

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 14, 2008

Issue 166

## 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
October 14, 2008	Nasdaq up 3% lowest vol in 5	1-17 days	Bearish	-10.00%	-17.63%
October 9, 2008	5 Lower Lows & 100-day low	1-12 days	Bullish	2.28%	4.58%
October 5, 2008	VIX > 40 2 days in row	1-7 days	Bullish	8.50%	12.30%
September 19, 2008	Big Reversal Days	1-18 days	Bullish	6.30%	10.00%
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) – bullish – updated 10/14*

The long-anticipated bounce arrived on Monday – and in a massive way. It was the largest percent gain for the S&P 500 since the 1930's. The Dow, Nasdaq, and S&P all rose over 11%. Advancing volume made up 95% of total volume ([chart](#)) and advancers led decliners by nearly the same ratio. ([chart](#)) Volume came in conspicuously light.

From its low point on Friday to the high on Monday the S&P rallied nearly 20%. Even so, it remains well below its 10-day moving average. There have been very few crashes of this magnitude and fewer bounces as vicious. Below is a loose test which exemplifies the unique state the market is in:

After dropping at least 15% in previous 5 days, DJIA rises 5 pct today.												
Buy DJIA on close. Sell X days later. \$100k/trade. 1920-present												
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
20	\$13,361.56	4	3	1	75.00	\$6,254.00	(\$3,435.40)	\$5,598.99	(\$3,435.40)	1.63	4.89	\$3,340.39
19	\$3,592.06	4	2	1	50.00	\$5,836.86	(\$6,484.80)	\$5,038.43	(\$6,484.80)	0.78	1.55	\$898.02
18	\$7,614.40	4	3	1	75.00	\$5,406.00	(\$7,565.60)	\$5,060.00	(\$7,565.60)	0.67	2.01	\$1,903.60
17	(\$2,697.80)	4	2	2	50.00	\$6,436.80	(\$8,916.60)	\$3,271.40	(\$4,620.30)	0.71	0.71	(\$674.45)
16	(\$5,756.34)	4	2	2	50.00	\$3,142.26	(\$5,828.60)	\$2,790.13	(\$5,668.30)	0.49	0.49	(\$1,439.09)
15	(\$5,787.24)	4	2	2	50.00	\$2,332.00	(\$5,184.00)	\$2,168.78	(\$5,062.40)	0.43	0.43	(\$1,446.81)
14	\$298.26	4	2	2	50.00	\$3,392.00	(\$3,860.00)	\$3,294.13	(\$3,145.00)	1.05	1.05	\$74.57
13	\$3,518.36	4	3	1	75.00	\$6,374.16	(\$6,677.80)	\$3,398.72	(\$6,677.80)	0.51	1.53	\$879.59
12	\$5,696.60	4	3	1	75.00	\$7,797.60	(\$9,457.00)	\$5,051.20	(\$9,457.00)	0.53	1.60	\$1,424.15
11	(\$4,382.28)	4	3	1	75.00	\$5,631.12	(\$11,927.40)	\$2,515.04	(\$11,927.40)	0.21	0.63	(\$1,095.57)
10	(\$7,174.72)	4	1	3	25.00	\$6,616.08	(\$11,502.80)	\$6,616.08	(\$4,596.93)	1.44	0.48	(\$1,793.68)
9	(\$690.88)	5	2	3	40.00	\$9,936.00	(\$15,903.20)	\$9,641.16	(\$6,657.73)	1.45	0.97	(\$138.18)
8	(\$7,866.72)	5	2	3	40.00	\$8,326.00	(\$23,082.80)	\$8,281.04	(\$8,142.93)	1.02	0.68	(\$1,573.34)
7	(\$2,179.52)	5	3	2	60.00	\$12,006.00	(\$18,836.80)	\$5,930.43	(\$9,985.40)	0.59	0.89	(\$435.90)
6	\$1,349.14	5	3	2	60.00	\$13,064.00	(\$14,706.60)	\$5,917.25	(\$8,201.30)	0.72	1.08	\$269.83
5	\$8,925.92	5	3	2	60.00	\$14,352.00	(\$8,492.00)	\$7,042.64	(\$6,101.00)	1.15	1.73	\$1,785.18
4	\$3,743.88	5	3	2	60.00	\$10,994.00	(\$7,835.80)	\$4,707.33	(\$5,189.06)	0.91	1.36	\$748.78
3	\$6,840.10	5	4	1	80.00	\$7,682.00	(\$10,190.40)	\$4,257.63	(\$10,190.40)	0.42	1.67	\$1,368.02
2	\$14,587.88	5	4	1	80.00	\$5,908.68	(\$308.80)	\$3,724.17	(\$308.80)	12.06	48.24	\$2,917.58
1	\$12,661.78	6	3	3	50.00	\$10,089.36	(\$3,793.58)	\$7,041.12	(\$2,820.53)	2.50	2.50	\$2,110.30

Of the 4 unique instances, only one appeared recently (September 2001) the other 3 occurred in 1929, 1932, and 1933. With mixed results and a small number of instances primarily from the great depression, it's difficult and dangerous to draw any solid conclusions. Therefore, rather than focusing on the magnitude of the move I thought it more important to evaluate the breadth and volume components.

The greater than 90% upside volume coming off a bottom is something that Lowry's looks for. They did a study that found 90% days frequently clustered around bottoms. Unfortunately, my research has shown that a lone 90% up day following a recent 90% down day and market low is not a reliable predictor:

<i>Today is a 90% upside volume day. Within last 6 days there was a 90% downside volume day &amp; a 100-day low.</i>												
<i>Buy SPX on close. Sell X days later. \$100k/trade. 1970-present</i>												
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
20	(\$4,665.02)	8	4	4	50.00	\$4,925.28	(\$4,961.34)	\$2,597.44	(\$3,763.70)	0.69	0.69	(\$583.13)
19	(\$8,965.69)	8	4	4	50.00	\$4,458.57	(\$5,936.58)	\$2,198.16	(\$4,439.58)	0.50	0.50	(\$1,120.71)
18	(\$3,046.03)	8	4	4	50.00	\$3,693.96	(\$4,496.94)	\$2,095.57	(\$2,857.08)	0.73	0.73	(\$380.75)
17	(\$6,760.62)	8	4	4	50.00	\$3,028.65	(\$4,930.38)	\$1,437.17	(\$3,127.33)	0.46	0.46	(\$845.08)
16	(\$582.29)	8	4	4	50.00	\$2,730.75	(\$3,811.95)	\$1,614.21	(\$1,759.78)	0.92	0.92	(\$72.79)
15	(\$3,900.73)	8	4	4	50.00	\$2,478.35	(\$6,377.76)	\$1,411.31	(\$2,386.49)	0.59	0.59	(\$487.59)
14	(\$4,855.91)	8	4	4	50.00	\$2,449.25	(\$7,496.19)	\$1,451.73	(\$2,665.70)	0.54	0.54	(\$606.99)
13	(\$2,850.82)	8	4	4	50.00	\$2,250.09	(\$5,886.27)	\$1,566.11	(\$2,278.81)	0.69	0.69	(\$356.35)
12	\$253.86	8	5	3	62.50	\$2,082.65	(\$3,080.52)	\$1,344.03	(\$2,155.43)	0.62	1.04	\$31.73
11	\$2,771.64	8	4	4	50.00	\$4,137.05	(\$3,240.48)	\$2,357.17	(\$1,664.26)	1.42	1.42	\$346.46
10	(\$6,316.11)	8	3	5	37.50	\$2,144.88	(\$4,272.48)	\$1,560.58	(\$2,199.57)	0.71	0.43	(\$789.51)
9	(\$4,641.54)	8	5	3	62.50	\$3,088.23	(\$4,499.52)	\$815.98	(\$2,907.15)	0.28	0.47	(\$580.19)
8	\$235.76	8	4	4	50.00	\$3,386.13	(\$3,839.04)	\$1,471.06	(\$1,412.12)	1.04	1.04	\$29.47
7	(\$3,564.50)	8	2	6	25.00	\$2,422.92	(\$2,550.33)	\$1,623.16	(\$1,135.14)	1.43	0.48	(\$445.56)
6	(\$1,848.41)	8	5	3	62.50	\$2,138.85	(\$5,263.20)	\$1,277.11	(\$2,744.66)	0.47	0.78	(\$231.05)
5	(\$8,467.24)	8	4	4	50.00	\$2,306.67	(\$9,713.70)	\$1,092.70	(\$3,209.51)	0.34	0.34	(\$1,058.41)
4	(\$5,120.64)	8	6	2	75.00	\$3,807.65	(\$9,744.66)	\$1,286.67	(\$6,420.33)	0.20	0.60	(\$640.08)
3	(\$11,371.37)	8	3	5	37.50	\$1,986.00	(\$11,884.77)	\$1,579.24	(\$3,221.82)	0.49	0.29	(\$1,421.42)
2	(\$4,529.87)	8	5	3	62.50	\$1,489.50	(\$4,195.25)	\$859.04	(\$2,941.69)	0.29	0.49	(\$566.23)
1	(\$5,156.76)	8	2	6	25.00	\$1,400.13	(\$3,916.44)	\$910.52	(\$1,162.97)	0.78	0.26	(\$644.60)

50/50 chances with a slight overall downside bias. No real edge.

The volume today was bothersome – even more so on the Nasdaq than the NYSE. It's rare to see a very large gain come on relatively light volume. Never has the Nasdaq gained as much as even 6% while volume finished below its 10-day average. Therefore, to get a decent sample size I lowered the rally requirement to 3% to see what effect the poor volume may have.

<i>Nasdaq rises 3%+. Volume less than 10ma vol. Buy on close. Sell X days later. \$100k/trade. 1971 - present</i>												
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
11	(\$44,411.27)	30	13	17	43.33	\$10,979.20	(\$16,650.10)	\$5,908.80	(\$7,130.92)	0.83	0.63	(\$1,480.38)
10	(\$16,822.51)	30	14	16	46.67	\$11,449.60	(\$21,204.92)	\$5,733.10	(\$6,067.87)	0.94	0.83	(\$560.75)
9	(\$44,321.39)	33	15	18	45.45	\$9,457.92	(\$17,657.64)	\$4,461.28	(\$6,180.03)	0.72	0.60	(\$1,343.07)
8	(\$38,044.24)	33	16	17	48.48	\$11,623.64	(\$21,028.80)	\$4,664.31	(\$6,627.84)	0.70	0.66	(\$1,152.86)
7	(\$42,028.02)	34	16	18	47.06	\$10,288.88	(\$20,986.08)	\$3,655.72	(\$5,584.42)	0.65	0.58	(\$1,236.12)
6	(\$39,138.41)	36	20	16	55.56	\$10,621.24	(\$19,961.48)	\$3,328.83	(\$6,607.18)	0.50	0.63	(\$1,087.18)
5	(\$52,038.31)	36	19	17	52.78	\$10,081.50	(\$24,754.62)	\$3,253.80	(\$6,697.67)	0.49	0.54	(\$1,445.51)
4	(\$15,530.93)	36	18	18	50.00	\$11,029.00	(\$16,933.84)	\$4,223.17	(\$5,086.00)	0.83	0.83	(\$431.41)
3	\$316.02	38	21	17	55.26	\$9,896.04	(\$14,891.14)	\$3,504.18	(\$4,310.10)	0.81	1.00	\$8.32
2	\$2,463.93	39	21	18	53.85	\$6,916.00	(\$8,593.20)	\$2,723.11	(\$3,040.07)	0.90	1.05	\$63.18
1	\$565.69	40	19	21	47.50	\$5,281.25	(\$5,682.60)	\$1,747.97	(\$1,554.56)	1.12	1.02	\$14.14

This study is somewhat, though not too strongly suggestive of a pullback. Not only did the volume finish below its 10-day average it also was the lowest volume in 5 days.

Nasdaq rises 3%+ on lightest volume in 5 days. Buy on close. Sell X days later. \$100k/trade. 1971 - present												
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
20	(\$61,354.50)	12	3	9	25.00	\$20,158.08	(\$17,096.64)	\$7,869.05	(\$9,440.18)	0.83	0.28	(\$5,112.88)
15	(\$50,607.77)	12	3	9	25.00	\$16,309.12	(\$11,190.43)	\$6,439.59	(\$7,769.62)	0.83	0.28	(\$4,217.31)
10	(\$39,274.15)	13	4	9	30.77	\$11,449.60	(\$21,204.92)	\$5,056.37	(\$6,611.07)	0.76	0.34	(\$3,021.09)
9	(\$34,817.27)	13	5	8	38.46	\$9,457.92	(\$17,657.64)	\$3,719.30	(\$6,676.72)	0.56	0.35	(\$2,678.25)
8	(\$31,002.27)	13	4	9	30.77	\$10,019.84	(\$16,281.98)	\$4,920.64	(\$5,631.65)	0.87	0.39	(\$2,384.79)
7	(\$36,187.26)	13	5	8	38.46	\$8,234.88	(\$14,364.46)	\$2,716.85	(\$6,221.44)	0.44	0.27	(\$2,783.64)
6	(\$39,226.02)	13	6	7	46.15	\$5,959.04	(\$19,961.48)	\$2,187.99	(\$7,479.14)	0.29	0.25	(\$3,017.39)
5	(\$50,713.22)	13	4	9	30.77	\$6,569.60	(\$24,754.62)	\$2,625.90	(\$6,801.87)	0.39	0.17	(\$3,901.02)
4	(\$48,077.64)	13	2	11	15.38	\$5,331.00	(\$16,933.84)	\$5,061.34	(\$5,290.94)	0.96	0.17	(\$3,698.28)
3	(\$39,696.09)	13	3	10	23.08	\$4,674.00	(\$14,891.14)	\$3,068.16	(\$4,890.06)	0.63	0.19	(\$3,053.55)
2	(\$23,964.05)	13	4	9	30.77	\$4,381.20	(\$8,593.20)	\$2,018.48	(\$3,559.77)	0.57	0.25	(\$1,843.39)
1	(\$10,180.20)	13	5	8	38.46	\$3,990.60	(\$5,682.60)	\$1,512.24	(\$2,217.68)	0.68	0.43	(\$783.09)

While instances are lower than I'd prefer, results here are strongly bearish – especially over the 1<sup>st</sup> week. Of the 13 occurrences, 12 had at least one close lower than the trigger price within the 1<sup>st</sup> 3 days. The lone holdout closed below the trigger price on day 10.

Below is tonight's [Aggregator](#):



Both the black differential line and the green Aggregator have fallen below zero. This would frequently suggest a short trade. Rallies off bottoms often move much sharper and are more persistent than rallies that occur elsewhere. This tendency always makes me cautious about quickly starting a short position on a strong initial bounce. I will be looking to take profits tomorrow on most of the Catapults as well as the SPY trades.

***Intermediate-term Outlook (1 week – 2 months)–neutral -updated 10/13***

As I stated last week, the freefall the market is in has become extreme enough by numerous counts that a bounce at this point COULD mark an intermediate-term low. Such extremes as those listed near the top of this report are frequently found near bottoms. Of course just because the market is down 40% doesn't mean it can't drop another 40%. Still, as extreme as short-term conditions are I feel the best course of action is to wait for the bounce, monitor the action there, and then further evaluate intermediate-term prospects. Obviously I'll be looking for indications of institutional buying along with strong breadth and volume patterns. From an intermediate-term perspective it now appears too late to short and too early to buy.

**Catapult and Capitulative Breadth Statistics**

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

***Open Catapult Trades***

37 open Catapult triggers remain. I'll be sure to list them all again tomorrow. The ones which hit entry prices and are being tracked are all listed in the active trades table.

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

None – both XLB and QQQQ should be exited.

***Broad Market Large Cap CBI –37/18***

***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	43.02
DJ US Insurance Index	IAK	9.46	DJ US Financial	IYF	7.53
DJ US Regional Banks	IAT	10.00	DJ US Financial Services	IYG	7.69
DJ US Utilities	IDU	14.86	DJ US Healthcare	IYH	16.90
DJ US Oil&Gas Expl & Prod	IEO	27.59	DJ US Industrial Sector	IYJ	13.03
DJ US Oil Equip & Svcs	IEZ	61.54	DJ US Consumer Goods	IYK	9.52
DJ US Pharmaceuticals	IHE	10.81	DJ US Basic Materials	IYM	10.81
DJ US Healthcare Providers	IHF	22.45	DJ US Real Estate	IYR	4.88
DJ US Medical Devices	IHI	19.51	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	25.00	DJ US Technology Sector	IYW	12.56
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	7.89
DJ US Consumer Svcs	IYC	13.60	Nasdaq 100	QQQQ	10.00

*Levels reduced significantly with Monday's rally.*

**Additional New Trade Ideas**

*none*

## Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AA	10/8/2008	\$15.16	\$13.82	-8.84%		sell @ close limit
AA	10/9/2008	\$14.71	\$13.82	-6.05%		sell @ close limit
AES	10/7/2008	\$8.83	\$9.47	7.25%		sell @ close limit
BA	10/10/2008	\$40.13	\$47.08	17.32%		sell @ close limit
BHI	10/8/2008	\$39.93	\$41.65	4.31%		sell @ close limit
CBS	10/13/2008	\$8.10	\$8.74	7.90%		sell @ close limit
CMCSA	10/10/2008	\$15.93	\$16.97	6.53%		sell @ close limit
COV	10/10/2008	\$41.82	\$48.31	15.52%		exit triggered - sell on open
CPB	10/10/2008	\$32.45	\$35.65	9.86%		sell @ close limit
DELL	10/9/2008	\$13.50	\$15.21	12.67%		sold on close
DELL	10/10/2008	\$12.80	\$15.21	18.83%		sold on close
EXC	10/10/2008	\$46.46	\$55.53	19.52%		exit triggered - sell on open
EXC	10/13/2008	\$47.38	\$55.53	17.20%		exit triggered - sell on open
GD	9/30/2008	\$71.40	\$61.10	-14.43%		sell @ close limit
GOOG	10/10/2008	\$313.16	\$381.02	21.67%		sold on close
HAL	10/8/2008	\$21.13	\$21.51	1.80%		sell @ close limit
HAL	10/9/2008	\$20.99	\$21.51	2.48%		sell @ close limit
HON	10/9/2008	\$34.08	\$33.43	-1.91%		sell @ close limit
HON	10/10/2008	\$29.28	\$33.43	14.17%		sell @ close limit
IP	10/10/2008	\$18.95	\$21.08	11.24%		sell @ close limit
MS	10/10/2008	\$9.19	\$18.10	96.95%		sell at open
PM	10/10/2008	\$37.01	\$44.99	21.56%		exit triggered - sell on open
QQQQ	10/8/2008	\$31.95	\$35.13	9.95%		sold on close
SPY (1/4)	10/3/2008	\$112.00	\$101.35	-9.51%		exit on close higher
SPY (1/4)	10/6/2008	\$107.15	\$101.35	-5.41%		exit on close higher
SPY (1/4)	10/7/2008	\$105.00	\$101.35	-3.48%		sell @ \$102 limit
SPY (1/4)	10/7/2008	\$100.03	\$101.35	1.32%		sell @ \$102 limit
TWX	10/7/2008	\$11.23	\$10.40	-7.39%		sell @ close limit
TWX	10/8/2008	\$10.40	\$10.40	0.00%		sell @ close limit
TYC	10/8/2008	\$28.35	\$29.16	2.86%		sell @ close limit
TYC	10/9/2008	\$28.60	\$29.16	1.96%		sell @ close limit
TYC	10/10/2008	\$25.73	\$29.16	13.33%		sell @ close limit
XLB	10/7/2008	\$28.70	\$29.29	2.06%		exit triggered - sell on open
XRX	10/8/2008	\$8.45	\$8.49	0.47%		sell @ close limit
XRX	10/9/2008	\$8.15	\$8.49	4.17%		sell @ close limit
XRX	10/10/2008	\$7.68	\$8.49	10.55%		sell @ close limit

The futures are suggesting a gap up tomorrow and I think it would provide an excellent opportunity to take profits. I'm looking to exit most everything on a continued move up. I may send out updates in the morning or institute stops at some point during the day.

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