

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 23, 2009

Volume 2 Issue 35

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 23, 2009	CBI = 7	1-5 days	Bullish	1.80%	4.20%
February 23, 2009	Gap dn 1% Close 0.5%>open but dn	1-2 days	Bullish	3.10%	6.50%
February 23, 2009	5 Lower Closes at 50 Low	1-4 days	Bullish	2.10%	3.90%
February 20, 2009	McClellan < -200	1-6 days	Bullish	3.85%	6.92%
February 20, 2009	2-day RSI<2 & SPX 50-day low	1-2 days	Bullish	2.70%	6.35%
February 18, 2009	2.5% drop after 5-day low	1-5 days	Bullish	4.20%	7.90%
Active - Long Term					
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		
Dropped Tonight					
February 18, 2009	2 Down In chop	1-3 days	Bullish	1.60%	3.40%
February 12, 2009	Weak Bounce	1-10 days	Bearish	-4.50%	-7.80%

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 2/23 – bullish

Friday the market gapped lower. It then generally traded down until a little after 1pm when it reversed and headed higher. The day ended higher than it opened but still below Thursday's close. NYSE breadth was solidly negative with both Down Issues and Down Volume leading Up Issues and Up Volume by more than 3 to 1. On the Nasdaq the Up Issues % was solidly negative at 28.5% but the Up Volume % came in at 52%. Likely helped some by options expiration, volume came in at the heaviest levels since the November lows.

Price and breadth indicators continue to stretch to the downside. Let's first look at price. Friday market the 5th consecutive close lower for the S&P 500. While some people believe this provides a short-term upside edge, on its own it isn't much of one.

SPX closes lower 5 days in a row.										
Buy on close. Sell X days later. \$100k/trade. 1960-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
20	\$137,999.81	137	86	51	62.77	\$3,877.83	(\$3,833.21)	1.01	1.71	\$1,007.30
15	\$95,226.52	147	86	61	58.50	\$3,514.03	(\$3,393.11)	1.04	1.46	\$647.80
10	\$91,430.38	156	90	66	57.69	\$2,984.46	(\$2,684.41)	1.11	1.52	\$586.09
9	\$91,358.87	158	92	66	58.23	\$2,784.44	(\$2,497.11)	1.12	1.55	\$578.22
8	\$83,414.36	163	95	68	58.28	\$2,655.79	(\$2,483.61)	1.07	1.49	\$511.74
7	\$72,972.62	163	93	70	57.06	\$2,446.56	(\$2,207.97)	1.11	1.47	\$447.68
6	\$53,851.86	165	91	74	55.15	\$2,418.87	(\$2,246.82)	1.08	1.32	\$326.37
5	\$43,970.03	165	84	81	50.91	\$2,301.69	(\$1,844.09)	1.25	1.29	\$266.49
4	\$80,434.91	165	93	72	56.36	\$1,967.94	(\$1,424.76)	1.38	1.78	\$487.48
3	\$57,052.26	165	91	73	55.15	\$1,660.32	(\$1,288.17)	1.29	1.61	\$345.77
2	\$34,001.71	165	93	72	56.36	\$1,230.94	(\$1,117.71)	1.10	1.42	\$206.07
1	\$16,866.07	165	84	81	50.91	\$979.59	(\$807.65)	1.21	1.26	\$102.22

We've looked at 5 lower lows a few times – most recently in the October 9, 2008 Subscriber Letter ([2008-10-09 QE Subscriber Letter.pdf](#)) – and found that the position of the selloff has much to do with its success. An extended selloff like this in a downtrend or near new lows may be a sign that things are getting a bit overdone. In a healthy uptrend you should not see prices pull back for 5 days in a row, so such an occurrence is just as likely to signal more weakness as it is to provide an upside edge. I thought I'd break down 5 lower closes in a similar manner.

Below we see what follows 5 lower closes when the S&P 500 is trading under its 200-day moving average:

SPX closes lower 5 days in a row. SPX closes under the 200ma.										
Buy on close. Sell X days later. \$100k/trade. 1960-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
20	\$113,655.57	72	45	27	62.50	\$4,996.38	(\$4,117.84)	1.21	2.02	\$1,578.55
15	\$76,243.98	81	48	33	59.26	\$4,344.83	(\$4,009.33)	1.08	1.58	\$941.28
10	\$97,776.83	87	51	36	58.62	\$3,764.98	(\$2,617.69)	1.44	2.04	\$1,123.87
9	\$105,614.89	88	54	34	61.36	\$3,471.36	(\$2,407.02)	1.44	2.29	\$1,200.17
8	\$92,577.13	92	57	35	61.96	\$3,189.28	(\$2,548.91)	1.25	2.04	\$1,006.27
7	\$78,612.33	92	56	36	60.87	\$2,889.01	(\$2,310.35)	1.25	1.95	\$854.48
6	\$70,038.90	93	56	37	60.22	\$2,811.79	(\$2,362.74)	1.19	1.80	\$753.11
5	\$62,652.14	93	49	44	52.69	\$2,751.41	(\$1,640.16)	1.68	1.87	\$673.68
4	\$75,207.96	93	56	37	60.22	\$2,238.58	(\$1,355.47)	1.65	2.50	\$808.69
3	\$42,129.52	93	50	42	53.76	\$1,957.49	(\$1,327.26)	1.47	1.76	\$453.01
2	\$24,162.59	93	53	40	56.99	\$1,472.38	(\$1,346.84)	1.09	1.45	\$259.81
1	\$18,533.31	93	46	47	49.46	\$1,294.55	(\$872.68)	1.48	1.45	\$199.28

These numbers are quite a bit stronger than the “5 lower closes at any time” results shown above. Looking at 5 lower closes ABOVE the 200ma I found results to be basically flat, with a mix of black and red in the Avg Trade column. The market isn't close to the 200ma, though. It is at a 50-day low. So let's look at that as well:

SPX closes lower 5 days in a row. SPX closes under the 200ma and at a 50-day low..										
Buy on close. Sell X days later. \$100k/trade. 1960-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
20	\$98,748.55	44	31	13	70.45	\$5,398.27	(\$5,276.76)	1.02	2.44	\$2,244.29
15	\$67,336.73	47	30	17	63.83	\$4,654.51	(\$4,252.85)	1.09	1.93	\$1,432.70
10	\$70,998.41	51	31	20	60.78	\$4,060.21	(\$2,743.40)	1.48	2.29	\$1,392.13
9	\$77,898.90	51	34	17	66.67	\$3,529.53	(\$2,476.78)	1.43	2.85	\$1,527.43
8	\$55,396.85	52	36	16	69.23	\$3,081.84	(\$3,471.84)	0.89	2.00	\$1,065.32
7	\$37,098.13	53	34	19	64.15	\$2,721.60	(\$2,917.70)	0.93	1.67	\$699.96
6	\$40,305.18	53	34	19	64.15	\$2,787.96	(\$2,867.66)	0.97	1.74	\$760.48
5	\$39,155.69	53	33	20	62.26	\$2,564.58	(\$2,273.78)	1.13	1.86	\$738.79
4	\$46,556.19	53	35	18	66.04	\$2,216.59	(\$1,723.59)	1.29	2.50	\$878.42
3	\$23,702.12	53	28	24	52.83	\$2,211.96	(\$1,593.03)	1.39	1.62	\$447.21
2	\$12,153.49	53	29	24	54.72	\$1,685.29	(\$1,529.99)	1.10	1.33	\$229.31
1	\$8,764.59	53	26	27	49.06	\$1,416.54	(\$1,039.46)	1.36	1.31	\$165.37

Not a huge difference but slightly better than just being below the 200-ma.

Breadth readings continue to get more extreme. The Up Issues % EMA's as shown on the charts page are hitting the lowest levels since the November bottom. The McClellan Oscillator fell again, with Worden Bros. calculation hitting -269, only a stone's throw from November's -281. Also notable is the fact that the CBI ticked up to 7. This has traditionally been a level where I've felt strongly an upside edge has existed.

Below are the results of buying the S&P 500 whenever the CBI hit 7 or higher and then selling when it dropped to 3 or lower from 1995-present:

All Trades			
Total Net Profit	\$85,034.25	Profit Factor	8.53
Gross Profit	\$96,332.85	Gross Loss	(\$11,298.60)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$66,052.65	Select Profit Factor	6.85
Select Gross Profit	\$77,351.25	Select Gross Loss	(\$11,298.60)
Adjusted Total Net Profit	\$66,036.49	Adjusted Profit Factor	5.38
Adjusted Gross Profit	\$81,101.29	Adjusted Gross Loss	(\$15,064.80)
Total Number of Trades	49	Percent Profitable	81.63%
Winning Trades	40	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$1,735.39	Ratio Avg. Win:Avg. Loss	1.92
Avg. Winning Trade	\$2,408.32	Avg. Losing Trade	(\$1,255.40)
Largest Winning Trade	\$18,981.60	Largest Losing Trade	(\$4,214.00)
Largest Winner as % of Gross Profit	19.70%	Largest Loser as % of Gross Loss	37.30%

The average win is twice the size of the average loss and winners outnumber losers 4 to 1. Those are odds I like. Of course this bear market has been more severe than anything seen since at least the 30's, so below I've listed all the trades from October of 2007 through today:

11/09/07	Buy	\$1,453.68	\$0.00	68	\$1,042.44	1.05%
11/28/07	Sell	\$1,469.01		\$1,042.44	\$68,021.99	
01/04/08	Buy	\$1,411.62	\$0.00	70	(\$1,500.80)	(1.52%)
01/08/08	Sell	\$1,390.18		(\$1,500.80)	\$66,521.19	
01/18/08	Buy	\$1,325.20	\$0.00	75	\$3,987.75	4.01%
01/31/08	Sell	\$1,378.37		\$3,987.75	\$70,508.94	
03/06/08	Buy	\$1,304.35	\$0.00	76	\$845.88	0.85%
03/13/08	Sell	\$1,315.48		\$845.88	\$71,354.82	
06/10/08	Buy	\$1,358.44	\$0.00	73	\$124.10	0.13%
06/16/08	Sell	\$1,360.14		\$124.10	\$71,478.92	
06/23/08	Buy	\$1,318.02	\$0.00	75	\$296.25	0.30%
06/25/08	Sell	\$1,321.97		\$296.25	\$71,775.17	
06/30/08	Buy	\$1,280.00	\$0.00	78	(\$1,508.52)	(1.51%)
07/18/08	Sell	\$1,260.66		(\$1,508.52)	\$70,266.65	
10/07/08	Buy	\$996.23	\$0.00	100	(\$4,214.00)	(4.23%)
10/30/08	Sell	\$954.09		(\$4,214.00)	\$66,052.65	
11/20/08	Buy	\$752.44	\$0.00	132	\$18,981.60	19.11%
11/28/08	Sell	\$896.24		\$18,981.60	\$85,034.25	
02/20/09	Buy	\$770.05		129	n/a	n/a
open	n/a	\$770.05		n/a	n/a	

Not as good as the rest of the sample but still quite strong.

I also decided to look at the pattern seen on Friday of a gap down with a close higher than the open but still down on the day. First let's look at the base case:

SPY gaps down. It closes above the open but still down on the day.										
Buy on close. Sell X days later. \$100k/trade. 1993-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
8	\$49,641.01	172	98	74	56.98	\$2,207.16	(\$2,252.18)	0.98	1.30	\$288.61
7	\$38,682.34	177	94	82	53.11	\$2,288.16	(\$2,151.28)	1.06	1.22	\$218.54
6	\$42,916.46	183	102	81	55.74	\$2,055.37	(\$2,058.41)	1.00	1.26	\$234.52
5	\$31,458.69	195	105	88	53.85	\$1,941.65	(\$1,959.25)	0.99	1.18	\$161.33
4	\$28,206.54	207	114	93	55.07	\$1,759.90	(\$1,854.00)	0.95	1.16	\$136.26
3	\$21,477.36	225	122	103	54.22	\$1,487.98	(\$1,553.94)	0.96	1.13	\$95.45
2	\$29,127.57	238	125	113	52.52	\$1,399.54	(\$1,290.39)	1.08	1.20	\$122.38
1	\$22,207.45	253	131	122	51.78	\$1,016.98	(\$909.98)	1.12	1.20	\$87.78

Here I see a very mild bullish tendency about equal to the long-term drift.

What if we put some parameters on the size of the gap and the size of the intraday move higher?

SPY gaps down at least 1%. It closes at least 0.5% above the open but still down on the day.										
Buy on close. Sell X days later. \$100k/trade. 1993-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
8	\$51,368.85	28	17	11	60.71	\$4,285.68	(\$1,953.44)	2.19	3.39	\$1,834.60
7	\$49,115.97	28	18	10	64.29	\$4,199.99	(\$2,648.39)	1.59	2.85	\$1,754.14
6	\$52,924.86	29	21	8	72.41	\$3,804.12	(\$3,370.22)	1.13	2.96	\$1,825.00
5	\$39,881.82	31	18	13	58.06	\$4,153.79	(\$2,683.56)	1.55	2.14	\$1,286.51
4	\$30,748.18	33	19	14	57.58	\$3,561.81	(\$2,637.59)	1.35	1.83	\$931.76
3	\$18,189.74	35	21	14	60.00	\$2,681.99	(\$2,723.71)	0.98	1.48	\$519.71
2	\$50,097.47	35	24	11	68.57	\$2,959.08	(\$1,901.86)	1.56	3.39	\$1,431.36
1	\$35,278.24	35	21	14	60.00	\$2,651.65	(\$1,457.60)	1.82	2.73	\$1,007.95

Now the edge is fairly sizable – especially over the 1st 2 days.

I also looked to see how the pattern played out if the low dropped below the 50-day closing low:

SPY gaps down. Today's low is below the lowest close of last 50 days. It closes above the open but still down on the day.										
Buy on close. Sell X days later. \$100k/trade. 1993-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
8	\$23,272.86	20	11	9	55.00	\$4,536.86	(\$2,959.18)	1.53	1.87	\$1,163.64
7	\$32,554.16	20	13	7	65.00	\$4,442.72	(\$3,600.17)	1.23	2.29	\$1,627.71
6	\$20,719.68	20	12	8	60.00	\$4,475.90	(\$4,123.89)	1.09	1.63	\$1,035.98
5	\$24,271.99	21	12	8	57.14	\$3,810.79	(\$2,682.18)	1.42	2.13	\$1,155.81
4	\$22,480.20	22	12	10	54.55	\$3,905.53	(\$2,438.61)	1.60	1.92	\$1,021.83
3	\$18,147.55	23	14	9	60.87	\$2,569.37	(\$1,980.40)	1.30	2.02	\$789.02
2	\$34,279.07	24	15	9	62.50	\$3,254.71	(\$1,615.73)	2.01	3.36	\$1,428.29
1	\$33,454.70	24	17	7	70.83	\$2,465.39	(\$1,208.13)	2.04	4.96	\$1,393.95

Similar to the test above we see a strong edge over the next couple of days. Also interesting here is that 19 of 24 instances (83%) saw a close higher than the trigger day at some point in the next 3 days. If you look out 9 days then ALL of them saw the market trading higher. (Although I'm not sure I'd want to sit through 8 days of being wrong.)

Another way to filter the pattern would be to say that the gap down and partial reversal had to occur with the highest NYSE volume in 20 days. Those results are below:

SPY gaps down below lowest close of last 50 days. It closes above the open but still down on the day.										
NYSE volume is the highest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1993-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
8	\$21,935.49	10	5	5	50.00	\$5,796.71	(\$1,409.61)	4.11	4.11	\$2,193.55
7	\$27,185.47	10	6	4	60.00	\$5,656.50	(\$1,688.38)	3.35	5.03	\$2,718.55
6	\$24,063.20	10	6	4	60.00	\$5,568.50	(\$2,336.95)	2.38	3.57	\$2,406.32
5	\$15,478.28	10	6	4	60.00	\$4,284.74	(\$2,557.54)	1.68	2.51	\$1,547.83
4	\$4,826.70	10	6	4	60.00	\$3,333.86	(\$3,794.11)	0.88	1.32	\$482.67
3	\$2,051.05	10	5	5	50.00	\$2,361.87	(\$1,951.66)	1.21	1.21	\$205.11
2	\$16,805.10	10	5	5	50.00	\$4,830.50	(\$1,469.48)	3.29	3.29	\$1,680.51
1	\$23,862.29	10	8	2	80.00	\$3,073.55	(\$363.04)	8.47	33.86	\$2,386.23

Here again we see a very short-term upside edge. Looking to see how often it closed above the entry at some point in the next few days I found that 9 of 10 instances had a higher close within the 1st 3 days. The lone loser was 9/17/2001 which was the day the market re-opened after the September 11 attacks. In that instance it took 9 days to see a higher close. The last time we saw the above situation occur led to the most powerful 1-day rally of the bunch – 10/10/2008.

Tonight's [Aggregator](#) chart is below:



While not as extreme as Thursday night, the Aggregator chart is still suggesting a strong bullish edge. The green Aggregator line well above 0 suggests the studies are skewed bullish. This is fairly obvious since our last bearish study hit its target on Friday and has been removed from the active list. The black differential line shows that the market has been strongly underperforming expectations over the last 3 days – even with Tuesday’s big selloff exiting the calculation.

Playing these oversold pullbacks is certainly a bit hairier than it was a few years ago. From 1988 – 2007 any time conditions got extreme and the market needed “rescuing” it seemed the Fed or the government would step in a “rescue” it. It didn’t always mean the end of the selloff, but it did make for some fairly reliable short covering rallies when extreme conditions arrived. In early October when the market was beginning to fall apart the rescue was supposed to come in the form of the TARP bill. When it failed to pass on the first try the market sold off hard. On the day it did finally pass, instead of the positive reaction many had expected, another round of severe selling took place. Rates are now 0 which eliminates any possibility of a surprise rate cut. The new hope that Obama was supposed to provide the nation with has yet to take flight in the stock market. His inauguration day was the worst performance for an inauguration day for any new president, and we’ve continued to drop from there.

Oversold bounces will still occur. Shorts will still be squeezed when they do. The memory of October’s unprecedented multi-day crash will remain in traders’ minds. There’s no telling if or when it might happen again. While I remain aware of the possibility that the market could again fall apart in a big way, I’ll continue to play the edges, though with a slightly more conservative approach. I’ve already taken on a fair

amount of long index exposure. Rather than add more on Monday, I'm planning to wait one more day to put on my final piece. Monday's do have some tendency to follow through – though the downside tendency is less following an option expiration. [Tuesdays are the top day for a turnaround](#). According to the stock trader's Almanac Wed-Fri this week will be seasonally strong days. I don't base much on seasonality, but I'd rather have it working for me than against me. Therefore additional weakness early in the week should likely provide a nice opportunity for entry in anticipation of an end-of-week rebound.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 2/23

The S&P 500 lost nearly 7% this past week and is down just shy of 15% so far for 2009. The Dow has fallen through its November lows and they aren't far behind for the S&P. The Nasdaq – with hardly any exposure to the financial sector is still above its January lows and far above the November bottom.

With the November S&P bottom fast approaching one thing we haven't seen yet is a sharp spike in the VIX. Some may find this concerning. I've looked at this a few times in the past and failed to find evidence that a VIX spike is a necessary component for making a bottom. One such study was posted to the blog on [July 1, 2008](#). Tonight I decided to compare a 50-day low that is accompanied by a VIX spike to a 50-day low that isn't.

First let's look at instances where the 50-day low is accompanied by a VIX spike:

SPX closes at a 50-day low. VIX stretched more than 10% above its 10-day ma.											
Buy on close. Sell X days later. \$100k/trade. 1990-2/20/2009.											
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade	
12	\$39,220.05	50	29	21	58.00	\$3,476.42	(\$2,933.14)	1.19	1.64	\$784.40	
11	\$42,178.74	50	29	21	58.00	\$3,166.90	(\$2,364.83)	1.34	1.85	\$843.57	
10	\$22,479.00	50	26	24	52.00	\$3,380.46	(\$2,725.54)	1.24	1.34	\$449.58	
9	\$25,834.31	55	32	23	58.18	\$3,370.74	(\$3,566.50)	0.95	1.31	\$469.71	
8	\$36,021.98	58	35	23	60.34	\$3,167.85	(\$3,254.47)	0.97	1.48	\$621.07	
7	\$34,637.59	60	34	26	56.67	\$3,151.44	(\$2,788.90)	1.13	1.48	\$577.29	
6	\$40,678.40	62	37	25	59.68	\$2,821.36	(\$2,548.47)	1.11	1.64	\$656.10	
5	\$49,714.63	66	38	28	57.58	\$2,569.25	(\$1,711.31)	1.50	2.04	\$753.25	
4	\$17,536.97	71	44	27	61.97	\$1,965.76	(\$2,553.94)	0.77	1.25	\$247.00	
3	\$30,767.71	80	52	28	65.00	\$1,823.81	(\$2,288.22)	0.80	1.48	\$384.60	
2	\$41,125.51	94	56	38	59.57	\$2,091.91	(\$2,000.56)	1.05	1.54	\$437.51	
1	\$40,629.20	135	74	61	54.81	\$1,760.50	(\$1,469.63)	1.20	1.45	\$300.96	

Now let's look at a 50-day low with a VIX spike:

SPX closes at a 50-day low. VIX not stretched more than 10% above its 10-day ma.										
Buy on close. Sell X days later. \$100k/trade. 1990-2/20/2009.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
12	\$18,727.57	36	23	13	63.89	\$3,140.27	(\$4,115.28)	0.76	1.35	\$520.21
11	\$41,069.19	37	24	13	64.86	\$3,389.58	(\$3,098.52)	1.09	2.02	\$1,109.98
10	\$38,325.09	39	27	12	69.23	\$2,925.21	(\$3,387.98)	0.86	1.94	\$982.69
9	\$56,900.65	40	27	13	67.50	\$3,392.41	(\$2,668.80)	1.27	2.64	\$1,422.52
8	\$41,206.16	40	26	14	65.00	\$3,110.93	(\$2,834.15)	1.10	2.04	\$1,030.15
7	\$43,021.13	42	28	14	66.67	\$2,791.73	(\$2,510.52)	1.11	2.22	\$1,024.31
6	\$26,299.24	42	26	16	61.90	\$2,619.28	(\$2,612.63)	1.00	1.63	\$626.17
5	\$23,026.84	47	24	23	51.06	\$2,942.60	(\$2,069.38)	1.42	1.48	\$489.93
4	\$16,421.58	49	30	19	61.22	\$2,087.02	(\$2,431.00)	0.86	1.36	\$335.13
3	\$28,712.59	51	35	16	68.63	\$1,986.15	(\$2,550.18)	0.78	1.70	\$562.99
2	\$17,981.18	62	31	31	50.00	\$1,982.54	(\$1,402.50)	1.41	1.41	\$290.02
1	\$17,533.60	76	49	27	64.47	\$1,007.94	(\$1,179.82)	0.85	1.55	\$230.71

It's more common to see a spike in the VIX than not. Comparison between the two sets of results, though, shows very little difference. This suggests the VIX is not an effective filter when considering whether a drop in the market is likely to mark a low. While I'm sure a very sharp spike would produce some bullish studies and help provide some possible juice for a rebound, it's not something I'm going to worry over a great deal.

From an intermediate-term standpoint it appears too late to get strongly bearish but without some real signs of strength too early to get strongly bullish. My summary from last week still works for me so I'll repeat it below.

As I've been saying, I expect we're likely to see a decent rally of 30% or more lasting at least 2-3 months emerge here at some point. I have serious doubts that next rally will lead to a multi-year bull market run, though. Until I see signs otherwise, I'm treating this market as one that is more similar to the 1930's than any other period in time. Past evidence of this includes volatility studies, Dow Trend vs. Chop studies, and studies of severe selloffs such as we saw in the fall. I'll be sure to revisit these studies when appropriate. For now my focus remains short-term.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

DOW (Dow Chemical) –@ \$9.29 (1/3)

DOW (Dow Chemical) –@ \$8.62 (1/3)

DOW (Dow Chemical) – bought last 1/3 position @ \$8.60

CAT – bought 1/3 position @ \$28.44

CAT – buy 1/3 position @ \$26.14

New

CAT – buy final 1/3 position @ \$26.66 limit

C – (not recommended) @ \$1.95

C has performed well as a Catapult in the past. It's a bit to low-priced for me though, which is why I took KBE on Friday. Traders considering C should be especially conservative with position sizing.

Catapult for ETF's Trades

DIA – buy @ \$73.73 limit. DIA has provided nice risk/reward in the past as a Catapult for ETF trade. Performance report since DIA inception below:

All Trades			
Total Net Profit	\$37,278.06	Profit Factor	12.29
Gross Profit	\$40,578.66	Gross Loss	(\$3,300.60)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$37,278.06	Select Profit Factor	12.29
Select Gross Profit	\$40,578.66	Select Gross Loss	(\$3,300.60)
Adjusted Total Net Profit	\$22,540.36	Adjusted Profit Factor	5.33
Adjusted Gross Profit	\$27,746.56	Adjusted Gross Loss	(\$5,206.20)
Total Number of Trades	13	Percent Profitable	76.92%
Winning Trades	10	Losing Trades	3
Even Trades	0		
Avg. Trade Net Profit	\$2,867.54	Ratio Avg. Win:Avg. Loss	3.69
Avg. Winning Trade	\$4,057.87	Avg. Losing Trade	(\$1,100.20)
Largest Winning Trade	\$13,468.32	Largest Losing Trade	(\$2,624.72)
Largest Winner as % of Gross Profit	33.19%	Largest Loser as % of Gross Loss	79.52%

Broad Market Large Cap CBI – 7/3 (DOW-3, CAT-3, C)

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	2.33
DJ US Insurance Index	IAK	8.11	DJ US Financial	IYF	8.56
DJ US Regional Banks	IAT	21.25	DJ US Financial Services	IYG	13.29
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	3.45	DJ US Industrial Sector	IYJ	4.21
DJ US Oil Equip & Svcs	IEZ	5.77	DJ US Consumer Goods	IYK	4.76
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	8.11
DJ US Healthcare Providers	IHF	2.04	DJ US Real Estate	IYR	2.44
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.78	DJ US Technology Sector	IYW	3.02
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	2.19	Nasdaq 100	QQQQ	2.00

Regional banks and financial services CBI% 's spiking.

Additional New Trade Ideas

See CAT and DIA trade ideas from Catapult section above.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DOW(1/3)	2/17/2009	\$9.29	\$8.10	-12.81%		Catapult
DOW(1/3)	2/18/2009	\$8.62	\$8.10	-6.03%		Catapult
SPY(1/4)	2/18/2009	\$79.22	\$77.42	-2.27%		
DOW(1/3)	2/19/2009	\$8.60	\$8.10	-5.81%		Catapult
CAT(1/3)	2/19/2009	\$28.44	\$26.66	-6.26%		Catapult
SPY(1/4)	2/19/2009	\$78.18	\$77.42	-0.97%		
SPY(1/4)	2/20/2009	\$77.42	\$77.42	0.00%		
CAT(1/3)	2/20/2009	\$26.14	\$26.66	1.99%		Catapult
KBE	2/20/2009	\$10.86	\$10.86	0.00%		Catapult

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