

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2009

Volume 2 Issue 115

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 17, 2009	2 Bad Breadth Days In Row	1-2 days	Bullish	2.50%	4.00%
June 16, 2009	7-day high to 7-day low	1-4 days	Bearish	-1.80%	-2.50%
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 9, 2009	Low volume near high	1-5 days	Bearish	-2.10%	-3.30%

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 6/17 bullish

Tuesday was the 2nd tough day in a row for the market. After a small gap up it sold off basically the rest of the day. There was hardly an intraday bounce to speak of. Breadth was strongly negative as the NYSE Up Issues % closed at 28% and the Up Volume% at 19%. Total volume rose slightly but still remained under its 20-day average.

I noted in today's intraday email that the "2 Days Down In Chop" system was likely to trigger and of course it did. Below are updated stats for this system:

SPX closes down 2 days in a row. Buy on close. Sell 1st profitable close up to 3 days later. Sell on 3rd day regardless of profitability. \$100k/trade. 6/1/2007 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$44,401.33	Profit Factor	2.22
Gross Profit	\$80,773.94	Gross Loss	(\$36,372.61)
Total Number of Trades	66	Percent Profitable	84.85%
Winning Trades	56	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$672.75	Ratio Avg. Win:Avg. Loss	0.40
Avg. Winning Trade	\$1,442.39	Avg. Losing Trade	(\$3,637.26)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$10,506.45)

The last two days weren't just lower, though. They were strongly lower. You could measure the strength of the move any number of ways. I decided to look at breadth tonight. The below study looks at consecutive days of down issues doubling up issues on the NYSE.

NYSE decliners double advancers for the 2nd day in a row. Buy on close. Sell X days later. \$100k/trade. 1/1/99 - now.										
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
6	58,360.08	54	36	18	66.67	3,003.20	-2,764.18	1.09	2.17	1,080.74
5	52,184.18	54	35	19	64.81	2,617.92	-2,075.95	1.26	2.32	966.37
4	54,762.78	56	34	22	60.71	2,942.75	-2,058.67	1.43	2.21	977.91
3	37,093.85	59	36	23	61.02	2,678.28	-2,579.31	1.04	1.63	628.71
2	61,863.70	61	39	22	63.93	2,576.07	-1,754.68	1.47	2.60	1,014.16
1	50,660.44	79	50	29	63.29	1,837.00	-1,420.33	1.29	2.23	641.27

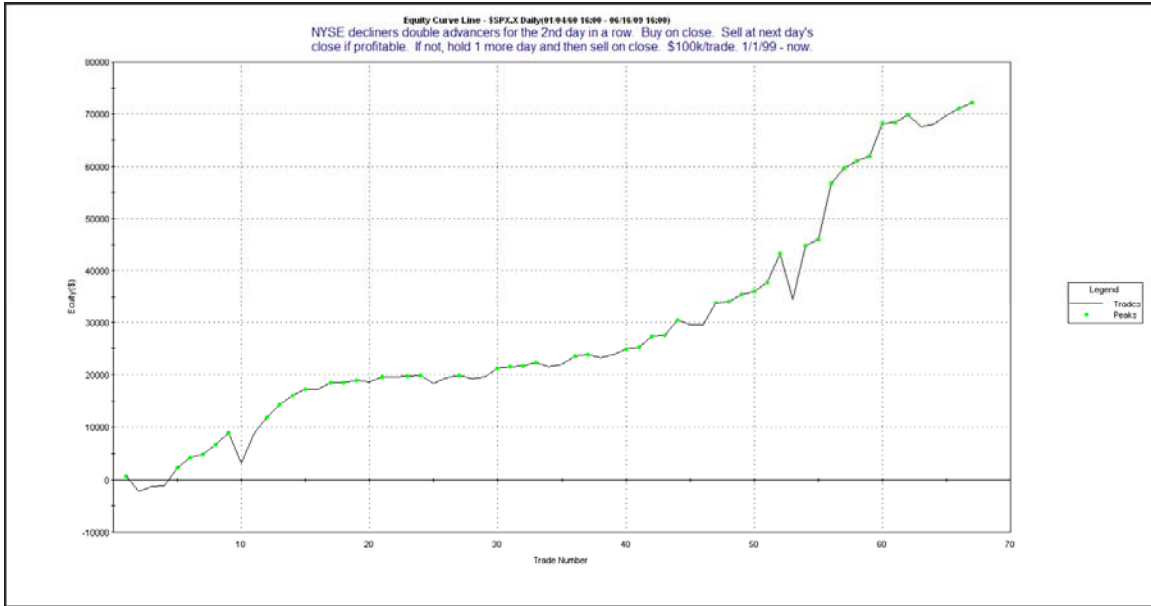
90% of instances posted a close below the entry price within the next week.

I then looked to see how it would perform using an exit strategy similar to the “2 days down in chop” 1st profitable close strategy:

NYSE decliners double advancers for the 2nd day in a row. Buy on close. Sell at next day's close if profitable. If not, hold 1 more day and then sell on close. \$100k/trade. 1/1/99 - now.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$72,226.44	Profit Factor	3.99
Gross Profit	\$96,408.82	Gross Loss	(\$24,182.38)
Total Number of Trades	67	Percent Profitable	82.09%
Winning Trades	55	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$1,078.01	Ratio Avg. Win:Avg. Loss	0.87
Avg. Winning Trade	\$1,752.89	Avg. Losing Trade	(\$2,015.20)

The timing worked out quite well as can be seen above. Over 82% bounced nicely within the next 2 days. The average win was nearly 2% and the average trade was over 1%.

Below is an equity curve of the above system for the last 10+ years.



Increased volatility and choppiness in the markets the last 2 years has helped the system accelerate the curve. Even before this period there was a nice steady upward trend. If I narrow the focus on the last 2 years then the stats look like this:

NYSE decliners double advancers for the 2nd day in a row. Buy on close. Sell at next day's close if profitable. If not, hold 1 more day and then sell on close. \$100k/trade. 6/1/07 - now.

TradeStation Performance Summary Collapse ^

All Trades

Total Net Profit	\$48,345.02	Profit Factor	4.88
Gross Profit	\$60,804.43	Gross Loss	(\$12,459.41)
Total Number of Trades	30	Percent Profitable	86.67%
Winning Trades	26	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,611.50	Ratio Avg. Win:Avg. Loss	0.75
Avg. Winning Trade	\$2,338.63	Avg. Losing Trade	(\$3,114.85)

The average trade over the last 30 trades has been quite sizable – especially for such a short holding period.

From a sentiment standpoint I noted two observations that may signal some fear coming into the market. The 1st is the spike in the CBOE put/call ratio. It closed above 1 today. This isn't incredibly high from a historic standpoint, but it is the highest level in over 50 days – since March 30th. Also the VIX closed 10% above its 10-day moving average for the 1st time since Feb.23rd. Neither of these things suggest a strong edge on their own. Combined with the earlier studies this does provide some extra evidence that perhaps the selling is a bit overdone for the short-term.

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



The bullish implications of tonight's study has helped keep the green Aggregator line solidly above 0. This indicates net positive expectations from the outstanding studies over the next few days. Meanwhile the black Differential line has spiked up over the last two days as the market has collapsed. Positive expectations and a market that has underperformed short-term is a recipe to for a long entry. We nearly saw an entry at the close today, and some more aggressive traders may have taken that close call – or at least part of it. I will look to get long tomorrow. See my order in the trade ideas section below. Also note there are 2 Catapult triggers tonight.

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

New

KFT – buy 1/3 @ \$24.81

DIS – buy 1/3 @ 23.49

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 2(KFT,DIS)

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	3.85	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	7.81	DJ US Financial	IYF	2.56
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.78
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.74
DJ US Oil&Gas Expl & Prod	IEO	1.64	DJ US Industrial Sector	IYJ	1.14
DJ US Oil Equip & Svcs	IEZ	2.13	DJ US Consumer Goods	IYK	4.26
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	2.70
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	2.94	DJ US Technology Sector	IYW	0.54
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	3.03
DJ US Consumer Svcs	IYC	4.33	Nasdaq 100	QQQQ	2.00

Insurance components have been getting hit hard, possibly making for a trade opportunity in IAK.

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 @ \$91.75 limit. I don't want to chase a gap up but I won't require it to pull ALL the way back before entering. I'll pay up a little bit tomorrow for some index exposure. QQQQ may be a better play than SPY, but with GOOG and AAPL already in the fold I decided to just stick with SPY. If we close lower on Wednesday I may consider getting even more aggressive on Thursday – perhaps adding as much as another ½ position.

KFT and DIS from catapult section above. While I'm looking to take the standard 1/3 position in both of these, based on their current configurations it appears unlikely they will ever become full positions. This is likely it for KFT, and DIS may get one more entry tomorrow.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
GDX	6/9/2009	\$41.30	\$38.37	-7.09%		sell on close > 10ma
AAPL	6/11/2009	\$139.55	\$136.35	-2.29%		
GOOG (1/2)	6/12/2009	\$426.86	\$416.00	-2.54%		
GOOG (1/2)	6/15/2009	\$416.77	\$416.00	-0.18%		

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