

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 5, 2009

Volume 2 Issue 43

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 5, 2009	Rally after CBI >= 10	1-5 days	Bullish		
March 5, 2009	Gap-n-Go from 50-low	1-2 days	Bearish		
March 5, 2009	BKX Down 0.5% SPX Up 1%	1-2 days	Bearish		
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	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%
Active - Long Term					
none					
Dropped Tonight					
March 2, 2009	2% Gap Down	1-3 days	Bullish	2.70%	5.30%

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 3/5 – slightly bullish

The market finally bounced today. Until about 3:30 in the afternoon it appeared the bounce was going to be especially strong and take us right into the close. Unfortunately a late-day selloff gave it a haircut. The major indices still managed to close over 2% higher. Breadth was strong. The NYSE Up Issues % came in at 79% and the Up Volume % was 71%. Overall volume was light as it put in the lightest volume of the last 4 days.

Let's cut right to the chase. Below are some of the studies I looked at tonight.

First let's look at large gap-n-go scenarios from 50-day lows:

SPY gaps at least 0.75% higher from 50-day low. The gap does not fill and it closes higher than the open.										
Buy 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 Fact	Avg Trade
10	(\$11,238.18)	13	6	7	46.15	\$1,714.96	(\$3,075.42)	0.56	0.48	(\$864.48)
9	(\$25,807.56)	14	6	8	42.86	\$1,844.00	(\$4,608.94)	0.40	0.30	(\$1,843.40)
8	(\$33,117.15)	14	7	7	50.00	\$1,506.13	(\$6,237.15)	0.24	0.24	(\$2,365.51)
7	(\$29,750.37)	15	6	9	40.00	\$2,184.14	(\$4,761.69)	0.46	0.31	(\$1,983.36)
6	(\$24,924.16)	16	6	10	37.50	\$2,044.77	(\$3,719.28)	0.55	0.33	(\$1,557.76)
5	(\$14,483.17)	16	7	8	43.75	\$2,640.34	(\$4,120.70)	0.64	0.56	(\$905.20)
4	(\$22,306.98)	16	8	8	50.00	\$1,751.81	(\$4,540.18)	0.39	0.39	(\$1,394.19)
3	(\$20,094.56)	16	5	11	31.25	\$1,634.34	(\$2,569.66)	0.64	0.29	(\$1,255.91)
2	(\$23,501.19)	16	6	10	37.50	\$1,374.39	(\$3,174.75)	0.43	0.26	(\$1,468.82)
1	(\$8,012.00)	16	4	11	25.00	\$814.84	(\$1,024.67)	0.80	0.29	(\$500.75)

After the market gap and moves higher without filling as it did on Wednesday it has almost always experienced a short-term pullback. Not shown above is that 14 of 16 instances saw at least 1 close below the trigger day close within the next 3 days. Looking out 6 days would make it 15 of 16.

Also notable today was the poor action in the banking sector:

S&P 500 rises at least 1% while the BKX drops at least 0.5%.										
Buy on close. Sell X days later. \$100k/trade. 1993-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$13,033.94)	13	6	7	46.15	\$1,769.03	(\$3,378.30)	0.52	0.45	(\$1,002.61)
9	(\$12,449.87)	13	5	8	38.46	\$2,688.04	(\$3,236.26)	0.83	0.52	(\$957.68)
8	(\$1,134.64)	13	5	8	38.46	\$3,301.60	(\$2,205.33)	1.50	0.94	(\$87.28)
7	(\$5,166.38)	13	5	8	38.46	\$1,892.36	(\$1,828.53)	1.03	0.65	(\$397.41)
6	(\$9,100.69)	13	4	9	30.77	\$2,500.30	(\$2,122.43)	1.18	0.52	(\$700.05)
5	(\$7,458.16)	13	5	8	38.46	\$1,924.37	(\$2,135.00)	0.90	0.56	(\$573.70)
4	\$180.52	13	8	5	61.54	\$1,396.32	(\$2,198.00)	0.64	1.02	\$13.89
3	(\$4,058.64)	13	5	8	38.46	\$1,873.72	(\$1,678.41)	1.12	0.70	(\$312.20)
2	(\$13,555.44)	13	3	10	23.08	\$528.48	(\$1,514.09)	0.35	0.10	(\$1,042.73)
1	(\$11,793.44)	13	1	12	7.69	\$571.38	(\$1,030.40)	0.55	0.05	(\$907.19)

Below is a listing of all the trades with a 1-day exit. After the 1st instance moved higher the next twelve have fallen the next day:

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts	Net Profit Cum Net Profit	% Profit	Run-up DrawDown
10/14/93	Buy	\$466.83	\$0.00	214	\$571.38	0.57%	\$913.78
10/15/93	Sell	\$469.50			\$571.38		\$0.00
07/19/94	Buy	\$453.86	\$0.00	220	(\$497.20)	(0.50%)	\$66.00
07/20/94	Sell	\$451.60			\$74.18		(\$697.40)
03/11/96	Buy	\$640.02	\$0.00	156	(\$457.08)	(0.46%)	\$0.00
03/12/96	Sell	\$637.09			(\$382.90)		(\$1,747.20)
04/16/97	Buy	\$763.53	\$0.00	130	(\$228.80)	(0.23%)	\$652.60
04/17/97	Sell	\$761.77			(\$611.70)		(\$395.20)
08/25/99	Buy	\$1,381.79	\$0.00	72	(\$1,424.16)	(1.43%)	\$0.00
08/26/99	Sell	\$1,362.01			(\$2,035.86)		(\$1,452.24)
11/18/99	Buy	\$1,424.94	\$0.00	70	(\$205.80)	(0.21%)	\$0.00
11/19/99	Sell	\$1,422.00			(\$2,241.66)		(\$513.10)
01/10/00	Buy	\$1,457.60	\$0.00	68	(\$1,294.72)	(1.31%)	\$72.08
01/11/00	Sell	\$1,438.56			(\$3,536.38)		(\$1,576.24)
02/03/00	Buy	\$1,424.97	\$0.00	70	(\$42.00)	(0.04%)	\$653.10
02/04/00	Sell	\$1,424.37			(\$3,578.38)		(\$1,435.00)
04/07/00	Buy	\$1,516.35	\$0.00	65	(\$772.85)	(0.78%)	\$704.60
04/10/00	Sell	\$1,504.46			(\$4,351.23)		(\$845.00)
01/18/01	Buy	\$1,347.97	\$0.00	74	(\$400.34)	(0.40%)	\$486.92
01/19/01	Sell	\$1,342.56			(\$400.34)		(\$831.02)
10/23/08	Buy	\$908.11	\$0.00	110	(\$3,447.40)	(3.45%)	\$0.00
10/24/08	Sell	\$876.77			(\$3,447.40)		(\$6,078.60)
12/10/08	Buy	\$899.24	\$0.00	111	(\$2,847.15)	(2.85%)	\$598.29
12/11/08	Sell	\$873.59			(\$2,847.15)		(\$3,386.61)
02/03/09	Buy	\$838.51	\$0.00	119	(\$747.32)	(0.75%)	\$1,587.46
02/04/09	Sell	\$832.23			(\$747.32)		(\$1,110.27)
03/04/09	Buy	\$712.87		140	n/a	n/a	\$0.00
open	n/a	\$712.87		n/a	n/a		\$0.00

The 1993 instance, which was the only one that did not pull back the next day, enjoyed only 1 day of additional upside before selling off for the next 5 days.

I looked at other instances where the S&P sold off at least 1.5% in the last half hour of trading day. I found 59 instances. There was no short-term edge as winners and losers were split 29-28. I also filtered to show only those times where the market managed to close positive on the day even after the late-day selloff. In this case there were only 3 instances found. All 3 closed higher both 1 and 2 days later. The instances found were 10/20/87, 1/13/88, and 11/24/08.

I also looked at other times the market bounced following such extreme CBI readings:

<i>Yesterday the CBI is 10 or above and the S&P 500 makes a 20-day low. Today the S&P 500 closes higher.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1995-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
15	\$47,425.89	14	11	3	78.57	\$4,900.42	(\$2,159.57)	2.27	8.32	\$3,387.56
10	\$22,510.01	15	11	4	73.33	\$3,934.41	(\$5,192.13)	0.76	2.08	\$1,500.67
5	\$32,068.81	16	13	3	81.25	\$2,840.96	(\$1,621.24)	1.75	7.59	\$2,004.30
4	\$31,518.81	16	12	4	75.00	\$3,492.16	(\$2,596.76)	1.34	4.03	\$1,969.93
3	\$23,007.94	16	12	4	75.00	\$2,879.58	(\$2,886.74)	1.00	2.99	\$1,438.00
2	\$7,870.55	17	11	5	64.71	\$1,851.40	(\$2,498.98)	0.74	1.63	\$462.97
1	\$3,194.21	17	7	10	41.18	\$1,866.97	(\$987.46)	1.89	1.32	\$187.89

The edge here really begins to exert itself after the 1st two days.

So there are two short-term bearish studies suggesting a 1-2 day pullback and a bullish study suggesting there should be more upside – perhaps after the pullback.

Here's how it all looks in tonight's [Aggregator](#) chart:



Both the green Aggregator and the black differential lines are favoring the bullish case.

Already all-in I'm looking to hold on a bit longer, understanding there may be a pullback here in the next day or two.

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

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 – no fill

PM – buy 1/3 position @ \$32.34 limit

BA – buy 1/3 position @ \$29.36 limit

RTN – no fill

GE – buy 1/3 position @ \$7.01 limit

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

UTX –no fill

New

GE – buy 1/3 position @ \$6.69 limit

Catapult for ETF's Trades

DIA – bought @ \$73.73 limit

Broad Market Large Cap CBI – 16/8 (DOW-3, PFE-2, PM-3, BA-2, RTN-2, GE - 2, 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	0.00	DJ US Energy	IYE	3.49
DJ US Insurance Index	IAK	13.51	DJ US Financial	IYF	4.11
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	24.32	DJ US Healthcare	IYH	11.27
DJ US Oil&Gas Expl & Prod	IEO	6.90	DJ US Industrial Sector	IYJ	9.96
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	12.16
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	23.81
DJ US Aerospace & Defense	ITA	11.11	DJ US Technology Sector	IYW	4.02
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	6.14	Nasdaq 100	QQQQ	2.00

Not much dropped today. Still a long ways to go to work off the high CBI %'s..

Additional New Trade Ideas

See GE trigger in Catapult section.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DOW(1/3)	2/17/2009	\$9.29	\$7.06	-24.00%		Catapult
DOW(1/3)	2/18/2009	\$8.62	\$7.06	-18.10%		Catapult
SPY(1/4)	2/18/2009	\$79.22	\$71.73	-9.45%		
DOW(1/3)	2/19/2009	\$8.60	\$7.06	-17.91%		Catapult
CAT(1/3)	2/19/2009	\$28.44	\$25.44	-10.55%		sold on close
SPY(1/4)	2/19/2009	\$78.18	\$71.73	-8.25%		
CAT(1/3)	2/20/2009	\$26.14	\$25.44	-2.68%		sold on close
CAT(1/3)	2/23/2009	\$26.66	\$25.44	-4.58%		sold on close
DIA	2/23/2009	\$73.73	\$68.77	-6.73%		Catapult
PFE(1/3)	2/24/2009	\$13.27	\$12.50	-5.80%		Catapult
SPY(1/4)	3/2/2009	\$72.52	\$71.73	-1.09%		
PM(1/3)	3/2/2009	\$32.79	\$33.49	2.13%		Catapult
PM(1/3)	3/3/2009	\$32.61	\$33.49	2.70%		Catapult
RTN(1/3)	3/3/2009	\$37.71	\$37.40	-0.82%		Catapult
BA(1/3)	3/3/2009	\$29.51	\$30.31	2.71%		Catapult
SPY(1/4)	3/3/2009	\$70.07	\$71.73	2.37%		
GE(1/3)	3/4/2009	\$7.01	\$6.69	-4.56%		Catapult
JNJ(1/3)	3/4/2009	\$47.64	\$49.10	3.06%		Catapult
BA(1/3)	3/4/2009	\$29.36	\$30.31	3.24%		Catapult
RTN(1/3)	3/4/2009	\$36.45	\$37.40	2.61%		Catapult

A large amount of trades are still active as the rally was quite enough to reduce the CBI drastically.

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