

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 4, 2010

Volume 3 Issue 213

Market Overview



Tonight's Research Points

- Up outside days at 50-day highs on strong volume have a mild tendency to pull back.
- Since 1994 when the SPX closes at a 100-day high on a Fed Day there has consistently been more upside follow through over the next 1-2 weeks.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

The studies continue to suggest the market is likely to go higher. Unfortunately the recent rise has kept it overbought. I'm waiting for a better entry 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				
November 4, 2010	Outside day 50-high, strong volume.	1-3 days	Bearish	-0.90%
November 4, 2010	SPX 100-day high on Fed Day	1-8 days	Bullish	2.10%
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				
November 2, 2010	SPY up but 1% below high of day	1-2 days	Bullish	

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

The Evidence

All that news flow and the market barely moved again today. After a down morning the Fed reaction was positive and the averages managed to close mildly higher. The SPX gained 0.4% while the Nasdaq and Russell 2000 each gained 0.3%. Breadth was mildly positive as the NYSE Up Issues % came in at 55% and the Up Volume % was 63%. Total volume was very strong with help from the news.

In the 3/17/10 Subscriber Letter I discussed Fed Days that close at new highs. The basic finding was that when the market closed at a short-term high on a Fed Day, then it was likely to pull back over the next few days. But when it closed at a long-term high, then the rally was likely to continue. Below is an updated version of that study.

SPX closes at a 100-day high on a Fed Day. 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
10	22,521.22	19	15	4	78.95	1,859.57	-1,343.10	1.38	5.19	1,185.33
9	23,145.03	19	15	4	78.95	1,977.20	-1,628.26	1.21	4.55	1,218.16
8	25,434.47	19	17	2	89.47	1,556.71	-514.84	3.02	25.70	1,338.66
7	19,729.57	19	16	3	84.21	1,352.87	-638.79	2.12	11.30	1,038.40
6	19,719.82	19	17	2	89.47	1,235.16	-638.93	1.93	16.43	1,037.89
5	15,676.15	19	16	3	84.21	1,118.65	-740.77	1.51	8.05	825.06
4	13,575.69	19	13	6	68.42	1,329.89	-618.82	2.15	4.66	714.51
3	7,313.77	19	12	7	63.16	913.29	-520.82	1.75	3.01	384.94
2	8,763.84	19	12	7	63.16	986.81	-439.70	2.24	3.85	461.25
1	4,154.30	19	13	6	68.42	567.69	-537.62	1.06	2.29	218.65

All 19 instances posted at least 1 close above the Fed Day close at some point in the next week.

This suggests further upside is likely over the next 1-2 weeks. Below I have listed all 19 instances using the 8-day exit criteria.

SPX closes at a 100-day high on a Fed Day.
Buy on close. Sell 8 days later. \$100k/trade. 1994 - 4/30/2010

Date/Time	Signal	Price	% Profit	Run-up DrawDown
08/16/94	Buy	\$465.01	1.89%	\$2,072.60
08/26/94	Sell	\$473.81		(\$763.25)
03/28/95	Buy	\$503.90	0.50%	\$841.50
04/07/95	Sell	\$506.42		(\$1,623.60)
05/23/95	Buy	\$528.58	1.33%	\$1,729.35
06/05/95	Sell	\$535.62		(\$1,360.80)
07/06/95	Buy	\$553.99	0.81%	\$1,611.00
07/18/95	Sell	\$558.46		(\$169.20)
11/15/95	Buy	\$593.96	2.10%	\$2,098.32
11/28/95	Sell	\$606.45		(\$73.92)
01/31/96	Buy	\$636.01	4.00%	\$4,229.58
02/12/96	Sell	\$661.46		(\$361.10)
07/02/97	Buy	\$904.05	2.40%	\$2,431.00
07/15/97	Sell	\$925.78		(\$172.70)
02/04/98	Buy	\$1,006.90	1.58%	\$2,090.88
02/17/98	Sell	\$1,022.77		(\$656.37)
07/01/98	Buy	\$1,148.56	2.53%	\$2,714.40
07/14/98	Sell	\$1,177.59		(\$484.59)
12/22/98	Buy	\$1,203.56	3.42%	\$3,755.75
01/05/99	Sell	\$1,244.78		\$0.00
06/30/99	Buy	\$1,372.86	1.51%	\$2,460.96
07/13/99	Sell	\$1,393.56		(\$871.20)
11/16/99	Buy	\$1,420.03	(0.86%)	\$366.80
11/29/99	Sell	\$1,407.83		(\$1,460.20)
12/21/99	Buy	\$1,433.43	1.52%	\$3,075.33
01/03/00	Sell	\$1,455.22		(\$302.22)
03/21/00	Buy	\$1,493.82	0.32%	\$3,897.30
03/31/00	Sell	\$1,498.58		(\$1,266.54)
05/06/03	Buy	\$934.39	1.06%	\$1,525.82
05/16/03	Sell	\$944.30		(\$1,569.69)
12/14/04	Buy	\$1,203.38	0.13%	\$895.57
12/27/04	Sell	\$1,204.92		(\$831.66)
10/25/06	Buy	\$1,382.22	(0.18%)	\$520.56
11/06/06	Sell	\$1,379.78		(\$1,529.28)
05/09/07	Buy	\$1,512.58	0.83%	\$1,141.14
05/21/07	Sell	\$1,525.10		(\$1,396.56)
03/16/10	Buy	\$1,159.46	0.61%	\$1,825.78
03/26/10	Sell	\$1,166.59		(\$565.88)

The *average* run-up was \$2,067.56 (just over 2%), while the *max* drawdown, which I've circled above, was only about 1.6%.

These are some very consistent results. The biggest loser was less than a 1% loss as of day 8. Even more amazing is that the worst drawdown of any of the instances over the next 8 days is a mere 1.6% while the average run-up was over 2%. Also notable is that

the average drawdown was just slightly over 0.8%. No matter how you slice it, risk/reward has been strongly favorable for the long side.

The studies today weren't all bullish, though. Below is an excerpt from the 9/29/10 Subscriber Letter.

Price & volume action today had a lot of characteristics that would appear bullish. These include the fact that it posted an outside day and closed higher. It also made a new 50-day intraday high. The SPY is in a long-term uptrend and trading above its 200ma. Lastly, volume rose as the market rallied. Sometimes it can be interesting to take a number of market observations like these that would seem to suggest a bullish edge and run them through the wayback machine. (Study IS updated.)

SPY posts an outside day and makes a 50-day intraday high. It closes higher than yesterday and above the 200ma. Volume > yesterday. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-6,747.27	26	15	11	57.69	942.73	-1,898.93	0.50	0.68	-259.51
4	-5,233.76	28	14	14	50.00	826.81	-1,200.65	0.69	0.69	-186.92
3	-6,967.70	28	12	16	42.86	777.57	-1,018.66	0.76	0.57	-248.85
2	-2,640.41	29	13	16	44.83	641.13	-685.94	0.93	0.76	-91.05
1	-116.57	29	12	17	41.38	529.74	-380.79	1.39	0.98	-4.02

24 of 29 instances (83%) closed below the entry price at some point in the next 3 days.

Rather than combining for a bullish edge it appears the scenario above has often been followed by some brief downside.

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 fell further below 0. The negative value means the SPX has outperformed expectations over the last few days. So we have positive expectations but a market that is relatively overbought. This is considered a neutral configuration. This can be seen on the Aggregator chart whenever both lines are on opposite sides of 0. Due to this the Aggregator System remained flat at the close.

The green Aggregator line is set up to remain positive tomorrow. Of course that could change if enough bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,188.68. Any close at or below this level would move the black Differential line back into positive territory. So for the SPX to move to oversold versus recent expectations and possibly trigger a long it will need to close about 0.8% lower tomorrow.

Short-term studies are mixed tonight. It's been a difficult market to swing trade lately. The persistent move higher has been very difficult to short. (Fortunately we haven't tried.) At the same time it hasn't offered pullback opportunities to get long. When opportunities are scarce patience is important. At some point the market will cycle back and provide some nice opportunities, and I'll be ready when it does.

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.

None tonight.

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.