

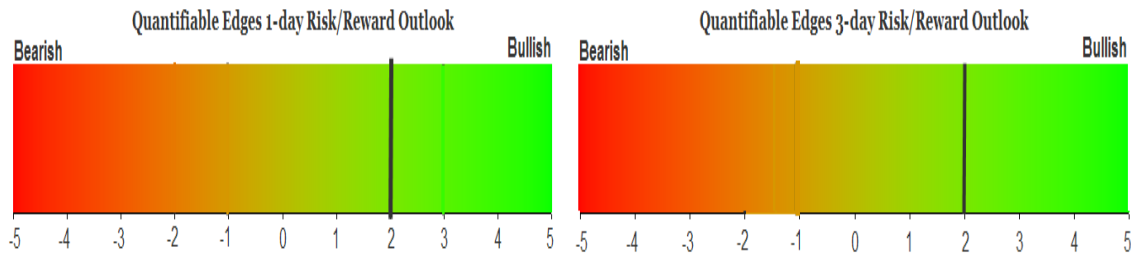
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 5, 2010

Volume 3 Issue 191

Market Overview



Tonight's Research Points

- The breakout & consolidation pattern discussed last night favors upside. Tonight I discuss that a probe below the consolidation is not unusual before the move higher.
- New studies are lacking in this choppy environment.
- The Aggregator System turned long.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook

The Bottom Line

The pullback I was waiting for to take some long exposure arrived on Monday. I'm now looking to put some money to work. Not aggressively yet as the pullback is still shallow and could deepen. Still, there appears to be an upside edge and I want to try and take advantage of it.

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				
October 4, 2010	50-day high then 5-day tight range	1-10 days	Bullish	2.30%
October 1, 2010	2 Days Down to finish Up Quarter	1-8 days	Bullish	2.90%
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	
August 30, 2010	AAII Survey 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

The bulls were unable to get anything going Monday. And instead of the recent range being broken to the upside it was tested on the downside. It did hold as the low in SPY matched the SPY low from last Tuesday. A gentle drift back up in the afternoon kept the damage from looking too bad. The SPX finished down 0.8%, the Nasdaq fell 1.1% and the Russell dropped 1.4%. Breadth was weak as the NYSE Up Issues % came in at 27% and the Up Volume % was 21%. Total volume declined for the 2nd day in a row.

Choppy, range bound conditions tend to provide little in the way edges, and that's just what I'm seeing tonight. The Quantifinder came up with a rare blank. I looked at several scenarios without uncovering anything too compelling. Early-month positive seasonality and a down day in a choppy market both suggest a very mild upside edge for tomorrow. It's nothing worth going into detail about and also nothing I'd look to base a trade on.

Between the 2 active studies on the short-term list there is still some upside magnetism. I did take another look at last night's study. As you'll recall the breakout & consolidation setup saw at least 1 close above the entry price on every occasion and an upside range breakout on 15 of 18 occasions. Today I checked to see how many instances closed BELOW the entry bar at some point in the next week. There were eight. So it wouldn't be unusual to see the bottom of this range probed before a bounce occurs. Perhaps we got that out of the way on Monday without actually breaking below it. We'll see.

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



With no bearish studies emerging the green Aggregator line remains squarely above 0. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. And tonight the Differential line has also moved into positive territory. This means the SPX has underperformed expectations over the last few days. So we have positive expectations and a market that is oversold versus recent expectations. Historically this configuration has provided a bullish edge. It is reflected on Aggregator chart when both lines are above 0. Due to this the Aggregator System turned long 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 1,140.39 tomorrow. Any close at or above this level would move the black Differential line into negative territory. That would only require about a 0.3% rise from Monday's close.

With the Aggregator System now positive I'll look to start building a long position. Details in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/4 – bullish

There were 3 intermediate-term studies that expired this week. Two were seasonality-based and suggested bearish implications. The other was a breadth study that was strongly bullish for the short-term. Obviously breadth trumped seasonality over the last month.

We found last week that strong moves during a month often lead some follow through over the next few months. September did close well so I would look at that as a small positive.

While the NDX did struggle a little this week, the Nasdaq / SPX Relative Strength indicator tracked on the charts page is still showing the Nasdaq to be squarely leading. This is a positive formation.

Lastly, we are close to new highs and the market has positive momentum. Without compelling evidence of a top it would be very difficult for me to turn bearish.

So while I'll continually monitor price action, breadth, volume, sentiment, intermarket relationships and more, I'm not seeing compelling evidence of a big selloff at this point. I'll continue to favor long-side trades over short ones until this changes.

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 @ \$113.75 limit. Based on the short-term outlook above. I'll look to get filled at Monday's closing price.

AAPL – buy @ \$278.64 limit. AAPL was one of several securities to trigger system 11111 tonight. With the Aggregator bullish, the edge for system trades generally increases. I chose AAPL to track in the letter, but there are several other possibilities listed on the triggers page for traders to consider.

Current Open Trade Ideas

None.

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