

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 22, 2010

Volume 3 Issue 182

Market Overview



Tonight's Research Points

- Fed Days that finish lower often see an upside reversal. This reversal is less reliable and less powerful if the market closed at a 10-day high just prior to the Fed Day.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer turned long.

Short-term Outlook

The Bottom Line

Tuesday's move was meek and uninspiring. Studies remain mixed but favoring upside. Still with the market overdue for a pullback and overbought versus recent expectations, I'm mostly sidelined.

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 22, 2010	Fed Day down after 10-day high	1 day	Bullish	
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	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	
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				
September 20, 2010	SPX & VIX up on Friday. Close > 200ma	1-2 days	Bearish	-1.10%
September 16, 2010	SPY 10 days > 5ma & 10 day high	1-4 days	Bearish	-1.50%

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

The Evidence

There was a pause to the grind higher today. The Fed announcement was followed by indecision in the market as it oscillated back and forth. At the end though it turned out the major indices all finished down a little. The SPX and Nasdaq closed down 0.3% while the Russell 2000 lost 0.8%. Not much give back considering the recent gains. Breadth was tilted quite negative for such mild index losses. The NYSE Up Issues % was 37% and the Up Volume % was just 32%. Total NYSE volume rose as there seemed to be a good bit of action after the 2:15 announcement.

As will often happen when there are only mild changes from the day before there wasn't a lot of compelling studies that appeared in tonight's Quantifinder. There were a couple of studies from the 8/11/10 letter that looked at down closes on Fed Days.

Often these down closes turn out to be a headfake as the market rebounds over the next few days. Below is an updated table from the 8/11/10 Letter.

Today is a Fed Day and the SPX closed down.
Buy on close. Sell X days later. \$100k/trade 1982 - 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	50,782.17	93	59	34	63.44	2,308.54	-2,512.40	0.92	1.59	546.04
9	56,433.10	93	62	31	66.67	2,126.61	-2,432.79	0.87	1.75	606.81
8	36,561.25	93	57	36	61.29	2,017.73	-2,179.15	0.93	1.47	393.13
7	38,289.16	93	59	34	63.44	1,836.38	-2,060.50	0.89	1.55	411.71
6	41,797.43	93	60	33	64.52	1,786.36	-1,981.35	0.90	1.64	449.43
5	40,763.42	93	61	32	65.59	1,658.02	-1,886.75	0.88	1.68	438.32
4	34,553.06	93	55	38	59.14	1,576.77	-1,372.88	1.15	1.66	371.54
3	33,072.75	93	57	36	61.29	1,286.09	-1,117.63	1.15	1.82	355.62
2	30,192.15	93	61	32	65.59	1,178.62	-1,303.25	0.90	1.72	324.65
1	22,642.79	93	58	35	62.37	905.29	-853.26	1.06	1.76	243.47

I also noted in that letter that when the drop follows a 10-day high the upside edge is substantially reduced. This is show in the study below (updated).

Yesterday SPX closed at a 10-day high. Today is a Fed Day and it closed down.
Buy on close. Sell X days later. \$100k/trade 1982 - present.

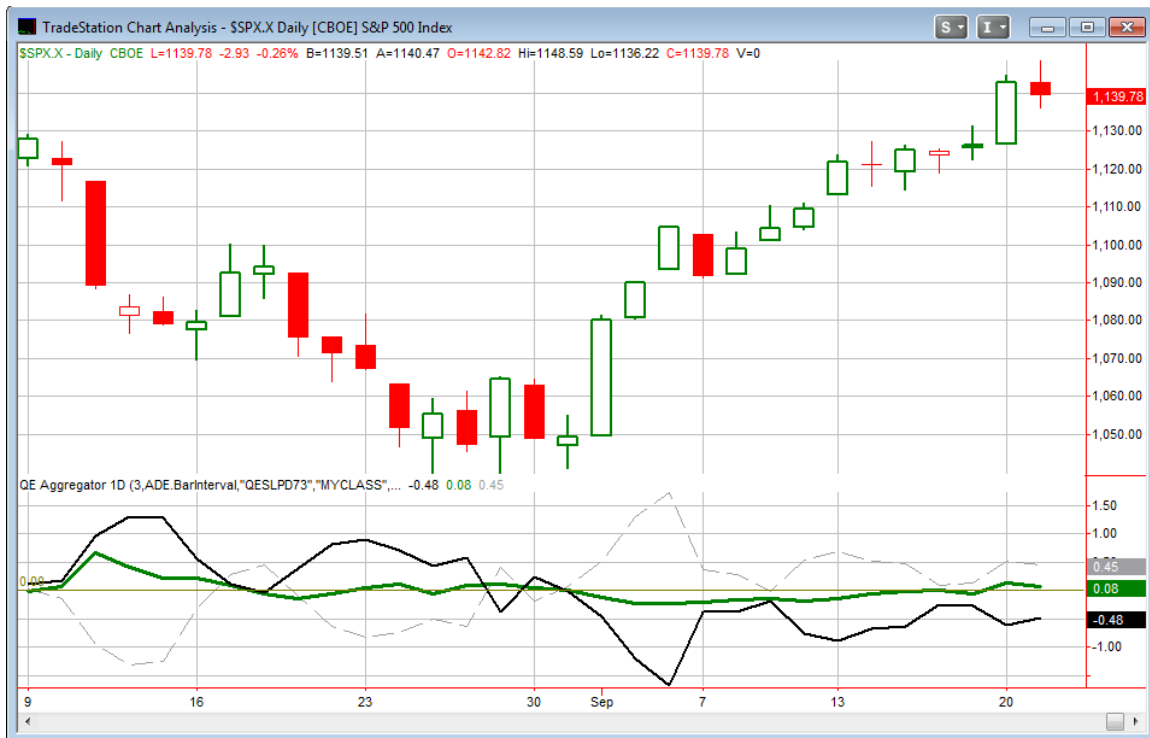
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	5,671.79	22	13	9	59.09	1,807.64	-1,980.84	0.91	1.32	257.81
9	5,645.19	22	14	8	63.64	1,642.96	-2,169.53	0.76	1.33	256.60
8	5,279.62	22	11	11	50.00	2,149.07	-1,669.11	1.29	1.29	239.98
7	-298.05	22	9	13	40.91	2,241.77	-1,574.92	1.42	0.99	-13.55
6	936.49	22	10	12	45.45	1,790.34	-1,413.91	1.27	1.06	42.57
5	1,543.62	22	11	11	50.00	1,569.04	-1,428.71	1.10	1.10	70.16
4	916.54	22	11	11	50.00	1,323.89	-1,240.56	1.07	1.07	41.66
3	1,857.21	22	13	9	59.09	960.27	-1,180.70	0.81	1.17	84.42
2	2,041.16	22	13	9	59.09	1,042.32	-1,278.77	0.82	1.18	92.78
1	4,892.07	22	14	8	63.64	781.72	-756.51	1.03	1.81	222.37

You see here that any potential upside edge really has only been in force for one day. Perhaps the 10-day high prior to the Fed Day suggests that the market got its hopes up a bit too much. When the market is less hopeful prior to a Fed meeting then there may be more room for a positive reaction to occur. Whatever the reason, today's pullback on its own doesn't provide much of an edge.

The market is definitely at an interesting juncture here. While seasonality is about as bad as it gets and the market remains long overdue for a pullback, Monday's breakout had

some very positive characteristics. So we'll have to deal with mixed indications short-term.

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

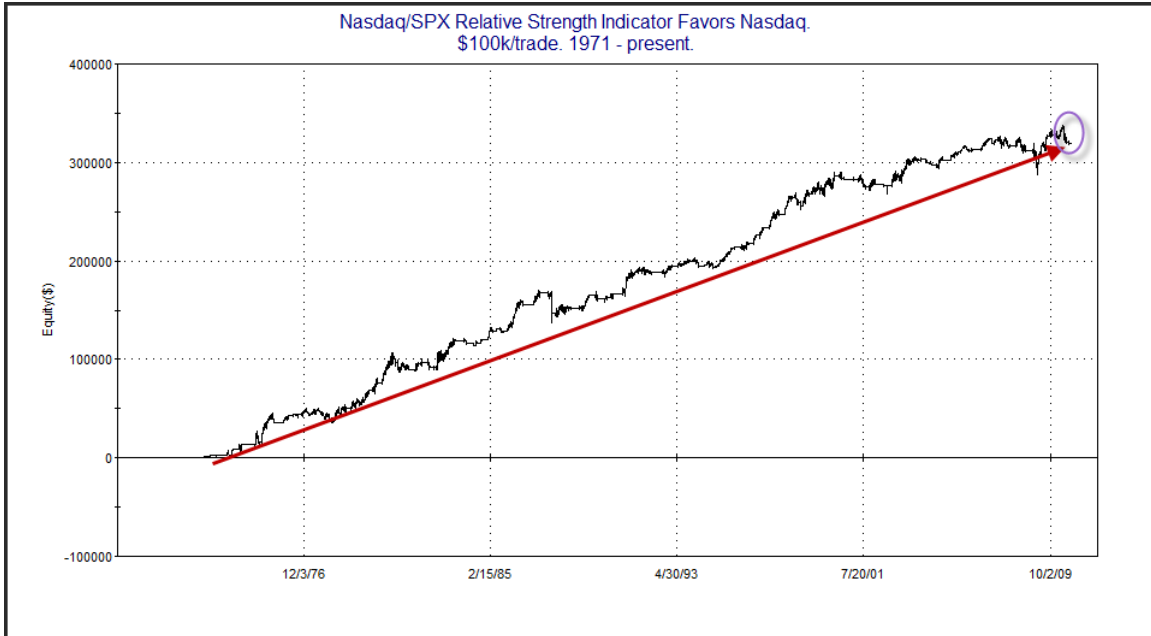


The green Aggregator line remained positive tonight. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. Meanwhile the black Differential line is still below 0. This means the SPX has outperformed expectations over the last few days. So we have 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 remained flat.

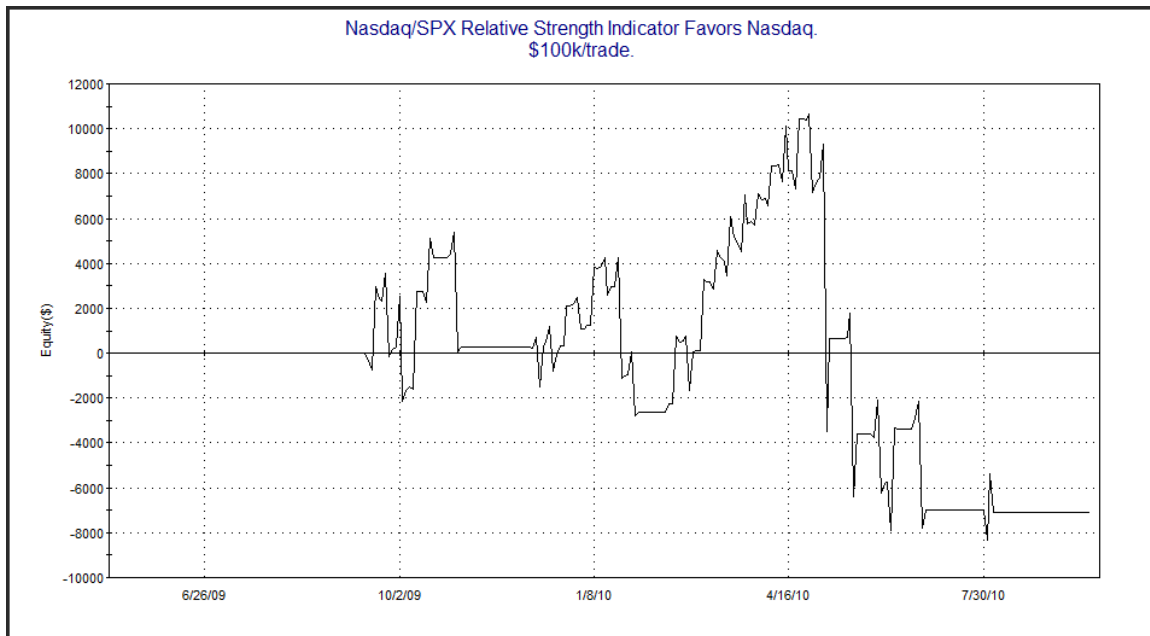
The green Aggregator line is likely to remain positive tomorrow unless more bearish studies appear. Meanwhile the Differential pivot will be 1,124.57 tomorrow. It would take an SPX close at or below this level to flip the black Differential line positive. That's about a 1.3% decline from Tuesday's closing level.

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
JNJ(s)	9/20/2010	\$61.65	\$61.94	-0.47%		System -80505

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