

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 9, 2010

Volume 3 Issue 173

Market Overview



Tonight's Research Points

- The NDX move through its 200ma is a positive sign.
- A strong NDX while the SOX suffers has typically been followed by some short-term selling in both the NDX and the SPX.
- The Aggregator System remained short.
- The NDX Aggressive Trend Timer changed to flat.

Short-term Outlook

The Bottom Line

Short-term bearish evidence continues to pile up. I suspect it will take effect at some point.

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				
September 9, 2010	NDX Up 1%. SOX down. Buy SPX	1-6 days	Bearish	-3.20%
September 8, 2010	SPX dn 1%. Decliners double advancers	1-9 days	Bullish	3.65%
September 8, 2010	SPY vol 20-day low while close > 10ma	1-5 days	Bearish	-2.10%
September 8, 2010	Unfilled gap up + unfilled gap dn < 200	1-4 days	Bearish	-3.60%
September 7, 2010	3 Unfilled Up Gaps in SPY	1-3 days	Bearish	-1.40%
September 7, 2010	VXO < 15% below 10ma	1-5 days	Bearish	-3.80%
September 7, 2010	SPX up 3 days, NYSE Up Vol % > 90%	1-7 days	Bullish	2.90%
September 3, 2010	Up 0.75% on lower vol 2 days < 200ma	1-5 days	Bearish	-3.90%
September 2, 2010	1st day of month up 2.5%	1-6 days	Bearish	-3.35%
September 2, 2010	10-high, strong breadth, low vol, < 200	1-7 days	Bearish	-2.40%
September 2, 2010	SPY gap up, trend up, < 200	1-5 days	Bearish	-4.00%
Active - Long Term				
September 1, 2010	Tues after Labor Day lowest volume 5	1 month	Bearish	
September 2, 2010	2 90% Up Vol days in 1 week	1-20 days	Bullish	
September 1, 2010	August down > 4%	1 month	Bearish	
August 30, 2010	AII Survery very bearish	1-30 days	Bullish	
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				
September 3, 2010	Up 3, low range, no 50-low, < 200ma	1-2 days	Bearish	-1.80%

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

The Evidence

The Nasdaq led the way as the market put in a solid move upwards Wednesday. It was the 5th day in a row that the SPY failed to fill its morning gap – a remarkable feat. This time the gap was up and the low was established within the first few minutes of trading. When it was over the SPX had risen 0.6%, the Nasdaq was up 0.9%, and the Russell 2000 tacked on 0.8%. Breadth was again strongly positive as the NYSE Up Issues % came in at 69% and the Up Volume % was 73%. Total volume increased slightly from Tuesday but still came in below average.

Not a whole lot of substance among the studies and indications I looked at tonight. The most notable action was in the NDX and the SOX. It's worth noting that while the Nasdaq, Russell 2000, and SPX are still below their 200ma's, the NDX move nicely through its 200ma tonight. [I wrote about this a while back](#) and it has often been a positive for the NDX both short and long-term.

A bit more interesting to me was the discrepancy between the NDX and the SOX. While the NDX rose 1.3% on Wednesday, the SOX declined 0.4% - which is very unusual action. It brought about a study from the 8/10/2009 Letter which I have updated below.

NDX rises 1% while SOX closes down on the day. Buy NDX on close. Sell X days later. \$100k/trade. 2000 - 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	-86,271.71	36	13	23	36.11	5,311.54	-6,753.12	0.79	0.44	-2,396.44
9	-77,400.73	36	11	25	30.56	5,928.26	-5,704.46	1.04	0.46	-2,150.02
8	-74,554.61	37	10	27	27.03	6,678.09	-5,234.65	1.28	0.47	-2,014.99
7	-85,082.96	38	8	30	21.05	8,912.40	-5,212.74	1.71	0.46	-2,239.03
6	-110,492.98	38	8	30	21.05	8,031.79	-5,824.91	1.38	0.37	-2,907.71
5	-76,547.68	39	13	26	33.33	4,434.63	-5,161.46	0.86	0.43	-1,962.76
4	-47,434.13	39	18	21	46.15	3,212.52	-5,012.35	0.64	0.55	-1,216.26
3	-29,117.35	40	16	24	40.00	4,629.80	-4,299.76	1.08	0.72	-727.93
2	-4,780.87	42	19	23	45.24	3,704.41	-3,268.03	1.13	0.94	-113.83
1	-4,128.68	44	19	25	43.18	2,987.98	-2,436.01	1.23	0.93	-93.83

Six days out 79% of the instances were losers and the average occurrence was nearly a 3% loss. That seems to be a fairly substantial edge. Tonight I also checked to see how the SPX performed while this was all going on.

NDX rises 1% while SOX closes down on the day. Buy SPX on close. Sell X days later. \$100k/trade. 2000 - 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	-22,953.31	36	14	22	38.89	2,932.72	-2,909.61	1.01	0.64	-637.59
9	-26,096.66	36	16	20	44.44	2,667.04	-3,438.46	0.78	0.62	-724.91
8	-33,908.73	37	16	21	43.24	2,324.05	-3,385.41	0.69	0.52	-916.45
7	-39,779.48	38	17	21	44.74	2,184.32	-3,662.52	0.60	0.48	-1,046.83
6	-41,555.62	38	11	27	28.95	3,093.22	-2,799.30	1.10	0.45	-1,093.57
5	-34,585.75	39	16	23	41.03	1,766.79	-2,732.80	0.65	0.45	-886.81
4	-23,113.14	39	19	20	48.72	1,690.94	-2,762.05	0.61	0.58	-592.64
3	-14,181.65	40	18	22	45.00	1,931.35	-2,224.81	0.87	0.71	-354.54
2	-5,919.53	42	18	24	42.86	1,698.80	-1,520.74	1.12	0.84	-140.94
1	2,095.65	44	21	23	47.73	1,373.54	-1,162.98	1.18	1.08	47.63

The pullback wasn't quite as reliable or as strong as the NDX but there still appears to be a decent downside edge.

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



Not much change to the Aggregator chart tonight. The green Aggregator line remains strongly below zero. The negative value indicates the net expectation from the Active Studies over the next few days is for downside. Meanwhile the black Differential line is also still well below 0. This means the SPX has outperformed expectations over the last few days. So we have negative expectations and a market that is overbought versus recent expectations. Historically, this has provided a downside edge. The condition is represented by both lines closing below 0. Due to this the Aggregator System remained short.

Currently the green Aggregator line is set up to remain negative tomorrow. It would be difficult for enough bullish studies to appear tomorrow to change this. Meanwhile the Differential pivot will rise to 1,098.25 tomorrow. It would take an SPX close at or below this level to flip the black Differential line positive. This is less than a point below Wednesday's close. The strong 3-day upmove a few days ago will be falling off the back of the Differential equation and the market will not remain short-term overbought without further buying.

The market is forcing me to be patient over the last few days. I'm positioned in line with the probabilities, which may or may not work out for this particular setup, but over the

long haul it should. For now there's not much else for me to do. I'll at least lighten up if we close below the Differential pivot tomorrow and may take the whole position off depending on what I see. I'm not looking to take on any more exposure tonight.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/7 – slightly bullish

There's quite a bit active right now on the intermediate-term active studies list. There is pull from both sides and I'm not seeing overwhelming evidence in either direction.

The most compelling studies for the bears are the Hindenburg Omen from the August 16th letter and the [September seasonality study](#). There is also the study that noted the weak performance after the Follow Through Day in July. That is still on the board because by the study's definition the FTD has neither succeeded nor failed at this point. Still, I'm not sure the trading action from that week is having a great influence on current action so I'm discounting that one heavily at this point.

The bulls have seen some studies (including the 1st one tonight) that have suggested strong A/D Breadth and/or A/D Volume Breadth are paving the way for further upside. Additionally, the [AAII Investor Sentiment Survey study](#) is also suggesting an intermediate-term upside edge.

So we have a bit of push and pull going on here. Overall I'm leaning towards the bullish side. I think we've seen enough evidence of buying interest that the April highs are more likely to be broken over the next few months than the July lows are. I'm inclined to play the long side slightly more aggressive than the short side at this point.

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.

No new trade entry ideas tonight. See below for exit trigger for 2 SPY lots.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	9/2/2010	\$109.47	\$110.41	-0.86%		Aggregator
SPY(1/4)(s)	9/3/2010	\$110.54	\$110.41	0.12%		Aggregator
SPY(1/4)(s)	9/3/2010	\$110.54	\$110.41	0.12%		Aggregator

I'll look to cover 2 SPY lots at the close tomorrow if the SPX finishes at 1,098.25 or lower.

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