

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 6, 2009

Volume 2 Issue 3

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
Active - Short Term					
January 5, 2009	Appel Breadth Thrust	1-20 days	Bullish	4.60%	7.80%
January 5, 2009	1st Friday of month spike	1-5 days	Bearish	-2.60%	-5.60%
January 5, 2009	S&P Higher Hi but NH Issues Low	1-4 Days	Bearish	-4.30%	-8.90%
January 2, 2009	New Year Following Bad Year	1-4 Days	Bullish	3.70%	5.70%
January 2, 2009	2 Days Up In Chop	1-4 Days	Bearish	-1.50%	-3.00%
December 31, 2008	10/200 Put/Call < 0.85	1-9 days	Bearish	-2.70%	-5.00%
December 29, 2008	10/100 ATR < 0.60	n/a	Bearish	n/a	n/a
Active - Long Term					
January 5, 2009	Appel Breadth Thrust	5 weeks avg	Bullish		
December 18, 2008	Break above 50-day		Neutral - Trading Range		
December 21, 2008	Nasdaq Lagging		Bearish		
December 21, 2008	Nasdaq Vol Spyx Low	1-5 weeks	Bearish		
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		
Dropped Tonight - none					

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 01/06

Monday the market averages lost a little traction and slipped back some, although the price declines were generally minor. Volume rose a bit as traders returned from vacation. Most interesting was that breadth remained strong while the market fell. NYSE Up Issues came in around 65% and Up Volume at 54%. The Nasdaq also fell and also posted positive breadth numbers.

I looked at the breadth numbers several different ways tonight. A couple of examples are below:

NYSE Up Issues % > 60 and SPX closes lower on the day.												
Buy SPX at close. Sell X days later. 100k/trade. 1970 - present.												
Days In	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$15,999.87)	15	6	9	40.00	\$7,654.42	(\$8,323.53)	\$2,720.21	(\$3,591.24)	0.76	0.50	(\$1,066.66)
9	(\$7,005.20)	15	7	8	46.67	\$7,455.14	(\$6,911.43)	\$2,084.00	(\$2,699.15)	0.77	0.68	(\$467.01)
8	(\$6,681.74)	15	7	8	46.67	\$5,503.70	(\$6,307.45)	\$1,747.68	(\$2,364.44)	0.74	0.65	(\$445.45)
7	(\$3,157.03)	15	7	8	46.67	\$5,689.82	(\$7,004.35)	\$2,195.96	(\$2,316.09)	0.95	0.83	(\$210.47)
6	(\$8,148.42)	15	6	9	40.00	\$5,523.44	(\$4,365.90)	\$1,839.01	(\$2,131.39)	0.86	0.58	(\$543.23)
5	\$3,885.89	15	7	8	46.67	\$5,265.88	(\$2,475.48)	\$1,973.58	(\$1,241.15)	1.59	1.39	\$259.06
4	\$19,191.19	15	8	7	53.33	\$8,095.62	(\$2,736.99)	\$3,159.19	(\$868.90)	3.64	4.16	\$1,279.41
3	\$6,706.84	15	9	6	60.00	\$4,047.64	(\$3,618.83)	\$1,699.61	(\$1,431.61)	1.19	1.78	\$447.12
2	\$9,542.33	15	11	4	73.33	\$4,136.62	(\$4,214.73)	\$1,390.86	(\$1,439.28)	0.97	2.66	\$636.16
1	\$6,593.34	15	10	5	66.67	\$2,568.00	(\$2,138.17)	\$1,105.97	(\$893.28)	1.24	2.48	\$439.56

This study suggests the possibility of some continued follow through over the next few days followed by a decent sized selloff.

NYSE Up Issues and Up Volume Lead Down Issues and Down Volume. SPX closes lower on the day.												
Buy SPX at close. Sell X days later. 100k/trade. 1970 - present.												
Days In	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$8,788.55)	58	24	34	41.38	\$7,654.42	(\$7,260.89)	\$2,275.08	(\$1,864.42)	1.22	0.86	(\$151.53)
9	(\$5,859.53)	59	31	28	52.54	\$7,455.14	(\$6,911.43)	\$1,865.75	(\$2,274.92)	0.82	0.91	(\$99.31)
8	(\$9,150.81)	62	35	27	56.45	\$5,503.70	(\$8,256.75)	\$1,624.80	(\$2,445.14)	0.66	0.86	(\$147.59)
7	(\$7,113.80)	64	36	28	56.25	\$5,689.82	(\$7,004.35)	\$1,611.85	(\$2,326.45)	0.69	0.89	(\$111.15)
6	(\$1,786.11)	67	38	29	56.72	\$5,523.44	(\$7,208.17)	\$1,570.90	(\$2,120.01)	0.74	0.97	(\$26.66)
5	(\$1,686.94)	68	38	30	55.88	\$5,265.88	(\$4,550.71)	\$1,440.02	(\$1,880.25)	0.77	0.97	(\$24.81)
4	\$11,340.39	70	36	34	51.43	\$5,553.52	(\$4,174.20)	\$1,486.84	(\$1,240.77)	1.20	1.27	\$162.01
3	(\$6,177.73)	72	37	35	51.39	\$4,047.64	(\$4,512.96)	\$1,013.91	(\$1,248.36)	0.81	0.86	(\$85.80)
2	(\$10,971.92)	74	37	37	50.00	\$3,025.12	(\$4,296.24)	\$941.72	(\$1,238.26)	0.76	0.76	(\$148.27)
1	(\$8,633.98)	78	41	37	52.56	\$2,286.08	(\$4,147.45)	\$653.87	(\$957.90)	0.68	0.76	(\$110.69)

Generally neutral to negative outcomes.

In neither case is the positive breadth on a down day suggestive of a strong move higher. Unfortunately neither study reveals a strong edge either way.

Also notable tonight was that the new highs once again contracted as the market make a higher high.

I have updated the [Aggregator](#) chart below:



The black differential line is still far below 0, indicating the market has strongly outperformed expectations over the last few days. The green Aggregator line has also dropped back down. This indicates net bearish expectations from the current studies. We still appear to be in a good shorting zone. Last night's SPY short idea just missed getting filled.

Intermediate-term Outlook (2 weeks – 2 months)– slightly bullish -updated 1/5/9

The spike on Friday pushed the S&P to its highest levels since mid-November. This breakout will be widely watched by technicians. Some may even view it as an imperfect looking inverted head and shoulders bottom.

Prices have stabilized, although based on last week's average true range and absolute average gap studies, they may have stabilized a bit too quick. Rapid deceleration of range has most often led to a selloff.

The two other negatives I'm still watching involve the Nasdaq. First, it continued to lag the NYSE Composite Index. Historically, the Nasdaq has led during strong upmoves. The 2nd issue with the Nasdaq is the poor weekly volume Spyx readings it has been posting. The December 21st Letter discussed this in some detail and it suggested bearish implications.

On the positive side we have the breadth thrust signal discussed in the short-term outlook section today. Using the data in my database, I was able to nearly replicate the trades listed in Mr. Appel's book. Below is a performance report based on his entry and exit criteria:

All Trades

Total Net Profit	\$94,401.73	Profit Factor	6.16
Gross Profit	\$112,698.81	Gross Loss	(\$18,297.08)
Total Number of Trades	32	Percent Profitable	78.13%
Winning Trades	25	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$2,950.05	Ratio Avg. Win:Avg. Loss	1.72
Avg. Winning Trade	\$4,507.95	Avg. Losing Trade	(\$2,613.87)
Largest Winning Trade	\$12,471.48	Largest Losing Trade	(\$7,424.82)
Max. Consecutive Winning Trades	7	Max. Consecutive Losing Trades	2
Avg. Bars in Winning Trades	28.92	Avg. Bars in Losing Trades	11.71
Avg. Bars in Total Trades	25.16		

On average you're in a trade for about 5 weeks. One nice thing about this system is that the losing trades don't normally last very long. You relatively quickly whether the trade is working or not.

While the market is quite overbought in the short-term, between the price breakout and the breadth thrust there may be some hope for an intermediate-term rally. I'm slightly bullish right now and without further evidence that the rally is likely to fail I may begin to buy oversold conditions more aggressively than I short overbought ones.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

none

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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	0.00
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.00
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	0.00

I can't recall the last time I saw readings as dormant as this. There are no sectors undergoing capitulative selling.

Additional New Trade Ideas

SPY – short 1/4 @ \$92.96 limit. Based on short-term market outlook above. Market remains overbought and Aggregator remains bearish.

SPY – short final 1/4 at \$94.25 limit. If the SPY approaches Monday's high I will look to enter the final piece of this short.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(s) 1/4	12/30/2008	\$88.97	\$92.85	-4.36%		
SPY(s) 1/4	12/31/2008	\$90.24	\$92.85	-2.89%		
XLU(s)	1/2/2009	\$29.34	\$30.13	-2.69%		shorted on open
XLE(s)	1/5/2009	\$50.15	\$51.33	-2.35%		shorted on open

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