

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 5, 2010

Volume 3 Issue 149

Market Overview



Tonight's Research Points

- The SPX closing at a 10-day high while the NYSE volume is the lowest in 10 days has historically been short-term bearish, even above the 200ma.
- Even if we require a 50-day high close, the implications are still bearish.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

The weak volume may be a warning but it doesn't appear to provide quite enough evidence to pull the trigger right away. I'm not inclined to trade aggressively here.

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 5, 2010	SPX 10-high on NYSE 10 low vol	1-5 days	Bearish	-2.10%
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%
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	
Dropped Tonight				
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%
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

A mild gap up led to a back and forth day that saw a fairly narrow range. The major indices closed higher with the SPX up 0.6%, the Nasdaq 0.9% and the Russell up 1.1%. Breadth was squarely positive as the NYSE Up Issues % came in at 73% and the Up Volume % was 69%. Total NYSE volume was the lightest in over two weeks.

The light volume and new intermediate-term high brought about a study last seen in the 12/23/2009 Subscriber Letter. I have updated those results below.

SPX closed at a 10-day high on the lightest NYSE volume in 10 days. Close > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 2004 - 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	-24,104.99	28	7	21	25.00	1,166.80	-1,536.79	0.76	0.25	-860.89
4	-20,592.67	29	7	22	24.14	814.69	-1,195.25	0.68	0.22	-710.09
3	-20,191.65	29	10	19	34.48	778.40	-1,472.40	0.53	0.28	-696.26
2	-18,972.40	31	8	23	25.81	747.08	-1,084.74	0.69	0.24	-612.01
1	-10,316.74	35	14	21	40.00	322.68	-706.39	0.46	0.30	-294.76

33 of 35 instances closed below the entry price at some point in the next week. The two that did not both occurred within the last 4 instances.

This data solidly favors a pullback.

I also ran the test using a 50-day high rather than a 10-day high to see if that made any difference.

SPX closed at a 50-day high on the lightest NYSE volume in 10 days. Close > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 2004 - 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	-11,374.53	14	2	12	14.29	1,372.92	-1,176.70	1.17	0.19	-812.47
4	-9,635.89	14	2	12	14.29	892.55	-951.75	0.94	0.16	-688.28
3	-12,536.79	14	4	10	28.57	828.12	-1,584.93	0.52	0.21	-895.49
2	-12,116.33	15	4	11	26.67	675.89	-1,347.26	0.50	0.18	-807.76
1	-7,155.79	16	3	13	18.75	289.11	-617.16	0.47	0.11	-447.24

Surprisingly, these results are even more consistently bearish than the 1st test.

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



Once again tonight the green Aggregator line remains above 0, though this time just barely. The positive value indicates the net expectation from the Active Studies over the next few days is for mild upside. Meanwhile the black Differential line is again below zero, indicating the SPX has outperformed expectations over the last few days. So we have mildly 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 short-term bullish studies set to expire over the next couple of days, the green Aggregator line is set up to turn negative tomorrow. Of course new bullish studies could change this. Meanwhile the Differential pivot will be 1,130.65 tomorrow. So for the Differential line to remain negative the SPX would need to rise at least 3 points. The steep jump in the Differential pivot is due to the fact that Monday's big rally will be exiting the Differential equation.

So after a few strong up days we are now seeing some evidence that the market may be ready to pause or pull back. Still we are in a tricky spot and with the intermediate-term outlook still favoring the bull case there doesn't appear to be an overwhelming short-term edge here.

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

Not a lot 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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