

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 26, 2008

Issue 197

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 25, 2008	Up 3% with Poor Spyx or Vol	1-2 days	Bearish	-3.30%	-6.70%
November 25, 2008	2 Up Days In Chop	1-4 days	Bearish	-1.40%	-2.80%
November 24, 2008	Op-ex Friday Up > 1%	1-4 days	Bearish	-1.80%	-3.34%
November 20, 2008	Up Issues % 10ema < 30	1-5 days	Bullish	4.50%	7.78%
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 bearish – updated 11/26

After gapping higher the S&P started to fade almost immediately from the open today. It trended down through the morning and early afternoon before staging a fairly strong rally to end the day. It never did make it back to the open, but it did manage to close higher on the day. Breadth was somewhat positive, but not terribly. Volume came in lighter for the 2nd day in a row.

I looked at the market many different ways tonight and the bottom line was that the information provided didn't appear to carry a significant edge. The one remaining bullish study that was set to be left on the board tonight hit it's Avg Max Move + 1 Standard Deviation this morning. Therefore, from a short-term standpoint all studies are now bearish.

While nothing terribly significant showed up, I thought I'd share one group of studies with a mild downside suggestion. Lighter volume can sometimes be a clue that buying interest is drying up and that a reversal is likely. This is especially true in a downtrend. Below is a test looking at today's setup where there are 3 up days and the last 2 have come on lower volume:

SPX up 3 days in a row. The last 2 on lighter volume. SPX closes < 200ma.										
Buy on close sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$43,275.03)	36	14	22	38.89	\$2,367.55	(\$3,473.67)	0.68	0.43	(\$1,202.08)
9	(\$35,628.65)	36	15	21	41.67	\$2,303.07	(\$3,341.66)	0.69	0.49	(\$989.68)
8	(\$35,560.75)	36	17	19	47.22	\$1,688.94	(\$3,382.77)	0.50	0.45	(\$987.80)
7	(\$23,541.92)	36	15	21	41.67	\$2,084.05	(\$2,609.65)	0.80	0.57	(\$653.94)
6	(\$17,688.16)	36	16	20	44.44	\$1,852.14	(\$2,366.12)	0.78	0.63	(\$491.34)
5	(\$14,872.49)	36	16	20	44.44	\$1,973.42	(\$2,322.36)	0.85	0.68	(\$413.12)
4	(\$9,400.89)	36	19	17	52.78	\$1,491.76	(\$2,220.25)	0.67	0.75	(\$261.14)
3	(\$4,137.10)	36	18	18	50.00	\$1,385.41	(\$1,615.25)	0.86	0.86	(\$114.92)
2	\$128.10	36	18	18	50.00	\$1,213.24	(\$1,206.13)	1.01	1.01	\$3.56
1	\$5,039.37	36	18	18	50.00	\$1,041.32	(\$761.35)	1.37	1.37	\$139.98

As you can see, while there appears to be a bit of an upside edge after day one. The win%, W/L Ratio, and Avg Trade all decline over the next 1-10 days.

Below I run the same test but disallow the above volume pattern to see how much influence the progressively lower volume has.

SPX up 3 days in a row. No pattern of progressively lower volume the last 2 days. SPX closes < 200ma.										
Buy on close sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$44,189.62)	155	72	83	46.45	\$2,435.83	(\$2,645.41)	0.92	0.80	(\$285.09)
9	(\$46,808.15)	158	73	85	46.20	\$2,374.91	(\$2,590.31)	0.92	0.79	(\$296.25)
8	(\$49,860.69)	165	73	91	44.24	\$2,503.22	(\$2,556.00)	0.98	0.79	(\$302.19)
7	(\$53,940.14)	173	76	97	43.93	\$2,420.76	(\$2,452.76)	0.99	0.77	(\$311.79)
6	(\$48,740.07)	180	87	93	48.33	\$2,080.27	(\$2,470.15)	0.84	0.79	(\$270.78)
5	(\$40,158.49)	186	98	88	52.69	\$1,750.36	(\$2,405.61)	0.73	0.81	(\$215.91)
4	(\$41,362.41)	197	101	96	51.27	\$1,484.19	(\$1,992.35)	0.74	0.78	(\$209.96)
3	(\$40,453.00)	197	101	96	51.27	\$1,282.28	(\$1,770.45)	0.72	0.76	(\$205.35)
2	(\$35,722.98)	197	95	102	48.22	\$1,064.42	(\$1,341.60)	0.79	0.74	(\$181.33)
1	\$4,289.52	197	95	101	48.22	\$829.74	(\$737.98)	1.12	1.06	\$21.77

Here we see that without the negative volume pattern three up days under the 200ma still is a mildly bearish setup. Not as bearish as with the volume pattern in place, though.

So why don't I find the results of the 1st test compelling? The answer is because of something I mentioned last night. Rallies off significant lows are capable of continuing to rally despite overbought conditions. They are more dangerous to short and I treat them with more caution. As an example, below is the low-volume rally pattern coming off a 50-day low:

SPX up 3 days in a row after closing at a 50-day low. The last 2 days are on lighter volume.										
Buy on close sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$15,219.59)	26	13	13	50.00	\$2,519.22	(\$3,689.96)	0.68	0.68	(\$585.37)
9	(\$9,739.53)	26	13	13	50.00	\$2,475.36	(\$3,224.55)	0.77	0.77	(\$374.60)
8	(\$8,814.95)	26	14	12	53.85	\$1,925.99	(\$2,981.56)	0.65	0.75	(\$339.04)
7	(\$4,839.49)	26	12	14	46.15	\$2,463.93	(\$2,457.62)	1.00	0.86	(\$186.13)
6	(\$4,905.52)	26	14	12	53.85	\$1,923.81	(\$2,653.24)	0.73	0.85	(\$188.67)
5	(\$2,706.61)	26	14	12	53.85	\$2,140.79	(\$2,723.14)	0.79	0.92	(\$104.10)
4	\$1,849.39	26	16	10	61.54	\$1,594.48	(\$2,366.24)	0.67	1.08	\$71.13
3	\$3,701.01	26	16	10	61.54	\$1,361.49	(\$1,808.28)	0.75	1.20	\$142.35
2	\$6,971.70	26	14	12	53.85	\$1,333.52	(\$974.79)	1.37	1.60	\$268.14
1	\$8,787.90	26	15	11	57.69	\$1,084.15	(\$679.48)	1.60	2.18	\$338.00

While there's some underperformance in the numbers, I would not label it a significant bearish edge.

With the bullish studies dropping off, the [Aggregator](#) chart is updated below:



The black differential line suggests the market is as short-term overbought as it has been in a long time. The green Aggregator is still suggesting downside is likely. This is the setup I look for to take short exposure. After a fairly sizable intraday drop, the SPY trade from last night reversed high enough to close out the trade idea. This was a bit unfortunate, but at least it was still profitable. I'm looking to dip my tow in on the short-side again. I believe in the next few days the market is likely to sell off a bit more than it did today.

Intermediate-term Outlook (1 week – 2 months)–neutral -updated 11/24

I have very little to say from an intermediate-term standpoint this week. The market has several times in the last 2 months reached levels that have nearly always led to a sizable rally over at least a period of a few weeks to a few months. This market's failure to do so is just another example of the historical extremes we are hitting.

Of course as I mentioned last week, we have had two rallies in the last month and a half that were near or above 20%. The problem was that the first one lasted a day and a half and the second one lasted six days. It's possible that the intermediate-term rally that I've been expecting has come in condensed versions, but it seems unlikely. At some point

soon I expect this market to rally for long enough to convince a great number of people that the worst is behind us.

Against the current backdrop, though, I'll need to see some strong evidence that a bounce is likely to turn into something more substantial. Often evidence of this sort takes the form of a change in the market's character. I'll be watching closely to try and observe such changes but with the current rally less than 1 day old it's a bit too early for me to make any such observations.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

All Catapult positions were exited today either via stops or at the close. Several of them failed to hit their exit triggers and they will continue to be tracked in the "Broad Market Large Cap CBI" below. I may consider re-entering some positions should they pull back favorably.

Catapult for ETF's Trades

None new

Broad Market Large Cap CBI – 6/3 (GD-3, DD, C, MDT)

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	8.14
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	2.40
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	2.10
DJ US Utilities	IDU	0.00	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	5.77	DJ US Consumer Goods	IYK	4.76
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	12.16
DJ US Healthcare Providers	IHF	10.20	DJ US Real Estate	IYR	4.88
DJ US Medical Devices	IHI	9.76	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	8.33	DJ US Technology Sector	IYW	6.03
DJ US Home Construction	ITB	4.76	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	6.14	Nasdaq 100	QQQQ	5.00

CBI levels have dropped substantially the last 2 days..

Additional New Trade Ideas

SPY – short ¼ index position @ \$86.05. SPY sold off a bit between the 4pm market close and the 4:15 SPY close. \$86.05 is where it closed at 4pm. Therefore we should get a fill on this one if the S&P 500 can manage to close at breakeven or better at any point tomorrow.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	11/25/2008	\$87.30	\$86.51	0.90%	\$86.51	Stopped out intraday

The late-day rally was unfortunate. When I placed the stop the SPY was around \$84.50 and it seemed fairly unlikely to get taken out. Still, nearly 1% on an index trade isn't bad for a day.

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