

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 30, 2010

Volume 3 Issue 188

Market Overview



Tonight's Research Points

- Wednesday's mild action failed to trigger any compelling studies.
- The Aggregator System changed to flat.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook

The Bottom Line

I'm not seeing much suggesting an edge. I'm sidelined awaiting the next opportunity.

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 29, 2010	Outside day 50-high	1-3 days	Bearish	-1.10%
September 28, 2010	Nasdaq Spyx < 0. QQQQ 10-day high.	1-4 days	Bearish	-1.75%
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 27, 2010	1% gap-n-go to a 50-day high	1-3 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

Wednesday was mostly a day of meandering and indecision for the market. A gap down in the morning was followed by choppy back and forth all day. At the end the SPY and QQQQ both ended close to where they began the day with their gaps down. The declines at the end of the day amounted to 0.3% for the SPX and 0.1% for the Nasdaq. The Russell performed better and actually gained 0.3%. Breadth was also mixed as the NYSE Up Issues % came in at 53% and the Up Volume % was 48%. Total volume declined from the day before.

Every once in a while a day comes along when the market action simply isn't giving off any substantial clues. Despite there being around 800 studies in [the Quantifinder](#) the only one that came up today was neutral. It related to inside days that followed outside days like we've just seen. I looked at this a few different ways tonight to see if perhaps there was something different going on that could unveil an edge. I finished empty-handed.

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



We saw a change to the Aggregator configuration tonight. 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. But while the Aggregator line remained below 0 the black Differential line moved above it. This means the SPX has underperformed expectations over the last few days. So we have negative expectations and a market that is already oversold versus recent expectations. This is considered a neutral configuration. It is reflected on Aggregator chart when both lines are on opposite sides of 0. Due to this the Aggregator System turned flat at the close.

The green Aggregator line is set up to close below 0 again tomorrow but that could change if bullish studies arrive. Meanwhile the Differential pivot will be 1,141.02 tomorrow. It would simply take an SPX close at or above this level to flip the black Differential line negative. So the Differential line could move back to “overbought” even with a flat close or a small pullback.

Sometimes it is just as important to listen to what the market is saying when it isn't saying anything as it is when the message is obvious. We've seen some mild edges the last few days but nothing terribly compelling. I took a few stabs at getting a short off in the letter and failed to get a fill. The mild downside edge that was suggested the last few nights has played out. The Aggregator is now neutral. Anyone who trades the Aggregator signals mechanically would be out with a small profit now. So I missed this mild pullback, but I'm not terribly upset about it.

At this point the studies are still suggesting there could be more downside, but the market is no longer overbought. This reduces risk/reward. It seems we are at a good place to sit on the sidelines and wait for more compelling reasons to take on risk.

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: WinLoss 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: Win/Loss 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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