

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 26, 2009

Volume 2 Issue 38

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 26, 2009	SPX down 1% while SOX up 1%	1-15 days	Bullish	4.60%	7.10%
February 26, 2009	Late day selloff	1 day	Bullish	2.10%	4.90%
February 25, 2009	Recover drop of 1.5% at 50 low	1-5 days	Bullish	3.40%	6.40%
February 25, 2009	90% Up Vol After 50-low	1-2 days	Bearish	-2.90%	-6.00%
February 25, 2009	VXO 15% Drop @ SP 50-low	1-2 days	Bearish	-2.40%	-5.10%
February 23, 2009	CBI = 7	1-5 days	Bullish	1.80%	4.20%
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%
Active - Long Term					
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 2/26 – bullish

The market was all over the place on Wednesday. After dropping more than 2% intraday the S&P 500 was in positive territory with a half hour to go before a hard sell into the close caused it to finish down about 1%. Breadth was negative across the board. NYSE Up Issues % came in at 37% and the Up Volume % at 34%. Volume on the NYSE seemed to decline slightly.

Strong moves at the end of a day can often be emotional (over)reactions. As you can see in the table below, persistent selloffs in the last 25 minutes of trading tend to lead to a bullish edge the next day.

The last five 5-minute bars of the day close lower and the SPX falls at least X% from high to close during the last 1/2 hr.										
Buy S&P 500 on close. Sell next day's close. \$100k/trade. 1983-present.										
X %	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
0.5	\$18,444.61	83	46	37	55.42	\$1,382.85	(\$1,220.72)	1.13	1.41	\$222.22
0.75	\$19,567.75	39	22	17	56.41	\$1,978.63	(\$1,409.53)	1.40	1.82	\$501.74
1	\$16,164.58	23	13	10	56.52	\$2,739.44	(\$1,944.82)	1.41	1.83	\$702.81
1.25	\$16,381.41	12	7	5	58.33	\$4,244.03	(\$2,665.36)	1.59	2.23	\$1,365.12
1.5	\$17,243.26	8	6	2	75.00	\$3,999.50	(\$3,376.86)	1.18	3.55	\$2,155.41
1.75	\$15,723.30	5	4	1	80.00	\$5,595.63	(\$6,659.22)	0.84	3.36	\$3,144.66

The stronger the selloff the more pronounced the edge is.

Below I took a closer look at the 1.5% selloffs and how they performed over the next 3 days:

<i>The last five 5-minute bars of the day close lower and the SPX falls at least 1.5% from high to close during the last 1/2 hr.</i>										
<i>Buy S&P 500 on close. Sell X days later. \$100k/trade. 1983-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
3	\$36,149.98	8	7	1	87.50	\$5,508.44	(\$2,409.12)	2.29	16.01	\$4,518.75
2	\$33,035.99	8	6	2	75.00	\$5,855.10	(\$1,047.32)	5.59	16.77	\$4,129.50
1	\$17,243.26	8	6	2	75.00	\$3,999.50	(\$3,376.86)	1.18	3.55	\$2,155.41

Notice just how sizable the average trade is over the next 3 days. This is pretty amazing consider we are only looking at a 1/2 hour's worth of data. To see why this is take a look at the trades for the 3-day holding period:

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts	Net Profit	Cum Net Profit	% Profit
10/19/87 16:00	Buy	\$225.06	\$0.00	444	\$10,296.36	\$10,296.36	10.30%
10/22/87 16:00	Sell	\$248.25			\$10,296.36	\$10,296.36	
12/10/87 16:00	Buy	\$233.58	\$0.00	428	\$3,950.44	\$3,950.44	3.95%
12/15/87 16:00	Sell	\$242.81			\$3,950.44	\$14,246.80	
10/13/89 16:00	Buy	\$333.63	\$0.00	299	\$2,433.86	\$2,433.86	2.44%
10/18/89 16:00	Sell	\$341.77			\$2,433.86	\$16,680.66	
08/04/98 16:00	Buy	\$1,072.15	\$0.00	93	\$1,608.90	\$1,608.90	1.61%
08/07/98 16:00	Sell	\$1,089.45			\$1,608.90	\$18,289.56	
08/31/98 16:00	Buy	\$958.57	\$0.00	104	\$2,401.36	\$2,401.36	2.41%
09/03/98 16:00	Sell	\$981.66			\$2,401.36	\$20,690.92	
10/27/08 16:00	Buy	\$848.92	\$0.00	117	\$12,304.89	\$12,304.89	12.39%
10/30/08 16:00	Sell	\$954.09			\$12,304.89	\$32,995.81	
11/19/08 16:00	Buy	\$806.58	\$0.00	123	\$5,563.29	\$5,563.29	5.61%
11/24/08 16:00	Sell	\$851.81			\$5,563.29	\$38,559.10	
02/17/09 16:00	Buy	\$789.17	\$0.00	126	(\$2,409.12)	(\$2,409.12)	(2.42%)
02/20/09 16:00	Sell	\$770.05			(\$2,409.12)	\$36,149.98	
02/25/09 16:00	Buy	\$764.90		130	n/a	n/a	n/a
open	n/a	\$764.90		n/a	n/a	n/a	

Interesting how several of these have come near significant market lows.

A positive intermediate-term sign today was the fact that the Semiconductor Index (SOX) rose even as the S&P and Nasdaq suffered 1% declines. I first showed the below study [on the blog last August](#). I've updated the stats to run up until the present.

S&P 500 declines 1% while the SOX rises.											
Buy S&P 500 on close. Sell X days later. \$100k/trade. 1995-present.											
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade	
20	\$90,911.33	33	28	5	84.85	\$4,047.51	(\$4,483.78)	0.90	5.06	\$2,754.89	
19	\$78,594.36	33	26	7	78.79	\$4,115.15	(\$4,057.09)	1.01	3.77	\$2,381.65	
18	\$76,730.24	34	27	7	79.41	\$4,039.85	(\$4,620.81)	0.87	3.37	\$2,256.77	
17	\$83,161.49	34	29	5	85.29	\$3,681.71	(\$4,721.62)	0.78	4.52	\$2,445.93	
16	\$90,274.19	34	29	5	85.29	\$3,635.95	(\$3,033.69)	1.20	6.95	\$2,655.12	
15	\$89,278.80	36	31	5	86.11	\$3,465.30	(\$3,629.11)	0.95	5.92	\$2,479.97	
14	\$82,861.91	36	28	8	77.78	\$3,561.24	(\$2,106.59)	1.69	5.92	\$2,301.72	
13	\$71,006.04	37	30	7	81.08	\$3,155.59	(\$3,380.23)	0.93	4.00	\$1,919.08	
12	\$55,912.82	37	29	8	78.38	\$2,666.05	(\$2,675.34)	1.00	3.61	\$1,511.16	
11	\$65,810.79	37	28	9	75.68	\$3,170.34	(\$2,550.95)	1.24	3.87	\$1,778.67	
10	\$46,283.14	37	28	9	75.68	\$2,581.41	(\$2,888.49)	0.89	2.78	\$1,250.90	
9	\$40,213.22	39	27	12	69.23	\$2,463.89	(\$2,192.65)	1.12	2.53	\$1,031.11	
8	\$50,807.91	39	27	12	69.23	\$2,590.20	(\$1,593.96)	1.63	3.66	\$1,302.77	
7	\$57,839.12	40	28	12	70.00	\$2,722.03	(\$1,531.48)	1.78	4.15	\$1,445.98	
6	\$57,005.20	41	31	10	75.61	\$2,656.30	(\$2,534.01)	1.05	3.25	\$1,390.37	
5	\$44,764.02	42	28	14	66.67	\$2,636.60	(\$2,075.78)	1.27	2.54	\$1,065.81	
4	\$36,950.08	42	27	15	64.29	\$2,244.48	(\$1,576.72)	1.42	2.56	\$879.76	
3	\$26,871.35	44	26	18	59.09	\$2,104.38	(\$1,546.81)	1.36	1.97	\$610.71	
2	\$20,133.20	45	25	20	55.56	\$1,975.15	(\$1,462.27)	1.35	1.69	\$447.40	
1	\$16,046.93	47	22	25	46.81	\$1,615.02	(\$779.34)	2.07	1.82	\$341.42	

These are solidly bullish results with the winning percentage, the profit factor, and the average trade all posting strong numbers throughout the test period.

Not shown above is that over the next week the S&P has posted a close higher than the trigger day close 89% of the time. If you look out 12 days there has been at least 1 close higher than the trigger day in 42 of 43 instances (98%). The only loser came after the 7/21/98 signal. This has been a solidly bullish intermediate-term signal.

Not only did the SOX finish positive today, but it finished positive by 3%. I made the criteria a bit stricter and required at least a 1% gain from the SOX and then re-ran the test below:

S&P 500 declines 1% while the SOX rises at least 1%.										
Buy S&P 500 on close. Sell X days later. \$100k/trade. 1995-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	\$75,138.70	19	17	2	89.47	\$4,770.50	(\$2,979.88)	1.60	13.61	\$3,954.67
19	\$69,527.93	19	17	2	89.47	\$4,520.68	(\$3,661.78)	1.23	10.49	\$3,659.36
18	\$63,574.48	19	17	2	89.47	\$4,259.12	(\$4,415.25)	0.96	8.20	\$3,346.03
17	\$62,124.85	20	18	2	90.00	\$3,908.83	(\$4,117.07)	0.95	8.54	\$3,106.24
16	\$61,478.73	20	18	2	90.00	\$3,807.63	(\$3,529.30)	1.08	9.71	\$3,073.94
15	\$59,737.11	20	18	2	90.00	\$3,812.98	(\$4,448.28)	0.86	7.71	\$2,986.86
14	\$50,539.60	20	18	2	90.00	\$3,302.35	(\$4,451.37)	0.74	6.68	\$2,526.98
13	\$43,738.87	20	17	3	85.00	\$3,234.85	(\$3,751.21)	0.86	4.89	\$2,186.94
12	\$32,174.04	20	16	4	80.00	\$2,807.87	(\$3,187.98)	0.88	3.52	\$1,608.70
11	\$30,823.26	20	14	6	70.00	\$3,324.36	(\$2,619.62)	1.27	2.96	\$1,541.16
10	\$16,094.13	20	14	6	70.00	\$2,331.71	(\$2,758.31)	0.85	1.97	\$804.71
9	\$13,198.58	21	14	7	66.67	\$1,950.56	(\$2,015.60)	0.97	1.94	\$628.50
8	\$23,064.48	21	14	7	66.67	\$2,227.95	(\$1,160.98)	1.92	3.84	\$1,098.31
7	\$23,392.90	21	14	7	66.67	\$2,119.23	(\$896.62)	2.36	4.73	\$1,113.95
6	\$29,220.08	21	17	4	80.95	\$2,147.59	(\$1,822.24)	1.18	5.01	\$1,391.43
5	\$30,535.34	21	14	7	66.67	\$2,553.36	(\$744.54)	3.43	6.86	\$1,454.06
4	\$17,109.46	21	12	9	57.14	\$2,198.46	(\$1,030.23)	2.13	2.85	\$814.74
3	\$9,929.68	21	12	9	57.14	\$1,749.29	(\$1,229.09)	1.42	1.90	\$472.84
2	\$8,906.50	22	11	11	50.00	\$2,110.25	(\$1,300.57)	1.62	1.62	\$404.84
1	\$10,236.27	23	12	11	52.17	\$1,590.20	(\$804.19)	1.98	2.16	\$445.06

Instances were about cut in half from the first test. As you can see, this is the better half with average gains reaching between 3%-4% over the next 3-4 weeks and a winning percentage up to 90%.

Also of note is that Nasdaq Composite dropped 1% along with the SPX. When the SOX has risen 1% while the Nasdaq has dropped 1% the Nasdaq has posted a close higher than the trigger day 18 of 22 times (82%) within then next 2 days and 20 of 22 (91%) within the next 4 days.

The CBI dipped to 7 today as Citigroup hit its intraday target before closing down in some truly wild trading. Between the CBI at 7 and the McClellan Oscillator still close to 200, breadth indicators are suggesting the market remains oversold and the bounce should continue higher.

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



The Aggregator chart is little changed from last night. The green Aggregator line remains squarely above 0 indicating a bullish expectancy from the studies over the next few days. The black Differential line is also solidly positive indicating the S&P has underperformed expectations over the last 3 days. As Monday and Tuesday's bars fall out of the differential calculation the next couple of days we will likely see whipsaw action in the differential line. The Aggregator is scheduled to remain strong barring additional studies (which there almost always are).

We have some encouraging signs for both the short and intermediate term at this point. While my tendency is normally short-term in nature I may look to hold on to at least 1 lot of the SPY for a bit longer. In cases where I look for a longer hold I'll typically look to exit for one of two reasons 1) a trailing stop is hit or 2) the configuration gives a short-signal.

I considered looking to add back the additional lot that was sold on Wednesday if the market showed signs of weakness on Thursday. Aggressive traders could consider such a move. I decided instead to just let it ride with what I have.

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 – bought 1/3 position @ \$26.14

CAT – bought final 1/3 position @ \$26.66

PFE – bought 1/3 position @ \$13.27 limit

Catapult for ETF's Trades

DIA – bought @ \$73.73 limit

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

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	3.45	DJ US Energy	IYE	3.49
DJ US Insurance Index	IAK	9.46	DJ US Financial	IYF	4.11
DJ US Regional Banks	IAT	5.00	DJ US Financial Services	IYG	3.50
DJ US Utilities	IDU	4.05	DJ US Healthcare	IYH	6.34
DJ US Oil&Gas Expl & Prod	IEO	6.90	DJ US Industrial Sector	IYJ	5.36
DJ US Oil Equip & Svcs	IEZ	7.69	DJ US Consumer Goods	IYK	4.76
DJ US Pharmaceuticals	IHE	10.81	DJ US Basic Materials	IYM	10.81
DJ US Healthcare Providers	IHF	2.04	DJ US Real Estate	IYR	2.44
DJ US Medical Devices	IHI	2.44	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.78	DJ US Technology Sector	IYW	4.52
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	2.63	Nasdaq 100	QQQQ	3.00

Regional banks and financials not nearly as stretched as they were a few days ago.

Additional New Trade Ideas

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DOW(1/3)	2/17/2009	\$9.29	\$7.49	-19.38%		Catapult
DOW(1/3)	2/18/2009	\$8.62	\$7.49	-13.11%		Catapult
SPY(1/4)	2/18/2009	\$79.22	\$76.87	-2.97%		
DOW(1/3)	2/19/2009	\$8.60	\$7.49	-12.91%		Catapult
CAT(1/3)	2/19/2009	\$28.44	\$25.03	-11.99%		Catapult
SPY(1/4)	2/19/2009	\$78.18	\$76.87	-1.68%		
SPY(1/4)	2/20/2009	\$77.42	\$77.50	0.10%		<i>sold @ \$77.50 limit</i>
CAT(1/3)	2/20/2009	\$26.14	\$25.03	-4.25%		Catapult
CAT(1/3)	2/23/2009	\$26.66	\$25.03	-6.11%		Catapult
DIA	2/23/2009	\$73.73	\$72.67	-1.44%		Catapult
PFE	2/24/2009	\$13.27	\$13.08	-1.43%		Catapult

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2009 Hanna Capital Management, LLC