

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 19, 2008

Issue 149

## 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 19, 2008	Big Reversal Days	1-18 days	Bullish	6.30%	10.00%
<i>September 17, 2008</i>	<i>Fed Spike</i>	<i>1-10 days</i>	<i>Bearish</i>	<i>-3.00%</i>	<i>-5.79%</i>
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%
8/27 & 9/11	Weak Bounce	1-17 days	Bearish	-5.30%	-8.90%
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) – slightly bullish – updated 9/19*

Today's action was epic. After gapping up over 1% the S&P 500 sold off and made a low about 3.5% below the open. It then closed 6.5% above its low. Volume was massive. Upside volume was a rounding error away from a Lowry's 90% day.

One thing I looked at was all times the S&P 500 closed over 6% above its low. The list was quite short – 10/20 & 10/21/87, 10/28/98, and 7/24/02. In 1987 there was a sideways consolidation of several months before the market took off. In the other two cases a rally ensued immediately.

In [the blog tonight](#) I did a study which looked at large 2-day reversals that were also accompanied by large range. Nearly all instances happened right at market bottoms. I posted several charts of these bottoming instances as well in the blog post for your review.

To get a few more instances I ran another similar study below:

<b>S&amp;P 500 Rises 3.5% today after dropping over 1% yesterday. Buy on close. Sell X days later \$100k/trade. 1960-present</b>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Prodit Factor	Avg Trade
20	\$39,643.35	11	10	1	90.91	\$4,187.25	(\$2,229.12)	1.88	18.78	\$3,603.94
19	\$41,782.25	11	10	1	90.91	\$4,498.15	(\$3,199.20)	1.41	14.06	\$3,798.39
18	\$49,898.09	11	10	1	90.91	\$5,166.28	(\$1,764.72)	2.93	29.28	\$4,536.19
17	\$47,976.00	11	10	1	90.91	\$4,886.35	(\$887.52)	5.51	55.06	\$4,361.45
16	\$45,659.72	11	10	1	90.91	\$4,676.40	(\$1,104.24)	4.23	42.35	\$4,150.88
15	\$38,372.98	12	10	2	83.33	\$4,416.79	(\$2,897.46)	1.52	7.62	\$3,197.75
14	\$36,562.87	12	10	2	83.33	\$4,130.38	(\$2,370.48)	1.74	8.71	\$3,046.91
13	\$29,917.56	12	10	2	83.33	\$3,606.16	(\$3,072.00)	1.17	5.87	\$2,493.13
12	\$29,145.11	12	7	5	58.33	\$4,765.70	(\$842.96)	5.65	7.91	\$2,428.76
11	\$20,871.96	12	8	4	66.67	\$3,299.65	(\$1,381.32)	2.39	4.78	\$1,739.33
10	\$27,843.13	12	10	2	83.33	\$3,230.46	(\$2,230.74)	1.45	7.24	\$2,320.26
9	\$25,358.32	12	8	4	66.67	\$4,003.76	(\$1,667.95)	2.40	4.80	\$2,113.19
8	\$21,386.15	12	8	4	66.67	\$3,660.66	(\$1,974.78)	1.85	3.71	\$1,782.18
7	\$16,276.12	12	9	3	75.00	\$2,857.11	(\$3,145.97)	0.91	2.72	\$1,356.34
6	\$8,501.93	12	6	6	50.00	\$4,240.94	(\$2,823.96)	1.50	1.50	\$708.49
5	\$16,252.64	12	8	4	66.67	\$3,573.18	(\$3,083.21)	1.16	2.32	\$1,354.39
4	\$5,030.25	12	7	5	58.33	\$3,726.71	(\$4,211.34)	0.88	1.24	\$419.19
3	\$8,624.69	12	6	6	50.00	\$4,158.41	(\$2,720.96)	1.53	1.53	\$718.72
2	\$2,370.17	12	6	6	50.00	\$2,273.47	(\$1,878.44)	1.21	1.21	\$197.51
1	\$6,668.19	12	4	8	33.33	\$3,409.82	(\$871.38)	3.91	1.96	\$555.68

Indications are that a rally of at least a few weeks seems quite likely. In looking at the charts, it appears whether the market pulls back briefly or just continues to rally is a bit up in the air.

The futures are way up tonight – S&P futures over 2.5% as I type. If they stay this elevated it would be the 2<sup>nd</sup> time in the last few weeks that the market gapped higher by 2% or more. I showed some statistic about these 2% gaps a couple of weeks ago. It came in 2 blog posts which can be found [here](#) and [here](#). In the table below I looked a bit harder at each instance to see if the closed below the gap opening at any point in the next week:

Instance	Date	Closed <= Gap Open
1	9/8/1998	1 day later
2	10/6/1998	same day
3	9/3/1999	2 days later
4	6/2/2000	same day
5	12/8/2000	same day
6	12/11/2000	2 days later
7	4/5/2001	1 day later
8	9/24/2001	<b>NO</b>
9	7/17/2002	same day
10	7/29/2002	4 days later
11	10/15/2002	1 day later
12	10/17/2002	same day
13	4/7/2003	same day
14	8/17/2007	same day
15	12/12/2007	same day
16	3/11/2008	3 days later
17	9/8/2008	same day

As we knew, day 1 was a toss up. Over the next few days we saw consistent give back. Only one of the 17 instances launched higher from the gap and never looked back. That was 9/24/01.

I'll go over details more closely over the weekend, but it looks like with the massive volume, strong breadth, fear spikes, and price action in the last few days a further rally should be expected. Since the entry price was quite good my intention at the end of the day was to hold the SPY position and try for a larger move. If the market gaps up 2% or more as I looked at above, it appears highly likely that selling the SPY position and looking to re-enter on a pullback may be a better idea.

My plan for the SPY trade is therefore as follows: sell on an open of \$122.50 or higher. If it fails to gap that high then let it play out for the day and sell if it closes at \$122.50 or higher. Otherwise I am currently planning on keeping the trade idea open over the weekend.



The green Aggregator line is now squarely bullish at 0.10. The black differential line has fallen below 0 since the S&P has outperformed expectations over the last 3 days. It will flip positive tomorrow without a higher close. With prospects looking bullish I am looking to buy on pullbacks. This would include a lower close tomorrow afternoon.

***Intermediate-term Outlook (1 week – 2 months)–bullish -updated 9/20***

*I will provide a detailed analysis over the weekend, but today's action has me feeling quite bullish.*

## **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

AAPL – 1/3 @ 127.83

BUD – should not be traded as they are “scheduled” to be bought. Speculation of a failure to obtain financing has sent the stock lower. Questionable whether it should even be counted, but I did included it.

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

None

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

VWO – bought and listed in trades section

### ***Broad Market Large Cap CBI – 5/3 (3 DELL, AAPL, BUD)***

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

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
DJ US Broker Dealers	IAI	3.45	DJ US Energy	IYE	1.16
DJ US Insurance Index	IAK	1.35	DJ US Financial	IYF	0.68
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	6.76	DJ US Healthcare	IYH	2.11
DJ US Oil&Gas Expl & Prod	IEO	3.45	DJ US Industrial Sector	IYJ	2.30
DJ US Oil Equip & Svcs	IEZ	1.92	DJ US Consumer Goods	IYK	3.40
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	2.70
DJ US Healthcare Providers	IHF	4.08	DJ US Real Estate	IYR	0.00
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	7.54
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	1.32	Nasdaq 100	QQQQ	5.00

### **Additional New Trade Ideas**

*SPY – buy 1/5 position on a CLOSE of \$120.07 or lower.*

### **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	\$17.25	-14.69%		Catapult
VWO	9/5/2008	\$37.50	\$35.03	-6.59%		Catapult
DELL	9/10/2008	\$19.30	\$17.25	-10.62%		Catapult
DELL	9/15/2008	\$18.36	\$17.25	-6.05%		Catapult
AAPL	9/18/2008	\$127.83	\$134.09	4.90%		Catapult
SPY	9/18/2008	\$116.61	\$120.07	2.97%		Catapult

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

None

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