

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 29, 2009

Volume 2 Issue 81

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 29, 2009	2 Up In Chop	1-3 days	Bullish		
April 29, 2009	Gap down and partial reverse	1-2 days	Bullish		
April 29, 2009	QQQQ 20-day low vol > 10ma	1-2 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	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 24, 2009	Russell lags S&P badly	1-3 days	Bearish	-3.30%	-6.60%
April 28, 2009	QQQQ up Nasdaq down over 0.5%	1 day	Bearish		

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 4/29 – neutral

Another gap down on Tuesday and another bounce shortly after the open. After trading higher for much of the day, afternoon selling placed the major indices in the negative at the end of the day. NYSE breadth was close to even. Volume again came in at the lowest level in over 10 days.

QQQQ volume came in at the lowest level in over 20 days. In the April 22, 2008 blog a little over a year ago, I showed how this is often a negative when the market is in a short-term uptrend. That study, with updated results, is below:

QQQQ has lowest volume in 20 days and closes > 10ma. Buy at close. Sell X days later. \$100k/trade. 1999 – present:

QE Vol Lite Rally: ▾ daysin	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-42,107.32	60	32	28	53.33	3,332.03	-5,311.87	0.63	0.72	-701.79
9	-46,173.54	62	35	27	56.45	2,666.38	-5,166.55	0.52	0.67	-744.73
8	-30,606.73	64	32	32	50.00	3,302.10	-4,258.56	0.78	0.78	-478.23
7	-63,285.50	65	33	32	50.77	2,481.96	-4,537.19	0.55	0.56	-973.62
6	-45,714.71	67	29	38	43.28	2,851.36	-3,379.06	0.84	0.64	-682.31
5	-63,140.88	70	31	39	44.29	2,244.55	-3,403.13	0.66	0.52	-902.01
4	-50,755.75	74	35	37	47.30	1,966.37	-3,231.85	0.61	0.58	-685.89
3	-43,064.71	79	34	45	43.04	1,861.34	-2,363.34	0.79	0.60	-545.12
2	-64,989.28	83	34	49	40.96	1,734.61	-2,529.92	0.69	0.48	-783.00
1	-25,424.72	89	41	48	46.07	1,303.61	-1,643.18	0.79	0.68	-285.67

The negative influence here is largely realized in the 1st 2 days..

On the positive side, large gaps down with reversals that fill partially often lead to a short-term bounce. Below is a study from the 2/23/09 Letter that illustrates this.

<i>SPY gaps down at least 1%. It closes at least 0.5% above the open but still down on the day.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1993-2/20/2009.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
8	\$51,368.85	28	17	11	60.71	\$4,285.68	(\$1,953.44)	2.19	3.39	\$1,834.60
7	\$49,115.97	28	18	10	64.29	\$4,199.99	(\$2,648.39)	1.59	2.85	\$1,754.14
6	\$52,924.86	29	21	8	72.41	\$3,804.12	(\$3,370.22)	1.13	2.96	\$1,825.00
5	\$39,881.82	31	18	13	58.06	\$4,153.79	(\$2,683.56)	1.55	2.14	\$1,286.51
4	\$30,748.18	33	19	14	57.58	\$3,561.81	(\$2,637.59)	1.35	1.83	\$931.76
3	\$18,189.74	35	21	14	60.00	\$2,681.99	(\$2,723.71)	0.98	1.48	\$519.71
2	\$50,097.47	35	24	11	68.57	\$2,959.08	(\$1,901.86)	1.56	3.39	\$1,431.36
1	\$35,278.24	35	21	14	60.00	\$2,651.65	(\$1,457.60)	1.82	2.73	\$1,007.95

You're primarily looking at a 1-2 day bullish influence here as well.

Today was the 2nd day lower in a row for the S&P 500. Astute readers may have realized that this triggers the "2 days up in Chop" setup. Since June 2007 when the market became especially choppy, this system has performed very well, even in the face of a bear market. The system buys SPX at the close of a 2nd down day. It then sells on the 1st profitable close up to 3 days later. After 3 days the position is closed out regardless of profitability. Updated stats from June, 2001 – present are below.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$41,874.26	Profit Factor	2.26
Gross Profit	\$75,174.12	Gross Loss	(\$33,299.86)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$31,158.23	Select Profit Factor	1.94
Select Gross Profit	\$64,458.09	Select Gross Loss	(\$33,299.86)
Adjusted Total Net Profit	\$19,361.82	Adjusted Profit Factor	1.43
Adjusted Gross Profit	\$64,434.96	Adjusted Gross Loss	(\$45,073.14)
Total Number of Trades	57	Percent Profitable	85.96%
Winning Trades	49	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$734.64	Ratio Avg. Win:Avg. Loss	0.37
Avg. Winning Trade	\$1,594.17	Avg. Losing Trade	(\$4,162.48)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$10,506.45)

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



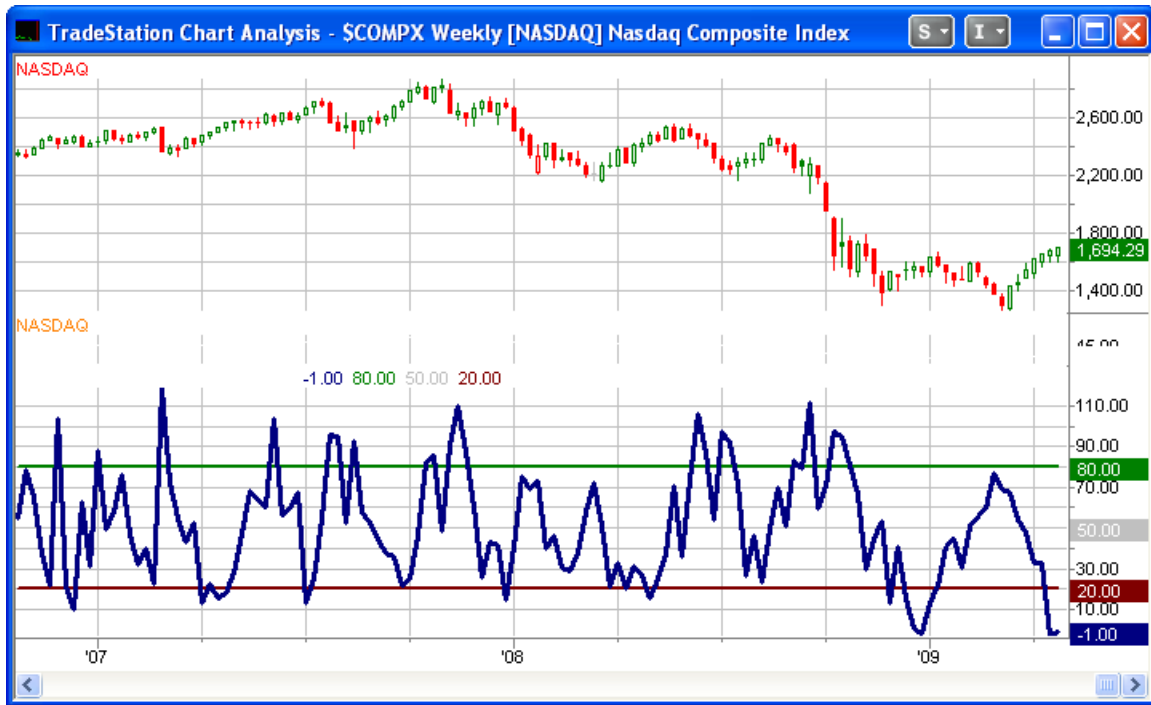
Last night I indicated that the calculations were lined in a manner that either or both the green Aggregator line and the black Differential line could flip from negative to positive. With the mild selloff the green Aggregator line was the only one that made it.

Currently the Aggregator is suggesting a mild bullish expectation over the next few days. The black differential line shows that the S&P has outperformed expectations over the last 3 days. Not a terribly strong edge. Also not surprising considering the studies are mixed and the market has recently been stuck in a sideways range.

If the market closed flat and no new studies were introduced then the green Aggregator line would flip back negative and the black Differential line would flip positive tomorrow evening. Of course I expect to see both movement and studies. For now I'm going to sit aside until the next strong edge avails itself.

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

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
QQQQ(1/4)(s)	4/24/2009	\$33.69	\$33.57	0.36%		intraday update stop hit
QQQQ(1/4)(s)	4/27/2009	\$33.73	\$33.70	0.09%		intraday update stop hit

The QQQQ trade did little better than a scratch. While disappointing, that's ok in my book. Not every trade is going to work out as planned. In this case, the downside edge that appeared last Thursday and carried over for the next few days appeared enticing. While the SPY, which is our usual vehicle of choice, did put in a bit of a pullback on Monday and then Tuesday morning, the QQQQ held up relatively well. Monday's action was disappointing and led me to begin to look for a quick exit for the QQQQ as discussed in last night's letter. A gap down that couldn't attract any downside follow through for the 2nd day in a row was my cue to exit today.

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