

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2010

Volume 3 Issue 181

Market Overview



Tonight's Research Points

- A breakout from a base to a 50-day high is more likely to be successful under any of the following conditions: lower volume, extremely strong breadth, a good basing period, and an unfilled gap. Most everything lined up on Monday suggesting a good chance at some follow through to this breakout.
- Tuesday is a Fed Day. Normally bullish the fact that Monday closed so well greatly reduces its positive expectations.
- The Aggregator System changed to flat.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

Today's breakout look like it could gain steam. Since we are already overbought, I went flat based on the Aggregator System. Should the market pull back in the next few days it could therefore set up a long signal.

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 21, 2010	50-high breakout. Lower NYSE volume.	1-5 days	Bullish	1.75%
September 21, 2010	50-high breakout. 90% Up vol.	1-3 days	Bullish	2.90%
September 20, 2010	SPX & VIX up on Friday. Close > 200ma	1-2 days	Bearish	-1.10%
September 20, 2010	September op-ex	1-5 days	Bearish	-2.40%
September 17, 2010	Top 10% of 10-day range prior to op-ex	1-5 days	Bearish	
September 16, 2010	SPY 10 days > 5ma & 10 day high	1-4 days	Bearish	-1.50%
Active - Long Term				
September 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish	
September 13, 2010	Low Vol 20. Low range 20. Close < 200	1-18 days	Bearish	
September 8, 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	AAII Survery very bearish	1-30 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				
<i>September 13, 2010</i>	<i>AAII Spread Spike Up 40% in 2 wee</i>	<i>1-9 days</i>	<i>Bullish</i>	<i>2.60%</i>
<i>September 8, 2010</i>	<i>SPX dn 1%. Decliners double advan</i>	<i>1-9 days</i>	<i>Bullish</i>	<i>3.65%</i>
September 20, 2010	High vole rise on op-ex day	1 day	Bearish	

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

The Evidence

Breakout. The market gapped up and after a brief dip near the open it held above Friday's close and rallied almost all day. At the close all the major indices were well higher. The SPX rose 1.5%, the Nasdaq was up 1.7% and the Russell 2000 gained 2.9%. Breadth was very strong as the NYSE Up Issues % came in at 80% and the Up Volume % was 92%. Total volume was a little above average but still well below Friday's levels.

I sent out a tweet this morning that many of the 8/3/10 studies looked like they might trigger again tonight and they have. The evidence presented in the 8/3 letter was strongly bullish. Of course after that the market only managed some small gains before topping out on 8/9 and suffering a 90 point pullback in the SPX over the next 2-3 weeks. Still, for the first time in a while I'm seeing some strongly bullish studies.

The big plusses with today's breakout were thanks to the fact that 1) it came after a suitable basing period, 2) it came on lower volume, 3) it was accompanied by strong breadth, and 4) it left an unfilled upside gap.

Many traders believe that strong volume should accompany breakouts, and while this *may* be true for individual stocks, it is not true for market indices. I've discussed this a number of times but it is always worth rehashing. Below are some studies last shown in the 8/3/10 Subscriber Letter. This first one looks at times like today when the breakout occurred on lower volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
25	28,026.28	44	25	19	56.82	3,512.83	-3,147.08	1.12	1.47	636.96
20	14,408.21	45	25	20	55.56	2,554.89	-2,473.20	1.03	1.29	320.18
15	20,578.18	46	29	17	63.04	2,349.24	-2,797.04	0.84	1.43	447.35
10	13,332.83	48	24	24	50.00	2,038.39	-1,482.85	1.37	1.37	277.77
9	22,118.76	48	31	17	64.58	1,610.57	-1,635.83	0.98	1.80	460.81
8	33,025.01	48	34	14	70.83	1,572.68	-1,460.43	1.08	2.62	688.02
7	32,003.25	48	32	16	66.67	1,499.48	-998.76	1.50	3.00	666.73
6	41,072.62	48	34	14	70.83	1,536.24	-797.10	1.93	4.68	855.68
5	46,287.39	48	37	11	77.08	1,602.21	-1,181.30	1.36	4.56	964.32
4	33,302.64	48	35	13	72.92	1,320.39	-993.16	1.33	3.58	693.81
3	33,798.27	48	33	15	68.75	1,290.48	-585.83	2.20	4.85	704.13
2	19,001.80	48	33	15	68.75	885.79	-681.95	1.30	2.86	395.87
1	9,118.25	48	31	16	64.58	500.31	-399.46	1.25	2.43	189.96

45 of 48 instances (94%) closed above the entry price at some point in the next week.

The 1st week shows some strong follow through on a very consistent basis. A bit hit or miss after that but the strong initial thrust makes this an attractive short-term setup.

Now let's look at times where the volume rose on the breakout. This table below is from the 8/3 letter and has NOT been updated.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
20	8,074.31	116	56	60	48.28	3,666.53	-3,287.52	1.12	1.04	69.61
15	31,981.81	121	63	58	52.07	3,052.05	-2,763.75	1.10	1.20	264.31
10	11,625.32	124	61	63	49.19	2,438.95	-2,176.99	1.12	1.08	93.75
9	14,794.67	124	60	63	48.39	2,344.16	-1,997.70	1.17	1.12	119.31
8	11,975.07	124	65	59	52.42	1,979.89	-1,978.27	1.00	1.10	96.57
7	28,829.44	124	64	60	51.61	1,954.98	-1,604.82	1.22	1.30	232.50
6	28,747.75	124	70	54	56.45	1,654.40	-1,612.23	1.03	1.33	231.84
5	23,718.66	124	63	61	50.81	1,679.26	-1,345.49	1.25	1.29	191.28
4	11,265.09	124	67	57	54.03	1,324.28	-1,358.97	0.97	1.15	90.85
3	20,862.14	124	72	52	58.06	1,168.62	-1,216.89	0.96	1.33	168.24
2	24,910.48	124	75	48	60.48	918.36	-915.97	1.00	1.57	200.89
1	21,756.54	124	76	48	61.29	584.48	-472.16	1.24	1.96	175.46

This was a lot more common and a lot less reliable – both short and intermediate-term.

In the 4/26/10 Letter I examined whether the basing periods made any difference. Below is an excerpt from that letter. (Stats not updated.)

The requirement that the market has not closed at a new high for 5 days was included to show that this is a fresh breakout and not a market that is already extended upwards and has been making new highs for multiple days. To see the effect of this filter I ran a few tests that demanded different periods without new highs. This first one looks at a 1-day holding period.

SPX closes at a 50 day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 1 day later. \$100k/trade. 1996 - 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	4,462.22	25	17	8	68.00	408.31	-309.88	1.32	2.80	178.49
9	4,462.22	25	17	8	68.00	408.31	-309.88	1.32	2.80	178.49
8	4,542.32	26	18	8	69.23	390.08	-309.88	1.26	2.83	174.70
7	8,739.10	32	24	8	75.00	467.42	-309.88	1.51	4.53	273.10
6	10,042.36	35	27	8	77.14	463.76	-309.88	1.50	5.05	286.92
5	7,869.62	43	31	12	72.09	435.09	-468.17	0.93	2.40	183.01
4	8,031.08	49	34	15	69.39	411.37	-397.03	1.04	2.35	163.90
3	9,130.23	55	37	18	67.27	470.77	-460.46	1.02	2.10	166.00
2	4,647.93	64	41	23	64.06	460.58	-618.95	0.74	1.33	72.62
1	2,272.09	91	53	38	58.24	488.97	-622.20	0.79	1.10	24.97
0	-892.09	211	94	85	44.55	449.30	-507.37	0.89	0.98	-4.23

Here you see that fresh breakouts tend to do better than extended conditions. The “0 days” row shows a slight negative expectation. Stats once you get out about 5 days look pretty strong and remain so as you go farther out.

I also ran this same test with a 3-day holding period.

SPX closes at a 50 day high after not doing so for at least X days. NYSE volume is lower than yesterday. Buy SPX on close. Sell 3 days later. \$100k/trade. 1996 - 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	21,765.77	25	20	5	80.00	1,316.36	-912.28	1.44	5.77	870.63
9	21,765.77	25	20	5	80.00	1,316.36	-912.28	1.44	5.77	870.63
8	22,458.19	26	21	5	80.77	1,286.65	-912.28	1.41	5.92	863.78
7	29,882.00	32	26	6	81.25	1,356.74	-898.88	1.51	6.54	933.81
6	29,408.80	35	27	8	77.14	1,320.02	-778.98	1.69	5.72	840.25
5	29,800.15	43	32	11	74.42	1,183.93	-735.04	1.61	4.69	693.03
4	32,231.06	49	37	12	75.51	1,113.18	-746.39	1.49	4.60	657.78
3	28,574.85	55	40	15	72.73	1,110.07	-1,055.19	1.05	2.81	519.54
2	26,126.14	64	42	22	65.63	1,155.50	-1,018.40	1.13	2.17	408.22
1	23,427.05	88	53	35	60.23	1,166.42	-1,096.95	1.06	1.61	266.22
0	17,065.60	150	82	68	54.67	1,057.00	-1,023.66	1.03	1.25	113.77

Results here suggest a similar conclusion. You are better off buying breakouts that haven't made a new high for at least a week or so than you are buying any new high. Anything beyond a week shows fairly consistent results.

The weak volume and lengthy basing period weren't the only positives associated with today's breakout. The very strong breadth has also been a good sign in the past. Below is another study from the 8/3/10 Subscriber Letter that shows breakouts on extreme breadth have a strong tendency to follow through.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE Up Volume % > 90%. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
25	47,149.27	11	9	2	81.82	5,867.85	-2,830.68	2.07	9.33	4,286.30
20	39,106.00	11	7	4	63.64	7,144.22	-2,725.88	2.62	4.59	3,555.09
15	33,537.53	11	7	4	63.64	6,262.94	-2,575.76	2.43	4.26	3,048.87
10	31,005.21	11	8	3	72.73	4,657.74	-2,085.58	2.23	5.96	2,818.66
9	25,705.32	11	7	3	63.64	4,616.82	-2,204.14	2.09	4.89	2,336.85
8	22,718.14	11	8	3	72.73	3,968.24	-3,009.25	1.32	3.52	2,065.29
7	22,862.03	11	8	3	72.73	3,950.95	-2,915.19	1.36	3.61	2,078.37
6	21,172.72	11	8	3	72.73	3,382.30	-1,961.90	1.72	4.60	1,924.79
5	24,987.61	11	9	2	81.82	3,173.64	-1,787.58	1.78	7.99	2,271.60
4	17,080.71	11	8	3	72.73	2,867.70	-1,953.62	1.47	3.91	1,552.79
3	21,706.42	11	9	2	81.82	2,432.15	-91.45	26.60	119.68	1,973.31
2	17,931.58	11	11	0	100.00	1,630.14	0.00	100.00	100.00	1,630.14
1	11,717.90	11	9	2	81.82	1,362.43	-272.00	5.01	22.54	1,065.26

The only other time this setup occurred on a decrease in volume was the August 2, 2010 instance. After a mild bump up over the next few days, that instance was one of the few that turned sour and saw a selloff soon after. I mention this not so much because 1 instance concerns me, but rather to explain why I didn't combine both breadth and volume in a breakout study.

If we ignore the 50-day breakout and just require an uptrend to be in place as measured by the 200ma, then the extreme breadth / lower volume combo is still unusual. Below is yet another study I've updated from the 8/3 letter that examined this.

NYSE Up Volume % > 90% while NYSE volume declines. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	-145.34	9	5	4	55.56	3,281.24	-4,137.89	0.79	0.99	-16.15
9	2,500.51	9	6	3	66.67	2,548.25	-4,262.99	0.60	1.20	277.83
8	-948.58	9	5	4	55.56	2,766.26	-3,694.97	0.75	0.94	-105.40
7	1,250.46	9	4	5	44.44	2,863.01	-2,040.32	1.40	1.12	138.94
6	1,128.64	9	3	6	33.33	3,149.32	-1,386.56	2.27	1.14	125.40
5	4,333.86	9	5	4	55.56	1,910.54	-1,304.71	1.46	1.83	481.54
4	6,276.32	9	6	3	66.67	1,752.16	-1,412.22	1.24	2.48	697.37
3	8,215.01	10	6	4	60.00	1,682.99	-470.73	3.58	5.36	821.50
2	8,123.18	10	9	1	90.00	944.51	-377.37	2.50	22.53	812.32
1	2,733.51	12	6	6	50.00	843.11	-387.53	2.18	2.18	227.79

The real edge here only lasts a couple of days. One thing I've learned over the last few years is that when breadth and volume butt heads, breadth often takes precedent. This is one example. It seems to suggest that even while participation is broad, there often is room for more people to chase. The excitement hasn't resulted in a buying spree that would lead to an immediate pullback.

I also found it interesting that the SPY left an unfilled gap today. I should note that while this is the 1st 50-day high for the SPX, the SPY actually closed at a new high last Wednesday. Still, I thought it would be worthwhile to examine 50-day high breakouts that were accompanied by an unfilled gap vs. those that weren't. First let's look at instances where SPY broke out and posted an unfilled gap.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	32,878.39	34	24	10	70.59	1,837.09	-1,121.18	1.64	3.93	967.01
4	23,712.11	34	25	9	73.53	1,416.13	-1,299.00	1.09	3.03	697.42
3	20,311.52	34	25	9	73.53	1,253.06	-1,223.89	1.02	2.84	597.40
2	12,915.59	34	23	11	67.65	929.03	-768.37	1.21	2.53	379.87
1	4,983.07	34	24	10	70.59	549.85	-821.33	0.67	1.61	146.56

30 of 34 instances (88%) posted a close above the entry price at some point in the next 4 days.

Results here are strong. Technicians will often use the term “breakaway gap” in cases like this. The idea is that the new high causes excitement and the gap leaves a good amount of people stuck short. When it doesn't immediately fill, it leads these shorts to chase and helps to propel the market even higher.

Now let's look at instances where the 50-day high breakout was not accompanied by an unfilled gap. Interestingly, the number of instances was nearly the same.

SPY closes at a 50-day high after not having done so for at least 10 days. No unfilled gap today. 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	-15,890.08	35	15	20	42.86	1,258.86	-1,738.65	0.72	0.54	-454.00
9	-9,118.75	35	15	20	42.86	1,469.62	-1,558.16	0.94	0.71	-260.54
8	-4,726.50	35	17	18	48.57	1,204.38	-1,400.05	0.86	0.81	-135.04
7	-3,439.05	35	17	18	48.57	899.15	-1,040.26	0.86	0.82	-98.26
6	2,163.49	35	21	14	60.00	1,021.47	-1,377.67	0.74	1.11	61.81
5	888.97	35	20	15	57.14	1,059.69	-1,353.65	0.78	1.04	25.40
4	-2,701.06	35	17	18	48.57	1,120.86	-1,208.65	0.93	0.88	-77.17
3	1,957.36	35	18	17	51.43	1,140.05	-1,091.97	1.04	1.11	55.92
2	-1,497.59	36	18	18	50.00	700.55	-783.75	0.89	0.89	-41.60
1	501.03	36	19	16	52.78	486.74	-546.69	0.89	1.06	13.92

As you can see these moves to new highs that don't start with an unfilled gap are much less reliable.

Another important feature of the "breakaway gap" is that it is actually a breakaway. Let's look at the unfilled gap higher to a new 50-day high again but this time filter on only those instances that were not preceded by a base formation.

SPY closes at a 50-day high. It is not the 1st 50-day high in the last 10 days. Today it leaves an unfilled gap up. 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	-32,144.01	104	45	58	43.27	889.01	-1,243.96	0.71	0.55	-309.08
4	-14,277.98	112	61	50	54.46	812.08	-1,276.30	0.64	0.78	-127.48
3	-9,743.75	121	66	54	54.55	704.07	-1,040.97	0.68	0.83	-80.53
2	-2,300.63	130	71	58	54.62	570.15	-737.61	0.77	0.95	-17.70
1	-6,682.97	141	68	72	48.23	380.41	-452.09	0.84	0.79	-47.40

Similar to the SPX base breakout studies I copied above from the 4/26/10 letter, these results imply that a proper base is needed. Gaps to new highs that aren't breakaway gaps may instead mark exhaustion and simply don't carry the same upside edge.

Tomorrow is a Fed Day. In The Quantifiable Edges Guide to Fed Days I showed that a substantial determinant of the upside edge is the closing range the day before the Fed

Day. Basically the worse the close, the stronger the edge for the next day. Below I have updated the study that looked at closes in the top quartile like Monday.

SPY closes in top 25% of daily range. Tomorrow is a Fed Day. Buy on close. Sell next day's close. \$100k/trade. 3/1/93 - present			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$8,074.63	Profit Factor	1.48
Gross Profit	\$24,784.21	Gross Loss	(\$16,709.58)
Total Number of Trades	55	Percent Profitable	49.09%
Winning Trades	27	Losing Trades	26
Even Trades	2		
Avg. Trade Net Profit	\$146.81	Ratio Avg. Win:Avg. Loss	1.43
Avg. Winning Trade	\$917.93	Avg. Losing Trade	(\$642.68)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

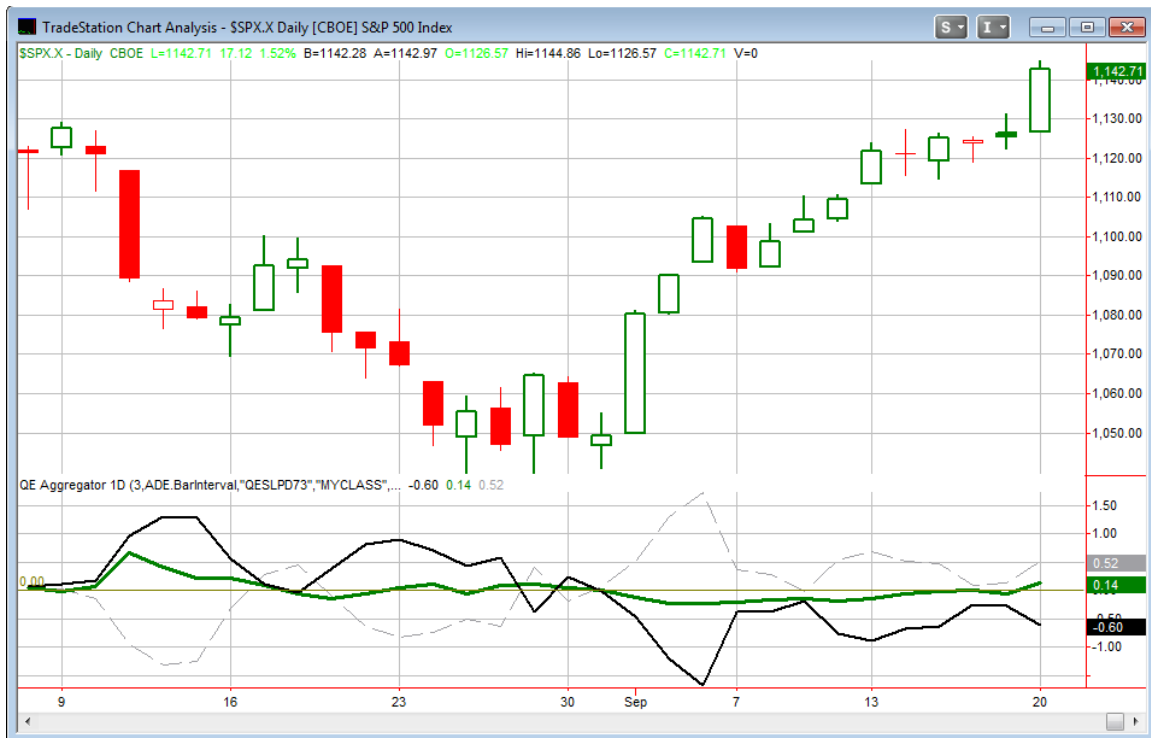
The average trade here still nets a profit and the profit factor is decent, but the winning percent is less than desirable. And when compared to the other scenarios this one falls way short.

Last night I discussed the fact that the 3/10 Offset HV Indicator had registered a very low reading and that a big move could be the result. I provided links to the Opening Range Breakout (ORB) Study from last year and showed the ORB from last week and also linked to my Double Support Trailing stop blog post from Feb 2008. Today provided another nice example of an ORB following a low 3/10 Offset HV reading.



As you can see, if trading this ORB it could have been held until the close for a nice gain using the double support trailing stop. I've received a few questions on ORBs and will try and schedule a webinar soon to go over this.

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



The breakout studies tonight flipped the green Aggregator line up to a positive reading. 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 still below 0. This means the SPX has outperformed expectations over the last few days. So we have positive expectations but a market that is overbought versus recent expectations. This is considered a neutral configuration. The Aggregator chart is always neutral when the lines are on opposite sides of 0. Due to this the Aggregator System turned flat.

The green Aggregator line is likely to remain positive tomorrow unless more bearish studies appear. Meanwhile the Differential pivot will be 1,123.44 tomorrow. It would take an SPX close at or below this level to flip the black Differential line positive. That's about a 1.7% decline from Monday's closing level.

I was asked by a subscriber today when the last time was that the market managed to completely overrun so many bearish studies as it has the last couple of weeks. Frankly, I haven't seen any rally like this in the face of so much short-term bearish evidence. The March 2010 rally was remarkably persistent, but it provided a healthy mix of studies and for most of that period the net estimates were bullish. July 2009 was the worst trade I can recall as I put a short on that got run over. There was a mix of studies there, though. I've always blamed myself for that trade as I incorrectly underemphasized some of the breadth readings and didn't filter enough studies based on long-term trend. I feel as

though if the same thing were to happen again it is likely Aggregator estimates would be positive as they were in March. But this last rally, despite being over the 200ma for several days now, was simply unable to produce upside evidence. Instead I've been continually seeing studies with bearish implications. The Quantifinder insures I don't take a blind eye to things. I simply haven't been able to find solid short-term evidence to support the bull case. Of course that changed today and the trade is now done with. But this is perhaps the most jaw-droppingly persistent rally I've seen due to the overwhelming degree of bearish evidence it has overcome.

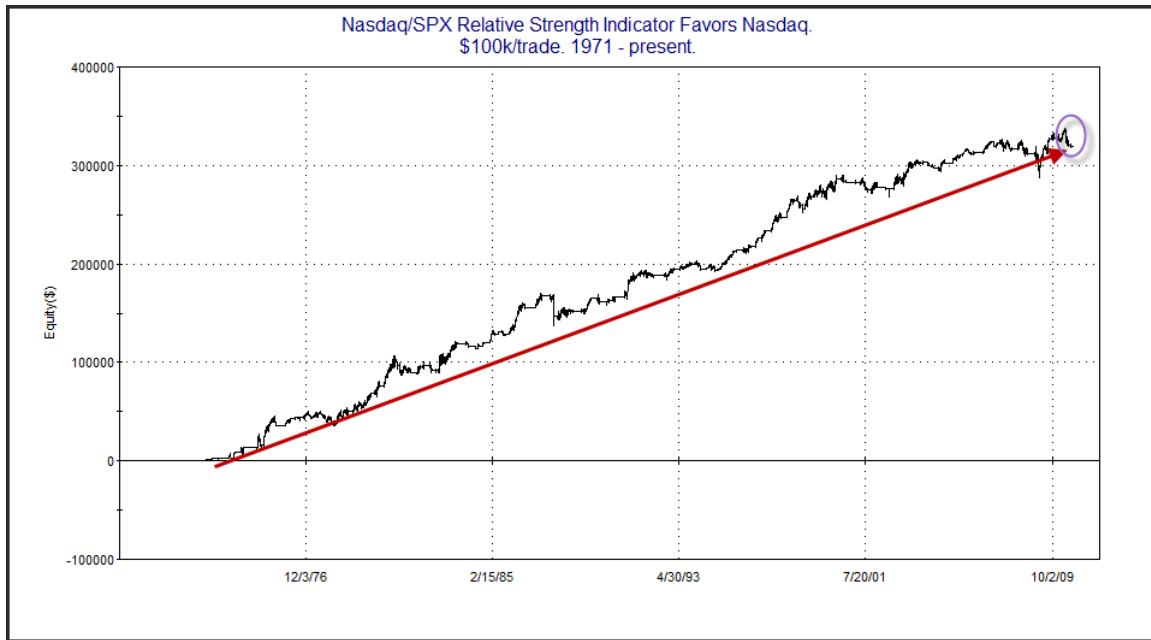
As traders we often feel the need to be right. That can be a dangerous thing as it may cloud our perception. An open mind can more easily interpret data rather than one that is locked on an idea. I try and take an open mind to my analyses each night.

And when we go to the sidelines it is important to focus our energy on the next trade and not worry about the last one. If you happened to follow this Aggregator trade to any degree and took the trade off as I did at the close today, then you'll need to ask yourself how you might feel if the market dropped big tomorrow. Should you be rooting for it to go up further so you can proclaim yourself "right" for exiting your short? No way. It doesn't matter what the market does now when you're not in it. It just matters that you listen to it and get set up to take advantage of the next opportunity. And with the market as overbought as it is a pullback remains a distinct possibility.

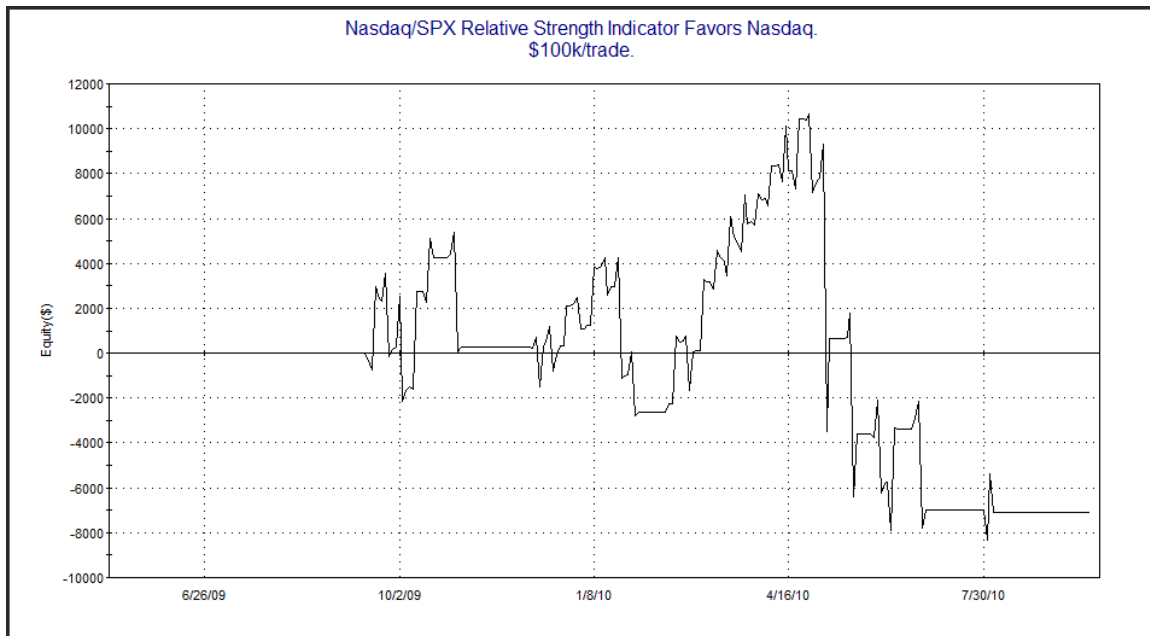
The net expectations are now positive and a pullback could set up a nice long opportunity. If it happens I will be thinking about where I might want to get long. I will not be kicking myself for exiting my short at the high. Because that trade is over. I must move on. And the best way I know of to do so is to simply ready myself for the next opportunity.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/20 – neutral

The one new notable from this week is that the Nasdaq/SPX Relative Strength indicator has now flipped so that the Nasdaq is leading. Over the long-term this has been a bullish indication. The chart below shows the results from buying \$100k worth of the SPX every time the Nasdaq takes the lead and closing this trade out when the SPX retakes the lead. It doesn't use compounding so the gains are not representative of how an account would actually have grown. It does show that the upside edge has been very consistent over the long run, with only a few bouts where a large pullback was experienced.



Unfortunately, during the very recent period (since the end of April) this indicator has been on the wrong side of things. Below I zoomed on more recent history so you could see this yourself.



You can see the steep pullback that has been experienced. For whatever reason this indicator has been disappointing lately. So I'd still view the leading Nasdaq as a positive, but I'd like to see this drop in equity turn around some before putting too much faith in it. It's also notable that the NDX Aggressive Trend Timer strategy I provide signals for on the systems page uses a similar indicator and it has had a rough go of it the last few months as well. I expect this is a rough patch and not a wholesale change in market behavior that is making the indicator obsolete.

Overall the intermediate-term studies remain mixed. Breadth, sentiment, and now intermarket strength are all pointing up. Meanwhile studies related to volume and seasonality are suggesting a pullback. I'm not inclined to favor either direction greatly. Rather I'll remain neutral for the intermediate-term and look for short-term opportunities in both directions.

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	9/2/2010	\$109.47	\$114.50	-4.59%	\$113.90	covered at stop
SPY(1/4)(s)	9/3/2010	\$110.54	\$114.50	-3.58%	\$113.90	covered at stop
SPY(1/4)(s)	9/3/2010	\$110.54	\$114.82	-3.87%		covered at close
SPY(1/4)(s)	9/13/2010	\$112.58	\$114.82	-1.99%		covered at close
JNJ(s)	9/20/2010	\$61.65	\$62.07	-0.68%		System -80505

Note: 2 SPY lots were exited at the stops from last night. The other 2 lots were exited at the close as per the intraday update sent to subscribers. (Apologies to trial subscribers as I was not able to get it out to your list in a timely manner.)

The full SPY position lost 3.5%. A bad trade but certainly nothing that can't be overcome in fairly short order.

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