

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 6, 2010

Volume 3 Issue 150

Market Overview



Tonight's Research Points

- Unfilled gaps down from a 50-day high have historically been short-term bearish.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

Mildly bearish research again tonight and the Aggregator remains in neutral. Perhaps the jobs report on Friday will spark a reaction large enough to generate a substantial edge.

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 6, 2010	SPY unfilled gap from 50 high	1-2 days	Bearish	-1.00%
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%
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	50 high 90% volume	1-3 days	Bullish	3.20%

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

The Evidence

Another quiet day on Wall St. It started out with a decent sized gap down, and while the market made its low very early it never made it back to breakeven. The SPX finished down 0.1%, the Nasdaq lost 0.5% and the Russell 2000 fell the most losing 1.2%. Breadth was weak as the NYSE Up Issues % came in at 43% and the Up Volume % was 41%. Volume again was light as the NYSE volume declined for the 5th day on a row.

The quiet action led to a low number of actionable ideas from the Quantifinder. One study from the March 25, 2010 Subscriber Letter looked at performance following unfilled gaps down from 50-day highs. I've updated the study below.

SPY posts an unfilled gap down from a 50-day closing high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-15,123.10	41	17	24	41.46	979.41	-1,323.88	0.74	0.52	-368.86
4	-7,436.76	41	20	21	48.78	774.16	-1,091.42	0.71	0.68	-181.38
3	-8,893.33	41	18	23	43.90	425.62	-719.76	0.59	0.46	-216.91
2	-14,862.51	46	18	28	39.13	581.42	-904.58	0.64	0.41	-323.10
1	-5,679.38	46	21	25	45.65	599.19	-730.49	0.82	0.69	-123.46

Not a huge edge, but it does suggest a downside tendency over the next few days. And without much else to go on based on today's action, I think it's probably worth incorporating into my outlook.

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



With the bearish studies the last 2 days the green Aggregator line slipped just below 0 tonight. The negative value indicates the net expectation from the Active Studies over the next few days is for mild downside. Meanwhile the black Differential line is back above zero, indicating the SPX has underperformed expectations over the last few days. So we have mildly negative expectations but a market that is oversold versus recent expectations. This is considered a neutral configuration. Due to this the Aggregator System remained flat at the close.

Currently the green Aggregator line is set up to remain negative tomorrow. Of course new bullish studies could change this. Meanwhile the Differential pivot will be 1,124.34 tomorrow. So for the Differential line to remain negative the SPX would need to keep from closing at or below that.

As a trader I'd prefer to have a strong bias to play. But the Aggregator remains neutral. Of course with the SPX coiled and heading in to the jobs report neutral may not be so bad. A big move after the report may provide a better risk/reward setup than we've seen so far this week.

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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