

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 15, 2009

Volume 2 Issue 10

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					
January 5, 2009	5 Lower Lows & Biggest Drop	11-2 days	Bullish	3.10%	6.38%
January 14, 2009	Weak Bounce	1-10 days	Bearish	-4.30%	-8.65%
January 9, 2009	NDX 1% while SOX down	1-6 days	Bearish	-4.70%	-9.60%
January 5, 2009	Appel Breadth Thrust	1-20 days	Bullish	3.70%	5.70%
December 29, 2008	10/100 ATR < 0.60	n/a	Bearish	n/a	n/a
Active - Long Term					
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					
December 31, 2008	10/200 Put/Call < 0.85	1-9 days	Bearish	-2.70%	-5.00%

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) –bullish – updated 01/15

Yesterday's feeble bounce led to a strong selloff today – typical of feeble bounces as I laid out last night. Breadth was strongly negative. The NYSE Up Issues % came in at 11% and the Up Volume % came in at 3.5%.

One concept I've discussed in the past is that when a move that is already extended begins to accelerate it often leads to a reversal. For instance the SPY made a lower low for the 6th time today. On top of that today was the biggest decline of those 6 days. Below is a study that looks at this sort of setup:

SPY makes a lower low for at least 5 consecutive days. Today's drop is the largest of the selloff.												
Buy on close. Sell X days later. \$100k/trade. 1993-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	\$34,208.81	15	11	4	73.33	\$15,560.60	(\$4,349.88)	\$3,711.55	(\$1,654.57)	2.24	6.17	\$2,280.59
9	\$34,931.98	15	12	3	80.00	\$14,686.12	(\$3,394.48)	\$3,269.76	(\$1,435.05)	2.28	9.11	\$2,328.80
8	\$44,603.13	15	11	4	73.33	\$15,522.02	(\$3,585.56)	\$4,798.25	(\$2,044.41)	2.35	6.45	\$2,973.54
7	\$40,350.70	15	12	3	80.00	\$13,554.44	(\$5,417.68)	\$4,225.56	(\$3,451.99)	1.22	4.90	\$2,690.05
6	\$36,992.62	15	11	4	73.33	\$13,078.62	(\$3,113.48)	\$4,060.34	(\$1,917.77)	2.12	5.82	\$2,466.17
5	\$29,852.86	15	12	3	80.00	\$10,866.70	(\$3,844.08)	\$3,130.80	(\$2,572.26)	1.22	4.87	\$1,990.19
4	\$20,973.54	15	10	5	66.67	\$13,631.60	(\$6,753.24)	\$3,359.26	(\$2,523.82)	1.33	2.66	\$1,398.24
3	\$27,851.17	16	12	4	75.00	\$10,083.30	(\$5,377.58)	\$3,112.86	(\$2,375.78)	1.31	3.93	\$1,740.70
2	\$37,675.14	16	12	4	75.00	\$11,736.30	(\$2,260.70)	\$3,480.28	(\$1,022.06)	3.41	10.22	\$2,354.70
1	\$11,973.23	17	11	6	64.71	\$3,879.75	(\$2,424.40)	\$1,695.63	(\$1,113.11)	1.52	2.79	\$704.31

The same pattern occurred in QQQQ today and I ran that test as well:

QQQQ makes a lower low for at least 5 consecutive days. Today's drop is the largest of the selloff.												
Buy on close. Sell X days later. \$100k/trade. 1993-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	\$79,130.60	14	10	4	71.43	\$25,653.33	(\$7,916.35)	\$9,660.11	(\$4,367.63)	2.21	5.53	\$5,652.19
9	\$79,113.06	14	9	5	64.29	\$22,381.29	(\$7,115.10)	\$10,589.50	(\$3,238.48)	3.27	5.89	\$5,650.93
8	\$79,440.23	14	9	5	64.29	\$25,881.30	(\$8,717.60)	\$10,317.35	(\$2,683.19)	3.85	6.92	\$5,674.30
7	\$76,235.82	14	12	2	85.71	\$25,572.87	(\$8,108.65)	\$7,656.80	(\$7,822.90)	0.98	5.87	\$5,445.42
6	\$74,903.15	14	12	2	85.71	\$17,191.62	(\$6,667.47)	\$7,198.18	(\$5,737.49)	1.25	7.53	\$5,350.23
5	\$47,148.48	14	10	4	71.43	\$12,671.25	(\$5,095.95)	\$5,847.00	(\$2,830.39)	2.07	5.16	\$3,367.75
4	\$45,346.45	14	9	5	64.29	\$14,844.87	(\$9,647.05)	\$6,564.51	(\$2,746.84)	2.39	4.30	\$3,239.03
3	\$35,083.24	14	11	2	78.57	\$11,487.50	(\$7,147.15)	\$4,162.55	(\$5,352.40)	0.78	4.28	\$2,505.95
2	\$42,026.81	14	11	3	78.57	\$15,625.00	(\$3,942.15)	\$4,284.40	(\$1,700.52)	2.52	9.24	\$3,001.92
1	\$34,153.32	14	12	2	85.71	\$12,187.50	(\$2,243.50)	\$3,105.94	(\$1,558.97)	1.99	11.95	\$2,439.52

Nice stats all around for both ETF's. I also decided this setup may be worthy of a system so I ran it across out list of 118 ETF's and used a close above the 10-day moving average as the exit trigger. The test looked back 10 years. Results below.

Trades	616
Wins	444
Win %	72%
Avg Win	3.74%
Avg Loss	-4.22%
Avg Trade	1.53%
Profit Factor	2.3

Not a top system but not bad.

No matter how I look at it the expansive move lower today after having made a series of lower lows seems to provide a bullish edge.

I have updated the [Aggregator](#) chart below to include tonight's study:



The market is now as stretched to the downside as it has been in some time as measured by the black Differential line. And with help from tonight's accelerated selloff study the green Aggregator line has flipped strongly to the positive. The market is oversold and the net expectations of our studies say it is likely to rise. This is just the configuration I typically look for to take long exposure. In the trade ideas section I'm looking to begin taking on SPY exposure.

Intermediate-term Outlook (2 weeks – 2 months)–very slightly bullish -updated 1/12/9

This week's action did little to change current long-term studies or to ignite new ones. Last week's breadth thrust failed to follow through as major indices pulled back 4% or more this week. Still it remains above recent swing lows which would equal about 860 in the S&P 500.

The study that's shown to be the most predictive among the long-term actives is the "[Break above 50-day](#)" which suggested a choppy trading range was more likely than a strong trend.

Last week I wrote "*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.*" The problem so far with this 1st pullback is that it has failed to reveal bullish edges. While I'd love to be able to get aggressive we remain in the unusual position of experiencing a selloff where bearish short-term studies continue to dominate.

If support levels fail to hold that could invalidate both the breadth thrust and the inverse head and shoulders breakout ideas from last week – effectively wiping out the bullish thesis for now. I'm keeping an eye on the 850-860 range and also looking to see whether study results come out bullish or bearish these next few days. This week could be a critical test of the upmove.

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	5.26
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	0.00

Additional New Trade Ideas

SPY – buy ¼ index position @ \$84.37 limit. Based on short-term market outlook above.

SPY – buy 2nd ¼ on close below the 1st entry point. (In other words below both tomorrow's open and \$84.37.) I would expect further selling to generate some additional bullish studies and we could also see the bearish ones meet their targets.

Active Trades Table

None currently open.

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