

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 27, 2009

Volume 2 Issue 79

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					
April 27, 2009	2 Days Up In Chop	1-4 days	Bearish		
April 27, 2009	Friday Follow-through	1-2 days	Bullish	1.80%	3.50%
April 27, 2009	Gap-n-go	1-9 days	Bearish	-3.40%	-6.50%
April 24, 2009	Russell lags S&P badly	1-3 days	Bearish	-3.30%	-6.60%
April 24, 2009	Poor Nasdaq Breadth on Up Day	1-9 days	Bearish	-4.10%	-8.20%
Active - Long Term					
April 20, 2009	Low Nasdaq Weekly Vol Spyx	1-10 weeks	Bearish		
April 6, 2009	Appel Daily Breadth	1-20 days	Bullish		
March 26, 2009	Rise after follow through day		Bullish	920 before 666	
Dropped Tonight					
April 21, 2009	2% drop from 20-high	1-4 days	Bearish	-2.20%	-3.90%

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 4/27 – bearish

The market put in a strong day on Friday. It was a gap-n-go formation where it gapped up and closed above its open without ever filling the morning gap. Breadth was strongly positive as NYSE advancers led decliners by about 3:1 and volume breadth was nearly the same. Total volume was up and just above its 2-week average.

While “gap-n-go” formations may appear bullish, risk tends to outsize reward following such days. Below is a table from the 1-29-09 Subscriber Letter showing how the SPY performed following gap-n-go days. The results are based on the size of the gap.

(table as of 1/29/09)

SPY gaps at least X% above yesterday's close. It never trades <= yesterday's close and closes > the open. Close < 200ma.										
Buy on close. Sell 5 days later. \$100k/trade. 1994-present.										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
2	(\$25,698.62)	13	7	6	53.85	\$2,424.73	(\$7,111.96)	0.34	0.40	(\$1,976.82)
1.5	(\$33,744.51)	21	10	11	47.62	\$2,680.23	(\$5,504.26)	0.49	0.44	(\$1,606.88)
1	(\$37,764.10)	34	16	17	47.06	\$2,337.01	(\$4,420.96)	0.53	0.50	(\$1,110.71)
0.5	(\$48,817.79)	57	30	26	52.63	\$1,867.86	(\$4,032.83)	0.46	0.53	(\$856.45)
0	(\$69,335.71)	92	48	43	52.17	\$1,604.92	(\$3,403.99)	0.47	0.53	(\$753.65)

SPY gapped up 0.77% on Friday. As you can see above, the larger the gap, the worse the performance. 0.77% is in the lower half of what was tested, and not as strongly bearish

as a larger gap might be. I decided therefore to look at the returns following gap-n-go days with the gap between 0% and 1%.

<i>SPY gaps up between 0% and 1%. It never trades <= yesterday's close and closes > the open. Close < 200ma.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1994-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$36,365.62)	58	31	27	53.45	\$2,178.52	(\$3,848.14)	0.57	0.65	(\$626.99)
9	(\$63,105.27)	61	26	35	42.62	\$2,269.91	(\$3,489.23)	0.65	0.48	(\$1,034.51)
8	(\$48,457.47)	63	28	35	44.44	\$2,301.24	(\$3,225.49)	0.71	0.57	(\$769.17)
7	(\$39,153.75)	63	31	32	49.21	\$2,114.46	(\$3,271.94)	0.65	0.63	(\$621.49)
6	(\$36,022.15)	65	34	31	52.31	\$1,773.88	(\$3,107.55)	0.57	0.63	(\$554.19)
5	(\$36,943.14)	70	37	33	52.86	\$1,487.45	(\$2,787.24)	0.53	0.60	(\$527.76)
4	(\$37,148.98)	73	35	38	47.95	\$1,425.82	(\$2,290.86)	0.62	0.57	(\$508.89)
3	(\$19,885.58)	77	42	35	54.55	\$1,225.41	(\$2,038.65)	0.60	0.72	(\$258.25)
2	(\$26,382.31)	80	38	42	47.50	\$1,131.98	(\$1,652.33)	0.69	0.62	(\$329.78)
1	(\$7,226.52)	84	41	43	48.81	\$736.95	(\$870.73)	0.85	0.81	(\$86.03)

The results are about 50/50 but the average losses strongly outsize the average gains. The negative influence appears to last at least 9 days.

One concept I've gone over many times is the fact that strong Friday moves often carry through to Monday and sometimes further. I've shown this a multitude of ways the last year. Not only does the strength of the move have an effect, but also the time of the month is also influential. Below is a study showing how the S&P 500 has fared following a 1% rise on the last Friday of the month.

<i>Last Friday of the month close up 1% or more.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1990-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
5	\$1,986.67	14	8	6	57.14	\$1,797.92	(\$2,066.12)	0.87	1.16	\$141.91
4	\$3,081.24	14	7	7	50.00	\$2,331.32	(\$1,891.14)	1.23	1.23	\$220.09
3	\$10,581.29	14	8	5	57.14	\$2,495.77	(\$1,876.98)	1.33	2.13	\$755.81
2	\$13,105.79	14	10	4	71.43	\$2,075.55	(\$1,912.42)	1.09	2.71	\$936.13
1	\$9,725.03	14	9	5	64.29	\$1,395.58	(\$567.03)	2.46	4.43	\$694.65

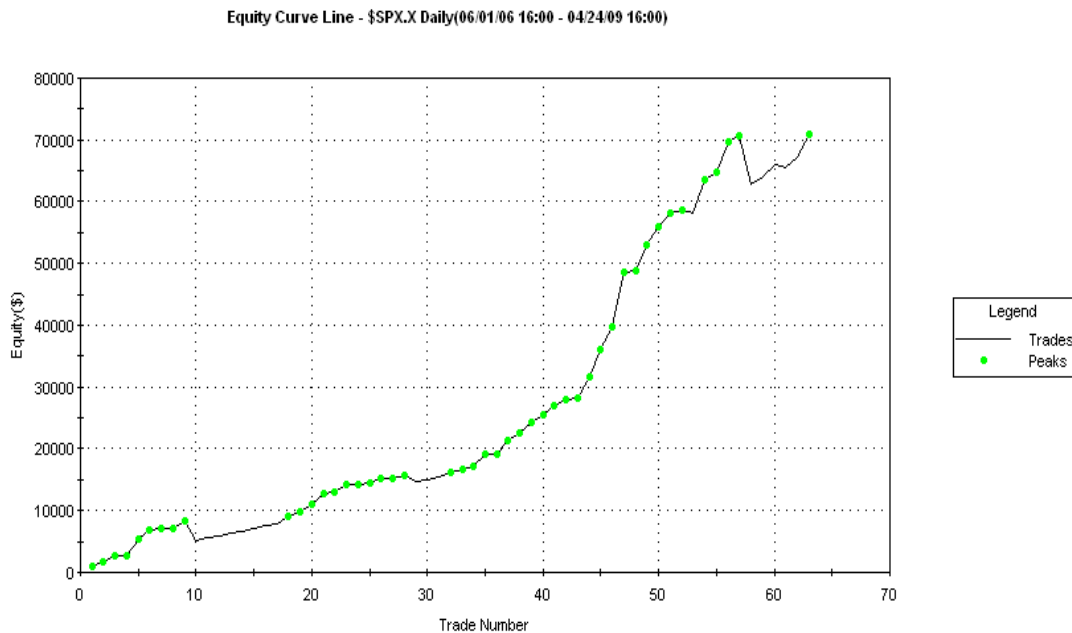
This study appears to have a possible bullish influence. While instances are a bit low, the results are consistent with other times we've looked at Friday follow through.

Of course Friday did mark the 2nd day higher in a row. As all experienced subscribers are no doubt aware, this triggers our "2 Days Up In Chop" system. This incredibly simple system has fared exceptionally well since June of 2007 when the market became substantially more choppy. It looks to short the S&P after it closes higher for 2 days in a row. The exit signal comes on the first profitable close up to 4 days later. After 4 days the trade is exited regardless of profitability. Below are updated results from June 1, 2007 – April 24, 2009. Results are based on \$100k/trade and are frictionless.

All Trades

Total Net Profit	\$71,032.62	Profit Factor	6.55
Gross Profit	\$83,841.30	Gross Loss	(\$12,808.68)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$62,249.60	Select Profit Factor	5.86
Select Gross Profit	\$75,058.28	Select Gross Loss	(\$12,808.68)
Adjusted Total Net Profit	\$54,295.50	Adjusted Profit Factor	3.93
Adjusted Gross Profit	\$72,832.40	Adjusted Gross Loss	(\$18,536.90)
Total Number of Trades	63	Percent Profitable	92.06%
Winning Trades	58	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$1,127.50	Ratio Avg. Win:Avg. Loss	0.56
Avg. Winning Trade	\$1,445.54	Avg. Losing Trade	(\$2,561.74)
Largest Winning Trade	\$8,783.02	Largest Losing Trade	(\$7,832.88)

The system suffered its biggest drawdown when the market rally began in mid-March. Despite the fact that the S&P has consistently risen over the last month. The system has already managed to recover from that drawdown. Below is an equity curve that illustrates this.



The QQQQ has now closed higher 4 days in a row. Using 4 days as your entry criteria and keeping the exit criteria the same, results for QQQQ are below. Again results shown are frictionless, based on \$100k/trade and cover the period 6/1/2007 – present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$14,594.16	Profit Factor	11.86
Gross Profit	\$15,938.28	Gross Loss	(\$1,344.12)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$14,594.16	Select Profit Factor	11.86
Select Gross Profit	\$15,938.28	Select Gross Loss	(\$1,344.12)
Adjusted Total Net Profit	\$9,134.79	Adjusted Profit Factor	4.40
Adjusted Gross Profit	\$11,823.03	Adjusted Gross Loss	(\$2,688.24)
Total Number of Trades	16	Percent Profitable	93.75%
Winning Trades	15	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$912.14	Ratio Avg. Win:Avg. Loss	0.79
Avg. Winning Trade	\$1,062.55	Avg. Losing Trade	(\$1,344.12)
Largest Winning Trade	\$2,536.38	Largest Losing Trade	(\$1,344.12)

Combined with the bearish studies that were beginning to line up last week, it appears we are seeing more evidence that a pullback is probable at this point.

The [Aggregator](#) has been updated below.



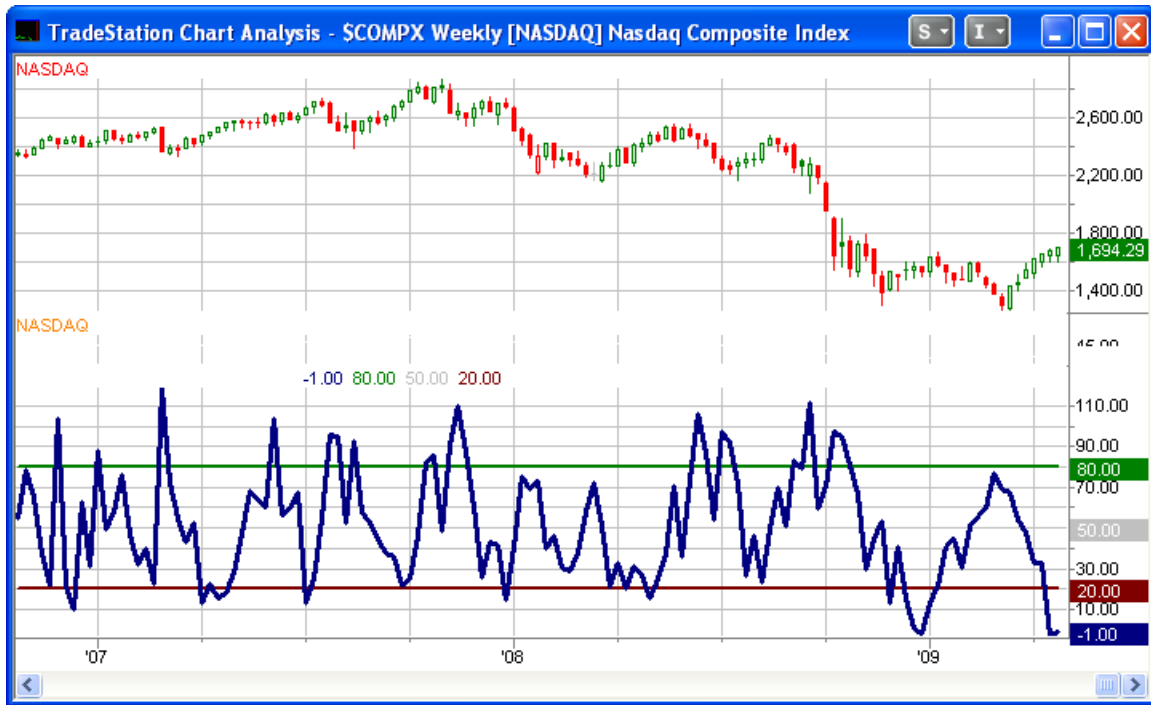
While seemingly not as bearish as Thursday, both the green Aggregator line and the black differential line are squarely below 0. This indicates the net expectations from the studies are negative while the S&P has outperformed expectations over the last few days. This is the kind of formation I look for when attempting short trades. I began taking on short exposure on Friday afternoon and intend to add to it should the market move higher on Monday.

It is important to take into account that the intermediate-term trend of the market remains strongly up. Every pullback since mid-March has quickly been met with buying. Profits have only been available on the short side if traders were quick to take them. As I've been doing since the March bottom, I will again look to cover quickly should the trade go in my direction. If the intermediate-term trend were already pointing down then I'd be more apt to show patience with short trades in the hopes of capturing a larger move.

A quick note about the green Aggregator line edging up closer to zero this evening: with two bearish studies and only one mildly bullish some readers may have expected to see it fall further. Most times this would happen. It needs to be understood, though, that the Aggregator is calculated by averaging the net expectations of the studies over the next few days. On Thursday night there were very few active studies. The strongly negative lagging Russell study had a strong negative influence. Additional studies tonight have diluted that influence – even though two of them are also bearish. This has played a big role in the movement of the line. So while the Aggregator appears to be positioned less bearish this evening, I wouldn't interpret it that way.

Intermediate-term Outlook (2 weeks – 2 months)–starting to lean bearish -updated 4/27

One indicator I looked at last week that was showing bearish readings was the Quantifiable Edges Nasdaq Weekly Volume Spyx chart. The Nasdaq Spyx weekly chart is calculated in a similar manner as the [S&P 500 and Nasdaq Volume Spyx daily charts](#) that are updated each night on the website. The primary difference is that it uses weekly data rather than daily. After posting a reading below 0 last week, it again did it this week. Below is an updated weekly chart of the Nasdaq Spyx.



Going back to 2000 (as far as Nasdaq Spyx data has been calculated) there has only been one other time the market had back to back readings below 0. That was the week ending 11/29/02, which came 7 weeks after the October 2002 bottom. It marked the top of that rally. From there it pulled back for over 3 months before the March 2003 rally and new bull market began. Similarly, we are now 7 weeks off of the March bottom.

Another instance that came close to a back to back sub-zero reading was December of 2008. What followed that was obviously quite bearish over the next few months.

There have only been 4 instances where the Nasdaq Spyx has posted a sub-zero weekly reading and then the Nasdaq has risen the next week. Those four instances along with their 8-week returns are listed below.

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts Profit	Net Profit Cum Net Profit	% Profit
01/04/02	1	\$2,059.38	\$0.00	485	(\$124,470.40)	(12.46%)
03/01/02	Sell	\$1,802.74		(\$124,470.40)	(\$124,470.40)	
11/29/02	1	\$1,478.78	\$0.00	676	(\$92,368.64)	(9.24%)
01/24/03	Sell	\$1,342.14		(\$92,368.64)	(\$216,839.04)	
12/03/04	1	\$2,147.96	\$0.00	465	(\$52,140.45)	(5.22%)
01/28/05	Sell	\$2,035.83		(\$52,140.45)	(\$268,979.49)	
01/02/09	1	\$1,632.21	\$0.00	612	(\$155,674.44)	(15.58%)
02/27/09	Sell	\$1,377.84		(\$155,674.44)	(\$424,653.93)	

The “best” result above was the 12/04 – 1/05 period where the Nasdaq “only” lost 5%.

The rally is getting long in the tooth. Stocks have now moved higher for 7 weeks. Some measures hit the [most overbought readings in over 23 years](#) last week and remain nearly as high right now.

Breadth is strong and price has been moving higher, but both may be getting a bit overdone. Lower volume and extremely low Nasdaq Volume Spyx readings appear to be signaling warnings. I believe risk/reward will soon favor the downside if it hasn't already shifted that way.

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	0.70
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

No signs of capitulative selling at the present time.

Additional New Trade Ideas

QQQQ – short 1/4 index position @ \$33.70 LIMIT ON CLOSE. Based on the short-term market outlook above I'm looking to scale in further if the market finishes higher.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
QQQQ(1/4)(s)	4/24/2009	\$33.69	\$33.69	0.00%		shorted on close

Morning Gap Analysis

As I am nearing completion of this Letter last Sunday night the S&P futures are down close to 2%. The Nasdaq 100 futures are down about 1.5%. This raises the question, “If the market gaps down large tomorrow, should we look to take partial profits immediately?”

When the market gaps in your favor many traders believe it a good idea to take partial profits. This is due to the propensity of the market to reverse gaps. [In a study I posted to the blog a few weeks ago](#), I found that the propensity of the market to either reverse or follow through on gaps up of 1% up or greater depended largely upon the action leading up to the gap. I have found a similar dependency when looking at gaps down.

Below are the results of a system that looks the purchase \$100k of SPY any time it gaps lower by 1% or more and HASN'T closed higher for 2 days in a row. The trade is exited at the close of the day. As you can see, reversals are slightly favored and the net expectation is for further upside. (1998-present.)

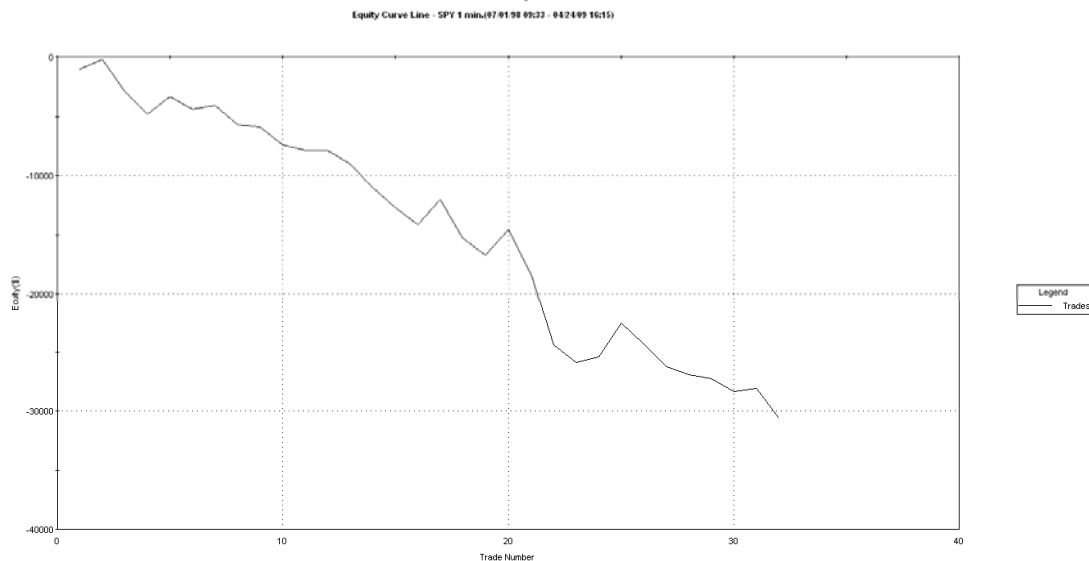
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$19,969.78	Profit Factor	1.25	
Gross Profit	\$98,622.11	Gross Loss	(\$78,652.33)	
Roll Over Credit	\$0.00			
Open Position Profit/Loss	\$0.00			
Select Total Net Profit	\$18,344.28	Select Profit Factor	1.26	
Select Gross Profit	\$89,975.36	Select Gross Loss	(\$71,631.08)	
Adjusted Total Net Profit	(\$6,726.30)	Adjusted Profit Factor	0.93	
Adjusted Gross Profit	\$83,920.39	Adjusted Gross Loss	(\$90,646.70)	
Total Number of Trades	88	Percent Profitable	51.14%	
Winning Trades	45	Losing Trades	43	
Even Trades	0			
Avg. Trade Net Profit	\$226.93	Ratio Avg. Win:Avg. Loss	1.20	
Avg. Winning Trade	\$2,191.60	Avg. Losing Trade	(\$1,829.12)	
Largest Winning Trade	\$8,646.75	Largest Losing Trade	(\$7,021.25)	

But what about those times like now where the SPY had just closed higher for 2 days in a row? Those results are below:

All Trades

Total Net Profit	(\$30,612.27)	Profit Factor	0.26
Gross Profit	\$10,559.49	Gross Loss	(\$41,171.76)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	(\$24,560.51)	Select Profit Factor	0.30
Select Gross Profit	\$10,559.49	Select Gross Loss	(\$35,120.00)
Adjusted Total Net Profit	(\$42,717.01)	Adjusted Profit Factor	0.14
Adjusted Gross Profit	\$7,039.66	Adjusted Gross Loss	(\$49,756.67)
Total Number of Trades	32	Percent Profitable	28.13%
Winning Trades	9	Losing Trades	23
Even Trades	0		
Avg. Trade Net Profit	(\$956.63)	Ratio Avg. Win:Avg. Loss	0.66
Avg. Winning Trade	\$1,173.28	Avg. Losing Trade	(\$1,790.08)
Largest Winning Trade	\$2,832.73	Largest Losing Trade	(\$6,051.76)

In this case results appear to go from somewhat bullish to strongly bearish. An overbought market that gaps down big tends to sell off further. Below is an equity curve of the system.



As you can see the downside tendency has been quite consistent.

I've also listed below all the trades from September 2008 through April 24th, 2009.

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts Profit	Net Profit Cum Net Profit	% Profit
09/15/08 09:31	Buy	\$122.02	\$0.00	819	(\$1,375.92)	(1.38%)
09/15/08 16:00	Sell	\$120.34			(\$14,117.28)	
09/26/08 09:31	Buy	\$118.87	\$0.00	841	\$2,102.50	2.10%
09/26/08 16:00	Sell	\$121.37			(\$12,014.78)	
10/02/08 09:31	Buy	\$115.06	\$0.00	869	(\$3,267.44)	(3.27%)
10/02/08 16:00	Sell	\$111.30			(\$15,282.22)	
10/21/08 09:31	Buy	\$96.93	\$0.00	1031	(\$1,474.33)	(1.48%)
10/21/08 16:00	Sell	\$95.50			(\$16,756.55)	
10/31/08 09:31	Buy	\$95.07	\$0.00	1051	\$2,207.10	2.21%
10/31/08 16:00	Sell	\$97.17			(\$14,549.45)	
11/05/08 09:31	Buy	\$99.22	\$0.00	1007	(\$3,806.46)	(3.81%)
11/05/08 16:00	Sell	\$95.44			(\$18,355.91)	
12/01/08 09:31	Buy	\$87.38	\$0.00	1144	(\$6,051.76)	(6.05%)
12/01/08 16:00	Sell	\$82.09			(\$24,407.67)	
12/04/08 09:31	Buy	\$86.17	\$0.00	1160	(\$1,496.40)	(1.50%)
12/04/08 16:00	Sell	\$84.88			(\$25,904.07)	
12/17/08 09:31	Buy	\$90.56	\$0.00	1104	\$474.72	0.47%
12/17/08 16:00	Sell	\$90.99			(\$25,429.35)	
01/23/09 09:31	Buy	\$80.82	\$0.00	1237	\$2,832.73	2.83%
01/23/09 16:00	Sell	\$83.11			(\$22,596.62)	
01/29/09 09:31	Buy	\$86.06	\$0.00	1161	(\$1,729.89)	(1.73%)
01/29/09 16:00	Sell	\$84.57			(\$24,326.51)	
03/05/09 09:31	Buy	\$70.13	\$0.00	1425	(\$1,938.00)	(1.94%)
03/05/09 16:00	Sell	\$68.77			(\$26,264.51)	
03/24/09 09:31	Buy	\$81.13	\$0.00	1232	(\$640.64)	(0.64%)
03/24/09 16:00	Sell	\$80.61			(\$26,905.15)	
03/27/09 09:31	Buy	\$81.93	\$0.00	1220	(\$390.40)	(0.39%)
03/27/09 16:00	Sell	\$81.61			(\$27,295.55)	
03/30/09 09:31	Buy	\$79.64	\$0.00	1255	(\$1,066.75)	(1.07%)
03/30/09 16:00	Sell	\$78.79			(\$28,362.30)	
04/06/09 09:31	Buy	\$83.31	\$0.00	1200	\$240.00	0.24%
04/06/09 16:00	Sell	\$83.51			(\$28,122.30)	
04/20/09 09:31	Buy	\$85.54	\$0.00	1169	(\$2,489.97)	(2.49%)
04/20/09 16:00	Sell	\$83.41			(\$30,612.27)	

Lastly, I also looked at gaps down following at least two *down* days in a row. Those results are below:

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$26,059.15	Profit Factor		2.49
Gross Profit	\$43,571.14	Gross Loss		(\$17,511.99)
Roll Over Credit	\$0.00			
Open Position Profit/Loss	\$0.00			
Select Total Net Profit	\$26,059.15	Select Profit Factor		2.49
Select Gross Profit	\$43,571.14	Select Gross Loss		(\$17,511.99)
Adjusted Total Net Profit	\$9,734.00	Adjusted Profit Factor		1.44
Adjusted Gross Profit	\$31,926.26	Adjusted Gross Loss		(\$22,192.27)
Total Number of Trades	28	Percent Profitable		50.00%
Winning Trades	14	Losing Trades		14
Even Trades	0			
Avg. Trade Net Profit	\$930.68	Ratio Avg. Win:Avg. Loss		2.49
Avg. Winning Trade	\$3,112.22	Avg. Losing Trade		(\$1,250.86)
Largest Winning Trade	\$8,646.75	Largest Losing Trade		(\$2,943.20)

Here you see that although it's a 50/50 proposition, the rewards outweigh the risks by a large degree. If the market was already down two days, or even if it wasn't up the last two days, then I'd likely be looking to cover at least a part of the position on a large gap lower. Having been up the last two days, I'll play the odds on a gap lower and simply maintain the short position. Of course as trading plays out during the day there's always a chance I'll look to institute a stop or exit the position at the close.

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