

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 23, 2009

Volume 2 Issue 119

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 23, 2009	1% drop with decliners dbl advancers	1-9 days	Bullish	2.90%	3.90%
June 18, 2009	Down 3 with slowing rate of decline	1-6 days	Bullish	2.50%	3.20%
Active - Long Term					
June 22, 2009	VIX:VXV hits 100-day low	1-20 days	Bearish	-3.80%	-5.50%
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					
<i>June 22, 2009</i>	<i>2 days up in chop</i>	<i>1-4 days</i>	<i>Bearish</i>		
<i>June 19, 2009</i>	<i>SPX & Dollar both strong</i>	<i>1-3 days</i>	<i>Bearish</i>	<i>1.60%</i>	<i>2.20%</i>

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 6/23 – slightly bullish

A big gap down led to an even bigger drop today. The major indices all closed lower by around 3%. Breadth was extremely negative. NYSE Up Issues % closed at 12% and the Up Volume % at 7%. Volume was lower than Friday but still above recent levels.

A few mild edges showed up when looking at the Quantifinder. For example the below study which is copied and pasted from the 5/12/09 Subscriber Letter. Stats have not been updated:

SPX drops 1% and decliners more than double advancers. Yesterday the SPX did NOT close at a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. From 10/20/87 – present.

QE bad breadth pullb: 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	206,671.42	217	141	76	64.98	2,928.93	-2,714.57	1.08	2.00	952.40
9	241,653.31	225	157	68	69.78	2,760.53	-2,819.86	0.98	2.26	1,074.01
8	209,396.43	237	155	81	65.40	2,752.59	-2,682.15	1.03	1.96	883.53
7	213,644.30	254	157	97	61.81	2,675.58	-2,128.06	1.26	2.03	841.12
6	198,827.77	269	168	101	62.45	2,541.39	-2,258.68	1.13	1.87	739.14
5	189,551.97	290	177	113	61.03	2,326.72	-1,967.06	1.18	1.85	653.63
4	137,226.48	308	181	127	58.77	2,109.98	-1,926.61	1.10	1.56	445.54
3	140,714.83	338	208	130	61.54	1,826.33	-1,839.71	0.99	1.59	416.32
2	143,263.80	384	217	167	56.51	1,758.36	-1,426.95	1.23	1.60	373.08
1	97,848.15	431	254	177	58.93	1,161.60	-1,114.12	1.04	1.50	227.03

There was quite a bit of what seemed notable action on Monday as well. The S&P made its biggest drop in just over 2months. It closed at a 20-day low. The strongly negative breadth made for a 90% down day, and it sliced through its 200-day moving average. I looked at several combinations of the above and found no significant edge. Frankly I was expecting to find some fairly strong bullish tendencies based on the above. I came up blank after looking at about 5-6 combinations.

When that happens it leaves me with two choices – 1) keep testing in the hope of finding something or 2) accept the fact that there is likely little edge. Number 2 is often the correct course of action. If an edge is that hard to find it likely isn't substantial and could be the result of data mining if I try hard enough.

Monday's big drop did lead to 2 bearish studies hitting their targets and being removed from the active studies list above. The net effect of this is a boost to the Aggregator.

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



The green Aggregator line is now squarely above 0 indicating net positive expectations over the next few days. The black Differential line has risen fairly sharply thanks to the large selloff today. With both lines solidly above zero the Aggregator chart is now showing a formation that I would typically consider bullish and perhaps worthy of a trade.

I'm a bit hesitant tonight due largely to the fact that there was a lack of strong bullish evidence today. The biggest influence in the movement of the green Aggregator line was the elimination of bearish studies rather than additional bullish ones.

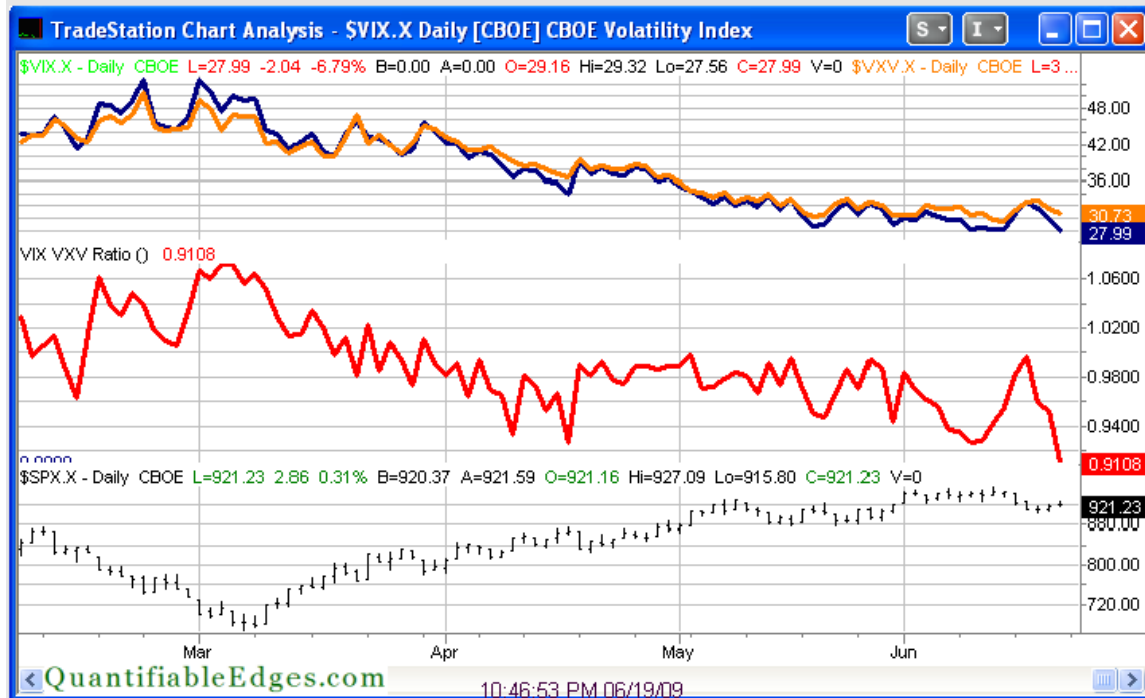
The bottom line that there is a slight bullish bias tonight and there are different ways it could be played. Very aggressive traders could take a shot during the day tomorrow – perhaps on a large gap down or an intraday reversal. Semi-aggressive traders could look to take a position if the market closes lower tomorrow. I'm going to take the conservative route and give it another full day. If the market closes lower again tomorrow I'd expect to find some additional bullish studies tomorrow night and will most likely attempt an entry Wednesday morning.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/22 - neutral

One notable intermediate-term indicator that is beginning to provide some interesting readings is the VIX:VXV ratio. The ratio compares short-term volatility expectations (VIX 30-day) to long-term volatility expectations (VXV 90-day). A low reading suggests that volatility is likely to rise over the next 1-3 months. Rising volatility is often associated with a falling market and therefore a low VIX:VXV ratio can be interpreted as

possibly bearish. The VIX:VXV chart is updated on the members' chart page. Below is a copy of the most recent chart.

VIX:VXV Ratio



Friday's 0.9108 reading is the lowest since last August. At that time I showed some studies which suggested that moves below 0.90 carried a bearish bias. (*Note: The VXV has only been listed since late 2007. The CBOE back-calculated the data to 2002 and I was fortunate enough to get my hands on this data. Therefore, rather than just using 18 months worth of data I'm able to look back nearly 7 years.*) If you'd like to review the studies from last August [you may do so here](#).

This weekend I tweaked the system discussed in that Letter and used 0.92 for the trigger instead of 0.90. The loosened criteria still gave negative results, but they were not as consistent and depended entirely on the most recent run of trades. Below is an equity curve to illustrate.



My inclination after seeing this was that you'd be quite a bit better off waiting for a 0.90 stretch rather than jumping the gun at 0.92.

Another way I looked at the indicator did seem to suggest a downside edge, though. Below is a performance table showing how the SPX has performed following other occurrences where the VIX:VXV ratio posted a 100-day low.

VIX:VXV ratio hits 100-day low.
Buy on close. Sell X days later. \$100k/trade. 8/15/2002-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
25	-27,771.25	12	3	9	25.00	2,174.80	-3,810.63	0.57	0.19	-2,314.27
24	-25,975.57	12	3	9	25.00	2,373.62	-3,677.38	0.65	0.22	-2,164.63
23	-25,819.41	12	4	8	33.33	1,599.44	-4,027.15	0.40	0.20	-2,151.62
22	-24,091.90	12	4	8	33.33	1,633.94	-3,828.46	0.43	0.21	-2,007.66
21	-21,887.34	12	5	7	41.67	1,400.79	-4,127.33	0.34	0.24	-1,823.95
20	-24,940.85	12	6	6	50.00	987.18	-5,143.99	0.19	0.19	-2,078.40
19	-23,508.06	13	6	7	46.15	1,607.21	-4,735.91	0.34	0.29	-1,808.31
18	-19,171.07	13	5	8	38.46	2,006.65	-3,650.54	0.55	0.34	-1,474.70
17	-11,843.27	13	5	8	38.46	1,614.09	-2,464.21	0.66	0.41	-895.64
16	-11,060.60	13	4	9	30.77	2,052.08	-2,140.99	0.96	0.43	-850.82
15	-7,456.54	13	5	8	38.46	1,391.62	-1,801.83	0.77	0.48	-573.58
14	-8,085.31	13	7	6	53.85	872.36	-2,365.31	0.37	0.43	-621.95
13	-7,384.93	13	6	7	46.15	1,112.78	-2,008.80	0.55	0.47	-568.07
12	-7,102.97	13	5	8	38.46	1,311.49	-1,707.55	0.77	0.48	-546.38
11	-8,100.96	13	6	7	46.15	828.92	-1,867.79	0.44	0.38	-623.15
10	-6,412.05	13	6	7	46.15	752.04	-1,560.61	0.48	0.41	-493.23

Market losses greatly outweighed then gains over the next 2-5 weeks. The bearish tilt can be observed in several of the above columns.

Below is a list of all the trades with a 25-day exit:

VIXVXV ratio hits 100-day low.
Buy on close. Sell X days later. \$100k/trade. 8/15/2002-present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
08/12/03	Buy	\$990.35	3.60%	\$4,206.00
09/17/03	Sell	\$1,025.97		(\$999.00)
02/12/04	Buy	\$1,152.11	(3.68%)	\$956.32
03/19/04	Sell	\$1,109.74		(\$4,257.00)
04/12/04	Buy	\$1,145.22	(5.34%)	\$225.33
05/17/04	Sell	\$1,084.08		(\$5,994.30)
07/12/04	Buy	\$1,114.35	(3.14%)	\$467.25
08/16/04	Sell	\$1,079.34		(\$4,773.07)
12/17/04	Buy	\$1,194.22	(2.16%)	\$1,965.44
01/25/05	Sell	\$1,168.41		(\$2,529.01)
07/15/05	Buy	\$1,227.92	(0.67%)	\$1,453.14
08/19/05	Sell	\$1,219.71		(\$971.19)
09/16/05	Buy	\$1,237.87	(4.71%)	\$0.00
10/21/05	Sell	\$1,179.59		(\$5,573.60)
12/14/05	Buy	\$1,272.74	(0.70%)	\$1,728.48
01/23/06	Sell	\$1,263.83		(\$2,106.00)
08/16/06	Buy	\$1,295.43	1.74%	\$2,548.70
09/21/06	Sell	\$1,318.03		(\$457.38)
12/11/06	Buy	\$1,413.04	1.24%	\$1,556.10
01/19/07	Sell	\$1,430.50		(\$634.90)
12/20/07	Buy	\$1,460.12	(6.70%)	\$2,633.64
01/29/08	Sell	\$1,362.29		(\$12,924.76)
05/15/08	Buy	\$1,423.57	(7.43%)	\$1,166.90
06/20/08	Sell	\$1,317.86		(\$7,637.70)
06/19/09	Buy	\$921.23	n/a	\$0.00
open	n/a	\$921.23		\$0.00

The maximum intratrade drawdown above is the 4,206 (4%) from the 1st trade in August of 2003.

The recent success of moves below 0.92 combined with the fact that the ratio has made a 100-day low suggests the VIX:VXV ratio is indicating a bearish edge over the next several weeks.

Unfortunately, this bearish indication is doing little but keeping our intermediate-term indicators mixed. For now I continue to look for opportunities on both sides of the market and further evidence that a clearer bias is emerging.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

DIS –@ 23.49 (*stopped out but still tracking for CBI purposes*)

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 1(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	4.00
DJ US Insurance Index	IAK	4.69	DJ US Financial	IYF	3.66
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	3.13
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	1.64	DJ US Industrial Sector	IYJ	1.52
DJ US Oil Equip & Svcs	IEZ	8.51	DJ US Consumer Goods	IYK	1.42
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	1.23
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	1.08
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	3.03
DJ US Consumer Svcs	IYC	4.33	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.

None tonight. Should we close lower tomorrow I will most likely begin tracking long trade ideas as of tomorrow night..

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
GDX	6/9/2009	\$41.30	\$35.74	-13.46%		sell on close > 10ma
AAPL	6/11/2009	\$139.55	\$137.47	-1.49%		sold 1/2 @ \$139.48
GOOG (1/2)	6/12/2009	\$426.86	\$407.35	-4.57%		
GOOG (1/2)	6/15/2009	\$416.77	\$420.09	0.80%		sold @ \$420.09
DIS (1/3)	6/17/2009	\$23.43	\$23.19	-1.02%		stopped out

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