

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 26, 2009

Volume 2 Issue 58

## 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 25, 2009	20day high with low volume & range	1-10 days	Bearish	-2.50%	-4.60%
March 24, 2009	2% Gaps Up	1-2 days	Bearish	-3.70%	-7.70%
March 24, 2009	High Volume 1% Drop	1-6 days	Bearish	-5.30%	-9.50%
March 23, 2009	Op-ex Friday 1% Drop	1-4 days	Bearish	-2.90%	-5.20%
March 23, 2009	High Volume 1% Drop	1-5 days	Bearish	-1.50%	-3.60%
March 20, 2009	Nas Spyx < 0 whil Nas > 10ma	1-7 days	Bearish	-5.10%	-10.90%
March 19, 2009	Fed Day Spike	1-8 days	Bearish		
March 19, 2009	Appel Daily Breadth	1-20 days	Bullish		
March 16, 2009	4 Up From 200 Low	1-10 days	Bearish	-4.10%	-8.40%
<b>Active - Long Term</b>					
March 26, 2009	Rise after follow through day		Bullish		
<b>March 13, 2009</b>	<b>2 90% Up Days</b>	<b>1-25 days</b>	<b>Bullish</b>	<b>8.00%</b>	<b>11.40%</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 3/26 – slightly bearish**

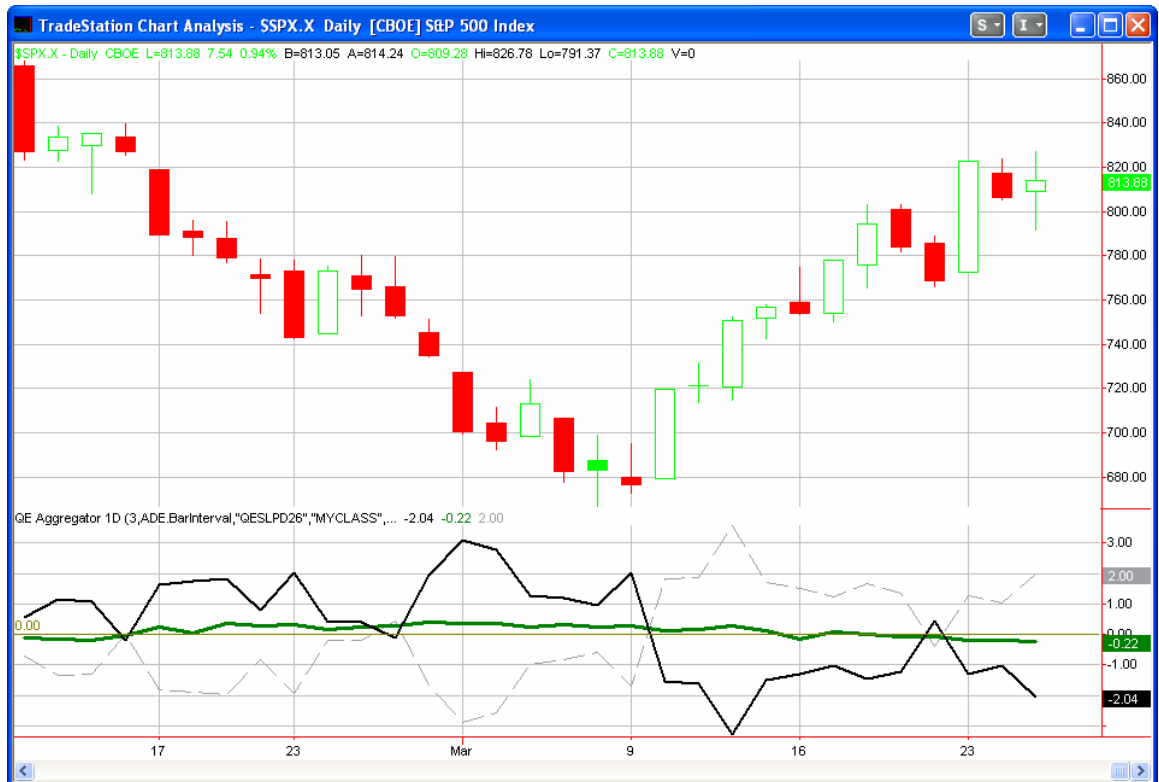
The market was all over the place today. It went from way up to way down and then rallied back strongly. When it was over all the major indices closed higher. The S&P finished up almost 1%. Breadth was positive, but not extremely so. Volume was higher than yesterday but still below its 10-day moving average.

The late-day surge ruined some perfectly good research that I'd sent out intraday. It also left me with little interesting from a short-term perspective. I looked at a few studies concerning outside days but didn't find anything too compelling.

One study that I've neglected to mention lately is the short-term / long-term follow through day success study, which is the 2<sup>nd</sup> study [covered in this post](#). Basically the fact that the market continued to follow through and rise after its March 12<sup>th</sup> follow through day suggests bullish implications. It implies a better chance of hitting 920 than 666 for the S&P. Below is a chart showing all follow through days since the October 2007 top. You'll note that the 12/5/07 and the 12/2/08 instances were the only ones that saw a rise over the week after the follow through day.



With the studies barely changed, below is tonight's **Aggregator** chart:



The green Aggregator line remains far south of 0 tonight as does the black differential line. This could change tomorrow. The green Aggregator line is set to move to only slightly bearish and the differential line will cross above 0 unless the S&P closes at 823 or higher.

A close above 823 would likely ignite more bearish studies – at the minimum we'd see a “2 days up in chop” scenario. Therefore, I'll be looking to short should the SPY on a close of \$82.23 or higher.

The ability of the market to continue to rise in the face of so many bearish studies shows just how powerful this rally has been. It's part of the reason I've been conservative in trying to short it. It's also the reason why if I get filled on a short position, I'll be looking for a quick exit.

***Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 3/23***

Just two quick points to discuss tonight for the intermediate-term. First, while I've been expecting a substantial rally at least lasting several weeks to emerge at some point, the fact is that the current rally already ran up over 20% from low to high. On Thursday I discussed the fact that this is the third such 20% rally since the fall. The only other period of time with such a close cluster of 20% rallies occurred in 1931-33. Results were mixed following those rallies, but the ones in the fall both petered out almost immediately. There's a possibility that the market has already come so far so fast that it may not have a lot left in this rally.

I've also been asked about the propensity of the market to test lows before forming a lasting bottom. In looking back at major bottoms in the S&P 500 from 1960 – present I did find a large percentage of them had some kind of retest. I haven't yet quantified the results, but it raises the possibility that the S&P may drop down to a few percentage points of the 666 bottom before continuing its rally.

Overall I've been quite impressed with the magnitude of the rally of the recent lows – especially from a breadth standpoint. While there's a bit of a lack of short-term bullish studies at the moment, I'm still optimistic that the breadth thrusts we've seen will help to lead this market on a rally lasting several weeks or months and taking us up 30% or more. The evidence isn't yet overwhelming so from a trading standpoint I'll forego a strong intermediate-term bias and defer to my short-term bias.

**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***

***Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)***

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
DJ US Broker Dealers	IAI	0.00	DJ US Energy	IYE	0.00
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	0.00	DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	0.00	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	0.00	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	0.00	DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	0.00

Absolutely nothing.

**Additional New Trade Ideas**

*SPY – short @ \$82.23 limit on CLOSE.* Based on short-term market outlook above.

*KO – short @ \$44.75 limit on CLOSE.* Based on system -80505. This is the 2<sup>nd</sup> time KO has triggered a setup in the last few days. It's extremely overbought and has moved up into the middle of a congestion period.

**Active Trades Table**

None

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