

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 7, 2009

Volume 2 Issue 66

## 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 7, 2009	NYSE Volume 20-day low, SPX>10ma	1-2 days	Bearish	-1.80%	-3.20%
April 6, 2009	Bearish Perfect Storm	1-3 days	Bearish	-3.30%	-5.20%
April 2, 2009	2 Strong Breadth Days - No 10 High	1-8 days	Bearish	-3.30%	-6.00%
April 2, 2009	2 Days up in chop	1-4 days	Bearish		
April 1, 2009	1% below high but up on day	1-7 days	Bullish	6.10%	9.90%
<b>March 31, 2009</b>	<b>Double Dn 1.75% No 10-low</b>	<b>1-9 days</b>	<b>Bullish</b>	<b>5.00%</b>	<b>7.90%</b>
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>					
April 6, 2009	Appel Daily Breadth	1-20 days	Bullish		
March 26, 2009	Rise after follow through day		Bullish		
<b>Dropped Tonight</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 4/7 – slightly bearish**

Market action was very quiet on Monday. A sizable gap down led to a mostly sideways market. In the end the Nasdaq and S&P were both down about 1%. On the NYSE both the up issues and up volume %'s came in a 30%. Volume overall was extremely light and came in at the lowest levels since February.

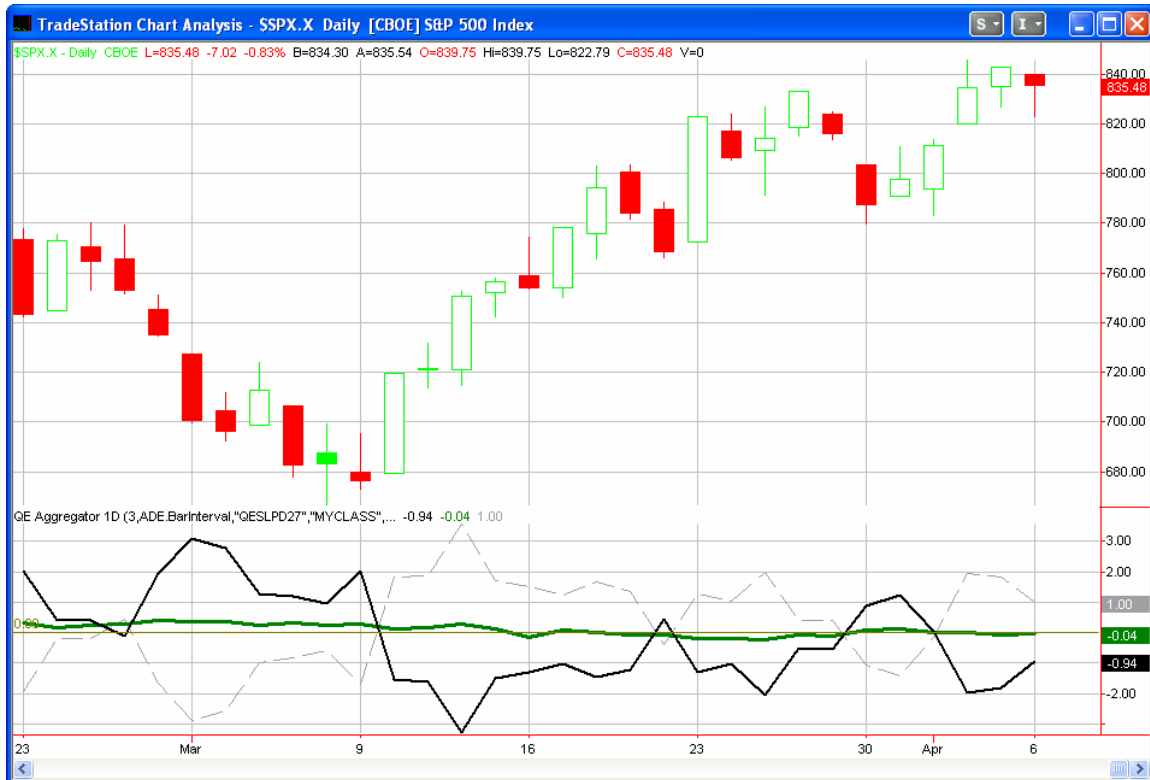
I showed last night what happens when SPY volume hits extremely low levels. The same bearish edge has applied to NYSE volume over the last 10 years:

<i>NYSE volume is the lowest in 20 days. SPX closes above 10ma.</i>										
<i>Buy SPX at close. Sell X days later. \$100k/trade. 1999present.</i>										
X days	Net Profit	Trades	Wins	Losses	\$ Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$39,181.68)	73	40	33	54.79	\$1,577.80	(\$3,099.81)	0.51	0.62	(\$536.74)
9	(\$37,165.31)	75	39	36	52.00	\$1,654.46	(\$2,824.70)	0.59	0.63	(\$495.54)
8	(\$25,717.73)	77	44	33	57.14	\$1,552.40	(\$2,849.20)	0.54	0.73	(\$334.00)
7	(\$40,094.38)	77	40	37	51.95	\$1,435.13	(\$2,635.12)	0.54	0.59	(\$520.71)
6	(\$28,622.24)	78	41	37	52.56	\$1,536.71	(\$2,476.42)	0.62	0.69	(\$366.95)
5	(\$40,664.73)	83	37	46	44.58	\$1,562.93	(\$2,141.16)	0.73	0.59	(\$489.94)
4	(\$34,843.97)	90	43	47	47.78	\$1,204.21	(\$1,843.08)	0.65	0.60	(\$387.16)
3	(\$35,198.79)	92	39	53	42.39	\$1,098.07	(\$1,472.14)	0.75	0.55	(\$382.60)
<b>2</b>	<b>(\$39,806.94)</b>	<b>97</b>	<b>39</b>	<b>58</b>	<b>40.21</b>	<b>\$811.01</b>	<b>(\$1,231.66)</b>	<b>0.66</b>	<b>0.44</b>	<b>(\$410.38)</b>
1	(\$20,974.09)	119	60	59	50.42	\$661.42	(\$1,028.12)	0.64	0.65	(\$176.25)

Most of the damage in the above test is done in the first 2 days.

While some may consider today a healthy, light-volume pullback, long-time readers may recall that I am skeptical of such interpretations. For a detailed study on why, [click here](#).

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



With the green Aggregator and black Differential lines remaining below 0, the downside edge appears to remain. I suspect this pullback may have a little further to go. The bearish edges are all very short-term in nature, though. After tomorrow, the green Aggregator line could very easily flip to bullish.

Having not received a fill Monday due to the unfilled gap down, I'll hold off on attempting an index trade Tuesday. If successful, I'd likely be looking to cover it at the end of the day anyway since some of the bearish studies would be expiring and we'd also now have a "2 Days Down In Chop" long setup. Extremely nimble, more aggressive traders may find a way to benefit from some additional downside here soon.

There is one trade idea from the triggers page listed in the trade ideas section below.

### ***Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 4/6***

I've mentioned before Gerald Appel's Daily Breadth Impulse Signal. It was published in his book "Technical Analysis - Power Tools for Active Investors". 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.) A chart of the indicator can be found on the Quantifiable Edges charts page. The system triggered again at the close on Thursday.

The system was published in 2004 and up until that time it had a terrific track record. Since then it has registered 4 new signals (not including this most recent one). The last 3 of those four signals have all been losers. Perhaps the system was over optimized and perhaps breadth signals in general have become less reliable lately. I suspect it is a little of both. In any case, it will be important to monitor the success of this system as I'm close to removing it from my arsenal as a long signal.

Below is the long-term performance:

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$86,964.45	Profit Factor	4.38
Gross Profit	\$112,698.81	Gross Loss	(\$25,734.36)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$966.28		
Select Total Net Profit	\$86,964.45	Select Profit Factor	4.38
Select Gross Profit	\$112,698.81	Select Gross Loss	(\$25,734.36)
Adjusted Total Net Profit	\$55,846.57	Adjusted Profit Factor	2.63
Adjusted Gross Profit	\$90,159.05	Adjusted Gross Loss	(\$34,312.48)
Total Number of Trades	34	Percent Profitable	73.53%
Winning Trades	25	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$2,557.78	Ratio Avg. Win:Avg. Loss	1.58
Avg. Winning Trade	\$4,507.95	Avg. Losing Trade	(\$2,859.37)
Largest Winning Trade	\$12,471.48	Largest Losing Trade	(\$7,424.82)
Largest Winner as % of Gross Profit	11.07%	Largest Loser as % of Gross Loss	28.85%

If you switch the exit to a simple time-based trigger, the results would look like this:

<b>Appel Daily Breadth Signal triggers. Buy on close. Sell X days later. \$100k/trade. 1970-present.</b>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	\$101,766.94	37	29	8	78.38	\$4,412.13	(\$3,273.10)	1.35	4.89	\$2,750.46
19	\$101,511.72	38	30	8	78.95	\$4,309.58	(\$3,471.96)	1.24	4.65	\$2,671.36
18	\$95,810.91	39	30	9	76.92	\$4,151.70	(\$3,193.34)	1.30	4.33	\$2,456.69
17	\$82,110.22	39	30	9	76.92	\$3,738.31	(\$3,337.67)	1.12	3.73	\$2,105.39
16	\$81,564.03	39	29	10	74.36	\$3,817.92	(\$2,915.57)	1.31	3.80	\$2,091.39
15	\$78,469.37	39	30	9	76.92	\$3,483.85	(\$2,894.01)	1.20	4.01	\$2,012.04
14	\$74,643.95	39	31	8	79.49	\$3,229.80	(\$3,184.96)	1.01	3.93	\$1,913.95
13	\$74,840.86	41	33	8	80.49	\$3,077.91	(\$3,341.28)	0.92	3.80	\$1,825.39
12	\$76,901.82	42	33	9	78.57	\$3,093.96	(\$2,799.89)	1.11	4.05	\$1,831.00
11	\$67,295.11	43	36	7	83.72	\$2,673.88	(\$4,137.78)	0.65	3.32	\$1,565.00
10	\$66,023.56	43	35	8	81.40	\$2,551.80	(\$2,911.19)	0.88	3.83	\$1,535.43
9	\$55,739.07	45	34	11	75.56	\$2,474.20	(\$2,580.35)	0.96	2.96	\$1,238.65
8	\$48,163.27	48	32	16	66.67	\$2,631.71	(\$2,253.22)	1.17	2.34	\$1,003.40
7	\$43,192.96	49	35	14	71.43	\$2,158.46	(\$2,310.93)	0.93	2.34	\$881.49
6	\$40,330.12	50	35	15	70.00	\$2,033.69	(\$2,056.60)	0.99	2.31	\$806.60
5	\$33,713.71	54	38	16	70.37	\$1,680.90	(\$1,885.02)	0.89	2.12	\$624.33
4	\$18,987.16	56	32	24	57.14	\$1,496.81	(\$1,204.62)	1.24	1.66	\$339.06
3	\$1,609.70	59	28	31	47.46	\$1,489.02	(\$1,293.00)	1.15	1.04	\$27.28
2	\$2,803.11	61	33	28	54.10	\$942.04	(\$1,010.15)	0.93	1.10	\$45.95
1	\$7,115.39	62	36	26	58.06	\$686.44	(\$676.79)	1.01	1.40	\$114.76

While results from 1-4 weeks look good, it is interesting to not that there is no edge over the 1<sup>st</sup> 3 days. The next three days are when our short-term bearish signals are most prolific.

The other intermediate-term signal that is still active is the [short-term Follow Through Day success signal](#). In my detailed study on Follow through days I found that their ultimate success could most often be predicted by their short-term success. In the case of the March 12<sup>th</sup> follow through day, the market continued higher over the next week. This suggests the S&P 500 is likely to hit 920 before breaking below 666.

The intermediate-term remains tricky. We have some intermediate-term indications that the rally could continue. Indicators with bearish implications are all short-term at this point. Still, how high is too high? The S&P has already risen over 25% off its bottom less than a month ago. That would seem to be an unmanageable pace, although it's tough to say anything is impossible these days.

I would expect what we will begin to see fairly soon is a consolidation phase where volatility will likely drop and the monster moves of the last several months will dissipate. Having not found any substantial warning signs as of yet I'm inclined to maintain a short-term focus.

### **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

Nothing happening here.

**Additional New Trade Ideas**

*TIP – buy @ \$101.26 limit.* This one has appeared on the triggers page for the last couple of days, qualifying for system 11111. I'll look to enter at Monday's closing price or better.

**Active Trades Table**

*None*

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