

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 17, 2008

Issue 147

## 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	Avg Max Move	Avg MM + 1 Std Dev
September 17, 2008	Fed Spike	1-10 days	Bearish	-3.00%	-5.79%
September 16, 2008	25% VIX stretch	1-6 Days	Bullish	2.73%	4.74%
9/12 & 9/17	20-Day Reversal Bar	1-17 days	Bullish	4.93%	9.39%
<b>September 11, 2008</b>	<b>Bad Breadth Rebound</b>	<b>1-6 Days</b>	<b>Bearish</b>	<b>-4.10%</b>	<b>-5.85%</b>
8/27 & 9/11	Weak Bounce	1-17 days	Bearish	-5.30%	-8.90%
<b>8/19 &amp; 8/31</b>	<b>1% Drop Extreme Low Vol</b>	<b>1-10 days</b>	<b>Bearish</b>	<b>-4.04%</b>	<b>-7.14%</b>
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		

If the avg max move is achieved it will appear in **bold and green**. If the avg + 1 std deviation is achieved, the study will in **bold italic blue** and will be removed tomorrow.

### **Short-term Outlook (1-5 days) –neutral to slightly bullish – updated 9/17**

The market gapped down big for the 4<sup>th</sup> day in a row today. The 2<sup>nd</sup> day in a row over 2%. As I reviewed last night, gaps lower of 2% or more have a tendency to lead to strong intraday up moves. This is exactly what took place today. The S&P 500 rallied over 4% from open to close and the other major indices all spiked higher as well. Hopefully some subscribers were able to take advantage of the gap lower. Volume hit its highest level since the January 23<sup>rd</sup> reversal and up volume came in significantly higher than down volume. Oddly, though, declining issues outnumbered advancing issues. Also notable is the fact that new lows spiked over 1000 – nearly reaching the July levels.

The fact that advancers trailed decliners on the NYSE is not necessarily a bad thing. Looking at all times that the S&P 500 advanced while the NYSE up issues ration came in under 45%, results going forward were choppy. This is unlike a low up volume % when the market rises, which I have found to have bearish implications.

In [the blog tonight](#) I looked at other times the SPY gapped lower by at least 0.25% and then rose over 3.5% from open to close. While instances were quite low, results were consistent. A brief pullback within the first few days was followed by a rally. Many of the dates shown in the study marked significant lows.

The [Fed study I referred to last night](#) suggested that when the market is oversold heading into a Fed day, there is a strong tendency to rally. Unfortunately, most Fed-day rallies tend to be short-lived as can be seen by the study below:

S&P 500 closes over 1% higher on day of Fed meeting. Buy S&P at close. Sell X days later. \$100k/trade. 1978-present.												
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$24,539.56)	44	20	24	45.45	\$4,389.95	(\$9,625.50)	\$1,692.83	(\$2,433.17)	0.70	0.58	(\$557.72)
9	(\$18,571.25)	44	20	24	45.45	\$3,971.97	(\$12,928.50)	\$1,893.93	(\$2,352.07)	0.81	0.67	(\$422.07)
8	(\$19,628.09)	44	21	23	47.73	\$3,830.40	(\$7,050.88)	\$1,579.30	(\$2,295.36)	0.69	0.63	(\$446.09)
7	(\$11,247.23)	44	19	25	43.18	\$4,754.52	(\$6,122.88)	\$1,927.52	(\$1,914.80)	1.01	0.77	(\$255.62)
6	(\$5,173.24)	44	23	21	52.27	\$5,016.78	(\$5,308.10)	\$1,348.33	(\$1,723.09)	0.78	0.86	(\$117.57)
5	(\$3,140.82)	44	23	21	52.27	\$4,449.96	(\$5,099.06)	\$1,238.62	(\$1,506.15)	0.82	0.90	(\$71.38)
4	(\$2,169.51)	44	23	21	52.27	\$3,654.72	(\$4,296.18)	\$1,195.65	(\$1,412.83)	0.85	0.93	(\$49.31)
3	(\$3,888.12)	44	26	18	59.09	\$2,932.29	(\$5,878.78)	\$1,028.23	(\$1,701.23)	0.60	0.87	(\$88.37)
2	\$4,985.58	44	25	19	56.82	\$2,212.98	(\$3,630.44)	\$778.86	(\$762.42)	1.02	1.34	\$113.31
1	\$1,736.35	44	24	20	54.55	\$1,990.25	(\$2,617.60)	\$620.40	(\$657.66)	0.94	1.13	\$39.46

Also notable is the fact that 75% of the instances posted a close below the rally-day's close within the next week. Forty of forty-four (91%) posted a lower close within 2 weeks.

Tonight's Aggregator is below:



With several of the bearish studies hitting their objectives and falling off the list in the last two days the green Aggregator line has actually turned slightly bullish. I typically consider between 0 and 0.05 fairly neutral since it's quite close to the long-term drift of the market. Thanks to Monday's selloff the differential line is still quite high, indicating substantial underperformance by the S&P over the last few days relative to expectations. This is actually a slightly bullish setup. With the strong intraday move today I'd prefer to

wait for a pullback before entering. Both of tonight's studies, along with the [reversal bars study from last week](#), which triggered again tonight, suggest a pullback is likely in the next few days. In a bit of a no-man's land right now waiting for a better edge to appear.

***Intermediate-term Outlook (1 week – 2 months)–neutral / slightly bearish–updated 9/15***

The song remains the same this week from an intermediate-term standpoint. I am not seeing any evidence that the market is ready to take off. There has been no strong accumulation evidenced by surges in breadth and volume. At the same time the market has also not reached the kind of selling extremes that it hit at past bottoms.

The low this week was fairly close to the July low, yet many of the indicators that suggest panic or capitulation have not provided any such readings. For example the VIX is far below where it reached when the market bottomed in July, March and January. Another example would be the number of new lows. At the July bottom there were over 1150 new lows. On Thursday this number peaked at 370. You could also look at the % of stocks closing above their 40-day moving average. This indicator reached about 37% this past week. At the July, March, January, and November bottoms it dropped below 20%. The CBI, which I track closely in the blog has yet to move above 3. At the other bottoms over the past year it reached 10 or higher every time.

Some might say there is a positive divergence setting up. For there to be a true divergence, though, you'd need to see price fall below the July levels without the indicators doing so. Perhaps the indicators are showing strength. Perhaps they are signaling we could have a lot further to fall. I don't know the answer to that. What I do know is that they are not suggesting the type of panic readings that provide high risk/reward opportunities to try and buy into.

One reader suggested to me that the relatively high volume this week along with the fact that market stopped falling might have suggested institutional support. I decided to test this theory. Below is what I came up with:

<b>After closing lower 3 weeks in a row the S&amp;P 500 closes higher on its highest weekly volume in 4 weeks.</b>										
<b>Buy S&amp;P on close. Sell X weeks later. \$100k/trade. 1960-present.</b>										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
6	\$2,067.00	33	16	17	48.48	\$4,943.25	(\$4,530.88)	1.09	1.03	\$62.64
5	(\$7,095.66)	33	17	16	51.52	\$4,384.26	(\$5,101.75)	0.86	0.91	(\$215.02)
4	\$18,156.80	34	19	15	55.88	\$4,339.62	(\$4,286.40)	1.01	1.28	\$534.02
3	\$18,582.61	34	21	13	61.76	\$3,600.14	(\$4,386.17)	0.82	1.33	\$546.55
2	\$16,128.88	34	19	15	55.88	\$3,044.95	(\$2,781.68)	1.09	1.39	\$474.38
1	(\$3,545.72)	34	18	16	52.94	\$1,535.01	(\$1,948.49)	0.79	0.89	(\$104.29)

These numbers would indicate no upside edge. I decided to also look at times the market is trading below its 40-week MA:

**After closing lower 3 weeks in a row the S&P 500 closes higher on its highest weekly volume in 4 weeks. It closes below its 40-week MA. Buy S&P on close. Sell X weeks later. \$100k/trade. 1960-present.**

X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
6	(\$7,999.57)	20	9	11	45.00	\$5,891.22	(\$5,547.32)	1.06	0.87	(\$399.98)
5	(\$22,319.28)	20	9	11	45.00	\$5,246.65	(\$6,321.74)	0.83	0.68	(\$1,115.96)
4	\$8,169.60	21	10	11	47.62	\$6,132.56	(\$4,832.36)	1.27	1.15	\$389.03
3	\$14,728.84	21	14	7	66.67	\$4,040.96	(\$5,977.81)	0.68	1.35	\$701.37
2	\$18,671.68	21	13	8	61.90	\$3,735.45	(\$3,736.15)	1.00	1.62	\$889.13
1	(\$4,264.58)	21	10	11	47.62	\$2,009.25	(\$2,214.28)	0.91	0.82	(\$203.08)

This is even worse.

At the very least I will remain extremely cautious of the long side until I see either 1) more extreme readings from capitulative indicators, or 2) evidence of strength pushing the market higher. I've yet to see much, if any, of either.

### **Catapult and Capitulative Breadth Statistics**

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

#### ***Open Catapult Trades***

DELL –bought 1/3 position at \$20.22

DELL – bought 1/3 position \$19.30

DELL – bought last 1/3 position at \$18.36

#### ***Open Big 50 Trades***

None

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

VWO – bought and listed in trades section

### ***Broad Market Large Cap CBI – 3/1 (3 DELL)***

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

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	3.45	DJ US Energy	IYE	2.33
DJ US Insurance Index	IAK	2.70	DJ US Financial	IYF	1.71
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	1.40
DJ US Utilities	IDU	2.70	DJ US Healthcare	IYH	2.11
DJ US Oil&Gas Expl & Prod	IEO	6.90	DJ US Industrial Sector	IYJ	1.92
DJ US Oil Equip & Svcs	IEZ	3.85	DJ US Consumer Goods	IYK	0.00
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	1.22
DJ US Medical Devices	IHI	2.44	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.78	DJ US Technology Sector	IYW	5.03
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	7.89
DJ US Consumer Svcs	IYC	0.88	Nasdaq 100	QQQQ	3.00

### **Additional New Trade Ideas**

*None tonight. Waiting for a more significant edge as discussed in the short-term outlook section.*

### **Active Trades Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
DELL	9/4/2008	\$20.22	\$15.98	-20.97%		Catapult
VWO	9/5/2008	\$37.50	\$34.30	-8.53%		Catapult
DELL	9/10/2008	\$19.30	\$15.98	-17.20%		Catapult
DELL	9/15/2008	\$18.36	\$15.98	-12.96%		bought on open

DELL is about as bad as they come as far a Catapult trades.

### **Stocks and ETF's on my 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