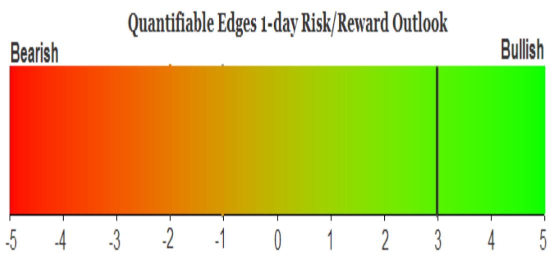
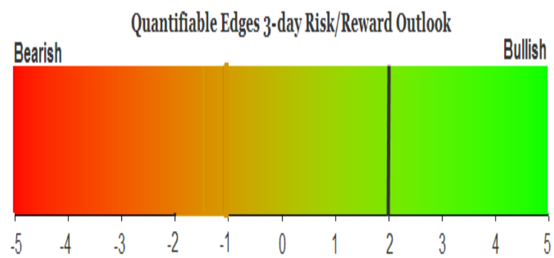
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2010 Volume 3 Issue 210

Market Overview





Tonight's Research Points

- The 1st day of the month is seasonally bullish, and November has been better than most.
- Down Fridays have been followed by up Mondays on a consistent basis since the 2009 bottom.
- Strong NYSE breadth when the SPX closes down has been a good sign over the years.
- 3/10 Offset HV indicator is extremely low again, so the big move watch is back on.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

We now have several unrelated studies suggesting a short-term upside edge. With the 3/10 Offset HV so low, we could get s strong pop out of the recent consolidation. I'm looking to take advantage of a potential move higher.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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				
November 1, 2010	SPX down Friday	1 day	Bullish	
November 1, 2010	1st Day of month	1 day	Bullish	
November 1, 2010	SPX down. Up Issue % > 55%.	1-3 days	Bullish	1.20%
October 28, 2010	1st Day Down After 5 up. Close > 200ma	1-9 days	Bullish	2.10%
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 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish	
Dropped Tonight				
September 21, 2010	50-high breakout on 90% Up Vol	1-25 days	Bullish	
October 28, 2010	Unfilled gap dn from 50-day high	1-2 days	Bearish	
October 27, 2010	SPX up. VIX up. Again.	1-3 days	Bearish	

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

The Evidence

Friday saw the market finish with minimal changes once again. The SPX closed down less than 0.1% and the Nasdaq was up 0.04 *points*. The Russell 2000 put in the "big" move with a 0.3% rise. Breadth was squarely positive though as the NYSE Up Issue % came in at 55% and the Up Volume % came in at 60%. Total volume declined but was about average.

It's fairly unusual to see breadth come in so strong on a day that the SPX declines. It's something I last looked at in the 4/22/10 subscriber letter. I've updated those results below.

SPX closes lower while NYSE Up Issues % closes > 55%. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 2000 - 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	11,626.71	41	25	16	60.98	1,343.37	-1,372.34	0.98	1.53	283.58
4	11,934.54	42	25	17	59.52	1,277.65	-1,176.87	1.09	1.60	284.16
3	13,534.06	43	30	13	69.77	913.38	-1,066.73	0.86	1.98	314.75
2	10,948.89	43	29	14	67.44	822.32	-921.31	0.89	1.85	254.63
1	8,345.14	45	26	19	57.78	683.18	-495.66	1.38	1.89	185.45

84% of instances posted a close above the entry price at some point in the next 3 days.

Over the same period, the average 3-day return following a down day where Up Issue % <= 55% was $61.80 - about 1/5th the return shown above.

The edge isn't huge, but it is fairly consistent and the results are quite a bit better than the baseline over the same period. It do think it is worthy of inclusion among the active studies.

Down closes on Friday have consistently been followed by a move up on Monday ever since the March 2009 market bottom. I first discussed this in the 3/22/10 subscriber letter. I have updated those results below.

SPX closes down on Friday.
Buy on close. Sell next day's close. $100k/trade. 3/19/09 - present.

TradeStation Performance Summary Collapse

All Trades			
Total Net Profit	$26,424.15	Profit Factor	3.32
Gross Profit	$37,816.90	Gross Loss	($11,392.75)
Total Number of Trades	35	Percent Profitable	77.14%
Winning Trades	27	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	$754.98	Ratio Avg. Win:Avg. Loss	0.98
Avg. Winning Trade	$1,400.63	Avg. Losing Trade	($1,424.09)
Largest Winning Trade	$7,069.40	Largest Losing Trade	($3,466.02)

While the size of the average trade has shrunk somewhat since I first posted these results, the profit factor and percent profitable have remained consistent. This is the type of edge that I will sometimes refer to as an "environmental edge". Basically, it isn't a market behavior that has persisted over a very long period of time, and it isn't one that I expect to persist indefinitely. But for whatever reason, the current market environment has shown a strong propensity for the behavior. So I note it and look to utilize it for as long as it persists. I will keep a closer eye on this type of edge to see if it is waning than I would on a market behavior that has been consistent over a very long period of time.

Another potential positive for Monday is that it is the 1st day of the month. Since the late 80s the 1st day of the month has shown a bullish bias. The prevailing theory is that 401k plans came into vogue around that time and so inflows around the 1st of the month increased. Whatever the reason the edge has continued to persist. In the 7/1/2009 blog I showed a table that broke out the return by month. November has been a solidly positive month. Below I have updated results for November.

November 1st Day of Month Performance
$100k/trade. 1987 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$7,352.88	Profit Factor	2.13
Gross Profit	$13,831.71	Gross Loss	($6,478.83)
Total Number of Trades	23	Percent Profitable	60.87%
Winning Trades	14	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$319.69	Ratio Avg. Win:Avg. Loss	1.37
Avg. Winning Trade	$987.98	Avg. Losing Trade	($719.87)
Largest Winning Trade	$2,656.33	Largest Losing Trade	($2,617.60)

Tonight I decided to look back further and see just how long this possible edge has persisted. It appears around 1978 the 1st day in November began to turn positive. Below is a performance report run back that far.

November 1st Day of Month Performance
$100k/trade. 1978 - present.

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$19,042.54	Profit Factor	3.94
Gross Profit	$25,521.37	Gross Loss	($6,478.83)
Total Number of Trades	32	Percent Profitable	71.88%
Winning Trades	23	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$595.08	Ratio Avg. Win:Avg. Loss	1.54
Avg. Winning Trade	$1,109.62	Avg. Losing Trade	($719.87)
Largest Winning Trade	$3,980.83	Largest Losing Trade	($2,617.60)

In any case the first day of November has shown positive seasonality over a decent sample size and I believe it's worth taking into consideration.

There are a few other events occurring this week that are notable. For one, Tuesday is election day. I looked back to 1960 to see if I could find any strong tendencies following mid-term elections. I was unable to spot anything substantial. Of the 10 instances, the following day showed the strongest propensity with 7 winners and 3 losers and an average gain of 0.4%. Still, these stats are not close to significant, so I won't concern myself too much with election results unless I notice something more substantial.

Wednesday is a Fed Day, and I have documented many edges leading up to, on, and after Fed Days. The Quantifiable Edges Guide to Fed Days is the most comprehensive collection of these studies. I'll be sure to note if any of the edges identified in the guide are setting up this week in the nightly subscriber letter. As a basic rule of thumb, traders may note that Fed Days have long had a positive bias. In recent years, much of the positive bias has played out between the close the day before the Fed Day up until the 2pm announcement on the Fed Day. After the announcement has come out, results have been more random.

Another notable piece of short-term information is that the 3/10 Offset HV indicator is again in very low territory. As I've discussed numerous times, this suggests strong potential for a trend day. Opening Range Breakouts (ORB's) have a favorable trading expectation under these circumstances. Subscribers may want to view the ORB's presentation on the videos page for more details.

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 also edged just above 0. This means the SPX has underperformed expectations over the last few days. So we have positive expectations and a market that is relatively oversold. Historically this has provided an upside edge. This can be seen on the Aggregator chart whenever both lines are above 0. Due to this the Aggregator System turned long at the close.

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 1,183.84. Any close at or above this level would move the black Differential line back into negative territory. This means the SPX will register "overbought" on nearly any up close, and "oversold" on any down close.

I'm looking to take advantage of the edges that seem present for Monday. Should they play out I will quickly look to take profits though since the market will easily turn to overbought. I may also be looking for a pop on Wednesday thanks to the Fed Day, but the election results could also play into that.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/1 – bullish

Not much to discuss from an intermediate-term standpoint. The market again made new rally highs this week. With the very tight action in the market over the past week, no studies of intermediate-term consequence emerged. I'm still not seeing strong evidence that the uptrend is about to end.

The Nasdaq/SPX relative strength indicator continues to favor the Nasdaq. A leading Nasdaq has historically been a good sign. The Advance/Decline line hit another new high this past week suggesting breadth remains positive. Momentum is certainly favoring the upside and the market is trading above important moving averages. Until the market begins to falter and more bearish evidence emerges, I'll continue to trade with a bullish bias. For my own trading a bullish bias means I tend to trade the long side with a little more aggressiveness and I will be extra selective with short trades.

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.

SPY – buy ¼ index share @ $118.49 limit. If not filled in first 30 minutes of trading, cancel order. Based on short-term outlook above.

TGT – buy @ $51.94 limit. This is from the systems triggers page and is based on system 80509. 80509 has been one of the better performers of the numbered systems and has really flourished when it is aligned with the Aggregator.

Current Open Trade Ideas

None.

October results have been posted to the results spreadsheet on the downloads page. While all the trade ideas published in the Letter were winners, it was a bit frustrating that we didn't have a whole lot trigger this past month. Only 5 instances received fills. There were also a number of instances where trade ideas were posted and due to gaps they never received a fill. In general, it was a good month for so few trades. Hopefully we see more opportunities in November.