QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 19, 2008 Issue 192

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
November 19, 2008	Late-day spike higher	1 day	Bearish		
November 18, 2008	***2 Days Down in Chop***	***1-2 days***	***Bullish***	***1.50%***	***3.20%***
November 14, 2008	S&P Rises 2% and Spyx > 80	1-6 days	Bullish	3.40%	5.80%
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		

If the avg max move is achieved it will appear in **bold and brown**. 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) – somewhat bullish – updated 11/19

Tuesday the market once again bounced wildly intraday. There was something for everyone. Whether bullish or bearish you were right at some point today. In the end the bulls won as the large-cap indices finished higher led by the Dow's 1.8% rise. The small-cap Russell 2000 lagged notably and finished down 0.8%. This led to some unusual statistics. Even with the S&P up on the day the NYSE Up Issues % came in at 36% and NYSE Up Volume % was only 44%. Volume rose.

We've looked at bad breadth occurring on up days in the market numerous times. Three such studies from the blog came on June 10th, September 11th, and October 24th. All three looked at the Up Issues % and all 3 suggested downside. The last two times we saw very poor breadth on up days were 9/26 and 10/23. Both of those incidents saw some strong give-back the following day. Below I ran a similar test using Up Volume% over about the last 10 years.

NYSE Up Volume % < 45% and SPX closes up on the day. Buy SPX on close. Sell X days later. $100k/trade. 1999-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	($61,398.53)	36	12	24	33.33	$3,801.20	($25,773.42)	$2,508.66	($3,812.60)	0.66	0.33	($1,705.51)
9	($56,584.44)	36	13	23	36.11	$4,912.60	($24,896.02)	$2,410.89	($3,822.87)	0.63	0.36	($1,571.79)
8	($37,062.87)	38	16	22	42.11	$10,740.40	($18,744.38)	$2,148.02	($3,246.87)	0.66	0.48	($975.34)
7	($43,527.98)	39	18	21	46.15	$6,400.90	($17,818.60)	$1,908.17	($3,708.34)	0.51	0.44	($1,116.10)
6	($38,885.39)	40	15	25	37.50	$6,670.40	($12,844.48)	$2,137.39	($2,837.85)	0.75	0.45	($972.13)
5	($31,059.16)	40	14	26	35.00	$5,057.80	($9,372.60)	$2,144.34	($2,349.23)	0.91	0.49	($776.48)
4	($30,314.06)	40	17	23	42.50	$3,760.68	($8,138.50)	$1,499.13	($2,426.06)	0.62	0.46	($757.85)
3	($27,731.71)	42	15	27	35.71	$3,564.00	($5,351.36)	$1,344.22	($1,773.89)	0.76	0.42	($660.28)
2	($25,276.71)	43	20	23	46.51	$2,803.57	($6,510.90)	$853.96	($1,841.56)	0.46	0.40	($587.83)
1	($17,216.93)	43	17	26	39.53	$2,427.60	($8,783.02)	$793.19	($1,180.81)	0.67	0.44	($400.39)

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

We're now faced with some interesting statistics based on breadth. Last night our study showed that it was so bad the market was likely to bounce. Today we got a bounce but it was once again on poor breadth. Moves higher on poor breadth have historically been bearish for the market. With the studies now conflicting, I'm just canceling out the breadth studies as the edge is no longer clear.

The "2 days down in chop" strategy from last night is also being closed out. The up close today was the exit trigger for that system. The only holdover from a short-term standpoint is the Volume Spyx study.

On the blog on October 31st I showed a study that looked at how the market performed when there was a sharp surge going into the close. That study triggered again tonight and suggests negative implications for tomorrow.

The Aggregator chart is updated below:

The green Aggregator line is at 0.05. That is basically neutral as it is at the upper end of the long-term drift of the market. The black differential line is well above 0 as the market has severely underperformed expectations over the last few days. In a better market environment I would look at the current alignment and hold out for further profits. At this point I'm hoping to take partial or full profits on the index position in the morning barring a gap down.

Intermediate-term Outlook (1 week – 2 months)–somewhat bullish -updated 11/17

New bear market lows were made this past week as the market has been unable to mount any kind of sustained move higher in the last few months.

Thursday's reversal set up the possibility that several divergences are emerging as the market is trying to hammer out a bottom. One such divergence which can easily be seen on the charts page is the Net New Highs. There are substantially less new 52-week lows on the NYSE than there were at the October low. While many technicians may point to this as a positive divergence, my March study showed no evidence of that. We've seen it happen a few times since then without success as well.

In the past I've shown some short-term trading systems based on "time stretches". Basically when price spends an extended period of time below a moving average, it tends to revert and rally back above it. I typically use it with regards to short-term moving averages like the 10-day. At this point there is a 200-day moving average time stretch that is in notable territory, though.

It has now been 225 days since the S&P last closed above its 200-day moving average. Looking back to 1960 there have only been 5 other instances where the S&P remained below the 200ma for this long. Buying on the 225th day and then selling when it crossed back above the 200-day moving average would have resulted in a winning trade every time, with an average gain of 6%.

Unfortunately this market has showed us time and again that it is unlike anything we've seen over at least that amount of time. Therefore I once again used the Dow to look and see how the strategy would have worked in the 1930's. After slicing through the 200 during the early part of the crash of '29 the market totaled 225 days below it on 9/15/30. Buying at that point would have been a disaster. It stayed below the 200ma until 8/22/32. Over that nearly 2-year period from the entry point it lost just over 70%.

One of the things that had me looking for an index reversal a little too early in October was the "mini-crash" on September 29th. Drops of that magnitude have either marked the bottom (1987) or led to a temporary bottom that the market would rally off with in a few weeks. Such was the case with many of the sharp drops between 1929 and 1932. In all those cases a rally emerged that lasted at least a month or so and gained at least 16%.

While we have not had a sustainable rally, there have been two sizable ones since early October. From the low on October 10th to the high on October 14th the S&P rallied over 24%. From the low on 10/28 to the high on 11/4 the market rallied over 19%. The 2nd one was the longest – 6 trading sessions. So while we haven't had a sustainable rally and lower prices were seen after both of these two, they did meet the requirements from a percent change standpoint. Have they simply been condensed versions of they rallies of the past? Or is a more sustainable rally lasting a few weeks to a few months still likely to occur?

It's unclear at this point, but I'm still of the opinion that the market is more likely to launch a substantial move higher form here than a substantial move lower. That's not to say we won't roll right back over after rallying for a month or two. But even if we get another quick leg down here, it would seem unlikely to me that the market won't be trading quite a bit higher between now and the end of the year.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

IP - bought @ $11.77 limit (now out although the signal is officially still active)
CBS – bought @ $6.07 limit (now out although the signal is officially still active)
GD – @ $53.51

New
GD – buy 1/3 position @ 53.24 limit – 2nd entry

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4/3 (IP, CBS, GD-2)
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	5.81
DJ US Insurance Index	IAK	2.70	DJ US Financial	IYF	3.08
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	1.40
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	10.56
DJ US Oil&Gas Expl & Prod	IEO	3.45	DJ US Industrial Sector	IYJ	10.34
DJ US Oil Equip & Svcs	IEZ	9.62	DJ US Consumer Goods	IYK	13.61
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	4.05
DJ US Healthcare Providers	IHF	16.33	DJ US Real Estate	IYR	6.10
DJ US Medical Devices	IHI	12.20	DJ US Transportation	IYT	4.76
DJ US Aerospace & Defense	ITA	11.11	DJ US Technology Sector	IYW	9.55
DJ US Home Construction	ITB	9.52	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	12.72	Nasdaq 100	QQQQ	5.00

Additional New Trade Ideas

GD – buy 1/3 position @ $53.24 limit. From Catapult section above

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
CBS	11/13/2008	$6.07	$6.24	2.80%		stopped out
GD	11/18/2008	$53.51	$53.24	-0.50%		Bought @ open
SPY	11/18/2008	$85.15	$87.08	2.27%	see below	Bought @ open

CBS was stopped out. The "current price" above is the average exit price on the position.

SPY I will look to close out as the edge is dissipating. If it **opens up at $87.50 or higher** I will exit the entire trade idea at the open.

Any **open between $86.20 and $87.50** will mean I will look to exit half at the open and place a stop on the remaining at breakeven ($85.15). I will also likely update that stop and perhaps place a limit order for the remaining via an intraday update.

An **open below $86.20** will cause me to hold off on selling. I would like to see if it would make an attempt at filling that gap. If so, I will look to exit half at $87.00 and the trail the rest with intraday updates.