

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 3, 2009

Volume 2 Issue 105

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 + 1/2 Std Dev
Active					
June 3, 2009	3up, 2 lower vol, today weakest	1-5 days	Bearish	-1.70%	-2.30%
June 2, 2009	2 strong breadth days & 10-day high	1-10 days	Bullish	2.10%	3.00%
June 2, 2009	SPX up 1%. BKX down 0.5%	1-2 days	Bearish	-1.30%	-1.80%
June 1, 2009	Two 0.75% days up in chop	1-4 days	Bearish		
May 28, 2009	1% Drop on Bad Breadth	1-9 days	Bullish	2.90%	3.90%
Active - Long Term					
May 28, 2009	SOX up 1% while SPX down 1%	1-20 days	Bullish	13.10%	16.10%
June 1, 2009	Nasdaq Relative Strength Leading		Bullish		
April 20, 2009	Low Nasdaq Weekly Vol Spyx	1-10 weeks	Bearish		
Dropped Tonight					
May 27, 2009	2.5% rise low volume	1-5 days	Bearish	-5.30%	-7.70%
May 27, 2009	5 day low to 10-day high	1-5 days	Bearish	-1.90%	-2.90%

If the avg max move is achieved it will appear in **bold and brown**. If the avg + 1/2 std deviation is achieved, the study will in *bold italic blue*.

Short-term Outlook (1-5 days) – updated 6/3 – bearish

Muted action in the market today. The S&P remained range-bound after the 1st half hour but finished with slight gains. The Nasdaq did a bit better, closing up almost 0.5%. Breadth was positive with the NYSE Up Issues % coming in at 58% and the Up Volume % at 51%. Volume fell for the 2nd day in a row.

There are several signs that the recent upthrust is losing steam including today's low volume, narrow range, marginally higher breadth, and limited price advancement. Such action after the market has already moved higher for a few days often leads to a pullback.

Below is an example of some of the above warning signs in action:

SPX advances for at least the 3rd day in a row. Volume falls both today and yesterday. Today's rise is the smallest rise of the upmove. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - present.										
X days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	(26,277.07)	54	25	29	46.30	1,138.65	(1,887.70)	0.60	0.52	(486.61)
4	(12,352.25)	54	25	29	46.30	1,311.78	(1,556.78)	0.84	0.73	(228.75)
3	(5,481.67)	54	28	26	51.85	1,202.29	(1,505.61)	0.80	0.86	(101.51)
2	(2,981.21)	54	26	28	48.15	940.15	(979.47)	0.96	0.89	(55.21)
1	(5,977.11)	54	22	32	40.74	699.25	(667.52)	1.05	0.72	(110.69)

Results here seem to favor the downside. Not evident above is that 81.5% of all trades closed below the trigger price at some point in the next 4 days. This is quite a bit bigger than 68% at-any-time odds of a close lower within 4 days.

In conducting the study I noticed that edge has been a bit stronger over the last 12 years than in was prior. Below is the same test, but run back only 12 years instead of all the way to 1961:

SPX advances for at least the 3rd day in a row. Volume falls both today and yesterday. Today's rise is the smallest rise of the upmove. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 6/1/1997 - present.										
X days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	(18,233.43)	25	8	17	32.00	1,232.92	(1,652.75)	0.75	0.35	(729.34)
4	(11,580.45)	25	8	17	32.00	1,483.97	(1,379.54)	1.08	0.51	(463.22)
3	(9,592.38)	25	11	14	44.00	1,034.03	(1,497.62)	0.69	0.54	(383.70)
2	(7,610.95)	25	8	17	32.00	930.17	(885.43)	1.05	0.49	(304.44)
1	(4,230.31)	25	10	15	40.00	542.60	(643.75)	0.84	0.56	(169.21)

This test is substantially more bearish than running it over longer time periods. In this case 22 of 25 (88%) of instances had at least 1 close below the trigger price. This again compares favorably to the at-any-time 72% odds of a lower close within 4 days.

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



With 2 bearish studies expiring from the active list tonight there was a bit of an uptick in the green Aggregator line. It remains slightly below 0 and is set to fall further tomorrow barring additional studies. The black Differential line is still far below 0, illustrating the fact that the S&P has strongly exceeded expectations over the last few days. Overbought

with negative expectations is typically a favorable shorting configuration. I currently have a ½ position short. I will look for additional short exposure tomorrow as described in the trade ideas section.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/1 - neutral

I don't have a lot to discuss tonight with regards to the intermediate-term. There was some notable action this past week from a leadership standpoint. On Wednesday the [strong performance by the SOX](#) in the face of a Nasdaq and S&P selloff suggested positive implications over the next several weeks.

Also notable is the fact that the [Nasdaq/S&P Lead/Lag model](#) triggered a buy on Friday as the Nasdaq has now taken a leadership position on the weekly chart.

At this point I feel perhaps the most important thing to monitor from an intermediate-term standpoint will be how the market acts following a break of the recent trading range. A strong breakout that doesn't quickly pull back would suggest unusual strength and would need to be respected. A failed upside breakout could quickly lead to a move back to the bottom of the range.

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

Additional New Trade Ideas

SPY – short ¼ index position ON OPEN @ \$95.75 limit. If not filled on open, the order should be cancelled. I will then look to short the same ¼ index position @ \$95.50 limit ON CLOSE. Based on the short-term market outlook. Similar to yesterday, should a large gap up occur, I'll look to take advantage of it. If not, I'll wait for the end of the day to add to the short position.

MRK – short @ \$27.70 limit. Place stop at \$28.30 if filled. If it gaps above the stop then the trade should not be taken. This one is from the systems triggers page. I like this one because not only is it extended, but it is approaching possible resistance. The resistance I'm looking at is the March highs and the 200-day moving average – both within a few cents of each other and about 2% away. The standard exit trigger for this system is a close below the 5-day ma.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	6/1/2009	\$93.67	\$94.85	-1.26%		
SPY(1/4)(s)	6/1/2009	\$94.77	\$94.85	-0.08%		

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