

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 8, 2010

Volume 3 Issue 194

## Market Overview



## Tonight's Research Points

- The very tight closes after Tuesday's strong up day suggest a short-term edge for the bears.
- The Aggregator System remained flat.
- The NDX Aggressive Trend Timer remained long.

## Short-term Outlook

### The Bottom Line

While the outlook still remains neutral it appears ready to turn bullish over the next few days.

*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 8, 2010	1.5% Rise the flat 2 days	1 day	Bearish	
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%
<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	
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	
<b>Dropped Tonight</b>				
October 6, 2010	50-day high on strong breadth	1-2 days	Bullish	

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

### *The Evidence*

A large gap up Thursday morning didn't take long to fill. And while Wednesday's lows were broken the market closed around the middle of the day's range. The indices finished mixed and not far from breakeven. The SPX and Russell lost 0.2% and the Nasdaq gained 0.1%. Breadth was a little negative as the NYSE Up Issues % came in at 45% and the Up Volume % was 41%. Total volume sank for the 2<sup>nd</sup> day in a row.

With another minor price move there wasn't a lot that showed up in the Quantifinder again tonight. One bearish study that did trigger was discussed in the 6/18/10 letter. It looked at times that a big 1-day gain was followed by two days of sideways movement.

After rising over 1.5% in one day the SPX doesn't close up or down more than 0.25% on either of the next 2 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1960 - 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	-42,946.59	30	18	12	60.00	1,666.60	-6,078.79	0.27	0.41	-1,431.55
9	-29,366.40	30	14	16	46.67	1,855.77	-3,459.20	0.54	0.47	-978.88
8	-21,096.31	30	14	16	46.67	1,707.45	-2,812.54	0.61	0.53	-703.21
7	-27,670.44	30	12	18	40.00	1,266.86	-2,381.82	0.53	0.35	-922.35
6	-30,940.11	30	8	22	26.67	1,482.49	-1,945.46	0.76	0.28	-1,031.34
5	-35,249.16	30	9	21	30.00	1,365.88	-2,263.91	0.60	0.26	-1,174.97
4	-23,775.17	31	9	22	29.03	1,194.49	-1,569.34	0.76	0.31	-766.94
3	-18,282.34	31	11	20	35.48	1,164.63	-1,554.67	0.75	0.41	-589.75
2	-11,149.30	31	12	19	38.71	908.54	-1,160.62	0.78	0.49	-359.65
1	-10,752.61	31	14	17	45.16	432.05	-988.31	0.44	0.36	-346.86

**27 of 31 instances closed below the entry price at some point in the next 4 days.**

Even with the 200ma filter in place results appear to be squarely negative. But Tuesday wasn't just any big day. It also marked a 50-day high. If rather than using the 200ma requirement I instead require that the market makes a 50-day high the results change substantially.

After rising over 1.5% in one day and closing at a 50-day high, the SPX doesn't close up or down more than 0.25% on either of the next 2 days.  
Buy on close. Sell X days later. \$100k/trade. 1960 - 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	9,317.00	19	13	6	68.42	2,025.41	-2,835.55	0.71	1.55	490.37
9	9,763.80	19	12	7	63.16	2,067.01	-2,148.61	0.96	1.65	513.88
8	7,759.31	19	11	8	57.89	2,080.70	-1,891.05	1.10	1.51	408.38
7	-3,423.21	19	10	9	52.63	1,475.97	-2,020.32	0.73	0.81	-180.17
6	-9,221.66	19	7	12	36.84	1,469.29	-1,625.56	0.90	0.53	-485.35
5	-11,319.19	19	7	12	36.84	1,412.53	-1,767.24	0.80	0.47	-595.75
4	-7,494.31	20	7	13	35.00	1,048.40	-1,141.01	0.92	0.49	-374.72
3	-6,144.82	20	10	10	50.00	986.35	-1,600.83	0.62	0.62	-307.24
2	-6,720.20	20	9	11	45.00	728.61	-1,207.07	0.60	0.49	-336.01
1	-9,703.39	20	7	13	35.00	566.99	-1,051.72	0.54	0.29	-485.17

We see here that the negative inclinations are generally exhausted after the 1<sup>st</sup> day.

But while tonight's study may indicate a bit of a bearish influence offered by the pattern of the last 3 days, we still have a couple of bullish patterns in play as well. And the Aggregator projections suggest that the bearish influence here is not likely enough to offset the other studies bullish influences over the next few days. Of course tomorrow is the much anticipated employment report and that may end up having the greatest influence of all on tomorrow's action. Should the market show a negative reaction to the report and sell off further tomorrow that could very well set up a long trade. We can see this by examining the Aggregator configuration.

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



Despite tonight's bearish study the green Aggregator line remains 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 is set up to finish positive again tomorrow but with the low number of studies that could easily change should some bearish ones emerge. Meanwhile, with Tuesday's strong up day exiting the Differential calculation the Differential Pivot will jump up to 1,167.61. Any close at or below this level would move the black Differential line into positive territory. In other words, for the black Differential line to keep from rising above zero, the SPX is going to have to close more than 0.8% higher.

Another down day would make the 3<sup>rd</sup> in a row for the SPX, and should that happen it's unlikely the bearish studies would overwhelm the bullish ones. So it's a pretty safe bet that a down close tomorrow would trigger a long Aggregator signal. And we could even see a long signal trigger on an up close.

***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 1/4 index position at \$115.88 LIMIT ON CLOSE. Based on the short-term market outlook above, I am anticipating the Aggregator System will trigger a long signal tomorrow should the SPX close lower.*

### **Current Open Trade Ideas**

None.

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