

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 5, 2009

Volume 2 Issue 107

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 5, 2009	Nasdaq Spyx < 0 QQQQ 10-high	1-2 days	Bearish		
June 5, 2009	Strong Breadth Low Vol	1-3 days	Bearish		
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%
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 1, 2009	Two 0.75% days up in chop	1-4 days	Bearish		

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 6/5 slightly bearish

Thursday the market put in a steady low-volume drift to the upside for most of the day. The major indices all close higher – mostly between 1% and 2%. Breadth was strong. The NYSE Up Issues % was 76.5% and the Up Volume % was 77%. Total volume declined for the 4th day in a row.

Most unusual and alarming about today's action was some of the volume statistics. The Quantifiable Edges Nasdaq Volume Spyx indicator closed around minus 4. Closes below zero are fairly rare and often lead to weakness over the next few days. This is especially so when the market rises along with the low readings. Below are a couple of studies that exemplify this.

This first one looks at readings below zero that accompany a 10-day closing high.

Nasdaq Volume Spyx closes below 0 while QQQQ closes at a 10-day high.										
Buy QQQQ on close. Sell X days later. \$100k/trade. 2000-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$33,087.30)	14	4	10	28.57	\$3,154.39	(\$4,570.49)	0.69	0.28	(\$2,363.38)
9	(\$34,636.17)	14	4	10	28.57	\$2,140.28	(\$4,319.73)	0.50	0.20	(\$2,474.01)
8	(\$28,548.15)	14	3	11	21.43	\$3,598.53	(\$3,576.70)	1.01	0.27	(\$2,039.15)
7	(\$25,993.67)	14	4	10	28.57	\$2,386.15	(\$3,553.83)	0.67	0.27	(\$1,856.69)
6	(\$27,981.19)	14	4	10	28.57	\$2,303.21	(\$3,719.40)	0.62	0.25	(\$1,998.66)
5	(\$20,446.48)	14	4	10	28.57	\$1,839.00	(\$2,780.25)	0.66	0.26	(\$1,460.46)
4	(\$18,519.34)	14	4	10	28.57	\$1,653.27	(\$2,513.24)	0.66	0.26	(\$1,322.81)
3	(\$19,501.33)	14	4	10	28.57	\$1,304.03	(\$2,471.75)	0.53	0.21	(\$1,392.95)
2	(\$19,112.88)	14	5	9	35.71	\$537.09	(\$2,422.04)	0.22	0.12	(\$1,365.21)
1	(\$12,384.30)	14	4	10	28.57	\$490.17	(\$1,434.50)	0.34	0.14	(\$884.59)

The number of occurrences is a bit low but certainly suggestive of a downside edge over the next several days. The edge appears the strongest over the 1st 2 days, when much of the damage has been done. Not evident above is that 13 of 14 instances closed lower than the trigger-day close at some point in the next 3 days.

I also looked at times the Nasdaq Volume Spyx closed under 0 and the QQQQ gained 1% or more.

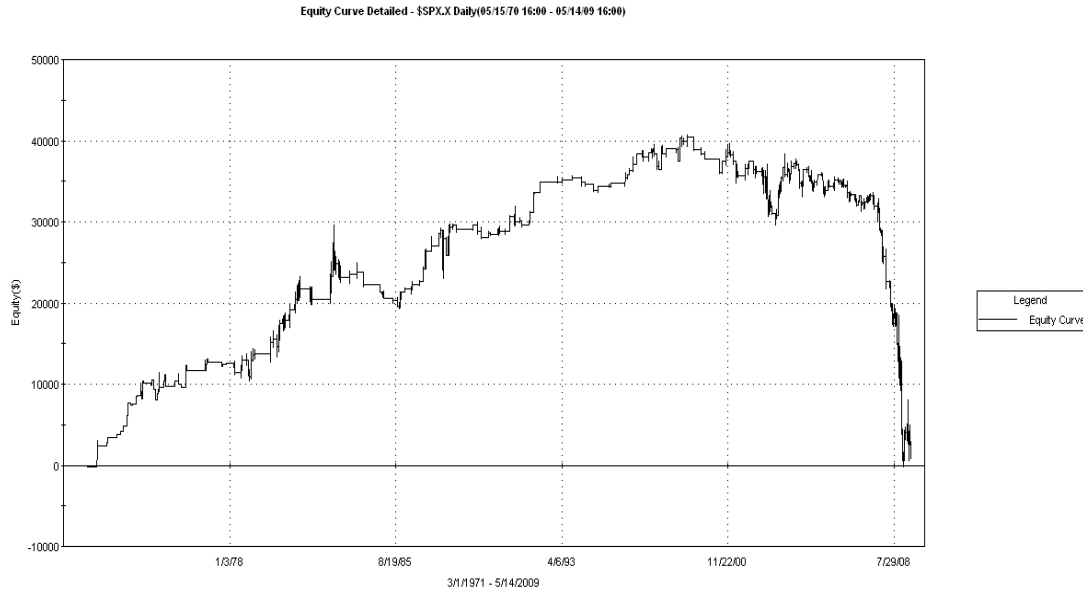
Nasdaq Volume Spyx closes below 0 while QQQQ rises at least 1%.										
Buy QQQQ on close. Sell X days later. \$100k/trade. 2000-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	(\$26,622.41)	6	2	4	33.33	\$4,736.61	(\$9,023.91)	0.52	0.26	(\$4,437.07)
9	(\$26,867.15)	6	1	5	16.67	\$7,222.50	(\$6,817.93)	1.06	0.21	(\$4,477.86)
8	(\$26,785.04)	6	1	5	16.67	\$5,949.20	(\$6,546.85)	0.91	0.18	(\$4,464.17)
7	(\$32,087.84)	6	1	5	16.67	\$4,215.80	(\$7,260.73)	0.58	0.12	(\$5,347.97)
6	(\$38,679.26)	6	1	5	16.67	\$1,540.80	(\$8,044.01)	0.19	0.04	(\$6,446.54)
5	(\$31,825.61)	6	1	5	16.67	\$1,112.80	(\$6,587.68)	0.17	0.03	(\$5,304.27)
4	(\$27,944.35)	6	1	5	16.67	\$2,675.00	(\$6,123.87)	0.44	0.09	(\$4,657.39)
3	(\$21,195.45)	7	3	4	42.86	\$699.88	(\$5,823.77)	0.12	0.09	(\$3,027.92)
2	(\$24,681.17)	7	2	5	28.57	\$534.04	(\$5,149.85)	0.10	0.04	(\$3,525.88)
1	(\$9,906.97)	7	2	5	28.57	\$1,614.42	(\$2,627.16)	0.61	0.25	(\$1,415.28)

Instances here are too low to draw solid conclusions. Still the limited results we have are strongly negative. The average performance during the following week is a loss of over 5%. Also notable is that all 7 instances closed below trigger price at some point in next 4 days.

Among the Nasdaq 100 both AAPL and GOOG have closed higher now for 8 days in a row. Between the 2 of them they make up nearly 18% of the Nasdaq 100 weight. The fact that they are up 8 days in a row doesn't necessarily mean they're a good short. In fact, they both appear to have just emerged from low-level bases and could be good buys on a pullback. They're definitely short term overbought, though. Throw MSFT and ORCL into the mix and 4 of the top 6 Nasdaq 100 stocks have a 2-period RSI over 98. That's about 26% of the index that is severely overbought. I'd expect the QQQQ will pull back more sharply than the SPY should there be a pull back in the next few days.

Another study that popped up today is one from the 5/15/09 Subscriber Letter. Below is an excerpt from that Letter:

Below is a chart that shows the equity curve of buying any day that advancers outnumber decliners 2 to 1 while volume declines. The holding period for each trade is 1 day.

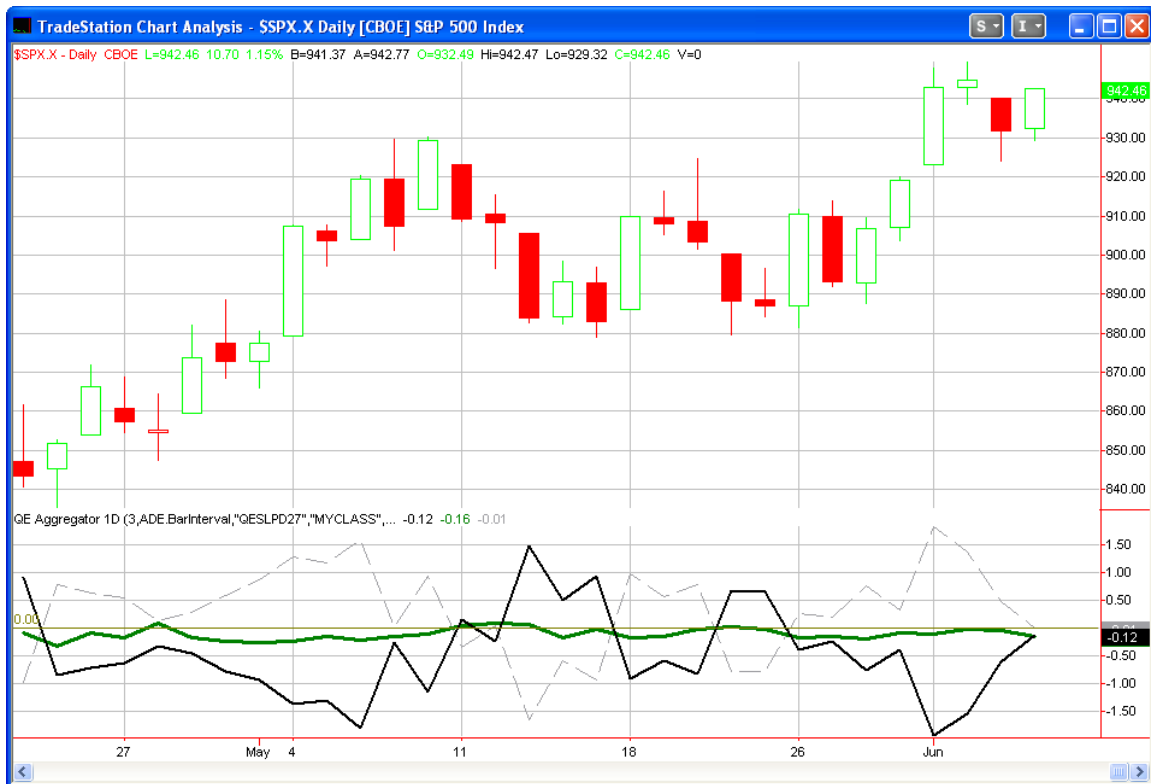


From 1970 until August of 2007 this setup had no bearish implications. In fact, for most of the period, the strong breadth had bullish implications on the next day's trade. This bear market has seen sharp, consistent selling following such days. Below is a table breaking down the 1-5 day performance over the recent period:

Advancers outnumber down issues by at least 2 to 1. Volume declines from yesterday.										
Buy S&P 500 on close. Sell X days later. \$100k/trade. 08/01/2007 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
5	(\$71,244.40)	34	12	22	35.29412	\$1,690.66	(\$4,160.56)	0.406355	0.221648	(\$2,095.42)
4	(\$56,060.01)	36	12	24	33.33333	\$1,880.45	(\$3,276.06)	0.573997	0.286999	(\$1,557.22)
3	(\$59,506.71)	45	15	30	33.33333	\$2,075.83	(\$3,021.47)	0.687026	0.343513	(\$1,322.37)
2	(\$70,400.52)	46	15	31	32.6087	\$839.52	(\$2,677.20)	0.313581	0.151733	(\$1,530.45)
1	(\$32,523.85)	47	18	29	38.29787	\$935.06	(\$1,701.89)	0.549423	0.341021	(\$692.00)

Looking at the recent past there seems to be a pretty strong indication of a downside edge.

The [Aggregator](#) chart is updated below:



With tonight's studies the green Aggregator chart has moved further below 0. The next few days appear to have a good sized downside bias. The black differential line is showing the S&P has outperformed expectations by a small amount over the last few days.

The uptrend needs to be respected but if I can get a favorable entry then I may look to short QQQQ. Details in the trade updates section below.

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

QQQQ – short ¼ index position at \$37.10 limit ON OPEN. If unfilled at the open the trade will be cancelled. Should we not get a fill on the open then I will look to enter short ¼ index position at \$37.00 limit ON CLOSE. I'm only looking to add one ¼ position. If filled at the open, I will not look for an entry at the close.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	6/1/2009	\$94.77	\$94.50	0.28%		stopped out intraday

SPY hit the stop sent to subscribers via intraday update early in the session.

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