

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 6, 2010

Volume 3 Issue 192

Market Overview



Tonight's Research Points

- The strong breadth accompanying the new 50-day high appears to be a positive.
- The Aggregator System turned from long back to flat.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook

The Bottom Line

The market bounced as expected and it was a big one. It is now in “overbought” territory but there is no strong evidence that a pullback is imminent. I’d sidelined.

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 6, 2010	50-day high on strong breadth	1-2 days	Bullish	
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

It was a very strong day for the market today. A morning gap up never attempted to fill and the market moved higher for most of the day. In the end there were strong gains all around and the market closed at new rally highs. The SPX gained 2.1%, the Nasdaq added 2.4% and the Russell 2000 made nearly 3%. Breadth was extremely strong. The NYSE Up Issue % came in at 81% and the Up Volume % was 94%. Total volume rose on both exchanges.

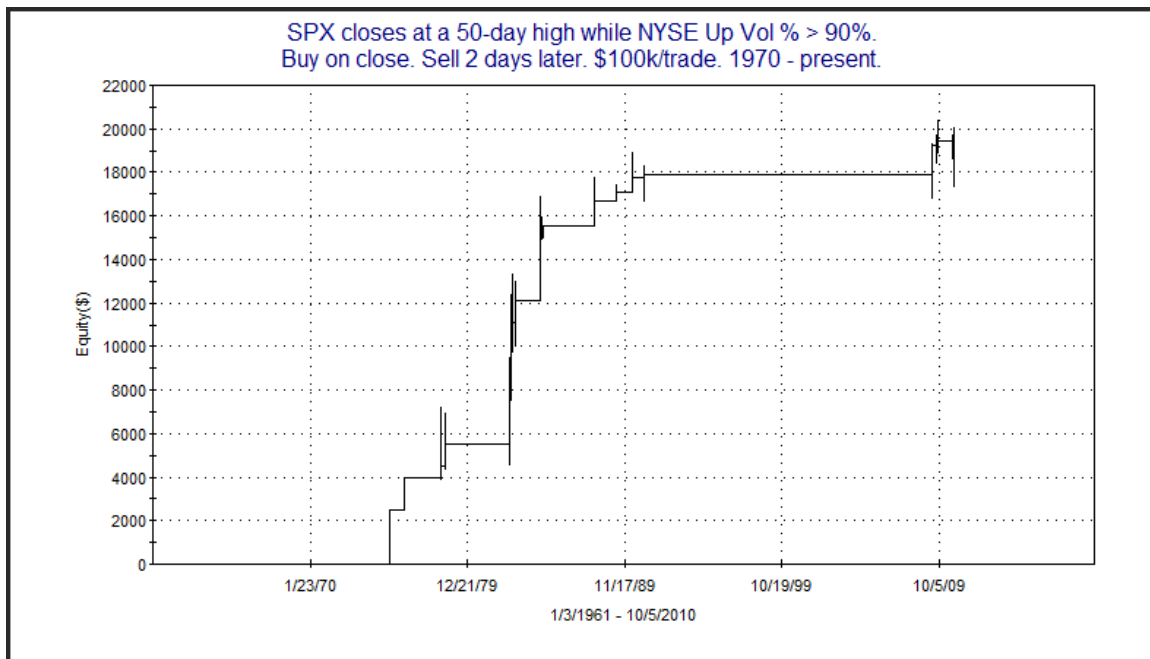
There was one bearish study in the Quantifinder tonight from the 5/27/09 blog. That study has not been potent above the 200ma and in fact I have decided to eliminate it altogether from the Quantifinder.

One study that did appear with compelling results was from the 8/3/10 Subscriber Letter. It looks at other times the SPX posted a 50-day on extremely strong breadth.

SPX closes at a 50-day high while NYSE Up Vol % > 90%. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
20	47,053.59	17	12	5	70.59	5,065.09	-2,745.50	1.84	4.43	2,767.86
19	46,339.29	17	13	4	76.47	4,577.24	-3,291.22	1.39	4.52	2,725.84
18	41,768.83	17	12	5	70.59	4,839.93	-3,262.05	1.48	3.56	2,456.99
17	36,098.30	17	12	5	70.59	4,535.48	-3,665.48	1.24	2.97	2,123.43
16	33,876.24	17	11	6	64.71	4,879.54	-3,299.78	1.48	2.71	1,992.72
15	37,365.44	17	12	5	70.59	4,495.46	-3,316.01	1.36	3.25	2,197.97
14	26,923.60	18	12	6	66.67	4,199.35	-3,911.44	1.07	2.15	1,495.76
13	23,245.17	18	12	6	66.67	3,816.39	-3,758.59	1.02	2.03	1,291.40
12	27,487.72	18	10	8	55.56	4,661.29	-2,390.64	1.95	2.44	1,527.10
11	33,322.97	19	11	8	57.89	4,150.94	-1,542.17	2.69	3.70	1,753.84
10	27,937.76	19	11	8	57.89	3,901.48	-1,872.32	2.08	2.87	1,470.41
9	17,929.33	19	11	7	57.89	3,182.45	-2,439.66	1.30	2.05	943.65
8	17,906.73	19	11	8	57.89	3,322.48	-2,330.07	1.43	1.96	942.46
7	18,512.25	19	12	7	63.16	2,988.62	-2,478.74	1.21	2.07	974.33
6	22,453.45	19	12	7	63.16	2,617.02	-1,278.68	2.05	3.51	1,181.76
5	26,121.14	20	15	5	75.00	2,133.03	-1,174.87	1.82	5.45	1,306.06
4	20,730.55	21	16	5	76.19	1,805.64	-1,631.93	1.11	3.54	987.17
3	16,765.61	21	13	8	61.90	1,765.28	-772.88	2.28	3.71	798.36
2	18,730.28	21	17	4	80.95	1,182.58	-343.39	3.44	14.64	891.92
1	11,947.81	22	13	9	59.09	1,181.46	-379.02	3.12	4.50	543.08

Results are strong in both the short and intermediate-term – though not as strong as they appeared in August. The last 2 instances have failed to close higher 2 days out – though the selling wasn't large.

One issue with 90% days is that they have become much more common in the last 1-2 years. So while 90% up volume would one-time be considered very extreme it no longer is. One way to see this is by looking at the equity curve of this study over time. Below are the results using a 2-day exit.



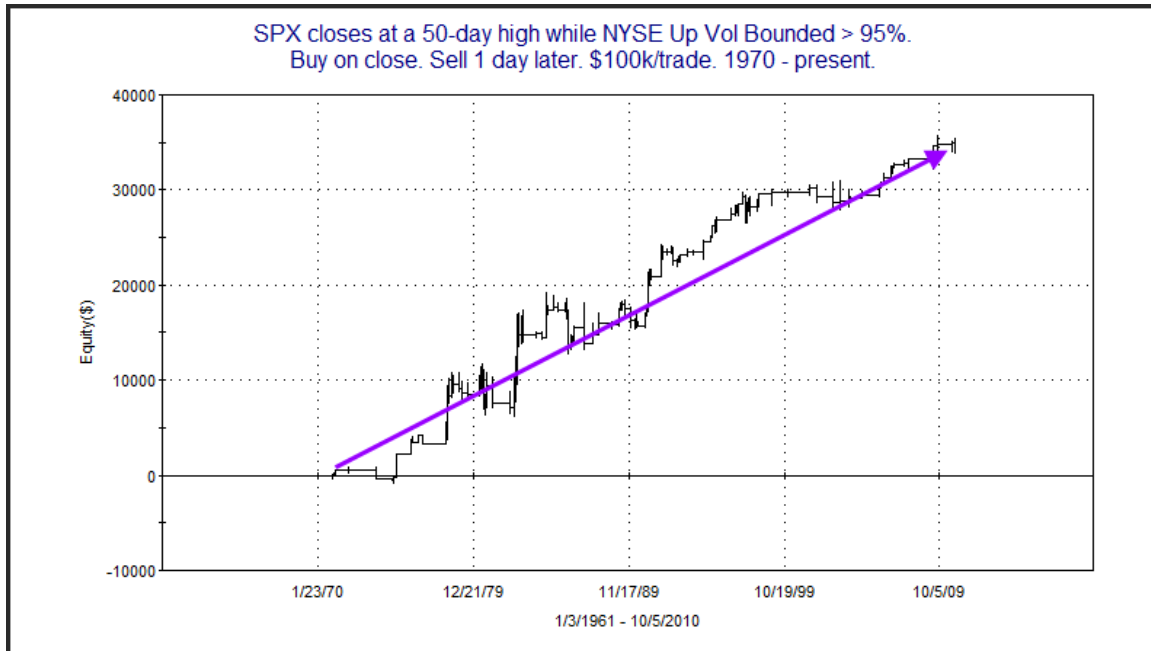
Between 1975 and 1991 there were a decent number of occurrences. Then from '91 to '09 there were none. Over 18 years with not a single 50-day high occurring on 90% up volume. But over the last year and a half there have now been 6 instances. And what would have at one point been an extremely powerful breadth surge is now a bit more common. Today's Up Volume % of 94% is well above the 90% level. Still, today – at 94% Up Vol - only fell between the 96th and 97th percentile of Up Vol % over the last year. In other words, about 4% of days have seen stronger up volume than today. From 1970 – 2007 less than 2% of days had posted 90% or greater up volume.

The percentile ranking is one I've discussed before and have found useful in conducting some tests. I've referred to it as the Bounded Up Volume %. I have decided I will add it

to the charts page in the near future. In any case, I ran the test again to search for instances that SPX hit 50-day highs and the Bounded Up Vol % came in at 95% or higher. Below are those results.

SPX closes at a 50-day high while NYSE Up Vol Bounded > 95%. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
20	27,028.18	95	54	41	56.84	3,046.99	-3,353.88	0.91	1.20	284.51
19	34,286.32	95	55	40	57.89	2,884.21	-3,108.63	0.93	1.28	360.91
18	35,080.36	96	51	45	53.13	3,100.77	-2,734.65	1.13	1.29	365.42
17	38,717.75	97	51	46	52.58	3,118.35	-2,615.61	1.19	1.32	399.15
16	43,679.28	98	54	44	55.10	2,880.68	-2,542.67	1.13	1.39	445.71
15	40,259.89	101	55	46	54.46	2,708.05	-2,362.67	1.15	1.37	398.61
14	33,537.95	103	58	45	56.31	2,605.26	-2,612.60	1.00	1.29	325.61
13	38,812.88	107	62	44	57.94	2,493.69	-2,631.72	0.95	1.34	362.74
12	37,281.57	109	61	48	55.96	2,499.79	-2,400.12	1.04	1.32	342.03
11	39,789.47	112	63	49	56.25	2,331.51	-2,185.63	1.07	1.37	355.26
10	30,422.15	114	62	52	54.39	2,262.59	-2,112.66	1.07	1.28	266.86
9	33,165.36	116	66	49	56.90	2,019.55	-2,043.37	0.99	1.33	285.91
8	34,178.20	118	67	51	56.78	1,862.70	-1,776.92	1.05	1.38	289.65
7	43,861.53	122	71	51	58.20	1,757.95	-1,587.31	1.11	1.54	359.52
6	49,375.06	124	71	53	57.26	1,574.58	-1,177.74	1.34	1.79	398.19
5	57,434.93	129	79	50	61.24	1,412.82	-1,083.56	1.30	2.06	445.23
4	37,200.81	131	79	52	60.31	1,172.14	-1,065.36	1.10	1.67	283.98
3	28,780.85	135	78	57	57.78	1,008.62	-875.28	1.15	1.58	213.19
2	34,192.13	137	85	52	62.04	765.95	-594.50	1.29	2.11	249.58
1	32,395.47	141	93	48	65.96	566.85	-423.36	1.34	2.59	229.76

A few things to point out here. First, instances are MUCH more common than requiring a 90% Up Volume day. Second, the edge is not as pronounced. Third, the edge only appears short-term in nature. There is no intermediate-term follow though. With the 1-day results being among the most compelling here I ran an equity curve using that as the exit criteria.



Especially notable about this chart is that while the edge isn't huge, it has been steady over time. Even during the '91 – '09 dead zone period from the other test, there were a fair number of instances and a bit of an upward drift.

So which study are we to believe provides a more accurate depiction of the current market? With 90% days becoming more common there's a case to be made for simply looking at the Bounded Up Volume %. But then you are comparing today's 94% Up Volume % to days that were substantially weaker. I don't know that there is a right answer. Personally I'm inclined to split the difference. They both suggest short-term bullish implications, though the intermediate-term influence is not as clear. I've added the breadth breakout to the Active Studies list for the next 1-2 days. I've left it off the intermediate-term list for now.

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



The studies suggest there could be more upside in this thrust so 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. Tuesday's strong move has dropped the Differential line squarely into negative territory, though. This means the SPX has outperformed expectations over the last few days. So while we have positive expectations we are dealing with a market that is already overbought. This is considered a neutral configuration. It is reflected on the Aggregator chart when both lines are on opposite sides 0. Due to this the Aggregator System turned flat at the close.

The green Aggregator line could go either way tomorrow depending on the studies that emerge. Meanwhile the Differential pivot will be 1,149.69 tomorrow. Any close at or below this level would move the black Differential line into positive territory. That would require nearly a 1% drop from Tuesday's close.

I'm not inclined to take on new exposure at this point. I'll wait for the next edge to appear either in the form of a pullback or perhaps the emergence of some bearish studies. Overbought with upside expectations means hand sitting for me.

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 breath 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.

None tonight. There are several short triggers among emerging market ETF's that I am noticing tonight, so perhaps we'll see a pullback there in the next few days. Without confirmation from the Aggregator, I'm not inclined to try and short this strong of a rally. Aggressive traders could consider it.

Current Open Trade Ideas

None.

Neither of the trade ideas from last night got filled thanks to the large unfilled gap Tuesday morning. I am sometimes asked how I track the subscriber letter trade ideas versus the Aggregator System and I received a few of those questions today.

The Aggregator System is based on closing prices. Traders who wish to avoid scenarios like today where an unfilled gap may leave them without an entry may utilize a number of resources to help them make trading decisions near the close.

First, in the nightly subscriber letter I always publish the Differential Pivot number. This is typically found in the 2nd paragraph below the Aggregator chart. Traders should keep in mind that an SPX close above the pivot means either a neutral or short position, and a close below the pivot means a neutral or long position. So on a day like Tuesday where the SPX closed well above the pivot published last night, there is no way the long signal could persist. The only question is whether the signal would be flat or short.

To help determine flat or short, traders can first look at the Intraday Quantifinder. On this page you will find a list of studies that are on track to trigger as of the time I publish it each day. I typically publish the Intraday Quantifinder between 2 – 3:20. When I do publish it I try and send a notification via Twitter. (<http://twitter.com/qerob>). When publishing the intraday Quantifinder I always do a quick review of the studies and post a comment along with it.

The next and final resource that gets published before the bell is the Systems Page. On that I show the anticipated Aggregator signal. Here again I typically send out a tweet to let subscribers know when it is available. Typically I post it in the last 15 minutes of the day.

Of course not all traders have the inclination to make decisions like that before the bell. And no matter how obvious a setup looks to me, I will never send out an intraday update with a new trade idea. Trade ideas that are tracked in the subscriber letter are originated in the subscriber letter. And cases like Tuesday where it runs away without providing any fill aren't very common. But again there is no need to rely solely on the subscriber letter or the pre-close Aggregator information. Traders may also use the system triggers spreadsheet for trade ideas.

The triggers spreadsheet is published each night and shows any S&P 500 stock or ETF (on the QE list of 100+ ETFs) that triggers one of the numbered systems. I'll sometimes track some of my favorites here in the letter, but traders can use the page as another resource for tradable ideas.

I always encourage traders to try and use the information and resources available at Quantifiable Edges in a way that suits their personality, trading style, and risk tolerance. View these resources as decision making tools rather than trades you are compelled to follow. Over time they have all produced solid results, but to get the best results traders must make sure they are trading within their comfort zone. Aggressive traders may look to take many more trades than the ones I discuss in the letter. Conservative traders may only take a trade idea from the letter once in a great while if it appears to be lining up well with their other indicators. Whatever your approach, I'd encourage you to make it your own and to at least remain aware of the QE resources available to you.

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.