

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 9, 2009

Volume 2 Issue 6

## 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
<b>Active</b>					
January 9, 2009	Gap dn and Reverse To Close Well	1 day	Bearish	-1.20%	-2.40%
January 9, 2009	NDX 1% while SOX down	1-6 days	Bearish	-4.70%	-9.60%
January 8, 2009	Gap n Crap From Sht Term OvrB	1-3 days	Bearish	-2.70%	-5.20%
January 8, 2009	2.5% - 5% Declines In Bear	1-3 days	Bearish	-4.96%	-9.70%
January 5, 2009	Appel Breadth Thrust	1-20 days	Bullish	3.70%	5.70%
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
<b>Active - Long Term</b>					
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		
<b>Dropped Tonight - none</b>					

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*.

### **Short-term Outlook (1-5 days) –neutral – updated 01/09**

Not a lot of notable action in the market today. After gapping down it wiggled up and down for most of the day before putting in a strong finish in the last hour. Most of the major indices closed positive and all near their highs on the day. Volume came in at the lowest level of the week. Breadth was positive with the NYSE Up Issues at 62% and the Up Volume at 63%. Nasdaq numbers were similar.

One bit of action I did find notable today was that the Nasdaq 100 gained over 1%, but the SOX closed lower on the day. It's quite unusual for the NDX to put in such a strong performance without some help from the SOX. Historically this has had slightly bearish implications:

<b>NDX rises 1% while SOX declines.</b>										
<b>Buy NDX on close. Sell X days later. \$100k/trade. 1994-present.</b>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	\$1,931.21	57	31	26	54.39	\$5,598.86	(\$6,601.29)	0.85	1.01	\$33.88
9	\$5,216.82	58	31	27	53.45	\$5,048.43	(\$5,603.13)	0.90	1.03	\$89.95
8	\$456.99	60	31	29	51.67	\$5,124.59	(\$5,462.25)	0.94	1.00	\$7.62
7	(\$26,283.74)	61	26	35	42.62	\$5,704.68	(\$4,988.72)	1.14	0.85	(\$430.88)
6	(\$69,092.10)	62	26	36	41.94	\$5,001.29	(\$5,531.27)	0.90	0.65	(\$1,114.39)
5	(\$54,116.99)	63	30	33	47.62	\$3,520.75	(\$4,840.59)	0.73	0.66	(\$859.00)
4	(\$18,846.94)	66	35	31	53.03	\$3,206.21	(\$4,227.88)	0.76	0.86	(\$285.56)
3	(\$24,281.82)	67	32	35	47.76	\$3,402.21	(\$3,804.36)	0.89	0.82	(\$362.42)
2	\$1,583.29	71	36	35	50.70	\$2,850.34	(\$2,886.54)	0.99	1.02	\$22.30
1	(\$1,090.99)	75	34	40	45.33	\$2,316.94	(\$1,996.67)	1.16	0.99	(\$14.55)

While a gap down with a strong close as we saw in the S&P 500 today is normally touted as positive action, it has actually been bearish over the next 1-2 days.

<b>SPY gaps lower by at least 0.5%. It then closes positive on the day and in the top 10% of its daily range.</b>										
<b>Buy SPY on close. Sell X days later. \$100k/trade. 1993-present.</b>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
2	(\$20,945.37)	40	18	22	45.00	\$992.36	(\$1,764.00)	0.56	0.46	(\$523.63)
1	(\$20,196.58)	41	14	26	34.15	\$808.07	(\$1,211.91)	0.67	0.36	(\$492.60)

80% of all instances closed below the trigger day close on at least 1 of the next 2 days.

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



Not much of a change from last night. The studies are still predominantly bearish and suggesting more downside. This is represented by the negative value of the green Aggregator line. The black Differential line remains well above zero, illustrating the fact that the S&P has underperformed expectations over the last few days. While the odds seem to favor more downside, potential rewards may be muted by the fact that the market is in a short-term pullback already. I prefer to see both lines on the same side of 0 when looking to take positions. Tomorrow's trade will also be heavily influenced by the labor report coming an hour before the open. Should the market rally off this news then it could begin to set up another short trade early next week.

**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 2<sup>nd</sup> issue with the Nasdaq is the poor weekly volume Spyx readings it has been posting. The December 21<sup>st</sup> 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.)***

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
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	0.00	Nasdaq 100	QQQQ	0.00

*Nothing doing.*

### **Additional New Trade Ideas**

*No official trade ideas tonight. As usual there are a few possible trade candidates listed on the [systems triggers page](#).*

### **Active Trades Table**

None currently open.

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