

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 10, 2010

Volume 3 Issue 217

## Market Overview



## Tonight's Research Points

- QQQQ double outside days have led to short-term moves higher in the past.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

## Short-term Outlook

### The Bottom Line

Bullish studies are dominating and we have the 1<sup>st</sup> two-day pullback in over a month. This is providing the 1<sup>st</sup> long entry opportunity in some time. I'm looking to take on some small exposure which I will add to if the SPY fills its gap from last Thursday.

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>				
November 9, 2010	Low volume drop from 50-day high	1-6 days	Bearish	-1.80%
November 9, 2010	SPX 5+ up days then 1 down	1-6 days	Bullish	2.10%
November 8, 2010	%b > 1.15 2 days in row. 20-day high	1-6 days	Bullish	2.20%
November 5, 2010	Strong breadth and vol at a 10-day high	1-5 days	Bullish	1.30%
November 5, 2010	Very strong breadth & 50-day high	1-5 days	Bullish	2.00%
<b>Active - Long Term</b>				
November 5, 2010	Very strong breadth & 50-day high	1-30 days	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
October 18, 2010	SPX up. Issue% and Vol% very low	1-25 days	Bearish	
September 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish	
<b>Dropped Tonight</b>				
November 8, 2010	SPY volume decline twice at 50-hi	1-2 days	Bearish	-0.90%
November 9, 2010	Unfilled gap down from 50-day high	1-2 days	Bearish	-1.10%
November 5, 2010	Gap-n-Go to a 50-day high	1-3 days	Bearish	-1.00%

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

### *The Evidence*

A morning gap up to new highs couldn't hold and the market sold off for much of the day. If not for a bounce in the last 5 minutes it would have closed at its lows. In the end the SPX lost 0.8%, the Nasdaq was down 0.7%, and the Russell 2000 dropped 1.5%. Breadth was squarely negative as the NYSE Up Issues % came in at 26% and the Up Volume % was 19%. Total volume rose from Monday's levels.

The action didn't inspire many new studies tonight but it did cause several of the bearish studies to meet their targets and come off the Active List. One interesting study that did trigger was from the 3/23/10 Subscriber Letter. It looked at the expanding ranges in QQQQ. I've updated the study below.

QQQQ posts 2 outside days in a row. 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	34,866.39	18	14	4	77.78	2,823.72	-1,166.42	2.42	8.47	1,937.02
4	33,517.37	18	15	3	83.33	2,548.45	-1,569.81	1.62	8.12	1,862.08
3	33,448.73	19	14	5	73.68	2,748.48	-1,005.99	2.73	7.65	1,760.46
2	17,174.33	19	15	4	78.95	1,623.44	-1,794.32	0.90	3.39	903.91
1	15,232.78	19	14	5	73.68	1,258.24	-476.50	2.64	7.39	801.73

Implications are quite strong for the QQQQ. Interestingly, I also checked to see how SPY did when QQQQ set up this way. Results were not nearly as consistent and struggled to suggest an edge. QQQQ's bullish setup won't necessarily drag the S&P up as well. I also sliced this a few different ways (above/below 200ma, up/down close, etc.) and found little difference in the results. This makes the setup compelling despite the low number of instances.

So while I am not adding any new S&P 500 studies to the active list tonight, we already have a decent amount of bullish evidence in place from the last few nights. Additionally, as I mentioned earlier, several bearish studies have reached their targets and been removed.

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 has now also moved above 0. The positive value means the SPX has underperformed expectations over the last few days. So we have positive expectations and a market that is oversold. Historically this combination 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 enough bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,227.17. Any close at or above this level would move the black Differential line back into negative territory. This means the SPX would need to gain over 1.1% in order to be considered overbought versus expectations.

From a technical standpoint, we've still got the open gap from Thursday that goes down to \$120 in the SPY. There is a chance that it will try and fill. The studies are suggesting the market should bounce here soon, but it may not be immediate. With what may be some room to scale in I am going to start with a small piece. I'll look to add exposure should the pullback worsen.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 11/8 – bullish***

The acceleration to new highs on strong breadth produced some strong intermediate-term studies in Thursday night's letter. I won't repeat that whole discussion here, but it seems to provide another bit of evidence that the move up may have further to go. We also went another week without any bearish studies of intermediate-term significance emerging.

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 and the number of NYSE new 52-week highs is approaching its spring peak. Momentum is certainly favoring the upside and the market is trading above important moving averages. As I've been saying, 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 @ \$121.61 limit. Based on Aggregator and short-term outlook above.*

*SPY – buy ¼ index share @ \$120.00 LIMIT ON CLOSE . Should the gap fill and we see a poor close tomorrow, I'll look to add a 2<sup>nd</sup> lot at the close.*

### **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.