

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 4, 2010

Volume 3 Issue 148

Market Overview



Tonight's Research Points

- The narrow range inside day while short-term overbought only carries bearish implications below the 200ma.
- An inside day after a breakout like yesterday often acts as a pause before a move up over the next few days.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

Consolidation day Tuesday not offering any strong clues as to short-term direction. We still remain overbought with positive expectations.

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	

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

The Evidence

Quiet trading on Tuesday. After a small gap down the market traded in a tight range all day. The SPX put in an inside day and closed down 0.5%. The Nasdaq also lost 0.5% and the Russell 2000 dropped 0.9%. Breadth was weak as the NYSE Up Issues % came in at 39% and the Up Volume % came in at 29%. Total volume declined again.

Very little action Tuesday has led to very little change in the outlook tonight. We remain overbought and the studies still show an upside bias. The Quantifinder did show a bearish study, but it is really only effective when the SPX is under the 200ma. In the 6/2/08 Subscriber Letter I looked at narrow-range inside days when the market is short-term overbought. Below is an updated stats table.

SPY posts an the narrowest range in 7 days and an inside day and the RSI(2) closes above 65. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-9,674.37	70	36	33	51.43	1,271.78	-1,680.56	0.76	0.83	-138.21
4	-6,290.94	71	38	33	53.52	1,049.51	-1,399.16	0.75	0.86	-88.60
3	-21,814.22	71	30	40	42.25	1,154.73	-1,411.41	0.82	0.61	-307.24
2	-13,007.59	73	39	34	53.42	709.39	-1,196.29	0.59	0.68	-178.19
1	3,054.38	73	40	33	54.79	734.25	-797.44	0.92	1.12	41.84

These results seem to suggest mildly bearish inclinations. But now let's see what happens when I break it out using the 200ma.

First, times like now when the SPY is above the 200ma.

SPY posts an the narrowest range in 7 days and an inside day and the RSI(2) closes above 65. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	8,429.92	51	28	23	54.90	1,299.55	-1,215.55	1.07	1.30	165.29
4	7,342.61	52	30	22	57.69	1,064.13	-1,117.33	0.95	1.30	141.20
3	-6,730.86	52	23	28	44.23	955.85	-1,025.55	0.93	0.77	-129.44
2	4,332.53	53	32	21	60.38	698.98	-858.81	0.81	1.24	81.75
1	5,193.49	53	31	22	58.49	560.08	-553.14	1.01	1.43	97.99

These results appear to provide no edge at all.

Now the results below the 200ma.

SPY posts an the narrowest range in 7 days and an inside day and the RSI(2) closes above 65. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-18,104.29	19	8	10	42.11	1,174.56	-2,750.08	0.43	0.34	-952.86
4	-13,633.55	19	8	11	42.11	994.70	-1,962.83	0.51	0.37	-717.56
3	-15,083.36	19	7	12	36.84	1,808.22	-2,311.74	0.78	0.46	-793.86
2	-17,340.12	20	7	13	35.00	756.95	-1,741.44	0.43	0.23	-867.01
1	-2,139.11	20	9	11	45.00	1,334.15	-1,286.04	1.04	0.85	-106.96

Not a huge number of instances but still a solidly bearish tilt to the data.

Last night I looked at some studies associated with fresh breakouts to 50-day highs following at least a 10-day basing period. Tonight I thought it might be interesting to see how those breakouts fared when the next day was an inside day.

Yesterday SPX breaks out to a new 50-day after basing at least 10 days. Today SPX posts an inside day. Buy on close. Sell X days later. \$100k/trade. 1978 - 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	14,357.11	16	12	4	75.00	1,505.86	-928.31	1.62	4.87	897.32
4	8,882.30	16	9	7	56.25	1,753.13	-985.12	1.78	2.29	555.14
3	4,741.12	16	11	5	68.75	1,049.30	-1,360.24	0.77	1.70	296.32
2	3,996.62	16	7	9	43.75	1,387.45	-635.06	2.18	1.70	249.79
1	-1,721.83	16	4	12	25.00	1,285.38	-571.95	2.25	0.75	-107.61

After day 1 a bullish tilt is evident. Though instances were low, I also ran the same test on the SPY.

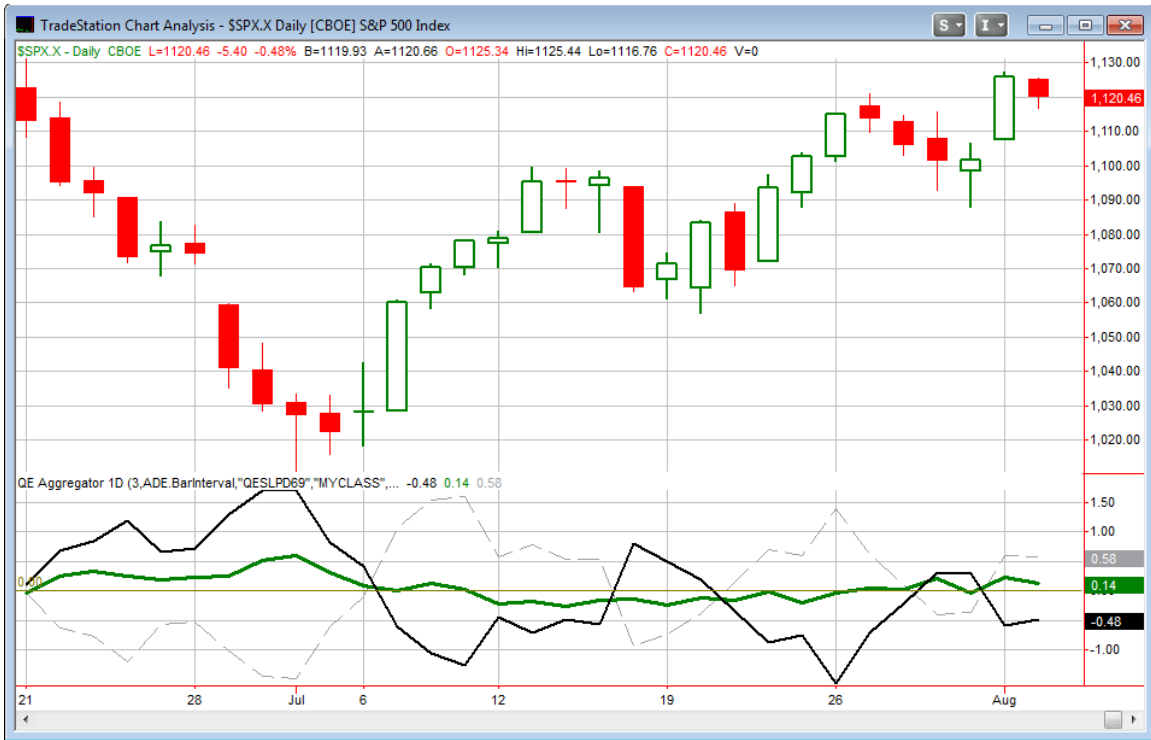
Yesterday SPY breaks out to a new 50-day after basing at least 10 days. Today SPY posts an inside day. Buy on close. Sell X days later. \$100k/trade. 1978 - present.

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	4,867.25	6	5	1	83.33	1,106.51	-665.28	1.66	8.32	811.21
4	3,144.07	6	3	3	50.00	1,440.16	-392.14	3.67	3.67	524.01
3	1,314.53	6	3	3	50.00	849.48	-411.30	2.07	2.07	219.09
2	2,473.30	6	4	2	66.67	778.26	-319.86	2.43	4.87	412.22
1	1,161.82	6	2	4	33.33	1,219.28	-319.19	3.82	1.91	193.64

While results here are too low to read much into they seem to provide some confirmation of the previous test.

With last night's breakout studies already included in the Active Studies List I decided not to add these tonight.

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



Not much of a change tonight. The green Aggregator line remains solidly above 0. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. Meanwhile the black Differential line is again 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 1,103.52 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 1.75% drop from today's close.

Overall it seems the short-term is fairly up in the air.

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. I'm awaiting the next substantial edge.

Current Open Trade Ideas

none

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