

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 11, 2010

Volume 3 Issue 153

Market Overview



Tonight's Research Points

- Down Fed days are often followed by a bounce.
- Bad breadth but a mild price drop from the top often leads to more selling.
- The Aggregator System turned long.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

The Aggregator System is back to long though expectations for Wednesday are for lower prices. Should the pullback from Tuesday worsen I'll be looking to start scaling into a long.

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 9, 2010	Fed Day down from 10-high	1 day	Bullish	
August 5, 2010	2/1 Neg breadth small drop from 50-hi	1-2 days	Bearish	-1.80%
August 9, 2010	2 Unfilled Down Gaps	1-5 days	Bullish	2.46%
August 5, 2010	SPX 10-high on NYSE 10 low vol	1-5 days	Bearish	-2.10%
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 10, 2010	SPX 20-day high, NYSE vol 20-day	1-2 days	Bearish	-1.20%
August 10, 2010	VIX Up SPX Up on Monday	1 day	Bearish	
August 10, 2010	Close in top 25% of range before Fed Day	1 day	Bullish	

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

The Evidence

The market ignored Fed Day tendencies and lived up to last night's bearish studies. A large gap down led to more selling in the morning. Some excitement occurred after the announcement and it pushed the SPY up to within \$0.01 of filling the gap. Since the inception of the SPY in 1993, the only other time it had gapped down and not filled on a Fed Day was 9/24/02. All the major indices closed lower as the SPX fell 0.6%, the Nasdaq dropped 1.2% and the Russell 2000 lost 2.0%. Breadth was solidly negative with the NYSE Up Issues % coming in at 26% and the Up Volume % at 21%. Total volume rose over the last few days.

Studies are a bit mixed this evening. Down Fed Days have frequently seen a rebound over the next few days. Below is an updated stats table from the QE Guide to Fed Days that shows this.

Today is a Fed Day and SPX closed down. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	56,940.08	92	59	33	64.13	2,308.54	-2,401.93	0.96	1.72	618.91
9	61,212.40	92	62	30	67.39	2,126.61	-2,354.57	0.90	1.87	665.35
8	40,955.18	92	57	35	61.96	2,017.73	-2,115.87	0.95	1.55	445.17
7	42,332.43	92	59	33	64.13	1,836.38	-2,000.42	0.92	1.64	460.14
6	44,191.53	92	60	32	65.22	1,786.36	-1,968.45	0.91	1.70	480.34
5	43,301.70	92	61	31	66.30	1,658.02	-1,865.73	0.89	1.75	470.67
4	38,262.58	92	55	37	59.78	1,576.77	-1,309.73	1.20	1.79	415.90
3	36,793.84	92	57	35	61.96	1,286.09	-1,043.24	1.23	2.01	399.93
2	33,525.20	92	61	31	66.30	1,178.62	-1,237.77	0.95	1.87	364.40
1	25,454.30	92	58	34	63.04	905.29	-795.67	1.14	1.94	276.68

78 of 92 instances (85%) closed above the Fed Day close at some point in the next week.

Interesting about today's action is that the lower close occurred following a 10-day high. I re-ran the above test and filtered only on those instances coming off a 10-day high. I was surprised at how many there were.

Yesterday SPX closed at a 10-day high. Today is a Fed Day and it closed down.
Buy on close. Sell X days later. \$100k/trade. 1982 - 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	11,829.70	21	13	8	61.90	1,807.64	-1,458.70	1.24	2.01	563.32
9	10,424.49	21	14	7	66.67	1,642.96	-1,796.71	0.91	1.83	496.40
8	9,673.55	21	11	10	52.38	2,149.07	-1,396.62	1.54	1.69	460.65
7	3,745.22	21	9	12	42.86	2,241.77	-1,369.22	1.64	1.23	178.34
6	3,330.59	21	10	11	47.62	1,790.34	-1,324.80	1.35	1.23	158.60
5	4,081.90	21	11	10	52.38	1,569.04	-1,317.75	1.19	1.31	194.38
4	4,626.06	21	11	10	52.38	1,323.89	-993.67	1.33	1.47	220.29
3	5,578.30	21	13	8	61.90	960.27	-863.15	1.11	1.81	265.63
2	5,374.21	21	13	8	61.90	1,042.32	-1,021.99	1.02	1.66	255.91
1	7,703.58	21	14	7	66.67	781.72	-462.94	1.69	3.38	366.84

18 of 21 instances (86%) posted a close above the Fed Day close at some point in the next 3 days.

The edge appears to be somewhat reduced here – especially over the first week. Day 1 has shown a decent upside tendency but that’s where it maxes out for a while.

The Quantifinder tonight showed a few different studies. A few were related to unfilled gaps coming off 50-day highs. Generally this is a bearish sign and it leads to more selling. One study found that when that first move lower occurred on the highest volume in a week that the bearish tendency no longer held up. In fact the results could even be construed as mildly bullish.

Another Quantifinder study came from the 4/19/10 Letter and I have reproduced it below.

SPX closes less than 1% lower. Decliners more than double advancers. Yesterday's close was at a 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	-3,354.44	15	9	6	60.00	727.26	-1,649.97	0.44	0.66	-223.63
4	-7,475.87	15	6	9	40.00	704.44	-1,300.28	0.54	0.36	-498.39
3	-12,616.26	15	4	11	26.67	342.85	-1,271.60	0.27	0.10	-841.08
2	-14,636.22	15	4	11	26.67	438.70	-1,490.09	0.29	0.11	-975.75
1	-12,136.72	15	4	11	26.67	518.91	-1,292.03	0.40	0.15	-809.11

13 of 15 instances (87%) closed below the entry price at some point in the next 3 days.

The implication here is that when the SPX is coming off a high level and it holds up relatively well despite broad selling, it will often have further to drop. The strong selling in the Russell 2000 could spill over into the large caps. There's a chance they could even play catch-up to the downside. The good news for bulls here is that the bearish inclinations have only lasted a couple of days.

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



The current mix of active studies is pushing the green Aggregator back above 0. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. The black Differential line is also above zero. This illustrates the SPX has underperformed expectations over the last few days. So we have positive expectations and a market that is oversold versus recent expectations. This is considered a bullish configuration and is shown above by both lines being above 0. Due to this the Aggregator System turned long at the close.

Currently the green Aggregator line is set up to remain positive tomorrow. Of course new bearish studies could change this. Meanwhile the Differential pivot will be 1,121.57 tomorrow. This is very close to today's closing price. So a down close would likely see the black Differential line in positive territory while an up close would move it into negative territory.

Also notable about the current Aggregator setup is that while the 3-day estimates call for upside, the 1-day estimates are actually lower. This can be seen in the risk/reward thermometers at the top of the Letter.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/9 – bullish

Monday's SPX breakout on strong breadth led to a few studies with intermediate-term implications that appear in the August 3rd Letter Monday night. They both looked at times the market hit new 50-day highs on extremely strong breadth. The first one simply looked at any 50-day high on a 90% or greater NYSE Up Volume %.

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	43,642.00	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

These results suggested bullish tendencies both in the short-term and the intermediate-term.

I also examined the implications of fresh breakouts to new highs versus a repeated new high. Fresh breakouts typically provide a better edge and I found that was true in this case as well. This 2nd study from the August 3rd letter demonstrated this.

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

Follow through so far has been weak. Wednesday (day 2) is the only day that the market closed above Monday at this point. But down days have been muted and with the short-term outlook now appearing positive we could get another leg up here soon.

Overall there are still a good number of intermediate-term studies in effect suggesting upside. Meanwhile, very little is appearing that would favor the bears. I'm still feeling more comfortable buying the dips than I am shorting the rallies.

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 – buy ¼ index position @ \$111.50 LIMIT ON CLOSE. The Aggregator is positive (though the 1-day estimate is negative). Should we close down tomorrow and near the lower end or below the recent range I will look to play the long side.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/9/2010	\$112.39	\$111.73	-0.59%		sold @ 2pm
IJR	8/9/2010	\$57.50	\$57.03	-0.82%		System 90609

Bad fill for the SPY trade. Damage wasn't too bad though and position size was kept small. Still, always frustrating seeing a winner turn into a loser overnight when there is a plan to exit.

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