

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 7, 2010

Volume 3 Issue 193

Market Overview



Tonight's Research Points

- Little change in the SPX today led to a lack of new studies.
- The Aggregator System turned remained flat.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook

The Bottom Line

The sideways day today didn't change anything. I'm still looking at an overbought market with short-term bullish expectations. Basically a neutral outlook.

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 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

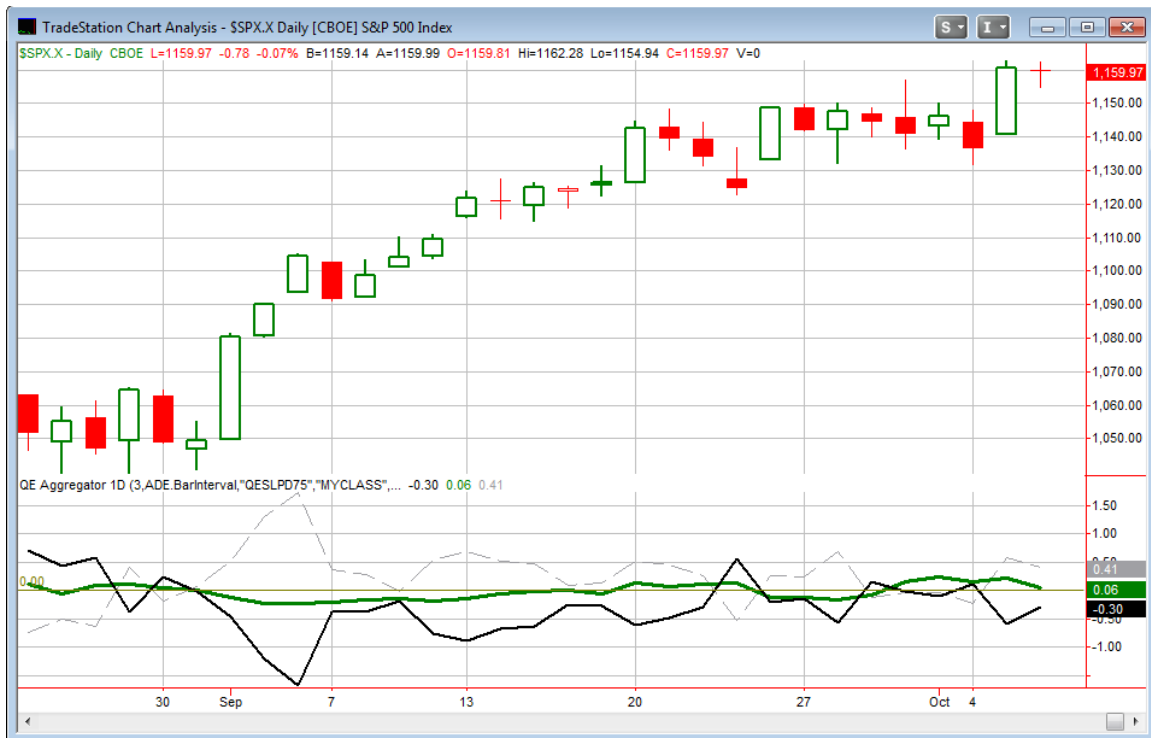
The Evidence

As often happens after a strong one day move, the SPX spent much of Wednesday in a tight range near the breakeven point. The Nasdaq's day was a bit worse. When it was over the SPX closed down 0.1%, the Nasdaq lost 0.8% and the Russell 2000 gave up 0.6%. Breadth was mildly negative on the NYSE. The Up Issues % came in at 47% and the Up Volume % was 44%. Total volume fell below Tuesday's level.

With close to 800 studies in the Quantifinder it is pretty rare these days that none appear. Yet for the 2nd time in 3 days the market has failed to trigger any studies. I looked at a lot of possibilities tonight in search of something that might provide an edge. I looked at the Nasdaq (and SOX) strong selling versus the SPX. I looked at range contractions following 50-day highs, small pullbacks after large moves to new highs, and more. None of it provided any compelling evidence for either the bull or the bear case.

When it comes down to it, Wednesday appears to be just one of those days where the market didn't move much. And trying to gain great insight from a day where the market barely budged is often a fruitless endeavor. So rather than try and concoct some questionable statistics, I'll just wait another day. Perhaps tomorrow a clear edge will again appear.

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



The studies are still looking for some more upside 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 further gains. Meanwhile the Differential line remains below 0. 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 remained flat at the close.

The green Aggregator line could go either way tomorrow depending on the studies that emerge. It is currently set to close positive. Meanwhile the Differential pivot will be 1,142.93 tomorrow. Any close at or below this level would move the black Differential line into positive territory. That would require nearly a 1.5% drop from Wednesday's close.

Basically it is hand-sitting time for me. I'll be waiting and observing until the next compelling setup reveals itself.

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.

None tonight. Once again I'm seeing several short signals appear on the triggers sheet. I'm not inclined to try and short at this point without even a single short-biased study on the short-term active list.

Current Open Trade Ideas

None.

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