

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 8, 2008

Issue 120

Market Overview

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)

Study Date	Description	Time span	Bias
August 8, 2008	Nasdaq Dn Sox Up	1-30 Days	Bullish
August 7, 2008	20 day high on low volume	1-10 days	Bearish
August 6, 2008	Fed day spike	1-10 days	Bearish
August 6, 2008	Put/Call 100-day low	1-10 days	Bearish
July 31, 2008	Strong move on rising volume	1-10 days	Bullish
July 30, 2008	Big up after big down	1-12 days	Bullish
July 29, 2008	Down 1.5% lowest vol in 10 days	1-12 days	Bullish
July 18, 2008	Big Volume Big Gain Under 200	1-18 days	Bullish
July 18, 2008	2% then 1% gains under the 200	1-19 days	Bullish
July 7, 2008	5 Weeks Lower	1-10 weeks	Bearish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) – neutral – updated 8/8

After three bearish studies the last two nights the market got taken down today. Volume came in heavier than yesterday, but below average. Breadth was strongly negative as advancing volume trounced declining volume by over 4 to 1. The lone bright spot were the semiconductors. They ignored the rest of the market and powered higher by over 1.5%.

In [tonight's blog](#) I showed what has happened to the Nasdaq following other days where the Nasdaq was down 0.75% and the SOX was up 1.5% or more. The results were extremely volatile and quite bullish.

Below is a look at the S&P 500 on days where it diverged greatly from the SOX:

<i>S&P 500 loses at least 1.0% while the SOX gains at least 1.5%. Buy S&P 500 on close. Sell X days later. \$100k/trade. 1995-present.</i>										
X Days	Net Profit	Trades	Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	ProfitFactor	Avg Trade
15	\$41,238.97	9	9	\$9,409.63	\$0.00	\$4,582.11	\$0.00	100.00	100.00	\$4,582.11
14	\$38,720.92	9	8	\$9,676.59	(\$1,939.54)	\$5,082.56	(\$1,939.54)	2.62	20.96	\$4,302.32
13	\$33,654.66	9	8	\$9,660.97	(\$2,669.92)	\$4,540.57	(\$2,669.92)	1.70	13.61	\$3,739.41
12	\$26,144.09	9	8	\$7,763.14	(\$2,686.94)	\$3,603.88	(\$2,686.94)	1.34	10.73	\$2,904.90
11	\$28,402.64	9	8	\$7,280.34	(\$702.26)	\$3,638.11	(\$702.26)	5.18	41.44	\$3,155.85
10	\$15,995.22	9	7	\$4,644.11	(\$1,675.87)	\$2,684.81	(\$1,399.23)	1.92	6.72	\$1,777.25
9	\$12,996.44	9	7	\$5,196.49	(\$1,395.52)	\$2,080.20	(\$782.49)	2.66	9.30	\$1,444.05
8	\$17,439.60	9	7	\$4,770.49	(\$702.26)	\$2,605.64	(\$399.96)	6.51	22.80	\$1,937.73
7	\$11,087.55	9	6	\$3,947.09	(\$2,138.60)	\$2,400.70	(\$1,105.55)	2.17	4.34	\$1,231.95
6	\$12,493.77	9	7	\$4,142.58	(\$2,280.52)	\$2,152.16	(\$1,285.67)	1.67	5.86	\$1,388.20
5	\$15,048.65	9	6	\$3,614.52	(\$638.62)	\$2,750.66	(\$485.09)	5.67	11.34	\$1,672.07
4	\$16,218.11	9	7	\$5,348.90	(\$1,167.15)	\$2,506.73	(\$664.52)	3.77	13.20	\$1,802.01
3	\$11,611.04	9	8	\$3,554.98	(\$2,021.20)	\$1,704.03	(\$2,021.20)	0.84	6.74	\$1,290.12
2	\$6,679.76	10	7	\$3,230.16	(\$1,743.76)	\$1,645.94	(\$1,613.94)	1.02	2.38	\$667.98
1	\$4,602.58	10	5	\$2,345.06	(\$2,531.86)	\$1,690.93	(\$770.41)	2.19	2.19	\$460.26

Not as volatile as the Nasdaq returns, but once you get out two weeks they were quite reliable. The real interesting results, though, came when looking at the SOX returns (based on the Nasdaq/SOX setup):

<i>Nasdaq Composite loses at least 0.75% while the SOX gains at least 1.5%. Buy SOX on close. Sell X days later. \$100k/trade. 1995-present.</i>												
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
30	\$150,702.84	9	7	2	77.78	\$49,321.44	(\$8,920.44)	\$22,936.22	(\$4,925.34)	4.66	16.30	\$16,744.76
29	\$170,676.93	9	8	1	88.89	\$47,985.84	(\$2,876.92)	\$21,694.23	(\$2,876.92)	7.54	60.33	\$18,964.10
25	\$144,918.04	10	8	2	80.00	\$39,150.72	(\$16,217.64)	\$21,846.85	(\$14,928.37)	1.46	5.85	\$14,491.80
20	\$121,624.02	11	9	2	81.82	\$29,307.60	(\$17,926.08)	\$16,231.18	(\$12,228.29)	1.33	5.97	\$11,056.73
15	\$102,750.77	11	10	1	90.91	\$25,220.16	(\$5,826.26)	\$10,857.70	(\$5,826.26)	1.86	18.64	\$9,340.98
10	\$37,333.66	13	9	4	69.23	\$26,467.00	(\$16,987.10)	\$8,893.31	(\$10,676.54)	0.83	1.87	\$2,871.82
9	\$40,650.17	13	7	6	53.85	\$25,211.00	(\$12,247.18)	\$10,400.80	(\$5,359.24)	1.94	2.26	\$3,126.94
8	\$63,844.37	13	9	4	69.23	\$21,320.00	(\$9,837.84)	\$9,104.85	(\$4,524.83)	2.01	4.53	\$4,911.11
7	\$40,805.07	13	8	5	61.54	\$14,963.76	(\$5,438.60)	\$7,462.51	(\$3,779.00)	1.97	3.16	\$3,138.85
6	\$61,468.61	13	10	3	76.92	\$17,668.00	(\$3,168.63)	\$6,595.34	(\$1,494.94)	4.41	14.71	\$4,728.35
5	\$78,528.73	13	11	2	84.62	\$23,734.53	(\$1,133.07)	\$7,270.89	(\$725.54)	10.02	55.12	\$6,040.67
4	\$76,939.13	13	11	2	84.62	\$15,654.69	(\$3,562.00)	\$7,603.87	(\$3,351.73)	2.27	12.48	\$5,918.39
3	\$51,000.15	13	11	2	84.62	\$10,700.62	(\$3,364.72)	\$5,075.05	(\$2,412.68)	2.10	11.57	\$3,923.09
2	\$63,698.20	13	11	2	84.62	\$15,086.12	(\$4,233.60)	\$6,329.06	(\$2,960.72)	2.14	11.76	\$4,899.86
1	\$42,475.50	13	10	3	76.92	\$11,989.42	(\$3,381.84)	\$4,783.45	(\$1,786.33)	2.68	8.93	\$3,267.35

If you're bullish on the market, the semis might deserve a look. Four semiconductor etf's are SMH, IGW, PSI and XSD.

Intermediate-term Outlook (1 week – 2 months) -neutral – updated 8/4

The intermediate-term outlook has a few positives right now, but now a whole lot. The fact that breadth and sentiment had become so extremely negative prior to the mid-July bottom is something that is frequently seen near important bottoms. I showed a study which looked at bounces after extreme breadth readings in the July 20th Letter. I have included a copy of this study in the addendum below.

The [consumer sentiment study](#) from March is still active and shows a positive bias as well. Additionally, I like [the volume pattern](#) that the market has exhibited recently.

There are concerns, though. The relatively low put/call ratio which I discussed [last week](#) remains low, suggesting complacency among option traders. The persistence shown during the selloff in June and early July is something that is not normally quickly overcome as discussed in the [July 7th study](#).

The “original rule” Follow Through Day (FTD) from July 22 has so far failed to ignite a further rally. [My findings have shown](#) that the first week after a FTD tends to be fairly predictive of whether the FTD will succeed or fail. There have been eight trading days since the FTD. The only days where the S&P closed above the close of the FTD were days 1 and 6. This would suggest about a 67% chance of failure for the signal, which would entail a trip below the July lows.

The fact that the past week saw a relatively wide range with a small relative percent change at the close has tended to have bearish implications when a long-term downtrend has been present.

Below I show how the market has performed the next week after a relatively large range closed varying levels of change from the week before:

SPX trades in > 2.5% range and closes within X% of last week's close. Also closes < 40 week MA.										
Buy on close. Sell 1 week later. \$100k/trade. 1960-present.										
X% Change	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
1	(\$1,208.28)	86	42	44	48.84	\$2,163.95	(\$2,093.05)	1.03	(\$14.05)	0.99
0.75	(\$9,456.60)	60	30	30	50.00	\$2,198.22	(\$2,513.44)	0.87	(\$157.61)	0.87
0.5	(\$3,044.96)	36	17	19	47.22	\$2,608.62	(\$2,494.29)	1.05	(\$84.58)	0.94
0.25	(\$16,069.95)	17	6	11	35.29	\$2,671.88	(\$2,918.29)	0.92	(\$945.29)	0.50

As you can see above the very tight closing change of 0.25% or less has severely underperformed larger % increases or decreases.

To see what affect the range portion of the equation has on results I looked at varying ranges. In this case I held the position for 5 weeks.

S&P has range > X% and change < 0.25% on the week. Close < 40wk ma. Buy on close. Sell 5 weeks later. \$100k/trade. 1960 -										
X Range	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
3.5	(\$15,423.33)	3	1	2	33.33	\$1,768.00	(\$8,595.67)	0.21	(\$5,141.11)	0.10
3	(\$17,772.44)	7	2	5	28.57	\$3,558.53	(\$4,977.90)	0.71	(\$2,538.92)	0.29
2.5	(\$24,572.95)	14	5	9	35.71	\$3,273.67	(\$4,549.04)	0.72	(\$1,755.21)	0.40
2	\$9,502.56	23	12	11	52.17	\$4,178.26	(\$3,694.24)	1.13	\$413.15	1.23
1.5	\$34,301.38	30	18	12	60.00	\$4,755.94	(\$4,275.46)	1.11	\$1,143.38	1.67
1	\$26,573.82	36	21	15	58.33	\$4,024.92	(\$3,863.30)	1.04	\$738.16	1.46
0.5	\$30,026.93	41	23	18	56.10	\$4,170.07	(\$3,660.26)	1.14	\$732.36	1.46
0	\$27,751.03	43	24	19	55.81	\$4,044.90	(\$3,648.76)	1.11	\$645.37	1.40

Here we can see that the wider ranges clearly underperform the tighter ranges when look at a small percent change on the week.

So using a 2.5% or greater range and a net change of less than 0.25% and looking out over the next 1-5 weeks I get the following results:

SPX range > 2.5% and net change < 0.25%. Close < 40 week MA. Buy SPX on close. Sell X Weeks later. \$100k/trade. 1960 -										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	(\$24,572.95)	14	5	9	35.71	\$3,273.67	(\$4,549.04)	0.72	(\$1,755.21)	0.40
4	(\$39,054.28)	14	4	10	28.57	\$3,031.28	(\$5,117.94)	0.59	(\$2,789.59)	0.24
3	(\$25,944.94)	15	6	9	40.00	\$4,767.05	(\$6,060.80)	0.79	(\$1,729.66)	0.52
2	(\$23,594.20)	15	5	10	33.33	\$4,668.24	(\$4,693.54)	0.99	(\$1,572.95)	0.50
1	(\$16,069.95)	17	6	11	35.29	\$2,671.88	(\$2,918.29)	0.92	(\$945.29)	0.50

While the results may not be statistically significant due to the low number of instances, the negative bias in terms of wins to losses and average trade is notable nonetheless.

My intermediate-term outlook remains very similar to last week. While I believe the market will be higher and likely in the midst of a substantial rally 3-4 months from now, 3-4 weeks from now remains murky. Stronger breadth would go a long way toward making me more comfortable. Right now I'm taking things little by little and constantly re-evaluating.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Trades

none

Open Big 50 Trades

None

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 0

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	0.00	DJ US Energy	IYE	3.49
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	1.35	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.77
DJ US Oil Equip & Svcs	IEZ	7.69	DJ US Consumer Goods	IYK	0.68
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	1.01
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	5.26
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	2.00

Oil Equip and services is starting to get a bit overdone...

Additional New Trade Ideas

For the 2nd time this week a potential SPY trade gapped away from our entry, leaving us unfilled as the market moved strongly in our direction.

I'm not seeing anything compelling tonight. The market is mid-range, which is a place I don't like to trade from. Call it a wait and see day. I have a feeling it will get interesting again real soon.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IP(S)	8/6/2008	\$28.34	\$27.89	1.59%	\$29.51	cover on %b < 75
MOS	8/6/2008	\$110.47	\$110.74	0.24%	\$103.90	sell on close > 10ma
FXE	8/7/2008	\$154.13	\$153.36	-0.50%	\$153.00	sell on close > 10ma

Stocks and ETF's on my Radar

Semiconductor ETF's noted above: SMH, IGW, PSI, and XSD.

Notable S&P 500 stocks outside my "tradable" radar

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 © 2008 Hanna Capital Management, LLC