

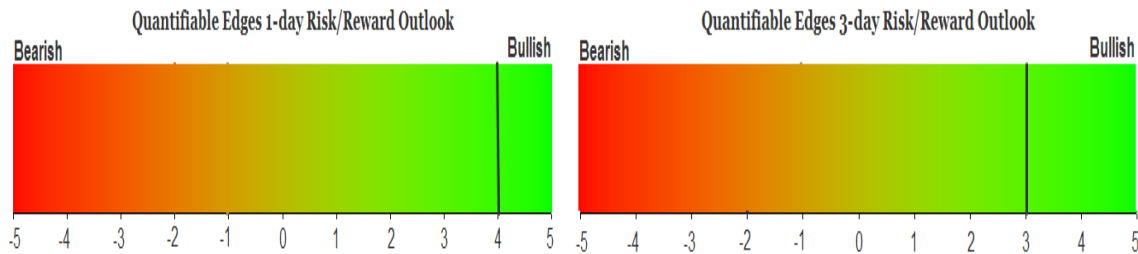
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 25, 2010

Volume 3 Issue 163

Market Overview



Tonight's Research Points

- Strong selloffs on strong breadth will often bounce over the next few days.
- A failed Turnaround Tuesday often just means a delay to the turnaround.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook

The Bottom Line

Though the market got hit hard today the studies are still suggesting a rebound is imminent. I'm long and getting longer.

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 25, 2010	SPX down 1%. Decliners 2x advancers	1-9 days	Bullish	3.00%
August 24, 2010	3 lower closes into Turnaround Tuesday	1-9 days	Bullish	3.70%
August 24, 2010	HV low SPX no highs	1-8 days	Bearish	-3.20%
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 7, 2010	McClellan Oscillator Bottom Divergence	int term	Bullish	
Dropped Tonight				
August 20, 2010	SPY gap dn no fill sell 1% more < 200	1-3 days	Bearish	-3.00%

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

The Evidence

Another tough day for the market as it gapped down to start the day and never made it up much higher than the open. The major indices all took big hits. The SPX dropped 1.5%, the Nasdaq fell 1.7% and the Russell lost 1.2%. Breadth was very weak as the NYSE Up Issues % came in at 25% and the Up Volume % was just 13%. Total volume spiked to the highest level in over a month.

Not much showed up in the Quantifinder tonight but that doesn't mean there wasn't much to look at. One study that did appear in the Quantifinder last appeared just a few days ago on 8/20. It looked at strong selloffs on very negative breadth. I've copied the study below (not updated).

SPX closes down 1% and decliners double advancers. Yesterdayu did not close at a 20-day high. Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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	233,726.92	235	154	81	65.53	2,956.74	-2,735.93	1.08	2.05	994.58
9	272,596.55	244	171	73	70.08	2,796.80	-2,817.22	0.99	2.33	1,117.20
8	240,557.70	257	171	85	66.54	2,776.40	-2,755.38	1.01	2.03	936.02
7	226,664.34	275	172	103	62.55	2,640.45	-2,208.67	1.20	2.00	824.23
6	204,965.93	291	182	109	62.54	2,516.78	-2,321.91	1.08	1.81	704.35
5	194,872.11	316	191	125	60.44	2,332.69	-2,005.37	1.16	1.78	616.68
4	153,332.25	337	198	139	58.75	2,114.04	-1,908.26	1.11	1.58	454.99
3	161,625.98	370	230	140	62.16	1,817.72	-1,831.78	0.99	1.63	436.83
2	151,671.85	422	240	182	56.87	1,716.60	-1,430.29	1.20	1.58	359.41
1	111,539.54	474	279	195	58.86	1,156.04	-1,082.03	1.07	1.53	235.32

85% of instances closed above the entry price at some point in the next week.

I've reset this study in the Aggregator.

Last night I looked at some studies related to Turnaround Tuesday. I showed that when the market makes 3 down days going in to Tuesday there has been a decided upside edge. Well, that edge certainly did not play out Tuesday. So what happens when Turnaround Tuesday fails to ignite a turnaround? I went back to 1980 for this test to get a good number of instances.

Today is Tuesday. SPX closes lower for exactly the 4th day in a row.
Buy on close. 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
10	51,837.87	33	27	6	81.82	2,365.98	-2,007.25	1.18	5.30	1,570.84
9	57,487.70	33	29	4	87.88	2,244.61	-1,901.52	1.18	8.56	1,742.05
8	62,734.72	33	28	5	84.85	2,524.11	-1,588.06	1.59	8.90	1,901.05
7	54,749.93	33	27	6	81.82	2,411.07	-1,724.85	1.40	6.29	1,659.09
6	54,950.89	33	26	7	78.79	2,485.66	-1,382.33	1.80	6.68	1,665.18
5	50,913.59	33	26	7	78.79	2,401.68	-1,647.17	1.46	5.42	1,542.84
4	46,860.00	33	25	8	75.76	2,366.61	-1,538.17	1.54	4.81	1,420.00
3	28,825.74	33	25	8	75.76	1,633.08	-1,500.17	1.09	3.40	873.51
2	18,339.30	33	20	13	60.61	1,345.93	-659.94	2.04	3.14	555.74
1	14,362.80	33	22	11	66.67	963.96	-622.21	1.55	3.10	435.24

28 of 33 instances (85%) closed above the entry price at some point in the next week.

Tuesday's failure to turn around simply appears to be a delay rather than a bad omen. I did not include this study in the Aggregator since it basically mimics last night's Turnaround Tuesday study criteria.

Also notable about today's action was that the SPY gapped down large from an already low level and then failed to ever fill that gap.

After closing at a 10-day low yesterday, SPY gaps down over 1% and fails to fill the gap .
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	41,890.75	15	11	4	73.33	5,218.02	-3,876.87	1.35	3.70	2,792.72
9	39,235.09	15	12	3	80.00	4,801.32	-6,126.90	0.78	3.13	2,615.67
8	39,881.07	16	13	3	81.25	4,326.21	-5,453.20	0.79	3.44	2,492.57
7	22,858.17	16	12	4	75.00	3,660.41	-5,266.70	0.70	2.09	1,428.64
6	39,350.28	16	11	5	68.75	4,328.53	-1,652.71	2.62	5.76	2,459.39
5	38,210.33	17	12	5	70.59	4,058.99	-2,099.52	1.93	4.64	2,247.67
4	15,646.83	17	11	6	64.71	3,314.97	-3,469.64	0.96	1.75	920.40
3	12,298.80	18	13	5	72.22	2,456.16	-3,926.26	0.63	1.63	683.27
2	15,805.73	18	12	6	66.67	2,640.56	-2,646.83	1.00	2.00	878.10
1	9,444.62	18	10	8	55.56	2,010.17	-1,332.14	1.51	1.89	524.70

88% of instances closed above the entry price at some point in the next week.

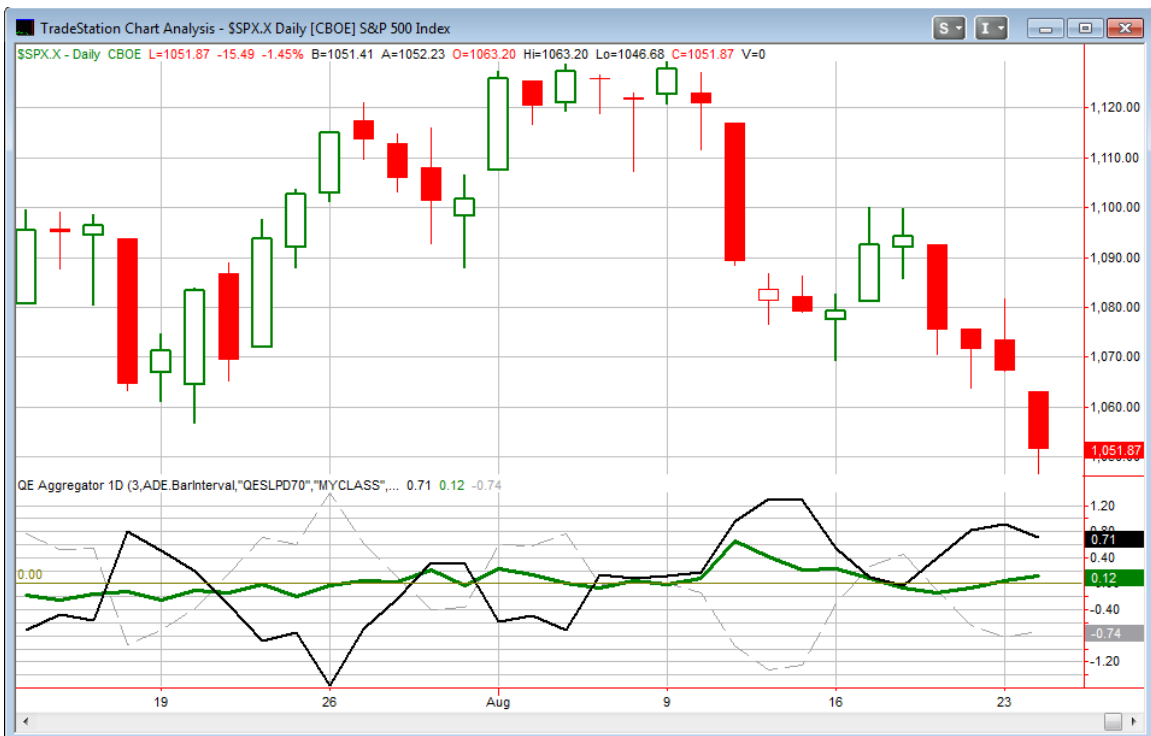
Risk/reward seems to favor the bullish case here. When I saw these initial results I figured this study would be worth including among the active studies. But when I examined it closer I realized that the upside all came between 1993 and 2002. There were no trades from 2003-2007. Since 2008 there have been just 4 instances but the market has not reacted as it did in the past. Below are the stats from 2008 – present.

After closing at a 10-day low yesterday, SPY gaps down over 1% and fails to fill the gap .
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	-8,250.94	4	0	4	0.00	0.00	-2,062.74	0.00	0.00	-2,062.74
4	-16,799.70	4	1	3	25.00	1,067.20	-5,955.63	0.18	0.06	-4,199.93
3	-15,705.26	4	1	3	25.00	883.20	-5,529.49	0.16	0.05	-3,926.32
2	-7,315.46	4	1	3	25.00	1,600.08	-2,971.85	0.54	0.18	-1,828.87
1	-5,603.98	4	0	4	0.00	0.00	-1,401.00	0.00	0.00	-1,401.00

I never try and extrapolate much from just 4 trades, but the recent struggles have me leaving this study alone for now. I'll continue to monitor it in the future.

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



With tonight's studies the green Aggregator remains above 0. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. Meanwhile the black Differential line is strongly above 0. This means 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 has historically suggested a bullish edge and can be seen on the chart whenever both lines are above zero. Due to this the Aggregator System remained long at the close.

Currently the green Aggregator line is again set up to remain positive tomorrow. This could change depending on what studies emerge. Meanwhile the Differential pivot will be 1,068.70 tomorrow. This means the SPX would need to close about 17 points higher in order to flip the black Differential line back to negative.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/23 – neutral to bullish

It turned out to be mostly a week of churning in the market. The SPX finished down slightly and the Nasdaq and Russell were up slightly. No compelling studies emerged with intermediate-term significance. Intermediate-term studies are now split. If I had to bet, I would bet that the market will continue its move up from the early July lows rather than continue down and make another substantial leg lower. I don't have to bet for or against that though. At this point the market is in a position where I'm comfortable taking short-term trades on either the long or the short side. And until I have stronger intermediate-term conviction, that's just what I intend to do.

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.

UTX – buy @ \$65.66 limit – A substantial number of stocks and ETFs triggered numbered systems at the close. UTX triggered 80509, which has been one of the best numbered systems when the Aggregator was positive as well. A few others triggered 80509 as well. I decided to just track one of them tonight.

SPY – buy ¼ index position @ \$105.00 limit ON CLOSE. Lots of bullish indications have me looking to continue to scale in if the market pulls back further.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IJR	8/9/2010	\$57.50	\$52.92	-7.97%		System 90609
SPY(1/4)	8/12/2010	\$107.65	\$105.58	-1.92%		
SPY(1/4)	8/24/2010	\$105.58	\$105.58	0.00%		Aggregator
CMCSA	8/24/2010	\$17.29	\$17.01	-1.62%		System 80402

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.