

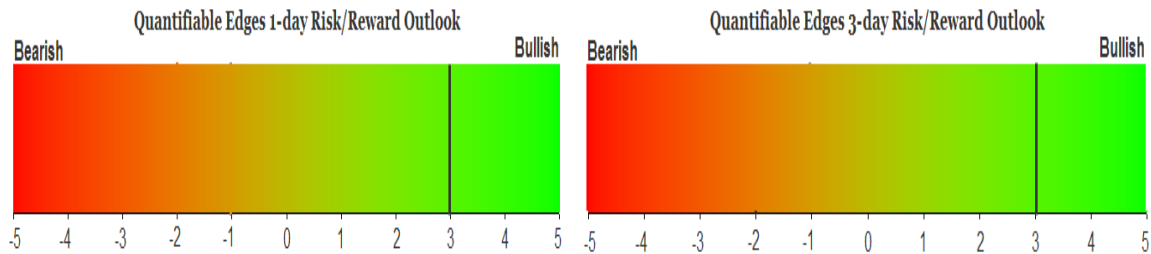
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 1, 2010

Volume 3 Issue 231

Market Overview



Tonight's Research Points

- Pullbacks that close out a month typically don't carry over to the next month.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

Tuesday's pullback moved the Aggregator chart back into a bullish formation and allowed me to add back the long exposure I'd taken off Monday. I'm a little wary of a breakdown below recent support but the odds suggest a rally remains more likely.

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				
December 1, 2010	Pullback in uptrend at end of month	1-5 days	Bullish	2.30%
November 29, 2010	Unfilled Gap Up then unfilled gap down	1-3 days	Bearish	-1.80%
November 24, 2010	2 Unfilled Gaps Down in SPY	1-5 days	Bullish	2.10%
November 24, 2010	SPX down 1% Decliners 2x Advancers	1-9 days	Bullish	3.00%
Active - Long Term				
November 22, 2010	High number of POMO Days recently	int term	Bullish	
November 15, 2010	QQQ 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	
September 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish	
Dropped Tonight				
November 26, 2010	Up Vol % Rank increases > 85%	1-3 days	Bullish	1.30%

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

The Evidence

After a big gap down Tuesday morning the market found its lows in the first few minutes. It then worked its way higher until early afternoon. The SPY barely filled its gap but couldn't muster any positive momentum beyond that. Some late-day selling put it back in the bottom half of the day's range. In the end the SPX lost 0.6%, the Nasdaq lost 1.1% and the Russell 2000 lost 0.7%. Breadth was weak as the NYSE Up Issues % came in at 32% and the Up Volume % was 35.5%. Total volume came in at the highest level in a couple of weeks on both the NYSE and the Nasdaq.

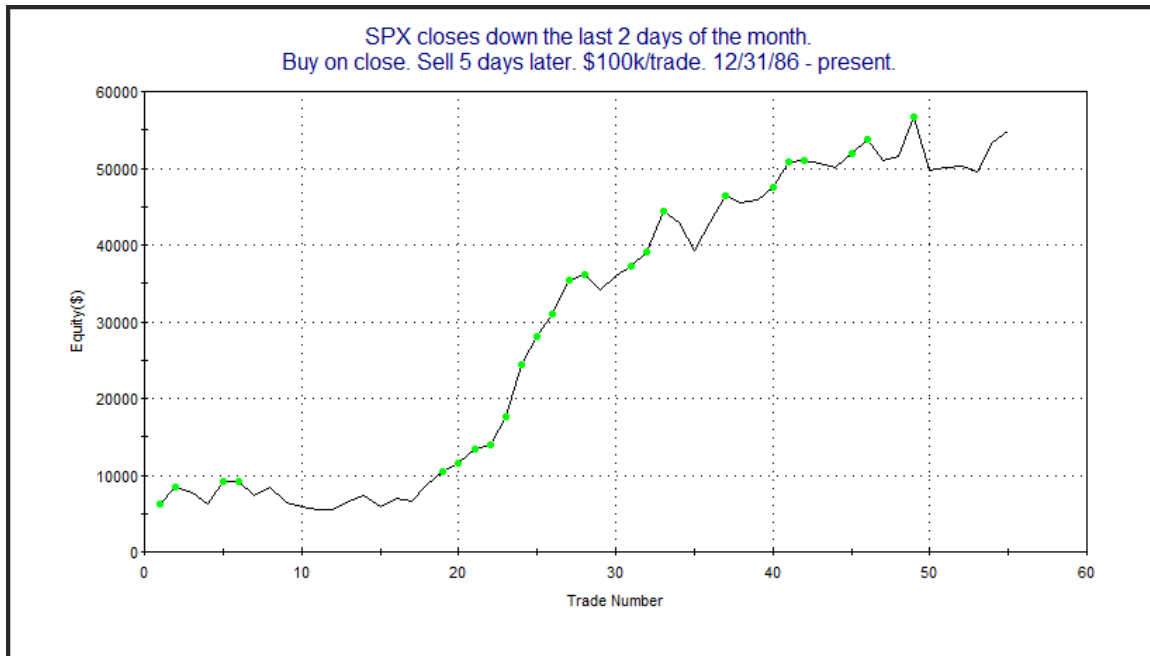
The themes among Quantifinder studies tonight were 1) multi-day pullbacks and 2) early-month positive seasonality. I'm going to combine these 2 concepts and take a fresh look at some things tonight. You'll note that all of these tests go back to January of 1987. In previous testing I found that the 1st day of the month has shown a bullish edge and it began to emerge around this time. The rise in popularity of 401k plans has been a primary suspect when considering why this edge emerged when it did and has persisted for so long.

This first study was last shown in the February 1, 2010 Subscriber Letter. It looked at instances where the 1st day of the month came after at least 2 down days.

SPX closes down the last 2 days of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	91,185.28	55	41	14	74.55	2,776.54	-1,618.05	1.72	5.03	1,657.91
9	79,364.21	55	39	16	70.91	2,687.46	-1,590.41	1.69	4.12	1,442.99
8	59,877.87	55	39	16	70.91	2,226.45	-1,684.61	1.32	3.22	1,088.69
7	58,410.69	55	39	16	70.91	2,051.36	-1,349.52	1.52	3.71	1,062.01
6	56,594.55	55	38	17	69.09	2,316.27	-1,848.45	1.25	2.80	1,028.99
5	54,787.17	55	38	17	69.09	2,179.10	-1,648.15	1.32	2.96	996.13
4	39,373.49	55	36	19	65.45	1,888.80	-1,506.49	1.25	2.38	715.88
3	33,377.32	55	36	19	65.45	1,647.44	-1,364.77	1.21	2.29	606.86
2	32,857.74	55	38	17	69.09	1,415.98	-1,232.32	1.15	2.57	597.41
1	20,587.89	55	37	18	67.27	1,019.94	-952.77	1.07	2.20	374.33

48 of 55 instances (87%) posted a close above the entry price at some point in the next week.

These numbers are solid and consistent and strongly suggestive of an upside edge. It has been rare for a month to end poorly and for that poor performance to continue into the first few days of the next month as well. Below is an equity curve showing the edge over time using a 5-day exit strategy.



A bit choppy but at least the uptrend has remained in place for many years.

And these results were achieved despite the fact that this study doesn't consider the trend beyond 2 days. In his "Gap Wrap" video tonight Scott Andrews of Master The Gap sliced the 1st day of month study a bit differently. He required the SPX to close below its 10-day moving average but above its 200-day moving average. His results were related to the odds of getting a gap fill tomorrow. [You can see his study here.](#) I decided to take the same test and run it out over several days.

SPX closes below the 10ma and above the 200ma on the last day of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	60,934.74	71	53	18	74.65	1,844.14	-2,044.71	0.90	2.66	858.24
4	56,596.65	71	53	18	74.65	1,660.14	-1,743.94	0.95	2.80	797.14
3	41,354.21	71	48	23	67.61	1,520.04	-1,374.24	1.11	2.31	582.45
2	38,942.30	71	51	20	71.83	1,188.84	-1,084.43	1.10	2.80	548.48
1	35,307.53	71	52	19	73.24	862.95	-503.46	1.71	4.69	497.29

Results here appear to be even a bit more consistent than my “2 lower closes” approach. I also thought I’d check and see how the 1st Day of December did here rather than including all months.

SPX closes below the 10ma and above the 200ma on the last day of November. Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	6,149.14	6	6	0	100.00	1,024.86	0.00	100.00	100.00	1,024.86
4	8,027.46	6	6	0	100.00	1,337.91	0.00	100.00	100.00	1,337.91
3	5,538.12	6	5	1	83.33	1,336.78	-1,145.80	1.17	5.83	923.02
2	6,241.40	6	6	0	100.00	1,040.23	0.00	100.00	100.00	1,040.23
1	5,538.58	6	6	0	100.00	923.10	0.00	100.00	100.00	923.10

No alarm bells here. Instances are low but these results are nicely confirming. Below is a list of all the dates along with 1-day results.

SPX closes below the 10ma and above the 200ma on the last day of November.
Buy on close. Sell 1 day later. \$100k/trade. 12/31/86 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
11/30/93	Buy	\$461.79	0.02%	\$578.88
12/01/93	Sell	\$461.89		(\$34.56)
11/30/98	Buy	\$1,163.62	1.00%	\$1,042.10
12/01/98	Sell	\$1,175.28		(\$1,132.20)
11/30/99	Buy	\$1,389.07	0.62%	\$784.55
12/01/99	Sell	\$1,397.72		(\$119.99)
11/30/04	Buy	\$1,173.81	1.50%	\$1,492.60
12/01/04	Sell	\$1,191.37		\$0.00
11/30/05	Buy	\$1,249.48	1.22%	\$1,335.20
12/01/05	Sell	\$1,264.67		\$0.00
11/30/09	Buy	\$1,095.63	1.21%	\$1,515.15
12/01/09	Sell	\$1,108.86		\$0.00

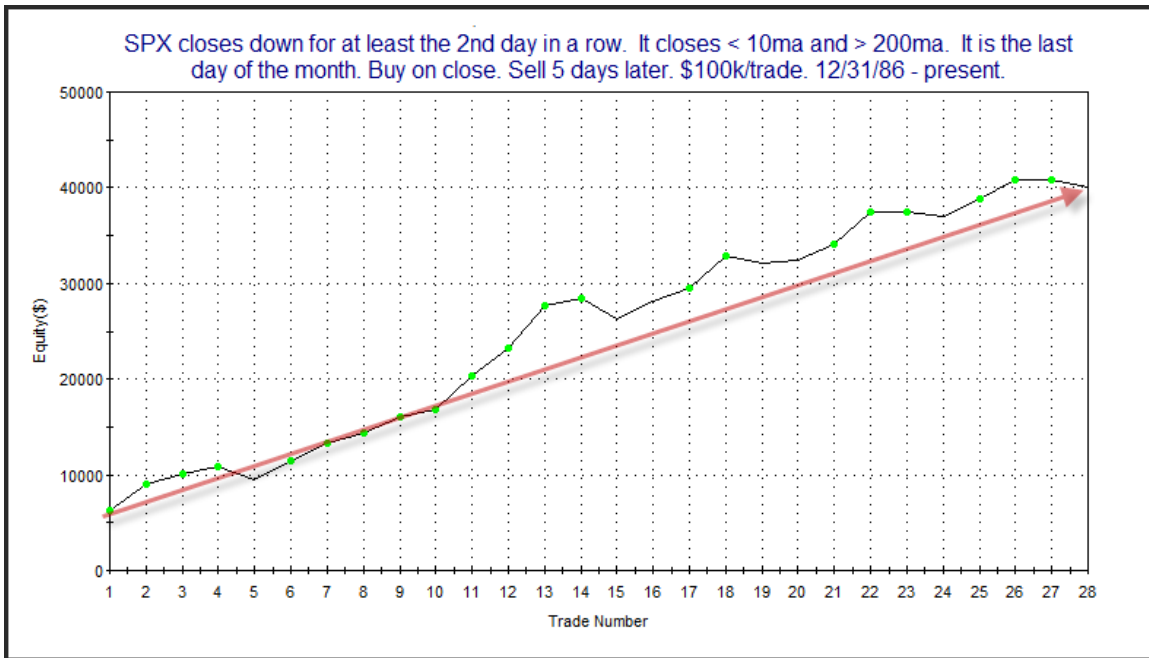
Of course the strong results achieved with Scott's filters led me to wonder, "What if I combined his filters with mine?" So I did.

SPX closes down for at least the 2nd day in a row. It closes < 10ma and > 200ma. It is the last day of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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
12	66,831.53	28	25	3	89.29	2,741.17	-565.90	4.84	40.37	2,386.84
11	60,308.19	28	25	3	89.29	2,514.17	-848.65	2.96	24.69	2,153.86
10	53,276.45	28	23	5	82.14	2,481.81	-761.05	3.26	15.00	1,902.73
9	52,650.13	28	22	6	78.57	2,699.13	-1,121.80	2.41	8.82	1,880.36
8	48,423.43	28	23	5	82.14	2,300.21	-896.26	2.57	11.81	1,729.41
7	46,520.95	28	23	5	82.14	2,266.91	-1,123.62	2.02	9.28	1,661.46
6	41,087.09	28	22	6	78.57	2,215.95	-1,277.31	1.73	6.36	1,467.40
5	40,104.48	28	23	5	82.14	1,983.68	-1,104.05	1.80	8.26	1,432.30
4	33,624.80	28	22	6	78.57	1,756.80	-837.48	2.10	7.69	1,200.89
3	26,351.77	28	20	8	71.43	1,771.63	-1,135.11	1.56	3.90	941.13
2	23,503.31	28	21	7	75.00	1,395.45	-828.72	1.68	5.05	839.40
1	15,076.69	28	21	7	75.00	892.30	-523.08	1.71	5.12	538.45

26 of 28 instances (93%) posted a close above the entry price at some point in the next week.

These results appear to be quite a bit better than either of the earlier studies on their own. And the consistency is outstanding. Some kind of bounce has occurred in almost every case. Below is an equity curve using a 5-day exit strategy.



Looks like a pretty steady upsloping equity curve to me.

Of course the current setup is even a bit more extreme than described above. Not only has the SPX been down 2 days in a row, but it has been down 3 days in a row. So I upped the requirement and generated the results one more time.

SPX closes down for at least the 3rd day in a row. It closes < 10ma and > 200ma. It is the last day of the month. Buy on close. Sell X days later. \$100k/trade. 12/31/86 - 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	27,077.65	12	10	2	83.33	2,830.29	-612.60	4.62	23.10	2,256.47
9	28,784.16	12	9	3	75.00	3,356.69	-475.34	7.06	21.18	2,398.68
8	26,334.42	12	10	2	83.33	2,775.37	-709.62	3.91	19.56	2,194.54
7	27,190.67	12	10	2	83.33	2,831.21	-560.73	5.05	25.25	2,265.89
6	22,625.38	12	10	2	83.33	2,551.57	-1,445.16	1.77	8.83	1,885.45
5	23,423.52	12	11	1	91.67	2,199.37	-769.50	2.86	31.44	1,951.96
4	18,379.63	12	11	1	91.67	1,691.93	-231.62	7.30	80.35	1,531.64
3	15,615.73	12	9	3	75.00	2,007.66	-817.74	2.46	7.37	1,301.31
2	9,322.08	12	9	3	75.00	1,186.81	-453.07	2.62	7.86	776.84
1	7,409.22	12	10	2	83.33	779.90	-194.87	4.00	20.01	617.44

All 12 instances closed above the entry price at some point in the next 4 days.

The more specific we've gotten the better the results have looked. Of course instances here are a bit low for my taste. I'll instead use the previous study with 28 instances to generate estimates.

Sometimes combining edges doesn't substantially change the results. Tonight I looked at several combinations and they all seemed to help.

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



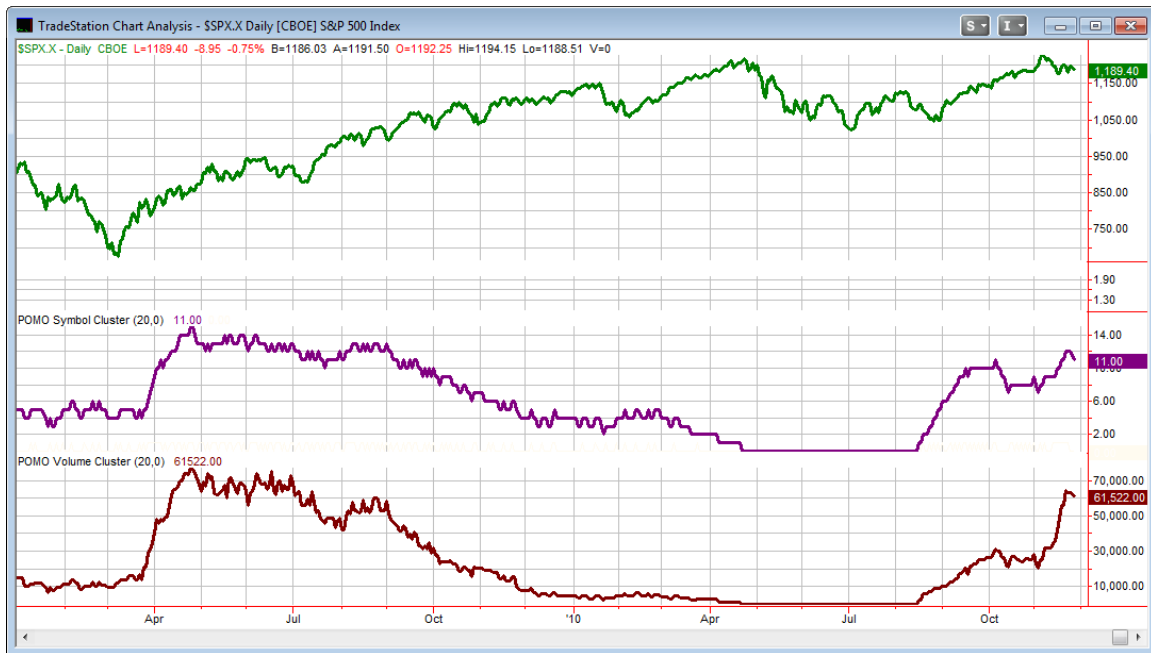
Some fairly strong moves on the Aggregator chart tonight. The green Aggregator line shot quite a bit higher with the addition of our short-term oversold / beginning of month combo study. A positive value indicates the net expectation from the Active Studies over the next few days is for a move up. Meanwhile, as discussed could happen last night, today's drop saw the black Differential line jump much higher and well 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 a short-term upside edge. It is represented on the chart with both lines above 0. Due to this the Aggregator System turned back to long at the close.

The green Aggregator line is set up to remain steadily positive tomorrow. This could change if strong bearish evidence emerges. Meanwhile the Differential Pivot will be 1,191.94. This means the SPX would need to rise almost 1% in order for the Differential line to cross back below 0. So unless either strongly bearish evidence emerges or the SPX closes up 1% the Aggregator System will remain long again tomorrow.

The market has been testing support in the 1,173 – 1,177 range for several days now. Between Europe and Asia the global news flow has had negative effects on markets recently. Risk appears to be a bit elevated. So if the 1,173 level gives way there might be a strongly negative reaction. I could use a stop, but with the Aggregator System long, the CBI at 7, and a plethora of diverse bullish studies on the board I'd rather not. Instead I will keep some powder dry so that I can consider adding more if the breakdown does occur while the outlook remains bullish. There were several appealing setups on the triggers spreadsheet tonight and I chose 1 of them to follow in the Letter should it fill.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/29 – bullish

Last week I discussed the possible effect of POMO Days in some detail. POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A “POMO Day” is simply a day where these operations take place. Looking at [the tentative schedule posted on the Fed's website](#) it appears the next 9 trading days are ALL scheduled POMO days. It also appears the amount of buying will be quite large on most of these days. The chart below is updated from Tuesday night's letter. The top pane is the S&P 500. The middle pane is the rolling number of days in the last 20 that have been POMO days. The bottom pane is the total amount of money infused into the system over the previous 20 days.



As you can see both measures are already approaching levels as high as were reached during the summer of 2009, which contained the most amount of stimulus ever. Over the next 2 weeks the stimulus provided by both measures (days and \$\$) should exceed those 2009 levels. This should provide a substantially bullish influence over the next several weeks and possibly longer.

From a studies standpoint, there are now 6 intermediate-term studies on the active list. They cover POMO Days, breadth, price patterns, leadership (relative strength), and momentum. All of them are bullish. In fact the only potential issue I've noted over the past few weeks is that the number of new highs was lower at the recent peak than at the April peak. As of now that is a small complaint compared to the large amount of bullish evidence. European debt and Korean military action could provide additional shocks. These are difficult to quantify though and not something that factors into my decision making. I'll continue to favor the long side and trade extra selectively from the short side.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

GOOG – @ \$603.29

GOOG –@ \$595.47

GOOG –@ \$583.72

MSFT –@ \$25.81

ABT –@ \$47.66

ABT –@ \$46.95

ABT –@ \$46.49 (NEW)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 7 (GOOG-3, MSFT, ABT-3)

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.

EWI – buy \$15.11 limit. Based on system 80509, which in combination with an Aggregator long has produced excellent results over the past few years.

There are several other triggers on the sytem triggers spreadsheet for traders to consider. Most of them look pretty good to me tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GOOG(1/3)	11/15/2010	\$603.00	\$555.71	-7.84%		Catapult
SPY(1/4)	11/16/2010	\$118.16	\$118.55	0.33%		Aggregator
GOOG(1/3)	11/16/2010	\$593.39	\$555.71	-6.35%		Catapult
GOOG(1/3)	11/17/2010	\$583.72	\$555.71	-4.80%		Catapult
MSFT(1/3)	11/17/2010	\$25.81	\$25.26	-2.13%		Catapult
ABT(1/3)	11/17/2010	\$47.66	\$46.51	-2.41%		Catapult
ABT(1/3)	11/24/2010	\$46.95	\$46.51	-0.94%		Catapult
SPY(1/4)	11/30/2010	\$118.49	\$118.49	0.00%		Aggregator
ABT(1/3)	11/30/2010	\$46.09	\$46.51	0.91%		Catapult

After nearly triggering an exit twice in the last 2 weeks, GOOG rolled over in a fairly big way Tuesday. In the past I have sometimes placed a stop below a swing low to protect against a breakdown like we saw Tuesday. I did not do that here. The reason I didn't is that I have tested this idea many times. No matter how I have designed the stop it has had a negative impact on long-term results. Trades have historically been much more inclined to offer a better fill than the breakdown point using the standard exit. This one appears likely to be a sizable loser but that happens on occasion. It won't change my approach to the Catapults either way.

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.