

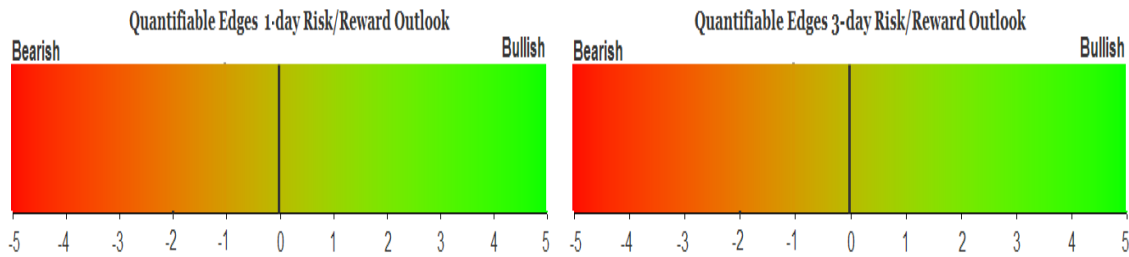
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 23, 2010

Volume 3 Issue 183

Market Overview



Tonight's Research Points

- A two-day pullback doesn't provide the edge it did a couple of years ago since the environment is no longer inclined to chop.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook

The Bottom Line

A quiet day on the research front. So far it appears we are just experiencing a pullback and the recent upmove will soon have a chance to resume.

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	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 22, 2010	Fed Day down after 10-day high	1 day	Bullish	

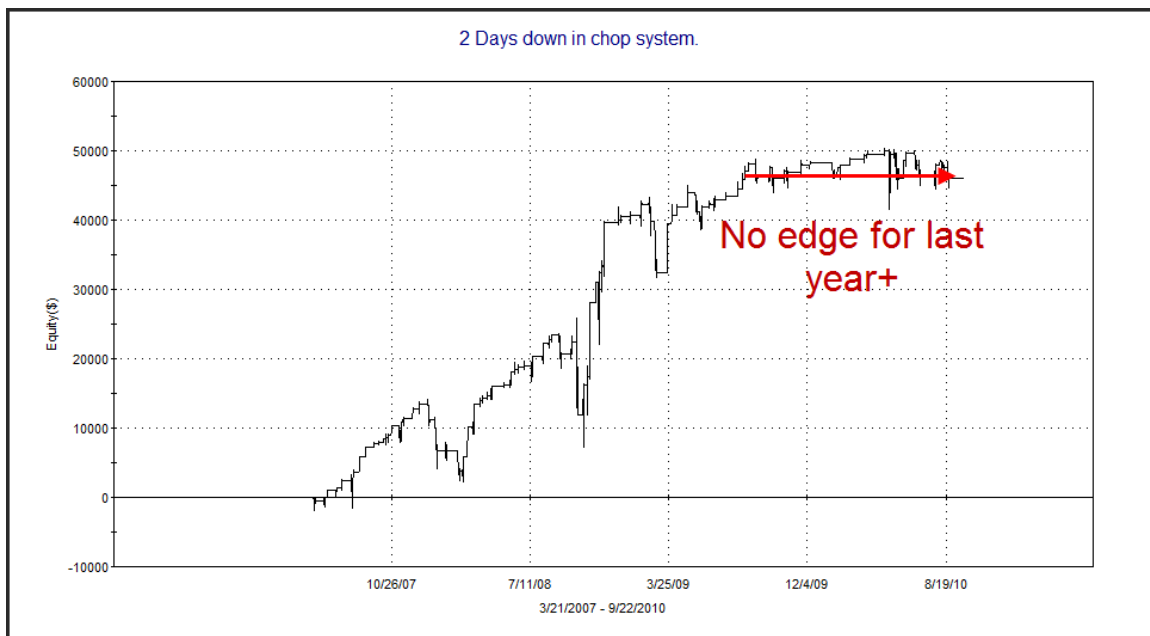
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active

The Evidence

Wednesday saw another somewhat mild pullback in the indices. The SPX finished down 0.5%, the Nasdaq dropped 0.6% and the Russell 2000 lost 1.2%. Breadth was weak as the NYSE Up Issues % came in at 38% and the Up Volume % was 33%. Total NYSE volume rose from Tuesday's levels but Nasdaq volume fell.

The pullback the last couple of days has been very mild. As such it has failed to inspire any substantial new short-term edges. The one study that did show up in the Quantifinder tonight was the "2 Days Down In Chop System" which I published about 2 years ago. Basically the system goes long whenever SPX has declined for exactly 2 days in a row. The exit signal is a close above the entry price up to 3 days later. After 3 days it is exited regardless of profitability.

This system isn't worth considering at this point in time. For one, below is a simple equity curve based on \$100k/trade.



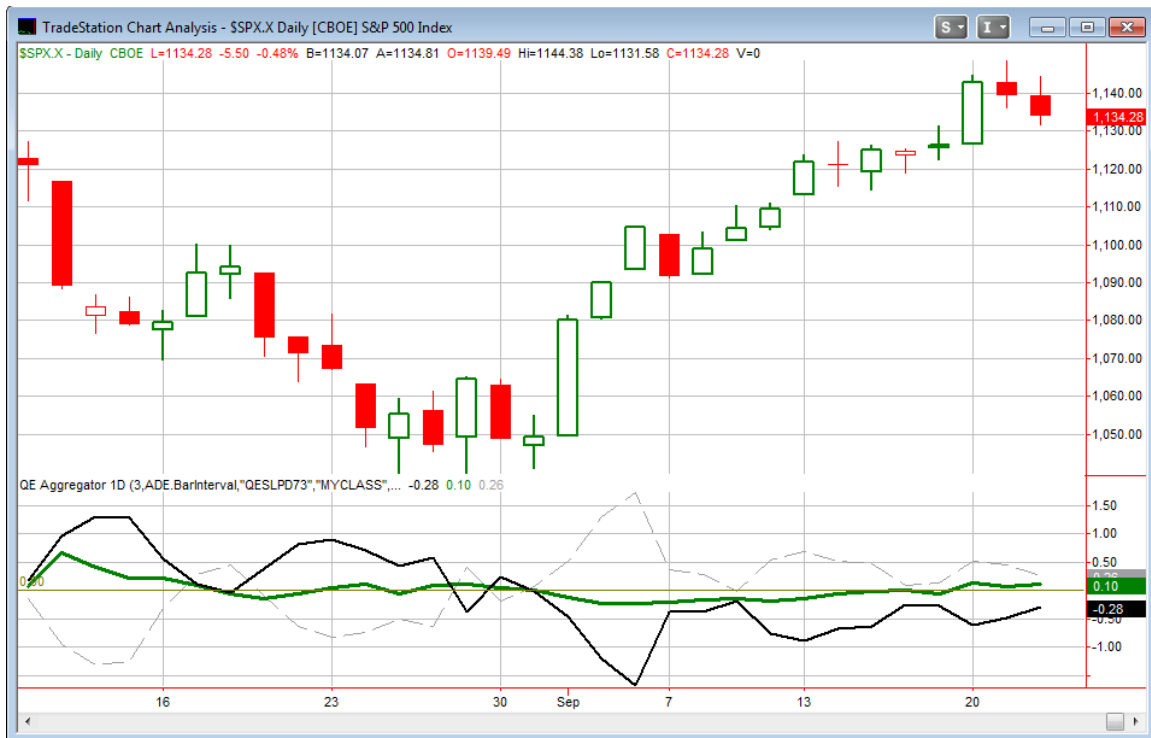
As you can see, this system stopped providing an upside edge about a year ago. A large reason for this is that the market has not favored daily chop over the last year as it had over the previous few years. And as you can see in the Trend vs. Chop chart below,

which is a reproduction of the one on the charts page, over the last 3 months the market has shown a fairly strong tendency to follow through from one day to the next rather than reverse.



As a brief reminder, the Trend vs. Chop chart simply looks at the result of buying at the close of every up day and shorting at the close of every down day. If the equity curve is rising that means that the market has been showing a propensity to follow through. A declining equity curve means the market is chopping back and forth rather than following through.

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



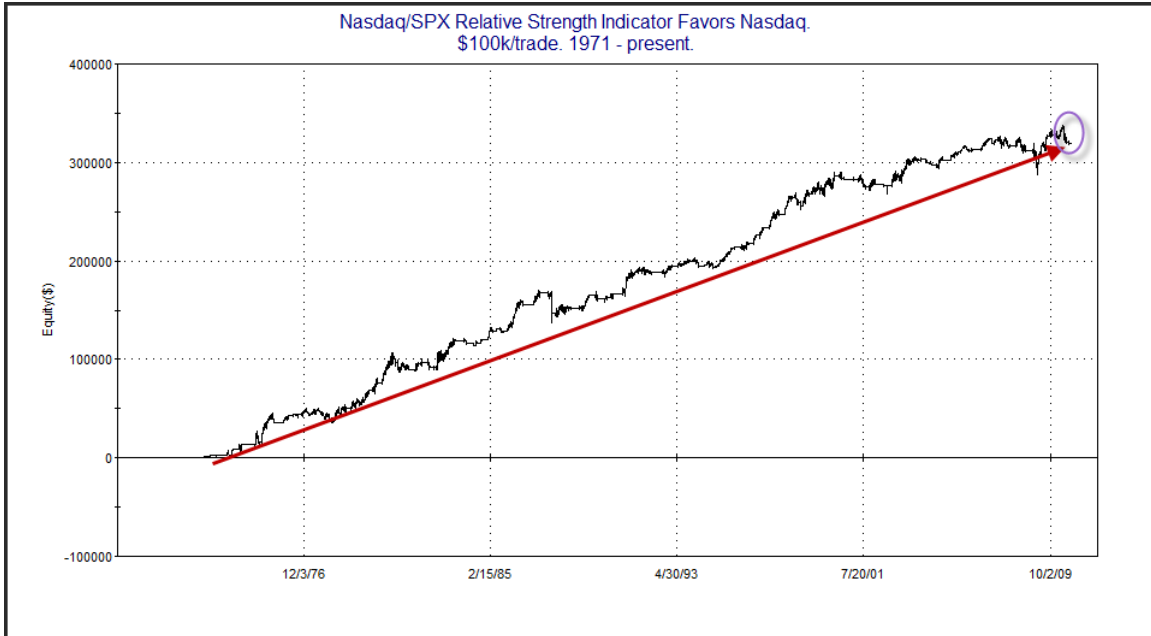
With no new studies making the Active List the green Aggregator line remained positive tonight. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. Meanwhile the black Differential line is still below 0. This means the SPX has outperformed expectations 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 1,143.58 tomorrow. It would take an SPX close at or below this level to flip the black Differential line positive. This means the SPX will need to rise more than 0.8% in order to avoid being viewed as "oversold" vs. expectations. Monday's big up day is falling off the Differential calculation. This is causing the big rise in the Differential pivot.

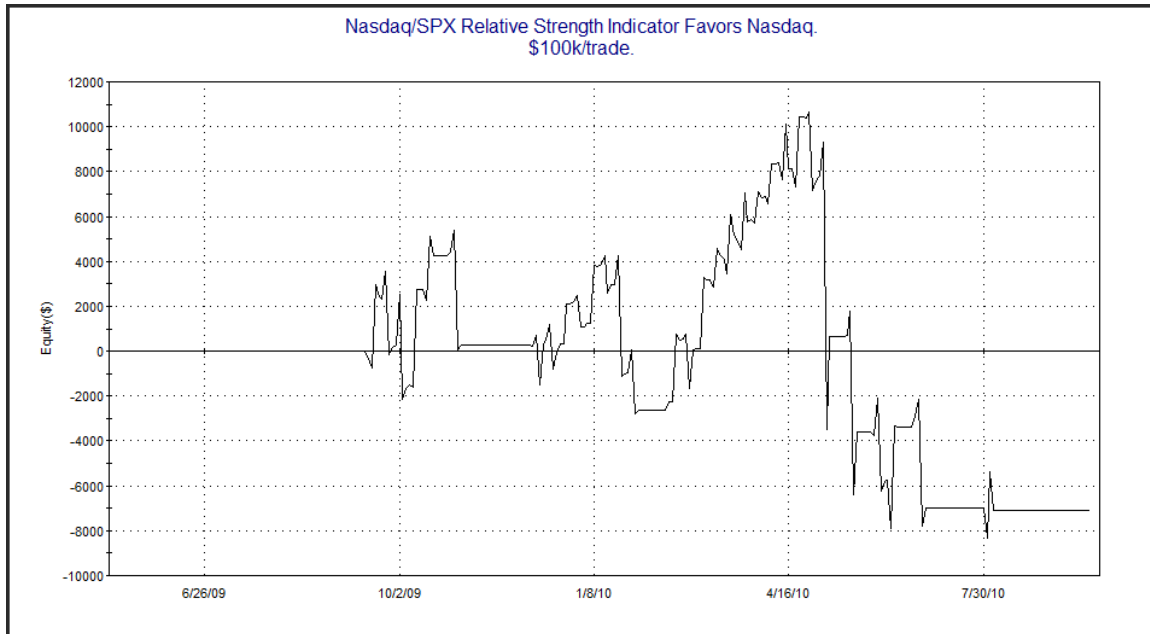
Should the market drop further tomorrow I'd say there is a very good chance of an Aggregator long signal triggering. I'll be looking to start building a long position should that happen.

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.

SPY – buy ¼ index position @ \$113.41 LIMIT ON CLOSE. Based on the short-term outlook I'll be looking to start getting long on a down close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
JNJ(s)	9/20/2010	\$61.65	\$61.97	-0.52%		System -80505

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