

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 10, 2009

Volume 2 Issue 131

## 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>					
July 10, 2009	SPY weak vol bounce	1-2 days	Bearish		
7/8/2009 (also 7/6/09)	SPX 1% drop. Advance twice decliners	1-9 days	Bullish	2.80%	4.00%
July 7, 2009	Weak breadth on up day	1-4 days	Bearish	-4.10%	-5.60%
<b>June 29, 2009</b>	<b>Low range and vol above 10ma</b>	<b>1-15 days</b>	<b>Bearish</b>	<b>-4.40%</b>	<b>-6.90%</b>
<b>Active - Long Term</b>					
June 26, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish		
<b>June 22, 2009</b>	<b>VIX:VXV hits 100-day low</b>	<b>1-20 days</b>	<b>Bearish</b>	<b>-3.80%</b>	<b>-5.50%</b>
June 10, 2009	Nasdaq/NYSE Volume High	1-20 days	Bearish		
June 1, 2009	Nasdaq Relative Strength Leading		Bullish		
<b>Dropped Tonight</b>					
<b>July 9, 2009</b>	<b>2 Days Down In Chop</b>	<b>1-3 days</b>	<b>Bullish</b>		
June 11, 2009	4-day tight range above 10ma	1-20 days	Bullish	4.00%	4.80%
<b>July 7, 2009</b>	<b>Weak bounce after 1.75% drop</b>	<b>1-3 days</b>	<b>Bearish</b>	<b>-2.20%</b>	<b>-3.00%</b>

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 7/10 – neutral**

The market bounced on Thursday, but it was of the weak variety. Most of the indices finished only slightly higher. NYSE breadth was positive but not in a big way. The NYSE Up Issues % came in at 60% and the Up Volume % at 67%. Total volume was the lowest of the week.

The mild action gave me little to look at tonight. It was actually the 1<sup>st</sup> night the Quantifinder has come up empty in a few weeks.

SPY volume appears to be the lowest of 2009 according to my data. I ran a test looking at weak volume bounces in SPY following high volume declines.

Yesterday SPY closes at 20-day low on highest volume in 5 days.  
 Today it closes higher on the lowest volume in 5 days.  
 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
3	-15,303.13	11	3	8	27.27	1,430.67	-2,449.39	0.58	0.22	-1,391.19
2	-16,685.87	11	4	7	36.36	1,454.29	-3,214.72	0.45	0.26	-1,516.90
1	-2,986.56	11	5	6	45.45	662.46	-1,049.81	0.63	0.53	-271.51

10 of 11 instances closed below the trigger day close at some point in the next 3 days.

The only instance that did NOT post a lower close within 3 days was just 2 weeks ago – on 6/23/09.

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



The green Aggregator line didn't last long above zero. Expectations have again turned negative based on the studies. The black differential line remains elevated, though. This illustrates the fact that the S&P has underperformed expectations over the last 3 days. Basically the Aggregator chart says the market is oversold but still expecting more downside. When both lines are on opposite sides of zero that generally translates to a neutral outlook.

The long trade idea from last night did not get a fill. I no longer have interest in looking for exposure on the long side of the market. Following last week's flurry of trading, this week has been quite slow. Not having trades is ok. What's not ok is taking marginal trades because of the need for action.

A move up tomorrow could lead to a bearish edge on Monday. The black Differential line would collapse as Tuesday's action leaves the calculation. A close up would also likely attract some reversion studies like "2 Days Up In Chop".

The systems sheet has been relatively quiet this week also. If I were more bullish on the market I would say the setup in CVS looks interesting. For now I'm in "wait and see" mode.

***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 23<sup>rd</sup> swing low, both of which could act as support. The 2<sup>nd</sup> 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*

### **Active Trades Table**

*None*

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2009 Hanna Capital Management, LLC