

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 2, 2009

Volume 2 Issue 21

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					
February 2, 2009	2 Down In Chop	1-3 days	Bullish	1.60%	3.40%
February 2, 2009	Last Friday of Month Drops 1%	1 day	Bearish	-1.50%	-3.80%
January 30, 2009	Gap & Crap	1-3 days	Bearish	-3.40%	-6.40%
January 30, 2009	2.5% - 5% Drop During Bear	1-3 days	Bearish	-4.90%	-9.40%
January 29, 2009	Gap Up N Go	1-4 days	Bearish	-3.70%	-7.70%
January 28, 2009	3 Up Days < 200 Declining Vol	1-10 days	Bearish	-3.15%	-5.70%
January 27, 2009	SPX Rally On Lightest Vol in 10	1-5 days	Bearish	-2.15%	-4.20%
Jan 22 and Jan 28	Tight range Inside Days	1-6 days	Bearish	-2.60%	-4.90%
January 5, 2009	Appel Breadth Thrust	1-20 days	Bullish	3.70%	5.70%
Active - Long Term					
December 18, 2008	Break above 50-day		Neutral	Trading Range	
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		
Dropped Tonight					
January 29, 2009	VXO 15% Below 10ma	1-5 days	Bearish	-2.50%	-5.20%
January 27, 2009	2 Days Up In Chop	1-4 days	Bearish		

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) – updated 2/2 – neutral

Friday the market continued to pull back as the short-term bearish market conditions continued to exert themselves. Breadth was solidly negative. The NYSE Up Issues % was 26% and the Up Volume % was 85%. Overall volume rose a bit above Thursday's levels.

I've discussed several times in the past how strong moves on Fridays have a tendency to carry through to Mondays. I've never shown it specific to the last Friday of the month, though. As you may recall, from the 60's until the late 80's Mondays were generally bearish. In the late eighties this changed and Mondays suddenly became much stronger and tended to follow the general market. (Note: For all Friday-Monday testing Monday is actually defined as "the day after Friday". In other words I did not exclude instances where Monday was a holiday. Instead, in those cases the returns for Tuesday were used.)

First lets consider some baseline numbers. Since the beginning of 1987 (excluding Black Monday) the market has gained an average of 0.05% on Monday. If instead of looking at all Monday's, you only look at those Mondays that follow the last Friday of the month then the average return doubles to 0.1%. So over the time period Mondays have had a

positive bias and this positive bias has been twice as strong following the last Friday of the month.

Now let's look at Monday performance following Friday's that finished down by at least a certain amount. First I'll show all Monday's that DON'T follow the last Friday of the month.

<i>Friday other than last Friday of month closes down at least X%.</i>										
<i>Buy on close. Sell next day's close. \$100k/trade. 1987-present.</i>										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
0.5	\$952.56	281	157	123	55.87	\$887.72	(\$1,125.36)	0.79	1.01	\$3.39
0.75	(\$19,313.76)	203	105	97	51.72	\$937.32	(\$1,213.73)	0.77	0.84	(\$95.14)
1	(\$13,417.70)	145	77	67	53.10	\$998.13	(\$1,347.37)	0.74	0.85	(\$92.54)
1.25	(\$12,848.12)	101	57	44	56.44	\$931.31	(\$1,498.47)	0.62	0.81	(\$127.21)

As you can see, the positive Monday bias turns negative following especially weak Fridays. The weaker Friday was the weaker Monday tended to be.

Now let's look at the last Friday of the month to see if it holds true for those as well.

<i>Last Friday of month closes down at least X%.</i>										
<i>Buy on close. Sell next day's close. \$100k/trade. 1987-present.</i>										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
0.5	\$4,997.43	61	38	23	62.30	\$869.53	(\$1,219.34)	0.71	1.18	\$81.93
0.75	(\$7,344.27)	40	22	18	55.00	\$803.62	(\$1,390.22)	0.58	0.71	(\$183.61)
1	(\$12,478.90)	27	13	14	48.15	\$932.59	(\$1,757.33)	0.53	0.49	(\$462.18)
1.25	(\$6,358.32)	22	12	10	54.55	\$967.64	(\$1,797.00)	0.54	0.65	(\$289.01)

The bearish bias is even more pronounced here. This suggests a possible bearish bias for Monday.

Now let's look at how it typically plays out the rest of the week. First let's look at all Mondays following the last Friday of the month where the market did NOT drop at least 1%.

<i>Last Friday of month NOT down at least 1%.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1987-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	\$76,662.82	212	131	81	61.79	\$1,661.02	(\$1,739.89)	0.95	1.54	\$361.62
4	\$54,894.87	212	130	82	61.32	\$1,415.53	(\$1,574.68)	0.90	1.43	\$258.94
3	\$64,296.63	212	131	80	61.79	\$1,299.25	(\$1,323.81)	0.98	1.61	\$303.29
2	\$44,399.48	212	135	77	63.68	\$986.67	(\$1,153.25)	0.86	1.50	\$209.43
1	\$35,231.75	212	124	88	58.49	\$839.92	(\$783.17)	1.07	1.51	\$166.19

Here we see a generally bullish bias for most of the next week. This is not surprising considering the end of month / beginning of month period is a nototiusly bullish time period. What of those times when Friday saw a 1% plus drop?

Last Friday of month down at least 1%.										
Buy on close. Sell X days later. \$100k/trade. 1987-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	\$8,391.25	27	14	13	51.85	\$2,905.64	(\$2,483.67)	1.17	1.26	\$310.79
4	\$1,499.57	27	15	12	55.56	\$1,900.92	(\$2,251.18)	0.84	1.06	\$55.54
3	\$3,260.20	27	15	12	55.56	\$1,509.12	(\$1,614.72)	0.93	1.17	\$120.75
2	\$368.82	27	15	12	55.56	\$1,342.43	(\$1,647.30)	0.81	1.02	\$13.66
1	(\$12,478.90)	27	13	14	48.15	\$932.59	(\$1,757.33)	0.53	0.49	(\$462.18)

You can see here that the weakness has not carried through beyond Monday. In fact Tuesday has been an exceptionally strong day in these case. Again this isn't terribly surprising considering the "Turnaround Tuesday" phenomenon which I showed on the blog a few weeks back.

A point for the bullish can be made by considering our "2 Days Down In Chop" system. Essentially it looks to buy the SPX following any two consecutive lower closes. The exit is the 1st profitable close. After 3 days the trade is exited regardless of profitability. Since June of 2007 when the market became especially choppy the results look like this:

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$40,668.49	Profit Factor	2.74	
Gross Profit	\$64,101.23	Gross Loss	(\$23,432.74)	
Roll Over Credit	\$0.00			
Open Position Profit/Loss	\$0.00			
Select Total Net Profit	\$29,952.46	Select Profit Factor	2.28	
Select Gross Profit	\$53,385.20	Select Gross Loss	(\$23,432.74)	
Adjusted Total Net Profit	\$21,546.47	Adjusted Profit Factor	1.65	
Adjusted Gross Profit	\$54,545.58	Adjusted Gross Loss	(\$32,999.12)	
Total Number of Trades	51	Percent Profitable	88.24%	
Winning Trades	45	Losing Trades	6	
Even Trades	0			
Avg. Trade Net Profit	\$797.42	Ratio Avg. Win:Avg. Loss	0.36	
Avg. Winning Trade	\$1,424.47	Avg. Losing Trade	(\$3,905.46)	
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$10,506.45)	
Largest Winner as % of Gross Profit	16.72%	Largest Loser as % of Gross Loss	44.84%	

The last losing trade took place at the beginning of October. Since then there have been 10 consecutive winners.

With all that in mind tonight's [Aggregator](#) chart is below:



The strong selloff the last two days has caused the S&P to substantially underperform even our negative expectations. The result of this is a sharp rise in the black differential line. The green Aggregator line remains squarely below 0 as the studies are still quite bearish overall. Between the fact that most of the bearish studies will expire in the next two days, the turnaround Tuesday tendency, and the “2 Days Down In Chop” study I’d be looking to take profits on Monday. While the market could continue to go lower from here, the bearish edge is dissipating and I’d be looking to take profits and wait for the next setup – especially if the market gaps down as it’s looking to late Sunday night.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 2/2

I looked at a few things from a little bit longer-term perspective this weekend. The S&P 500 has now closed down 4 weeks in a row. I checked to see if 4 lower weekly closes suggested an edge. Results below:

SPX down 4 weeks in a row.										
Buy on close. Sell X weeks later. \$100k/trade. 1987-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
10	\$48,015.62	54	33	21	61.11	\$5,563.60	(\$6,456.34)	0.86	1.35	\$889.18
9	\$40,592.46	56	32	24	57.14	\$5,369.25	(\$5,467.65)	0.98	1.31	\$724.87
8	\$50,995.86	57	32	25	56.14	\$5,231.00	(\$4,655.84)	1.12	1.44	\$894.66
7	\$46,230.73	58	34	24	58.62	\$4,759.93	(\$4,816.95)	0.99	1.40	\$797.08
6	\$52,869.27	59	33	26	55.93	\$4,693.49	(\$3,923.69)	1.20	1.52	\$896.09
5	\$54,791.42	59	34	25	57.63	\$4,210.57	(\$3,534.72)	1.19	1.62	\$928.67
4	\$19,033.43	59	31	28	52.54	\$3,793.51	(\$3,520.19)	1.08	1.19	\$322.60
3	\$26,545.00	59	34	25	57.63	\$2,836.35	(\$2,795.64)	1.01	1.38	\$449.92
2	\$12,459.35	59	32	27	54.24	\$2,657.04	(\$2,687.63)	0.99	1.17	\$211.18
1	\$17,256.79	59	36	23	61.02	\$1,777.65	(\$2,032.11)	0.87	1.37	\$292.49

While there is a very slight upside bias it is nothing I would consider basing a trade on.

The January effect is a well known study from the Stock Traders Almanac. It states that “as goes January, so goes the year”. In other words, if January closes down, there is a good chance the entire year will close down. Of course the bear case has a head start. I decided to eliminate that head start and look at performance from the end of January forward. Below performance is shown from the end of January to the end of the year.

<i>SPX closes lower in January.</i>										
<i>Buy at close. Sell X months later. \$100k/trade. 1960-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
11	(\$47,567.58)	18	9	9	50.00	\$10,000.30	(\$15,285.59)	0.65	0.65	(\$2,642.64)
10	(\$56,286.10)	18	8	10	44.44	\$9,503.63	(\$13,231.51)	0.72	0.57	(\$3,127.01)
9	(\$70,879.26)	18	8	10	44.44	\$7,353.36	(\$12,970.61)	0.57	0.45	(\$3,937.74)
8	(\$81,899.17)	18	8	10	44.44	\$6,661.22	(\$13,518.89)	0.49	0.39	(\$4,549.95)
7	(\$43,885.48)	18	7	11	38.89	\$7,979.11	(\$9,067.20)	0.88	0.56	(\$2,438.08)
6	(\$53,810.18)	18	8	10	44.44	\$6,800.71	(\$10,821.58)	0.63	0.50	(\$2,989.45)
5	(\$53,532.70)	18	7	11	38.89	\$6,274.77	(\$8,859.65)	0.71	0.45	(\$2,974.04)
4	(\$21,887.49)	18	10	8	55.56	\$4,686.30	(\$8,593.81)	0.55	0.68	(\$1,215.97)
3	(\$7,998.32)	18	9	9	50.00	\$3,468.34	(\$4,357.04)	0.80	0.80	(\$444.35)
2	(\$5,965.88)	18	6	12	33.33	\$3,936.34	(\$2,465.33)	1.60	0.80	(\$331.44)
1	(\$24,782.03)	18	5	13	27.78	\$2,210.29	(\$2,756.42)	0.80	0.31	(\$1,376.78)

What strikes me here is that other than the first two months, wins and losses are almost dead even. Any bearish case is very slight and based upon the Win/Loss Ratio. I also looked at it using the Dow going back to 1920:

<i>Dow closes lower in January.</i>										
<i>Buy at close. Sell X months later. \$100k/trade. 1920-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
11	\$93,414.67	30	15	15	50.00	\$15,810.85	(\$9,583.21)	1.65	1.65	\$3,113.82
10	\$49,283.15	30	13	17	43.33	\$15,653.97	(\$9,071.67)	1.73	1.32	\$1,642.77
9	\$8,519.35	30	14	16	46.67	\$11,317.60	(\$9,370.44)	1.21	1.06	\$283.98
8	(\$7,747.59)	30	13	17	43.33	\$9,790.42	(\$7,942.53)	1.23	0.94	(\$258.25)
7	\$22,837.72	30	16	14	53.33	\$7,949.61	(\$7,454.01)	1.07	1.22	\$761.26
6	(\$5,962.86)	30	14	16	46.67	\$9,087.40	(\$8,324.15)	1.09	0.96	(\$198.76)
5	(\$72,220.54)	30	13	17	43.33	\$7,591.34	(\$10,053.41)	0.76	0.58	(\$2,407.35)
4	(\$39,658.16)	30	15	15	50.00	\$6,603.48	(\$9,247.35)	0.71	0.71	(\$1,321.94)
3	(\$11,533.00)	30	16	14	53.33	\$5,136.93	(\$6,694.56)	0.77	0.88	(\$384.43)
2	\$5,689.22	30	13	17	43.33	\$4,624.38	(\$3,201.63)	1.44	1.10	\$189.64
1	(\$3,683.40)	30	15	15	50.00	\$3,084.60	(\$3,330.16)	0.93	0.93	(\$122.78)

Here again the winners and losers are about even for the rest of the year. I see no significant edge here.

I also broke January's performance down by percent lost to see if that made a difference looking forward.

SPX closes January down X%.										
Buy on close. Sell 11 months later. 1960-present.										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
0	(\$47,567.58)	18	9	9	50.00	\$10,000.30	(\$15,285.59)	0.65	0.65	(\$2,642.64)
0.01	(\$39,286.21)	16	8	8	50.00	\$10,957.82	(\$15,868.60)	0.69	0.69	(\$2,455.39)
0.02	\$4,312.23	11	6	5	54.55	\$10,715.82	(\$11,996.54)	0.89	1.07	\$392.02
0.03	(\$31,041.17)	9	4	5	44.44	\$7,235.38	(\$11,996.54)	0.60	0.48	(\$3,449.02)
0.04	(\$22,706.69)	8	4	4	50.00	\$7,235.38	(\$12,912.05)	0.56	0.56	(\$2,838.34)
0.05	(\$29,840.73)	6	3	3	50.00	\$5,470.16	(\$15,417.07)	0.35	0.35	(\$4,973.46)

Doesn't seem to matter much here. Each level shows about a 50% chance of success. Let's again look at the Dow under such circumstances:

Dow closes January down X%.										
Buy on close. Sell 11 months later. 1920-present.										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
0	\$93,414.67	30	15	15	50.00	\$15,810.85	(\$9,583.21)	1.65	1.65	\$3,113.82
0.01	\$34,832.11	25	12	13	48.00	\$14,463.36	(\$10,671.40)	1.36	1.25	\$1,393.28
0.02	\$19,334.61	20	10	10	50.00	\$11,341.61	(\$9,408.15)	1.21	1.21	\$966.73
0.03	(\$9,582.63)	17	8	9	47.06	\$8,711.11	(\$8,807.95)	0.99	0.88	(\$563.68)
0.04	(\$35,429.05)	12	5	7	41.67	\$6,670.39	(\$9,825.86)	0.68	0.48	(\$2,952.42)
0.05	\$8,921.66	8	5	3	62.50	\$6,670.39	(\$8,143.43)	0.82	1.37	\$1,115.21

More of the same here. Appears to be a 50-50 shot to me.

With the market still range bound, I'm still not seeing much that would lead me to strongly favor either the bullish or bearish case. My focus will remain short-term and I will look to trade both sides of the market.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

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	0.68
DJ US Regional Banks	IAT	1.25	DJ US Financial Services	IYG	1.40
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	0.38
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	1.35
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	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	0.00

Additional New Trade Ideas

Not tracking anything tonight. There were a few long-side triggers on the triggers page tonight.

The SPY entry from Friday was not hit. Unfortunately I set the limit price a little too high.

Further selling over the next day or two would likely see some bullish studies arise as the bearish ones dissipate. I'll be on the lookout for possible long entries should this occur.

Active Trades Table

none

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