

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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## 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
<b>Active</b>					
March 18, 2009	Fed Day Spike	1-8 days	Bearish		
March 18, 2009	Appel Daily Breadth	1-20 days	Bullish		
March 17, 2009	2 Up In Chop	1-4 days	Bearish		
March 18, 2009	Lowest vol and highest close in 15	1-4 days	Bearish	-1.40%	-3.70%
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%
<b>Active - Long Term</b>					
March 13, 2009	2 90% Up Days	1-25 days	Bullish	8.00%	11.40%
<b>Dropped Tonight</b>					
March 18, 2009	Overbought going in to Fed day	1 day	Bullish		
February 26, 2009	SPX down 1% while SOX up 1%	1-15 days	Bullish	4.60%	7.10%

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 3/19 – approaching bearish**

Another strong day as the market popped higher following the Fed announcement. The S&P and Nasdaq closed up close to 2%. Breadth was again very strong – just missing a 4<sup>th</sup> 90% Up Volume day in the last few weeks. Total volume came in fairly high as well.

A few quick things I'm looking at. First, from the intraday update sent on Wednesday:

*Below are a couple of past studies looking at Fed day spikes:*

<http://quantifiableedges.blogspot.com/2008/08/fed-day-spikes-historical-aftermath.html>

<http://quantifiableedges.blogspot.com/2008/12/when-fed-sparks-rally-to-10-day-high.html>

*The theme shows some additional follow through over the next 1-2 days followed by a pullback over the next couple of weeks as excitement wears off.*

*Today I decided to look at other times the 10-day %R was over 90 the day before the Fed day (as it was yesterday) and then the market rose at least 0.5% more on the day of the Fed announcement. Results below:*

	daysin (QE Post Fed Pop)	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
1	10	-820.40	11	6	5	54.55	2,444.51	-3,097.49	0.79	0.95	-74.58
2	9	-1,021.41	11	6	5	54.55	2,293.64	-2,956.65	0.78	0.93	-92.86
3	8	-3,076.64	11	5	6	45.45	2,675.03	-2,741.96	0.98	0.81	-279.69
4	7	3,143.39	11	6	5	54.55	2,319.09	-2,154.23	1.08	1.29	285.76
5	6	1,700.56	11	6	5	54.55	1,768.69	-1,782.31	0.99	1.19	154.60
6	5	-1,078.65	11	5	6	45.45	1,710.33	-1,605.05	1.07	0.89	-98.06
7	4	-923.55	11	6	5	54.55	1,316.39	-1,764.37	0.75	0.90	-83.96
8	3	-558.70	11	8	3	72.73	1,048.50	-2,982.23	0.35	0.94	-50.79
9	2	6,722.10	11	10	1	90.91	674.88	-26.69	25.29	252.86	611.10
10	1	4,147.29	11	7	4	63.64	777.74	-324.22	2.40	4.20	377.03

Additional notes:

- 1) Of the 11 instances, ALL of them closed higher either on day 1 or day 2.
- 2) Eight days out, 9 of 11 closed below the Fed day close at some point.

Same theme here. This study is suggesting we could see more follow through over the next day or two. After that, a pullback should ensue.

Secondly, In Gerald Appel's book "Technical Analysis - Power Tools for Active Investors" he publishes a system called the "Daily Breadth Impulse Signal". Essentially it looks to enter the market when the 10-day exponential average of advancers/decliners hits an extreme. The trade closes when the same measure eventually declines to a certain number. (Since it's not my system I'm not comfortable revealing it in whole but for those interested it can be found in chapter 6 on page 142.)

Anyway, Mr. Appel's system signaled today. The last time it signaled was January 2<sup>nd</sup> – which turned out to be one of the biggest failures ever. Below are updated performance stats for the system:

	daysin (Appel Daily Breadth)	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
1	20	101,766.94	37	29	8	78.38	4,412.13	-3,273.10	1.35	4.89	2,750.46
2	19	101,511.72	38	30	8	78.95	4,309.58	-3,471.96	1.24	4.65	2,671.36
3	18	95,810.91	39	30	9	76.92	4,151.70	-3,193.34	1.30	4.33	2,456.69
4	17	82,110.22	39	30	9	76.92	3,736.31	-3,337.67	1.12	3.73	2,105.39
5	16	81,564.03	39	29	10	74.36	3,817.92	-2,915.57	1.31	3.80	2,091.39
6	15	78,469.37	39	30	9	76.92	3,483.85	-2,894.01	1.20	4.01	2,012.04
7	14	74,643.95	39	31	8	79.49	3,229.80	-3,184.96	1.01	3.93	1,913.95
8	13	74,840.86	41	33	8	80.49	3,077.91	-3,341.28	0.92	3.80	1,825.39
9	12	70,883.07	41	32	9	78.05	3,002.56	-2,799.89	1.07	3.81	1,728.86
10	11	62,291.36	42	35	7	83.33	2,607.31	-4,137.78	0.63	3.15	1,483.13
11	10	63,932.31	42	34	8	80.95	2,565.35	-2,911.19	0.88	3.75	1,522.20
12	9	55,299.07	44	33	11	75.00	2,535.85	-2,580.35	0.98	2.95	1,256.80
13	8	49,015.77	47	32	15	68.09	2,631.71	-2,346.60	1.12	2.39	1,042.89
14	7	40,494.21	48	34	14	70.83	2,142.57	-2,310.93	0.93	2.25	843.63
15	6	34,359.57	48	33	15	68.75	1,976.02	-2,056.60	0.96	2.11	715.82
16	5	31,090.06	52	36	16	69.23	1,701.40	-1,885.02	0.90	2.03	597.89
17	4	20,102.01	54	31	23	57.41	1,496.75	-1,143.36	1.31	1.76	372.26
18	3	2,237.25	57	27	30	47.37	1,411.90	-1,196.14	1.18	1.06	39.25
19	2	11,468.96	59	33	26	55.93	942.04	-754.55	1.25	1.58	194.39
20	1	9,468.26	59	35	24	59.32	678.44	-594.89	1.14	1.66	160.48

Another notable about today's move is that the S&P traded over 20% above its recent lows. I looked at other times back to 1960 where the S&P rose 20% or more within a 2-week period. There have only been 3 other instances: November 2008, October 2008 and Following the Crash of 1987.

While the Dow hasn't managed a 20% gain yet I did use it to look back to 1919. As can be seen in the table below, results were inconsistent. (Note: results based on \$1,000,000/trade rather than normal \$100k/trade.)

daysin (QE Vol Lite Rally)	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
100	275,489.70	10	6	4	60.00	207,365.87	-242,176.38	0.86	1.28	27,548.97
90	576,712.85	10	6	4	60.00	226,977.16	-196,287.53	1.16	1.73	57,671.29
80	270,440.80	11	6	5	54.55	219,378.40	-209,165.92	1.05	1.26	24,585.53
70	-326,008.52	13	5	8	38.46	219,330.72	-177,832.77	1.23	0.77	-25,077.58
60	-242,219.22	13	4	9	30.77	210,121.89	-120,300.75	1.75	0.78	-18,632.25
50	-90,412.17	13	4	9	30.77	174,873.03	-87,767.14	1.99	0.89	-6,954.78
40	309,580.31	13	4	9	30.77	220,584.58	-63,639.78	3.47	1.54	23,813.87
30	466,769.06	14	6	8	42.86	172,935.03	-71,355.14	2.42	1.82	33,340.65
20	126,845.19	17	6	11	35.29	156,109.57	-73,619.29	2.12	1.16	7,461.48
10	120,686.52	20	7	13	35.00	122,681.15	-56,775.50	2.16	1.16	6,034.33

Over half of the instances came between 1931 and 1933. Below is a chart of the period with buys marking the entries after a 20% runup in under 10-days:



The last thing to note tonight is that today marked the 2<sup>nd</sup> day up in a row. This is the trigger for the simple “2 days up in chop system”. The last entry on 3/11 led to the

biggest failure. It also comes on the heels of two failures for the “2 days down in chop” system. For more detailed discussion on this recent move away from choppy behavior you may want to check out Monday’s Subscriber Letter following the intermediate-term overview. (link below)

[2009-03-16 QE Subscriber Letter.pdf](#)

I’m not ready to throw out 2 Days Up In Chop just yet. Below are updated stats:

All Trades			
Total Net Profit	\$63,082.02	Profit Factor	6.15
Gross Profit	\$75,340.89	Gross Loss	(\$12,258.87)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$54,299.00	Select Profit Factor	5.43
Select Gross Profit	\$66,557.87	Select Gross Loss	(\$12,258.87)
Adjusted Total Net Profit	\$46,793.62	Adjusted Profit Factor	3.54
Adjusted Gross Profit	\$65,181.93	Adjusted Gross Loss	(\$18,388.30)
Total Number of Trades	59	Percent Profitable	93.22%
Winning Trades	55	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,069.19	Ratio Avg. Win:Avg. Loss	0.45
Avg. Winning Trade	\$1,369.83	Avg. Losing Trade	(\$3,064.72)
Largest Winning Trade	\$8,783.02	Largest Losing Trade	(\$7,832.88)
Largest Winner as % of Gross Profit	11.66%	Largest Loser as % of Gross Loss	63.90%
Net Profit as % of Largest Loss	805.35%		
Slct. Net Profit as % of Largest Loss	693.22%	Adj. Net Profit as % of Largest Loss	597.40%
Max. Consecutive Winning Trades	23	Max. Consecutive Losing Trades	1

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



The green Aggregator line is basically even suggesting the studies are now net neutral over the next few days. The black differential line remains squarely negative. This illustrates that the S&P has strongly outperformed expectations over the last few days.

Between “2 Days Up In Chop” and today’s Fed study it appears a pullback should occur in the next few days. Overall there are now 5 active bearish studies and only 2 bullish. I would also expect we’ll see more short-term bearish evidence if the market continues higher again tomorrow. As extended as this runup has become, a pullback could be quite sharp. Therefore I am going to start looking to begin a short position should the SPY close higher tomorrow. I will scale in as I frequently like to do. I anticipate take a fairly quick exit on this should it reverse and go our way. See trade ideas section below for details.

### ***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***

none

#### ***Catapult for ETF's Trades***

none

#### ***Broad Market Large Cap CBI – 0***

### **Additional New Trade Ideas**

*SPY – short 1/4 index position at \$79.93 limit ON CLOSE.* Based on short-term market outlook above, I am looking to begin a short position on a close higher.

### **Active Trades Table**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
RTN(1/3)	3/3/2009	\$37.71	\$35.32	-6.34%		<b>sold on open</b>
RTN(1/3)	3/4/2009	\$36.45	\$35.32	-3.10%		<b>sold on open</b>

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