

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 30, 2009

Volume 2 Issue 60

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 30, 2009	20 low range and vol while SPY>10ma	1-10 days	Bearish	-4.40%	-9.90%
March 30, 2009	Last Friday of Month drops > 1%	1 day	Bearish	-2.00%	-4.00%
March 25, 2009	20day high with low volume & range	1-10 days	Bearish	-2.50%	-4.60%
March 24, 2009	High Volume 1% Drop	1-6 days	Bearish	-5.30%	-9.50%
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		
Active - Long Term					
March 26, 2009	Rise after follow through day		Bullish		
Dropped Tonight					
March 16, 2009	4 Up From 200 Low	1-10 days	Bearish	-4.10%	-8.40%
March 23, 2009	High Volume 1% Drop	1-5 days	Bearish	-1.50%	-3.60%
March 27, 2009	2 Days Up In Chop	1-4 Days	Bearish		
March 13, 2009	2 90% Up Days	1-25 days	Bullish	8.00%	11.40%

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 3/30 – slightly bearish

All the bearish influences finally took hold on Friday and the market took a bit of a hit. What was unusual is that most of the damage, and much of the action, came before the open. The market gapped substantially lower and then traded in an extremely tight range during the day. Breadth was strongly negative with Up Issues % coming in at 23% and Up Volume % at 13%. Total volume was anemic and the lightest in over a month. SPY volume was also extremely light.

The low volume and narrow range say one thing to me: buying interest is fast starting to wane. I know many technicians may suggest the lower volume at the beginning of a pullback is a good thing. I haven't found that to be the case. [See examples here...and here](#). I also looked the bearish implications of low volume as well as range in the [2009-03-25 QE Subscriber Letter.pdf](#). Today's action was more extreme than the previous tests, so I thought some of the stats deserved a fresh look.

First let's look at how the SPY has performed following a 3-month low in range as was seen Friday:

SPY's intraday range is the smallest in the last 60 days.										
Buy on close. Sell X days later. \$100k/trade. 1999 - present.										
Days In	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
15	(\$48,225.60)	40	19	21	47.50	\$1,763.08	(\$3,891.62)	0.45	0.41	(\$1,205.64)
14	(\$46,269.73)	41	20	21	48.78	\$1,568.30	(\$3,696.94)	0.42	0.40	(\$1,128.53)
13	(\$41,837.61)	41	21	20	51.22	\$1,526.58	(\$3,694.79)	0.41	0.43	(\$1,020.43)
12	(\$47,352.36)	41	19	22	46.34	\$1,554.49	(\$3,494.89)	0.44	0.38	(\$1,154.94)
11	(\$61,229.92)	42	18	24	42.86	\$1,172.81	(\$3,430.86)	0.34	0.26	(\$1,457.86)
10	(\$50,715.11)	43	19	24	44.19	\$1,223.41	(\$3,081.67)	0.40	0.31	(\$1,179.42)
9	(\$49,573.22)	44	18	26	40.91	\$1,407.98	(\$2,881.41)	0.49	0.34	(\$1,126.66)
8	(\$35,733.95)	47	19	28	40.43	\$1,485.47	(\$2,284.21)	0.65	0.44	(\$760.30)
7	(\$28,833.58)	47	18	29	38.30	\$1,739.00	(\$2,073.64)	0.84	0.52	(\$613.48)
6	(\$22,073.38)	47	18	29	38.30	\$1,663.83	(\$1,793.87)	0.93	0.58	(\$469.65)
5	(\$22,344.92)	50	22	28	44.00	\$1,482.94	(\$1,963.20)	0.76	0.59	(\$446.90)
4	(\$21,281.87)	53	20	33	37.74	\$1,567.86	(\$1,595.12)	0.98	0.60	(\$401.54)
3	(\$17,944.56)	55	21	34	38.18	\$1,301.67	(\$1,331.75)	0.98	0.60	(\$326.26)
2	(\$21,454.62)	57	26	31	45.61	\$868.09	(\$1,420.16)	0.61	0.51	(\$376.40)
1	(\$16,357.79)	60	27	33	45.00	\$608.57	(\$993.61)	0.61	0.50	(\$272.63)

Extremely small range – even on it's own – has carried bearish implications over the last 10+ years.

How about if we loosen the range requirement to 1-month and then also require volume be at a 1-month low?

SPY's intraday range is the smallest in the last 20 days on the lightest volume in 20 days.										
Buy on close. Sell X days later. \$100k/trade. 1999 - present.										
Days In	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	(\$71,350.27)	45	19	26	42.22	\$2,453.34	(\$4,537.07)	0.54	0.40	(\$1,585.56)
19	(\$73,769.48)	45	20	25	44.44	\$2,321.86	(\$4,808.27)	0.48	0.39	(\$1,639.32)
18	(\$70,401.51)	47	20	27	42.55	\$2,380.50	(\$4,370.80)	0.54	0.40	(\$1,497.90)
17	(\$78,216.00)	48	20	27	41.67	\$2,364.86	(\$4,648.63)	0.51	0.38	(\$1,629.50)
16	(\$76,354.18)	48	23	25	47.92	\$2,042.43	(\$4,933.21)	0.41	0.38	(\$1,590.71)
15	(\$70,714.25)	48	23	25	47.92	\$1,865.73	(\$4,545.04)	0.41	0.38	(\$1,473.21)
14	(\$66,466.35)	49	28	21	57.14	\$1,755.19	(\$5,505.32)	0.32	0.43	(\$1,356.46)
13	(\$59,994.91)	49	30	19	61.22	\$1,765.53	(\$5,945.30)	0.30	0.47	(\$1,224.39)
12	(\$48,957.99)	50	29	21	58.00	\$1,660.82	(\$4,624.84)	0.36	0.50	(\$979.16)
11	(\$41,997.21)	51	28	23	54.90	\$1,751.78	(\$3,958.57)	0.44	0.54	(\$823.47)
10	(\$42,106.40)	51	26	25	50.98	\$2,014.43	(\$3,779.27)	0.53	0.55	(\$825.62)
9	(\$35,003.90)	51	27	24	52.94	\$1,924.84	(\$3,623.94)	0.53	0.60	(\$686.35)
8	(\$18,021.57)	53	29	24	54.72	\$1,985.81	(\$3,150.41)	0.63	0.76	(\$340.03)
7	(\$22,833.08)	53	27	26	50.94	\$1,977.92	(\$2,932.19)	0.67	0.70	(\$430.81)
6	(\$16,398.31)	53	28	25	52.83	\$1,784.88	(\$2,655.00)	0.67	0.75	(\$309.40)
5	(\$27,228.14)	56	25	31	44.64	\$1,702.08	(\$2,250.97)	0.76	0.61	(\$486.22)
4	(\$31,840.21)	56	25	31	44.64	\$1,317.89	(\$2,089.91)	0.63	0.51	(\$568.58)
3	(\$24,076.50)	59	25	34	42.37	\$1,335.26	(\$1,689.94)	0.79	0.58	(\$408.08)
2	(\$17,317.84)	60	26	34	43.33	\$949.30	(\$1,235.28)	0.77	0.59	(\$288.63)
1	(\$15,070.43)	61	25	36	40.98	\$772.06	(\$954.77)	0.81	0.56	(\$247.06)

Interestingly, if I also filter to only view those occurrences above the 10-day moving average, then the number is not greatly reduced. Results are a bit more bearish, though:

SPY's intraday range is the smallest in the last 20 days on the lightest volume in 20 days & it closes above its 10ma.											
Buy on close. Sell X days later. \$100k/trade. 1999 - present.											
Days In	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade	
20	(\$69,957.61)	39	17	22	43.59	\$2,044.43	(\$4,759.68)	0.43	0.33	(\$1,793.78)	
19	(\$71,745.22)	39	18	21	46.15	\$1,920.27	(\$5,062.38)	0.38	0.33	(\$1,839.62)	
18	(\$69,687.07)	41	18	23	43.90	\$1,943.55	(\$4,550.91)	0.43	0.33	(\$1,699.68)	
17	(\$80,950.24)	42	17	24	40.48	\$1,986.87	(\$4,780.29)	0.42	0.29	(\$1,927.39)	
16	(\$73,650.80)	42	19	23	45.24	\$1,785.10	(\$4,676.86)	0.38	0.32	(\$1,753.59)	
15	(\$73,462.38)	42	19	23	45.24	\$1,583.92	(\$4,502.47)	0.35	0.29	(\$1,749.10)	
14	(\$66,732.34)	43	24	19	55.81	\$1,606.11	(\$5,541.00)	0.29	0.37	(\$1,551.91)	
13	(\$59,996.02)	43	26	17	60.47	\$1,590.40	(\$5,961.55)	0.27	0.41	(\$1,395.26)	
12	(\$53,651.34)	44	25	19	56.82	\$1,461.11	(\$4,746.27)	0.31	0.41	(\$1,219.35)	
11	(\$43,426.65)	44	24	20	54.55	\$1,572.52	(\$4,058.36)	0.39	0.46	(\$986.97)	
10	(\$46,571.19)	44	22	22	50.00	\$1,751.79	(\$3,868.66)	0.45	0.45	(\$1,058.44)	
9	(\$43,639.09)	44	23	21	52.27	\$1,547.91	(\$3,773.38)	0.41	0.45	(\$991.80)	
8	(\$31,791.06)	46	25	21	54.35	\$1,563.87	(\$3,375.61)	0.46	0.55	(\$691.11)	
7	(\$37,691.26)	46	23	23	50.00	\$1,377.20	(\$3,015.95)	0.46	0.46	(\$819.38)	
6	(\$27,427.34)	46	24	22	52.17	\$1,402.17	(\$2,776.33)	0.51	0.55	(\$596.25)	
5	(\$39,110.27)	48	20	28	41.67	\$1,361.19	(\$2,369.07)	0.57	0.41	(\$814.80)	
4	(\$35,213.57)	48	21	27	43.75	\$1,111.82	(\$2,168.96)	0.51	0.40	(\$733.62)	
3	(\$24,983.38)	51	21	30	41.18	\$1,267.43	(\$1,719.98)	0.74	0.52	(\$489.87)	
2	(\$17,624.08)	52	21	31	40.38	\$956.95	(\$1,216.78)	0.79	0.53	(\$338.92)	
1	(\$17,320.10)	53	20	33	37.74	\$784.29	(\$1,000.18)	0.78	0.48	(\$326.79)	

Interesting about these studies is that the bearish implications are not just a few days in length. Rather they carry out as long as 3-4 weeks. This is the 1st intermediate-term sign I've had that the rally may begin to struggle.

Regular readers will also know that I will often look for strong moves on Friday to carry through into Monday. Below is an excerpt from the February 2nd Subscriber Letter that looks at strong drops on the last Friday of the month:

I've discussed several times in the past how strong moves on Fridays have a tendency to carry through to Mondays. I've never shown it specific to the last Friday of the month, though. As you may recall, from the 60's until the late 80's Mondays were generally bearish. In the late eighties this changed and Mondays suddenly became much stronger and tended to follow the general market. (Note: For all Friday-Monday testing Monday is actually defined as "the day after Friday". In other words I did not exclude instances where Monday was a holiday. Instead, in those cases the returns for Tuesday were used.)

First lets consider some baseline numbers. Since the beginning of 1987 (excluding Black Monday) the market has gained an average of 0.05% on Monday. If instead of looking at all Monday's, you only look at those Mondays that follow the last Friday of the month then the average return doubles to 0.1%. So over the time period Mondays have had a positive bias and this positive bias has been twice as strong following the last Friday of the month.

Now let's look at Monday performance following Friday's that finished down by at least a certain amount. First I'll show all Monday's that DON'T follow the last Friday of the month.

Friday other than last Friday of month closes down at least X%.										
Buy on close. Sell next day's close. \$100k/trade. 1987-present.										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
0.5	\$952.56	281	157	123	55.87	\$887.72	(\$1,125.36)	0.79	1.01	\$3.39
0.75	(\$19,313.76)	203	105	97	51.72	\$937.32	(\$1,213.73)	0.77	0.84	(\$95.14)
1	(\$13,417.70)	145	77	67	53.10	\$998.13	(\$1,347.37)	0.74	0.85	(\$92.54)
1.25	(\$12,848.12)	101	57	44	56.44	\$931.31	(\$1,498.47)	0.62	0.81	(\$127.21)

As you can see, the positive Monday bias turns negative following especially weak Fridays. The weaker Friday was the weaker Monday tended to be.

Now let's look at the last Friday of the month to see if it holds true for those as well.

Last Friday of month closes down at least X%.										
Buy on close. Sell next day's close. \$100k/trade. 1987-present.										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
0.5	\$4,997.43	61	38	23	62.30	\$869.53	(\$1,219.34)	0.71	1.18	\$81.93
0.75	(\$7,344.27)	40	22	18	55.00	\$803.62	(\$1,390.22)	0.58	0.71	(\$183.61)
1	(\$12,478.90)	27	13	14	48.15	\$932.59	(\$1,757.33)	0.53	0.49	(\$462.18)
1.25	(\$6,358.32)	22	12	10	54.55	\$967.64	(\$1,797.00)	0.54	0.65	(\$289.01)

The bearish bias is even more pronounced here. This suggests a possible bearish bias for Monday.

Now let's look at how it typically plays out the rest of the week. First let's look at all Mondays following the last Friday of the month where the market did NOT drop at least 1%.

Last Friday of month NOT down at least 1%.										
Buy on close. Sell X days later. \$100k/trade. 1987-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	\$76,662.82	212	131	81	61.79	\$1,661.02	(\$1,739.89)	0.95	1.54	\$361.62
4	\$54,894.87	212	130	82	61.32	\$1,415.53	(\$1,574.68)	0.90	1.43	\$258.94
3	\$64,296.63	212	131	80	61.79	\$1,299.25	(\$1,323.81)	0.98	1.61	\$303.29
2	\$44,399.48	212	135	77	63.68	\$986.67	(\$1,153.25)	0.86	1.50	\$209.43
1	\$35,231.75	212	124	88	58.49	\$839.92	(\$783.17)	1.07	1.51	\$166.19

Here we see a generally bullish bias for most of the next week. This is not surprising considering the end of month / beginning of month period is a notoriously bullish time period. What of those times when Friday saw a 1% plus drop?

Last Friday of month down at least 1%.										
Buy on close. Sell X days later. \$100k/trade. 1987-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	\$8,391.25	27	14	13	51.85	\$2,905.64	(\$2,483.67)	1.17	1.26	\$310.79
4	\$1,499.57	27	15	12	55.56	\$1,900.92	(\$2,251.18)	0.84	1.06	\$55.54
3	\$3,260.20	27	15	12	55.56	\$1,509.12	(\$1,614.72)	0.93	1.17	\$120.75
2	\$368.82	27	15	12	55.56	\$1,342.43	(\$1,647.30)	0.81	1.02	\$13.66
1	(\$12,478.90)	27	13	14	48.15	\$932.59	(\$1,757.33)	0.53	0.49	(\$462.18)

You can see here that the weakness has not carried through beyond Monday. In fact Tuesday has been an exceptionally strong day in these cases. Again this isn't terribly

surprising considering the “Turnaround Tuesday” phenomenon which I showed on the blog a few weeks back.

The January 30th and February 27th instances are not included in the above results. Both of them also led to a loss on Monday. The 1st was a loss of 0.05% and the 2nd a loss of 4.66%.

With the above studies considered tonight’s [Aggregator](#) chart is below:



Both the green Aggregator line and the black differential line remain below zero. This indicates an overall bearish sentiment from the studies for the next few days and a recent outperformance of the S&P over the last few days. In brief, more downside is expected.

As the Aggregator currently stands it is set to flip from bearish to just barely above 0 tomorrow. Should the market close down on Monday then it’s possible the black differential line will also flip. From a studies standpoint, a down close could ignite some bullish ones. At the least we would see a “2 days down in chop” setup.

What this means is that I will be looking to take profits on the remaining portion of the SPY position on Monday. Partial profits were taken on Friday at the close. This was done as a trade management maneuver rather than being due to expectations turning positive. The gain on the short from entry on Thursday’s close was 1.8%. That by itself is a solid index trade. When I’m trading counter-trend as now I’m much more apt to take a quick profit. Monday I’ll be looking to complete that profit-taking.

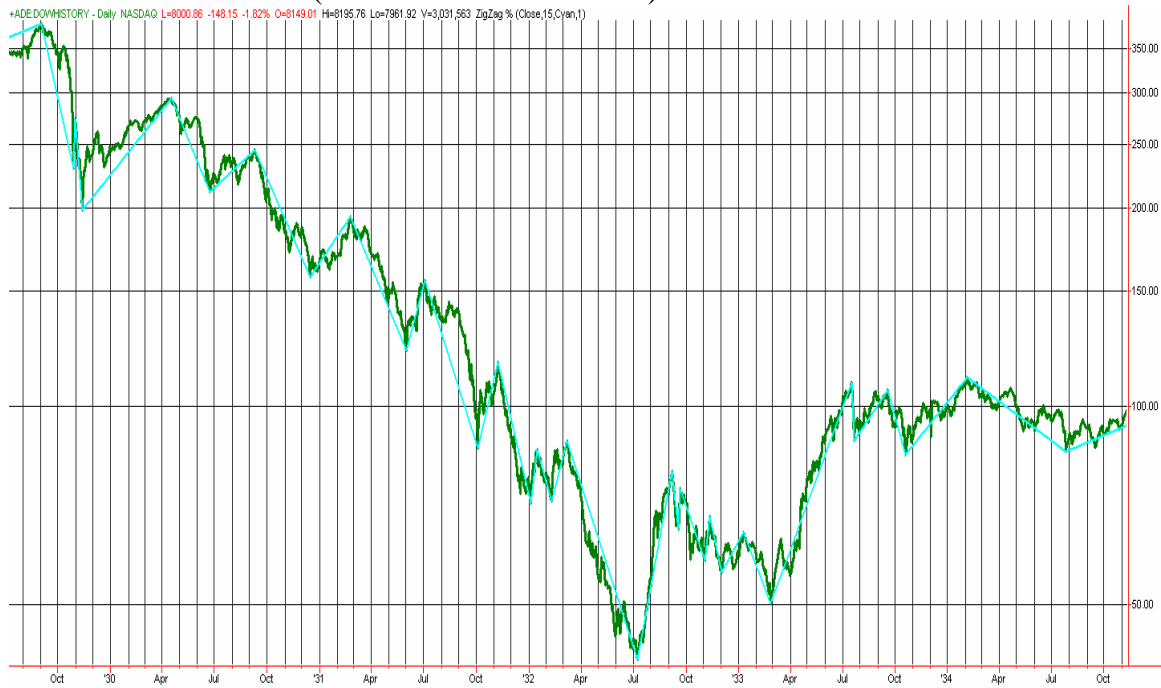
Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 3/30

The question that I keep hearing over and over is “Is this rally for real?” What needs to be considered when formulating an answer is what constitutes a “real” bull move. It is my contention that the current environment most resembles that of the 30’s from a trading standpoint. Certainly the kind of damage that has been done to the market has not occurred since at least that time period. Additionally, volatility levels reached during the course of this bear have reached levels not seen since at least the 30’s in some cases.

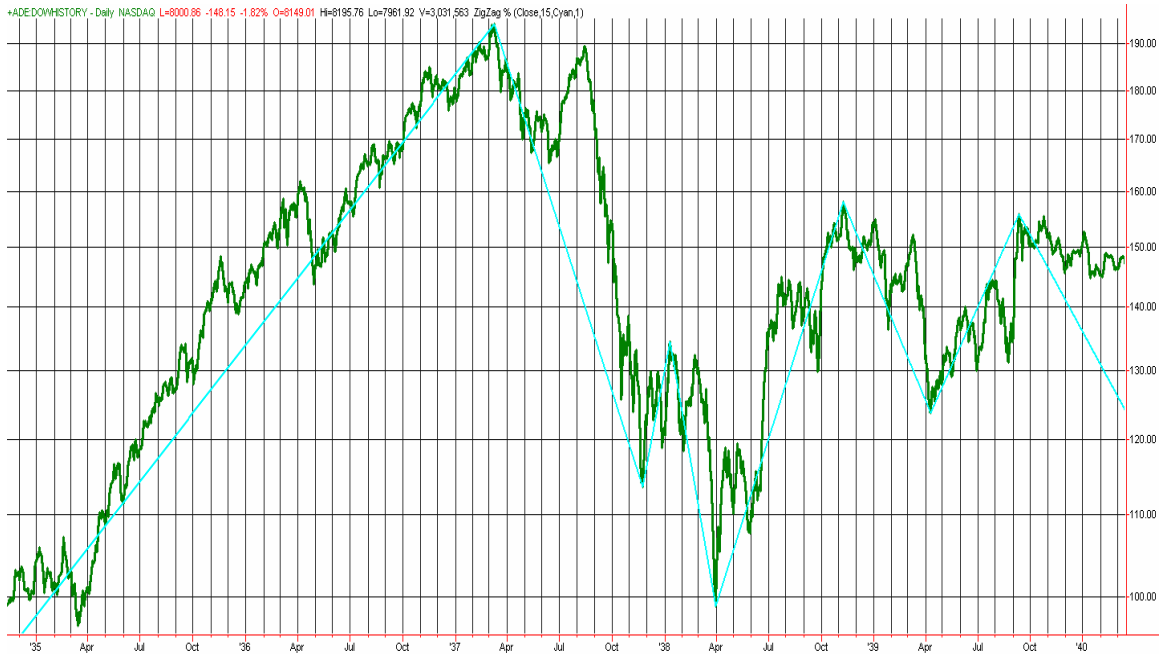
I’m of the belief that the market is likely to trade in a very wide range over the next few years. It is unlikely to begin a new secular bull market during this time. Rather I believe we are likely to see both bull and bear runs occur. Some of these, such as the October and November rallies, may be too quick for most traders to capture significant portions of. Others may last several months before reversing course in a convincing manner. Below I’ve again pulled up some charts from the 30’s. In this case I’ve overlaid the zig-zag indicator in light blue.

What the zig-zag does is identify all moves of at least 15% either up or down from close to close. You’ll notice there was a substantial number of these moves during that time:

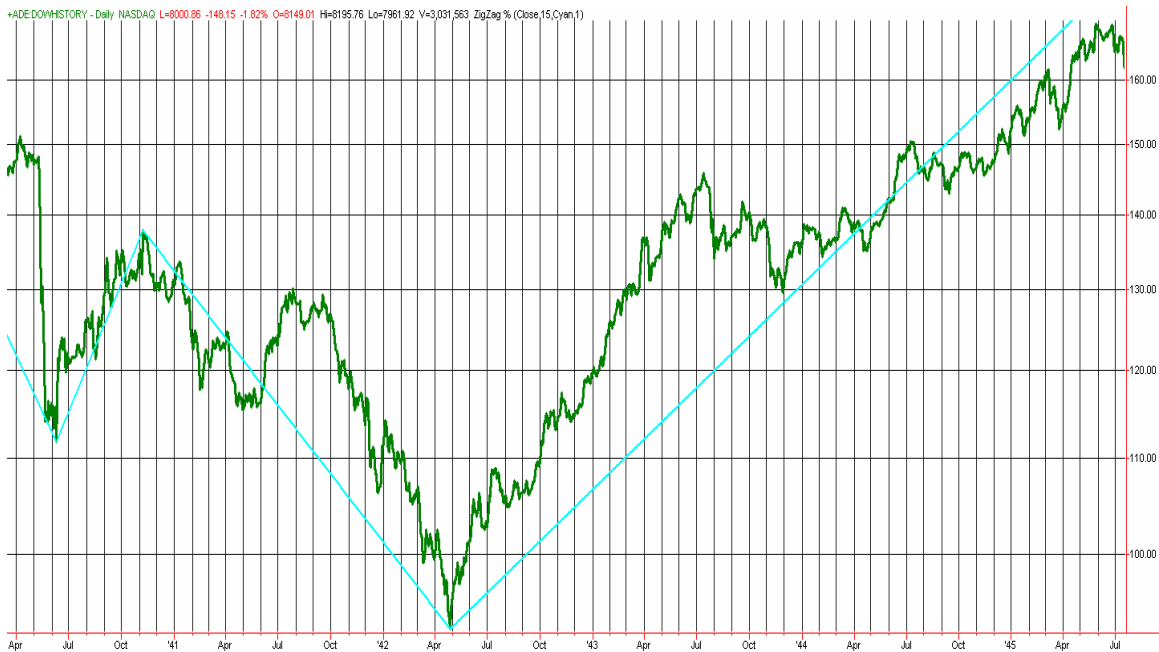
Late 1929 – late 1934. (created with Tradestation)



Next is late '34 to late '40 (created with Tradestation):



Several bull and bear markets could also be identified here. The next great bull move, though didn't take place until 1942 as can be seen below:



So is it for real? Well, I'm not at all convinced that we're looking at a 1942 bottom at this point. My contention is we are likely years away from that. The moves seen between 1929 and 1941 offered plenty of opportunity, though. I expect the next several years of this market will as well. Traders need not worry whether we are in a bull or bear market. Leave that to the media and instead just focus on the likely direction based on the evidence for the next few days or weeks. Remain nimble in your assessment as conditions may change rapidly. Whether the "ultimate" bottom gets hit is irrelevant. The

ultimate bottom in the charts above was made in 1932. Close to 10 years passed before the next great bull market emerged. Picking that 1932 ultimate bottom and riding the wave higher was not the key to big profits. Much more important than picking the bottom would have been to stay nimble and take advantage of some of the vast directional opportunities over the next 10 years – prior to the “real” bull emerging.

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.)

Index	ETF	CBI %	Index	ETF	CBI %
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	0.70
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

Nothing happening here..

Additional New Trade Ideas

None tonight. I'm now in profit-taking mode..

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KO(s)	3/26/2009	\$44.85	\$45.10	0.56%		cover on close < 5ma
SPY(1/4)(s)	3/26/2009	\$83.11	\$81.61	-1.80%		covered 1/2 on close

As I finish this late Sunday night the futures are down close to 2%. I've looked at [gaps of 2% or more in the past](#). Many times a reaction this strong is an overreaction. It frequently leads to a close back above the gap open price – if not the same day then within the next few.

Should the SPY gap down 2% I will take the gift and cover the remaining SPY position at the open. (In fact I would likely personally do it before the open if I have the opportunity. The Subscriber Letter will go by the opening price, though.) Should it not make it this far down I will look to trail a stop throughout the day. I will send out updates of where that stop will be, and in any event I will be out of the trade by the close on Monday.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2009 Hanna Capital Management, LLC