

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 28, 2010

Volume 3 Issue 208

Market Overview



Tonight's Research Points

- Unfilled gaps down from 50-day highs often see more selling.
- A down day after 5 up days rarely marks the end of the 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 28, 2010	Unfilled gap dn from 50-day high	1-2 days	Bearish	
October 28, 2010	1st Day Down After 5 up. Close > 200ma	1-9 days	Bullish	2.10%
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	
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 25, 2010	Vol 20-day low. SPX overbought.	1-3 days	Bearish	-1.40%

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

The Evidence

After a bad start to the day the market finished mixed. The SPX couldn't quite close its opening gap and closed down 0.3%. The Nasdaq managed a 0.2% gain and the Russell 2000 lost 0.4%. Breadth was negative as the NYSE Up Issues % came in at 34% and the Up Volume % was 37%. Total volume came in at the highest level in a little over a week.

Unfilled gaps down from 50-day highs often have a tendency to lead to more selling over the next few days. This is something I last discussed in the 8/6/10 Subscriber Letter. I have updated the results of that study below.

SPY posts an unfilled gap down from a 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-18,862.02	42	17	25	40.48	979.41	-1,420.48	0.69	0.47	-449.10
4	-8,895.74	43	21	22	48.84	817.59	-1,184.78	0.69	0.66	-206.88
3	-11,541.26	44	19	25	43.18	476.20	-823.56	0.58	0.44	-262.30
2	-16,873.82	49	20	29	40.82	589.40	-988.34	0.60	0.41	-344.36
1	-7,849.22	49	22	27	44.90	616.31	-792.89	0.78	0.63	-160.19

Not a huge edge but worthy of consideration.

When a market is getting ready to top, you will often see choppy action. While we saw the SPX pull back today, the action has not been choppy leading up to today. In fact it has been very persistent. Prior to Wednesday 11 of the last 13 days saw the SPX close higher, including the last 5. QQQQ did finish up today and is now up 6 in a row and 13 of the last 15. Most often when a market is acting this persistent the rally doesn't just come to an abrupt end. Below is a study last shown in the 3/9/10 subscriber letter that looks at similar setups.

After closing higher for at least 5 days in a row, SPX closes lower but above its 200ma.
Buy on close. Sell x days later. \$100k/trade. 1995 - 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	55,101.74	51	41	10	80.39	1,676.77	-1,364.60	1.23	5.04	1,080.43
9	56,287.79	56	46	10	82.14	1,602.62	-1,743.29	0.92	4.23	1,005.14
8	49,677.69	56	39	17	69.64	1,826.52	-1,268.04	1.44	3.30	887.10
7	39,603.05	57	39	18	68.42	1,567.07	-1,195.14	1.31	2.84	694.79
6	38,453.66	59	40	19	67.80	1,495.03	-1,123.56	1.33	2.80	651.76
5	30,707.22	59	39	20	66.10	1,268.77	-938.74	1.35	2.64	520.46
4	28,793.97	59	37	22	62.71	1,253.85	-799.93	1.57	2.64	488.03
3	13,447.64	59	35	24	59.32	1,038.53	-954.20	1.09	1.59	227.93
2	7,562.76	59	35	24	59.32	869.31	-952.62	0.91	1.33	128.18
1	4,300.35	59	35	23	59.32	542.34	-638.33	0.85	1.29	72.89

52 of 59 instances (88%) closed above the entry price
at some point in the next week.

This isn't the kind of setup that will necessarily lead to explosive results. What we do see here are very consistent results on an ample sample size. Over 80% of the trades are profitable once you get out almost 2 weeks.

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



The green Aggregator line tonight remains just 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 positive tomorrow. Of course that could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,183.37. Any close at or below this level would move the black Differential line back into positive territory. This means the SPX will need to rise about a point to avoid becoming oversold versus expectations.

The outlook remains neutral. With the studies mixed the Aggregator is still very close to 0. And the muted price action over the last few days has the differential line close to 0 as well. The 3/10 Offset HV is still low, although no longer in extreme territory. This leaves open the possibility of a big move in the next few days. In any case, I'm waiting for a more substantial edge.

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 tonight. There were a large number of triggers in system 90609 tonight as listed on the system triggers spreadsheet. 90609 is a trend continuation system, so this could be a good sign for the market. With the Aggregator neutral I'm not looking to take any of the triggers on.

Current Open Trade Ideas

none

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2010 Hanna Capital Management, LLC.