

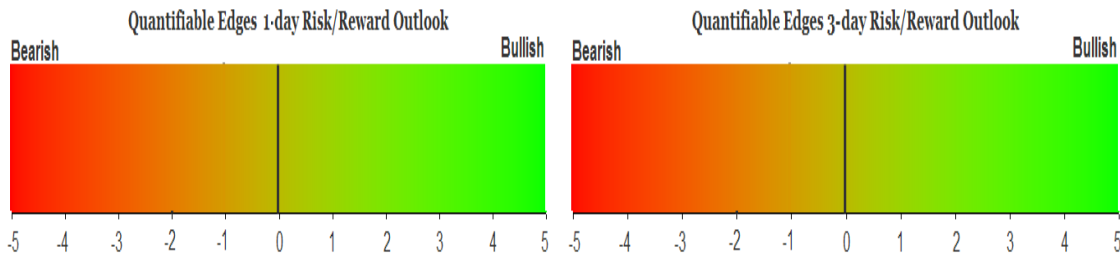
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 1, 2010

Volume 3 Issue 189

## Market Overview



## Tonight's Research Points

- Price action today did not provide a clear edge in my eyes as there was some conflict among studies.
- The pullback into the end of an up month/quarter suggests a short-term upside edge.
- The Aggregator System remained 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
<b>Active</b>				
October 1, 2010	2 Days Down to finish Up Quarter	1-8 days	Bullish	2.90%
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%
<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	

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

### *The Evidence*

Thursday saw some strong back and forth action in the market. A sharp rise to start the day reversed quickly and the market sold off steadily until noon. After that it meandered sideways for much of the afternoon. In the end it closed near the bottom end of the range. The SPX and Nasdaq finished down 0.3% and the Russell 2000 lost 0.2%. The NYSE Up Issues % finished neutral at 50% but the Up Volume % was a little negative with a 42% reading. Total volume spiked to the highest level in nearly 2 weeks.

The price action today was certainly interesting when trying to quantify it. Often I'll see some conflict among studies, but there were a few studies tonight that looked at very similar setups that came out with much different results. Below are a few examples.

From the 6/22/10 Letter:

SPX makes a 10-day high which is at least 1% above yesterday's close and then closes down on the day. Buy on close. Sell X days later. \$100k/trade. 1991 - 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	20,819.03	20	13	7	65.00	2,482.16	-1,635.58	1.52	2.82	1,040.95
9	21,661.24	20	15	5	75.00	2,302.49	-2,575.21	0.89	2.68	1,083.06
8	37,000.04	20	16	4	80.00	2,830.06	-2,070.23	1.37	5.47	1,850.00
7	40,677.67	20	17	3	85.00	2,748.37	-2,014.86	1.36	7.73	2,033.88
6	35,580.09	20	15	5	75.00	2,941.15	-1,707.44	1.72	5.17	1,779.00
5	25,327.22	22	16	6	72.73	2,600.49	-2,713.44	0.96	2.56	1,151.24
4	21,561.70	22	15	7	68.18	2,343.18	-1,940.86	1.21	2.59	980.08
3	13,624.69	23	14	9	60.87	2,049.49	-1,674.24	1.22	1.90	592.38
2	20,346.62	23	16	7	69.57	1,936.29	-1,519.14	1.27	2.91	884.64
1	6,119.00	23	14	9	60.87	1,073.25	-989.61	1.08	1.69	266.04

Obviously this suggests an upside edge based on the strong move to a new high and an intraday reversal down. Tonight I also looked at this using a 50-day high rather than just a 10-day high.

SPX makes a 50-day high which is at least 1% above yesterday's close and then closes down on the day. Buy on close. Sell X days later. \$100k/trade. 1991 - 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	9,749.96	10	8	2	80.00	1,640.66	-1,687.68	0.97	3.89	975.00
9	6,031.19	10	8	2	80.00	1,361.56	-2,430.65	0.56	2.24	603.12
8	11,516.88	10	8	2	80.00	2,041.27	-2,406.65	0.85	3.39	1,151.69
7	13,333.22	10	8	2	80.00	2,144.25	-1,910.41	1.12	4.49	1,333.32
6	12,864.33	10	7	3	70.00	2,408.29	-1,331.23	1.81	4.22	1,286.43
5	3,365.14	11	8	3	72.73	1,440.27	-2,719.00	0.53	1.41	305.92
4	7,283.95	11	7	4	63.64	2,157.76	-1,955.09	1.10	1.93	662.18
3	6,496.24	11	8	3	72.73	1,557.25	-1,987.24	0.78	2.09	590.57
2	7,302.89	11	7	4	63.64	1,744.14	-1,226.52	1.42	2.49	663.90
1	1,472.86	11	6	5	54.55	952.20	-848.07	1.12	1.35	133.90

These results aren't quite as strong and the instances are now low, but it appears that even with a 50-day high being made the edge is still present.

In the 5/27/10 letter I looked at a SPY reversal pattern that also suggested an upside edge. In that letter I also found that a close at a 10-day low increased that edge even further. So tonight I looked at the pattern but filtered out those instances that closed at 10-day low to see if the edge still existed.

SPY gaps up at least 0.25% and makes a high at least 0.5% above the open. It then closes down on the day and in the bottom 25% of its range. Close is above the lowest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	39,657.83	32	20	12	62.50	3,139.93	-1,928.40	1.63	2.71	1,239.31
9	36,552.94	32	24	8	75.00	2,646.11	-3,369.21	0.79	2.36	1,142.28
8	39,757.47	32	23	9	71.88	2,842.64	-2,847.03	1.00	2.55	1,242.42
7	21,157.87	32	19	13	59.38	2,755.25	-2,399.38	1.15	1.68	661.18
6	15,032.38	32	23	9	71.88	1,974.98	-3,376.89	0.58	1.49	469.76
5	13,044.94	32	22	10	68.75	1,879.54	-2,830.49	0.66	1.46	407.65
4	19,430.75	34	20	14	58.82	2,067.99	-1,566.35	1.32	1.89	571.49
3	17,739.61	35	20	15	57.14	1,982.66	-1,460.91	1.36	1.81	506.85
2	16,118.16	35	21	14	60.00	1,768.09	-1,500.84	1.18	1.77	460.52
1	9,354.15	36	21	15	58.33	1,160.23	-1,000.72	1.16	1.62	259.84

Again here we see what appears to be an upside edge.

But some other studies also appeared with fairly similar setups but negative expectations. This first one is from the 3/26/10 letter.

SPX makes a 50-day intraday high and an outside day. It closes down on the day and at least 1% below the high of the day. Buy on close. Sell X days later. \$100k/trade. 1990 - 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
5	-8,442.72	24	10	14	41.67	1,437.03	-1,629.50	0.88	0.63	-351.78
4	-11,101.57	24	8	16	33.33	1,624.45	-1,506.08	1.08	0.54	-462.57
3	-10,720.85	24	8	16	33.33	1,122.51	-1,231.31	0.91	0.46	-446.70
2	-7,411.74	24	9	15	37.50	1,116.56	-1,164.05	0.96	0.58	-308.82
1	-1,086.50	24	12	12	50.00	940.34	-1,030.88	0.91	0.91	-45.27

The difference between this and the previous studies is that this one demands an outside day and a very weak close rather than just a down close. The suggestion is obviously bearish.

And from the 10/22/09 subscriber letter we have this example of a high extreme turning into a low extreme.

SPX posts highest high in 10 days and lowest close in 5 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1978 - 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	-11,712.75	28	12	16	42.86	1,770.21	-2,059.71	0.86	0.64	-418.31
9	-19,366.68	28	11	17	39.29	1,412.03	-2,052.88	0.69	0.45	-691.67
8	-23,528.15	28	9	19	32.14	1,550.71	-1,972.87	0.79	0.37	-840.29
7	-28,123.53	28	10	18	35.71	1,283.94	-2,275.72	0.56	0.31	-1,004.41
6	-23,778.69	28	10	18	35.71	1,178.67	-1,975.86	0.60	0.33	-849.24
5	-13,458.39	28	11	17	39.29	1,028.07	-1,456.89	0.71	0.46	-480.66
4	-19,063.75	28	7	21	25.00	1,088.84	-1,270.74	0.86	0.29	-680.85
3	-20,286.28	28	10	18	35.71	595.25	-1,457.71	0.41	0.23	-724.51
2	-17,845.62	28	8	20	28.57	466.34	-1,078.82	0.43	0.17	-637.34
1	-7,454.88	28	14	14	50.00	367.30	-899.79	0.41	0.41	-266.25

**86% of instances closed below the entry price at some point in the next week.**

Here again we see bearish inclinations.

With studies conflicting so strongly when just examining the price pattern I'm inclined to dismiss them all. The message from the price action simply isn't clear. The bearish studies seem to be slightly better descriptions of Thursdays' action in my opinion but the bullish studies had a little stronger results. So I'm going to say the edge isn't clear and won't include any of these among the active list.

There were some seasonal studies that clearly suggested bullish implications. In the 10/1/2009 Subscriber Letter I examined going long the end of a month or quarter when it had closed with at least 2 down days. I found the results to be bullish, and especially so when the month or quarter finished positive. Below I have updated a couple of the more compelling studies from that Letter.

SPX closes down last 2 days of month. SPX closes > 21 trading days ago (est. month). Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	35,165.03	28	21	7	75.00	2,162.35	-1,463.48	1.48	4.43	1,255.89
9	25,647.33	28	18	10	64.29	2,257.91	-1,499.50	1.51	2.71	915.98
8	25,181.76	28	20	8	71.43	1,924.37	-1,663.20	1.16	2.89	899.35
7	27,004.07	28	20	8	71.43	1,762.91	-1,031.76	1.71	4.27	964.43
6	25,862.09	28	19	9	67.86	1,900.56	-1,138.72	1.67	3.52	923.65
5	27,223.65	28	20	8	71.43	1,778.70	-1,043.80	1.70	4.26	972.27
4	25,750.11	28	17	11	60.71	2,046.80	-822.32	2.49	3.85	919.65
3	17,994.77	28	17	11	60.71	1,830.10	-1,192.45	1.53	2.37	642.67
2	15,936.11	28	22	6	78.57	1,186.47	-1,694.37	0.70	2.57	569.15
1	3,721.82	28	18	10	64.29	818.20	-1,100.57	0.74	1.34	132.92

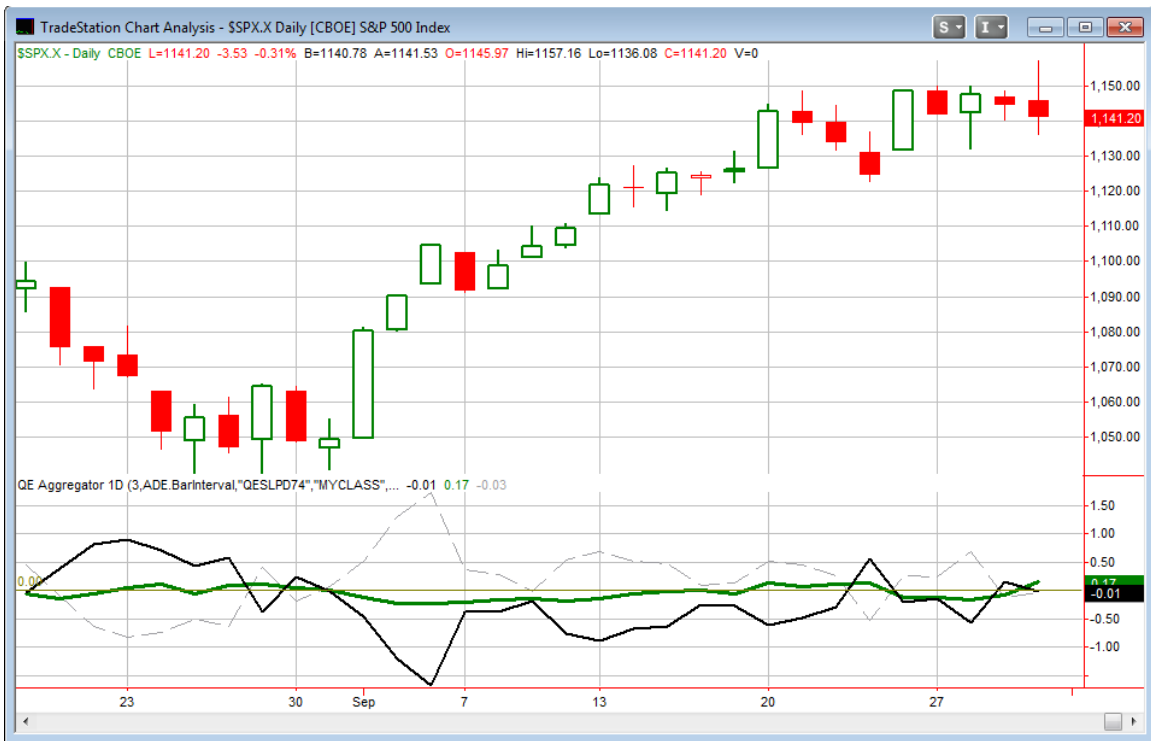
This suggests a solid upside edge for the beginning of the month. This next study examines quarter-ends in much the same way.

SPX closes down last 2 days of quarter. SPX closes > 63 trading days ago (est. quarter).  
Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	40,971.24	17	15	2	88.24	2,898.22	-1,251.03	2.32	17.38	2,410.07
9	35,004.86	17	14	3	82.35	2,814.14	-1,464.34	1.92	8.97	2,059.11
8	36,428.23	17	16	1	94.12	2,309.20	-518.98	4.45	71.19	2,142.84
7	34,237.61	17	16	1	94.12	2,179.75	-638.33	3.41	54.64	2,013.98
6	33,309.39	17	15	2	88.24	2,278.05	-430.71	5.29	39.67	1,959.38
5	29,385.14	17	15	2	88.24	2,085.96	-952.13	2.19	16.43	1,728.54
4	24,173.93	17	14	3	82.35	1,917.20	-888.95	2.16	10.06	1,422.00
3	15,363.05	17	13	4	76.47	1,556.65	-1,218.36	1.28	4.15	903.71
2	14,843.11	17	14	3	82.35	1,342.46	-1,317.11	1.02	4.76	873.12
1	4,244.66	17	11	6	64.71	706.72	-588.21	1.20	2.20	249.69

These results are strongly suggestive of an upside edge. I am including this study on the active list.

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



The end of quarter pullback study helped to move the green Aggregator line above 0 tonight. The positive value indicates the net expectation from the Active Studies over the

next few days is for upside. But while the Aggregator line is above 0 the black Differential line dropped below it. This means the SPX has outperformed expectations over the last few days. So we have positive expectations and a market that is already overbought 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 remained flat at the close.

The green Aggregator line is set up to close above 0 again tomorrow but that could change if bearish studies arrive. Meanwhile the Differential pivot will be 1,143.13 tomorrow. Any close at or below this level would move the black Differential line positive. So to stay overbought the SPX will need to rise a few points

It's unusual to see such conflict among studies that were all based on price. It frankly doesn't appear the short-term message of the market is clear. So I'm content to listen to the Aggregator and remain neutral for a day awaiting better clarity.

**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: WinLoss 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. I'm sitting out. But for those more inclined to take a trade there were quite a decent number of setups on the systems triggered spreadsheet tonight.*

## **Current Open Trade Ideas**

*None.*

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