

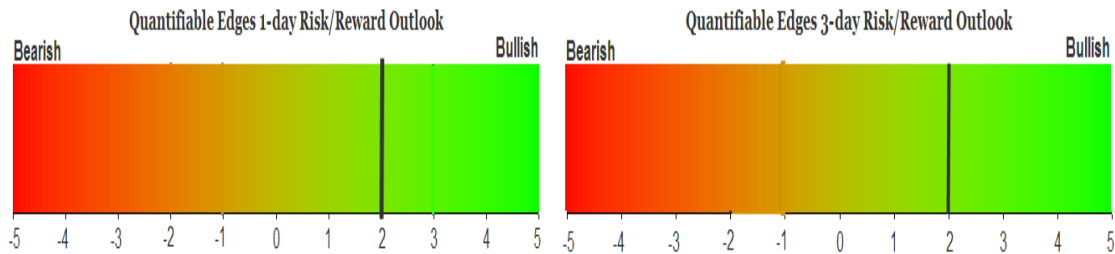
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 19, 2010

Volume 3 Issue 224

## Market Overview



### Tonight's Research Points

- Despite two up days the failure to reach the close of 3 days ago suggests the bounce should have more in it.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

### *Short-term Outlook*

#### *The Bottom Line*

The bounce has improved but a bit more still appears to be likely. I've lightened up but am still looking to take advantage of further upside.

*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 19, 2010	2 up under close of 3 days ago.	1-2 days	Bullish	
November 17, 2010	Down 4 and worst day of downmove	1-5 days	Bullish	
November 17, 2010	Down 4 on Wednesday	1-8 days	Bullish	
November 16, 2010	SPX down 3 on a Monday	1-5 days	Bullish	2.70%
November 15, 2010	SPX down 1% Decliners 2x Advancers	1-9 days	Bullish	3.00%
November 15, 2010	SPY 2 unfilled down gaps & 5-day low	1-5 days	Bullish	1.90%
November 15, 2010	SPX down 1% SOX Up	1-6 days	Bullish	2.90%
November 9, 2010	SPX 5+ up days then 1 down	1-6 days	Bullish	2.10%
<b>Active - Long Term</b>				
November 15, 2010	QQQQ 5 lower lows and large drop	1-20 days	Bullish	
November 15, 2010	SPX down 1% SOX Up	1-20 days	Bullish	
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 17, 2010	Down 4. Breadth Rank % < 5	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***

Nice bounce today. The market gapped much higher and established the low point of the day in the 1<sup>st</sup> minute of trading. It rallied for the 1<sup>st</sup> hour and then fell into a sideways consolidation for the rest of the day. At the close the SPX had gained 1.5%, the Nasdaq rose 1.6% and the Russell 2000 was up 1.9%. Breadth was strongly positive as the NYSE Up Issues % came in at 80% and the Up Volume % was 85%. Total volume rose slightly from yesterday's level.

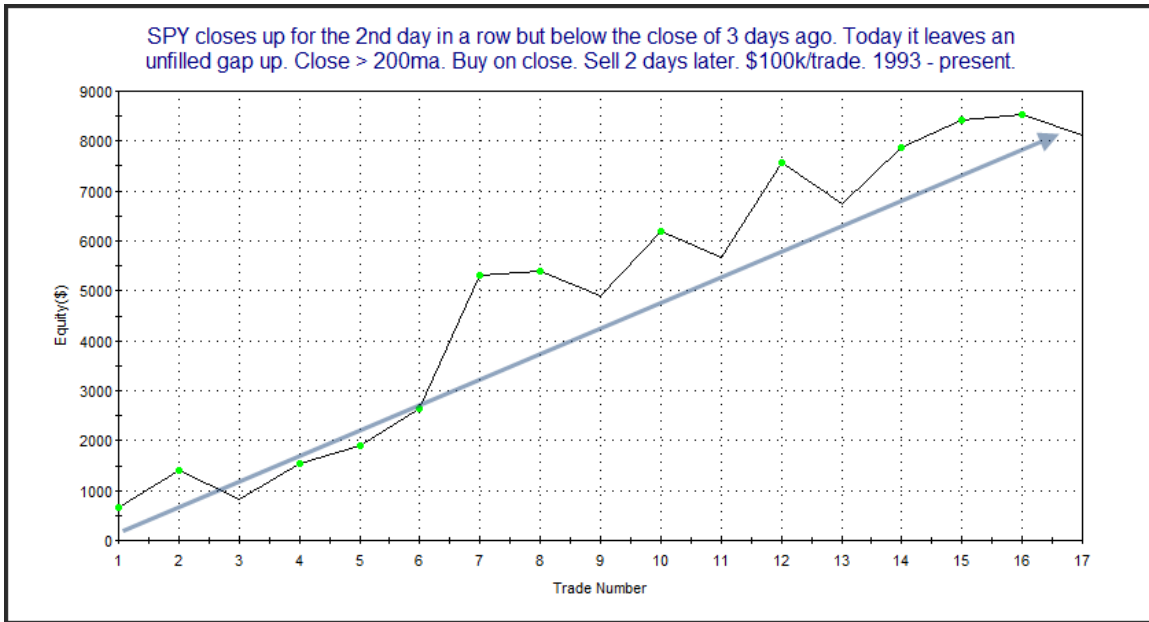
One interesting study that popped up in the Quantifinder was from the 4/30/10 Subscriber Letter. It looked at other times the market put in a 2-day bounce that couldn't manage to make up for the previous day's losses.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. Today it leaves an unfilled gap up. Close > 200ma. 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
10	9,358.61	15	11	4	73.33	1,833.24	-2,701.76	0.68	1.87	623.91
9	11,060.36	15	11	4	73.33	1,608.01	-1,656.93	0.97	2.67	737.36
8	6,842.05	15	9	6	60.00	1,542.38	-1,173.23	1.31	1.97	456.14
7	6,306.81	17	11	6	64.71	1,168.40	-1,090.92	1.07	1.96	370.99
6	-2,022.29	17	9	8	52.94	1,448.05	-1,881.84	0.77	0.87	-118.96
5	-894.50	17	8	9	47.06	1,615.20	-1,535.13	1.05	0.94	-52.62
4	4,153.28	17	12	5	70.59	1,023.66	-1,626.12	0.63	1.51	244.31
3	7,204.16	17	11	6	64.71	1,189.81	-980.63	1.21	2.22	423.77
2	8,110.48	17	12	5	70.59	910.55	-563.23	1.62	3.88	477.09
1	3,647.47	17	11	6	64.71	656.77	-596.16	1.10	2.02	214.56

15 of 17 instances (88%) closed above the entry price on either day 1 or day 2.

Results shown in the 4/30 subscriber letter looked a bit better. This is because Day 5 after the setup triggered on 4/30 turned out to be the Flash Crash. And although the 4/30 instance didn't see a higher close in the 1<sup>st</sup> two days, it doesn't appear to have ruined the 2-day edge. Below is the equity curve.



Instances are a little low but the equity curve is nice enough to interest me. I also decided it would be worthwhile to see how the study looked without the unfilled gap criteria. This would allow for more instances to evaluate also.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. . Close > 200ma. 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	13,996.20	68	41	26	60.29	1,495.87	-1,820.56	0.82	1.30	205.83
4	16,978.91	69	44	25	63.77	1,379.42	-1,748.62	0.79	1.39	246.07
3	14,013.67	70	43	27	61.43	1,237.09	-1,451.15	0.85	1.36	200.20
2	21,771.49	70	49	21	70.00	880.07	-1,016.76	0.87	2.02	311.02
1	5,175.68	70	42	26	60.00	569.90	-721.54	0.79	1.28	73.94

Statistics aren't quite as strong as the first test but the 2-day edge is still evident. Below is the equity curve with a 2-day exit.



After some rough patches it appears to be back on track over the last 20 trades. The unfilled up gap does not appear to have a tendency to fill in the first few days. It may even suggest additional strength that is likely to carry through. In any case the current 2-day bounce doesn't not appear overdone based on these tests.

Another notable from the Quantifinder was that the VIX:VXV ratio fell below 0.85 and is now very low. As of late this edge has been inconsistent at best. Therefore I have not included tonight.

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



The green Aggregator line remained well above zero again today. 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 is also still 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 stayed long at the close.

The green Aggregator line is set up to remain positive tomorrow. This is unlikely to change without substantial bearish evidence. Meanwhile, the Differential Pivot will drop all the way down to 1,186.31. Any close at or above this level would move the black Differential line back into negative territory. This means for the SPX to avoid becoming overbought versus expectations it would need to lose nearly 0.9%. So it appears there is a good chance that the Aggregator System could turn flat on Friday.

I took a little off the table on Thursday as the stop cited in the intraday update was hit. There still appears to be a longside edge, but that may only last another day. I didn't feel the market was at a point where I wanted to continue to hold a full index position. Unless we get a large drop on Friday I will likely be looking to get out of another lot by the close. With bullish studies dominating both the short and intermediate-term I may hold on to the last piece a bit longer.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 11/15 – bullish***

Despite the pullback this week there appears to be more bullish intermediate-term evidence emerging and a complete lack of new bearish intermediate-term studies. Both the overdone QQQQ study and the SPX down / SOX up study show a strong propensity for intermediate-term gains.

One possible fly in the ointment is that the recent market high saw a lower number of new highs than the April market high. While not a great timing device, these types of divergences typically exist prior to extended market declines. There have been times in the past though where these divergences have lasted for well over a year before the final top was reached. And of course the divergence still has a chance to right itself. If the market is able to rally to new highs again in the near future and the number of new highs expands beyond April levels then the divergence would no longer exist.

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. Perhaps it's beginning to falter now but it isn't generating substantial bearish evidence so far. For my own trading a bullish bias means I tend to trade the long side with more aggressiveness and I will be extra selective with short trades.

**Catapult and Capitulative Breadth Statistics**

[\*Catapult & CBI Presentation Link\*](#)

***Open Catapult Triggers***

*GOOG – 1/3 @ \$603.29*

*GOOG – @ \$595.47*

*GOOG – @ \$583.72*

*MA – @ \$233.06*

*MSFT – @ \$25.81*

*ABT – @ \$47.66*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 6 (GOOG-3, MSFT, MA, ABT)***

**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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/10/2010	\$121.58	\$119.99	-1.31%		stopped out intraday
SPY(1/4)	11/12/2010	\$120.20	\$119.99	-0.17%		stopped out intraday
GD	11/12/2010	\$66.50	\$67.05	0.83%		out on close
SPY(1/4)	11/15/2010	\$120.20	\$119.96	-0.20%		Aggregator
GOOG(1/3)	11/15/2010	\$603.00	\$596.56	-1.07%		Catapult
SPY(1/4)	11/16/2010	\$118.16	\$119.96	1.52%		Aggregator
GOOG(1/3)	11/16/2010	\$593.39	\$596.56	0.53%		Catapult
GOOG(1/3)	11/17/2010	\$583.72	\$596.56	2.20%		Catapult
MA	11/17/2010	\$233.06	\$242.49	4.05%		Catapult
MSFT	11/17/2010	\$25.81	\$25.84	0.12%		Aggregator
ABT	11/18/2010	\$47.66	\$47.62	-0.08%		Catapult

Sell 1 SPY lot @ \$120 limit ON CLOSE. Anticipating a switch to the Aggregator I'll sell 1 lot into any positive close.

Should Catapults look to trigger exits I will likely discuss it in an intraday update. The standard exit is the next morning though anyway.

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