

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 18, 2009

Volume 2 Issue 116

## 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
<b>Active</b>					
June 18, 2009	Down 3 with slowing rate of decline	1-6 days	Bullish	2.50%	3.20%
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%
<b>Active - Long Term</b>					
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		
<b>Dropped Tonight</b>					

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 6/18 bullish*

Wednesday was a mixed market. The S&P and Dow closed down slightly while the Nasdaq closed higher. Breadth followed suit as it was positive on the Nasdaq and negative on the NYSE. The NYSE Up Issues % closed at 41% and the Up Volume % at 31%. Total volume rose to the highest level in a couple of weeks.

In today's intraday note I mentioned that a slight down close looked bullish while a slight up close raised bearish studies. While the difference between closing up slightly and closing down slightly might seem trivial, it isn't. It's not just because more studies with the requirement of a higher close are bearish and studies with the requirement of a lower close are most often bullish.

I decided to run a study on low-magnitude moves to illustrate the point of today's email. First I looked at small rises after 2 days down.

SPX closes up today after closing down the previous 2. Today's rise is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1988 - present.										
GE Lowr Clos SpikDn: 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	11,765.28	57	32	25	56.14	1,546.09	-1,508.38	1.02	1.31	206.41
4	-4,290.32	57	28	29	49.12	1,319.87	-1,422.30	0.93	0.90	-75.27
3	-6,919.40	59	27	32	45.76	1,208.21	-1,235.66	0.98	0.83	-117.28
2	-5,082.11	59	30	29	50.85	896.34	-1,102.50	0.81	0.84	-86.14
1	-6,457.80	59	29	30	49.15	517.35	-715.36	0.72	0.70	-109.45

Results over the 1<sup>st</sup> 4 days are generally bearish.

I then looked at days where the 3<sup>rd</sup> day was down very slight.

SPX closes down for the 3rd day in a row. Today's drop is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1988 - present.											
QE Lowr Clos SpikDn: daysin	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	
5	25,257.92	53	32	21	60.38	1,712.94	-1,407.43	1.22	1.85	476.56	
4	21,226.50	53	31	22	58.49	1,671.43	-1,390.36	1.20	1.69	400.50	
3	11,020.31	53	35	18	66.04	1,271.73	-1,860.57	0.68	1.33	207.93	
2	17,648.58	53	33	20	62.26	1,241.11	-1,165.40	1.06	1.76	332.99	
1	14,849.73	53	36	17	67.92	791.92	-803.48	0.99	2.09	280.18	

Results across the board are much stronger here. Nearly every column is an improvement over the previous test. I also decided to run the tests from 1999-present.

SPX closes up today after closing down the previous 2. Today's rise is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - present.											
QE Lowr Clos SpikDn: daysin	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	
5	1,680.00	23	11	12	47.83	2,077.06	-1,763.97	1.18	1.08	73.04	
4	-10,128.99	23	10	13	43.48	1,631.55	-2,034.19	0.80	0.62	-440.39	
3	-7,353.22	23	9	14	39.13	1,697.46	-1,816.45	1.05	0.68	-319.71	
2	-6,622.90	23	10	13	43.48	1,230.59	-1,456.06	0.85	0.65	-287.95	
1	-8,663.35	23	9	14	39.13	674.69	-1,052.54	0.64	0.41	-376.67	

SPX closes down for the 3rd day in a row. Today's drop is less than 0.2%. Buy on close. Sell X days later. \$100k/trade. 1999 - present.											
QE Lowr Clos SpikDn: daysin	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	
5	11,453.00	23	11	12	47.83	2,675.84	-1,498.44	1.79	1.64	497.96	
4	11,604.63	23	12	11	52.17	2,384.41	-1,546.21	1.54	1.68	504.55	
3	-108.95	23	13	10	56.52	1,810.31	-2,364.30	0.77	1.00	-4.74	
2	9,905.76	23	15	8	65.22	1,594.57	-1,751.60	0.91	1.71	430.69	
1	11,439.34	23	17	6	73.91	991.04	-901.39	1.10	3.12	497.36	

As you can see, over the last 10 years the difference has been even more pronounced.

Also notable about Wednesday's action was that while the market has declined for at least 3 days in a row, the rate of decline has lessened both of the last 2 days. [Back in September I found this pattern to have bullish consequences](#) when the market was trading below its 200-day moving average. I decided to test it out when above the 200ma as well. I found that prior to 1987 there was no bullish influence based on the pattern.

Since 1987 one has appeared. Here is the test using the SPY. First the base case without the slowing rate of decline requirement.

SPY closes lower at least 3 days in a row. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993-present.										
QE Lowr Clos SpikDn: daysin	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
15	114,513.37	85	57	28	67.06	3,059.64	-2,138.80	1.43	2.91	1,347.22
14	119,071.85	89	61	27	68.54	2,979.37	-2,321.10	1.28	2.90	1,337.89
13	109,937.18	91	63	28	69.23	2,751.75	-2,265.12	1.21	2.73	1,208.10
12	123,914.56	94	66	28	70.21	2,697.33	-1,932.48	1.40	3.29	1,318.24
11	119,093.47	100	72	28	72.00	2,571.69	-2,359.59	1.09	2.80	1,190.93
10	112,231.44	104	70	34	67.31	2,532.15	-1,912.33	1.32	2.73	1,079.15
9	112,917.42	110	78	32	70.91	2,291.83	-2,057.66	1.11	2.71	1,026.52
8	111,032.02	115	79	36	68.70	2,221.75	-1,791.29	1.24	2.72	965.50
7	94,866.51	119	81	38	68.07	2,039.66	-1,851.21	1.10	2.35	797.20
6	87,944.16	121	82	39	67.77	1,874.35	-1,685.96	1.11	2.34	726.81
5	76,464.17	128	83	45	64.84	1,660.25	-1,363.04	1.22	2.25	597.38
4	59,150.20	132	86	46	65.15	1,406.70	-1,344.05	1.05	1.96	448.11
3	56,691.05	133	82	51	61.65	1,240.51	-882.96	1.40	2.26	426.25
2	48,966.49	143	100	41	69.93	946.81	-1,114.99	0.85	2.07	342.42
1	42,132.67	187	128	59	68.45	741.73	-895.06	0.83	1.80	225.31

Closing down AT LEAST (rather than exactly) 3 days in a row has been bullish over the period. Now let's add the slowing rate of decline requirement:

SPY closes lower at least 3 days in a row. Close > 200ma. The rate of decline has slowed the last 2 days. Buy on close. Sell X days later. \$100k/trade. 1993 - present										
QE Lowr Clos SpikDn: daysin	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
15	40,347.09	21	15	6	71.43	3,563.76	-2,184.88	1.63	4.08	1,921.29
14	38,344.45	21	14	7	66.67	4,050.31	-2,622.84	1.54	3.09	1,825.93
13	44,169.06	21	16	5	76.19	3,449.43	-2,204.37	1.56	5.01	2,103.29
12	46,733.13	22	16	6	72.73	3,423.97	-1,341.72	2.55	6.81	2,124.23
11	38,479.94	22	17	5	77.27	2,984.00	-2,449.60	1.22	4.14	1,749.09
10	40,933.01	22	16	6	72.73	2,831.58	-728.71	3.89	10.36	1,860.59
9	35,488.80	22	16	6	72.73	2,494.41	-736.96	3.38	9.03	1,613.13
8	28,291.91	22	14	8	63.64	2,514.75	-864.32	2.91	5.09	1,286.00
7	32,245.95	23	16	7	69.57	2,455.80	-1,006.69	2.44	5.58	1,402.00
6	31,923.72	23	16	7	69.57	2,374.48	-866.86	2.74	6.26	1,387.99
5	26,245.51	23	18	5	78.26	1,823.55	-1,315.68	1.39	4.99	1,141.11
4	23,815.38	23	19	4	82.61	1,513.58	-1,235.65	1.22	5.82	1,035.45
3	22,988.98	23	16	7	69.57	1,624.38	-428.74	3.79	8.66	999.52
2	11,586.00	24	15	8	62.50	1,013.79	-452.61	2.24	4.20	482.75
1	5,975.21	26	17	9	65.38	565.50	-404.25	1.40	2.64	229.82

Results here are quite a bit stronger than the base case.

I also ran both tests using SPX from 1988 – present.

SPX closes lower at least 3 days in a row. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1988-present

QE Lowr Clos SpikDn: daysin	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
15	94,465.54	123	75	48	60.98	2,596.13	-2,088.42	1.24	1.94	768.01
14	85,262.59	128	78	50	60.94	2,524.11	-2,232.37	1.13	1.76	666.11
13	99,797.35	131	80	51	61.07	2,506.28	-1,974.61	1.27	1.99	761.81
12	105,992.08	136	80	55	58.82	2,532.47	-1,756.46	1.44	2.10	779.35
11	113,684.28	142	89	53	62.68	2,444.36	-1,959.69	1.25	2.09	800.59
10	136,792.94	150	95	55	63.33	2,422.82	-1,697.73	1.43	2.46	911.95
9	120,354.58	155	104	51	67.10	2,106.07	-1,934.83	1.09	2.22	776.48
8	132,279.61	164	110	54	67.07	2,070.71	-1,768.49	1.17	2.39	806.58
7	95,206.20	168	102	66	60.71	1,966.12	-1,596.02	1.23	1.90	566.70
6	91,304.75	176	108	68	61.36	1,760.29	-1,453.04	1.21	1.92	518.78
5	100,140.77	191	116	75	60.73	1,626.89	-1,181.05	1.38	2.13	524.30
4	83,758.57	195	122	73	62.56	1,359.99	-1,125.49	1.21	2.02	429.53
3	81,320.93	200	121	79	60.50	1,282.20	-934.49	1.37	2.10	406.60
2	64,277.75	219	136	82	62.10	1,016.65	-902.28	1.13	1.87	293.51
1	40,309.66	291	185	104	63.57	664.26	-794.03	0.84	1.49	138.52

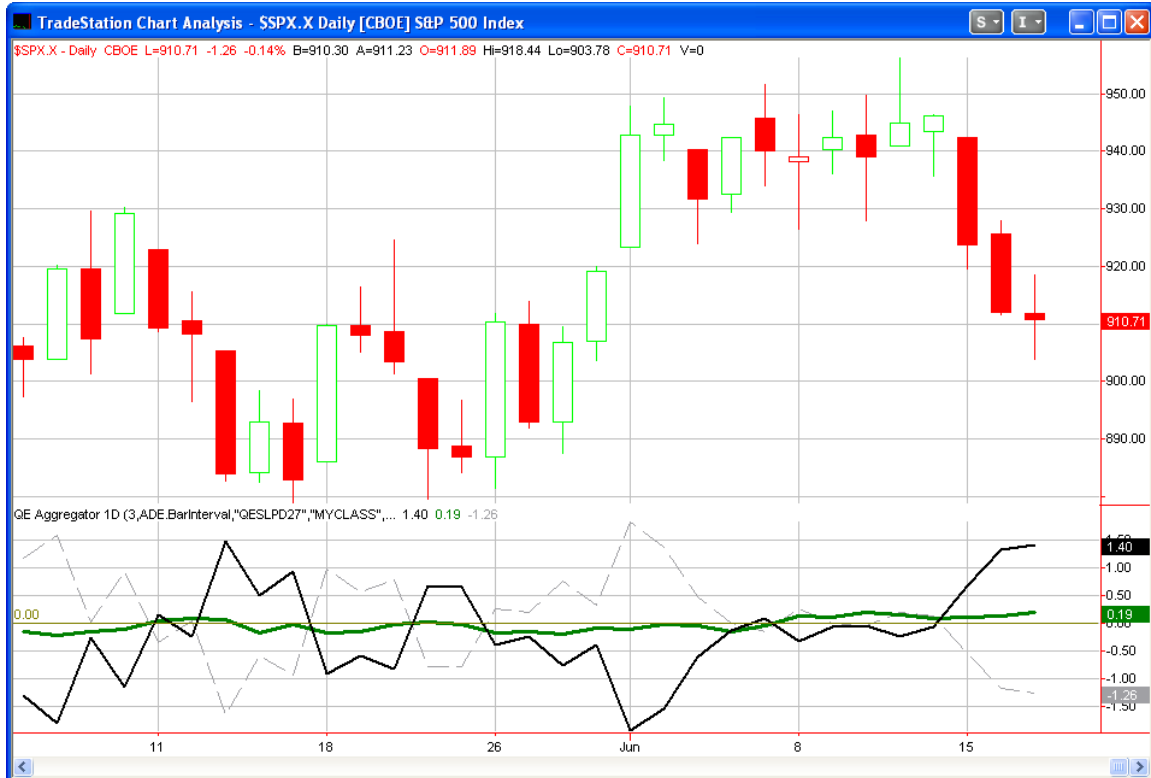
SPX closes lower at least 3 days in a row. Close > 200ma. The rate of decline has  
slowed the last 2 days. Buy on close. Sell X days later. \$100k/trade. 1988-present

QE Lowr Clos SpikDn: daysin	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
15	39,846.81	28	19	9	67.86	2,987.17	-1,878.83	1.59	3.36	1,423.10
14	30,786.35	28	20	8	71.43	2,516.71	-2,443.49	1.03	2.57	1,099.51
13	33,433.40	28	18	10	64.29	2,619.61	-1,371.96	1.91	3.44	1,194.05
12	34,780.51	28	18	10	64.29	2,606.39	-1,213.45	2.15	3.87	1,242.16
11	35,906.45	28	20	8	71.43	2,377.33	-1,455.01	1.63	4.08	1,282.37
10	28,809.62	29	21	8	72.41	2,001.07	-1,651.60	1.21	3.18	993.44
9	24,560.37	29	18	11	62.07	2,190.99	-1,352.50	1.62	2.65	846.91
8	16,169.68	29	17	12	58.62	2,087.65	-1,610.03	1.30	1.84	557.58
7	18,221.18	31	20	11	64.52	1,762.84	-1,548.69	1.14	2.07	587.78
6	19,966.61	31	21	10	67.74	1,692.85	-1,558.33	1.09	2.28	644.08
5	22,023.12	31	21	10	67.74	1,534.11	-1,019.32	1.51	3.16	710.42
4	24,030.42	32	25	7	78.13	1,255.04	-1,049.35	1.20	4.27	750.95
3	12,698.38	32	20	12	62.50	1,145.71	-851.32	1.35	2.24	396.82
2	6,410.24	33	19	14	57.58	862.71	-712.95	1.21	1.64	194.25
1	-731.09	38	17	21	44.74	531.90	-465.40	1.14	0.93	-19.24

More of the same here. The pattern of a slowing rate of decline seems to provide a slightly more pronounced upside edge than 3 down days without the pattern.

One word of caution for tomorrow is the fact that we've now had 4 lower lows in a row. I've showed a few times that 5 lower lows is often short-term bullish. The exception is when the pattern occurs following a 50-day high. 903.78 was Wednesday's low. It'll be interesting to see if that can hold on Thursday.

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



Both the green Aggregator and black Differential lines rose today. The Aggregator line illustrates the net bullish expectations over the next few days while the Differential line shows the S&P has largely underperformed expectations over the last few days and is now in an “oversold” state.

Ideally what I'd like to do is monitor the early trading. If yesterday's low is taken out then I may back off the idea of adding new exposure unless there's washout selling and the market closes near its low. If there is a morning pullback that stay above yesterday's low, then I'd like to use that pullback to add some exposure. I try and keep the entry orders simple in the Subscriber Letter, so for tracking I'll just use a limit order as outlined in the trade ideas section.

***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***

KFT – buy 1/3 @ \$24.81 (\$24.81 purchase)

DIS – buy 1/3 @ 23.49 (\$23.43 purchase)

#### ***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	10.94	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	4.81	Nasdaq 100	QQQQ	2.00

*Insurance components CBI% is spiking.*

### 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 @ \$91.25 limit.** About halfway between Wednesday's close and low points is where I'll look to add more exposure.

With a good amount of exposure and a SPY trade idea tonight I'll not be looking for more. The S&P 100 stocks that look the best to me from the triggers page are AMZN and EMC. Either one could be playable.

### Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
GDX	6/9/2009	\$41.30	\$38.23	-7.43%		sell on close > 10ma
AAPL	6/11/2009	\$139.55	\$135.58	-2.84%		
GOOG (1/2)	6/12/2009	\$426.86	\$415.16	-2.74%		
GOOG (1/2)	6/15/2009	\$416.77	\$415.16	-0.39%		
DIS (1/3)	6/17/2009	\$23.43	\$23.68	1.07%		Catapult
KFT	6/17/2009	\$24.81	\$24.88	0.28%		Catapult
SPY(1/4)	6/17/2009	\$91.60	\$91.55	-0.05%		

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