

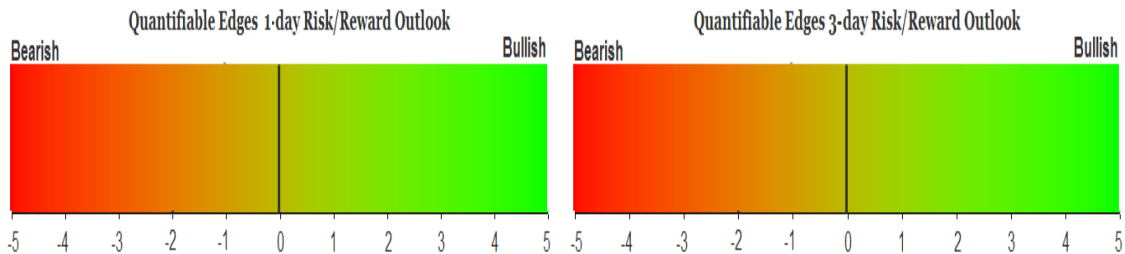
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 29, 2010

Volume 3 Issue 209

## Market Overview



## Tonight's Research Points

- VIX up SPX up again Thursday, but no strong edge in this case.
- 3/10 Offset HV is extremely low again, so the big move watch is back on.
- 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
<b>Active</b>				
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	
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
October 26, 2010	Unfilled gap up with poor close.	1-3 days	Bullish	

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

### *The Evidence*

Thursday was another mixed/nothing day for the market. The SPX closed up 0.1% and the Nasdaq rose 0.2% but the Russell 2000 lost 0.5%. Breadth was also mixed as the NYSE Up Issues % came in at 51% while the Up Volume % was 48%. Total volume declined from Wednesday's level.

Sideways consolidations don't often suggest substantial directional edges, and that is an issue we're dealing with at the moment. The studies that appeared in the Quantifinder today were all neutral. There were two notable themes though that I'll discuss briefly. The notables were that once again the VIX rose along with the SPX, and [the 3/10 Offset HV](#) is again very low.

As I've discussed numerous times, a very low 3/10 Offset HV is often followed by a strong move. We've seen several low readings in a row now without any of them resulting in an explosive move the next day. I decided to run a test tonight to look at other times SPX's 3/10 Offset HV closed below 0.3 for 4 days in a row. I also filtered using the short and long-term trend. Results are below.

SPX 3/10 Offset HV < 0.3 for exactly the 4th day in a row. Close > 10ma & 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	9,230.83	20	15	5	75.00	1,090.57	-1,425.54	0.77	2.30	461.54	
4	10,770.92	20	16	3	80.00	921.51	-1,324.43	0.70	3.71	538.55	
3	5,598.98	20	13	7	65.00	871.41	-818.47	1.06	1.98	279.95	
2	3,120.10	20	12	8	60.00	610.39	-525.57	1.16	1.74	156.01	
1	2,646.85	20	14	6	70.00	358.78	-396.00	0.91	2.11	132.34	

These results would seem to suggest an upside edge. But I also looked deeper. Below is a listing of all 20 instances going back to 1960.

SPX 3/10 Offset HV < 0.3 for exactly the 4th day in a row. Close > 10ma & 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1961 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
05/11/61	Buy	\$66.39	1.51%	\$1,506.00
05/17/61	Sell	\$67.39		\$0.00
10/13/61	Buy	\$68.04	0.60%	\$602.29
10/19/61	Sell	\$68.45		(\$279.11)
11/22/61	Buy	\$71.70	0.00%	\$209.10
11/29/61	Sell	\$71.70		\$0.00
01/25/63	Buy	\$65.92	0.42%	\$485.12
01/31/63	Sell	\$66.20		(\$106.12)
12/09/63	Buy	\$73.96	0.14%	\$135.20
12/13/63	Sell	\$74.06		(\$81.12)
02/20/64	Buy	\$77.62	0.00%	\$322.00
02/27/64	Sell	\$77.62		\$0.00
09/10/64	Buy	\$83.10	0.17%	\$421.05
09/16/64	Sell	\$83.24		(\$120.30)
09/13/65	Buy	\$89.38	0.75%	\$749.06
09/17/65	Sell	\$90.05		(\$391.30)
12/17/65	Buy	\$92.08	0.12%	\$228.06
12/23/65	Sell	\$92.19		(\$466.98)
03/10/67	Buy	\$88.89	1.35%	\$1,348.80
03/16/67	Sell	\$90.09		(\$606.96)
05/01/68	Buy	\$97.97	0.95%	\$948.60
05/07/68	Sell	\$98.90		\$0.00
04/02/71	Buy	\$100.56	1.53%	\$1,530.76
04/08/71	Sell	\$102.10		\$0.00
07/09/71	Buy	\$100.69	(1.40%)	\$129.09
07/15/71	Sell	\$99.28		(\$1,459.71)
06/27/75	Buy	\$94.81	(0.49%)	\$400.52
07/03/75	Sell	\$94.35		(\$664.02)
06/13/78	Buy	\$99.57	(2.09%)	\$1,104.40
06/19/78	Sell	\$97.49		(\$3,062.20)
05/21/80	Buy	\$107.72	4.02%	\$4,640.00
05/28/80	Sell	\$112.05		(\$361.92)
09/13/88	Buy	\$267.42	0.52%	\$1,264.47
09/19/88	Sell	\$268.82		(\$33.57)
07/14/89	Buy	\$331.84	0.50%	\$1,670.55
07/20/89	Sell	\$333.51		(\$328.09)
03/26/96	Buy	\$652.97	0.12%	\$148.41
04/01/96	Sell	\$653.73		(\$1,236.24)
09/30/96	Buy	\$687.31	2.06%	\$2,092.35
10/04/96	Sell	\$701.46		(\$416.15)
10/28/10	Buy	\$1,183.78	n/a	\$0.00
open	n/a	\$1,183.78		\$0.00

What I find most notable are the dates of the occurrences. As you can see most of the instances took place in the 60s and 70s. Also, this is the 1<sup>st</sup> instance in over 14 years. Personally, I'm not terribly comfortable using a study whose results are primarily

achieved during the 60s and 70s and with no instances since '96. Therefore I'm excluding it from the Active Studies list.

I have looked at some other studies earlier this week that examined times the VIX and SPX both closed higher on the same day. In looking at the current situation, this action does not appear to provide a substantial edge. I showed several tests in some detail about a year ago in the 11/12/09 Subscriber Letter. I shall review those results below (studies not updated). In all cases I simply looked at midweek occurrences since they were unaffected by weekend VIX tendencies. First, I'll show VIX up & SPX up when the market is below the 200ma.

SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close < 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	-24,224.60	24	9	15	37.50	1,380.04	-2,443.00	0.56	0.34	-1,009.36
4	-39,097.95	25	7	18	28.00	1,214.18	-2,644.29	0.46	0.18	-1,563.92
3	-27,223.53	25	8	17	32.00	1,251.28	-2,190.22	0.57	0.27	-1,088.94
2	-22,321.60	25	8	17	32.00	1,567.26	-2,050.57	0.76	0.36	-892.86
1	-5,491.11	26	13	13	50.00	1,064.74	-1,487.14	0.72	0.72	-211.20

This obviously seems to suggest a downside edge.

Now let's look at occurrences above the 200ma.

SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close > 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	-2,942.28	74	40	34	54.05	1,139.38	-1,426.98	0.80	0.94	-39.76
4	-7,634.07	77	35	42	45.45	1,218.04	-1,196.80	1.02	0.85	-99.14
3	-7,628.93	81	40	41	49.38	976.25	-1,138.51	0.86	0.84	-94.18
2	-3,838.43	83	37	46	44.58	871.55	-784.48	1.11	0.89	-46.25
1	-5,424.97	91	44	47	48.35	483.23	-567.81	0.85	0.80	-59.62

Here there doesn't seem to be an obvious edge. But I also broke it down by times the SPX was hitting a new 50-day high versus times it wasn't. First I'll show times it was hitting a 50-day high.

SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close > 200ma and at a 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: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,562.80	36	17	19	47.22	683.01	-1,377.57	0.50	0.44	-404.52
4	-10,833.53	38	14	24	36.84	921.44	-988.91	0.93	0.54	-285.09
3	-6,291.18	38	16	22	42.11	752.26	-833.06	0.90	0.66	-165.56
2	-9,224.51	38	11	27	28.95	669.26	-614.31	1.09	0.44	-242.75
1	-4,146.32	45	21	24	46.67	252.04	-393.30	0.64	0.56	-92.14

**92% of instances closed lower than the entry price at some point in the next week.**

This does appear to suggest a downside edge. Now times like now where the market is in an uptrend but is not hitting a new high.

SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close > 200ma but below a 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: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
5	7,851.19	42	24	18	57.14	1,435.64	-1,478.01	0.97	1.30	186.93
4	2,581.86	42	22	20	52.38	1,367.94	-1,375.64	0.99	1.09	61.47
3	-1,316.30	44	25	19	56.82	1,081.42	-1,492.20	0.72	0.95	-29.92
2	5,386.08	45	26	19	57.78	957.14	-1,026.29	0.93	1.28	119.69
1	-1,278.65	46	23	23	50.00	694.31	-749.90	0.93	0.93	-27.80

This is the kind of situation the market is currently dealing with. So while this is all interesting to me, it isn't terribly predictive today.

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



The green Aggregator line tonight remains above zero. The positive value indicates the net expectation from the Active Studies over the next few days is for a move up. Meanwhile the black Differential line remained just 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 1,185.11. 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 1.5 points to avoid becoming oversold versus expectations.

The outlook remains neutral. Once again I'll be keeping alert for an ORB trading opportunity on Friday. It is worth noting that even if the market does next to nothing again tomorrow, we will be seeing some seasonally positive studies appear soon. Next week we will have both the beginning of the month and a Fed Day. I'll be discussing edges associated with these events in the next few days.

***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. This dull market won't last forever. No sense taking chances on marginal opportunities.

### **Current Open Trade Ideas**

none

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