

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 8, 2009

Volume 2 Issue 88

## 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>					
May 8, 2009	High Vol 10 WR10 Drop From 10-high	1-3 days	Bearish	-1.40%	-2.50%
May 7, 2009	Gap-n-go	1-3 days	Bearish	-3.00%	-5.60%
May 7, 2009	Banks Up 10%	1-2 days	Bearish		
May 6, 2009	WR10 Up then NR10	1-5 days	Bearish	-2.20%	-3.60%
May 5, 2009	3% up on strong volume	1-7 days	Bullish	3.20%	6.60%
May 4, 2009	10-high low volume low bar pattern	1-5 days	Bearish	-2.00%	-3.50%
<b>Active - Long Term</b>					
April 20, 2009	Low Nasdaq Weekly Vol Spyx	1-10 weeks	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 5/8 –somewhat bearish**

The S&P gapped up about 1% on Thursday. Along with the rest of the market it made its high early in the morning and sold off throughout the day. While the S&P closed down 1.3%, most of the other indices, including the Smallcaps, Midcaps, and Nasdaq, all closed down over 2%. Breadth was solidly negative by about 2 to 1 when looking at both issues and volume. Total volume rose substantially and hit the highest level in 20 days.

Very high volume accompanying a strong selloff is generally not a good thing. When the market is at a low point it can sometimes be a sign of capitulation. Coming off a 50-day high, there's no chance of that. One place you don't want to see this type of action is following a high. I've looked at this a number of different ways tonight. Below are a couple of examples.

Yesterday the S&P 500 closed at a 20-day high. Today it closed down 1% on the highest volume in 20 days.										
Buy on close. Sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
5	(\$7,527.94)	9	4	5	44.44	\$640.54	(\$2,018.02)	0.32	0.25	(\$836.44)
4	(\$6,956.15)	9	1	8	11.11	\$1,528.10	(\$1,060.53)	1.44	0.18	(\$772.91)
3	(\$6,711.11)	9	1	8	11.11	\$1,957.30	(\$1,083.55)	1.81	0.23	(\$745.68)
2	(\$7,205.68)	9	2	7	22.22	\$822.67	(\$1,264.43)	0.65	0.19	(\$800.63)
1	(\$5,101.72)	9	1	8	11.11	\$485.55	(\$698.41)	0.70	0.09	(\$566.86)

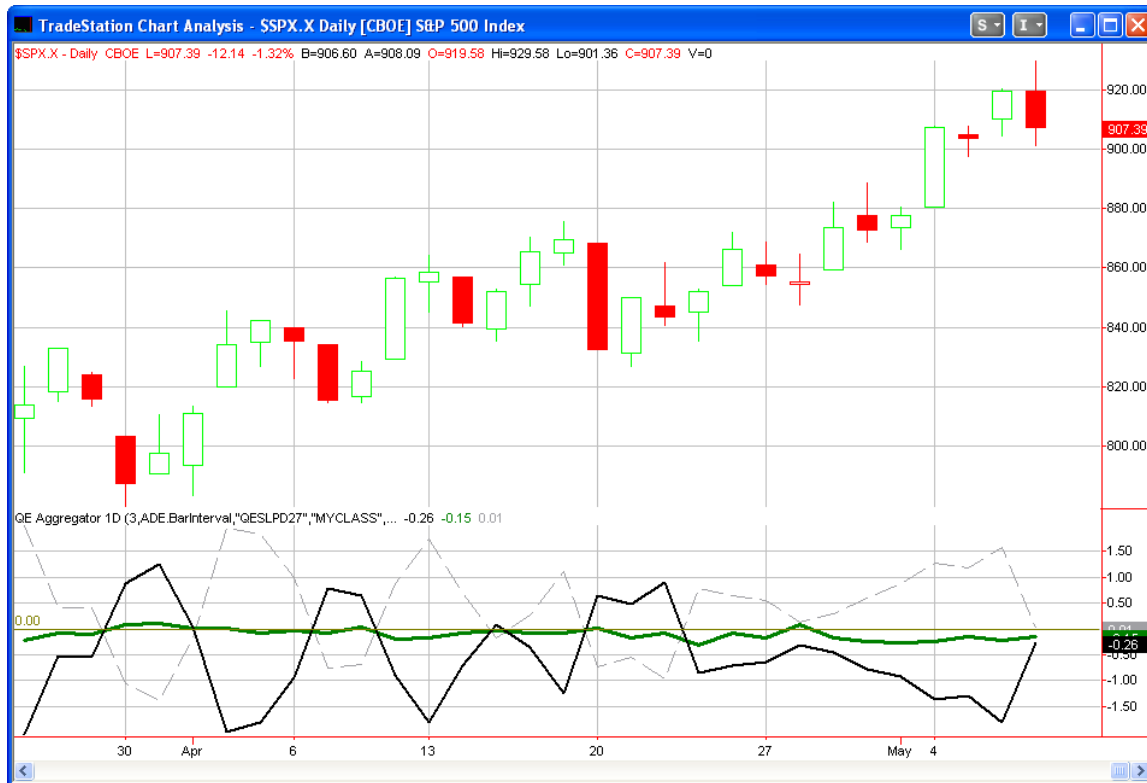
Low number of instances here but the results suggest further downside over the next few days. Not visible in the above table is that all 9 instances had a close below the trigger day close within the next 2 days.

To increase the number of instances I loosened the high and volume requirements to 10-days from 20. I also said it needed to drop the most it dropped in the last 10 days rather than saying 1%. Those result are below:

Yesterday the S&P makes a 10-day high. Today it suffers its largest drop in 10 days on the highest volume in 10 days.										
Buy on close. Sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
5	(\$9,639.00)	35	16	19	45.71	\$1,725.12	(\$1,960.04)	0.88	0.74	(\$275.40)
4	(\$13,827.25)	35	13	22	37.14	\$1,718.20	(\$1,643.81)	1.05	0.62	(\$395.06)
3	(\$15,786.70)	35	13	22	37.14	\$1,131.71	(\$1,386.32)	0.82	0.48	(\$451.05)
2	(\$8,065.65)	35	13	22	37.14	\$923.47	(\$912.31)	1.01	0.60	(\$230.45)
1	(\$2,801.32)	35	17	18	48.57	\$477.50	(\$606.60)	0.79	0.74	(\$80.04)

From an average trade standpoint these aren't the strongest edges we've ever seen, but considering the pullback has already begun they're not bad. In this case 25 of 35 (71%) instances had a close below the trigger day low within the next 2 days.

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



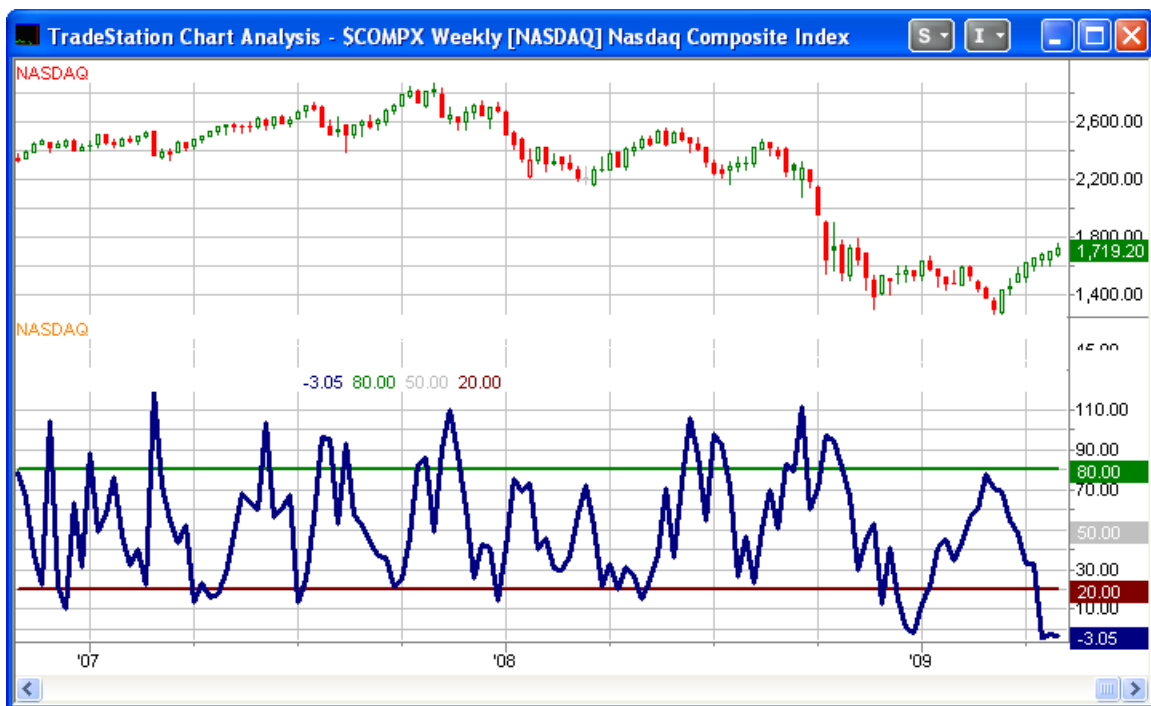
Another bearish study tonight is keeping the green Aggregator line squarely below 0. Even with the selloff today the black differential line didn't quite make it above 0. We

are still in a condition where the market has outperformed recent expectations and expectations over the next few days are for more downside. In all this means a bearish bias remains intact.

Part of the SPY position was covered today near the close. I am currently holding the rest in anticipation of more downside. Should the market move down strongly tomorrow I'll likely consider taking more off the table.

***Intermediate-term Outlook (2 weeks – 2 months)–starting to lean bearish -updated 5/4***

One indicator that I've discussed the last couple of weeks that has been suggesting an intermediate-term pullback may in order is the Nasdaq Weekly Volume Spyx. While the Nasdaq rose again this week, the Spyx remained quite low. Below is this week's chart form the chart page on the website:



No sense in beating a dead horse here. This indicator is still suggesting a selloff. Subscribers may reference research from either of the last 2 weeks for details.

One concern about the move higher last week was the leadership of the move. It appears the 2 strongest major sector ETF's last week were IYZ(telecom) and XLU (Utilities). Both of these rose over 4.5% on the week while the S&P closed less than 1.5% higher. Neither Utilities nor Telecom are among the sectors that you would prefer to see exerting leadership. Below are some studies that explain why this is.

First let's look at utilities. For this test I used the XLU and SPY ETF's. I looked for other times the SPY moved higher but lagged XLU by a substantial amount:

<b>SPY closes up on the week. XLU (utilities) outperforms SPY by at least 1 percent.</b>										
<b>Buy on close. Sell X weeks later. \$100k/trade. 11/2002-present.</b>										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$22,678.48)	16	9	7	56.25	\$4,802.86	(\$9,414.89)	0.51	0.66	(\$1,417.41)
9	(\$26,900.35)	17	7	9	41.18	\$4,646.20	(\$6,602.64)	0.70	0.55	(\$1,582.37)
8	(\$7,421.94)	18	8	10	44.44	\$5,207.29	(\$4,908.02)	1.06	0.85	(\$412.33)
7	(\$6,506.53)	18	10	8	55.56	\$3,806.87	(\$5,571.90)	0.68	0.85	(\$361.47)
6	(\$11,361.32)	21	10	11	47.62	\$5,310.61	(\$5,860.67)	0.91	0.82	(\$541.02)
5	(\$22,555.94)	23	12	11	52.17	\$3,665.47	(\$6,049.24)	0.61	0.66	(\$980.69)
4	(\$28,800.92)	27	14	13	51.85	\$3,300.32	(\$5,769.65)	0.57	0.62	(\$1,066.70)
3	(\$9,685.25)	29	14	15	48.28	\$2,829.20	(\$3,286.27)	0.86	0.80	(\$333.97)
2	\$331.81	31	16	15	51.61	\$2,531.31	(\$2,677.94)	0.95	1.01	\$10.70
1	(\$1,217.69)	32	17	14	53.13	\$1,528.59	(\$1,943.12)	0.79	0.96	(\$38.05)

This study was actually run back to 1/1/2000, but no instances occurred prior to 2002. I also looked to see how typical weeks over the time period had performed. The average week from 11/2002 to present gained about 0.03%. The negative results of the study above are therefore quite a bit worse than a typical week.

I also ran a similar study looking at telecom:

<b>SPY closes up on the week. IYZ (telecom) outperforms SPY by at least 1 percent.</b>										
<b>Buy on close. Sell X weeks later. \$100k/trade. 06/2004-present.</b>										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$31,889.45)	17	9	8	52.94	\$4,213.25	(\$8,726.08)	0.48	0.54	(\$1,875.85)
9	(\$47,317.82)	18	9	9	50.00	\$2,676.56	(\$7,934.10)	0.34	0.34	(\$2,628.77)
8	(\$59,963.94)	18	6	12	33.33	\$2,666.42	(\$6,330.20)	0.42	0.21	(\$3,331.33)
7	(\$36,768.88)	20	8	12	40.00	\$3,029.84	(\$5,083.96)	0.60	0.40	(\$1,838.44)
6	(\$13,044.45)	20	11	9	55.00	\$2,617.74	(\$4,648.84)	0.56	0.69	(\$652.22)
5	(\$29,047.58)	23	12	11	52.17	\$2,185.12	(\$5,024.46)	0.43	0.47	(\$1,262.94)
4	(\$27,583.29)	25	11	14	44.00	\$2,380.07	(\$3,840.29)	0.62	0.49	(\$1,103.33)
3	(\$21,176.42)	27	14	13	51.85	\$1,882.17	(\$3,655.91)	0.51	0.55	(\$784.31)
2	(\$15,856.63)	30	13	17	43.33	\$1,716.56	(\$2,245.40)	0.76	0.58	(\$528.55)
1	(\$25,379.81)	33	12	21	36.36	\$984.66	(\$1,771.22)	0.56	0.32	(\$769.09)

Here again I'm only showing results from the first instance forward. Over the time period above the average week experienced a loss of 0.06%, or -\$56.20. So while negative results would be expected over the test period, results are still substantially more bearish than typical.

Of course both of these studies understate the percentage outperformance by the sectors over the broad S&P. Below is a breakdown of IYZ for a 4-week holding period based on the size of the outperformance.

<b>SPY closes up on the week. IYZ (telecom) outperforms SPY by at least X percent.</b>										
<b>Buy on close. Sell 4 weeks later. \$100k/trade. 06/2004-present.</b>										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
2.5	(\$10,168.22)	4	1	3	25.00	\$1,429.23	(\$3,865.82)	0.37	0.12	(\$2,542.06)
2	(\$21,468.53)	8	3	5	37.50	\$1,128.00	(\$4,970.51)	0.23	0.14	(\$2,683.57)
1.5	(\$26,821.52)	14	6	8	42.86	\$1,968.71	(\$4,829.23)	0.41	0.31	(\$1,915.82)
1	(\$27,583.29)	25	11	14	44.00	\$2,380.07	(\$3,840.29)	0.62	0.49	(\$1,103.33)
0.5	(\$15,213.51)	34	17	17	50.00	\$2,783.61	(\$3,678.52)	0.76	0.76	(\$447.46)

The larger the outperformance the worse the market performed over the next month. When looking at XLU the results weren't as cut and dry since there were a few strong

moves higher when the differential was greater than 2%. Still, the overall edge remained lower.

Lastly you'll note that the breadth thrust was removed from the active studies list tonight. It's been a month since it triggered and our previous tests found the bulk of the move often came within the 1<sup>st</sup> month. Therefore, with its bullish influence potentially waning, I've removed it from the list.

More and more evidence is suggesting the market is ripe for a pullback. I expect we may begin to see one fairly soon. Still, from a price standpoint the uptrend is obviously still in place. Before getting too aggressive on the short side I'll need to see these negative indications confirmed by price. I'm not excited about chasing intermediate-term long positions at this point.

**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.)***

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
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

Still no signs of capitulative selling.

**Additional New Trade Ideas**

*None tonight.*

## Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	4/30/2009	\$88.55	\$90.86	-2.61%		covered on close
SPY(1/4)(s)	5/4/2009	\$88.55	\$90.86	-2.61%		covered on close
SPY(1/4)(s)	5/5/2009	\$90.75	\$90.86	-0.12%		
IYT(s)	5/5/2009	\$60.15	\$59.14	1.68%		exit on close < 5ma
CPB(s)	5/6/2009	\$26.53	\$26.38	0.57%	\$26.85	exit on close < 5ma
SPY(1/4)(s)	5/7/2009	\$93.01	\$90.86	2.31%		

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