

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 4, 2011

Volume 4 Issue 24

Market Overview



Tonight's Research Points

- Outside day that result in new highs are often followed by pullbacks.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

Thursday didn't change anything. Still overbought. Still net bullish expectations. Still awaiting a better setup.

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				
February 4, 2011	Outside Day 50-high	1-3 days	Bearish	-1.10%
February 3, 2011	Pullback from 50-high on 10-low vol	1-6 days	Bearish	-1.80%
February 2, 2011	Strong breadth, new high but weak vol	1-3 days	Bearish	-1.00%
February 2, 2011	2 Unfilled Up Gaps & 50-day high	1-3 days	Bullish	0.90%
February 1, 2011	< 10ma in uptrend entering 1st of month	1-5 days	Bullish	
February 1, 2011	Sweet spot bounce	1-6 days	Bullish	3.20%
January 21, 2011	1st close < 10ma in over 25 days	1-11 days	Bullish	3.60%
Active - Long Term				
January 21, 2011	SPY 1st close < 10ma in over 25 days	1-20 days	Bullish	
January 19, 2011	SPX 20-day high. Vol 20-day high.	int term	Bullish	
December 16, 2010	2 Hindenburg Signals	1-50 days	Bearish	
December 9, 2010	SPX & TNX 50-day highs	1-50 days	Bearish	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
January 21, 2011	SPY gap down & partial revers fr 5-low	1-10 days	Bullish	3.20%
January 27, 2011	100-day high on a Fed Day	1-6 days	Bullish	1.70%

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

The Evidence

After trading flat the first half-hour the market took a bit of a nosedive at 10 AM. Selling only lasted 15 min. though, and the market spent the rest of the day working its way higher. When it was over the SPX and NASDAQ were up 0.2%, and the Russell 2000 gained 0.3%. Breadth was modestly positive as the NYSE Up Issues % came in at 54% and the Up Volume % was 59%. Total NYSE volume rose slightly from Wednesday's level.

One interesting study that appeared in the Quantifinder was from the 11/4/10 Subscriber Letter. Below is an excerpt from that 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. 1997 - 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	-7,454.51	24	15	9	62.50	878.38	-2,292.25	0.38	0.64	-310.60
4	-5,470.71	26	12	14	46.15	901.32	-1,163.33	0.77	0.66	-210.41
3	-5,773.36	26	10	16	38.46	1,035.05	-1,007.74	1.03	0.64	-222.05
2	-1,547.34	26	12	14	46.15	747.49	-751.23	1.00	0.85	-59.51
1	609.15	26	11	15	42.31	630.16	-421.51	1.50	1.10	23.43

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

With the SPY managing to also *close* at a 50-day high I decided to take a slightly different look as well. The study below examines outside days that close at a 50 day high when yesterday did not close at a 50 day high. Like the previous study, it also uses a volume filter.

SPY posts an outside day and closes at a 50-day high. Yesterday it close < a 50-day high.
Volume rises. 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	-13,812.76	18	8	10	44.44	1,088.05	-2,251.71	0.48	0.39	-767.38
4	-9,386.61	18	8	10	44.44	1,045.43	-1,775.00	0.59	0.47	-521.48
3	-10,514.87	18	7	11	38.89	1,161.15	-1,694.81	0.69	0.44	-584.16
2	-7,728.01	18	5	13	27.78	782.13	-895.28	0.87	0.34	-429.33
1	-4,225.98	18	7	11	38.89	509.16	-708.19	0.72	0.46	-234.78

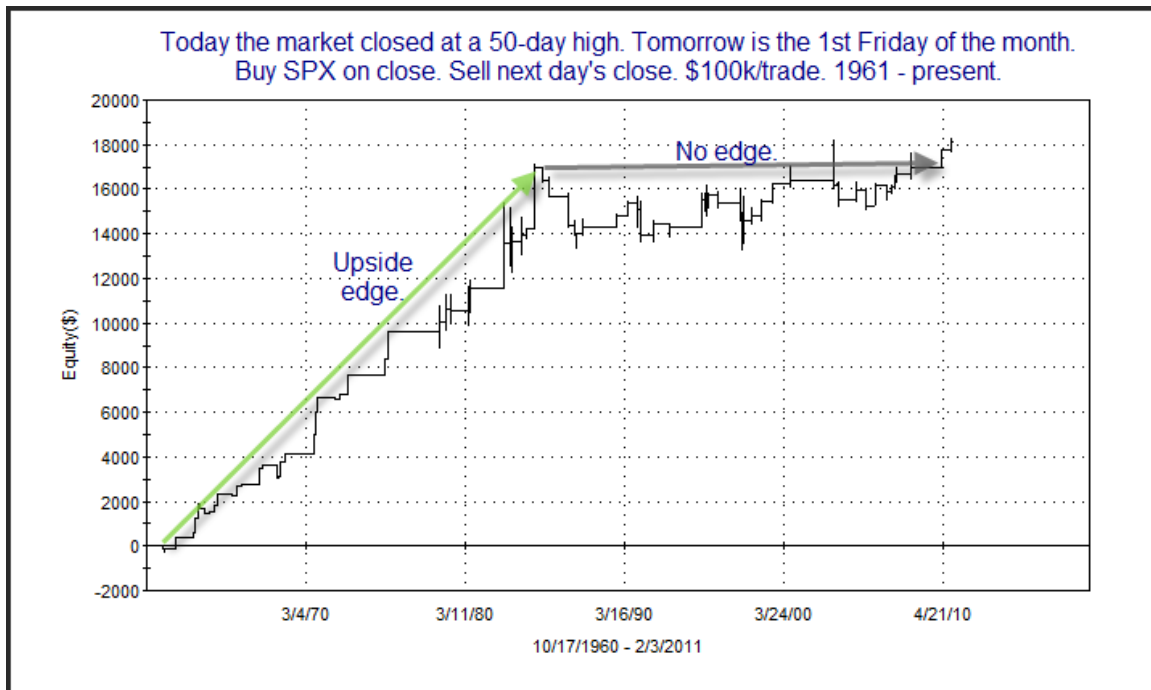
Results here seem to confirm the bearish implications of the first study. Of course there is some overlap between the two. The most consistently bearish results occurred in the 2-day time frame. I have listed below all of the instances using the 2-day exit.

SPY posts an outside day and closes at a 50-day high.
Yesterday it closed < a 50-day high. Volume rises.
Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
08/16/94	Buy	\$46.65	(0.43%)	\$192.87
08/18/94	Sell	\$46.45		(\$514.32)
11/28/95	Buy	\$60.57	0.56%	\$1,056.00
11/30/95	Sell	\$60.91		\$0.00
05/22/96	Buy	\$68.19	(0.03%)	\$366.50
05/24/96	Sell	\$68.17		(\$952.90)
01/21/97	Buy	\$78.28	(0.68%)	\$1,800.57
01/23/97	Sell	\$77.75		(\$1,749.49)
05/20/97	Buy	\$84.47	(0.56%)	\$603.33
05/22/97	Sell	\$84.00		(\$1,076.53)
05/30/97	Buy	\$85.28	(0.98%)	\$257.84
06/03/97	Sell	\$84.44		(\$1,101.68)
02/20/98	Buy	\$103.66	(0.40%)	\$568.76
02/24/98	Sell	\$103.25		(\$694.08)
07/16/98	Buy	\$118.53	(0.10%)	\$590.10
07/20/98	Sell	\$118.41		(\$497.37)
03/21/00	Buy	\$149.19	2.33%	\$2,867.60
03/23/00	Sell	\$152.66		(\$335.00)
05/16/01	Buy	\$128.95	0.61%	\$875.75
05/18/01	Sell	\$129.74		(\$658.75)
11/06/02	Buy	\$93.04	(3.64%)	\$0.00
11/08/02	Sell	\$89.65		(\$3,780.48)
04/22/03	Buy	\$91.34	0.02%	\$1,104.94
04/24/03	Sell	\$91.36		(\$415.72)
01/21/04	Buy	\$115.10	(0.58%)	\$243.04
01/23/04	Sell	\$114.43		(\$998.20)
03/05/04	Buy	\$116.38	(1.62%)	\$206.16
03/09/04	Sell	\$114.50		(\$1,838.26)
11/08/06	Buy	\$138.91	(0.48%)	\$165.37
11/10/06	Sell	\$138.24		(\$855.61)
02/20/07	Buy	\$146.04	(0.12%)	\$259.92
02/22/07	Sell	\$145.87		(\$595.08)
05/30/07	Buy	\$153.48	0.39%	\$598.92
06/01/07	Sell	\$154.08		(\$234.36)
05/06/08	Buy	\$142.05	(2.03%)	\$0.00
05/08/08	Sell	\$139.16		(\$2,158.21)

As was implied by the stats table, results here appear fairly consistent as well.

The big scheduled event on Friday morning is the employment report. Though there are a few exceptions, the employment report is typically released on the first Friday of each month. I decided to look at other times the market closed at a new high just ahead of the first Friday of the month.



It appears from 1961-1984 there may have been an upside edge in buying a 50-day high ahead of the employment report. Since around 1984 the close at a new high doesn't seem to be predictive of how the action will play out on report day. This isn't a great surprise. I've seen similar results a number of times before with employment day studies.

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



No substantial change to the Aggregator chart tonight. The green Aggregator line is still above 0. The positive value means the net expectation from the Active Studies List is for upside over the next few days. Meanwhile the black Differential line remains below 0. The negative value means the SPX has outperformed expectations over the last few days. So net expectations are for upside but the SPX has outperformed recent expectations. This is considered a neutral configuration. A neutral configuration is evident on the chart whenever both lines are on opposite sides of zero. Due to this the Aggregator System remained flat at the close.

Thanks to the bearish studies from the last couple of nights the green Aggregator line is set up to flip below 0 on Friday. Of course this could change if strong bullish evidence emerges. Meanwhile the Differential Pivot will jump to 1313.61. This is about 0.5% *above* Thursday's close. This means that if the Differential line is to remain below 0 the SPX will need to gain at least 0.5%. Market action tomorrow is going to have a huge effect on the Aggregator configuration. The Aggregator System could easily trigger a long, short, or flat signal Friday.

The employment report normally does help generate action, either one way or the other. How the day plays out and what studies emerge will be quite interesting to follow. I am not looking to take exposure ahead of Friday's action, but would be surprised if it didn't generate some interesting setups for Monday.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/31 - mildly bullish

The intermediate-term outlook is basically unchanged from last week. No new studies with long-term implications appeared and with the short-term outlook quite lengthy tonight, I decided not to make a big fuss of the intermediate-term.

Bulls still have POMO, trend, and momentum on their side, while the bears hopes continue to hinge on breadth and perhaps bond action. At this point the selloff is just one day. It was strong and violent though, and the action this upcoming week could provide some strong hints.

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

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