

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 30, 2009

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## 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 30, 2009	1% Gap-n-Go	1-3 days	Bearish	-3.20%	-5.80%
<b>April 29, 2009</b>	<b>Gap down and partial reverse</b>	<b>1-2 days</b>	<b>Bullish</b>	<b>3.00%</b>	<b>6.40%</b>
April 29, 2009	QQQQ 20-day low vol > 10ma	1-2 days	Bearish		
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%
<b>Active - Long Term</b>					
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	
<b>Dropped Tonight</b>					
<b>April 29, 2009</b>	<b>2 Up In Chop</b>	<b>1-3 days</b>	<b>Bullish</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 4/30 – slightly bearish**

Wednesday saw a strong move higher in the major indices. The S&P and Nasdaq both rose by over 2%. Breadth was strongly positive as the NYSE Up Issues % came in at 83% and the Up Volume % was 88%. Total volume rose over the last few days but was still below its 10-day average.

The action today of a large gap up and move higher is what stood out most. In the past I've referred to it as a "Gap-n-go" day. I looked at gap-n-go days in some detail in the 1/29/09 Letter. From that Letter was the following:

*Days that gap higher, don't fill their gap and close above their open (Gap & Go's) have a tendency to pull back over the next several days. Generally the larger the gap the stronger this tendency is. Below is a study that breaks down 1-week performance by gap size:*

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)

With the “% Wins” column is basically a coin toss risks have outweighed rewards on average by 2:1 or more. The poor risk/reward is what creates the negative expectancy.

I also looked in more detail at gaps of 1% or greater. Below are some updated results.

***SPY gaps at least 1% above yesterday’s close. It never trades <= yesterday’s close and closes > the open. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993-present.***

QE Gap n Go: 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
5	-33,928.20	39	19	19	48.72	2,628.69	-4,414.38	0.60	0.60	-869.95
4	-47,928.59	42	19	23	45.24	1,927.16	-3,675.85	0.52	0.43	-1,141.16
3	-28,025.66	42	17	25	40.48	2,163.71	-2,592.35	0.83	0.57	-667.28
2	-25,463.74	43	21	22	48.84	1,927.80	-2,997.62	0.64	0.61	-592.18
1	-14,611.51	44	23	20	52.27	740.87	-1,582.58	0.47	0.54	-332.08

The bearish expectancy peaks at 4 days across the sample.

Lastly, I also looked at what the results looked like if I also required the market make a 10-day high:

***SPY gaps at least 1% above yesterday’s close. It never trades <= yesterday’s close, makes a 10-day intraday high and closes > the open. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1993-present.***

QE Gap n Go: 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
5	-20,528.79	13	6	7	46.15	975.29	-3,768.64	0.26	0.22	-1,579.14
4	-20,751.52	14	5	9	35.71	888.25	-2,799.20	0.32	0.18	-1,482.25
3	-25,068.67	14	3	11	21.43	634.65	-2,452.06	0.26	0.07	-1,790.62
2	-20,733.60	14	6	8	42.86	472.40	-2,946.00	0.16	0.12	-1,480.97
1	-12,813.90	14	6	8	42.86	518.04	-1,990.27	0.26	0.20	-915.28

Instances are low here but compelling nonetheless. Not evident above is that 13 of 14 instances saw at least 1 close below the trigger day close over the next 3 days.

In December I also looked at strong moves leading to 10-day highs on Fed days. Those results weren’t quite as compelling, but they also had a bearish lean. That study may be found [here](#).

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



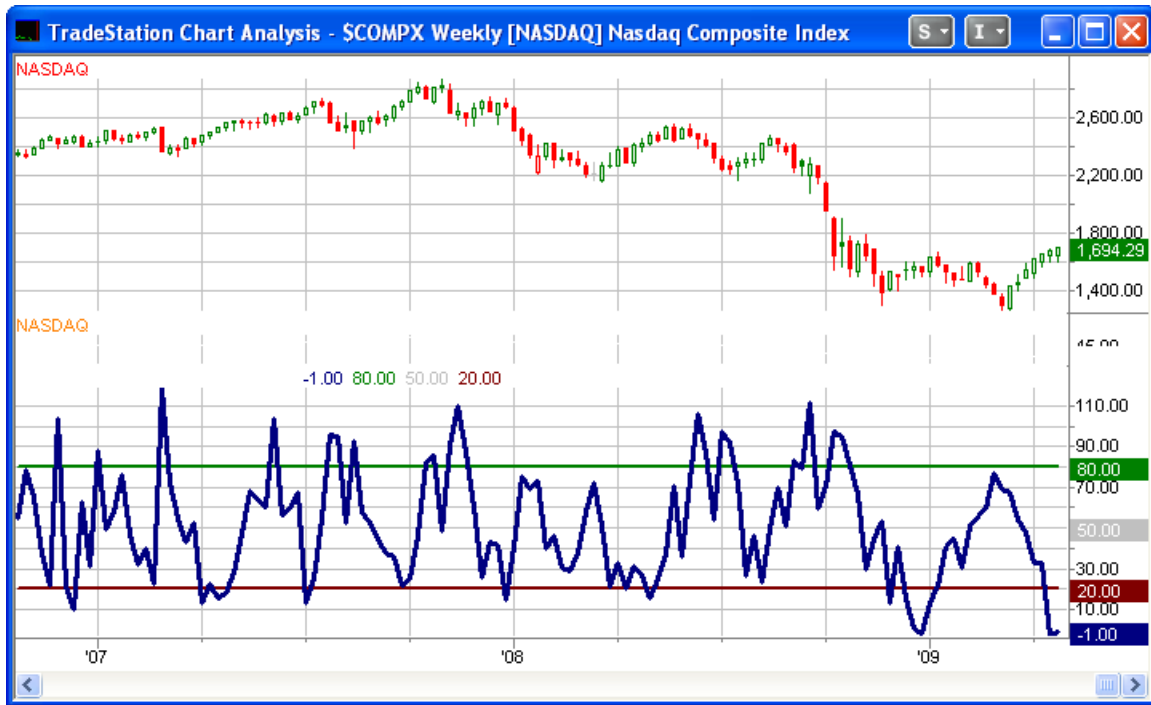
Today's action and studies have flipped the green Aggregator line back to negative, meaning expectations over the next few days is for more downside based on the current studies. The black Differential line is also negative. This indicates the S&P has outperformed expectations over the last few days.

This is the kind of configuration I look for when considering short positions. There are a few reasons for caution when attempting a short at this point. 1) The S&P has just broken out of a range. I prefer it to be already extended from a range when considering an entry against it. 2) It's only been up 1 day at this point. Again, 1 up-day doesn't exactly signal overbought. I'd rather see the market more short-term extended when trying to short. 3) The intermediate-term trend is up. That means I'd be trading against it. We've done this with some success over the last month, but it requires advantageous entries and quick profit taking.

With those caveats in mind I will look for a hopefully advantageous entry tomorrow. Details in the trade idea section below.

***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	0.00
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

No signs of capitulative selling at the present time.

**Additional New Trade Ideas**

*SPY – short 1/4 index position ON OPEN @ \$88.30 limit. If not filled on open, cancel order.*

*SPY – short short 1/4 index position ON CLOSE @ \$87.65 limit. THIS IS ONLY ACTIVE IF THE 1<sup>st</sup> ORDER DOESN'T FILL.*

I'm looking to start a small position tomorrow. An entry on a close above Wednesday's close could be advantageous since it would also trigger our "2 days up in chop" system.

A large gap higher could also be a good point for entry. Since 1998 there have only been 12 other times where the SPY has closed at a 10-day high and then gapped up at least 1% the next morning. Buying at 9:31 and selling at the close would have produced the following results (based on \$100k/trade):

## TradeStation Performance Summary

Collapse 

## All Trades

Total Net Profit	(\$3,918.64)	Profit Factor	0.51
Gross Profit	\$4,065.05	Gross Loss	(\$7,983.69)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	(\$3,918.64)	Select Profit Factor	0.51
Select Gross Profit	\$4,065.05	Select Gross Loss	(\$7,983.69)
Adjusted Total Net Profit	(\$9,524.93)	Adjusted Profit Factor	0.15
Adjusted Gross Profit	\$1,718.09	Adjusted Gross Loss	(\$11,243.02)
Total Number of Trades	9	Percent Profitable	33.33%
Winning Trades	3	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	(\$435.40)	Ratio Avg. Win:Avg. Loss	1.02
Avg. Winning Trade	\$1,355.02	Avg. Losing Trade	(\$1,330.62)
Largest Winning Trade	\$2,420.18	Largest Losing Trade	(\$2,364.58)

Instances are too low to support a reason for entry on its own. Still, since I am looking for a reason to short tomorrow, a sizable gap up could provide one. The limit price for the “short on open” trigger is just below Wednesday’s high.

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