

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 17, 2008

Issue 169

## Market Overview

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

Description	Time span	Bias	Avg Max Move	Avg MM + 1 Std Dev
100-day high VIX no low SPX	1-10 days	Bullish		
SPX retest succeeds	1-3 days	Bullish		
SPX big drop 50 low 5	1-17 days	Bearish	-3.40%	-5.90%
<b>Nasdaq up 3% lowest vol in 5</b>	<b>1-17 days</b>	<b>Bearish</b>	<b>-10.00%</b>	<b>-17.63%</b>
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 – updated 10/17*

Another wild day as the market sold off hard in the morning and then rebounded strongly in the afternoon. Some sectors like the SOX and the Nasdaq 100 actually hit new intraday lows before reversing. Volume was the strongest since last Friday. Breadth was also strongly positive.

When the market tests its lows and succeeds it has a tendency to follow through over the next few days as shown below:

<i>SPX makes a low below the 100-day lowest close. It then finishes up at least 1% on higher volume.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1960-present</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
5	\$6,273.12	31	17	14	54.84	\$2,571.85	(\$2,674.88)	0.96	1.17	\$202.36
4	\$2,277.49	31	18	13	58.06	\$2,084.32	(\$2,710.78)	0.77	1.06	\$73.47
3	\$14,468.36	31	17	14	54.84	\$2,088.17	(\$1,502.18)	1.39	1.69	\$466.72
2	\$9,498.78	33	18	15	54.55	\$1,560.68	(\$1,239.57)	1.26	1.51	\$287.84
1	\$14,708.27	33	21	12	63.64	\$1,468.61	(\$1,344.37)	1.09	1.91	\$445.71

Not shown in the above stats is that 88% of the time the market has made a close higher than the entry at some point in the next 4 days. It's worth noting that the 1929 chart I showed on the blog last night also saw a bounce from Wednesday's position. It was short-lived as the next leg down began immediately, which was then followed by a multi-month rally. 1987 is another chart that looks somewhat similar to the current situation:



In this case the retest led to a 5-day rally and then a multi-month consolidation. Overall, it seems the retest is providing a small short-term upside edge.

One indicator with interesting action today was the VIX. It spiked again to its highest level ever. This occurred without the SPX making a new low. I took a look at similar situations in the past:

<i>VIX makes 100 day high but SPX doesn't make 100 day low.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1990-present</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	\$52,319.47	36	25	11	69.44	\$3,460.76	(\$3,109.06)	1.11	2.53	\$1,453.32
9	\$48,927.90	36	26	10	72.22	\$3,199.45	(\$3,425.77)	0.93	2.43	\$1,359.11
8	\$54,631.82	39	28	11	71.79	\$3,129.22	(\$2,998.77)	1.04	2.66	\$1,400.82
7	\$56,801.77	40	30	10	75.00	\$2,708.46	(\$2,445.21)	1.11	3.32	\$1,420.04
6	\$49,857.26	41	29	12	70.73	\$2,468.94	(\$1,811.84)	1.36	3.29	\$1,216.03
5	\$42,395.58	44	29	15	65.91	\$2,471.15	(\$1,951.18)	1.27	2.45	\$963.54
4	\$35,755.36	46	31	15	67.39	\$2,206.95	(\$2,177.34)	1.01	2.09	\$777.29
3	\$35,569.49	50	36	14	72.00	\$1,765.97	(\$2,000.40)	0.88	2.27	\$711.39
2	\$28,506.19	57	31	26	54.39	\$1,710.01	(\$942.47)	1.81	2.16	\$500.11
1	\$20,344.16	72	41	30	56.94	\$1,089.16	(\$810.39)	1.34	1.84	\$282.56

In this case the upside edge over the next couple of weeks is apparent. Not shown in the table is the fact that 80% of the instances closed higher than the trigger price at some point in the next three days.

I was hoping for a little more time to the downside for the market to allow a long entry. Unfortunately the market remains extremely choppy and the bounce has put us back in the middle of the recent range. I did mention last night that one condition I was looking for was "A retest of the lows. If a tight stop is conveniently nearby then risk/reward

could skew heavily to the long side – making even a fairly low percentage entry well worth the chance.” Hopefully some of the more nimble subscribers may have been able to take advantage of today’s reversal.

I had difficulties with the Aggregator chart tonight and am not able to publish it. Overall it was suggesting a slight upside edge for tomorrow. As I already mentioned, the SPX is in the middle of its range. This is a place I’m not comfortable taking a position. I remain in wait and see mode – preserving capital until a strong edge again avails itself.

**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**

Although I closed out all open Catapult trades Tuesday morning, 15 Catapults triggers have not yet officially satisfied their exit criteria. They are listed below under “Broad Market Large Cap CBI”. They could provide 2<sup>nd</sup> entry opportunities.

**Catapult for ETF’s Trades**

None

**Broad Market Large Cap CBI –15/9 (AA-3, AIG-2, BA-2, BUD, CBS, CPB-2, GD, TWX-3)**

**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	15.12
DJ US Insurance Index	IAK	4.05	DJ US Financial	IYF	1.37
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	9.46	DJ US Healthcare	IYH	7.75
DJ US Oil&Gas Expl & Prod	IEO	6.90	DJ US Industrial Sector	IYJ	3.83
DJ US Oil Equip & Svcs	IEZ	26.92	DJ US Consumer Goods	IYK	6.80
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	4.05
DJ US Healthcare Providers	IHF	14.29	DJ US Real Estate	IYR	1.22
DJ US Medical Devices	IHI	12.20	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	8.33	DJ US Technology Sector	IYW	4.52
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	7.89
DJ US Consumer Svcs	IYC	9.21	Nasdaq 100	QQQQ	6.00

### **Additional New Trade Ideas**

*none*

### **Active Trades Table**

*None*

I realize some subscribers are waiting for results and questions answered about recent performance. I will try and send it out as a separate document tomorrow rather than in tonight's Letter since I didn't quite finish it.

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