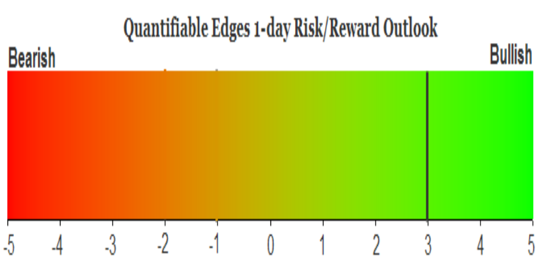
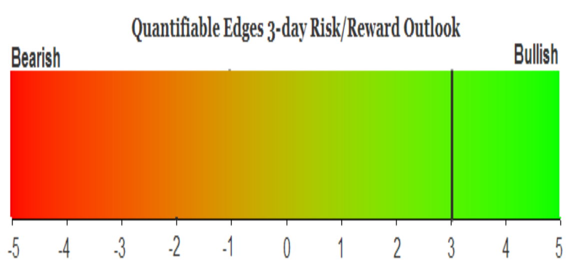
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 17, 2010 Volume 3 Issue 157

## Market Overview




### *Tonight's Research Points*

- The very mild bounce in the SPX today is a bit disheartening.
- 5 consecutive gap down opens in SPY suggests a possible multi-day bounce.
- The 3/10 Offset HV Indicator is warning of a sharp move in the next few days.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer turned short.

### *Short-term Outlook*

### *The Bottom Line*

Probabilities are still suggesting a bounce. I'm holding firm on my longs at this point, but not getting too Aggressive with my index position. If we don't bounce here the market could move sharply lower.

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***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 17, 2010 | SPX up slightly after 2 or more down | 1-4 days | Bearish | -1.90% |
| August 17, 2010 | SPY 5th lower gap down | 1-5 days | Bullish | 4.70% |
| August 16, 2010 | 3 Down into op-ex week | 1-3 days | Bullish | 1.80% |
| August 16, 2010 | SPY Inside day lr3 < 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 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 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% |

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

***The Evidence***

Some green today on the screen for the 1st time in a while. The SPX barely turned positive (though the SPY failed). At the close the SPX was up 0.01%, the Nasdaq gained 0.4% and the Russell 2000 rose 0.9%. Breadth was slightly positive as the NYSE Up Issues % came in at 61% and the Up Volume % was 50.4%. NYSE volume was the lowest in a while, but Nasdaq volume rose slightly.

The analyst in me hates these kind of days. I would much rather run statistics on well-defined moves than on days that barely budge. And with the SPX closing up and the SPY closing down, well that kind of conflict makes evaluation especially tricky sometimes. Can you remember the last time we saw a scenario like this? If you said 2 weeks ago, you'd be right. So let's take a look at my comments from the 8/2/10 Subscriber Letter below:

*While the SPX closed up, the SPY closed down creating a bit of an oddball situation. Prior to about a year and a half ago this wasn't that unusual because the SPY closing price was determined at 4:15 in accordance with the futures close. But now the SPY and the SPX close at the same time, so to have them close in opposite directions is a rarity. Several of the studies we utilize will consider the market's closing direction, so while the difference may seem insignificant, it isn't. It matters – and not just when considering which studies are likely to trigger. It also matters when considering how the market is* *likely to behave over the next several days. I examined this concept a bit in the June 18, 2009 Subscriber Letter. There is a link below if you'd like to read it.*

*2009-06-18 QE Subscriber Letter.pdf*

*There's some debate when something like this happens as to what measure is more "valid" – the SPX or the SPY. The SPX is the index and the SPY is a derivative instrument based on that index so many people would consider the SPX movement more valid. On the other hand, the SPY is an actual security with real buyers and sellers. What's more real and valid than price movement in that? Personally I'm undecided on the matter, but figured I'd throw it out there for readers to consider.*

Further down in that August 2nd, 2010 letter I showed a study that triggered again today. I've updated it below:

*This next series of studies has its roots in the 6/18/2009 Letter that I reference above. Those people that clicked the link will recognize the setup, which calls for a slight up day after at least 2 down days. In the 3/29/10 Subscriber Letter I found that the bearish implications of the setup were thanks to those times the SPX was trading under its 200ma. So I have included that filter when updating the tests below. This first one looks back to 1988.*

SPX closes up today after closing down 2 in a row. Todays rise is less than 0.2%.
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 | -6,448.52 | 24 | 13 | 11 | 54.17 | 1,454.04 | -2,304.64 | 0.63 | 0.75 | -268.69 |
| 4 | -13,269.41 | 25 | 13 | 12 | 52.00 | 1,403.03 | -2,625.74 | 0.53 | 0.58 | -530.78 |
| 3 | -9,925.92 | 26 | 12 | 14 | 46.15 | 1,153.24 | -1,697.49 | 0.68 | 0.58 | -381.77 |
| 2 | -4,067.19 | 26 | 14 | 12 | 53.85 | 964.72 | -1,464.44 | 0.66 | 0.77 | -156.43 |
| 1 | 211.98 | 26 | 13 | 13 | 50.00 | 971.25 | -954.94 | 1.02 | 1.02 | 8.15 |

*Implications here appear mildly bearish over the next few days. Similar to the study from last June I also wanted to see how this had been holding up more recently.*

SPX closes up today after closing down 2 in a row. Todays rise is less than 0.2%.
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 | -9,222.01 | 14 | 6 | 8 | 42.86 | 1,763.95 | -2,475.71 | 0.71 | 0.53 | -658.72 |
| 4 | -14,546.67 | 15 | 7 | 8 | 46.67 | 1,356.83 | -3,005.56 | 0.45 | 0.40 | -969.78 |
| 3 | -9,847.74 | 15 | 5 | 10 | 33.33 | 1,369.22 | -1,669.39 | 0.82 | 0.41 | -656.52 |
| 2 | -8,748.31 | 15 | 6 | 9 | 40.00 | 906.07 | -1,576.08 | 0.57 | 0.38 | -583.22 |
| 1 | -3,666.12 | 15 | 5 | 10 | 33.33 | 1,408.13 | -1,070.68 | 1.32 | 0.66 | -244.41 |

*Results here confirm the longer-term test.*

One interesting observation that was pointed out to me was that Monday was the 5th day in a row that the market gapped down to start the day. Pre-market trading is dominated by the pros. Retail traders typically don't trade until the official open at 9:30am EST. I've heard in the past that big institutions that want to buy will sometimes try and push futures lower in the morning when there isn't as much liquidity. They do this with the intention of buying at the open (at cheaper prices) when liquidity comes into the market. Of course news and trading of foreign markets overnight will also have much to do with the open. In any event, 5 gaps down in a row is fairly rare. It raises the question, "Does a consistently cheap open provide an edge going forward?" Let's take a look:

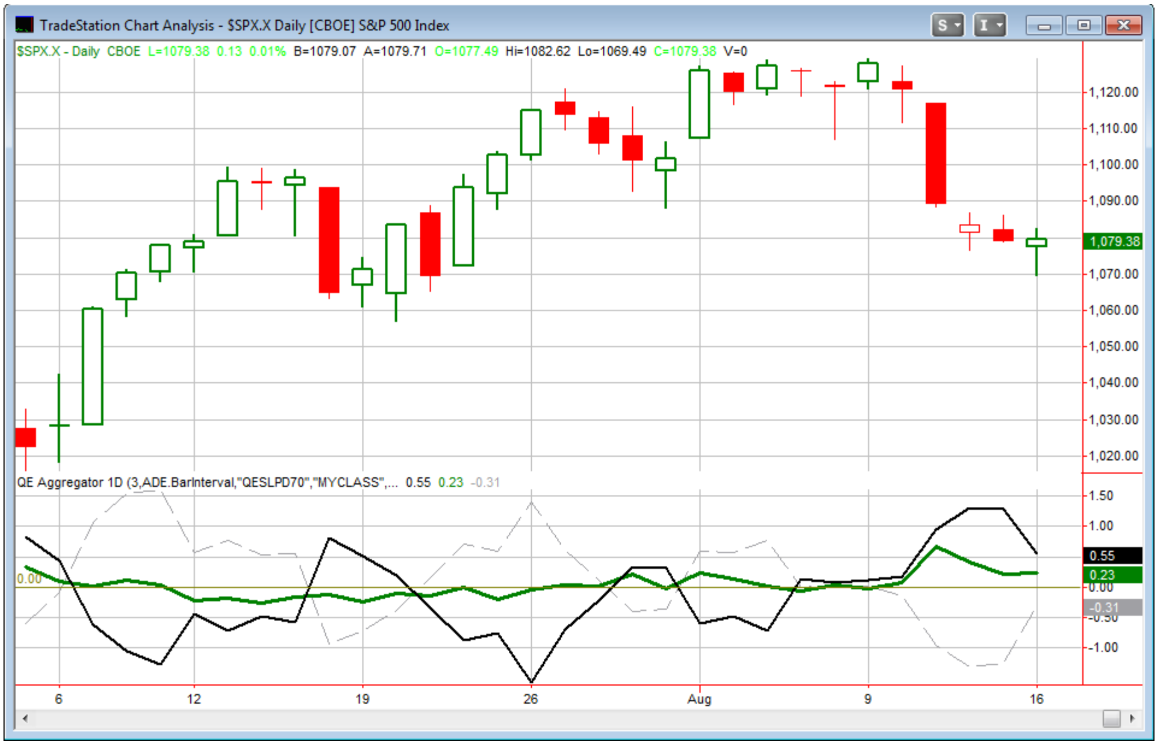
SPY gaps lower at the open for exactly the 5th day in a row.
Buy on close. Sell X days later. $100k/trade. 1993 - present.

| 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 | 63,328.97 | 20 | 13 | 7 | 65.00 | 5,600.12 | -1,353.23 | 4.14 | 7.69 | 3,166.45 |
| 4 | 54,472.53 | 20 | 12 | 8 | 60.00 | 5,042.93 | -755.33 | 6.68 | 10.01 | 2,723.63 |
| 3 | 51,778.27 | 20 | 15 | 5 | 75.00 | 3,725.70 | -821.45 | 4.54 | 13.61 | 2,588.91 |
| 2 | 43,116.51 | 20 | 14 | 6 | 70.00 | 3,480.84 | -935.87 | 3.72 | 8.68 | 2,155.83 |
| 1 | 25,007.48 | 20 | 13 | 7 | 65.00 | 2,368.22 | -825.63 | 2.87 | 5.33 | 1,250.37 |

90% of instances posted a close above the entry price at some point in the next 3 days, and 95% within the next week. The 1 instance that failed to post a higher close in the next week was 6/24/2002.

Instances are a little low but they sure offer some compelling evidence for the bull case.

I have updated the Aggregator chart below.




Not much change to the green Aggregator line tonight as it 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 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 1,095.99 tomorrow. This means it would take a close at or above this level in order to turn the black Differential line negative. That's over a 1.5% gain from Friday's close.

While they haven't played out the last couple of days, probabilities are still favoring a bounce here. But the inability to abide by historical norms and to bounce in a meaningful way suggests an extra layer of risk.

Also adding risk is the fact that the 3/10 Offset HV indicator closed below 0.25 today. This means historical volatility has seen a rapid contraction in the last few days and a volatility expansion in the next few days is likely. For more on this topic see the July 13, 2009 blog post.

Also notable about the low 3/10 Offset HV reading is that it improves the odds for daytraders to take advantage of an Opening Range Breakout trade. In a case like this where the Aggregator is strongly positive and the market is deeply oversold I'd likely only be inclined to take a long breakout. For those interested or who want a refresher on this concept you can check out the ORBs study from about a year ago. I've provided a link below.

ORBs Study.pdf

***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.*

*CMCSA – buy on CLOSE between $17.39 and $17.75.* CMCSA is triggering system 80402, which has been solid over the last few years – especially when the Aggregator is favorable. The standard entry is at a $17.75 limit price. I'm playing it a little chicken thanks to the market's inability to bounce and the low 3/10 Offset HV I mentioned above. So if the market heads lower I don't want to buy early in the day and have a sizable move against me. Instead I'll wait until the end of the day. ONE EXCEPTION…if CMCSA gaps down and opens at $17.49 or lower I will buy at the open. Basically looking for a bargain price on another gap down.

## Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---|---|---|---|---|---|---|
| IJR | 8/9/2010 | $57.50 | $54.37 | -5.44% | | System 90609 |
| SPY(1/4) | 8/11/2010 | $109.30 | $108.26 | -0.95% | | Aggregator |
| SPY(1/4) | 8/12/2010 | $107.65 | $108.26 | 0.57% | | Aggregator |
| KO | 8/13/2010 | $55.64 | $55.88 | 0.43% | | system 11111 |
| | | | | | | |

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