

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 15, 2009

Volume 2 Issue 134

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					
July 15, 2009	2 Days Up in Chop	1-4 days	Bearish		
July 15, 2009	Adv: Decline 2 to 1 on lower volume	1-3 days	Bearish		
July 15, 2009	WR10 NR10	1-5 days	Bearish		
July 14, 2009	SPX strong without dollar weakness	1-3 days	Bearish	-1.60%	-2.20%
July 13, 2009	1% drop then flat	1-4 days	Bearish	-1.35%	-2.00%
7/8/2009 (also 7/6/09)	SPX 1% drop. Advance twice decliners	1-9 days	Bullish	2.80%	4.00%
June 29, 2009	Low range and vol above 10ma	1-15 days	Bearish	-4.40%	-6.90%
Active - Long Term					
July 14, 2009	VIX: VXV hits 100-day low	1-20 days	Bearish	-3.80%	-5.50%
July 13, 2009	Nasdaq/NYSE Volume High	1-20 days	Bearish		
July 14, 2009	VIX: VXV drops below 0.9	2-5 months	Bearish		
June 1, 2009	Nasdaq Relative Strength Leading		Bullish		
Dropped Tonight					

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 7/15 – bearish

The market trudged a little higher today in narrow-range trading. The S&P closed up 0.5% and the Nasdaq 0.4%. NYSE breadth was solidly positive as the NYSE Up Issues % and Up Volume % both closed at 68%. Volume sank from Monday's levels and was below average.

Let's look at a few studies that appeared on the Quantifinder this evening. The first was the "2 Days Up In Chop" strategy. This incredibly simple strategy has continued to produce gains even after the market bottom in March. Below is an updated performance report:

SPX closes higher 2 days in a row. Short on close. Cover 1st profitable close up to 4 days later. On 4th day cover regardless of profitability. \$100k/trade. 6/1/2007 - present.

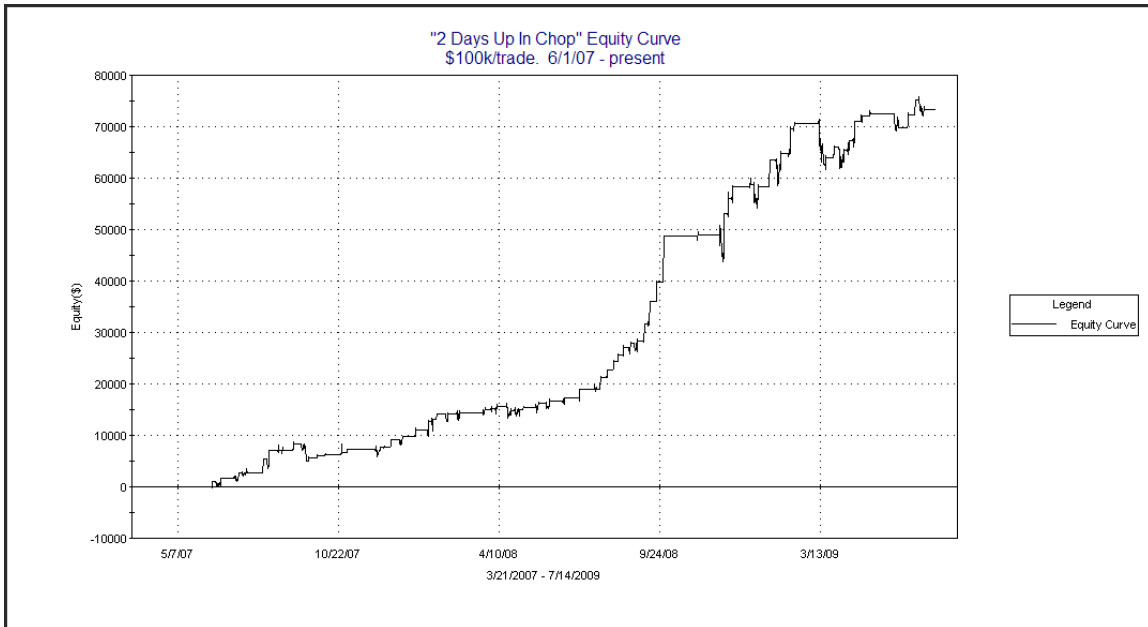
TradeStation Performance Summary

Collapse ^

All Trades

Total Net Profit	\$73,279.43	Profit Factor	5.22
Gross Profit	\$90,628.47	Gross Loss	(\$17,349.04)
Total Number of Trades	69	Percent Profitable	89.86%
Winning Trades	62	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$1,062.02	Ratio Avg. Win:Avg. Loss	0.59
Avg. Winning Trade	\$1,461.75	Avg. Losing Trade	(\$2,478.43)
Largest Winning Trade	\$8,783.02	Largest Losing Trade	(\$7,832.88)
Max. Consecutive Winning Trades	23	Max. Consecutive Losing Trades	1

To get a better feel I've also included an equity curve below:



The SPY traded within its narrowest range in 10 days today after posting the widest range in 10 days yesterday. Below I've updated the study from 6/29/09:

SPY closes up on the widest range in 10 days (WR10) then on the next bar posts the narrowest range in 10 days (NR10). Buy on close. Sell X days later. \$100k/trade. 4/1/98 - 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
6	-18,966.62	12	4	8	33.33	593.22	-2,667.44	0.22	0.11	-1,580.55
5	-13,311.60	12	3	9	25.00	871.09	-1,769.43	0.49	0.16	-1,109.30
4	-11,364.35	12	2	10	16.67	1,232.57	-1,382.95	0.89	0.18	-947.03
3	-838.63	12	5	7	41.67	1,285.83	-1,038.26	1.24	0.88	-69.89
2	316.37	12	7	5	58.33	831.74	-1,101.16	0.76	1.06	26.36
1	2,676.99	12	8	4	66.67	770.82	-872.40	0.88	1.77	223.08

The bearish influence of this study appears to peak between days 4 and 6.

Another significant study came from the 5/15/09 Subscriber Letter. That study is below (not updated).

Advancers outnumber down issues by at least 2 to 1. Volume declines from yesterday.										
Buy S&P 500 on close. Sell X days later. \$100k/trade. 08/01/2007 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
5	(\$71,244.40)	34	12	22	35.29412	\$1,690.66	(\$4,160.56)	0.406355	0.221648	(\$2,095.42)
4	(\$56,060.01)	36	12	24	33.33333	\$1,880.45	(\$3,276.06)	0.573997	0.286999	(\$1,557.22)
3	(\$59,506.71)	45	15	30	33.33333	\$2,075.83	(\$3,021.47)	0.687026	0.343513	(\$1,322.37)
2	(\$70,400.52)	46	15	31	32.6087	\$839.52	(\$2,677.20)	0.313581	0.151733	(\$1,530.45)
1	(\$32,523.85)	47	18	29	38.29787	\$935.06	(\$1,701.89)	0.549423	0.341021	(\$692.00)

What we've seen is a sizable edge over the last 2 years. Prior to that this edge didn't exist.

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



The studies are becoming overwhelmingly bearish. Tonight's were based on breadth & volume, wide and narrow ranges, and price movement. The expectations are now strongly bearish as seen by the green Aggregator line. Meanwhile the black Differential line illustrates the recent outperformance of the SPX above expectations. This is the configuration I prefer when considering short exposure.

A partial SPY position was taken at the close, which turned out to be a few minutes too early. Intel's earnings generated excitement to the tune of a 1% SPY runup in about 15 minutes. In addition to all the bearish studies we now have on the active list, a large gap up could also provide a nice opportunity to short. Below is a link to a blog post that examines 1% gaps higher and breaks it out by those times the SPY was up 2 days in a row vs. times when it wasn't.

<http://quantifiableedges.blogspot.com/2009/04/large-gaps-after-market-has-already.html>

I'll look for additional opportunity to add to the short exposure tomorrow. Some entries are laid out in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/13 – slightly bearish

We tested and dipped below the 878 – 888 support level that I indicated last week may be important. So far the market has NOT made a decisive move out of that area. Both the short and long-term studies are currently suggesting the short side has better odds.

The long-term and short-term active studies from the list on the 1st page are generally suggesting downside. The one intermediate-term positive from the list was the Nasdaq /

S&P 500 Lead/lag model. The Nasdaq continues to lead based on that study, which has historically been a good sign.

The VIX:VXV Ratio has again fallen close to 0.9 as it now sits at 0.92. A move much lower could trigger new opportunities for either S&P 500 shorts or VXX longs.

Also on the intermediate-term list is the Nasdaq/NYSE volume ratio. This is an indicator I discussed in some detail in the June 10th Letter. Below is an excerpt from that Letter:

The Nasdaq/NYSE Volume Ratio is an indicator I haven't discussed in a while. It is hitting extreme levels at this time. Levels will vary depending on data provider. So while the extremes may differ depending on whose data you use, results should be comparable at those extremes. I use Tradestation. On Tuesday the Nasdaq volume more than doubled the NYSE for the 1st time a long time. This brought the 20-day average over 1.65. Below is a table showing 1-month returns based on this ratio.

20-day returns on 100k from 1981-present. Nasdaq / NYSE 20-day volume ratio exceeds X.

Volume Ratio	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
1.65	-15,910.59	14	6	8	42.86	3,195.98	-4,385.81	0.73	0.55	-1,136.47
1.60	-13,593.74	18	7	11	38.89	5,445.53	-4,701.13	1.16	0.74	-755.21
1.55	-16,382.89	23	11	12	47.83	2,937.85	-4,058.27	0.72	0.66	-712.30
1.50	-22,014.66	28	12	16	42.86	4,276.69	-4,583.43	0.93	0.70	-786.24
1.45	-24,981.02	35	15	20	42.86	4,579.87	-4,682.95	0.98	0.73	-713.17
1.40	-32,117.05	44	20	24	45.45	3,723.72	-4,441.31	0.84	0.70	-729.93
1.35	-20,659.02	65	32	33	49.23	4,098.90	-4,600.72	0.89	0.86	-317.83
1.30	-46,707.09	89	48	41	53.93	3,071.34	-4,734.91	0.65	0.76	-524.80
1.25	-38,493.59	114	63	51	55.26	3,194.27	-4,700.64	0.68	0.84	-337.66
1.20	7,443.84	138	74	64	53.62	3,636.18	-4,088.02	0.89	1.03	53.94

High levels of Nasdaq trading as opposed to NYSE suggest excessive speculation by investors. Once this level exceeds 1.4 it has generally indicated a bearish bias.

Since I published the above study, the S&P has lost over 6.5%. Surprisingly this has not caused the ratio to fall at all. In fact, it has gone from 1.65% in June to about 2.0% now. This would suggest we may see additional downside.

Overall the market has not yet become decisively bearish. It appears to be on the precipice, though.

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

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 – short ¼ index position @ \$91.50 LIMIT ON OPEN. If not filled on the open then place a limit short \$0.75 above the open price assuming the open is up. If the open is down, then place the limit @ \$91.50. If not filled during the day, then short ¼ index position a \$90.65 LIMIT ON CLOSE.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	7/14/2009	\$90.61	\$90.61	0.00%		

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