

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 12, 2009

Volume 2 Issue 29

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 12, 2009 | Weak Bounce | 1-10 days | Bearish | -4.50% | -7.80% |
| February 12, 2009 | Mediocre Breadth on Bounce | 1-2 days | Bearish | -2.70% | -4.60% |
| February 11, 2009 | Spyx Spikes 80+ points | 1-2 days | Bullish | 1.00% | 1.90% |
| February 11, 2009 | 2.5% Drop Frim High | 1-4 days | Bearish | -2.70% | -4.60% |
| February 10, 2008 | Low Nasdaq Spyx w/ Q RSI > 90 | 1-7 days | Bearish | -4.10% | -8.70% |
| February 9, 2009 | 1st Friday Up 1% | 1-5 days | Bearish | -2.70% | -5.60% |
| Active - Long Term | | | | | |
| February 9, 2009 | Nasdaq Breadth Thrust | 1-20 days | Bullish | 5.90% | 9.60% |
| March 17, 2008 | Consumer Sentiment Stretch | 1-12 months | Bullish | | |
| Dropped Tonight | | | | | |

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 2/11 – slightly bearish

Wednesday was a relatively quiet day as the market traded in a fairly tight range. The major indices all finished higher, but not by much when compared to Tuesday's selloff. Breadth was positive, but not greatly. The NYSE Up Issues % came in at only 55% and the Up Volume % was 67. Overall volume was low, and quite a bit lower than yesterday.

In the intraday update I sent out in the last hour today I mentioned both the weak bounce and the underwhelming breadth could be negatives for a market that was coming off a big down day. Bounces that start strong have a much better chance of succeeding.

Let's first look at breadth. Below is a test that shows how the market responded after a sharp drop led to a bounce the next day on disappointing breadth.

| Yesterday the SPX fell at least 2%. Today it closed higher but the Up Issues % was less than 60%. | | | | | | | | | | |
|--|---------------|--------|------|--------|--------|------------|--------------|-----------|-------------|--------------|
| Buy on close. Sell X days later. \$100k/trade. Last 20 years. | | | | | | | | | | |
| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fact | Avg Trade |
| 20 | (\$64,631.22) | 15 | 5 | 10 | 33.33 | \$1,979.59 | (\$7,452.92) | 0.27 | 0.13 | (\$4,308.75) |
| 19 | (\$60,380.22) | 15 | 4 | 11 | 26.67 | \$2,067.77 | (\$6,241.03) | 0.33 | 0.12 | (\$4,025.35) |
| 18 | (\$48,860.03) | 16 | 4 | 12 | 25.00 | \$2,451.84 | (\$4,888.95) | 0.50 | 0.17 | (\$3,053.75) |
| 17 | (\$46,621.44) | 16 | 3 | 13 | 18.75 | \$2,649.96 | (\$4,197.79) | 0.63 | 0.15 | (\$2,913.84) |
| 16 | (\$64,731.77) | 17 | 5 | 12 | 29.41 | \$1,613.30 | (\$6,066.52) | 0.27 | 0.11 | (\$3,807.75) |
| 15 | (\$49,862.23) | 17 | 6 | 11 | 35.29 | \$1,994.33 | (\$5,620.74) | 0.35 | 0.19 | (\$2,933.07) |
| 14 | (\$40,386.31) | 18 | 7 | 11 | 38.89 | \$2,441.63 | (\$5,225.25) | 0.47 | 0.30 | (\$2,243.68) |
| 13 | (\$42,169.61) | 18 | 5 | 13 | 27.78 | \$3,360.03 | (\$4,536.14) | 0.74 | 0.28 | (\$2,342.76) |
| 12 | (\$37,865.78) | 18 | 4 | 14 | 22.22 | \$3,326.92 | (\$3,655.25) | 0.91 | 0.26 | (\$2,103.65) |
| 11 | (\$28,273.27) | 19 | 6 | 13 | 31.58 | \$2,900.53 | (\$3,513.57) | 0.83 | 0.38 | (\$1,488.07) |
| 10 | (\$22,609.58) | 19 | 6 | 13 | 31.58 | \$1,962.47 | (\$2,644.95) | 0.74 | 0.34 | (\$1,189.98) |
| 9 | (\$23,554.52) | 20 | 8 | 12 | 40.00 | \$1,835.90 | (\$3,186.81) | 0.58 | 0.38 | (\$1,177.73) |
| 8 | (\$30,067.96) | 20 | 7 | 13 | 35.00 | \$2,979.79 | (\$3,917.42) | 0.76 | 0.41 | (\$1,503.40) |
| 7 | (\$18,230.89) | 21 | 8 | 13 | 38.10 | \$2,865.32 | (\$3,165.65) | 0.91 | 0.56 | (\$868.14) |
| 6 | (\$21,315.52) | 21 | 7 | 14 | 33.33 | \$3,108.76 | (\$3,076.92) | 1.01 | 0.51 | (\$1,015.02) |
| 5 | (\$18,595.06) | 23 | 9 | 14 | 39.13 | \$2,293.29 | (\$2,802.48) | 0.82 | 0.53 | (\$808.48) |
| 4 | (\$19,185.14) | 24 | 8 | 16 | 33.33 | \$2,109.05 | (\$2,253.60) | 0.94 | 0.47 | (\$799.38) |
| 3 | (\$21,861.13) | 25 | 8 | 17 | 32.00 | \$2,285.47 | (\$2,361.47) | 0.97 | 0.46 | (\$874.45) |
| 2 | (\$37,873.52) | 27 | 8 | 19 | 29.63 | \$1,132.42 | (\$2,470.15) | 0.46 | 0.19 | (\$1,402.72) |
| 1 | (\$21,164.17) | 27 | 10 | 17 | 37.04 | \$1,082.24 | (\$1,881.56) | 0.58 | 0.34 | (\$783.86) |

One interesting note is that all instances occurred either between 2000-2003 or in 2007-2009. There were no rebounds on underwhelming breadth prior to 2000. Much of the losses that occur in the 1st 2 weeks actually occur in the 1st 2 days. After 2 weeks the losses accelerate – although I’m not sure how much of that is the study and how much is the market environment that was included in the results. My focus is therefore on the short-term pullback.

As a comparison, below is the setup but this time with Up Issues % greater than 60%.

| Yesterday the SPX fell at least 2%. Today it closed higher. Up Issues % was greater than 60%. | | | | | | | | | | |
|--|-------------|--------|------|--------|--------|------------|--------------|-----------|-------------|-----------|
| Buy on close. Sell X days later. \$100k/trade. Last 20 years. | | | | | | | | | | |
| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fact | Avg Trade |
| 2 | \$11,854.33 | 32 | 18 | 14 | 56.25 | \$2,436.59 | (\$2,286.02) | 1.07 | 1.37 | \$370.45 |
| 1 | \$11,163.12 | 32 | 14 | 18 | 43.75 | \$2,397.10 | (\$1,244.24) | 1.93 | 1.50 | \$348.85 |

Here we see positive expectations over the first 2 days as opposed to the negative expectations in the first test.

The bounce was also weak from a price standpoint. Below is an updated study I last ran on January 14th that illustrates this:

SPX drops 1.75% or more yesterday. Today it closes higher but recovers less than 1/4 of yesterday's drop.
Buy on close. Sell X days later. \$100k/trade. Last 20 years.

| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fac | Avg Trade |
|--------|---------------|--------|------|--------|--------|------------|--------------|-----------|------------|--------------|
| 20 | (\$63,379.94) | 35 | 12 | 23 | 34.29 | \$2,771.93 | (\$4,201.88) | 0.66 | 0.34 | (\$1,810.86) |
| 19 | (\$69,458.36) | 35 | 11 | 24 | 31.43 | \$2,021.06 | (\$3,820.42) | 0.53 | 0.24 | (\$1,984.52) |
| 18 | (\$59,764.45) | 36 | 11 | 25 | 30.56 | \$2,547.82 | (\$3,511.62) | 0.73 | 0.32 | (\$1,660.12) |
| 17 | (\$73,325.04) | 36 | 10 | 26 | 27.78 | \$2,635.61 | (\$3,833.89) | 0.69 | 0.26 | (\$2,036.81) |
| 16 | (\$76,247.66) | 37 | 10 | 27 | 27.03 | \$2,722.66 | (\$3,832.38) | 0.71 | 0.26 | (\$2,060.75) |
| 15 | (\$61,085.23) | 38 | 12 | 26 | 31.58 | \$3,031.70 | (\$3,748.68) | 0.81 | 0.37 | (\$1,607.51) |
| 14 | (\$63,722.86) | 38 | 14 | 24 | 36.84 | \$2,301.91 | (\$3,997.90) | 0.58 | 0.34 | (\$1,676.92) |
| 13 | (\$46,924.40) | 39 | 13 | 26 | 33.33 | \$2,958.02 | (\$3,283.80) | 0.90 | 0.45 | (\$1,203.19) |
| 12 | (\$47,077.21) | 40 | 14 | 26 | 35.00 | \$2,339.70 | (\$3,070.50) | 0.76 | 0.41 | (\$1,176.93) |
| 11 | (\$43,996.78) | 40 | 15 | 25 | 37.50 | \$2,210.95 | (\$3,086.44) | 0.72 | 0.43 | (\$1,099.92) |
| 10 | (\$55,660.31) | 41 | 12 | 29 | 29.27 | \$2,570.33 | (\$2,982.91) | 0.86 | 0.36 | (\$1,357.57) |
| 9 | (\$53,622.89) | 42 | 15 | 27 | 35.71 | \$2,149.67 | (\$3,180.29) | 0.68 | 0.38 | (\$1,276.74) |
| 8 | (\$45,217.24) | 44 | 15 | 29 | 34.09 | \$2,519.91 | (\$2,862.62) | 0.88 | 0.46 | (\$1,027.66) |
| 7 | (\$50,407.82) | 46 | 16 | 30 | 34.78 | \$2,588.13 | (\$3,060.60) | 0.85 | 0.45 | (\$1,095.82) |
| 6 | (\$43,027.86) | 46 | 15 | 31 | 32.61 | \$2,299.72 | (\$2,500.76) | 0.92 | 0.44 | (\$935.39) |
| 5 | (\$41,230.86) | 50 | 20 | 30 | 40.00 | \$1,651.43 | (\$2,475.32) | 0.67 | 0.44 | (\$824.62) |
| 4 | (\$39,367.51) | 50 | 19 | 31 | 38.00 | \$1,520.78 | (\$2,202.01) | 0.69 | 0.42 | (\$787.35) |
| 3 | (\$34,255.15) | 51 | 17 | 34 | 33.33 | \$1,763.11 | (\$1,889.06) | 0.93 | 0.47 | (\$671.67) |
| 2 | (\$29,404.61) | 53 | 24 | 29 | 45.28 | \$1,167.61 | (\$1,980.25) | 0.59 | 0.49 | (\$554.80) |
| 1 | (\$23,859.25) | 53 | 21 | 32 | 39.62 | \$744.20 | (\$1,233.99) | 0.60 | 0.40 | (\$450.17) |

The numbers here are consistently weak. Also notable about this study is that within the 1st 3 days 79% of all instances posted at least one close below the entry point.

The Wednesday bounce back has done nothing to instill confidence in a continued move higher.

With two additional bearish studies in the mix, tonight's [Aggregator](#) chart is below:

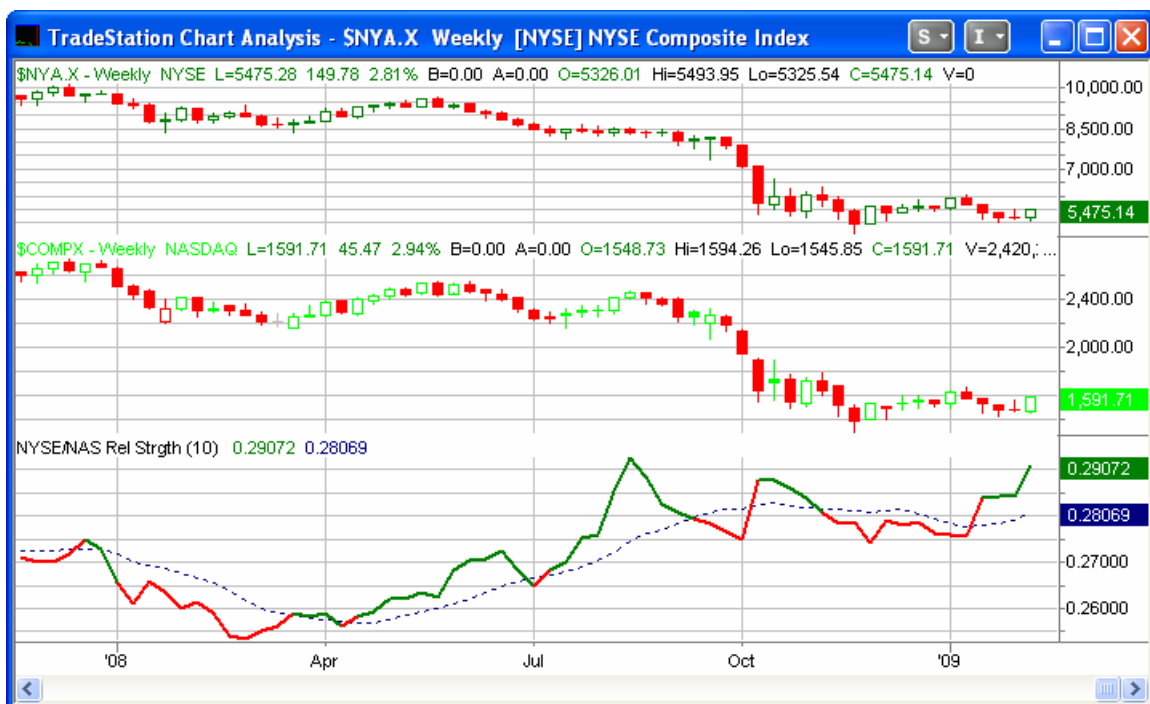


Not a lot has changed from last night. The studies as represented by the green Aggregator line are still suggesting more downside. The black differential line shows that the market has strongly underperformed expectations over the last few days (all due to Tuesday). This suggests that while there may be additional downside the severity of the move will be muted.

With the conflicted Aggregator chart, I'm still looking to take profits on further selling.

Intermediate-term Outlook (2 weeks – 2 months)–SLIGHTLY bullish -updated 2/9

One nice sign we've seen of late is the emerging leadership position of the Nasdaq relative to the NYSE. Below is a chart I sometimes refer to which shows the Nasdaq vs. NYSE relative strength:



I first discussed this indicator [on the blog last February](#). Since the inception of the Nasdaq in 1971, close to 100% of the gains in the NYSE have come when the Nasdaq has been in a leadership position. The indicator is a bit controversial since part of the reason it works is due to the fact that the Nasdaq typically has a higher beta. In other words, it goes up more in up markets and down more in down markets. Since it goes up more in up markets it will often be in the lead when the NYSE is rising. Still, another possible reason this indicator works well is that it measures investors' appetite for risk. Nasdaq stocks have traditionally been riskier than NYSE stocks. When investors are more willing to take on that additional risk, it normally means good things for the stock market as a whole. In any event, the track record is good enough that it deserves a glance once in a while, and when it's in a leading position as it is now I consider that a positive.

Another Nasdaq positive is that Nasdaq breadth has been especially strong lately. As can be seen on our charts page, [the 10-day ema of the Nasdaq Up Volume %](#) is now close to

64%. This is the highest level it has been at since the bear market began. The chart on that page uses Tradestation's data, which only goes back to 2000. To get a longer term look at the indicator I used Quotes Plus data, which goes back to 1/1/92. There are normally minor discrepancies between data sources when looking at breadth and volume data and Quotes Plus data currently puts the 10-day ema at almost 65%. The test below looks at breadth thrusts that move the ema above 64%:

| Nasdaq Up Volume % 10-day ema crosses over 64%. | | | | | | | | | | |
|--|--------------|--------|------|--------|--------|------------|--------------|-----------|------------|------------|
| Buy Nasdaq on close. Sell X days later. \$100k/trade. 1992-2/6/2009 | | | | | | | | | | |
| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fac | Avg Trade |
| 30 | \$75,056.27 | 19 | 13 | 6 | 68.42 | \$7,414.21 | (\$3,554.75) | 2.09 | 4.52 | \$3,950.33 |
| 20 | \$65,533.02 | 20 | 16 | 4 | 80.00 | \$5,134.87 | (\$4,156.21) | 1.24 | 4.94 | \$3,276.65 |
| 15 | \$51,774.69 | 23 | 15 | 8 | 65.22 | \$4,863.23 | (\$2,646.72) | 1.84 | 3.45 | \$2,251.07 |
| 10 | \$18,455.29 | 23 | 17 | 6 | 73.91 | \$1,742.47 | (\$1,861.11) | 0.94 | 2.65 | \$802.40 |
| 9 | \$27,723.57 | 23 | 16 | 7 | 69.57 | \$2,339.08 | (\$1,385.95) | 1.69 | 3.86 | \$1,205.37 |
| 8 | \$28,370.26 | 24 | 18 | 6 | 75.00 | \$2,136.44 | (\$1,680.96) | 1.27 | 3.81 | \$1,182.09 |
| 7 | \$16,080.32 | 24 | 15 | 9 | 62.50 | \$1,827.48 | (\$1,259.10) | 1.45 | 2.42 | \$670.01 |
| 6 | \$10,124.79 | 24 | 14 | 10 | 58.33 | \$1,949.10 | (\$1,716.26) | 1.14 | 1.59 | \$421.87 |
| 5 | \$4,087.16 | 24 | 12 | 12 | 50.00 | \$1,708.39 | (\$1,367.79) | 1.25 | 1.25 | \$170.30 |
| 4 | \$9,701.14 | 25 | 15 | 10 | 60.00 | \$1,637.33 | (\$1,485.88) | 1.10 | 1.65 | \$388.05 |
| 3 | (\$1,260.22) | 28 | 16 | 12 | 57.14 | \$1,643.20 | (\$2,295.95) | 0.72 | 0.95 | (\$45.01) |
| 2 | (\$3,929.78) | 29 | 18 | 11 | 62.07 | \$955.48 | (\$1,920.77) | 0.50 | 0.81 | (\$135.51) |
| 1 | (\$7,608.66) | 29 | 14 | 15 | 48.28 | \$731.38 | (\$1,189.86) | 0.61 | 0.57 | (\$262.37) |

A slight pullback has often been followed by bullish action. Rather than looking at just an exit of X days out, I also decided to use a drop in the 10-day ema as a possible exit as well. Below are the results of buying into an Up Volume % 10-day ema thrust above 64% and then holding until the indicator dips below X%:

| Nasdaq Up Volume % 10-day ema crosses over 64%. | | | | | | | | | | |
|---|--------------|--------|------|--------|--------|-------------|--------------|-----------|------------|------------|
| Buy Nasdaq on close. Sell when Up Vol % ema crosses below X. \$100k/trade. 1992-2/6/2009 | | | | | | | | | | |
| X% ema | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fac | Avg Trade |
| 0.44 | \$112,624.78 | 17 | 11 | 6 | 64.71 | \$11,798.99 | (\$2,860.69) | 4.12 | 7.56 | \$6,624.99 |
| 0.45 | \$105,842.15 | 18 | 11 | 7 | 61.11 | \$11,615.21 | (\$3,132.17) | 3.71 | 5.83 | \$5,880.12 |
| 0.46 | \$115,435.57 | 18 | 12 | 6 | 66.67 | \$11,197.13 | (\$3,155.00) | 3.55 | 7.10 | \$6,413.09 |
| 0.47 | \$118,500.16 | 18 | 12 | 6 | 66.67 | \$11,426.80 | (\$3,103.56) | 3.68 | 7.36 | \$6,583.34 |
| 0.48 | \$59,627.05 | 20 | 10 | 10 | 50.00 | \$8,273.10 | (\$2,310.40) | 3.58 | 3.58 | \$2,981.35 |
| 0.49 | \$37,459.30 | 21 | 10 | 11 | 47.62 | \$6,542.43 | (\$2,542.27) | 2.57 | 2.34 | \$1,783.78 |
| 0.5 | \$42,355.20 | 21 | 11 | 10 | 52.38 | \$6,250.12 | (\$2,639.62) | 2.37 | 2.60 | \$2,016.91 |

Making the exits too tight here reduced profitability greatly. Once the exit trigger dropped to 0.47 or below it appears to be fairly solid. Below is a more detailed performance report which enters on a move above 64% and uses the 47% number as the exit.

All Trades

| | | | |
|-------------------------------------|--------------|----------------------------------|---------------|
| Total Net Profit | \$126,672.37 | Profit Factor | 7.80 |
| Gross Profit | \$145,293.75 | Gross Loss | (\$18,621.38) |
| Roll Over Credit | \$0.00 | | |
| Open Position Profit/Loss | \$0.00 | | |
| Select Total Net Profit | \$126,672.37 | Select Profit Factor | 7.80 |
| Select Gross Profit | \$145,293.75 | Select Gross Loss | (\$18,621.38) |
| Adjusted Total Net Profit | \$77,127.53 | Adjusted Profit Factor | 3.94 |
| Adjusted Gross Profit | \$103,351.06 | Adjusted Gross Loss | (\$26,223.53) |
| Total Number of Trades | 18 | Percent Profitable | 66.67% |
| Winning Trades | 12 | Losing Trades | 6 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | \$7,037.35 | Ratio Avg. Win:Avg. Loss | 3.90 |
| Avg. Winning Trade | \$12,107.81 | Avg. Losing Trade | (\$3,103.56) |
| Largest Winning Trade | \$40,548.60 | Largest Losing Trade | (\$4,386.96) |
| Largest Winner as % of Gross Profit | 27.91% | Largest Loser as % of Gross Loss | 23.56% |

Most of the numbers here look outstanding. Twice as many winners as losers and the average win is nearly 4 times the average loss. This puts the profit factor at a gaudy 7.8. The one red flag on this report is the “largest winning trade”, which I circled above. This trade makes up nearly 28% of all the gross profits. So to more deeply analyze the results I’ve shown below the listing of all the individual trades.

| # | Type | Date/Time | Signal | Price | Roll Over Pips | Shares/Ctrts | Gross P/L Profit/Loss | Cum Net Profit | % Profit |
|----|------|-----------|---------------|------------|----------------|--------------|-----------------------|----------------|----------|
| 1 | Buy | 10/16/92 | Daily Breadth | \$582.61 | \$0.00 | 171 | \$14,155.38 | \$14,155.38 | 14.21% |
| | Sell | 02/16/93 | Sell | \$665.39 | | | \$14,155.38 | \$14,155.38 | |
| 2 | Buy | 06/19/95 | Daily Breadth | \$922.09 | \$0.00 | 108 | \$12,523.68 | \$26,679.06 | 12.58% |
| | Sell | 09/26/95 | Sell | \$1,038.05 | | | \$26,679.06 | \$26,679.06 | |
| 3 | Buy | 04/25/96 | Daily Breadth | \$1,184.17 | \$0.00 | 84 | \$2,436.84 | \$29,115.90 | 2.45% |
| | Sell | 06/14/96 | Sell | \$1,213.18 | | | \$2,436.84 | \$29,115.90 | |
| 4 | Buy | 05/05/97 | Daily Breadth | \$1,339.24 | \$0.00 | 74 | \$24,243.14 | \$53,359.04 | 24.46% |
| | Sell | 10/17/97 | Sell | \$1,666.85 | | | \$24,243.14 | \$53,359.04 | |
| 5 | Buy | 11/02/98 | Daily Breadth | \$1,800.91 | \$0.00 | 55 | \$28,043.40 | \$81,402.44 | 28.31% |
| | Sell | 02/09/99 | Sell | \$2,310.79 | | | \$28,043.40 | \$81,402.44 | |
| 6 | Buy | 07/02/99 | Daily Breadth | \$2,741.02 | \$0.00 | 36 | (\$4,386.96) | \$77,015.48 | (4.45%) |
| | Sell | 07/26/99 | Sell | \$2,619.16 | | | (\$4,386.96) | \$77,015.48 | |
| 7 | Buy | 11/16/99 | Daily Breadth | \$3,293.05 | \$0.00 | 30 | \$40,548.60 | \$117,564.08 | 41.04% |
| | Sell | 03/29/00 | Sell | \$4,644.67 | | | \$40,548.60 | \$117,564.08 | |
| 8 | Buy | 04/19/01 | Daily Breadth | \$2,182.04 | \$0.00 | 45 | (\$3,364.20) | \$114,199.88 | (3.43%) |
| | Sell | 05/11/01 | Sell | \$2,107.28 | | | (\$3,364.20) | \$114,199.88 | |
| 9 | Buy | 11/13/01 | Daily Breadth | \$1,892.11 | \$0.00 | 52 | \$1,374.36 | \$115,574.24 | 1.40% |
| | Sell | 12/20/01 | Sell | \$1,918.54 | | | \$1,374.36 | \$115,574.24 | |
| 10 | Buy | 11/01/02 | Daily Breadth | \$1,360.70 | \$0.00 | 73 | (\$3,030.23) | \$112,544.01 | (3.05%) |
| | Sell | 11/11/02 | Sell | \$1,319.19 | | | (\$3,030.23) | \$112,544.01 | |
| 11 | Buy | 11/21/02 | Daily Breadth | \$1,467.55 | \$0.00 | 68 | (\$2,529.60) | \$110,014.41 | (2.53%) |
| | Sell | 12/04/02 | Sell | \$1,430.35 | | | (\$2,529.60) | \$110,014.41 | |
| 12 | Buy | 05/02/03 | Daily Breadth | \$1,502.88 | \$0.00 | 66 | \$7,119.42 | \$117,133.83 | 7.18% |
| | Sell | 06/23/03 | Sell | \$1,610.75 | | | \$7,119.42 | \$117,133.83 | |
| 13 | Buy | 08/29/03 | Daily Breadth | \$1,810.45 | \$0.00 | 55 | \$373.45 | \$117,507.28 | 0.38% |
| | Sell | 09/25/03 | Sell | \$1,817.24 | | | \$373.45 | \$117,507.28 | |
| 14 | Buy | 01/12/04 | Daily Breadth | \$2,111.78 | \$0.00 | 47 | (\$1,617.27) | \$115,890.01 | (1.63%) |
| | Sell | 01/28/04 | Sell | \$2,077.37 | | | (\$1,617.27) | \$115,890.01 | |
| 15 | Buy | 04/05/04 | Daily Breadth | \$2,079.11 | \$0.00 | 48 | (\$3,693.12) | \$112,196.89 | (3.70%) |
| | Sell | 04/15/04 | Sell | \$2,002.17 | | | (\$3,693.12) | \$112,196.89 | |
| 16 | Buy | 05/19/05 | Daily Breadth | \$2,042.58 | \$0.00 | 48 | \$513.12 | \$112,710.01 | 0.52% |
| | Sell | 06/24/05 | Sell | \$2,053.27 | | | \$513.12 | \$112,710.01 | |
| 17 | Buy | 08/30/06 | Daily Breadth | \$2,185.73 | \$0.00 | 45 | \$10,355.40 | \$123,065.41 | 10.53% |
| | Sell | 12/21/06 | Sell | \$2,415.85 | | | \$10,355.40 | \$123,065.41 | |
| 18 | Buy | 09/04/07 | Daily Breadth | \$2,630.24 | \$0.00 | 38 | \$3,606.96 | \$126,672.37 | 3.61% |
| | Sell | 10/19/07 | Sell | \$2,725.16 | | | \$3,606.96 | \$126,672.37 | |

While the 41% gain was certainly an outlier, half of the 12 winners achieved gains of greater than 10%, and the largest loser was less than 5%. Even in the low volatility environment of 2006 we see a 10% gain. So while more instances would certainly be

preferable, it appears we have a decent amount of evidence here to suggest an upside edge.

The Nasdaq has now moved through its 50-day moving average and the S&P in on the verge of doing so. Support for the S&P around 800 held last week and there has been a lengthy consolidation from the November lows. With the Nasdaq attempting to take on a leadership position it is possible a rally could develop here. While I'm still not optimistic about the long-term picture a decent intermediate-term rally lasting a few months convincing some participants the worst may be behind us is already overdue. Intermediate-term traders may want to be at the ready to see if they can catch a multi-month move here soon. Should a rally emerge though it should be treated with great skepticism as it appears unlikely that it will be the beginning of a multi-year bull run. Selloffs may remain treacherous and traders may need to be nimble to avoid giving back rally gains.

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 | 1.37 |
| DJ US Regional Banks | IAT | 3.75 | DJ US Financial Services | IYG | 2.80 |
| 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 | 0.50 |
| 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 |

No significant capitulative action evident.

Additional New Trade Ideas

None tonight – USO and OIL are popping up for the 2nd night in a row on the triggers page. Being that it is breaking down rather than already greatly extended, I'm going to give it another day before considering a trade.

Active Trades Table

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---------------|-------------------|--------------------|----------------------|--------------------|-------------|--------------|
| SPY(s)(1/4) | 2/9/2009 | \$87.10 | \$83.11 | 4.80% | | |
| | | | | | | |

Again I'm looking for an opportune exit point for the SPY.

Cover at the open if it opens @ \$83.10 or below.

Cover on a close of \$83.25 or lower.

While I didn't institute a stop or intraday target on Wednesday, I may do so Thursday..

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