

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 4, 2009

Volume 2 Issue 106

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 4, 2009	Low vol selloff cluster	1-5 days	Bullish	4.10%	6.00%
June 4, 2009	Gap unfilled from high w/ partial rvs	1-3 days	Bearish	-1.20%	-1.80%
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 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					
June 2, 2009	SPX up 1%. BKX down 0.5%	1-2 days	Bearish	-1.30%	-1.80%

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 6/4 – bearish to neutral

A perfectly bearish day was ruined in the last 25 minutes with sizable snap-back rally. Still the major indices all finished lower with the S&P finishing down about 1.4%. Breadth was negative as the NYSE Up Issues % came in at 27% and the Up Volume % a very low 13%. Overall volume dropped for the 3rd day in a row.

I'm going to discuss a couple of studies tonight. The 1st is from the 8/1/08 Subscriber Letter. In it I used a few different parameters to look for clusters of large low-volume selloffs. Strong moves down often lead to bounces. When you have a series of them occur on low volume then you may have favorable risk/reward on the long side. Below is an updated version of the study from 8/1/08. (Note I slightly changed the requirement to say that today had to qualify rather than "any" 3 of the last 10.)

SPX drops at least 1.25% on lower volume for at least the 3rd time in the last 10 days.										
Buy on close. Sell X days later. \$100k/trade. 1994-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	\$28,024.32	28	18	10	64.29	\$4,016.98	(\$4,428.14)	0.91	1.63	\$1,000.87
9	\$32,520.76	28	18	10	64.29	\$3,526.94	(\$3,096.42)	1.14	2.05	\$1,161.46
8	\$30,422.56	29	16	13	55.17	\$4,190.12	(\$2,816.87)	1.49	1.83	\$1,049.05
7	\$24,061.48	31	15	16	48.39	\$4,370.21	(\$2,593.23)	1.69	1.58	\$776.18
6	\$47,743.95	33	20	13	60.61	\$4,211.46	(\$2,806.55)	1.50	2.31	\$1,446.79
5	\$29,737.72	35	22	13	62.86	\$3,504.83	(\$3,643.74)	0.96	1.63	\$849.65
4	\$22,246.01	37	22	15	59.46	\$3,435.31	(\$3,555.39)	0.97	1.42	\$601.24
3	\$22,709.14	40	25	15	62.50	\$2,572.29	(\$2,773.21)	0.93	1.55	\$567.73
2	\$21,963.11	43	23	20	53.49	\$2,502.70	(\$1,779.94)	1.41	1.62	\$510.77
1	\$9,211.48	47	23	24	48.94	\$2,186.68	(\$1,711.76)	1.28	1.22	\$195.99

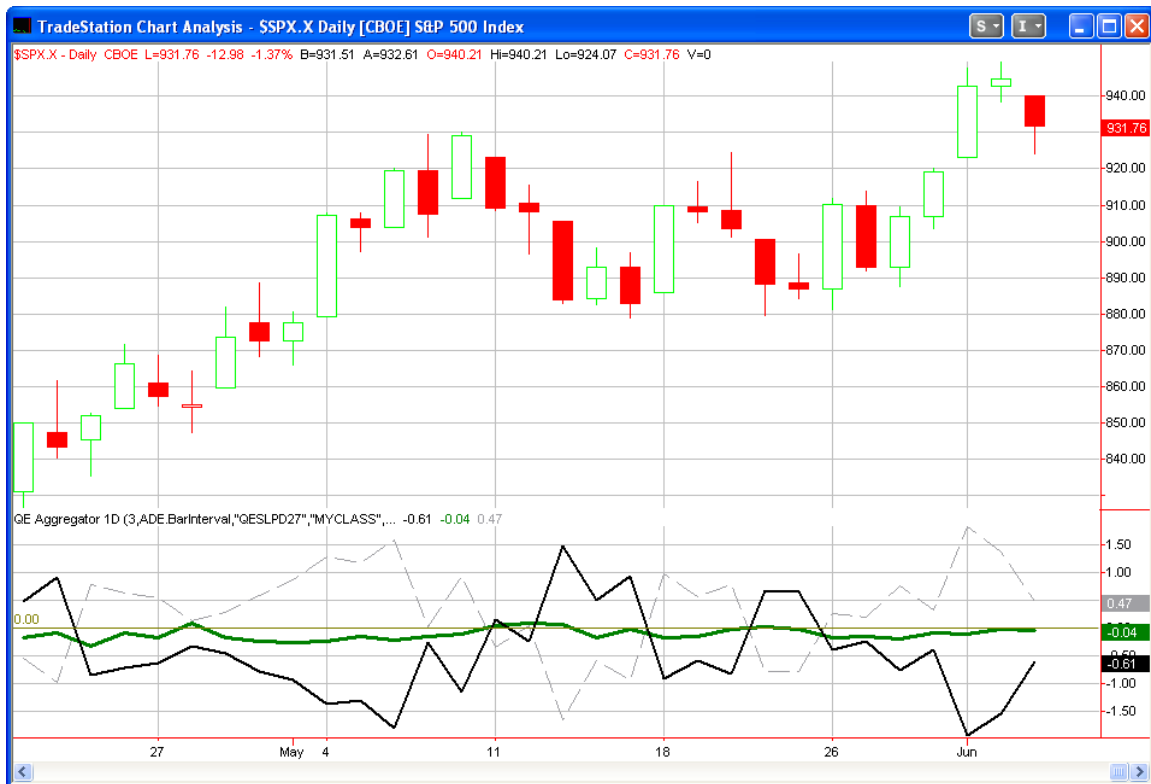
There appeared to be an upside edge when I ran this test last summer and there still appears to be one.

Most notable in my eyes about Wednesday's action was that 1) we gapped down and never filled, 2) we opened near the high of the day, 3) we closed well off the low of the day, and 4) the market closed at a high on Tuesday. I ran a study to see how the market has performed following such conditions in the past:

SPY leaves an unfilled gap down. Open is in top 25% of daily range. Close is in top 50%. Yesterday SPY closed at 10-day high.										
Buy on close. Sell X days later. \$100k/trade. 1994-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
5	(\$13,983.50)	24	10	14	41.67	\$901.36	(\$1,642.65)	0.55	0.39	(\$582.65)
4	(\$11,200.61)	24	10	14	41.67	\$1,057.42	(\$1,555.34)	0.68	0.49	(\$466.69)
3	(\$15,953.98)	24	10	14	41.67	\$828.66	(\$1,731.47)	0.48	0.34	(\$664.75)
2	(\$10,548.82)	24	11	13	45.83	\$783.70	(\$1,474.58)	0.53	0.45	(\$439.53)
1	(\$9,042.57)	24	9	15	37.50	\$558.84	(\$938.14)	0.60	0.36	(\$376.77)

I looked at this study a number of different ways. The above table is a good representation of the kind of statistics I was seeing among the different results tables. It has generally seemed to suggest a downside edge over the next few days.

Some conflict in the studies tonight, and frankly I'm seeing nothing that is overwhelmingly compelling. The systems triggers page is also nearly empty tonight. It can often act as a barometer for the market. When there is nothing (or almost nothing) showing up there, then the market as a whole will often be without a strong directional bias. You can see the [Aggregator](#) chart below is also now turning more neutral..



The Aggregator chart isn't exactly screaming "SELL!", but there does appear to be some more room to the downside. The green Aggregator line shows net expectations for the next few days are mildly negative. Meanwhile, the market has strongly outperformed expectations over the last 3 days as represented by the black Differential line. Of course Monday's strong move is going to fall out of the Differential calculation tomorrow, which will draw the black Differential line higher.

I'll be watching the action closely tomorrow and may be looking to exit the remaining shares. The intermediate-term trend is still up, and as I often say, when trading counter-trend I'm more apt to take profits quickly. I'll likely start trailing a stop after I monitor the open and early trading. A strong down day would likely trigger some long studies as we'd be lower for the 2nd day in a row in an uptrend. So if it goes my way I'm likely out as well.

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

None tonight. The unfilled gap Wednesday kept us from getting fills in either of last night's trade ideas. I'm waiting for a stronger edge to appear before taking on more exposure.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	6/1/2009	\$93.67	\$93.56	0.12%		stopped out
SPY(1/4)(s)	6/1/2009	\$94.77	\$93.65	1.18%		

The SPY stop was hit right at the end of the day with the late surge

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2009 Hanna Capital Management, LLC