

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 16, 2009

Volume 2 Issue 114

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 16, 2009	7-day high to 7-day low	1-4 days	Bearish	-1.80%	-2.50%
June 9, 2009	Low volume near high	1-5 days	Bearish	-2.10%	-3.30%
Active - Long Term					
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 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 2, 2009	2 strong breadth days & 10-day high	1-10 days	Bullish	2.10%	3.00%
June 8, 2009	Gap up & reverse from 20-day high	1-6 days	Bullish	2.60%	3.70%
June 11, 2009	4-day tight range above 10-ma	1-20 days	Bullish	4.00%	4.80%

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 6/16 very slightly bullish

The market took it to the chin Monday. After over 2 weeks of choppy trading we got a big down day that broke strongly below the recent range. The major indices were all down over 2%. Breadth was strongly negative. The NYSE Up issues % came in at 15% and the Up Volume % came in at a mere 6%. Volume was higher than Friday but still below its 20-day average.

Big down bars like we saw today are often buying opportunities. I could muster up price or breadth studies that would suggest the strong move down is likely to lead to a bounce. Price bars don't occur in a vacuum, though. They are always part of a larger pattern. When a price bar like today occurs after the market is already extended downwards then I tend to jump on it and aggressively take long positions. There are two instances when caution is warranted following a sizable move down. They are: 1) when the selloff occurs immediately following a new high and 2) when the selloff results in a breakdown from a consolidation pattern. I'll show examples of both independently then I'll show a study that combines the concepts.

Point number 1 above was well illustrated in the 4/21/09 Subscriber Letter. Below is an excerpt. (Tables are not updated.)

One problem with getting too excited about the long side at this point is that the market is coming of a high. A sharp move after a series of down days or near an intermediate-term low typically provides a bullish edge. This is not necessarily the case when retreating from an intermediate-term high. Below are some studies that demonstrate this. First, let's look at the current situation – a 2% or greater drop following a 20-day closing high:

SPX closes down 2% after closing at a 20-day high yesterday.										
Buy SPX 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 Factor	Avg Trade
10	(\$40,385.06)	20	11	9	55.00	\$2,586.87	(\$7,648.95)	0.34	0.41	(\$2,019.25)
9	(\$42,973.85)	20	11	9	55.00	\$2,025.49	(\$7,250.47)	0.28	0.34	(\$2,148.69)
8	(\$29,505.71)	20	9	11	45.00	\$2,401.61	(\$4,647.29)	0.52	0.42	(\$1,475.29)
7	(\$16,254.37)	20	10	10	50.00	\$2,211.66	(\$3,837.10)	0.58	0.58	(\$812.72)
6	(\$16,909.99)	20	10	10	50.00	\$1,589.53	(\$3,280.53)	0.48	0.48	(\$845.50)
5	(\$17,734.79)	20	8	12	40.00	\$2,102.59	(\$2,879.62)	0.73	0.49	(\$886.74)
4	(\$18,043.56)	21	7	14	33.33	\$1,670.74	(\$2,124.19)	0.79	0.39	(\$859.22)
3	(\$5,742.67)	22	9	13	40.91	\$1,670.97	(\$1,598.57)	1.05	0.72	(\$261.03)
2	(\$975.32)	22	9	13	40.91	\$1,738.79	(\$1,278.80)	1.36	0.94	(\$44.33)
1	(\$105.32)	22	13	9	59.09	\$1,126.50	(\$1,638.87)	0.69	0.99	(\$4.79)

As you can see above, the expectation is bearish as downside risks largely outweigh possible rewards.

Now let's look at 2% down days other than those times when the market is coming off a 20-day high:

SPX closes down 2%. It did NOT close at a 20-day high yesterday.										
Buy SPX 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 Factor	Avg Trade
10	\$42,395.62	129	68	61	52.71	\$4,144.37	(\$3,924.95)	1.06	1.18	\$328.65
9	\$62,876.53	134	80	54	59.70	\$3,566.98	(\$4,120.03)	0.87	1.28	\$469.23
8	\$78,698.20	143	84	59	58.74	\$3,580.42	(\$3,763.68)	0.95	1.35	\$550.34
7	\$99,067.15	147	84	63	57.14	\$3,613.10	(\$3,244.97)	1.11	1.48	\$673.93
6	\$73,421.85	158	90	68	56.96	\$3,334.09	(\$3,333.03)	1.00	1.32	\$464.70
5	\$52,714.73	166	92	74	55.42	\$2,923.94	(\$2,922.81)	1.00	1.24	\$317.56
4	\$26,828.96	180	92	88	51.11	\$2,907.83	(\$2,735.13)	1.06	1.11	\$149.05
3	\$25,565.93	195	107	87	54.87	\$2,479.16	(\$2,755.23)	0.90	1.11	\$131.11
2	\$57,968.63	209	113	96	54.07	\$2,264.87	(\$2,062.10)	1.10	1.29	\$277.36
1	\$24,270.45	233	124	109	53.22	\$1,589.37	(\$1,585.42)	1.00	1.14	\$104.17

Here you can see that the negative expectations have turned solidly positive. Taking it one step further I also looked at times the SPX dropped 2% after posting a 20-day low:

SPX closes down 2% after closing at a 20-day LOW yesterday.										
Buy SPX 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 Factor	Avg Trade
10	\$37,002.02	31	19	12	61.29	\$5,447.37	(\$5,541.51)	0.98	1.56	\$1,193.61
9	\$27,412.66	31	20	11	64.52	\$4,974.61	(\$6,552.69)	0.76	1.38	\$884.28
8	\$36,800.99	31	21	10	67.74	\$4,856.50	(\$6,518.56)	0.75	1.56	\$1,187.13
7	\$27,440.73	32	22	10	68.75	\$4,499.44	(\$7,154.68)	0.63	1.38	\$857.52
6	\$57,054.85	32	22	10	68.75	\$4,784.27	(\$4,819.90)	0.99	2.18	\$1,782.96
5	\$52,018.57	33	21	12	63.64	\$4,666.38	(\$3,831.28)	1.22	2.13	\$1,576.32
4	\$34,357.38	33	22	11	66.67	\$3,586.19	(\$4,048.97)	0.89	1.77	\$1,041.13
3	\$27,653.87	34	21	13	61.76	\$3,798.14	(\$4,008.24)	0.95	1.53	\$813.35
2	\$56,386.62	36	24	12	66.67	\$4,337.58	(\$3,976.27)	1.09	2.18	\$1,566.30
1	\$17,841.40	40	25	15	62.50	\$2,613.98	(\$3,167.21)	0.83	1.38	\$446.04

These are by far the strongest results. The lesson is simple. When a strong selloff occurs, it is often important to consider where the selloff is occurring from before determining whether it's bullish or bearish.

Now lets consider the scenario of a breakdown vs. a move lower that isn't a breakdown from a consolidation. There are numerous ways to define a breakdown. I simply looked to see whether there had been a previous 10-day low within the last 10 days. Below are the results:

SPX suffers 2% drop to 10 day closing low. Now new lows for at least 10 days prior. Buy on close. Sell X days later. \$100k/trade.

QE Sharp Drop: 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
10	2,114.71	43	24	19	55.81	3,596.47	-4,431.60	0.81	1.03	49.18
9	-2,505.35	43	26	17	60.47	3,279.46	-5,163.02	0.64	0.97	-58.26
8	8,108.64	43	26	17	60.47	2,967.83	-4,062.06	0.73	1.12	188.57
7	4,992.34	43	24	19	55.81	2,949.26	-3,462.62	0.85	1.08	116.10
6	3,684.35	43	23	20	53.49	2,707.37	-2,929.25	0.92	1.06	85.68
5	16,431.14	43	21	22	48.84	2,856.75	-1,980.03	1.44	1.38	382.12
4	3,367.60	43	19	24	44.19	2,824.82	-2,096.00	1.35	1.07	78.32
3	-1,667.83	43	19	23	44.19	2,024.93	-1,745.28	1.16	0.96	-38.79
2	14,062.44	43	26	17	60.47	1,456.13	-1,399.82	1.04	1.59	327.03
1	-538.82	43	24	19	55.81	841.74	-1,091.62	0.77	0.97	-12.53

Pretty spotty performance not suggestive of a strong edge either way.

SPX suffers 2% drop to 10 day closing low. The market also closed at a 10-day low within the last 10 days. Buy on close. Sell X days later. \$100k/trade.

QE Sharp Drop: 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
10	47,462.35	90	49	41	54.44	4,250.47	-3,922.21	1.08	1.30	527.36
9	44,857.53	93	52	41	55.91	3,897.93	-3,849.63	1.01	1.28	482.34
8	51,865.69	96	55	41	57.29	3,788.78	-3,817.49	0.99	1.33	540.27
7	53,453.79	98	52	46	53.06	3,852.45	-3,192.90	1.21	1.36	545.45
6	33,078.64	105	58	47	55.24	3,509.19	-3,626.68	0.97	1.19	315.03
5	49,486.82	108	58	50	53.70	3,198.24	-2,720.23	1.18	1.36	458.21
4	16,875.59	113	62	51	54.87	2,515.76	-2,727.47	0.92	1.12	149.34
3	47,966.51	122	72	50	59.02	2,828.61	-3,113.87	0.91	1.31	393.17
2	32,852.10	128	67	61	52.34	2,412.61	-2,111.36	1.14	1.26	256.66
1	23,685.66	144	77	67	53.47	1,874.07	-1,800.26	1.04	1.20	164.48

Not a huge edge but substantially better than the breakdown scenario.

Lastly let's look at what happens when the market goes from a multi-day high one day to a multi-day low the next.

SPX closes at 10-day high yesterday and 10-day low today. Buy at close. Sell X days later. \$100k/trade. 1960-present.

QE Sharp Drop: 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
10	-24,830.78	10	6	4	60.00	1,985.49	-9,185.93	0.22	0.32	-2,483.08
9	-28,482.80	10	5	5	50.00	2,108.34	-7,804.90	0.27	0.27	-2,848.28
8	-13,144.28	10	4	6	40.00	2,192.75	-3,652.54	0.60	0.40	-1,314.43
7	-5,189.79	10	5	5	50.00	1,842.04	-2,880.00	0.64	0.64	-518.98
6	-3,288.92	10	5	5	50.00	1,354.76	-2,012.55	0.67	0.67	-328.89
5	-1,033.38	10	5	5	50.00	1,322.96	-1,529.63	0.86	0.86	-103.34
4	-5,825.61	10	4	6	40.00	950.17	-1,604.38	0.59	0.39	-582.56
3	-7,621.39	10	3	7	30.00	480.04	-1,294.50	0.37	0.16	-762.14
2	-2,992.15	10	2	8	20.00	543.49	-509.89	1.07	0.27	-299.22
1	-1,043.17	10	4	6	40.00	500.66	-507.64	0.99	0.66	-104.32

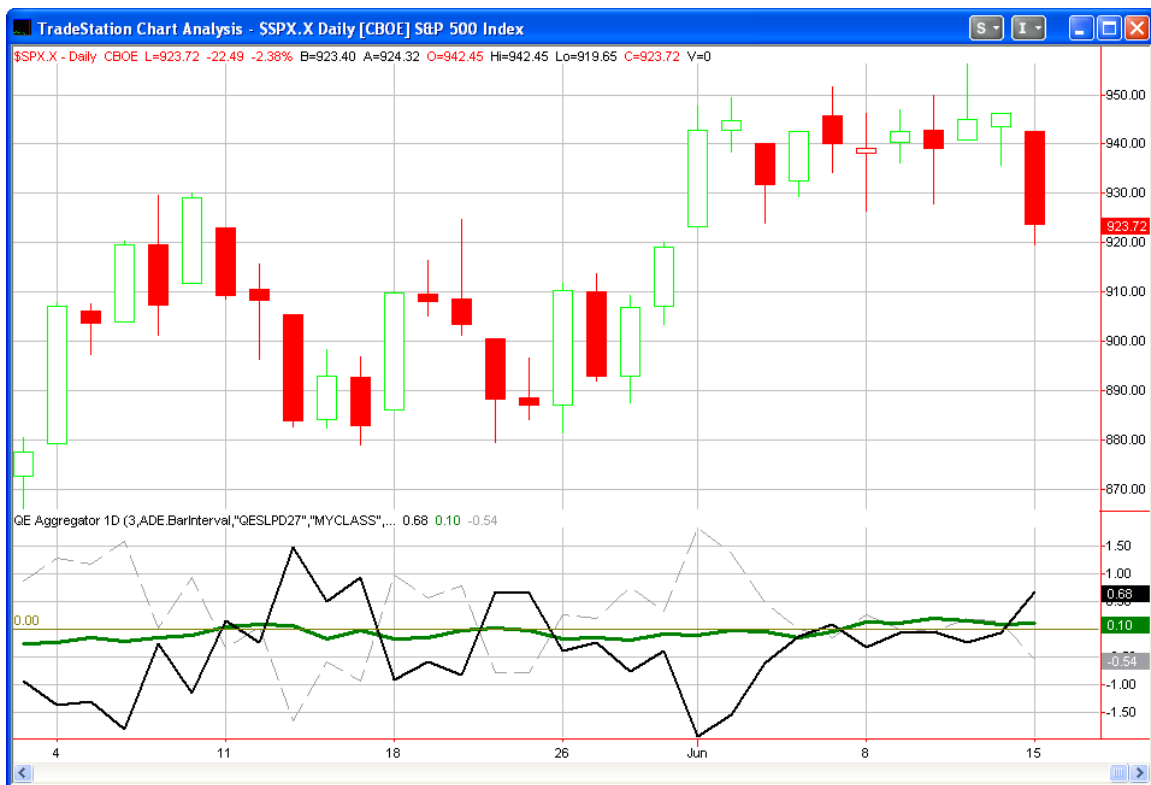
While instances are a bit low, it appears there is most often additional downside in the next few days. To get a decent sample size I loosened the requirement from a 10-day high and low to a 7-day. Those results are below:

SPX closes at 7-day high yesterday and 7-day low today.
 Buy at close. Sell X days later. \$100k/trade. 1960-present.

QE Sharp Drop: days in	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
10	-32,800.77	44	23	21	52.27	2,333.35	-4,117.51	0.57	0.62	-745.47
9	-34,905.80	44	23	21	52.27	1,947.18	-3,794.80	0.51	0.56	-793.31
8	-16,530.13	44	21	23	47.73	2,008.62	-2,552.66	0.79	0.72	-375.68
7	-13,747.48	44	19	25	43.18	2,102.91	-2,148.11	0.98	0.74	-312.44
6	-13,214.82	44	21	23	47.73	1,622.68	-2,056.13	0.79	0.72	-300.34
5	-20,551.81	44	19	25	43.18	1,494.92	-1,958.22	0.76	0.58	-467.09
4	-24,221.54	45	16	29	35.56	1,514.21	-1,670.65	0.91	0.50	-538.26
3	-22,613.80	45	17	28	37.78	744.15	-1,259.44	0.59	0.36	-502.53
2	-15,657.48	45	15	30	33.33	610.42	-827.12	0.74	0.37	-347.94
1	-9,555.28	45	21	24	46.67	588.38	-912.97	0.64	0.56	-212.34

More of the same here as the 2-4 day period suggests more downside is likely.

Tonight's [Aggregator](#) chart is below:



Several studies fell off the list tonight. Some due to expiration and some hit their targets. The green Aggregator line is squarely above 0, suggesting net positive expectations over the next few days. Meanwhile the black Differential line is also now squarely above 0. This illustrates the fact that the S&P has underperformed expectations over the last few days.

So the current configuration is short-term bullish. Still, while the indications may be for more upside, as we saw above, they simply aren't as reliable when coming off a high or breaking down. The fact that we are doing both is doubly concerning.

While aggressive traders may look to play the long side on a mean-reverting trade, I'd prefer to give it a bit more time. Some additional exposure was taken at the close on Monday in GOOG. I'd only consider an index position if tomorrow was another strong move down. Barring that I'll be giving this another day to see how things play out.

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.

SPY – buy ¼ index position @ \$91.50 limit ON CLOSE. It’s going to take 2 sizable drops in a row to get me interested to buy tomorrow.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Loss	Stop	Notes
GDx	6/9/2009	\$41.30	\$37.97	-8.06%		sell on close > 10ma
AAPL	6/11/2009	\$139.55	\$136.09	-2.48%		
GOOG (1/2)	6/12/2009	\$426.86	\$416.77	-2.36%		
GOOG (1/2)	6/15/2009	\$416.77	\$416.77	0.00%		

Second half of GOOG was entered at the close.

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