

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 1, 2009

Volume 2 Issue 62

## 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>					
April 1, 2009	1% below high but up on day	1-7 days	Bullish	6.10%	9.90%
March 31, 2009	Double Dn 1.75% No 10-low	1-9 days	Bullish	5.00%	7.90%
March 30, 2009	20 low range and vol while SPY>10ma	1-10 days	Bearish	-4.40%	-9.90%
March 25, 2009	20day high with low volume & range	1-10 days	Bearish	-2.50%	-4.60%
<b>Active - Long Term</b>					
March 26, 2009	Rise after follow through day		Bullish		
<b>Dropped Tonight</b>					
March 31, 2009	2 Down in Chop	1-3 days	Bullish		

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 4/1 – slightly bullish**

After gapping higher and trending up for much of the day, the market gave up a big chunk of its gains going into the close. Still the major indices all closed the day more than 1% higher. Breadth was strong as both NYSE Up Issues and Volume percentages finished at 75%. Total NYSE volume rose over the previous 2 days but was still below average.

Finishes like Tuesday's often *feel* bearish to many traders. They interpret the inability of the market to hold on to its gains as a potential negative. In actuality, while the market may struggle over the next 1-2 days, over the course of the next 1-2 weeks implications appear bullish.

Below is a table showing the result of buying any time the S&P closes over 1.5% below its high for the day but still up at least 1%.

<b>S&amp;P 500 closes more than 1.5% below its high but still up 1% on the day.</b>										
<b>Buy on close. Sell X days later. \$100k/trade. 1978 - present.</b>										
X days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	\$34,122.39	10	6	4	60.00	\$6,656.17	(\$1,453.66)	4.58	6.87	\$3,412.24
9	\$42,795.71	10	7	3	70.00	\$6,895.23	(\$1,823.64)	3.78	8.82	\$4,279.57
8	\$35,585.39	10	8	2	80.00	\$5,117.78	(\$2,678.41)	1.91	7.64	\$3,558.54
7	\$30,691.47	10	8	2	80.00	\$4,233.37	(\$1,587.76)	2.67	10.67	\$3,069.15
6	\$19,624.48	11	8	3	72.73	\$3,682.20	(\$3,277.70)	1.12	3.00	\$1,784.04
5	\$13,750.99	12	7	5	58.33	\$3,195.07	(\$1,722.90)	1.85	2.60	\$1,145.92
4	\$818.38	12	4	8	33.33	\$4,536.59	(\$2,166.00)	2.09	1.05	\$68.20
3	\$18,301.04	12	7	5	58.33	\$3,902.87	(\$1,803.80)	2.16	3.03	\$1,525.09
2	\$7,964.03	12	6	6	50.00	\$3,924.58	(\$2,597.24)	1.51	1.51	\$663.67
1	(\$493.78)	12	5	7	41.67	\$2,600.71	(\$1,928.19)	1.35	0.96	(\$41.15)

Between 5 and 9 days out you'll notice some extremely bullish results. Also notable is that 9 of 12 instances posted a close higher than the trigger price within the next 3 days. If you look out 6 days then all 12 had a close higher than the trigger day close.

Instances are a bit low so I decided to loosen the criteria and only require a close 1% below the high.

<b>S&amp;P 500 closes more than 1% below its high but still up 1% on the day.</b>										
<b>Buy on close. Sell X days later. \$100k/trade. 1978 - present.</b>										
X days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	\$50,341.28	18	11	7	61.11	\$6,458.39	(\$2,957.29)	2.18	3.43	\$2,796.74
9	\$67,044.51	19	13	6	68.42	\$6,274.29	(\$2,420.22)	2.59	5.62	\$3,528.66
8	\$55,443.47	19	14	5	73.68	\$5,061.73	(\$3,084.15)	1.64	4.60	\$2,918.08
7	\$51,168.66	20	15	5	75.00	\$4,549.45	(\$3,414.60)	1.33	4.00	\$2,558.43
6	\$30,650.06	21	14	7	66.67	\$3,996.92	(\$3,615.26)	1.11	2.21	\$1,459.53
5	\$30,556.46	22	14	8	63.64	\$3,733.52	(\$2,714.11)	1.38	2.41	\$1,388.93
4	\$12,049.47	23	11	12	47.83	\$3,926.13	(\$2,594.83)	1.51	1.39	\$523.89
3	\$30,530.62	23	14	9	60.87	\$3,576.74	(\$2,171.52)	1.65	2.56	\$1,327.42
2	\$15,732.19	24	14	10	58.33	\$2,619.08	(\$2,093.50)	1.25	1.75	\$655.51
1	\$1,652.49	24	11	13	45.83	\$1,926.18	(\$1,502.73)	1.28	1.08	\$68.85

In this case 19 of 24 instances (79%) posted a close higher than the trigger day within 3 days. Looking out 6 days that number increases to 23 of 24 instances (96%). The average trade number for both these tests is quite high for 5-9 days.

Tonight's [Aggregator](#) chart is below:



Even with the move up today, both the green Aggregator and black differential lines remain above the zero line. This indicates that the market has underperformed expectations over the last few days, and expectations over the next few days are positive. There aren't greatly positive, though and the bull/bear split of the active short-term studies is 2 to 2. Additionally the market is right near the midpoint of the range established over the last 8 days. I'd prefer to see a bit better risk/reward and would rather be buying after a down day or two rather than into a market that was up 1% the previous day.

I'm going to hold off on buying for now and see what tomorrow brings. The Aggregator is slightly bullish, though.

### ***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.

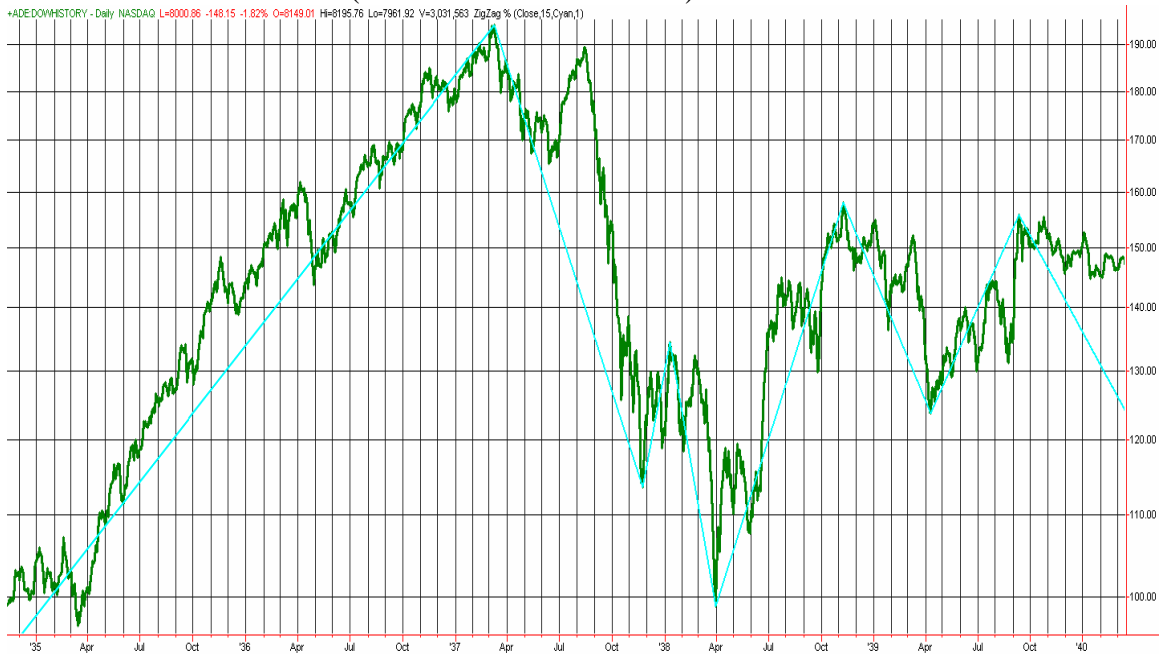
Below I've again pulled up some charts from the 30's. In this case I've overlaid the zig-zag indicator in light blue.

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:

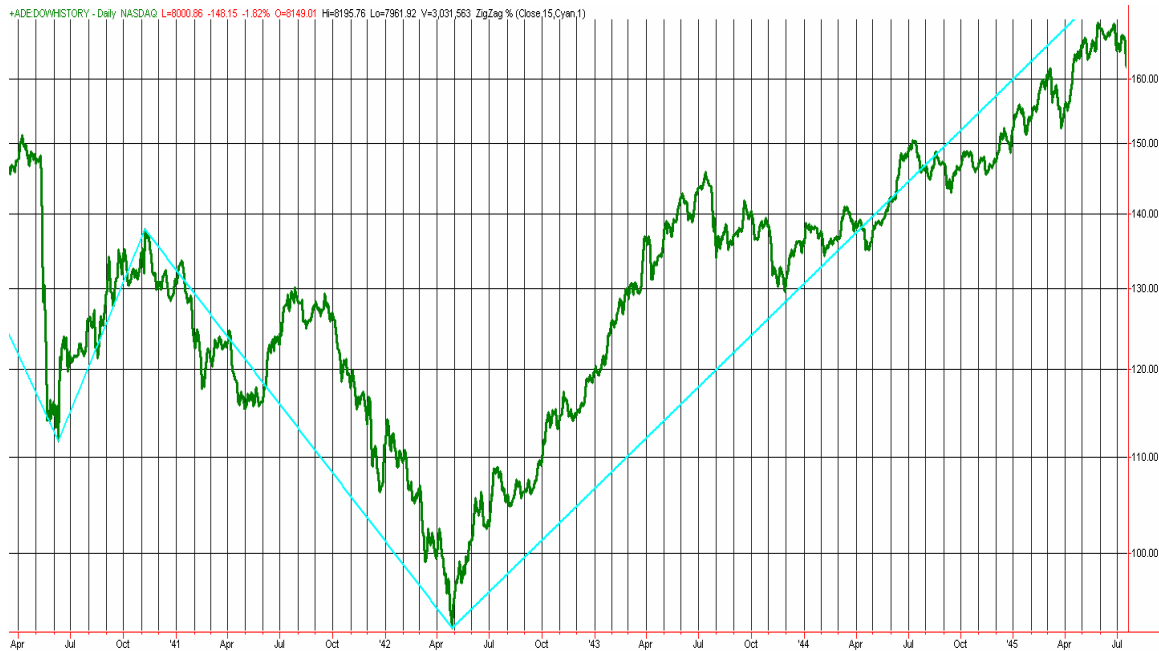
Late 1929 – late 1934. (created with Tradestation)



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.)***

<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	0.70
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* – Unfortunately the gap higher kept the SPY trade idea from last night from filling. I don't want to chase now. Being mid-range there are very few setups among the stocks and etf lists tonight.

**Active Trades Table**

*None*

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