

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 8, 2009

Volume 2 Issue 129

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					
7/8/2009 (also 7/6/09)	SPX 1% drop. Advance twice decliners	1-9 days	Bullish	2.80%	4.00%
July 8, 2009	Gap dn. Close 20lo. Opn top cls bottom.	1-2 days	Bullish	1.80%	2.50%
July 7, 2009	Weak breadth on up day	1-4 days	Bearish		
July 7, 2009	Weak bounce after 1.75% drop	1-3 days	Bearish		
July 6, 2009	SPY 1% gap. Open top/close bottom 12%	1-3 days	Bullish	5.30%	6.50%
June 29, 2009	Low range and vol above 10ma	1-15 days	Bearish	-4.40%	-6.90%
June 26, 2009	2 Days 7:3 up issues - no 10 high	1-8 days	Bearish	-4.30%	-5.90%
Active - Long Term					
June 26, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish		
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		
June 1, 2009	Nasdaq Relative Strength Leading		Bullish		
Dropped Tonight					
July 2, 2009	Strong breadth weakest vol 10	1-3 days	Bearish	-3.10%	-4.50%
July 2, 2009	Low HV cluster - no 20 high	1-8 days	Bearish	-3.40%	-4.60%

If the avg max move is achieved the study will appear in **bold and brown**. If the avg + 1/2 std deviation is achieved, it will appear in **bold italic blue** and no longer be active.

Short-term Outlook (1-5 days) – updated 7/8 – neutral to slightly bearish

The market seemed to have a real absence of buyers Tuesday. After opening down slightly the S&P failed to mount any notable intraday rallies. It stair-stepped lower for much of the day and finished near the lows. Losses for the major indices were around 2% across the board, with the Nasdaq showing a bit more weakness than the others. Breadth was strongly negative as the NYSE Up Issues % came in at 23% and the Up Volume % at 16%. Total volume remained low and declined from yesterday's level.

I showed a pattern in Monday's Letter that suggested large gaps down that open near their high and close near their low contain a short-term upside edge. We saw a similar pattern on Tuesday but to a lesser degree.

SPY gaps lower then closes at a 20-day low. The open is in the top 10% of the daily range and the close is in the bottom 10% of the daily range. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
2	20,588.13	19	13	6	68.42	1,883.13	-648.76	2.90	6.29	1,083.59
1	10,227.25	20	14	6	70.00	1,209.56	-1,117.77	1.08	2.52	511.36

Instances are a little lower than I prefer but again we see a strong tendency to rilly off bars like this.

The fact that we've has two strong selloffs in 3 days brought up an old study from the Quantifinder. It was last published in the 5/14/09 Subscriber Letter. (Stats are not updated.)

S&P 500 drops 1.75% or more today and either yesterday or the day before. Buy 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	\$83,786.48	52	34	18	65.38	\$4,985.24	(\$4,761.75)	1.05	1.98	\$1,611.28
9	\$62,514.76	52	34	18	65.38	\$4,496.58	(\$5,020.50)	0.90	1.69	\$1,202.21
8	\$42,066.00	52	33	19	63.46	\$3,844.95	(\$4,464.07)	0.86	1.50	\$808.96
7	\$64,522.07	58	41	17	70.69	\$3,634.60	(\$4,970.39)	0.73	1.76	\$1,112.45
6	\$57,193.43	59	37	21	62.71	\$3,535.64	(\$3,505.97)	1.01	1.78	\$969.38
5	\$45,717.71	60	35	25	58.33	\$3,400.29	(\$2,931.69)	1.16	1.62	\$761.96
4	\$39,526.08	62	41	21	66.13	\$2,824.22	(\$3,631.75)	0.78	1.52	\$637.52
3	\$37,839.34	69	42	26	60.87	\$3,319.84	(\$3,907.45)	0.85	1.37	\$548.40
2	\$58,422.00	72	45	27	62.50	\$2,873.14	(\$2,624.80)	1.09	1.82	\$811.42
1	\$26,199.28	84	50	34	59.52	\$2,136.26	(\$2,370.99)	0.90	1.32	\$311.90

Also below is a table from the 5/12/09 Subscriber Letter that looked at a different Quantifinder study from tonight.

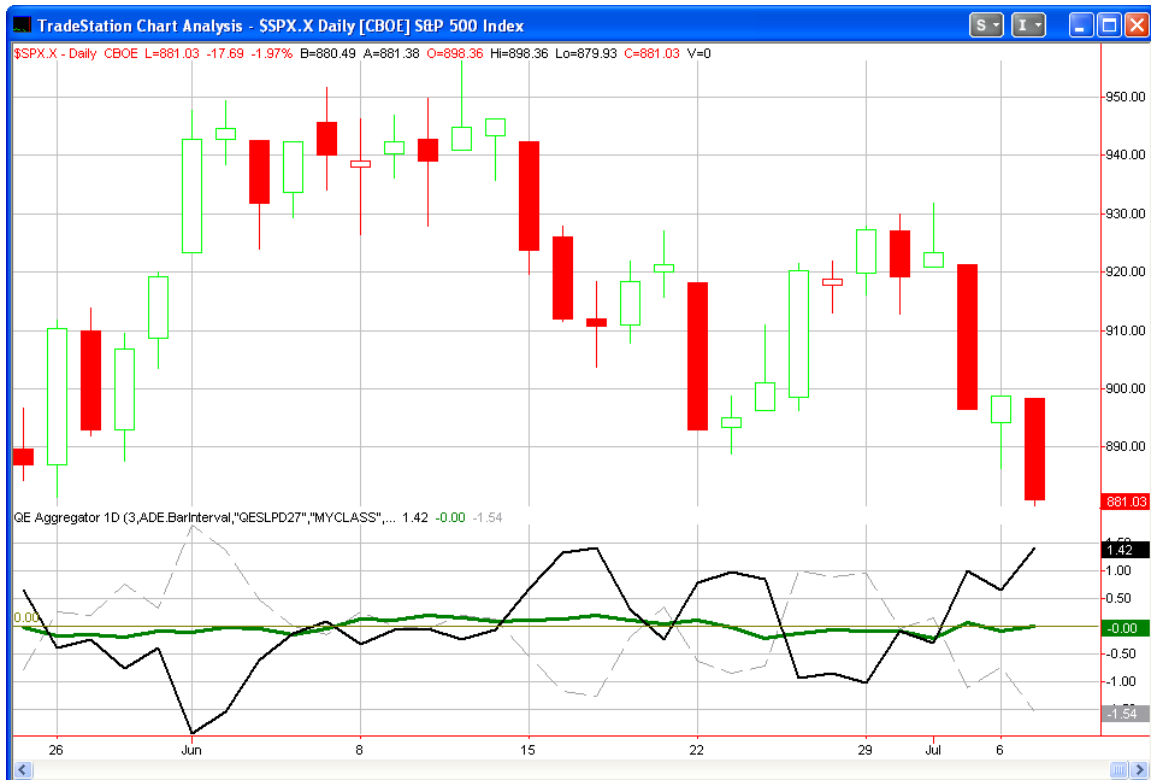
SPX drops 1% and decliners more than double advancers. Buy SPX on close. Sell X days later. \$100k/trade. From 10/20/87 – present.

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	209,160.38	232	156	76	67.24	2,691.47	-2,772.49	0.97	1.99	901.55
9	234,845.87	237	164	73	69.20	2,605.31	-2,635.96	0.99	2.22	990.91
8	201,802.01	251	164	86	65.34	2,582.42	-2,578.08	1.00	1.91	803.99
7	215,319.51	270	168	102	62.22	2,616.16	-2,197.99	1.19	1.96	797.48
6	198,530.12	286	177	109	61.89	2,479.01	-2,204.18	1.12	1.83	694.16
5	179,244.85	312	186	126	59.62	2,298.01	-1,969.72	1.17	1.72	574.50
4	119,886.30	333	191	142	57.36	2,027.72	-1,883.16	1.08	1.45	360.02
3	145,611.16	364	224	140	61.54	1,749.82	-1,759.64	0.99	1.59	400.03
2	142,575.80	414	231	183	55.80	1,709.30	-1,378.54	1.24	1.57	344.39
1	106,678.01	464	279	185	60.13	1,132.22	-1,130.88	1.00	1.51	229.91

In general tonight's studies are all bullish. The strongest appears to be the first one, though the positive influence there only last two days.

In all tonight's studies are suggesting a possible bullish edge over the next few days. It's not a terribly strong one, though. There are also still bearish studies still active. That need to be kept in mind.

I've updated the [Aggregator](#) chart below:



The green Aggregator line is just about breakeven tonight. In other words, over the next 3 days the bullish and bearish studies are basically aligned to offset each other. (The actual number is very slightly negative.) There is no clear edge evident. At the same time the black Differential line is now very high above 0. This shows that the S&P has strongly underperformed expectations over the last 3 days. It's now a bit oversold short-term.

Basically, we are short-term oversold, but we are not seeing many indications that the rally is exhausted. A bounce could certainly occur here. And as stretched as the black Differential line is above zero, the bounce could be large.

Additionally, we are sitting right in the support area that I outlined a few days ago in the intermediate-term outlook. The fact that we are right near support elevates risks in both directions.

If the May lows do break the 2 most likely ways for me to try and take advantage of it over the next week or so would be 1) To wait for it to become very strongly oversold and then look for a bounce back up near the breakdown level or 2) if I miss that long entry

then I could wait for the bounce to occur and enter a short when an edge becomes apparent. With a little luck that might be near the breakdown level.

As the market stands now a directional call for a swing trade is a difficult proposition. With the bullish bias to the studies tonight, I'd be somewhat inclined to focus on the long side if I were to daytrade. Other than just an intraday trade, I'm not willing to risk much capital trying to take advantage of marginal edges at a time that risks are quite high.

I'm going to stand aside another day and see what avails itself. A better edge in a less dangerous position on the chart is what I'm waiting for.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/6 – neutral (near turning bearish)

I don't often get into pure chart analysis in the Letter, but I thought I'd point out some things I'm watching closely on the chart below.



We're looking at the S&P 500 and an important area on the chart is the one I've circled in green above. As you'll note, we're only a few points above this area at the moment. What is striking me about this area is that there are several levels of potential support. Many of these will be fairly obvious to most technical traders. The thin pink rising line near the top of the green circle represents the neckline of a potential head and shoulders topping pattern. Just below that around 888 is where you'll find the 200ma and the June 23rd swing low, both of which could act as support. The 2nd blue line around 879 coincides with the May lows which also would mark the low of the left shoulder.

I'm not pointing out anything here that isn't fairly obvious to many technical traders. In fact, I would venture to guess that most traders that use charts would be considering at least one of the above points on their chart as important. It may be the Head and Shoulders pattern, it may be the price support, or it may be the 200ma. Whatever they're looking at, there is sure to be a lot of people focusing on this one relatively small area on the chart. The more levels of potential support or resistance that exist in a small area the more important that area becomes. With so many traders focusing on a particular area, moves around that area can be especially sharp, especially if the potential support breaks.

The intermediate-term studies are somewhat mixed at this point. I'm seeing bearish indications from sentiment indicators such as the Nasdaq/NYSE volume ratio and the VIX:VXV ratio. Meanwhile the Nasdaq/S&P lead/lag model still shows the Nasdaq as the current leader, which favors the bullish case. Also, while close to breaking down and possibly carving out a bearish Head and Shoulders pattern, the market has not yet violated any major support levels. I tend to give the primary trend the benefit of the doubt until it actually does change on a price chart.

With all this in mind I intend to tread a bit lightly until the market either bounces off this potential support level or slices through it. I'd rather not get caught on the wrong side of this action and I don't see a clear edge at this point. If I had to venture a guess, I'd guess the market is likely to retrace a bit more of the March – June rally. I think this support level will give way in the next few weeks. Whether this inclination turns out to be right or wrong will have little effect on my trading profits. I'll continue to re-evaluate on a daily basis. When the picture becomes more clear from an intermediate-term standpoint then I'll feel better about trading more aggressively on at least one side of the market.

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	0.00	DJ US Financial	IYF	0.73
DJ US Regional Banks	IAT	2.99	DJ US Financial Services	IYG	1.56
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	1.52
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.86	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	2.56	DJ US Transportation	IYT	5.00
DJ US Aerospace & Defense	ITA	2.94	DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	1.00

While selling has picked up the last few days, the CBI %'s are not uncovering any substantial capitulative action.

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.

Active Trades Table

None

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