

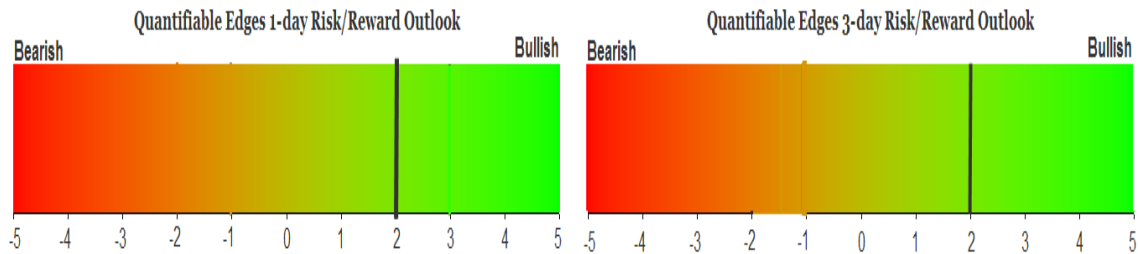
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 24, 2010

Volume 3 Issue 184

## Market Overview



## Tonight's Research Points

- A down Fed Day and the next 2 days also down have led to a bounce nearly every other time since 1982.
- The Aggregator System changed to long.
- The NDX Aggressive Trend Timer remained long.

## Short-term Outlook

### The Bottom Line

While we don't have overwhelming evidence yet, the implications of the current studies suggest a bounce is near. The pullback the last 3 days has put the market in an oversold state. All of this suggests an upside edge. I'm slightly long and looking to get longer.

*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
<b>Active</b>				
September 24, 2010	3 down including Fed Day.	1 day	Bullish	
September 21, 2010	50-high breakout. Lower NYSE volume.	1-5 days	Bullish	1.75%
September 20, 2010	September op-ex	1-5 days	Bearish	-2.40%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
September 17, 2010	Top 10% of 10-day range prior to op-ex	1-5 days	Bearish	
September 21, 2010	50-high breakout. 90% Up vol.	1-3 days	Bullish	2.90%

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

### ***The Evidence***

The pullback continued on Thursday. After breaking out Monday the SPX has now dropped 3 days in a row and given back all of Monday's big move. The other indices also fell today. While the SPX lost 0.8%, the Nasdaq was down 0.3% and the Russell 2000 fell by 1.2%. Breadth was strongly negative. The NYSE Up Issues % came in at 31% and the Up Volume % was 24%. Total volume fell from Wednesday's levels.

There were a few studies that appeared tonight in the Quantifinder suggesting a 3-day pullback typically provides an upside edge over the next few days. I looked at a few different iterations. Generally, the edges were rather mild. It's interesting that the selling has occurred on and directly after a (typically bullish) Fed Day. I thought it might be worth examining other times where the Fed failed to inspire confidence and a selloff of at least 3 days (including the Fed Day) ensued. Results here showed a fairly low number of instances but I found them somewhat compelling anyway.

<b>2 days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row. Buy on close. Sell X days later. \$100k/trade. 1982 - present.</b>										
<b>X Days</b>	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	3,329.44	14	8	6	57.14	1,873.36	-1,942.90	0.96	1.29	237.82
4	8,404.61	14	8	6	57.14	1,971.17	-1,227.46	1.61	2.14	600.33
3	12,900.65	14	9	5	64.29	1,917.76	-871.84	2.20	3.96	921.48
2	10,010.97	14	10	4	71.43	1,206.48	-513.45	2.35	5.87	715.07
1	7,737.66	14	11	3	78.57	757.98	-200.03	3.79	13.89	552.69
<b>13 of 14 instances posted a close higher than then entry price at some point in the next 3 days. The lone dissenter was the 11/9/84 instance that continued to sell off for several weeks.</b>										

The edge seems to be especially pronounced on day 1. With the numbers so strong I decided to take a closer look at the 1-day returns. Below is a trade by trade listing.

2 days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row. Buy on close. Sell next day's close. \$100k/trade. 1982 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
05/20/82	Buy	\$114.58	0.26%	\$1,020.24
05/21/82	Sell	\$114.88		(\$514.48)
07/06/82	Buy	\$107.28	(0.06%)	\$848.12
07/07/82	Sell	\$107.22		(\$959.96)
08/25/83	Buy	\$160.83	0.81%	\$1,322.73
08/26/83	Sell	\$162.13		(\$757.62)
05/24/84	Buy	\$151.22	0.26%	\$528.80
05/25/84	Sell	\$151.61		(\$244.57)
11/09/84	Buy	\$167.60	(0.14%)	\$41.72
11/12/84	Sell	\$167.36		(\$560.24)
05/23/85	Buy	\$187.60	0.36%	\$362.44
05/24/85	Sell	\$188.28		(\$170.56)
02/10/89	Buy	\$292.02	0.18%	\$359.10
02/13/89	Sell	\$292.54		(\$393.30)
08/23/90	Buy	\$307.06	1.45%	\$1,488.50
08/24/90	Sell	\$311.51		(\$289.25)
02/07/92	Buy	\$411.09	0.65%	\$651.24
02/10/92	Sell	\$413.77		(\$4.86)
07/08/96	Buy	\$652.52	0.34%	\$624.24
07/09/96	Sell	\$654.75		\$0.00
03/22/01	Buy	\$1,117.00	2.03%	\$2,209.87
03/23/01	Sell	\$1,139.63		\$0.00
05/12/06	Buy	\$1,291.24	0.25%	\$274.89
05/15/06	Sell	\$1,294.50		(\$518.21)
09/25/09	Buy	\$1,044.38	1.78%	\$1,971.25
09/28/09	Sell	\$1,062.98		\$0.00
08/12/10	Buy	\$1,083.61	(0.40%)	\$242.88
08/13/10	Sell	\$1,079.25		(\$424.12)

5 days had runups over 1%. 0 days saw drawdowns of 1%.

As I make reference to above, not only are the end-of-day stats compelling, but the intraday drawdowns have been quite mild as well. This would suggest some very favorable risk/reward – at least on day 1.

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



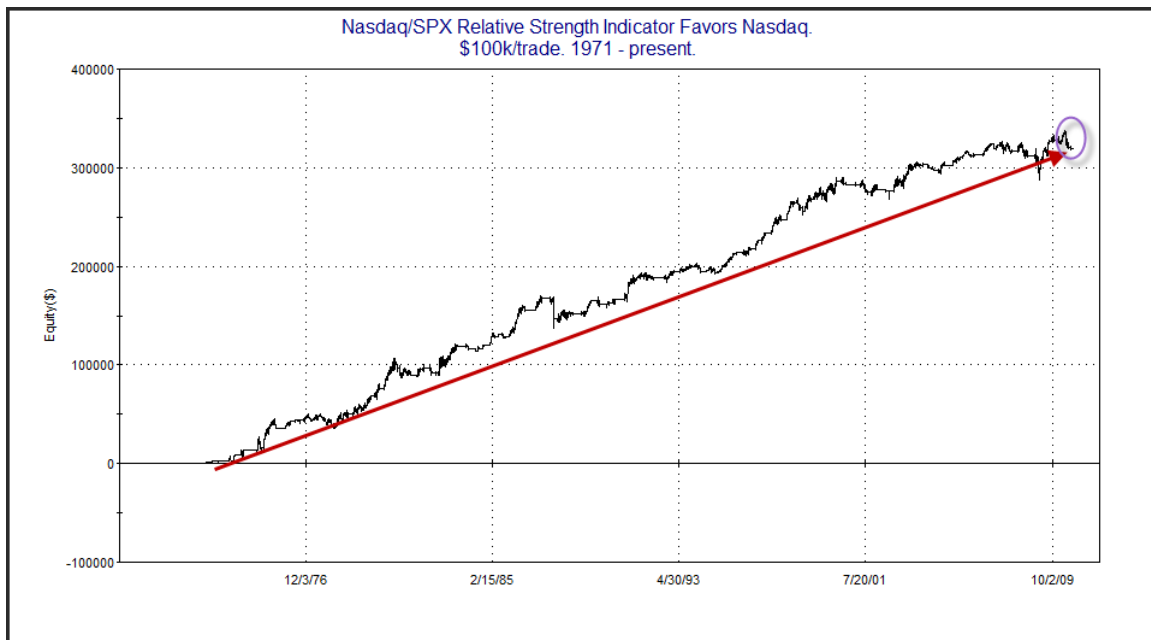
The green Aggregator line remained positive tonight. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. Meanwhile the black Differential jumped above 0. This means the SPX has now underperformed expectations over the last few days. So we have positive expectations and a market that is oversold versus recent expectations. This is considered a bullish configuration. It is reflected on Aggregator chart when both lines are above 0. Due to this the Aggregator System changed to long at the close.

The green Aggregator line is likely to remain positive tomorrow unless more bearish studies appear. Meanwhile the Differential pivot will be 1,141.45 tomorrow. It would take an SPX close at or above this level to flip the black Differential line negative. This means the SPX will need to rise nearly 1.5% in order to avoid be viewed as “oversold” vs. expectations.

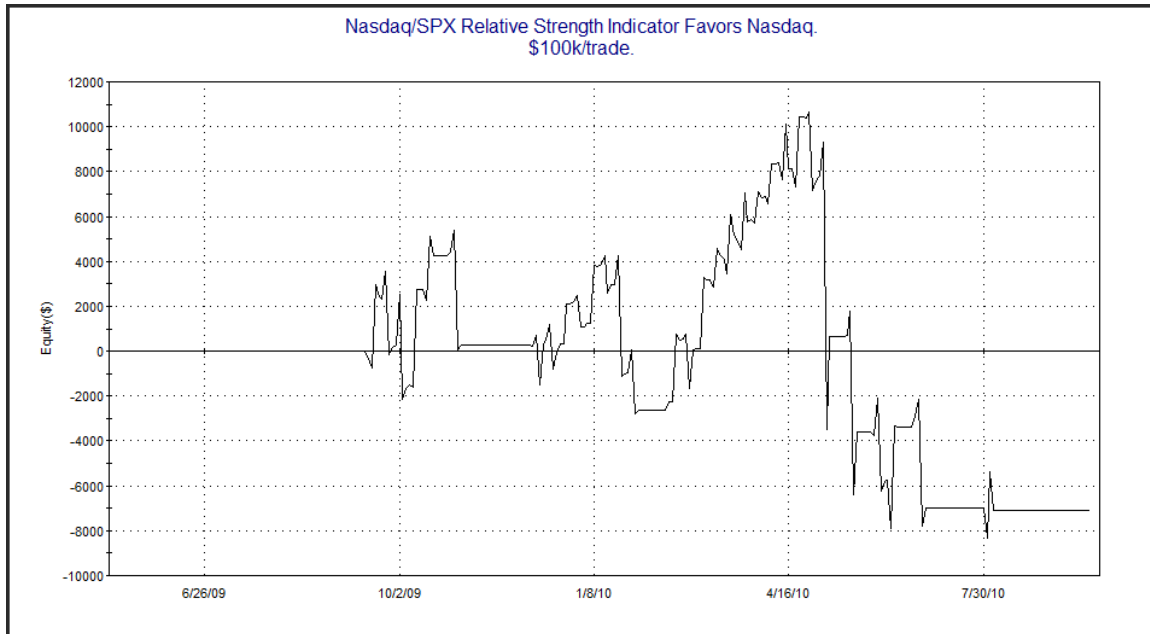
It’s been an odd few weeks as the market has not readily conformed to historical norms. We saw over the weekend that this particular week has historically been the worst of the year. It then started out Monday with a breakout that showed numerous indications that it was likely to get some follow through. Since then we’ve done nothing but pull back the last 3 days. So we’re at a point now where the probabilities are suggesting a bounce is near. I’m going to look to play this bounce but I will scale in slowly in an effort to reduce risk.

**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 @ \$112.50 LIMIT ON CLOSE. Based on the short-term outlook I'll be looking to slowly add some more exposure Friday should we again close lower.*

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
JNJ(s)	9/20/2010	\$61.65	\$61.81	-0.26%		covered eod as per -80505
SPY	9/23/2010	\$112.50	\$112.50	0.00%		

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2010 Hanna Capital Management, LLC.