

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 17, 2009

Volume 2 Issue 51

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 17, 2009	Gap Up 1% then close negative	1-3 days	Bearish	-5.80%	-10.70%
March 16, 2009	4 Up From 200 Low	1-10 days	Bearish	-4.10%	-8.40%
March 12, 2009	2 Days Up In Chop	1-4 days	Bearish		
February 26, 2009	SPX down 1% while SOX up 1%	1-15 days	Bullish	4.60%	7.10%
Active - Long Term					
March 13, 2009	2 90% Up Days	1-25 days	Bullish	8.00%	11.40%
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 3/17 – slightly bearish

After a strong start to the day the market fell apart in the afternoon – wiping out gains of 2%+ in the S&P 500. While the major indices finished lower NYSE breadth remained positive. Both the NYSE Up Issues and Up Volume %'s finished at 56%. Total volume rose to the highest level since last Tuesday.

What stood out to me today was the fact that the market gapped higher by such a large amount and failed to close positive on the day. Below I look at other times the SPY gapped up 1% and finished negative.

SPY gaps up 1% but closes down on the day and under the 200ma.										
Buy on close. Sell X days later. \$100k/trade. 1993-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Wins	Avg Loss	W/L Ratio	Prodit Fac	Avg Trade
5	(\$17,337.64)	14	7	7	50.00	\$2,654.01	(\$5,130.81)	0.52	0.52	(\$1,238.40)
4	(\$10,073.00)	14	7	7	50.00	\$2,099.83	(\$3,538.83)	0.59	0.59	(\$719.50)
3	(\$30,361.22)	15	4	11	26.67	\$2,252.17	(\$3,579.08)	0.63	0.23	(\$2,024.08)
2	(\$23,473.77)	17	6	11	35.29	\$3,733.89	(\$4,170.65)	0.90	0.49	(\$1,380.81)
1	(\$22,834.03)	17	6	11	35.29	\$1,787.63	(\$3,050.89)	0.59	0.32	(\$1,343.18)

While instances are a bit low, additional downside follow through was often seen over the next 1-3 days. Especially interesting is that most of the losses are attributable to the market action in the last six months. Below is a listing of the most recent trades using a 3-day exit.

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts	Net Profit	Cum Net Profit	% Profit	Run-up DrawDown
10/07/08	Buy	\$100.03	\$0.00	999	(\$11,518.47)	(\$11,518.47)	(11.53%)	\$2,147.85
10/10/08	Sell	\$88.50			(\$11,518.47)	(\$12,265.79)		(\$16,433.55)
10/14/08	Buy	\$99.85	\$0.00	1001	(\$6,646.64)	(\$18,912.43)	(6.65%)	\$0.00
10/17/08	Sell	\$93.21			(\$6,646.64)	(\$18,912.43)		(\$13,323.31)
11/10/08	Buy	\$92.63	\$0.00	1079	(\$1,575.34)	(\$20,487.77)	(1.58%)	\$0.00
11/13/08	Sell	\$91.17			(\$1,575.34)	(\$20,487.77)		(\$11,372.66)
02/19/09	Buy	\$78.18	\$0.00	1279	(\$895.30)	(\$21,383.07)	(0.90%)	\$204.64
02/24/09	Sell	\$77.48			(\$895.30)	(\$21,383.07)		(\$4,591.61)
02/26/09	Buy	\$75.62	\$0.00	1322	(\$7,337.10)	(\$28,720.17)	(7.34%)	\$92.54
03/03/09	Sell	\$70.07			(\$7,337.10)	(\$28,720.17)		(\$7,905.56)
03/03/09	Buy	\$70.07	\$0.00	1427	(\$1,641.05)	(\$30,361.22)	(1.64%)	\$3,995.60
03/06/09	Sell	\$68.92			(\$1,641.05)	(\$30,361.22)		(\$4,238.19)
03/16/09	Buy	\$75.86		1318	n/a	n/a	n/a	\$0.00
open	n/a	\$75.86		n/a	n/a	n/a	n/a	\$0.00

Here's tonight's [Aggregator](#) chart:



For the 1st time in a while the green Aggregator line is below the zero line, indicating bearish expectations over the next few days. The black differential line is also negative which illustrates the S&P has outperformed expectations over the last few days. It appears the market may be beginning its first pullback after the thrust higher from the lows.

With both the green Aggregator line and the black differential line below zero the Aggregator chart is now positioned in a way that I would normally look for a short entry. I'm not enthusiastic about shorting here for a couple of reasons. First, based on the current configuration of the studies the green Aggregator line is set to flip back to positive tomorrow night. Second, basically any down close will also flip the black differential line back to positive.

Agile and aggressive traders could look to play the move lower here. I'd prefer to stay sidelined and see if the market will indeed pull back a bit. I'm anticipating a long entry in the next few days should the pullback remain somewhat orderly.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 3/16

So I've been saying for a while now that I expect a rally to emerge here at some point that will likely last a few months and could see a rise of 30% or more. The current bounce gives some hope that this rally could already be underway. When a market makes a move off a low you'd like to see it quickly become overbought and then stay that way for a while and continue to move higher. So far so good as none of the bounce from the lows has been given back yet.

I looked at the 4 higher closes from a 200-day low in more detail to see how many of those instances went on to further gains and how many fell apart. In order to determine success I simply said they would have to rally as much as they already had from their lows. A failure would occur if the lows were taken out before the trade was deemed successful.

Looking at it this way I found the following:

- 1) Eight of the 18 instances led to a successful continuation move higher.
- 2) Of the 8 successes, 5 of them marked long-term lows. These occurred in 7/62, 7/65, 5/70, 11/71, and 10/02.
- 3) Ten of 18 trades would have failed.
- 4) Of the 10 failures, 6 of them failed almost immediately.

I'm going to continue to watch price and volume action for clues. I anticipate we'll see some further evidence as the week unfolds. Ideally we want the first pullback here to be relatively mild.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

RTN – bought 1/3 position

RTN – bought 1/3 position

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 2/1 (RTN-2)

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	1.16
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	2.70	DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	1.72	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	2.70	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	2.78	DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	0.00

Additional New Trade Ideas

None tonight. There was one trigger listed on the triggers sheet tonight as NWL is set up for a short via -81217. It's a more aggressive play than I'd prefer to track here and so I will pass on it.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
RTN(1/3)	3/3/2009	\$37.71	\$34.64	-8.14%		Catapult
RTN(1/3)	3/4/2009	\$36.45	\$34.64	-4.97%		Catapult

February Results Summary

Not a whole lot of trade ideas were closed out in February. I've finally gotten around to listing them below.

First the usual caveats and explanations before unveiling the results.

I don't suggest position sizes. The primary reason for this is I'm not acting as a financial advisor. I don't feel it is appropriate to suggest allocation sizes without understanding someone's financial situation and risk tolerance. Even for my own trading I run different portfolios with different levels of aggressiveness. For instance, my most aggressive portfolio is my IRA. Here I may use options to sometimes get 400-500% leveraged. Other portfolios on the other hand normally take much more conservative stances and some rarely reach or exceed 100% exposure.

Since I don't suggest position sizes this is should not be considered a performance report, but rather a trade idea scorecard. Therefore, no matter how objective I try to be the reporting of the results is always going to be

skewed depending on how you approach the trades. For instance, I always recommend scaling into the Catapult positions in 3 parts, whereas the “System” trades (whatever system I unveil other than Catapult) are normally one entry. The “Index” trades I normally recommend scaling into as well. For my own trading I trade much larger size with the index trades than any of the individuals. I also control my exposure by limiting the total amount invested per day. As I mentioned, this will vary depending on the account I’m trading. My most aggressive account I may put in up to 100%/day and get heavily leveraged using options. A more conservative account may max out at 15%-20% per day.

It’s unlikely anyone would have taken all of the trades with equal amounts, so personal results would vary greatly depending on the trader’s approach. Simply adding up the results of the individual triggers as I do below is an admittedly poor representation of returns. A net positive or negative does not necessarily mean a person following the ideas would have made or lost money during the period measured. And the sum total is certainly not representative of what a portfolio would return.

With all that out of the way, below is a complete list of February’s trade ideas:

Security	Type	Strategy	Position	Entry Dt	Entry Prc	Exit Date	Exit Prc	Pct G/L
Feb-09								
IEF	ETF	QE System	Long	2/5/2009	\$93.90	2/10/2009	\$94.61	0.8%
SPY	Index	QE Index	Short	2/6/2009	\$86.98	2/10/2009	\$83.11	4.4%
QQQQ	ETF	QE System	Short	2/9/2009	\$31.39	2/10/2009	\$30.34	3.3%
SPY	Index	QE Index	Short	2/9/2009	\$87.10	2/12/2009	\$82.17	5.7%
KBE	ETF	Catapult	Long	2/20/2009	\$10.86	2/24/2009	\$12.21	12.4%
SPY	Index	QE Index	Long	2/20/2009	\$77.42	2/25/2009	\$77.50	0.1%
2009 February Totals								26.7%

And here are some of the breakdown stats:

February	Trades	Wins	Losses	Win %	Avg Win	Avg Loss	Avg Trade	Profit Factor	Total Gains
Total	6	6	0	100.00%	4.46%	na	4.46%	na	26.7%
Index	3	3	0	100.00%	3.40%	na	3.40%	na	10.2%
Catapult	1	1	0	100.00%	12.4%	na	12.40%	na	12.4%
System	2	2	0	100.00%	2.05%	na	2.05%	na	4.1%

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