

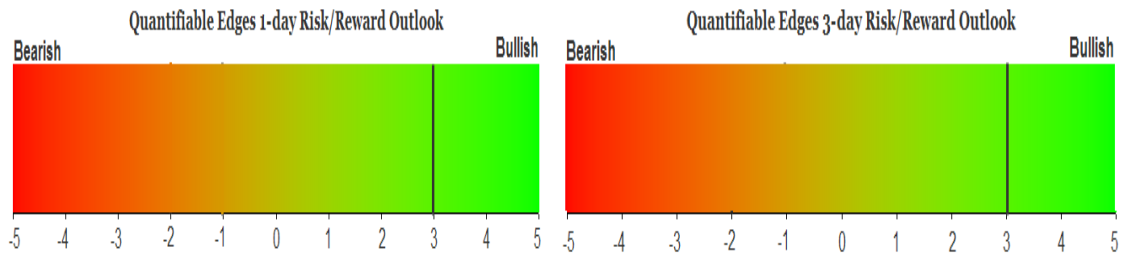
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 16, 2010

Volume 3 Issue 156

Market Overview



Tonight's Research Points

- The drop is extended and slowing which suggests a reversal is near.
- Friday's narrow range inside day suggests further selling in the short term.
- Down moves going into op-ex week have consistently led to bounces.
- A Hindenburg Omen "kind of" signaled on Thursday. This is a possible warning sign for the intermediate-term.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

The studies continue to be tilted solidly to the bullish side and the market remains oversold. I'm looking for a bounce.

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 16, 2010	3 Down into op-ex week	1-3 days	Bullish	1.80%
August 16, 2010	SPY Inside day lrg < 200ma no low vol	1-3 days	Bearish	-2.30%
August 16, 2010	SPX 3 lower closes & decline slowing	1-5 days	Bullish	2.20%
August 13, 2010	1% Gap down, 10-low, partial fill	1-2 days	Bullish	3.50%
August 12, 2010	1% gap. Open top 12% Close bottom 12%	1-3 days	Bullish	4.70%
August 12, 2010	2 Unfilled Down Gaps	1-5 days	Bullish	2.46%
Active - Long Term				
August 16, 2010	1 (borderline) Hindenburg Omen Day	int term	Bearish	
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 12, 2010	Less than 3% Up Volume	1-2 days	Bullish	2.75%

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

The Evidence

The market failed to bounce on Friday. Most of the selling was fairly contained. The SPX fell 0.4%, the Nasdaq lost 0.8% and the Russell 2000 did the worst – finishing down 1.2%. Breadth was tilted slightly negative as the NYSE Up Issues % came in at 47% and the Up Volume % was 41%. Total volume fell but not to an extreme.

The Quantifinder identified a few studies related to the slowing rate of decline the market has experienced over the last couple of days. One required the rate of decline to decrease over the last two days. Another required today to be the smallest decline of the down move. All of them required at least 3 lower closes. As you might suspect there was a fair amount of overlap so I decided to combine the studies.

SPX closes lower for at least the 3rd day in a row. The rate of decline has slowed the last 2 days and today is the smallest decline of the down move. Close < 200ma.
Buy on close. Sell X days later. \$100k/trade. 1960 - 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	52,309.07	48	32	16	66.67	4,087.53	-4,905.75	0.83	1.67	1,089.77
9	51,963.67	48	30	18	62.50	4,073.66	-3,902.55	1.04	1.74	1,082.58
8	50,184.74	48	31	17	64.58	3,563.49	-3,546.09	1.00	1.83	1,045.52
7	63,069.79	48	31	17	64.58	3,411.02	-2,510.10	1.36	2.48	1,313.95
6	61,483.50	48	35	13	72.92	2,894.31	-3,062.87	0.94	2.54	1,280.91
5	52,533.86	48	31	17	64.58	2,943.98	-2,278.21	1.29	2.36	1,094.46
4	37,283.04	48	30	18	62.50	2,458.48	-2,026.19	1.21	2.02	776.73
3	25,959.46	49	30	19	61.22	2,055.32	-1,878.95	1.09	1.73	529.78
2	22,822.47	50	32	18	64.00	1,498.42	-1,395.93	1.07	1.91	456.45
1	13,944.60	56	31	25	55.36	1,153.53	-872.60	1.32	1.64	249.01

Gold subscribers may note that this is also quite similar to a study I showed on Thursday night. Rather than duplicate the studies going in to the Aggregator I have decided to replace Thursday's with this one.

The Quantifinder also pointed out that while the slowing rate of decline is often a good thing, low-range inside days generally are not. This is especially true when the market is below its 200ma. Below is an excerpt from the July 6, 2010 Letter that covered this topic. (All tables **are** updated.)

The bearish studies that appeared looked at the fact that SPY formed a low-range inside day under the 200ma. I examined this in the 1/23/09 Subscriber Letter. I have updated results of that study below:

SPY posts an inside day under the 200ma. Today is the smallest range in 3 days.
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
10	-15,916.55	59	32	27	54.24	3,231.39	-4,419.30	0.73	0.87	-269.77
9	-13,651.10	60	35	25	58.33	2,596.55	-4,181.22	0.62	0.87	-227.52
8	-9,753.97	63	36	27	57.14	2,328.81	-3,466.34	0.67	0.90	-154.82
7	-34,764.73	67	30	36	44.78	2,583.33	-3,118.46	0.83	0.69	-518.88
6	-56,188.48	71	29	42	40.85	2,311.64	-2,933.95	0.79	0.54	-791.39
5	-51,615.80	74	32	41	43.24	2,012.88	-2,829.95	0.71	0.56	-697.51
4	-32,661.45	82	39	43	47.56	2,043.39	-2,612.88	0.78	0.71	-398.31
3	-42,921.35	89	41	48	46.07	2,000.87	-2,603.27	0.77	0.66	-482.26
2	-31,842.46	95	44	49	46.32	1,326.45	-1,840.94	0.72	0.65	-335.18
1	-28,824.75	97	43	54	44.33	987.53	-1,320.16	0.75	0.60	-297.16

This would suggest a downside edge over the next few days. Last week when I looked at inside days in a slightly different way I found that SPY volume also mattered. When they weren't accompanied by very low volume they tended to be a bit more bearish. I examined the study above in this manner. While SPY volume was lower on Friday, it was not the lowest reading of the last 5 days.

SPY posts an inside day under the 200ma. Today is the smallest range in 3 days. It is not the lowest volume in 5 days. 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
10	-53,572.12	43	20	23	46.51	2,549.14	-4,545.86	0.56	0.49	-1,245.86
9	-42,939.06	44	22	21	50.00	2,174.43	-4,322.69	0.50	0.53	-975.89
8	-37,482.32	45	21	24	46.67	2,083.60	-3,384.91	0.62	0.54	-832.94
7	-39,214.97	48	20	27	41.67	2,085.21	-2,997.01	0.70	0.52	-816.98
6	-56,724.77	49	20	29	40.82	1,833.96	-3,220.82	0.57	0.39	-1,157.65
5	-52,168.80	51	21	30	41.18	1,691.01	-2,922.66	0.58	0.41	-1,022.92
4	-48,007.66	51	21	30	41.18	1,716.29	-2,801.66	0.61	0.43	-941.33
3	-46,979.58	53	24	29	45.28	1,586.45	-2,932.91	0.54	0.45	-886.41
2	-29,797.05	53	22	29	41.51	1,149.38	-1,899.43	0.61	0.46	-562.21
1	-28,692.80	54	22	32	40.74	700.08	-1,377.95	0.51	0.35	-531.35

So we see here that results are quite a bit more bearish under these circumstances. Not evident in the above table is that there was a very large outlier in October of 2008. To perhaps better estimate the potential negative influence I eliminated that instance and reran the test.

SPY posts an inside day under the 200ma. Today is the smallest range in 3 days. It is not the lowest volume in 5 days. Buy on close. Sell x days later. \$100k/trade. 1993 - present. Excludes 10/1/2008.

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	-31,151.68	42	20	22	47.62	2,549.14	-3,733.38	0.68	0.62	-741.71
9	-28,982.25	43	22	20	51.16	2,174.43	-3,840.99	0.57	0.62	-674.01
8	-24,817.01	44	21	23	47.73	2,083.60	-2,981.42	0.70	0.64	-564.02
7	-15,485.81	47	20	26	42.55	2,085.21	-2,199.62	0.95	0.73	-329.49
6	-34,889.81	48	20	28	41.67	1,833.96	-2,556.03	0.72	0.51	-726.87
5	-36,197.25	50	21	29	42.00	1,691.01	-2,472.70	0.68	0.50	-723.95
4	-34,205.83	50	21	29	42.00	1,716.29	-2,422.35	0.71	0.51	-684.12
3	-37,215.84	52	24	28	46.15	1,586.45	-2,688.95	0.59	0.51	-715.69
2	-24,872.13	52	22	28	42.31	1,149.38	-1,791.37	0.64	0.50	-478.31
1	-25,067.99	53	22	31	41.51	700.08	-1,305.47	0.54	0.38	-472.98

So even without the large outlier the results are decidedly negative over the next few days.

Bottom line is that it is a bit tricky to try and determine the short-term implications of Friday's action. While the consecutive down days and slowing rate of decline seem to suggest a bounce, the low range inside day suggests lower prices. I ran many tests looking at combinations of these to see whether one consistently cancelled the other out. After spending some time on this I realized I was getting too specific and looking too hard. Looking too hard to build a case one way or the other is not a good way to approach historical testing. It could leave you subject to data mining pitfalls. So I decided the best course of action was to simply include both the bullish and bearish studies above into the Active Studies List and the Aggregator. No more messing around with the results was needed or desirable in my eyes.

Another piece of information that the Quantifinder noted on Friday is that this week is option expiration week. Historically this has been a positive for the market most of the time. In the 3/15/10 Subscriber Letter I broke down op-ex week performance by month. That table is copied below (no update).

Op-ex week performance by month. 1984 - present. (Excludes September of 2001.)										
Month	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
12	24,139.10	26	21	5	80.77	1,419.40	-1,133.66	1.25	5.26	928.43
11	4,373.94	26	16	10	61.54	1,437.97	-1,863.36	0.77	1.23	168.23
10	20,372.02	26	18	8	69.23	2,593.34	-3,288.50	0.79	1.77	783.54
9	4,340.25	25	15	10	60.00	1,375.10	-1,628.62	0.84	1.27	173.61
8	9,724.48	26	16	10	61.54	1,481.73	-1,398.31	1.06	1.70	374.02
7	-1,288.69	26	12	13	46.15	1,623.03	-1,597.31	1.02	0.94	-49.57
6	-4,566.75	26	13	13	50.00	1,264.23	-1,615.52	0.78	0.78	-175.64
5	8,987.54	26	14	12	53.85	2,029.22	-1,618.46	1.25	1.46	345.67
4	25,280.66	26	17	9	65.38	2,361.00	-1,650.70	1.43	2.70	972.33
3	24,505.86	26	17	9	65.38	2,267.48	-1,560.14	1.45	2.75	942.53
2	3,989.13	27	14	13	51.85	1,705.32	-1,529.65	1.11	1.20	147.75
1	2,831.59	27	13	14	48.15	2,286.94	-1,921.33	1.19	1.11	104.87

August being the 8th month you can see that it has generally followed suit and delivered solidly positive numbers.

Interesting about the current situation is that we now go into op-ex having closed down 4 days in a row.

Using the same lookback period as the above test I checked to see how the SPX has performed when it has been down 4 days in a row going into op-ex week.

SPY posted 4 or more consecutive lower closes going into op-ex week. Buy on Friday close. Sell X days later. \$100k/trade. 1984 - 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	17,723.23	15	11	4	73.33	2,588.60	-2,687.84	0.96	2.65	1,181.55
4	23,041.15	15	13	2	86.67	2,136.65	-2,367.65	0.90	5.87	1,536.08
3	19,350.63	15	12	3	80.00	1,872.52	-1,039.85	1.80	7.20	1,290.04
2	29,045.92	15	12	3	80.00	2,568.08	-590.33	4.35	17.40	1,936.39
1	19,395.04	15	10	5	66.67	2,217.93	-556.84	3.98	7.97	1,293.00

Instances are a little bit low but the results appear to be very bullish. When I examined the dates closer I found that the edge has been even more pronounced starting in 1989. Below are those results.

SPY posted 4 or more consecutive lower closes going into op-ex week. Buy on Friday close. Sell X days later. \$100k/trade. 1989 - 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	27,116.00	11	10	1	90.91	2,780.34	-687.44	4.04	40.44	2,465.09
4	26,238.22	11	10	1	90.91	2,680.37	-565.50	4.74	47.40	2,385.29
3	21,129.41	11	10	1	90.91	2,171.59	-586.50	3.70	37.03	1,920.86
2	27,841.41	11	9	2	81.82	3,196.23	-462.35	6.91	31.11	2,531.04
1	19,309.97	11	8	3	72.73	2,691.91	-741.78	3.63	9.68	1,755.45

This suggests a solid upside edge. But like I mentioned above, instances are lower than I would prefer. So I ran reran the test and only required 3 down days instead of 4.

SPX posted 3 or more consecutive lower closes going into op-ex week. Buy on Friday close. Sell X days later. \$100k/trade. 1989 - 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	30,118.10	24	17	7	70.83	2,174.98	-979.51	2.22	5.39	1,254.92
4	30,165.90	24	18	6	75.00	1,938.04	-786.48	2.46	7.39	1,256.91
3	27,936.92	24	18	6	75.00	1,739.70	-562.95	3.09	9.27	1,164.04
2	32,785.96	24	18	6	75.00	1,974.33	-458.66	4.30	12.91	1,366.08
1	22,245.44	24	17	7	70.83	1,548.55	-582.84	2.66	6.45	926.89

- October 8, 2008 was large outlier as the market shot up 11% then next day.
- 23 of 24 instances (96%) have closed above the entry price at some point during the next week.
- The lone loser was March of 1991.
- In fact 19 of the last 30 going back to 1985 have posted a higher close during the next week.

I won't repeat all my observations here, but please make sure to read them in red below the numbers in the above table. The bottom line is that while the numbers above are a little exaggerated thanks to October of 2008, there has been a strong and consistent edge in buying a down move into the Friday prior to option expiration week.

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



Adding a bearish study to the list has weakened the Aggregator reading some but the green Aggregator line is still comfortably above zero. The strongly positive value indicates the net expectation from the Active Studies over the next few days is for upside. The black Differential line also remains high as the SPX has greatly underperformed expectations over the last few days. So we have strongly positive expectations and a market that is very oversold versus recent expectations. This is considered a bullish configuration and is shown when both lines are above 0. Due to this the Aggregator System remained long at the close.

Currently the green Aggregator line is set up to remain positive tomorrow. It would take some very bearish studies to change this. Meanwhile the Differential pivot will be 1,097.22 tomorrow. This means it would take a close at or above this level in order to turn the black Differential line negative. That's nearly a 2% gain from Friday's close.

While they haven't played out the last couple of days, probabilities are still favoring a bounce here.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/16 – bullish

There has been an awful lot written about [the Hindenburg Omen](#) this past week. For those unaware, the Hindenburg Omen is a technical setup that suggests the market could be in for a decline if it is in an uptrend and the market has become “split”. A split market is suggested when there is both a high number of new highs and new lows. The definition varies somewhat depending on where you read about it. The link I provided above was to a Wikipedia page. A couple of days ago Tom McClellan wrote an interesting piece on the history of the indicator. He also discussed the fact that the signal which was reported to occur on Thursday by a number of publications was based on the looser Wikipedia definition, and not one of the stricter definitions found elsewhere. Additionally, he enlightened me on some stock market history and noted that prior to 1979 new high/low data was calculated differently. Therefore testing back before 1979 creates problems. Anyway, I’d encourage you to read his thoughts here:

http://www.mcoscillator.com/learning_center/kb/special_market_reports/hindenburg_omen_signaled_but_also_not/

I’ve seen a number of discrepancies over the last few days with regards to the exact criteria used for the Hindenburg Omen. Below are 3 worth mentioning.

- 1) *50-day vs. 10-week moving average.* This one shouldn’t matter much. They are both looking at the same time frame. The idea is that average should be moving higher and that will occur if the market is higher than it was 10 weeks (or 50 days) ago. For my testing I used 50-days. I’ve had some funky issues in the past with Tradestation when I’ve tried mixing daily and weekly bars. I decided to keep it simple and just use the 50-day instead of the 10-week. (One “problem” with doing this is that Thursday’s signal occurred above the 10-week but below the 50-day moving average. So my test would not have triggered an entry.)
- 2) *NH’s and NL’s must be greater than (2.2% or 2.4% or 2.8%) of new issues.* I saw all 3 listed. Tom addressed this issue in his article. I used 2.2% in my testing since as Tom pointed out, the 2.8% didn’t trigger.
- 3) *Clusters vs. single occurrences* – Some people suggested a single Hindenburg Omen trigger is not enough. That it is more reliable with multiple signals. This I examine a bit below.

So let’s look at some numbers. This first table results of entering the market when the 1st signal triggers.

Buy the SPX when the 1st Hindenburg signal triggers. Sell X days later. \$100k/trade. 1980 - 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	All: Max Losing Trade	All: Max Winning Trade
100	1,902.42	22	11	11	50.00	6,728.46	-6,555.51	1.03	1.03	86.47	-19,079.85	13,171.60
95	-13,372.86	22	10	12	45.45	6,649.20	-6,655.41	1.00	0.83	-607.86	-22,416.88	14,163.76
90	-22,094.69	22	10	12	45.45	6,017.82	-6,856.07	0.88	0.73	-1,004.30	-20,572.65	15,961.92
85	-10,729.27	22	11	11	50.00	6,883.85	-7,859.23	0.88	0.88	-487.69	-21,465.22	16,615.04
80	-23,674.83	22	10	12	45.45	6,275.47	-7,202.46	0.87	0.73	-1,076.13	-21,552.30	16,583.84
75	-21,825.71	23	11	12	47.83	5,918.55	-7,244.15	0.82	0.75	-948.94	-22,917.59	13,423.28
70	-29,266.29	23	10	13	43.48	6,682.63	-7,391.73	0.90	0.70	-1,272.45	-20,289.64	17,714.32
65	-39,072.08	24	11	13	45.83	5,863.50	-7,966.97	0.74	0.62	-1,628.00	-21,508.76	16,609.84
60	-60,348.58	24	10	14	41.67	5,042.14	-7,912.14	0.64	0.46	-2,514.52	-24,323.31	17,197.44
55	-75,244.02	25	10	15	40.00	4,832.27	-8,237.78	0.59	0.39	-3,009.76	-27,246.71	14,306.24
50	-42,606.20	27	12	15	44.44	5,712.20	-7,410.17	0.77	0.62	-1,578.01	-29,846.67	14,509.04
45	-26,991.01	27	13	14	48.15	5,059.27	-6,625.83	0.76	0.71	-999.67	-23,971.88	12,815.92
40	-25,230.32	30	14	16	46.67	5,258.71	-6,178.26	0.85	0.74	-841.01	-23,520.93	10,011.04
35	-36,441.42	33	14	19	42.42	5,086.64	-5,666.02	0.90	0.66	-1,104.29	-24,659.19	9,534.72
30	-41,339.35	38	18	20	47.37	3,753.63	-5,445.24	0.69	0.62	-1,087.88	-22,460.42	8,538.40
25	-33,775.14	50	24	26	48.00	3,689.54	-4,704.77	0.78	0.72	-675.50	-27,340.01	8,409.42
20	-36,337.57	54	28	26	51.85	2,954.77	-4,579.65	0.65	0.69	-672.92	-19,533.91	9,311.76
15	-47,092.50	67	28	39	41.79	2,870.73	-3,268.53	0.88	0.63	-702.87	-18,397.02	9,103.68
10	-36,998.98	96	49	47	51.04	1,938.25	-2,807.94	0.69	0.72	-385.41	-18,826.95	9,012.33
5	-39,508.89	183	89	94	48.63	1,729.58	-2,057.89	0.84	0.80	-215.90	-15,319.95	10,340.00

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period. (I read statements suggesting 30 days and others suggesting 36 days. I chose to test 30.)

Buy the SPX when the 2nd Hindenburg signal triggers. Sell X days later. \$100k/trade. 1980 - 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	All: Max Losing Trade	All: Max Winning Trade
100	12,735.90	12	7	5	58.33	7,161.22	-7,478.53	0.96	1.34	1,061.33	-18,879.12	17,883.98
95	10,304.18	13	8	5	61.54	6,708.09	-8,672.11	0.77	1.24	792.63	-21,212.88	17,605.78
90	12,929.58	13	9	4	69.23	5,844.03	-9,916.68	0.59	1.33	994.58	-20,011.68	20,476.59
85	-8,790.00	14	6	8	42.86	8,074.71	-7,154.78	1.13	0.85	-627.86	-21,883.68	20,455.19
80	-5,741.91	14	7	7	50.00	7,050.97	-7,871.24	0.90	0.90	-410.14	-21,961.68	18,961.47
75	-2,203.77	14	7	7	50.00	7,236.71	-7,551.54	0.96	0.96	-157.41	-23,181.60	17,861.51
70	-10,468.09	14	8	6	57.14	6,242.54	-10,068.06	0.62	0.83	-747.72	-19,060.08	21,700.67
65	-30,295.51	14	6	8	42.86	7,024.41	-9,055.25	0.78	0.58	-2,163.97	-23,131.68	20,504.41
60	-17,534.41	14	7	7	50.00	5,978.88	-8,483.79	0.70	0.70	-1,252.46	-22,011.60	19,457.95
55	-39,694.79	14	6	8	42.86	5,534.79	-9,112.94	0.61	0.46	-2,835.34	-26,329.68	18,625.49
50	-33,344.93	14	5	9	35.71	7,503.02	-7,873.34	0.95	0.53	-2,381.78	-29,889.60	17,961.02
45	-28,242.39	15	6	9	40.00	5,788.01	-6,996.72	0.83	0.55	-1,882.83	-24,766.56	16,345.32
40	-28,414.39	15	6	9	40.00	5,774.23	-7,006.64	0.82	0.55	-1,894.29	-24,853.92	14,615.13
35	-21,009.69	15	7	8	46.67	5,406.97	-7,357.31	0.73	0.64	-1,400.65	-22,211.28	13,303.31
30	-26,272.01	15	7	8	46.67	4,767.58	-7,455.63	0.64	0.56	-1,751.47	-20,354.88	11,007.09
25	-28,902.81	15	7	8	46.67	4,493.03	-7,544.25	0.60	0.52	-1,926.85	-23,381.28	10,173.56
20	-27,760.30	16	6	10	37.50	4,302.55	-5,357.56	0.80	0.48	-1,735.02	-22,295.52	8,886.35
15	3,603.54	17	7	10	41.18	3,492.16	-2,084.16	1.68	1.17	211.97	-6,748.56	8,305.02
10	-8,526.25	22	7	15	31.82	2,622.35	-1,792.18	1.46	0.68	-387.56	-5,748.21	9,247.23
5	-779.07	27	10	17	37.04	2,352.99	-1,429.94	1.65	0.97	-28.85	-3,352.36	6,245.73

Some of these numbers look a little worse, but you'd probably need to squint to notice. So lastly I checked instances that triggered a 3rd signal in a 30-day period.

Buy the SPX when the 3rd Hindenburg signal triggers. Sell X days later. \$100k/trade. 1980 - 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	All: Max Losing Trade	All: Max Winning Trade
100	18,189.83	9	6	3	66.67	6,521.01	-6,978.75	0.93	1.87	2,021.09	-16,085.07	18,512.90
95	9,304.48	9	5	4	55.56	6,711.67	-6,063.47	1.11	1.38	1,033.83	-16,770.54	16,070.66
90	101.55	9	4	5	44.44	9,036.94	-7,209.24	1.25	1.00	11.28	-19,277.67	18,595.58
85	6,033.07	9	5	4	55.56	7,852.24	-8,307.03	0.95	1.18	670.34	-21,362.25	18,884.96
80	-10,368.80	10	4	6	40.00	8,639.87	-7,488.05	1.15	0.77	-1,036.88	-19,449.82	16,528.58
75	-4,108.84	10	4	6	40.00	10,775.33	-7,868.36	1.37	0.91	-410.88	-22,758.23	18,289.24
70	-12,895.26	10	4	6	40.00	8,797.08	-8,013.93	1.10	0.73	-1,289.53	-21,021.08	19,119.22
65	-25,072.11	10	3	7	30.00	8,434.30	-7,196.43	1.17	0.50	-2,507.21	-23,731.66	17,909.76
60	-23,437.47	10	4	5	40.00	5,846.03	-9,364.32	0.62	0.50	-2,343.75	-22,576.69	17,209.10
55	-29,818.46	10	2	8	20.00	10,436.19	-6,336.35	1.65	0.41	-2,981.85	-20,673.65	17,905.52
50	-25,203.09	10	2	8	20.00	11,705.02	-6,076.64	1.93	0.48	-2,520.31	-22,263.69	17,255.74
45	-32,230.99	10	3	7	30.00	7,255.22	-7,713.81	0.94	0.40	-3,223.10	-25,143.29	15,507.80
40	-40,485.19	10	3	7	30.00	6,532.64	-8,583.30	0.76	0.33	-4,048.52	-26,846.01	13,700.50
35	-32,141.50	10	2	8	20.00	8,676.37	-6,186.78	1.40	0.35	-3,214.15	-22,795.79	11,461.78
30	-32,085.92	11	4	7	36.36	6,414.52	-8,249.14	0.78	0.44	-2,916.90	-23,844.34	10,991.14
25	-36,341.93	11	4	7	36.36	5,376.68	-8,264.09	0.65	0.37	-3,303.81	-25,105.73	9,841.04
20	-37,079.86	11	4	7	36.36	4,136.00	-7,660.55	0.54	0.31	-3,370.90	-21,406.07	8,458.80
15	-26,985.45	13	6	7	46.15	3,205.22	-6,602.39	0.49	0.42	-2,075.80	-26,924.26	7,078.68
10	-39,038.35	14	5	9	35.71	1,892.94	-5,389.23	0.35	0.20	-2,788.45	-25,784.94	3,159.86
5	-9,973.42	18	5	13	27.78	1,848.15	-1,478.01	1.25	0.48	-554.08	-3,509.22	4,174.28

Between 35 and 55 days out there appears to be some pretty poor returns on a very small sample size.

I looked at the 50-day holding period a bit closer. A few write-ups I read noted that a decline of at least 5% should be expected. Below are all 10 instances and their 50-day holding period stats. The column to the far right shows runup & drawdown.

Buy the SPX when the 3rd Hindenburg signal triggers.
Sell 50 days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
02/12/80	Buy	\$117.89	(11.45%)	\$1,975.84
04/24/80	Sell	\$104.39		(\$17,104.16)
07/23/86	Buy	\$238.66	(1.99%)	\$6,528.02
10/02/86	Sell	\$233.91		(\$4,433.02)
10/06/87	Buy	\$319.21	(22.28%)	\$53.21
12/16/87	Sell	\$248.08		(\$32,160.75)
03/14/94	Buy	\$467.39	(2.36%)	\$788.10
05/25/94	Sell	\$456.34		(\$6,715.89)
10/25/95	Buy	\$582.47	6.18%	\$7,185.42
01/08/96	Sell	\$618.46		(\$1,699.74)
01/12/98	Buy	\$939.21	17.33%	\$18,429.16
03/25/98	Sell	\$1,102.00		\$0.00
12/07/99	Buy	\$1,409.17	(1.48%)	\$4,818.10
02/17/00	Sell	\$1,388.25		(\$4,138.40)
04/17/06	Buy	\$1,285.33	(3.59%)	\$3,185.49
06/27/06	Sell	\$1,239.20		(\$5,085.08)
07/18/07	Buy	\$1,546.17	(0.96%)	\$577.92
09/27/07	Sell	\$1,531.38		(\$11,236.48)
10/18/07	Buy	\$1,540.08	(4.66%)	\$811.52
12/31/07	Sell	\$1,468.29		(\$8,574.72)

Six of the ten instances listed had a drawdown of over 5% within 50 days of the entry point. I found this to be a bit disappointing.

So here's my overall impression of the Hindenburg Omen signal.

- 1) Great name – much more marketable than names like “Aggregator” or “Rob”.
- 2) Lots & lots of hype.
- 3) Lots of rules – and lots of confusion about those rules.
- 4) Not a lot of big selloffs following these signals – but certainly some.

The rule confusion suggests to me that over time there have been people who likely have “improved” the system by adding rules to filter out bad signals. Normally a dangerous endeavor.

It appears the original intent of the system was to identify when a rally was narrowing and susceptible to a tumble. This is a concept I can buy into.

Are we really at that point now? Perhaps. Or perhaps the new lows is higher thanks to inverse ETFs and bond funds (if that matters).

The term “rally” is certainly questionable. While the 10-week ma was rising on Thursday, the 50-day ma was not. And in fact the 50ma had only spent 8 days moving up before starting to turn down on Thursday.

If I view Thursday’s signal as “valid”, then I would say that the Hindenburg Omen could be a potential warning sign that traders could keep in mind. In my eyes it’s nothing dire and nothing more than a small piece of the puzzle. I’ll note it on the Active Studies List and will monitor any further signals. I’m not panicked, though.

In fact, I’m still leaning to the bullish side.

Note: With all the differing rules and opinions I realize some subscribers may want to research it further themselves. I’ll place a link in the subscriber download section in the next day or so with Tradestation code and a workspace set up for subscribers. Then you can more easily explore the Hindenburg Omen and determine for yourself which rules you want to adhere to - if any.

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. For one, the system triggers page is pretty barren except for the S&P 500 (excluding 100) list, which I don't suggest signals on in the Letter. (I only use the 100 and the ETFs.) Secondly, I'm a bit bothered by not having managed to bounce yet and not seeing any Catapults yet. Give me a CBI spike or at least lower entry price and I may scale in a bit more to the SPY trade. For now, I'm keeping it relatively small.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IJR	8/9/2010	\$57.50	\$54.02	-6.05%		System 90609
SPY(1/4)	8/11/2010	\$109.30	\$108.31	-0.91%		Aggregator
SPY(1/4)	8/12/2010	\$107.65	\$108.31	0.61%		Aggregator
KO	8/13/2010	\$55.64	\$55.73	0.16%		system 11111

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.