

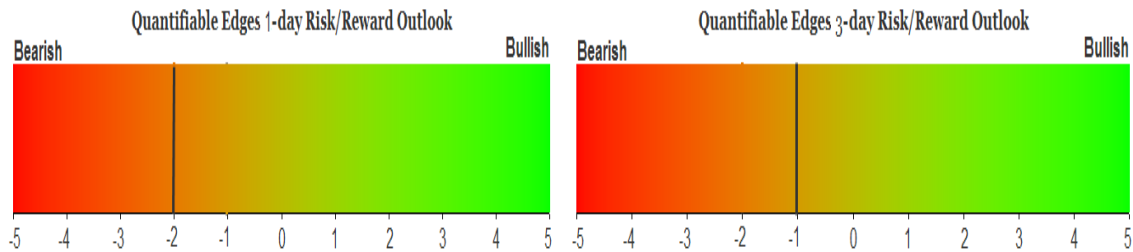
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 28, 2010

Volume 3 Issue 186

## Market Overview



## Tonight's Research Points

- The extremely low Nasdaq Volume Spyx is suggesting a pullback in the NDX.
- When this occurs the SPX usually follows suit.
- The Aggregator System flipped remained short.
- The NDX Aggressive Trend Timer changed to long.

## Short-term Outlook

### The Bottom Line

The downside expectation played out on Monday and it continues for Tuesday. I'm not inclined to aggressively short at this point, but will likely look to if we see some higher prices without supporting bullish evidence.

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 28, 2010	Nasdaq Spyx < 0. QQQQ 10-day high.	1-4 days	Bearish	-1.75%
September 27, 2010	1% gap-n-go to a 50-day high	1-3 days	Bearish	-1.50%
<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 21, 2010	50-high breakout. Lower NYSE volume.	1-5 days	Bullish	1.75%

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

### *The Evidence*

Monday was very quiet after the big up day on Friday. The market moved back and forth throughout the day but finished poorly as it sold off in the last hour and closed near its lows. When it was over the SPX had declined 0.6%, the Nasdaq was down 0.5% and the Russell 2000 lost 0.4%. Breadth was negative as the NYSE Up Issue % came in at 42% and the Up Volume % was 37%. Total volume declined as trading was quiet for most of the day.

Some indicators I haven't discussed in a while are the Quantifiable Edges Volume Spyx indicators. The charts are found on the top of the charts page every night. The calculation for Spyx is proprietary, but basically it looks at volume on a relative basis across multiple securities. When Spyx levels post extremely high readings it suggests an upside edge over the short-term. Extremely low levels suggest a downside edge. Moves below 0 or above 100 are especially suggestive. Tonight we saw the Nasdaq Volume Spyx come in between -3 and -4. This first study shows how the NDX has performed in the days following such a low reading.

Nasdaq volume spyx reading < 0. 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: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
10	-40,395.10	43	19	24	44.19	3,099.67	-4,137.03	0.75	0.59	-939.42
9	-47,658.94	43	18	25	41.86	2,518.79	-3,719.89	0.68	0.49	-1,108.35
8	-51,498.95	43	16	27	37.21	3,151.92	-3,775.17	0.83	0.49	-1,197.65
7	-70,196.33	43	16	27	37.21	2,705.52	-4,203.13	0.64	0.38	-1,632.47
6	-57,407.87	43	18	25	41.86	2,629.33	-4,189.43	0.63	0.45	-1,335.07
5	-42,588.04	44	19	25	43.18	2,418.49	-3,541.58	0.68	0.52	-967.91
4	-14,887.94	47	19	28	40.43	2,978.57	-2,552.88	1.17	0.79	-316.76
3	-18,356.71	50	25	25	50.00	1,824.36	-2,558.63	0.71	0.71	-367.13
2	-53,145.85	52	23	29	44.23	1,573.85	-3,080.84	0.51	0.41	-1,022.04
1	-22,850.53	58	27	31	46.55	1,456.18	-2,005.40	0.73	0.63	-393.97

Over the next several days there appears to be a substantial downside edge. But today's reading occurred while the market was posting a new intraday high. Very low Volume Spyx can be useful in identifying tops. I filtered the above study a bit further to view only those times where the NDX made a 10-day intraday high while posting such a low reading.

Nasdaq volume spyx reading < 0. NDX makes highest high in 10 days.  
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	-29,858.72	18	8	10	44.44	2,416.47	-4,919.05	0.49	0.39	-1,658.82
9	-38,770.06	18	6	12	33.33	2,978.24	-4,719.96	0.63	0.32	-2,153.89
8	-32,178.49	18	7	11	38.89	2,665.08	-4,621.28	0.58	0.37	-1,787.69
7	-45,912.31	19	5	14	26.32	2,734.96	-4,256.22	0.64	0.23	-2,416.44
6	-46,148.53	20	5	15	25.00	2,375.78	-3,868.50	0.61	0.20	-2,307.43
5	-31,829.32	20	8	12	40.00	1,732.89	-3,807.70	0.46	0.30	-1,591.47
4	-29,689.11	20	9	11	45.00	1,544.96	-3,963.07	0.39	0.32	-1,484.46
3	-18,818.40	20	10	10	50.00	903.69	-2,785.53	0.32	0.32	-940.92
2	-5,400.77	21	9	12	42.86	930.87	-1,148.22	0.81	0.61	-257.18
1	-4,781.12	21	7	13	33.33	1,189.13	-1,008.08	1.18	0.64	-227.67

18 of 21 instances (85%) closed below the entry price  
at some point in the next 4 days.

Results here are stronger and even more consistent. A very low volume Spyx has often led to a short-term top when it has occurred with the market at new highs.

I also took a peak to see how the SPX performed when the QQQQ was posting a 10-day high and the Nasdaq Volume Spyx reading was below 0.

Nasdaq volume spyx reading < 0. QQQQ makes highest high in 10 days.  
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	-24,378.87	12	3	9	25.00	1,271.80	-3,132.70	0.41	0.14	-2,031.57
9	-23,839.37	12	3	9	25.00	945.87	-2,964.11	0.32	0.11	-1,986.61
8	-29,719.48	12	3	9	25.00	1,038.04	-3,648.18	0.28	0.09	-2,476.62
7	-24,671.65	12	2	10	16.67	903.30	-2,647.83	0.34	0.07	-2,055.97
6	-17,318.42	12	3	9	25.00	853.12	-2,208.64	0.39	0.13	-1,443.20
5	-11,779.49	12	3	9	25.00	615.60	-1,514.03	0.41	0.14	-981.62
4	-12,609.78	12	1	11	8.33	1,262.70	-1,261.13	1.00	0.09	-1,050.82
3	-6,765.37	13	6	7	46.15	419.26	-1,325.84	0.32	0.27	-520.41
2	-12,038.95	14	5	9	35.71	952.53	-1,866.84	0.51	0.28	-859.93
1	-5,561.59	14	5	9	35.71	527.82	-911.19	0.58	0.32	-397.26

100% of instances closed below the entry price  
at some point in the next 4 days.

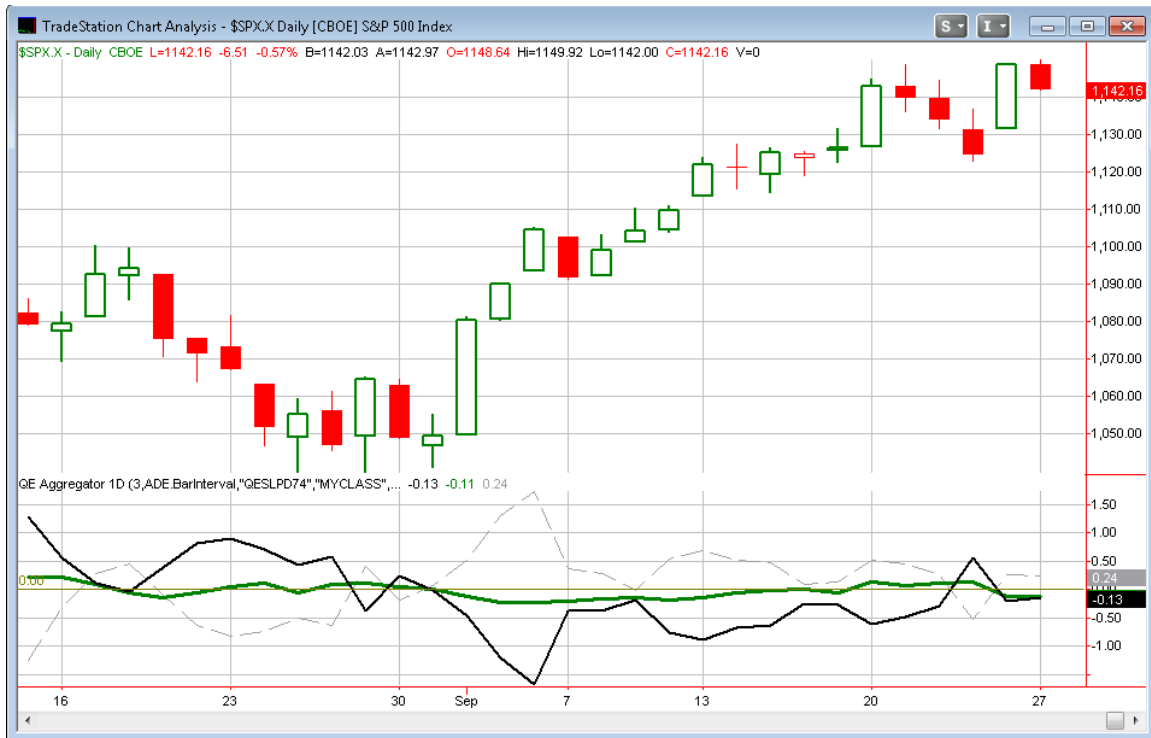
As you'd expect the SPX struggled right along with the Nasdaq when these conditions arose. For those that would like a closer look, below are all instances using a 4-day exit strategy.

Nasdaq volume spyx reading < 0. QQQQ makes highest high in 10 days. Buy SPX on close. Sell 4 days later. \$100k/trade. 2000 - present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
12/30/03	SPYX B	\$1,109.64	1.26%	\$1,333.80
01/06/04	Sell	\$1,123.67		(\$410.40)
04/05/04	SPYX B	\$1,150.57	(0.46%)	\$0.00
04/12/04	Sell	\$1,145.22		(\$1,380.30)
06/25/04	SPYX B	\$1,134.43	(0.48%)	\$861.52
07/01/04	Sell	\$1,128.98		(\$1,000.56)
09/14/04	SPYX B	\$1,128.31	(0.54%)	\$190.96
09/20/04	Sell	\$1,122.20		(\$754.16)
09/12/05	SPYX B	\$1,240.56	(0.22%)	\$0.00
09/16/05	Sell	\$1,237.87		(\$1,256.80)
06/30/06	SPYX B	\$1,270.50	(0.40%)	\$770.64
07/07/06	Sell	\$1,265.48		(\$574.86)
08/31/06	SPYX B	\$1,303.82	(0.75%)	\$824.60
09/07/06	Sell	\$1,294.02		(\$888.44)
11/21/06	SPYX B	\$1,402.81	(1.15%)	\$360.68
11/28/06	Sell	\$1,386.72		(\$1,773.58)
10/31/08	SPYX B	\$968.75	(6.59%)	\$3,992.28
11/06/08	Sell	\$904.88		(\$7,108.03)
06/04/09	SPYX B	\$942.46	(0.35%)	\$978.38
06/10/09	Sell	\$939.15		(\$1,698.12)
06/26/09	SPYX B	\$918.90	(2.45%)	\$1,406.16
07/02/09	Sell	\$896.42		(\$2,427.84)
08/04/10	SPYX B	\$1,127.24	(0.55%)	\$176.00
08/10/10	Sell	\$1,121.06		(\$1,766.16)

Spyx readings can be found every night at the top of the charts page. Gold subscribers may also download full histories of both S&P and Nasdaq Spyx readings from the Proprietary Data Download page, which can be accessed by clicking the link on the upper right hand side of the charts page.

There was only one study that made the Quantifinder tonight. It looked at weak finishes after 20-day highs. The original test suggested very mild upside expectations. I took a closer look tonight and found that the edge has not held up nearly as well in recent years. I therefore have decided to eliminate that study from the Quantifinder.

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



Not much change to the Aggregator configuration. The green Aggregator line remains below 0. The negative value indicates the net expectation from the Active Studies over the next few days is for downside. Meanwhile the black Differential line also remains 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. This is considered a bearish configuration. It is reflected on Aggregator chart when both lines are below 0. Due to this the Aggregator System remained short at the close.

With so few studies active the green Aggregator line will be highly dependent on any new studies that are appearing in the next few days. Meanwhile the Differential pivot will be 1,128.14 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 fall about 1.2% Tuesday in order to avoid be viewed as “overbought” vs. expectations.

So the Aggregator is still suggesting a downside edge. But as strong as the uptrend is and with a positive intermediate-term outlook I indicated last night that I would only enter the short if I could get a favorable entry price. With neither of my prices getting filled today and the market now lower than it was yesterday I’m inclined to sit out another day and

see how tomorrow plays out. If the market rises and fails to trigger studies bullish enough to turn expectations positive then I will likely look to get some short exposure on Wednesday. Perhaps I was too cautious with this entry but I don't want to chase it down where I'm not getting very strong risk/reward.

**Intermediate-term Outlook (2 weeks – 2 months)– updated 9/27 – bullish**

The SPX is now up over 9% for September. I thought it would be interesting to look and see how the market had performed in the past following other months that saw strong rallies. This first study looks at months that gained at least 9%.

SPX closes up 9% for the month. Buy on close. Sell X months later. \$100k/trade. 1960 - present.										
QE monthly: daysin	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
6	79,152.18	11	7	4	63.64	14,543.47	-5,663.04	2.57	4.49	7,195.65
5	69,084.50	11	8	3	72.73	11,347.75	-7,232.50	1.57	4.18	6,280.41
4	33,914.95	11	6	5	54.55	9,669.03	-4,819.84	2.01	2.41	3,083.18
3	30,579.97	12	7	5	58.33	7,969.35	-5,041.10	1.58	2.21	2,548.33
2	22,253.30	13	7	6	53.85	6,467.01	-3,835.96	1.69	1.97	1,711.79
1	4,555.36	13	6	7	46.15	3,443.40	-2,300.72	1.50	1.28	350.41

Over the next few months there hasn't been a real strong inclination but mild upside has been the net result. What if we isolate the front month and look at a range the market rises the month before?

SPX closes up X% for the month. Buy on close. Sell X months later. \$100k/trade. 1960 - present.										
QE monthly: pctup	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
9	4,555.36	13	6	7	46.15	3,443.40	-2,300.72	1.50	1.28	350.41
8	35,476.75	21	14	7	66.67	3,684.41	-2,300.72	1.60	3.20	1,689.37
7	40,058.45	35	23	12	65.71	3,333.55	-3,051.10	1.09	2.09	1,144.53
6	59,273.29	45	32	13	71.11	3,161.21	-3,221.95	0.98	2.42	1,317.18
5	83,775.30	74	54	20	72.97	2,782.18	-3,323.12	0.84	2.26	1,132.10

Results are generally good across the board. It does appear that when the % rise is very large that the edge for the next month is reduced some. Perhaps those very large gains need to be consolidated a bit before the move up can continue. I also filtered using the 10-month moving average. I did this because a good amount of the time the market made very large advances it was bouncing back from a very oversold level.

SPX closes up X% for the month. It closes > 10-month ma.  
Buy on close. Sell X months later. \$100k/trade. 1960 - present.

QE monthly: pctup	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
9	4,591.03	11	5	6	45.45	3,075.75	-1,797.96	1.71	1.43	417.37
8	20,484.44	17	11	6	64.71	2,842.93	-1,797.96	1.58	2.90	1,204.97
7	15,325.50	27	16	11	59.26	2,913.84	-2,845.08	1.02	1.49	567.61
6	25,015.41	35	23	12	65.71	2,677.54	-3,047.34	0.88	1.68	714.73
5	52,860.71	60	42	18	70.00	2,571.86	-3,064.29	0.84	1.96	881.01

There still appears to be a small upside edge present here. It does seem to be greatly reduced from the results that include times the market closed below its 10-month moving average.

Overall the market is acting well. In the SPX this week the pullback held above the 200ma. The 1,114 – 1,123 level should act as support. There are presently a few levels of price support as well as the 200ma right in that area.

The intermediate-term studies remain mixed. Volume and seasonality are favoring the bears while breadth and leadership structure favor the bulls. We're overbought here short-term, but as long as we continue to make new highs and the studies at least remain split, I'll be favoring the long side. At this point I will be a bit extra conservative with my short trades and a bit more aggressive with my long trades

### **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**

None.

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