

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 15, 2009

Volume 2 Issue 113

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 15, 2009	2 Days Up In Chop	1-4 days	Bearish		
June 15, 2009	Lowest vol in 20 on 20-day high	1-5 days	Bearish	-1.80%	-2.70%
June 9, 2009	Low volume near high	1-5 days	Bearish	-2.10%	-3.30%
June 8, 2009	Gap up & reverse from 20-day high	1-6 days	Bullish	2.60%	3.70%
June 2, 2009	2 strong breadth days & 10-day high	1-10 days	Bullish	2.10%	3.00%
Active - Long Term					
June 11, 2009	4-day tight range above 10-ma	1-20 days	Bullish	4.00%	4.80%
June 10, 2009	Nasdaq/NYSE Volume High	1-20 days	Bearish		
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 12, 2009	Equity P/C very low	1 day	Bearish	-1.65%	-2.20%
June 8, 2009	Treasury Spread Rapidly Accelerating		Bullish		

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 6/15 neutral

After spending most of the day in negative territory, a late-date surge put the S&P and Dow slightly positive on the day. The Nasdaq couldn't quite do it and finished down 3.5 points. Breadth was slightly negative. On the NYSE the Up Issues % finished at 45% and the Up Volume % at 48%. Total NYSE volume was the lowest since the day after Christmas.

We've seen many times that moves higher on poor volume have a tendency to fail soon after. A few volume-related studies appeared in the Quantifinder tonight. None were nearly as extreme as the present. A 100 day high made on the lowest volume in 100 days has only happened 6 times in the last 40 years and 3 of them were Thanksgiving related. Lowering the requirements to a 50-day high on the lowest volume in 50 days provided the following:

SPX makes highest close in 50 days on lowest volume in 50 days. Buy on close. Sell X days later. \$100k/trade. 1978 - present.										
QE Vol Lite Rally: daysin	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-4,226.17	9	4	5	44.44	710.39	-1,413.54	0.50	0.40	-469.57
4	-9,934.08	9	2	7	22.22	936.99	-1,686.87	0.56	0.16	-1,103.79
3	-3,002.55	9	3	6	33.33	569.15	-785.00	0.73	0.36	-333.62
2	-503.19	9	5	4	55.56	658.39	-948.78	0.69	0.87	-55.91
1	-3,101.80	9	4	5	44.44	305.04	-864.39	0.35	0.28	-344.64

Again, many of these were holiday-related. To get something useful I again lowered the requirements from 50 days to 20 days:

SPX makes highest close in 20 days on lowest volume in 20 days. Buy on close. Sell X days later. \$100k/trade. 1978 - present.										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-23,021.98	44	19	25	43.18	964.13	-1,653.62	0.58	0.44	-523.23
4	-20,058.88	45	18	27	40.00	893.48	-1,338.58	0.67	0.44	-445.75
3	-14,133.58	45	18	27	40.00	656.70	-961.26	0.68	0.46	-314.08
2	-13,459.19	47	24	23	51.06	484.79	-1,091.05	0.44	0.46	-286.37
1	-9,606.39	50	22	28	44.00	325.88	-599.14	0.54	0.43	-192.13
87% of instances posted a close lower than the entry trigger at some point the following week.										

So as we saw in previous studies the low volume at a new high has often led to a short-term pullback.

I mentioned Thanksgiving earlier and the Friday afterwards is typically a 1pm Eastern closing. Often there is also a shortened day around 4th of July. I eliminated the periods near Thanksgiving and 4th of July and re-ran the above test:

SPX makes highest close in 20 days on lowest volume in 20 days. Buy on close. Sell X days later. \$100k/trade. 1978 - present. Thanksgiving & 4th of July periods excluded.										
QE Vol Lite Rally: daysin	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-21,241.35	32	13	19	40.63	944.57	-1,764.25	0.54	0.37	-663.79
4	-15,603.74	33	13	20	39.39	928.55	-1,383.74	0.67	0.44	-472.84
3	-7,971.71	33	16	17	48.48	554.07	-990.40	0.56	0.53	-241.57
2	-12,811.30	35	17	18	48.57	368.72	-1,059.97	0.35	0.33	-366.04
1	-4,386.80	38	18	20	47.37	267.48	-460.07	0.58	0.52	-115.44
88% of instances posted a close lower than the entry trigger at some point the following week.										

As you can see, several instances were eliminated. Results were basically the same, though.

Also notable from Friday is that it was the 2nd higher close in a row, triggering our “2 Days Up In Chop System”. As can be seen on the charts page in the members section, the choppy environment has persisted even while the market has rallied. Below are updated stats for “2 Days Up In Chop”.

SPX closes up 2 days in a row. Short on close. Cover next profitable close up to 4 days later. Cover 4th day. \$100k/trade. 6/1/2007 - present.

TradeStation Performance Summary			
Collapse ^			
All Trades			
Total Net Profit	\$69,895.26	Profit Factor	5.56
Gross Profit	\$85,222.50	Gross Loss	(\$15,327.24)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$61,112.24	Select Profit Factor	4.99
Select Gross Profit	\$76,439.48	Select Gross Loss	(\$15,327.24)
Adjusted Total Net Profit	\$52,635.76	Adjusted Profit Factor	3.44
Adjusted Gross Profit	\$74,220.32	Adjusted Gross Loss	(\$21,584.56)
Total Number of Trades	66	Percent Profitable	90.91%
Winning Trades	60	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$1,059.02	Ratio Avg. Win:Avg. Loss	0.56
Avg. Winning Trade	\$1,420.37	Avg. Losing Trade	(\$2,554.54)
Largest Winning Trade	\$8,783.02	Largest Losing Trade	(\$7,832.88)

The setup has been even more reliable when the 2 up days also coincided with a 10-day high. Below I take a look at that:

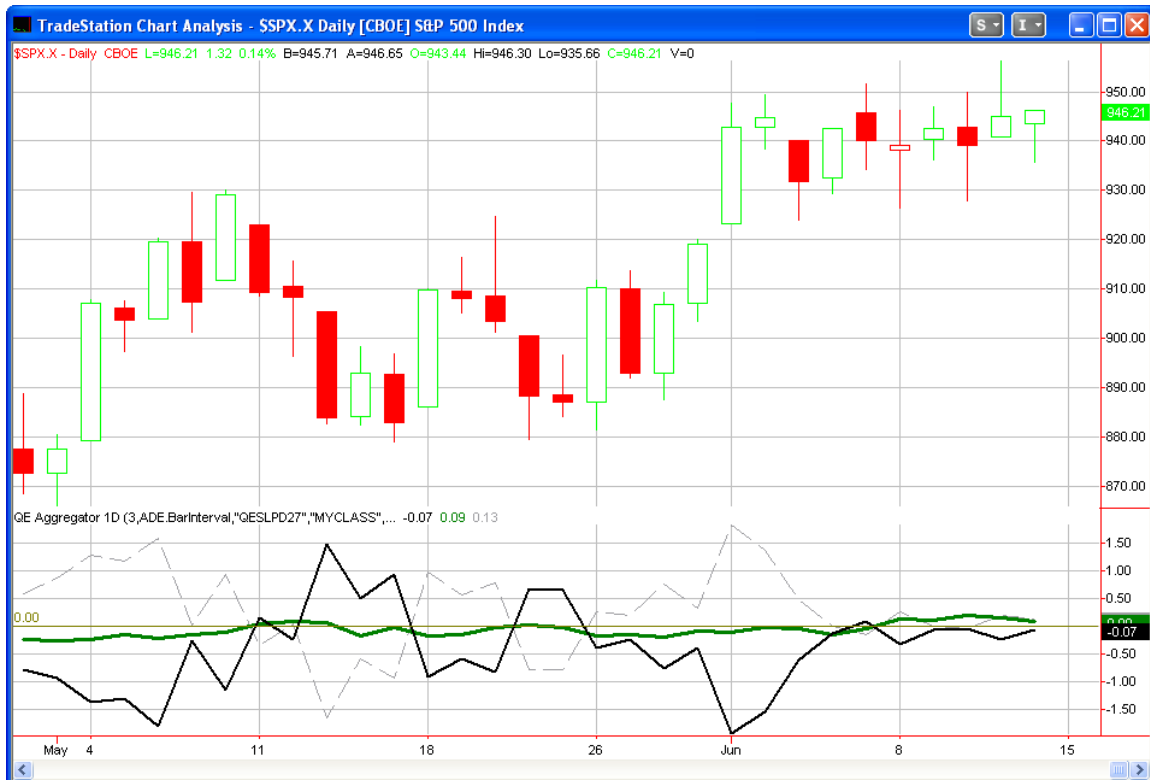
SPX closes higher 2 days in a row and at a 10-day high. Short on close. Cover next profitable close up to 4 days later. Cover 4th day. \$100k/trade 6/1/2007 - present

TradeStation Performance Summary			
Collapse ^			
All Trades			
Total Net Profit	\$23,003.20	Profit Factor	10.13
Gross Profit	\$25,521.76	Gross Loss	(\$2,518.56)
Roll Over Credit	\$0.00		
Open Position Profit/Loss	\$0.00		
Select Total Net Profit	\$19,218.55	Select Profit Factor	8.63
Select Gross Profit	\$21,737.11	Select Gross Loss	(\$2,518.56)
Adjusted Total Net Profit	\$15,380.29	Adjusted Profit Factor	4.05
Adjusted Gross Profit	\$20,417.41	Adjusted Gross Loss	(\$5,037.12)
Total Number of Trades	26	Percent Profitable	96.15%
Winning Trades	25	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$884.74	Ratio Avg. Win:Avg. Loss	0.41
Avg. Winning Trade	\$1,020.87	Avg. Losing Trade	(\$2,518.56)
Largest Winning Trade	\$3,784.65	Largest Losing Trade	(\$2,518.56)

Most recent trade 

The one loser above was the most recent instance, which triggered on 5/29/09.

Tonight's **Aggregator** chart is below:



For the last week and a half the Aggregator chart has been unusually neutral. It's also been right as the market has basically done nothing. Today's configuration is much the same as we've seen the last few days. The green Aggregator line is a little above 0, suggesting a mild upside expectation from the studies over the next few days. Meanwhile the black differential line is showing the market has exceeded its low expectations over the last few days.

While today's studies were short-term bearish, they weren't enough to move the Aggregator below the 0 line.

From my standpoint there just isn't an edge in the S&P that's significant enough to try and exploit. This won't last forever, but it does require some patience.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/15 - neutral

From an intermediate-term standpoint I'm not seeing much that is new and telling based on the action of the last few days. Choppy sideways trading will tend to have that effect. I've created a table below which gives a broad description of what our current studies are suggesting. It is broken out by category.

Indicator Type	Notes	Bias
Price	Mixed - Short-term overbought, but tight consolidation near high has been positive.	Neutral
Volume	Low volume rally studies have shown negative bias along with fairly recent negative Nasdaq Weekly Spyx readings.	Bearish
Breadth	June 2nd breadth study nearing expiration.	Slightly bullish
Leadership	SOX studies and Nasdaq/S&P Lead/Lag model suggest positive leadership.	Bullish
Sentiment	Nasdaq/NYSE volume suggesting possible excessive speculation. VIX:VXV has begun to back off possible low stretch.	Slightly Bearish

The picture appears quite mixed and it will probably remain so until there is a decisive break of the current consolidation. It's not an environment where I want to bet too heavily. I am willing to play either side. The themes above will need to be monitored closely. A clearer bias should emerge before too long.

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	1.56	DJ US Financial	IYF	0.37
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.74
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	1.42
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	3.03
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	1.00

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

GOOG – buy ½ lot @ \$420.00 limit on open, if not filled, wait until close and look to buy @ \$420.00 limit on close. GOOG is still a bit above the closes support level. It is a bit overdue to bounce though. If a gap down open occurs, then I'm interested. If not, I'd prefer to wait until the close due to the negative studies we went over in the short-term market outlook.

MS from the triggers page also looks interesting. I'll hold off a bit though. I'd prefer not to take on too much long-side exposure too quickly with such a cloudy market outlook.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
GDX	6/9/2009	\$41.30	\$39.54	-4.26%		sell 1/2 on close > 10ma
AAPL	6/11/2009	\$139.55	\$136.97	-1.85%		
GOOG (1/2)	6/12/2009	\$426.86	\$424.84	-0.47%		

GOOG was entered at the open. Friday was a difficult day for our positions.

May Results Summary

May got off to a rough start, but we were able to rebound and finish positive. Even though it was an extremely subpar month for the “official trade ideas”, it was nice to post the 8th month out of the last 9 with a net positive additive result at the bottom of the scorecard.

First the usual caveats and explanations before unveiling the results.

I don't suggest position sizes. The primary reason for this is I'm not acting as a financial advisor. I don't feel it is appropriate to suggest allocation sizes without understanding someone's financial situation and risk tolerance. Even for my own trading I run different portfolios with different levels of aggressiveness. For instance, my most aggressive portfolio is my IRA. Here I may use options to sometimes get 400-500% leveraged. Other portfolios on the other hand normally take much more conservative stances and some rarely reach or exceed 100% exposure.

Since I don't suggest position sizes this should not be considered a performance report, but rather a trade idea scorecard. Therefore, no matter how objective I try to be the reporting of the results is always going to be skewed depending on how you approach the trades. For instance, I always recommend scaling into the Catapult positions in 3 parts, whereas the “System” trades (whatever system I unveil other than Catapult) are normally one entry. The “Index” trades I normally recommend scaling into as well. For my own trading I trade much larger size with the index trades than any of the individuals. I also control my exposure by limiting the total amount invested per day. As I mentioned, this will vary depending on the account I'm trading. My most aggressive account I may

put in up to 100%/day and get heavily leveraged using options. A more conservative account may max out at 15%-20% per day.

It's unlikely anyone would have taken all of the trades with equal amounts, so personal results would vary greatly depending on the trader's approach. Simply adding up the results of the individual triggers as I do below is an admittedly poor representation of returns. A net positive or negative does not necessarily mean a person following the ideas would have made or lost money during the period measured. And the sum total is certainly not representative of what a portfolio would return.

With all that out of the way, below is a complete list of May's trade ideas:

Security	Type	Strategy	Position	Entry Dt	Entry Prc	Exit Date	Exit Prc	Pct G/L
May-09								
SPY	Index	QE Index	Short	4/30/2009	\$88.55	5/7/2009	\$90.86	-2.6%
SPY	Index	QE Index	Short	5/4/2009	\$88.55	5/7/2009	\$90.86	-2.6%
CPB	Stock	QE System	Short	5/6/2009	\$26.53	5/11/2009	\$26.85	-1.2%
IYT	Stock	QE System	Short	5/5/2009	\$60.15	5/11/2009	\$57.66	4.1%
SPY	Index	QE Index	Short	5/5/2009	\$90.75	5/12/2009	\$91.35	-0.7%
SPY	Index	QE Index	Short	5/7/2009	\$93.01	5/12/2009	\$91.35	1.8%
CSCO	Stock	QE System	Long	5/12/2009	\$18.61	5/13/2009	\$18.25	-1.9%
SPY	Index	QE Index	Long	5/13/2009	\$88.68	5/15/2009	\$89.07	0.4%
SPY	Index	QE Index	Short	5/20/2009	\$91.95	5/21/2009	\$89.99	2.1%
SPY	Index	QE Index	Long	5/26/2009	\$88.36	5/26/2009	\$90.05	1.9%
RTN	Stock	Catapult	Long	5/19/2009	\$44.87	5/27/2009	\$44.25	-1.4%
RTN	Stock	Catapult	Long	5/22/2009	\$43.47	5/27/2009	\$44.25	1.8%
2009 May Totals								1.8%

And here are some of the breakdown stats:

May	Trades	Wins	Losses	Win %	Avg Win	Avg Loss	Avg Trade	Profit Factor	Total Gains
Total	12	6	6	50.00%	2.03%	-1.73%	0.15%	1.17	1.8%
Index	7	4	3	57.14%	1.57%	-1.96%	0.06%	1.07	0.4%
Catapult	2	1	1	50.00%	1.79%	-1.38%	0.21%	1.30	0.4%
System	3	1	2	33.33%	4.14%	-1.57%	0.33%	1.32	1.0%

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