

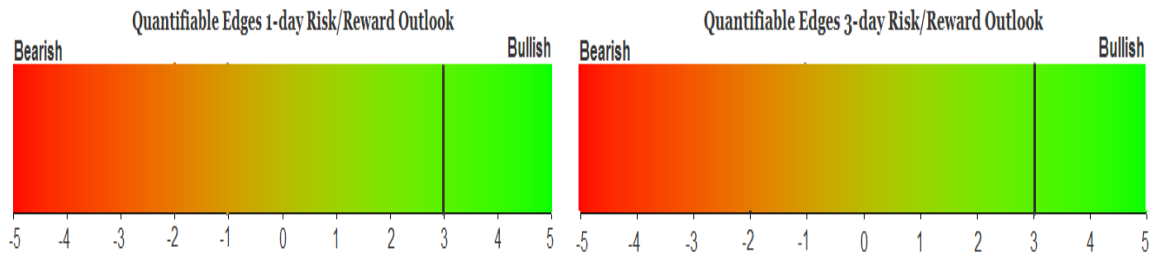
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 27, 2010

Volume 3 Issue 165

Market Overview



Tonight's Research Points

- A gap up leading to a failed bounce in a long-term downtrend has historically been short-term *bullish*.
- The Aggregator System switched back to long.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook

The Bottom Line

An ugly looking failure on Thursday is suggesting another attempt at a bounce is on tap. I'm looking to add back long exposure to take advantage of it.

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 27, 2010	Bounce immediately fails	1-4 days	Bullish	2.65%
August 26, 2010	SPY gap dn 10-low reverse up	1-3 days	Bearish	-3.70%
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	

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

The Evidence

Thursday started out well with a gap up in the morning. The bulls could get any momentum after that and the market filled the gap and eventually rolled over. The SPX gave back all of yesterday's gains finishing down 0.8%. Meanwhile the Nasdaq dropped 1.1% and the Russell 2000 lost 0.8%. Breadth was negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 24%. Total volume declined from Wednesday's levels.

When a rebound immediately fails it is often viewed as a bad sign. Wednesday's bounce was completely wiped out by the selloff on Thursday. Bulls were hoping the gap up this morning would hold and then perhaps they could gain some upside momentum. Instead the market fell to new 20-day lows. From a technical standpoint today sure looked bad. But I wondered if the close below Tuesday's low was truly dire or not. So I designed the study below to examine this setup.

After closing at a 20-day low 2 days ago, SPY closes up yesterday. It then gaps up this morning but closes at a new 20-day low. Close < 200ma. 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	17,721.06	16	12	4	75.00	2,596.62	-3,359.61	0.77	2.32	1,107.57
4	22,572.43	16	12	4	75.00	2,417.70	-1,610.00	1.50	4.51	1,410.78
3	20,926.25	16	11	5	68.75	2,297.31	-868.82	2.64	5.82	1,307.89
2	11,317.23	17	9	8	52.94	2,168.17	-1,024.54	2.12	2.38	665.72
1	3,403.68	17	12	5	70.59	682.10	-956.30	0.71	1.71	200.22

16 of 17 instances (94%) closed above the entry price at some point in the next 4 days.

Results here were much more positive than I expected. It appears a quick dip back down is often a last chance to suck in shorts and shake out longs before a multi-day rebound ensues.

QQQQ set up in the same pattern over the last few days and I decided to run the results there as well to see if it confirmed the SPY behavior.

After closing at a 20-day low 2 days ago, QQQQ closes up yesterday. It then gaps up this morning but closes at a new 20-day low. Close < 200ma.
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	14,667.56	12	7	5	58.33	4,132.41	-2,851.86	1.45	2.03	1,222.30
4	11,561.40	12	8	4	66.67	2,716.35	-2,542.34	1.07	2.14	963.45
3	26,882.38	12	8	4	66.67	3,637.86	-555.12	6.55	13.11	2,240.20
2	18,399.67	13	10	3	76.92	2,894.68	-3,515.71	0.82	2.74	1,415.36
1	3,376.74	13	8	4	61.54	1,427.31	-2,010.44	0.71	1.42	259.75

12 of 13 instances (92%) closed above the entry price at some point in the next 2 days. All 13 did it within 6 days.

It did. In both cases the bounces were very reliable.

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



With tonight's study the green Aggregator has quickly jumped back 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 squarely 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. Historically this

configuration has provided an upside edge. Due to this the Aggregator System turned back to long at the close.

Currently the green Aggregator line is set up to remain positive tomorrow. This could change depending on what studies emerge. Meanwhile the Differential pivot will be 1,052.95 tomorrow. This means the SPX would need to close about 5 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.

SPY – buy ¼ index position @ \$105.23 LIMIT. With the Aggregator now positive again I will put back on the SPY exposure that was exited at the open on Thursday.

NOV – buy @\$36.75 LIMIT. From the triggers spreadsheet this trade ideas is based on system 80509.

There were a few other setups from the spreadsheet tonight that looked enticing. I decided just to track this one.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IJR	8/9/2010	\$57.50	\$53.27	-7.36%		System 90609
SPY(1/4)	8/12/2010	\$107.65	\$105.23	-2.25%		
SPY(1/4)	8/24/2010	\$105.58	\$106.44	0.81%		sold @ open
CMCSA	8/24/2010	\$17.29	\$17.03	-1.50%		System 80402
UTX	8/25/2010	\$65.14	\$65.05	-0.14%		System 80509

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