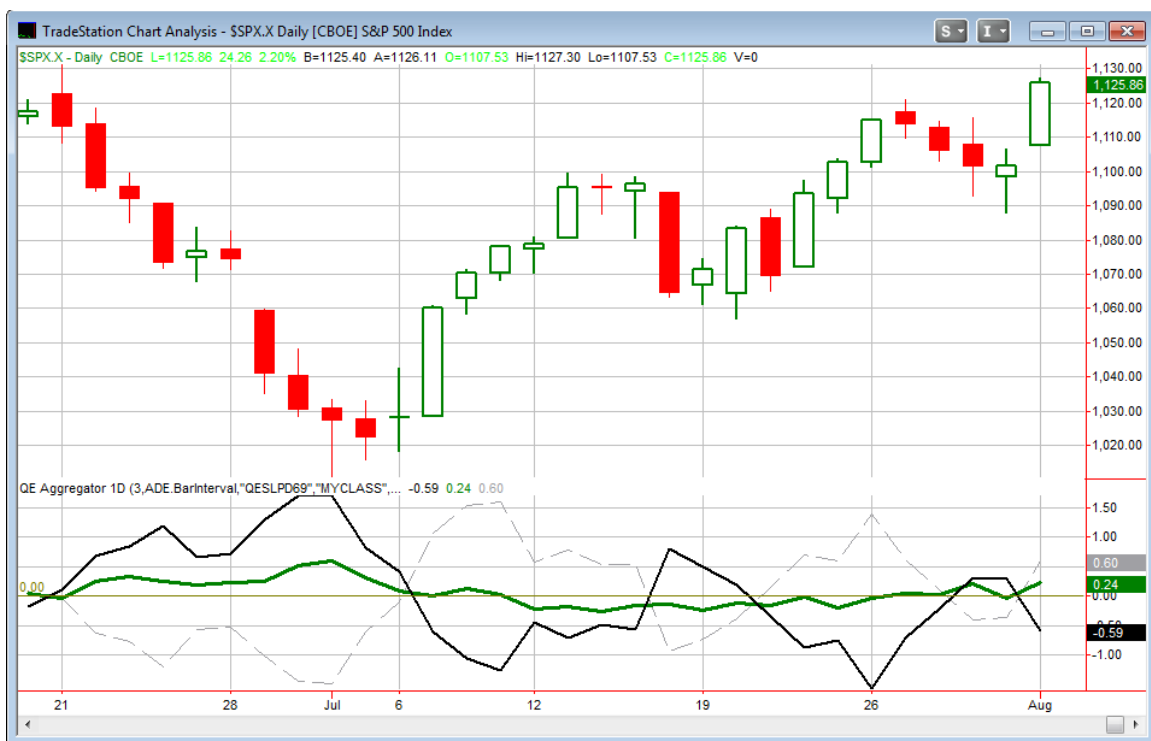
SPY gaps at least 1% above yesterday's close and never fills. It makes a 10-day intraday high and close > open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1994 - present.

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
5	5,925.58	19	10	9	52.63	1,817.98	-1,361.57	1.34	1.48	311.87
4	5,149.23	20	11	9	55.00	1,579.38	-1,358.21	1.16	1.42	257.46
3	-4,731.70	20	10	10	50.00	1,035.85	-1,509.02	0.69	0.69	-236.59
2	-6,717.73	20	9	11	45.00	443.35	-973.44	0.46	0.37	-335.89
1	-2,132.30	20	10	10	50.00	586.39	-799.62	0.73	0.73	-106.62

16 of 20 instances (80%) posted a close below the entry price at some point in the next 3 days.

Implications here are mildly negative over the next few days. They certainly pale in comparison to the positive expectations generated by all the other studies above, and this is reflected in the Aggregator tonight.

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



It turned out to be a brief and shallow dip below 0 for the green Aggregator line. The positive value indicates the net expectation from the Active Studies over the next few

days is for upside. Meanwhile the black Differential line dropped below zero, indicating the SPX has outperformed expectations over the last few days. So we have positive expectations but a market that is overbought versus recent expectations. This is considered a neutral configuration. Due to this the Aggregator System remained flat at the close.

With the current studies the green Aggregator line is set up to remain positive tomorrow. Of course bearish evidence could change this. Meanwhile the Differential pivot will be 1,104.19 tomorrow. This means it would take a close at or below this number in order to turn the Differential line positive. That would be about a 2% drop from today's close.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/2 – somewhat bullish

Not a lot to new to discuss from an intermediate-term standpoint this week. We've experienced a fairly mild pullback over the last few days. Some short-term studies are now suggesting the pullback could deepen but I'm not seeing much that indicates the bullish influences we've noted over the last few weeks are dead.

One positive that did fall off the board was the Nasdaq/SPX relative strength indicator flipped back to favoring the SPX. While not outright bearish, in the past the market has not really made any headway under this condition. It's been in flip-flop mode recently with neither offering clear upside leadership.

So I'm still favoring the long side a bit and would prefer trades in that direction. Further confirmation in the form of continued upside – including a move through and continued closes above the 200ma – would likely brighten my outlook further.

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. With the trend starting to head higher we could start seeing some 11111 triggers and some 90609 triggers soon. I'll review those systems in the next week or so.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/30/2010	\$110.27	\$111.99	1.56%		sold on open

Made out all right on this one despite the horrible execution. Not sure what I was cursing more today, the fact that I decided on an end-of-day entry on Friday instead of a straight limit order in Thursday night's Letter, or the fact that an SPX close down 0.07 more points would have kept us long another day. But being able to walk away with a solid winner is still nice, no matter how much I left on the table. Always good to get ahead at the beginning of a month, too.

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.