

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 1, 2009

Volume 2 Issue 83

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 30, 2009	1% Gap-n-Go	1-3 days	Bearish	-3.20%	-5.80%
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 29, 2009	Gap down and partial reverse	1-2 days	Bullish	3.00%	6.40%
April 29, 2009	QQQQ 20-day low vol > 10ma	1-2 days	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**.

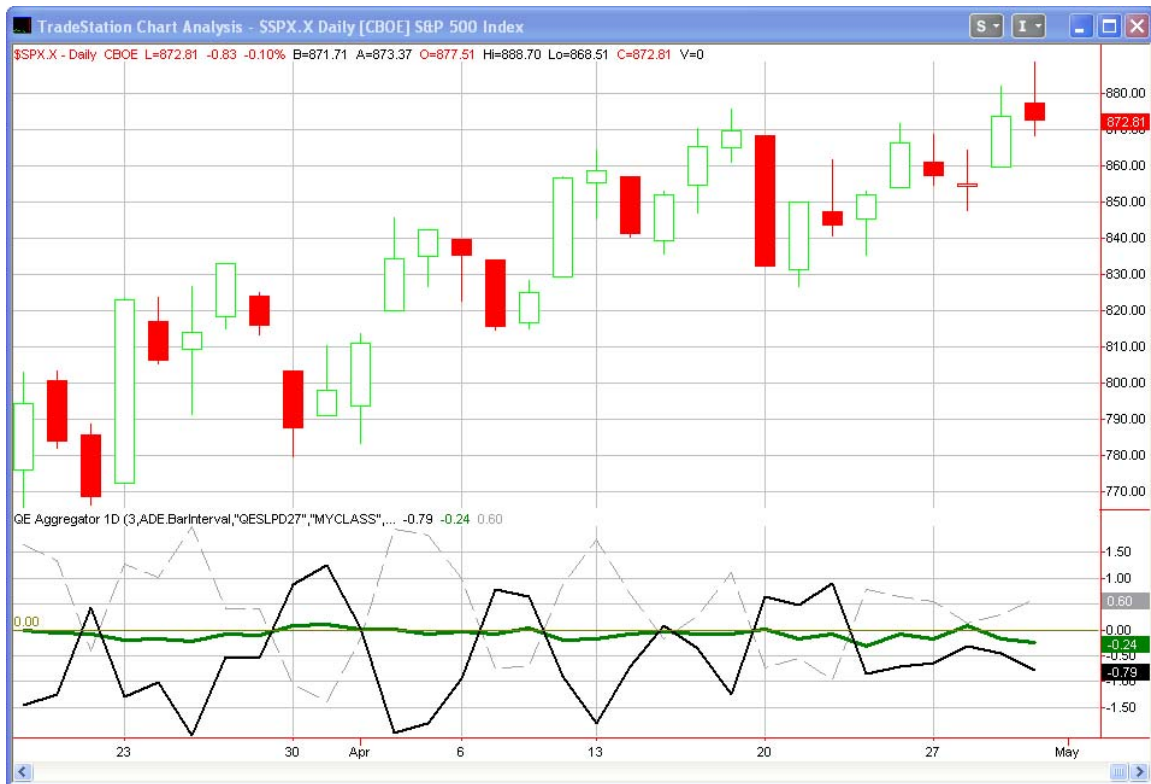
Short-term Outlook (1-5 days) – updated 5/1 – bearish

A sizable gap up on Wednesday morning saw the market drift higher most of the morning before an afternoon selloff put the major indices back near even on the day. Breadth was basically neutral when looking at Advancers/Decliners and Advancing/Declining Volume. Total volume edged higher.

Overall the action today left little in the way of substantial clues. One minor notable is the fact **that tomorrow is the 1st of the month**. This has acted as a seasonal positive over the years. Also notable is the fact that the NDX closed above its 200-day moving average. This would be regarded as a bit more positive if it did it in **more convincing fashion**, and not just peaking above it.

The mild breadth and price action therefore has left me without further studies to add to the active studies list tonight.

The **Aggregator** has been updated below.



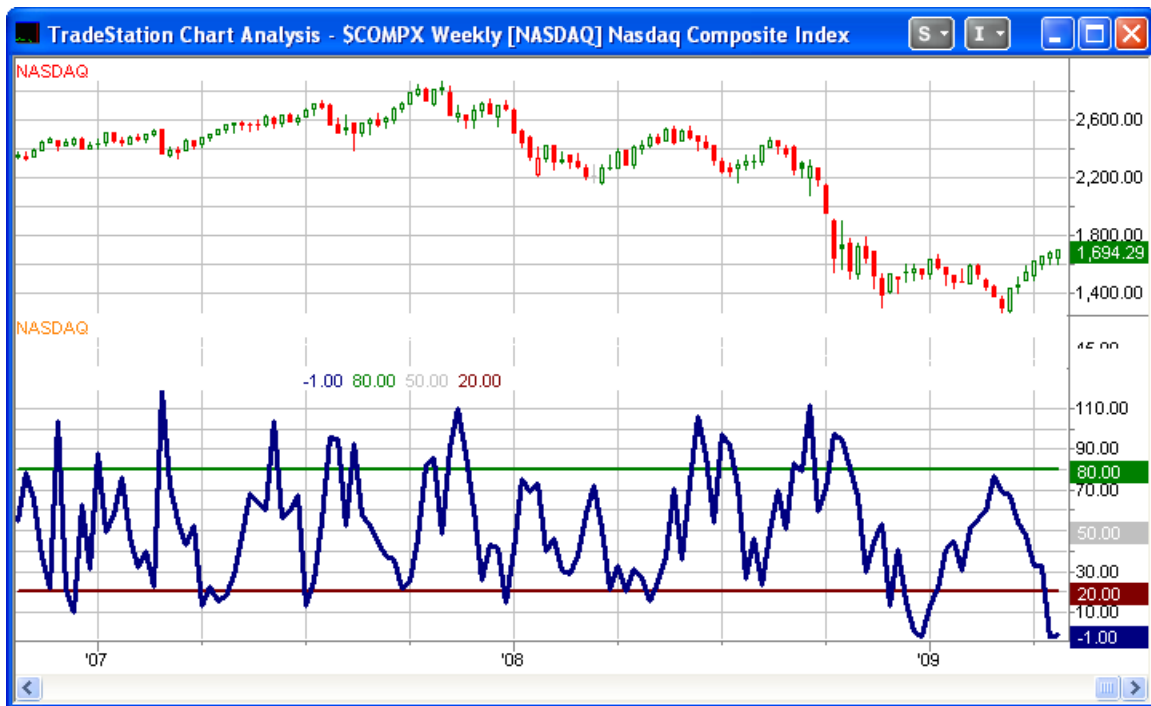
The Aggregator chart remains squarely bearish. The studies are suggesting further downside as represented by the green Aggregator line, and the market has outperformed expectations recently as represented by the black Differential line. When both lines are south of zero that typically represents a substantial short-term bearish edge.

The short index trade idea triggered on the gap open on Thursday. With the Aggregator looking like this the question is not whether to cover, but rather whether to add to the position. Aggressive traders certainly could look to add more tomorrow. I plan to give it another day and see how Friday plays out. I'd rather not average down on the short position since it is a counter-trend trade. We've seen that strong Friday's often follow through on Monday, so at this point I'd likely plan on adding to the short on Monday should the market move higher by then.

Also, since we're dealing with a counter-trend trade I'll also be fairly quick to take profits should the SPY continue in our direction. This could mean trailing a stop on a strong move lower tomorrow and perhaps exiting on any follow through Monday if the trail isn't hit.

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

None tonight. ORCL from the triggers page looks like a potentially interesting long. I'll give it another day myself since there's a bearish bias tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	4/30/2009	\$88.55	\$87.42	1.28%		shorted on open

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