

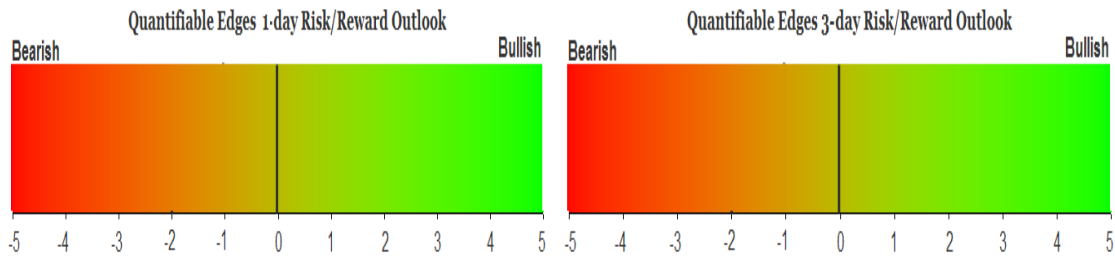
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 21, 2010

Volume 3 Issue 203

## Market Overview



## Tonight's Research Points

- Unfilled gaps up after unfilled gaps down suggest bearish implications when coming from a high level.
- The Aggregator System turned short.
- The NDX Aggressive Trend Timer remained long.

## Short-term Outlook

### The Bottom Line

The Aggregator is back short, though the SPX is only mildly overbought and the bearish evidence isn't quite overwhelming. Still, I'm looking to add a little short index exposure.

*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 21, 2010	Unfilled gap up after unfill gap dn	1-2 days	Bearish	
October 20, 2010	Unfilled gap down from 50-day high	1-2 days	Bearish	
October 18, 2010	SPX up. Issue% and Vol% very low	1-3 days	Bearish	-2.10%
October 14, 2010	50-high breakout on 90% Up Vol	1-5 days	Bullish	1.60%
<b>Active - Long Term</b>				
October 20, 2010	20-high to 5 -low after persistent rise	1-12 days	Bullish	
October 18, 2010	SPX up. Issue% and Vol% very low	int term	Bearish	
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	
<b>Dropped Tonight</b>				
October 20, 2010	Sharp drop from 50-day high	1 day	Bullish	

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

## The Evidence

Wednesday saw the market stage a sizable bounce back after Tuesday's selloff. The SPX and Russell 2000 each gained 1.1% while the Nasdaq was up 0.8%. Breadth was solidly positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 74%. Total volume declined from Tuesday's levels.

Unusual about the recent action is that we saw an unfilled gap up today following an unfilled gap down yesterday. This has only happened 8 other times following a 50-day high. I ran a study to see performance after previous instances.

SPY leaves an unfilled gap down oafter closing at a 50-day high 2 days ago. Today it leaves an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1994 - 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
6	-7,861.38	8	1	7	12.50	1,112.16	-1,281.93	0.87	0.12	-982.67
5	-4,956.88	8	2	5	25.00	1,035.76	-1,405.68	0.74	0.29	-619.61
4	-3,137.18	8	4	4	50.00	762.58	-1,546.87	0.49	0.49	-392.15
3	-2,591.62	8	4	4	50.00	919.22	-1,567.13	0.59	0.59	-323.95
2	-3,739.96	8	1	7	12.50	1,673.20	-773.31	2.16	0.31	-467.50
1	-306.17	8	1	7	12.50	1,361.70	-238.27	5.72	0.82	-38.27

The one instance that didn't post a lower close the next day was 11/4/98. It took 5 days to close below the entry price.

The number of occurrences is lower than I typically prefer. Still, the results are quite compelling. I felt they were worth inclusion in formulating my bias.

I did also loosen the requirements to just require a 20-day high in order to try and get a larger sample size.

SPY leaves an unfilled gap down oafter closing at a 20-day high 2 days ago. Today it leaves an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1994 - 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
6	-13,052.84	13	2	11	15.38	1,648.46	-1,486.34	1.11	0.20	-1,004.06
5	-9,791.02	13	4	8	30.77	597.85	-1,522.80	0.39	0.20	-753.16
4	-2,294.70	13	6	7	46.15	1,049.82	-1,227.66	0.86	0.73	-176.52
3	-2,280.98	13	5	8	38.46	1,018.38	-921.61	1.10	0.69	-175.46
2	-3,220.18	13	3	10	23.08	1,367.68	-732.32	1.87	0.56	-247.71
1	-1,875.55	13	3	10	23.08	625.49	-375.20	1.67	0.50	-144.27

Still here it there appears to be a bit of a downside edge.

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



With tonight's studies factored in the green Aggregator line remains below zero. The negative value indicates the net expectation from the Active Studies over the next few days is for a move down. Meanwhile the SPX rally Wednesday caused the black Differential line to drop slightly below 0. This means the SPX has outperformed expectations over the last few days. So we have negative expectations and a market that is relatively overbought. Historically this has suggested a downside edge. This occurs

whenever both lines are below 0. Due to this the Aggregator System changed from flat to short at the close.

The green Aggregator line is set up to finish negative again tomorrow. Of course that could change if compelling bullish evidence emerges. Meanwhile, the Differential Pivot will be 1,182.76. Any close at or below this level would move the black Differential line back into positive territory. So in order for the Differential to remain negative and for a short signal to remain in place the SPX would need to rise nearly 0.4%.

Evidence isn't overwhelming and I do have a bullish intermediate-term bias, so I'm a little leery of taking on much short exposure here. This isn't exactly a layup. Still, I'll take a shot with a small position.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 10/18 – bullish***

Not much to say this week with regards to the intermediate-term. The breadth studies above were the only studies that appeared this week with potential intermediate-term implications. They don't provide overwhelming evidence but it's the first intermediate-term study in a while suggesting downside. So for now I'll just list it and keep an eye out for any further bearish evidence.

On the plus side the breakout from a few weeks ago continues to look good. The September 21<sup>st</sup> study suggested it had a good chance to continue higher and so far it has. The Nasdaq continues to lead the charge and this is a good sign as well. Momentum is strong and the market continues to make new highs. I don't anticipate changing my positive bias until I see more compelling evidence for the bears.

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

### ***Open Catapult Triggers***

*HD @ \$30.70*

*HD @ \$30.53*

### ***Catapult for ETF's Trades***

*None*

### ***Broad Market Large Cap CBI – 2 (HD-2)***

### **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 – short ¼ index position @ 117.87 limit. If not filled in first 30 minutes of trading, cancel order. Based on short-term outlook above.*

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Pri</b>	<b>% Gain/Los</b>	<b>Stop</b>	<b>Notes</b>
HD(1/3)	10/18/2010	\$30.66	\$30.73	0.23%		Catapult
HD(1/3)	10/19/2010	\$30.30	\$30.73	1.42%		Catapult

*HD barely missed triggering an exit today. An intraday rally up to Wednesday's high or just about any positive close would likely trigger an exit signal. If this occurs the standard exit would be at Friday's open. Of course traders could consider an exit prior to that as well.*

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