

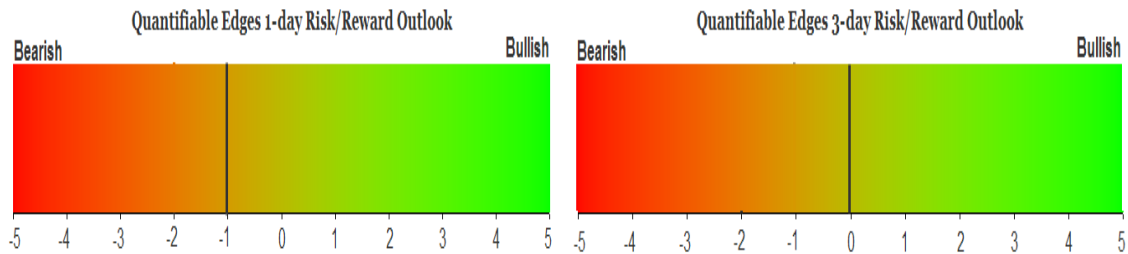
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 27, 2010

Volume 3 Issue 207

Market Overview



Tonight's Research Points

- VIX up and SPX up again make for bearish inclinations.
- The low 3/10 Offset HV once again has the market set up for a potential big move.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

Still no overwhelming directional edge. I'm flat and awaiting the next suitable opportunity.

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 27, 2010	SPX up. VIX up. Again.	1-3 days	Bearish	
October 26, 2010	Unfilled gap up with poor close.	1-3 days	Bullish	
October 25, 2010	Vol 20-day low. SPX overbought.	1-3 days	Bearish	-1.40%
Active - Long Term				
October 25, 2010	SPX Golden Cross	int term	Bullish	
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	
Dropped Tonight				
October 26, 2010	SPX up. VIX uup.	1 day	Bearish	

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

The Evidence

The market gapped down to open the day but it found its low within the first 10 minutes. After filling the gap around 10:30am it chopped sideways the rest of the day and finished mixed. The SPX finished flat (+0.02 points), the Nasdaq gained 0.3% and the Russell 2000 lost 0.1%. Breadth was slightly negative as the NYSE Up Issue % came in at 45% and the Up Volume % was 48%. Total volume sunk from Monday's level.

The most notable studies tonight all looked at the fact that the VIX again rose along with the SPX. This first study is from the 4/16 Letter and it looks at other times the SPX and VIX both rose mid-week while above the 200ma.

SPX & VIX both close higher on a Tues, Wed, or Thurs. SPX > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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	-14,162.83	41	20	21	48.78	673.18	-1,315.54	0.51	0.49	-345.43
4	-10,371.59	43	17	26	39.53	853.65	-957.06	0.89	0.58	-241.20
3	-4,843.17	43	19	24	44.19	740.66	-788.15	0.94	0.74	-112.63
2	-10,520.36	44	13	31	29.55	707.26	-635.96	1.11	0.47	-239.10
1	-7,223.97	51	23	28	45.10	301.09	-505.32	0.60	0.49	-141.65

Results here suggest a mild but fairly consistent downside edge over the next few days.

But today was the 2nd day in a row where the VIX and SPX both rose. Below is a study from the 4/26/10 Letter that looked at this while the SPY was in an uptrend.

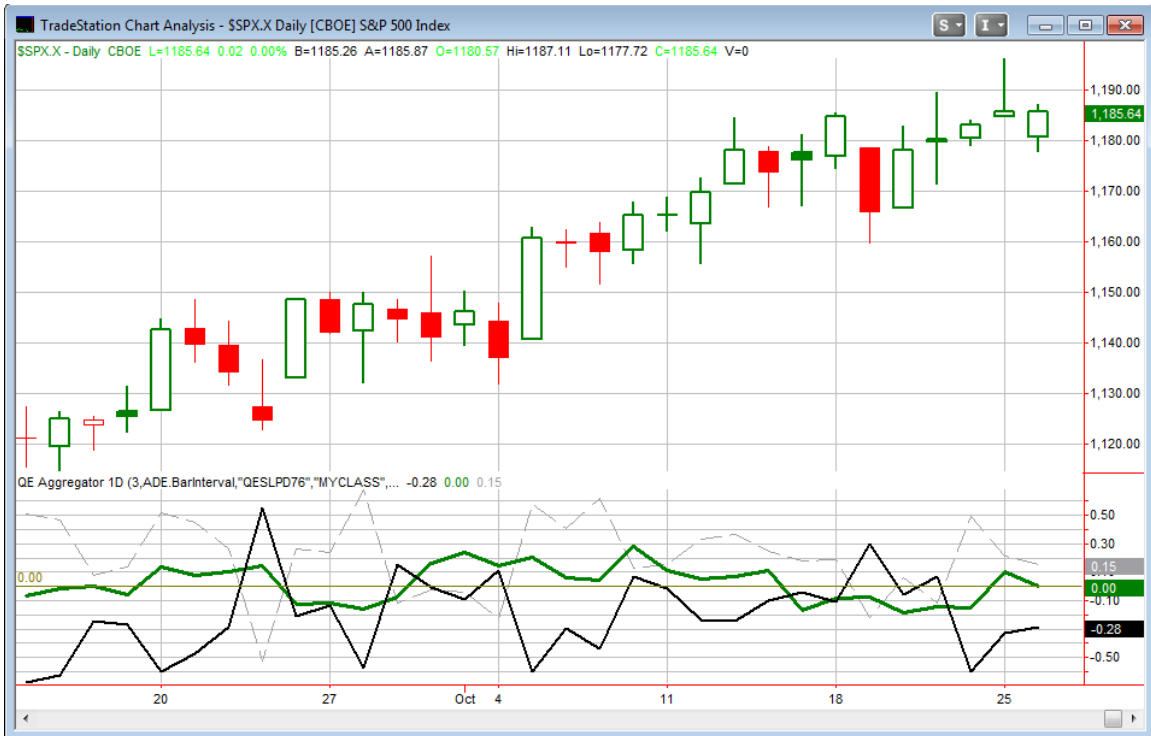
SPX and VIX both close higher today and yesterday. SPX closes > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - present.										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-1,493.05	16	10	6	62.50	1,155.38	-2,174.47	0.53	0.89	-93.32
4	-5,162.80	16	8	8	50.00	954.83	-1,600.18	0.60	0.60	-322.68
3	-6,895.96	16	7	9	43.75	735.07	-1,337.94	0.55	0.43	-431.00
2	-6,640.11	16	5	11	31.25	626.71	-888.51	0.71	0.32	-415.01
1	-3,570.26	19	7	12	36.84	246.65	-441.40	0.56	0.33	-187.91

Here again we see what appears to be a downside edge. I also decided to see how this scenario looked when the market was trading at a 50-day high rather than just above the 200ma. Those results are below.

SPX and VIX both close higher today and yesterday. SPX closes at 50-day high. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-3,693.14	11	6	5	54.55	1,336.12	-2,341.97	0.57	0.68	-335.74
4	-6,271.89	11	5	6	45.45	1,091.19	-1,954.64	0.56	0.47	-570.17
3	-8,200.47	11	3	8	27.27	1,043.08	-1,416.21	0.74	0.28	-745.50
2	-5,131.92	11	4	7	36.36	688.12	-1,126.34	0.61	0.35	-466.54
1	-1,762.30	14	5	9	35.71	251.06	-335.29	0.75	0.42	-125.88

No sign here of the edge becoming less prolific. No matter how I slice it, it appears the VIX action over the last couple of days has the SPX set up for a pullback.

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



The green Aggregator line tonight has fallen almost to breakeven. It is just fractionally above zero. The positive value indicates the net expectation from the Active Studies over the next few days is for a slight move up. Meanwhile the black Differential line remained 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. This occurs whenever both lines are on opposite sides of 0. Due to this the Aggregator System remained flat.

The green Aggregator line is set up to remain barely positive tomorrow. Of course that could change if just about any bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,177.47. Any close at or below this level would move the black Differential line back into positive territory. This would require a pullback of about 0.7%.

The outlook is about as neutral as it gets over the next 3 days. The 1-day outlook is slightly bearish though, thanks to the VIX studies from tonight. This can be seen on the risk/reward thermometer at the top of this letter. As I discuss below, daytrades remain a possibility. I'll hold off for now on any new swing trades. I'll keep my eye out in the next couple of days for a pullback in the SPX to below the Differential Pivot. This could provide a favorable opportunity should it occur.

Note on today's Opening Range Breakout

I discussed last night that the low 3/10 Offset HV suggested an Opening Range Breakout (ORB) trade could provide a nice daytrading opportunity. Below is a chart of today's action using 5-minute bars. I've marked it so that those of you who attended or watched the ORB Video may confirm where the ORB entry would have been and the Double Support Trailing stop would have taken you out. Today's trade would have been good for \$0.26 (not including commissions and slippage). This is in the normal range for those trades that don't turn into trend days. Not a big winner, but still a decent result in a setup with favorable risk/reward.



It's also worth noting that the 3/10 Offset HV is again extremely low tonight. So we again have a situation where an Opening Range Breakout could provide a solid daytrading opportunity.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/25 – bullish

Friday saw the SPX make a golden cross. A golden cross occurs when the 50ma crosses over the 200ma. Having the 50ma above the 200ma is commonly considered a bullish market condition – and generally it is. Much had been written about golden crosses over the past few years. Two blogs that have covered it nicely are MarketSci and Wooshedder's blog. Below are some links for anyone that would like to check out their research:

<http://marketsci.wordpress.com/2010/07/15/roundup-trading-the-golden-cross-2/>

<http://ibankcoin.com/woodshedderblog/2009/06/10/spx-golden-cross-coming-soon/>

I don't think the setup is worth spending an inordinate amount of time on – especially when so many others have done so as well. I didn't notice the trades listed anywhere else so I decided I would do that for anyone interested.

Buy SPX when 50ma crosses over 200ma.
 Sell when 50ma crosses back below 200ma. \$100k/trade. 1961 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
01/04/61	Buy	\$58.36	13.13%	\$24,461.64
05/07/62	Sell	\$66.02		\$0.00
01/03/63	Buy	\$63.72	31.59%	\$41,656.95
07/22/65	Sell	\$83.85		\$0.00
09/20/65	Buy	\$90.08	1.09%	\$4,417.80
04/29/66	Sell	\$91.06		(\$3,030.30)
02/03/67	Buy	\$87.36	3.63%	\$11,703.12
02/27/68	Sell	\$90.53		(\$1,029.60)
05/20/68	Buy	\$96.45	2.01%	\$12,349.12
03/13/69	Sell	\$98.39		\$0.00
05/27/69	Buy	\$103.57	(7.09%)	\$0.00
06/23/69	Sell	\$96.23		(\$7,083.10)
10/21/70	Buy	\$83.66	17.32%	\$25,226.45
09/24/71	Sell	\$98.15		(\$1,039.65)
01/26/72	Buy	\$102.50	8.82%	\$17,296.50
04/18/73	Sell	\$111.54		\$0.00
03/07/75	Buy	\$84.30	21.58%	\$27,906.58
12/01/76	Sell	\$102.49		(\$4,684.70)
01/04/77	Buy	\$105.70	(4.56%)	\$0.00
03/03/77	Sell	\$100.88		(\$5,884.12)
05/22/78	Buy	\$99.08	(3.06%)	\$9,050.73
12/13/78	Sell	\$96.05		(\$7,506.96)
03/22/79	Buy	\$101.66	1.73%	\$18,244.48
04/22/80	Sell	\$103.42		(\$4,099.11)
06/18/80	Buy	\$116.25	10.65%	\$22,110.60
07/02/81	Sell	\$128.63		(\$2,700.40)
09/28/82	Buy	\$123.24	30.57%	\$40,436.46
02/03/84	Sell	\$160.91		(\$3,333.21)
09/12/84	Buy	\$164.67	43.78%	\$54,368.99
11/18/86	Sell	\$236.77		(\$2,822.55)
11/25/86	Buy	\$248.16	2.54%	\$36,067.44
11/05/87	Sell	\$254.47		(\$12,743.40)
06/28/88	Buy	\$272.31	20.69%	\$32,398.76
02/26/90	Sell	\$328.66		(\$5,791.26)
05/25/90	Buy	\$354.58	(8.80%)	\$4,286.40
09/07/90	Sell	\$323.39		(\$13,651.62)
02/15/91	Buy	\$369.06	19.91%	\$30,723.30
04/19/94	Sell	\$442.54		(\$1,857.60)
09/15/94	Buy	\$474.81	120.93%	\$150,311.70
09/29/98	Sell	\$1,049.00		(\$6,705.30)
12/08/98	Buy	\$1,181.38	15.99%	\$20,055.84
11/05/99	Sell	\$1,370.23		(\$3,738.00)
11/10/99	Buy	\$1,373.46	1.83%	\$12,917.52
10/30/00	Sell	\$1,398.65		(\$4,872.24)
05/14/03	Buy	\$939.28	16.60%	\$23,738.70
08/18/04	Sell	\$1,095.17		(\$2,886.38)
11/05/04	Buy	\$1,166.17	8.03%	\$13,645.05
07/19/06	Sell	\$1,259.81		(\$2,551.70)
09/12/06	Buy	\$1,313.12	13.05%	\$19,985.72
12/21/07	Sell	\$1,484.50		(\$165.68)
06/23/09	Buy	\$895.10	14.85%	\$36,041.70
07/06/10	Sell	\$1,028.06		(\$2,861.58)
10/22/10	Buy	\$1,183.08	n/a	\$0.00
open	n/a	\$1,183.08		\$0.00

A few things really stand out here. First, the winning percentage is terrific with 22 winners and only 4 losers. Also with the winners substantially larger than the losers risk/reward is very good. The profit factor on these trades is about 18. Just as notable is the fact that the golden cross has done exceptionally well over the last 10 years while the market has struggled. In fact there has not been a losing trade since 1990.

In addition to the golden cross, the Nasdaq continues to lead, momentum continues to favor the bulls, and the move up has been persistent the last few weeks. Until the market begins to falter and more bearish evidence emerges I'll continue to give the uptrend the benefit of the doubt.

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Pri	% Gain/Los	Stop	Notes
SPY(1/4)(s)	10/26/2010	\$119.14	\$118.10	0.87%		covered on open

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