

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 13, 2010

Volume 3 Issue 197

Market Overview



Tonight's Research Points

- The outside day reversal up to a new high is mildly bearish.
- The Aggregator System turned flat.
- The NDX Aggressive Trend Timer turned flat.

Short-term Outlook

The Bottom Line

Mildly overbought with slight upside expectations still.

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 13, 2010	Outside up day at 50-high	1-3 days	Bearish	-1.10%
October 12, 2010	SPX 50-day high. VIX:VXV 50-day low	1-2 days	Bearish	-0.80%
October 4, 2010	50-day high then 5-day tight range	1-10 days	Bullish	2.30%
Active - Long Term				
September 21, 2010	50-high breakout on 90% Up Vol	1-25 days	Bullish	
September 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish	
July 20, 2010	Down 1 week after FTD	int term	Bearish	
Dropped Tonight				
October 1, 2010	2 Days Down to finish Up Quarter	1-8 days	Bullish	2.90%

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

The Evidence

After a weak start the market turned it on in the afternoon and finished positive. Gains were rather mild though. The SPX and Russell 2000 rose 0.4% and the Nasdaq was up 0.7%. Breadth was mildly positive as the NYSE Up Issues % came in at 55% and the Up Volume % was 65%. Total volume rose over Monday's holiday trading levels.

A fair amount of bearish studies appeared in tonight's Quantifinder, most of which had mildly bearish implications. They generally looked at the move lower and the strong reversal back up to finish nicely positive on the day. Bars like Tuesday's are often viewed as bullish but it really depends on where they occur. In fact, I've found market position to be at least as, if not more important, than patterns when looking at all the 1000's of studies I've examined. But I digress.

There are some general rules of thumb with a day like today where you see a strong dip lower and then a strong move higher. They are often bullish after a down move. They are often bearish if posting new highs. Since we've been moving up and not down implications of such a bar are typically bearish. Of course if we were talking about a short-term high in a long-term downtrend it would be substantially more bearish than the current new high in an uptrend scenario.

The study below is from the 9/29/10 Subscriber Letter. I found it to be one of the more compelling studies. I also thought it more accurately depicted the current situation than the other studies.

SPY posts an outside day and makes a 50-day intraday high. It closes higher than yesterday and above the 200ma. Volume > yesterday. 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
5	-6,508.15	25	15	10	60.00	942.73	-2,064.91	0.46	0.68	-260.33
4	-6,540.38	27	13	14	48.15	789.90	-1,200.65	0.66	0.61	-242.24
3	-7,556.96	27	11	16	40.74	794.69	-1,018.66	0.78	0.54	-279.89
2	-3,024.71	28	12	16	42.86	662.53	-685.94	0.97	0.72	-108.03
1	-893.71	28	11	17	39.29	507.24	-380.79	1.33	0.86	-31.92

24 of 28 instances (86%) closed below the entry price at some point in the next 3 days.

Implications certainly appear bearish but as often happens when locked in an uptrend, the bearish studies simply don't carry much weight. The projections here (average trade) are very mild. When placed into the Aggregator, Tuesday's outside day study wasn't quite enough to turn the outlook bearish.

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



Despite tonight's bearish study the green Aggregator line remains mildly above 0. The positive value indicates the net expectation from the Active Studies over the next few days is for further gains. Meanwhile the black Differential line dropped further below 0. This means the SPX has outperformed expectations over the last few days. So we have positive expectations but a market that is already overbought. This is considered a neutral configuration. Neutral Aggregator conditions occur whenever 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 finish positive again tomorrow but with the low number of studies that could easily change should some bearish ones emerge. Also, the current bullish short-term study is close to hitting its target. So a move up on Wednesday could see it removed which might also turn the Aggregator negative. Meanwhile, the Differential Pivot will be 1,169.63. Any close at or below this level would move the

black Differential line back into positive territory. That's extremely close to Tuesday's close. So basically any up close tomorrow will leave the market outperforming expectations while any down close will leave it underperforming.

The way the Aggregator and Differential are set up it appears a signal could very likely be triggered opposite of whatever Wednesday's closing direction is.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/11 – bullish

The initial breakout on September 20th looked good for a number of reasons and so far it has done well. One reason for optimism at the time was the strong breadth that occurred on the breakout. Below is a copy of a study I posted in the 9/21 Subscriber Letter.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE Up Volume % > 90%. Buy SPX 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
25	47,149.27	11	9	2	81.82	5,867.65	-2,830.68	2.07	9.33	4,286.30
20	39,106.00	11	7	4	63.64	7,144.22	-2,725.88	2.62	4.59	3,555.09
15	33,537.53	11	7	4	63.64	6,262.94	-2,575.76	2.43	4.26	3,048.87
10	31,005.21	11	8	3	72.73	4,657.74	-2,085.58	2.23	5.96	2,818.66
9	25,705.32	11	7	3	63.64	4,616.82	-2,204.14	2.09	4.89	2,336.85
8	22,718.14	11	8	3	72.73	3,968.24	-3,009.25	1.32	3.52	2,065.29
7	22,862.03	11	8	3	72.73	3,950.95	-2,915.19	1.36	3.61	2,078.37
6	21,172.72	11	8	3	72.73	3,382.30	-1,961.90	1.72	4.60	1,924.79
5	24,987.61	11	9	2	81.82	3,173.64	-1,787.58	1.78	7.99	2,271.60
4	17,080.71	11	8	3	72.73	2,867.70	-1,953.62	1.47	3.91	1,552.79
3	21,706.42	11	9	2	81.82	2,432.15	-91.45	26.60	119.68	1,973.31
2	17,931.58	11	11	0	100.00	1,630.14	0.00	100.00	100.00	1,630.14
1	11,717.90	11	9	2	81.82	1,362.43	-272.00	5.01	22.54	1,065.26

We had also just seen the Nasdaq take over a leadership role. A leading Nasdaq has often been a positive sign for the market as well. I track this on the Nasdaq/SP500 Relative Strength chart on the charts page.

As we move forward, breadth and Nasdaq leadership are two indications to keep an eye on. I've noticed breadth has been middling a bit in the last couple of weeks. For instance, while the market has consistently been hitting new 50-day highs, the McClellan Oscillator hasn't even managed a new 20-day high. I ran some tests based on this and found the market odds to be pretty breakeven over the next several weeks. This is no reason to sell but you'd ordinarily prefer breadth to be gaining strength and not losing it. Eventually a narrowing market will matter.

The Nasdaq is still leading according to our indicator but the lead is shrinking. Again, no cause for concern just yet, but worth keeping an eye on.

So despite a few intermediate-term studies falling off the board this week, I remain very much where I was a week ago with the outlook. Momentum has been good. The market is hitting new highs. I won't bet against it without compelling evidence, and I am simply not seeing any right now.

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.

Current Open Trade Ideas

None.

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