

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 19, 2009

Volume 2 Issue 117

Market Overview

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)

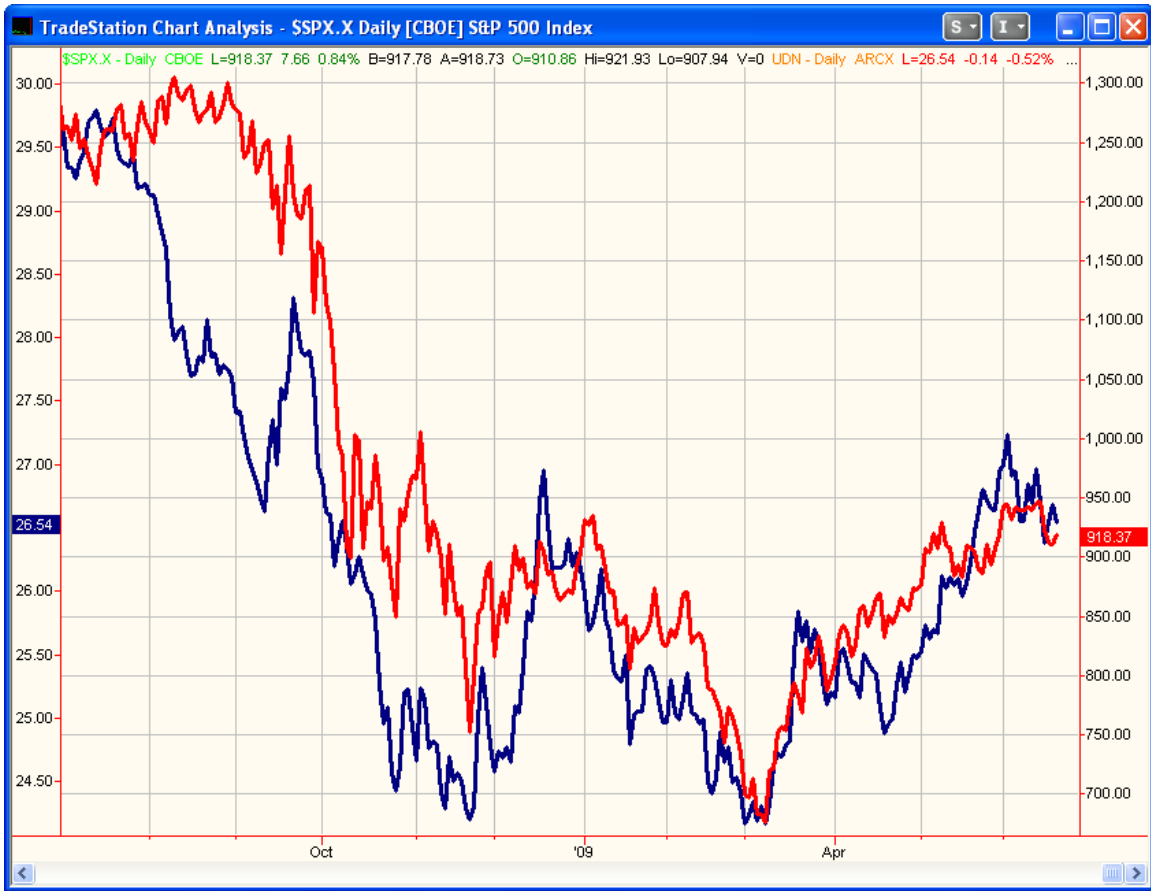
Study Date	Description	Time span	Bias	Avg Max Move	Avg MM + 1/2 Std Dev
Active					
June 19, 2009	SPX & Dollar both strong	1-3 days	Bearish	1.60%	2.20%
June 18, 2009	Down 3 with slowing rate of decline	1-6 days	Bullish	2.50%	3.20%
June 16, 2009	7-day high to 7-day low	1-4 days	Bearish	-1.80%	-2.50%
Active - Long Term					
June 11, 2009	4-day tight range above 10ma	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 17, 2009	2 Bad Breadth Days In Row	1-2 days	Bullish	2.50%	4.00%

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

The S&P put in a solid day higher on Thursday but it was not joined by the Nasdaq, which closed down fractionally. NYSE breadth was positive as the Up Issues % closed at 58.5% and the Up Volume % at 63%. Total volume shrank from the levels of the last few days.

One relationship I've been watching lately is the S&P vs. the US dollar. To illustrate the relationship I've created a chart below. In red is the closing prices of the S&P 500. The blue is closing prices of UNP, which is the US Dollar Bearish Fund ETF.



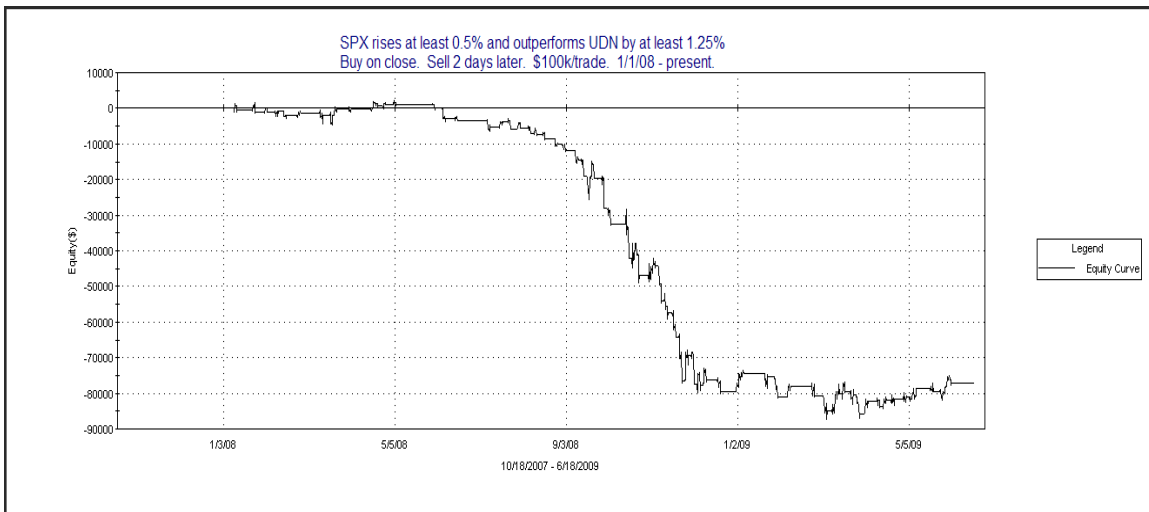
As you can see they've pretty much moved in concert over the last year-plus. Since UNP is a bearish fund this means that the S&P has actually moved opposite the dollar. A weak dollar has been cause for celebration and a strong dollar has closely preceded most of the drops in the S&P.

A close look at the very right side of the chart shows that SPX and UDN moved in opposition on Thursday. In other words the S&P rose despite the strength in the dollar. I decided to run some tests on this relationship. Below is a study that looks at days like today where the S&P was up at least ½% and outperformed UDN by at least 1.25%.

SPX rises at least 0.5% and outperforms UDN by at least 1.25%
Buy on close. Sell X days later. \$100k/trade. 1/1/08 - present.

QE SOX down SPX up: 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	-80,168.91	29	10	19	34.48	2,584.82	-5,579.85	0.46	0.24	-2,764.45
9	-55,958.56	31	9	22	29.03	3,400.32	-3,934.61	0.86	0.35	-1,805.11
8	-64,489.33	33	15	18	45.45	2,455.17	-5,628.71	0.44	0.36	-1,954.22
7	-71,942.40	37	12	25	32.43	3,459.11	-4,538.07	0.76	0.37	-1,944.39
6	-40,327.92	40	15	25	37.50	2,666.71	-3,213.14	0.83	0.50	-1,008.20
5	-62,664.32	46	23	23	50.00	2,157.65	-4,882.19	0.44	0.44	-1,362.27
4	-58,997.28	52	19	33	36.54	2,717.41	-3,352.36	0.81	0.47	-1,134.56
3	-55,656.99	62	24	38	38.71	2,193.60	-2,850.09	0.77	0.49	-897.69
2	-76,984.57	69	27	42	39.13	1,786.36	-2,981.34	0.60	0.39	-1,115.72
1	-36,453.98	84	41	43	48.81	1,220.16	-2,011.18	0.61	0.58	-433.98

Results of this test appeared strongly bearish – both from a winning % and an average trade standpoint. Since the test was run during such a bearish period I wanted to look at the results in more detail. Some quick glances at the performance charts gave me pause about the bearish expectancy. Below is an example:

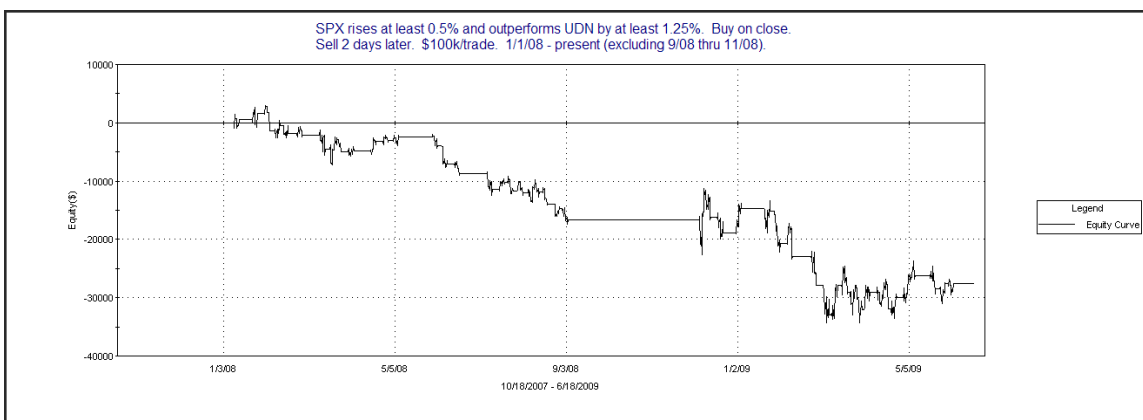


My concern when looking at the above chart is that nearly all of the edge appears to be due to a few trades in a relatively tight timeframe. I therefore decided to do something I almost never do. I cut out the period covering 9/08 through 11/08. I wanted to see how the market performed during the period that appeared more flat on the chart to better measure whether there might be an edge.

By doing this the results table then changed to the below:

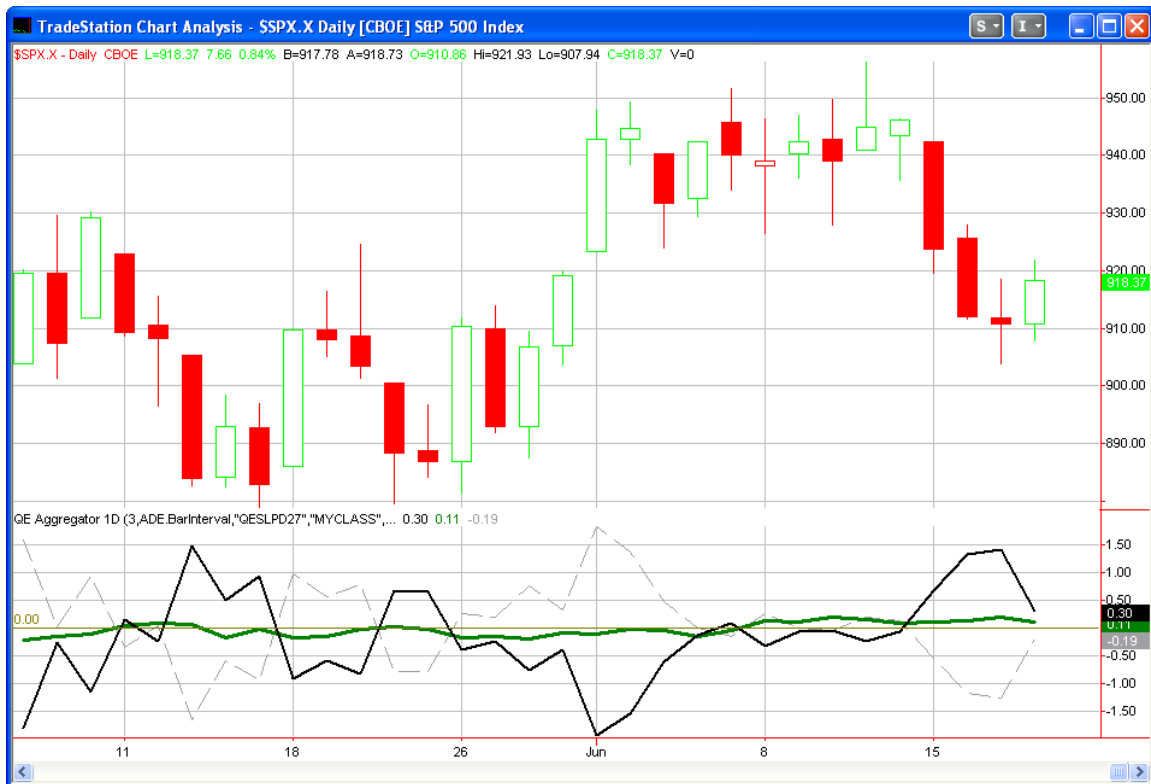
SPX rises at least 0.5% and outperforms UDN by at least 1.25%. Buy on close. Sell X days later. \$100k/trade. 1/1/08 - present (excluding 9/08 thru 11/08).										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-21,630.09	23	11	12	47.83	2,698.88	-4,276.48	0.63	0.58	-940.44
9	-22,937.05	26	9	17	34.62	3,794.04	-3,357.85	1.13	0.60	-882.19
8	-23,812.44	27	13	14	48.15	2,153.23	-3,700.32	0.58	0.54	-881.94
7	-13,673.47	30	12	18	40.00	3,185.69	-2,883.43	1.10	0.74	-455.78
6	-13,580.52	32	14	18	43.75	2,550.93	-2,738.53	0.93	0.72	-424.39
5	-13,905.90	37	21	16	56.76	1,870.93	-3,324.72	0.56	0.74	-375.84
4	-22,761.04	42	18	24	42.86	2,167.28	-2,573.83	0.84	0.63	-541.93
3	-27,576.73	47	19	28	40.43	1,741.38	-2,166.53	0.80	0.55	-586.74
2	-10,466.69	52	23	29	44.23	1,516.44	-1,563.61	0.97	0.77	-201.28
1	-9,624.77	62	33	29	53.23	1,010.91	-1,482.23	0.68	0.78	-155.24

Even without the 3 month period I excluded there still appears to be a squarely bearish tilt to the results. This is especially apparent over the first 3 days. Below is an equity curve that illustrates the 3-day holding period.



You'll note the straight, flat, line in the middle when the strategy was turned off. Overall it appears to me that there is a decent short-side edge with the setup. It isn't nearly as pronounced as the very 1st test above may lead you to believe, but it still suggests short-term downside.

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



The green Aggregator line remains squarely above 0, suggesting a bullish tilt over the next few days. Meanwhile the black Differential line dropped sharply as Monday's big drop was eliminated from the equation. Both lines are still solidly situated above the 0 line, though.

Both lines above 0 is a configuration suggesting a bullish edge – oversold with net positive expectations. While Thursday's study serves as a bit of a warning, there still appears to be room for the market to continue to bounce. I'll look to give the long SPY trade some room to work here – at least for another day or so.

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

DIS – buy 1/3 @ 23.49 (\$23.43 purchase on 6/17)

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.

None tonight. I'm going to abstain from new purchases for now while I monitor this bounce and consider exits.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
GDX	6/9/2009	\$41.30	\$37.20	-9.93%		sell on close > 10ma
AAPL	6/11/2009	\$139.55	\$135.88	-2.63%		
GOOG (1/2)	6/12/2009	\$426.86	\$414.06	-3.00%		
GOOG (1/2)	6/15/2009	\$416.77	\$414.06	-0.65%		
DIS (1/3)	6/17/2009	\$23.43	\$23.72	1.24%		Catapult
KFT(1/3)	6/17/2009	\$24.81	\$25.85	4.19%		Sold on close
SPY(1/4)	6/17/2009	\$91.60	\$92.10	0.55%		Stopped out intraday
SPY(1/4)	6/17/2009	\$91.25	\$92.22	1.06%		

I added [system 90609](#) to the website earlier today. Also on that page you'll find a link to the system design writeup from the 6/11 Subscriber Letter.

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