

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2009

Volume 2 Issue 42

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					
March 4, 2009	5 lower closes @ 50-low	1-4 days	Bullish	2.10%	3.90%
March 3, 2009	CBI >= 10	1-3 days	Bullish	3.40%	7.30%
March 2, 2009	2% Gap Down	1-3 days	Bullish	2.70%	5.30%
March 2, 2009	Gap Dn to 50 low and Close Lower	1-5 days	Bullish	6.30%	12.20%
February 26, 2009	SPX down 1% while SOX up 1%	1-15 days	Bullish	4.60%	7.10%
February 25, 2009	Recover drop of 1.5% at 50 low	1-5 days	Bullish	3.40%	6.40%
Active - Long Term					
none					
Dropped Tonight					
February 27, 2009	2 Days Dow In Chop	1-3 days	Bullish		

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 3/4 – bullish

Another day another broad decline. The market failed to follow through on its gap-up open. It sold off immediately but turned around noon. Then with an hour to go and the market solidly positive it began a sizable late-day slide. All the major indices finished in the red. Breadth was quite negative. NYSE Up Issues % came in at 32%. The Up Volume % on the other hand was just slightly negative at 47%. Total volume declined for the 2nd day in a row

Let's first look at today's price pattern and then I'll discuss breadth and volume stats. Today was the 5th day in a row that the S&P 500 closed lower. In the February 23rd Subscriber Letter I showed that 5 lower closes at a 50-day low provided a mild bullish edge:

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

Looking at the makeup of today's bar produced some mixed results. First I looked at performance following a failed gap up from a 50-day low:

SPY gaps higher from a 50-day lower but fails to hold the gap and closes at a new 50-day low.										
Buy on close. Sell X days later. 100k/trade. 1993-3/3/09.										
X Days	Net Profit	Trades	Wins	Losses	Pct Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	\$35,548.06	22	14	8	63.64	\$3,540.05	(\$1,751.59)	2.02	3.54	\$1,615.82
9	\$18,258.91	23	14	9	60.87	\$3,204.46	(\$2,955.94)	1.08	1.69	\$793.87
8	\$14,160.12	23	15	8	65.22	\$3,029.60	(\$3,910.49)	0.77	1.45	\$615.66
7	\$19,046.10	23	13	10	56.52	\$3,709.30	(\$2,917.48)	1.27	1.65	\$828.09
6	\$29,724.56	24	15	9	62.50	\$3,840.93	(\$3,098.83)	1.24	2.07	\$1,238.52
5	\$26,438.70	24	13	11	54.17	\$3,796.28	(\$2,082.99)	1.82	2.15	\$1,101.61
4	\$26,795.59	25	16	9	64.00	\$2,919.27	(\$2,212.53)	1.32	2.35	\$1,071.82
3	(\$613.61)	30	20	10	66.67	\$1,996.83	(\$4,055.03)	0.49	0.98	(\$20.45)
2	\$23,141.08	31	20	11	64.52	\$2,594.45	(\$2,613.45)	0.99	1.80	\$746.49
1	\$13,169.64	37	22	15	59.46	\$1,833.46	(\$1,811.10)	1.01	1.48	\$355.94

Fairly bullish implications over the next week. Requiring a 100-day low instead of a 50-day low was more favorable for the bulls, but low on instances:

SPY gaps higher from a 100-day lower but fails to hold the gap and closes at a new 100-day low.										
Buy on close. Sell X days later. 100k/trade. 1993-3/3/09.										
X Days	Net Profit	Trades	Wins	Losses	Pct Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	\$29,963.61	12	11	1	91.67	\$3,102.68	(\$4,165.83)	0.74	8.19	\$2,496.97
9	\$23,022.37	12	9	3	75.00	\$2,993.48	(\$1,306.30)	2.29	6.87	\$1,918.53
8	\$20,277.36	12	9	3	75.00	\$3,696.83	(\$4,331.36)	0.85	2.56	\$1,689.78
7	\$25,871.93	12	8	4	66.67	\$4,634.87	(\$2,801.75)	1.65	3.31	\$2,155.99
6	\$29,467.04	13	9	4	69.23	\$4,892.93	(\$3,642.33)	1.34	3.02	\$2,266.70
5	\$25,889.76	13	7	6	53.85	\$5,118.67	(\$1,656.82)	3.09	3.60	\$1,991.52
4	\$24,025.89	13	11	2	84.62	\$2,900.56	(\$3,940.15)	0.74	4.05	\$1,848.15
3	(\$670.03)	13	10	3	76.92	\$2,126.11	(\$7,310.37)	0.29	0.97	(\$51.54)
2	\$11,248.67	14	8	6	57.14	\$4,133.33	(\$3,636.33)	1.14	1.52	\$803.48
1	\$1,236.93	17	8	9	47.06	\$2,880.25	(\$2,422.78)	1.19	1.06	\$72.76

An issue with the above studies is that they don't consider the size of the failed gap. Below I show the 1-day performance based on the size of the gap:

SPY gaps up X% from 50-day low and closes below yesterday's close.										
Buy on close. Sell 1 day later. 100k/trade. 1993-3/3/09.										
X %	Net Profit	Trades	Wins	Losses	Pct Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
0	\$14,741.26	62	37	25	59.68	\$1,426.79	(\$1,521.99)	0.94	1.39	\$237.76
0.25	\$7,820.84	36	19	17	52.78	\$1,815.99	(\$1,569.58)	1.16	1.29	\$217.25
0.5	\$2,054.60	20	11	9	55.00	\$1,766.23	(\$1,930.44)	0.91	1.12	\$102.73
0.75	(\$6,044.33)	11	5	6	45.45	\$1,763.11	(\$2,476.65)	0.71	0.59	(\$549.48)
1	(\$8,869.00)	7	2	5	28.57	\$2,944.69	(\$2,951.67)	1.00	0.40	(\$1,267.00)

While instances get quite small you can see how performance deteriorates as the size of the failed gap increases. I therefore decided to eliminate the requirement of the market being at a 50-day low and look at all failed 1% gaps:

SPY gaps up 1% and then closes below its open.										
Buy on close. Sell X days later. 100k/trade. 1993-3/3/09.										
X Days	Net Profit	Trades	Wins	Losses	Pct Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$6,368.81)	14	7	7	50.00	\$2,246.61	(\$3,156.44)	0.71	0.71	(\$454.92)
9	(\$12,423.59)	14	7	7	50.00	\$2,252.12	(\$4,026.92)	0.56	0.56	(\$887.40)
8	(\$34,568.61)	15	8	7	53.33	\$1,933.02	(\$7,147.54)	0.27	0.31	(\$2,304.57)
7	(\$16,758.91)	15	8	7	53.33	\$2,496.14	(\$5,246.86)	0.48	0.54	(\$1,117.26)
6	(\$13,855.61)	15	8	7	53.33	\$2,065.52	(\$4,339.97)	0.48	0.54	(\$923.71)
5	(\$12,835.97)	17	8	9	47.06	\$2,588.95	(\$3,727.50)	0.69	0.62	(\$755.06)
4	(\$12,772.36)	17	8	9	47.06	\$1,913.16	(\$3,119.74)	0.61	0.55	(\$751.32)
3	(\$31,599.23)	18	5	13	27.78	\$2,047.01	(\$3,218.02)	0.64	0.24	(\$1,755.51)
2	(\$27,414.04)	20	7	13	35.00	\$3,396.22	(\$3,937.50)	0.86	0.46	(\$1,370.70)
1	(\$33,694.11)	20	7	13	35.00	\$1,321.72	(\$3,303.55)	0.40	0.22	(\$1,684.71)

In this case the edge is bearish with most of the damage being done in the first 3 days.

With such conflict I decided not to include the failed gap studies in the Aggregator at all this week.

Around noon I sent out a note to subscribers indicating the CBI had a chance to hit 19 and listed 7 stocks that could trigger Catapults at the close. Six of them actually did hit their triggers – moving the CBI from 12 to 18. Below is a performance report showing what would've happened had you bought the S&P the other 5 times the CBI spiked to 18 or above and held it until the CBI dropped to 3 or less.

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts	Net Profit	% Profit	Run-up DrawDown
				Profit	Cum Net Profit		
12/05/96	Buy	\$744.38	\$0.00	134	\$186.26	0.19%	\$1,212.70
12/19/96	Sell	\$745.77			\$186.26		(\$3,710.46)
08/31/98	Buy	\$957.55	\$0.00	104	\$7,503.60	7.53%	\$8,408.40
09/14/98	Sell	\$1,029.70			\$7,689.86		(\$1,825.20)
09/19/01	Buy	\$1,016.10	\$0.00	98	\$5,505.64	5.53%	\$5,809.44
10/03/01	Sell	\$1,072.28			\$13,195.50		(\$6,992.30)
07/19/02	Buy	\$847.75	\$0.00	117	\$6,438.51	6.49%	\$7,261.02
07/30/02	Sell	\$902.78			\$19,634.01		(\$8,432.19)
10/08/08	Buy	\$984.94	\$0.00	101	(\$3,115.85)	(3.13%)	\$5,996.37
10/30/08	Sell	\$954.09			\$16,518.16		(\$14,659.14)

High volatility. High reward. High risk. Note the max run-up and drawdown in the last column. Of course the potential reward has me all-in from an index position standpoint. It is important to keep in mind that although it appears highly likely we'll see some strong upside here soon, it could be a wild ride over the next few days.

Of further note from a breadth standpoint, both of the Worden indicators I discussed last night that looked at the percent of stocks stretched 1 and 2 standard deviations from their 40ma rose again today.

In addition to the volatility there are a few things that have me a bit concerned. The first is the fact that we've seen 4 gaps higher in the last couple of weeks and all of them have been sold. In an already oversold market, gaps higher will often panic some shorts and lead to a sharp rally of 1-5 days. It's always concerning when a market doesn't do what it's supposed to. Of course the fact that the gaps up have been sold lately may make the one that finally succeeds that much stronger. Daytraders who may be picking up on the recent pattern could provide additional fuel if a sell fails to materialize from a gap higher.

The 2nd concern I have is that I'm not see the kind of extreme indications of volume as I am breadth. Over the last two days as the selloff has worsened there volume has dried up. The Quantifiable Edges volume Spyx indicator has yet to spike to an interesting level during this recent selloff. Volume doesn't have to rise on the selloff though. It will be important to see a spike if we get a big up day, though.

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



No surprise here. The market is extremely oversold and the studies are skewed heavily short-term bullish. Still expecting a sharp bounce to occur.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 3/1

Another down week. Another new low. ‘m seeing nothing from an intermediate-standpoint that has me excited about either side right now. Too low to aggressively short and no evidence of an ability to rally. Most notable from a technical perspective is that the S&P 500 broke its last nearby level of technical support this past week. There’s no telling where it might next find support. Still, the overall intermediate-term mantra will remain the same as it has:

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

PM – bought 1/3 position @ \$32.79

PM – bought 1/3 position @ \$32.75

BA – bought 1/3 position @ \$29.51

RTN – bought 1/3 position @ \$37.71

PFE – buy 1/3 position @ \$11.66 limit (leave open from yesterday)

New

PM – buy 1/3 position @ \$32.34 limit

BA – buy 1/3 position @ \$29.36 limit

RTN – buy 1/3 position @ \$36.45 limit

GE – buy 1/3 position @ \$7.01 limit

JNJ – buy 1/3 position @ \$47.64 limit

UTX – buy 1/3 position @ \$38.55 limit

Catapult for ETF’s Trades

DIA – bought @ \$73.73 limit

New

IDU – buy @ \$55.52. I’m looking to trade this one as it both triggered a Catapult and has a high CBI% as can be seen in the table below.

Broad Market Large Cap CBI – 18/9 (DOW-3, CAT-3, PFE-2, PM-3, BA-2, RTN-2, GE, JNJ, UTX)

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	14.86	DJ US Financial	IYF	4.45
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	21.62	DJ US Healthcare	IYH	11.27
DJ US Oil&Gas Expl & Prod	IEO	6.90	DJ US Industrial Sector	IYJ	10.73
DJ US Oil Equip & Svcs	IEZ	3.85	DJ US Consumer Goods	IYK	7.48
DJ US Pharmaceuticals	IHE	18.92	DJ US Basic Materials	IYM	10.81
DJ US Healthcare Providers	IHF	10.20	DJ US Real Estate	IYR	3.66
DJ US Medical Devices	IHI	9.76	DJ US Transportation	IYT	19.05
DJ US Aerospace & Defense	ITA	13.89	DJ US Technology Sector	IYW	5.53
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	5.70	Nasdaq 100	QQQQ	2.00

Utilities have quickly spiked up. Transportation is also getting overdone.

Additional New Trade Ideas

See Catapults and Catapults for ETF's trade ideas in 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	\$6.93	-25.40%		Catapult
DOW(1/3)	2/18/2009	\$8.62	\$6.93	-19.61%		Catapult
SPY(1/4)	2/18/2009	\$79.22	\$70.07	-11.55%		
DOW(1/3)	2/19/2009	\$8.60	\$6.93	-19.42%		Catapult
CAT(1/3)	2/19/2009	\$28.44	\$22.47	-20.99%		Catapult
SPY(1/4)	2/19/2009	\$78.18	\$70.07	-10.37%		
CAT(1/3)	2/20/2009	\$26.14	\$22.47	-14.04%		Catapult
CAT(1/3)	2/23/2009	\$26.66	\$22.47	-15.72%		Catapult
DIA	2/23/2009	\$73.73	\$67.21	-8.84%		Catapult
PFE(1/3)	2/24/2009	\$13.27	\$11.87	-10.55%		Catapult
SPY(1/4)	3/2/2009	\$72.52	\$70.07	-3.38%		
PM(1/3)	3/2/2009	\$32.79	\$32.34	-1.37%		Catapult
PM(1/3)	3/3/2009	\$32.61	\$32.34	-0.83%		Catapult
RTN(1/3)	3/3/2009	\$37.71	\$36.45	-3.34%		Catapult
BA(1/3)	3/3/2009	\$29.51	\$29.36	-0.51%		Catapult
SPY(1/4)	3/2/2009	\$70.07	\$70.07	0.00%		

I'll again send out intraday updates should we see interesting Catapult action tomorrow.

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