

# 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>					
3/20/2009	Nas Spyx < 0 whil Nas > 10ma	1-7 days	Bearish	-5.10%	-10.90%
March 20, 2009	Gap Up 1% then close negative	1-3 days	Bearish	-5.80%	-10.70%
March 19, 2009	Fed Day Spike	1-8 days	Bearish		
March 19, 2009	Appel Daily Breadth	1-20 days	Bullish		
<b>March 18, 2009</b>	<b>Lowest vol and highest close in 15</b>	<b>1-4 days</b>	<b>Bearish</b>	<b>-1.40%</b>	<b>-3.70%</b>
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 17, 2009	Gap Up 1% then close negative	1-3 days	Bearish	-5.80%	-10.70%
<b>March 19, 2009</b>	<b>2 Up In Chop</b>	<b>1-4 days</b>	<b>Bearish</b>		

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 3/20 – slightly bearish**

Overbought conditions began to get relieved today as the market sold off after gapping higher. The Nasdaq fell about ½% while the S&P dropped over 1%. Breadth was slightly negative. Volume came in lower than yesterday, but not at an extreme.

Earlier this week I showed a study that looked at what happened after SPY gapped up at least 1% and then closed down on the day and below its 200-day moving average. Below is an update to that study:

**SPY gaps up 1% but closes down on the day and below the 200ma.**

<b>Buy on close. Sell X days later. \$100k/trade. 1993 - present.</b>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	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)
<b>3</b>	<b>(\$26,301.78)</b>	<b>16</b>	<b>5</b>	<b>11</b>	<b>31.25</b>	<b>\$2,613.63</b>	<b>(\$3,579.08)</b>	<b>0.73</b>	<b>0.33</b>	<b>(\$1,643.86)</b>
2	(\$18,109.51)	18	7	11	38.89	\$3,966.80	(\$4,170.65)	0.95	0.61	(\$1,006.08)
1	(\$19,776.27)	18	7	11	38.89	\$1,969.08	(\$3,050.89)	0.65	0.41	(\$1,098.68)

Implications are bearish over the next 1-3 days. Our last instance from the 17<sup>th</sup> failed to realize it bearish potential.

One chart that stood out to me tonight was the Nasdaq Spyx chart [on the charts page](#). The Spyx level closed at -2.66. Tonight I ran a study showing other times the Nasdaq Spyx closed below 0 while the Nasdaq closed above its 10-day moving average.

Nasdaq Spyx Closes Under 0 while Nasdaq closes above 10-day moving average.										
Buy on close. Sell X days later. \$100k/trade. 2000-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$50,576.22)	26	10	16	38.46	\$2,953.06	(\$5,006.67)	0.59	0.37	(\$1,945.24)
9	(\$42,276.58)	26	10	16	38.46	\$2,120.54	(\$3,967.62)	0.53	0.33	(\$1,626.02)
8	(\$47,446.56)	26	9	17	34.62	\$2,893.21	(\$4,322.67)	0.67	0.35	(\$1,824.87)
7	(\$66,959.44)	26	9	17	34.62	\$2,035.55	(\$5,016.44)	0.41	0.21	(\$2,575.36)
6	(\$52,441.66)	26	10	16	38.46	\$2,285.49	(\$4,706.03)	0.49	0.30	(\$2,016.99)
5	(\$39,377.83)	27	10	17	37.04	\$2,244.79	(\$3,636.81)	0.62	0.36	(\$1,458.44)
4	(\$27,392.09)	28	9	19	32.14	\$2,841.46	(\$2,787.64)	1.02	0.48	(\$978.29)
3	(\$17,697.05)	28	12	16	42.86	\$1,602.39	(\$2,307.86)	0.69	0.52	(\$632.04)
2	(\$33,530.05)	29	13	16	44.83	\$1,435.66	(\$3,262.10)	0.44	0.36	(\$1,156.21)
1	(\$17,641.00)	32	15	17	46.88	\$1,332.84	(\$2,213.75)	0.60	0.53	(\$551.28)

Here we see a fairly consistent and strong downside edge.

With these studies in mind, below is tonight's [Aggregator](#) chart:



The green Aggregator line is now showing the studies contain a mild bearish influence over the next few days. Meanwhile, even with today's selloff, the market has still managed to outperformed expectations over the last 3 days by a solid amount.

It's too bad I placed the trade idea last night for a short at the close rather than also looking for a gap up open. The net of the studies over the next several days suggest the market is set up for a mild continued pullback and then a new leg higher. Since the market already fell quite a bit from its high today, I'll sidestep the short trade at this point. As I've been looking to do for the last several days I will instead focus on buying

in to the pullback should the market continue lower. In this case I anticipate some additional bullish studies will arise. Therefore, no index trade idea tonight.

There were several triggers among the smaller S&P 500 tonight. As most subscribers are aware, I tend to focus on the etfs and the S&P 100 in the letter. I'll therefore pass on these trades as well. More aggressive traders could look for opportunities among this list.

***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**

*None tonight*

**Active Trades Table**

None

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