

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 9, 2009

Volume 2 Issue 68

## 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 9, 2009	Lowest Spyx 20 on up day<200	1-5 days	Bearish	-3.00%	-5.90%
April 8, 2009	1% drop with 2:1 decliners	1-9 days	Bullish	2.60%	5.50%
April 8, 2009	SPX down 1% on lowest Vol in 20	1-2 days	Bearish		
April 2, 2009	2 Strong Breadth Days - No 10 High	1-8 days	Bearish	-3.30%	-6.00%
April 1, 2009	1% below high but up on day	1-7 days	Bullish	6.10%	9.90%
March 30, 2009	20 low range and vol while SPY>10ma	1-10 days	Bearish	-4.40%	-9.90%
<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>					
April 8, 2009	2 down in chop	1-2 days	Bullish		
April 8, 2009	Big Gap Low Range Down	1 day	Bearish		
April 6, 2009	Bearish Perfect Storm	1-3 days	Bearish	-3.30%	-5.20%
<b>April 7, 2009</b>	<b>NYSE Volume 20-day low, SPX&gt;10ma</b>	<b>1-2 days</b>	<b>Bearish</b>	<b>-1.80%</b>	<b>-3.20%</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 4/9 – slightly bullish*

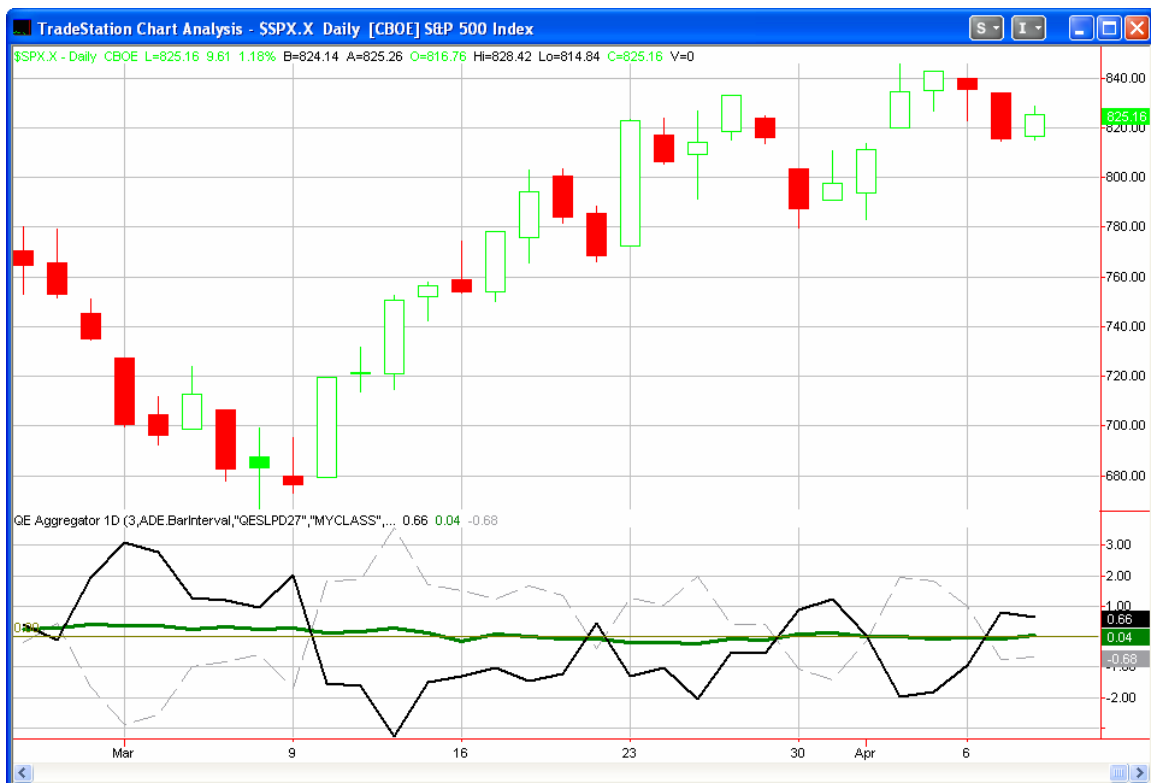
After 2 days selling off the market rebounded today. It gapped higher and then posted a higher high, higher low and higher close. Breadth was strong. The NYSE Up Issues % came in at 73% and the Up Volume % at 71%. Overall volume rose slightly but was still well below recent averages.

The one thing that stood out tonight was the extremely low Volume Spyx reading. ([Click here for an intro to the Quantifiable Edges Volume Spyx indicator.](#)) For the 1<sup>st</sup> time in a while that hit a 20-day low. When that happens on an up day and the market is trading below its 200ma then it has historically had bearish implications over the following week. This can be seen in the below table:

<b>Volume Spyx closes at lowest level in 20 days. The S&amp;P 500 closes up on the day but under the 200ma.</b>										
<b>Buy on close. Sell X days later. \$100k/trade. 1995-present.</b>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$22,796.80)	29	12	17	41.38	\$3,256.78	(\$3,639.89)	0.89	0.63	(\$786.10)
9	(\$27,066.24)	31	14	17	45.16	\$2,882.82	(\$3,966.22)	0.73	0.60	(\$873.10)
8	(\$31,411.23)	31	13	18	41.94	\$2,263.14	(\$3,379.56)	0.67	0.48	(\$1,013.27)
7	(\$17,737.82)	32	14	18	43.75	\$2,377.09	(\$2,834.28)	0.84	0.65	(\$554.31)
6	(\$19,940.65)	32	12	20	37.50	\$2,492.15	(\$2,492.32)	1.00	0.60	(\$623.15)
5	(\$35,058.98)	32	13	19	40.63	\$2,075.74	(\$3,265.45)	0.64	0.43	(\$1,095.59)
4	(\$23,419.29)	32	16	16	50.00	\$1,399.40	(\$2,863.10)	0.49	0.49	(\$731.85)
3	(\$620.23)	33	17	16	51.52	\$2,066.51	(\$2,234.43)	0.92	0.98	(\$18.79)
2	(\$10,442.19)	35	17	18	48.57	\$1,447.87	(\$1,947.56)	0.74	0.70	(\$298.35)
1	(\$4,713.16)	37	18	19	48.65	\$1,006.31	(\$1,201.40)	0.84	0.79	(\$127.38)

There were several studies of short duration on the active studies list that came off tonight, including 1 bullish and 3 bearish. The bull/bear split among current active studies is no longer heavily skewed bearish.

With all that taken into account, below is tonight's [Aggregator](#) :



The green Aggregator line has flipped from negative to slightly positive. This illustrates the net of the studies is for slightly positive expectations over the next few days. The black differential line remains squarely positive. This shows that the market has underperformed expectations over the last few days. When both lines are above the zero line I will often look for a long index entry. Today I am going to take a "wait and see" approach for a number of reasons.

- 1) The green Aggregator line is only slightly positive and based on the current studies it is expected to flip back to slightly negative tomorrow evening.
- 2) The market rose today and is back near the middle of its recent 5-day range.
- 3) The market is near the upper end of its recent 2-week range. Recall I prefer to take long positions near the lower portion of ranges rather than near the top. That helps to skew risk/reward more favorably.

On top of all that and of a bit longer-term concern is the fact that I'm finding the recent lack of volume worrisome. We've seen several studies over the last week that suggest weak volume as we're currently seeing is not a good thing. In this case I'm becoming worried it may have intermediate-term consequences and the market could be setting up for a deeper pullback. In any event, I'll continue to monitor volume patterns and readings closely.

***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

Collapse 

## 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:

<i>Appel Daily Breadth Signal triggers. Buy on close. Sell X days later. \$100k/trade. 1970-present.</i>										
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***

ABT – buy 1/3 position @ \$42.92 limit. (no fill)

I will remove the open limit trade from ABT for the time being after today's bounce. Should it quickly begin an new leg down, I will consider attempting entry again.

#### ***Catapult for ETF's Trades***

*none*

#### ***Broad Market Large Cap CBI – 1 (ABT)***

### **Additional New Trade Ideas**

*None tonight. The triggers page is quiet and I'm not seeing much. This is typical in congestion.*

### **Active Trades Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
TIP	4/7/2009	\$101.26	\$101.62	0.36%		exited on close

As per the exit criteria for system 11111 the TIP trade idea should have been exited on the close Wednesday. For those who may not have noticed you may look to close it out in the morning or hold on in an attempt for larger gains.

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