

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 16, 2009

Volume 2 Issue 135

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 16, 2009	SPX strong without dollar weakness	1-3 days	Bearish	-1.60%	-2.20%
July 16, 2009	SPY Gap n go to 10-high	1-2 days	Bearish		
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 13, 2009	1% drop then flat	1-4 days	Bearish	-1.35%	-2.00%
June 29, 2009	Low range and vol above 10ma	1-15 days	Bearish	-4.40%	-6.90%
Active - Long Term					
June 1, 2009	2 90% Up Days in 1 Week	1-25 days	Bullish		
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					
7/8/2009 (also 7/6/09)	SPX 1% drop. Advance twice decliners	1-9 days	Bullish	2.80%	4.00%

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 7/16 – bearish

After Intel's earnings report set a positive mood Tuesday afternoon the market gapped up strongly Wednesday morning. The market never looked back after gapping up and stayed strong throughout the day. The Nasdaq rose 3.5% while the S&P rallied 3.0%. Breadth was extremely strong. The NYSE Up Issues % came in at 89% while the Up Volume % closed at a whopping 96%. Overall volume also came in strong as it was solidly above both its average and yesterday's levels.

There were mixed results among the Quantifinder studies tonight. Bearish results were seen primarily in price-based studies which suggested the market is overbought and primed for a pullback. The strong breadth, which has followed strong breadth just a few days ago, led to some studies with bullish results.

One of the bearish studies came from the 5/11/09 Subscriber Letter. It involves a gap up and strong move higher. I've updated the results below.

SPY gaps at least 1% above yesterday's close. It never trades <= yesterday's close, makes a 10-day intraday high and closes > the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1994-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
5	3,477.61	15	7	8	46.67	2,106.38	-1,408.38	1.50	1.31	231.84
4	2,436.31	15	8	7	53.33	1,721.88	-1,619.82	1.06	1.21	162.42
3	-5,005.89	15	8	7	53.33	989.39	-1,845.86	0.54	0.61	-333.73
2	-6,289.40	15	7	8	46.67	364.63	-1,105.22	0.33	0.29	-419.29
1	-3,667.26	15	6	9	40.00	686.92	-865.42	0.79	0.53	-244.48

12 of 15 (80%) instances closed lower than the trigger-day close at some point in the next 3 days.

One concern with this study is that instances are a bit low. The “close < 200ma” scenario was also run back in May and results were even more bearish when the market was in a long-term downtrend.

Wednesday was the 2nd 90% up day in the last 3 days. In March I showed a study that suggested tight clusters of 90% up days have almost always led to a further rally. I’ve updated that study below.

For the 2nd time in 5 days the NYSE Up Volume % exceeds 90%. Buy on close. Sell X days later. \$100k/trade. 1970-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	54,580.79	8	7	1	87.50	8,354.76	-3,902.52	2.14	14.99	6,822.60
24	58,100.12	8	7	1	87.50	8,512.27	-1,485.80	5.73	40.10	7,262.52
23	52,607.79	8	7	1	87.50	7,727.56	-1,485.12	5.20	36.42	6,575.97
22	50,622.94	8	7	1	87.50	7,236.84	-48.96	147.85	1,034.97	6,327.87
21	52,635.91	8	7	1	87.50	7,811.58	-2,045.12	3.82	26.74	6,579.49
20	50,358.17	8	7	1	87.50	7,432.10	-1,666.56	4.46	31.22	6,294.77
19	44,111.90	8	7	1	87.50	6,614.18	-2,187.36	3.02	21.17	5,513.99
18	43,599.28	8	7	1	87.50	6,620.79	-2,746.24	2.41	16.88	5,449.91
17	46,767.29	8	7	1	87.50	6,937.84	-1,797.60	3.86	27.02	5,845.91
16	46,953.80	8	7	1	87.50	6,794.05	-604.52	11.24	78.67	5,869.23
15	42,218.98	8	6	2	75.00	7,262.86	-679.08	10.70	32.09	5,277.37
14	39,588.88	8	7	1	87.50	5,791.94	-954.72	6.07	42.47	4,948.61
13	40,053.35	8	7	1	87.50	5,946.31	-1,570.80	3.79	26.50	5,006.67
12	30,553.53	8	6	2	75.00	5,460.99	-1,106.20	4.94	14.81	3,819.19
11	34,652.85	8	7	1	87.50	5,077.61	-890.40	5.70	39.92	4,331.61
10	34,572.38	8	7	1	87.50	5,164.35	-1,578.08	3.27	22.91	4,321.55
9	30,573.40	8	8	0	100.00	3,821.68	0.00	100.00	100.00	3,821.68
8	29,107.70	8	8	0	100.00	3,638.46	0.00	100.00	100.00	3,638.46
7	31,208.27	9	7	2	77.78	4,686.25	-797.73	5.87	20.56	3,467.59
6	16,037.37	9	6	3	66.67	3,422.71	-1,499.62	2.28	4.56	1,781.93
5	8,831.44	10	6	4	60.00	3,404.27	-2,898.55	1.17	1.76	883.14
4	15,716.46	10	6	4	60.00	3,509.18	-1,334.66	2.63	3.94	1,571.65
3	10,754.66	11	8	3	72.73	2,126.35	-2,085.39	1.02	2.72	977.70
2	1,198.79	11	7	4	63.64	1,496.80	-2,319.71	0.65	1.13	108.98
1	8,014.68	13	10	3	76.92	1,138.21	-1,122.47	1.01	3.38	616.51

Again instances are small, so it's dangerous to rely too much on the results, but you've typically seen very strong moves after these tandems of 90% Up Volume days. Below I've listed all the occurrences along with the 20-day return of the market after such occurrences.

For the 2nd time in 5 days the NYSE Up Volume % exceeds 90%. Buy on close. Sell 20 days later. \$100k/trade. 1970-present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
11/29/71	Buy	\$93.41	9.14%	\$9,137.80
12/28/71	Sell	\$101.95		\$0.00
08/20/82	Buy	\$113.02	8.39%	\$11,103.04
09/20/82	Sell	\$122.50		(\$928.20)
08/02/84	Buy	\$157.99	5.45%	\$6,831.92
08/30/84	Sell	\$166.60		\$0.00
01/05/87	Buy	\$252.19	9.62%	\$11,388.96
02/02/87	Sell	\$276.44		(\$23.76)
08/31/07	Buy	\$1,473.99	4.96%	\$5,027.01
10/01/07	Sell	\$1,547.04		(\$2,324.90)
11/28/07	Buy	\$1,469.01	0.49%	\$3,710.08
12/27/07	Sell	\$1,476.27		(\$2,268.48)
11/26/08	Buy	\$887.68	(1.68%)	\$3,491.04
12/26/08	Sell	\$872.80		(\$8,062.88)
03/12/09	Buy	\$750.74	14.10%	\$14,120.61
04/09/09	Sell	\$856.56		(\$1,101.24)

With the mixed results from tonight's studies factored in, I've updated the [Aggregator](#) chart below:



Even the strongly bullish results from the double 90% day study were unable to move the green Aggregator line higher. The studies are still suggesting downside is more likely over the next few days. Meanwhile the black Differential line is strongly below 0. This shows the S&P is more overbought vs. expectations than at any time in over a month.

So the setup remains quite bearish. There are currently 2 lots of SPY short that make up ½ of an index position. I'm a little agitated with the 1st entry at Tuesday's close. I likely should have waited another day before jumping in based on the fact that the market was trying to rally off of an important support level and I was expecting an increase in volatility – all of which I discussed at the time. In any case, the 2nd entry is one I would've taken every time. The fact that it isn't working out so far just means Wednesday's strength was unusual. It also demonstrates why I almost always scale in when trading these type of setups.

I plan to add to my position and short a bit more aggressively tomorrow as 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 1/4 index position @ \$93.15 LIMIT. In the event of a gap down, I'm just looking to enter on a move back towards Wednesday's close. I won't require it gets all the way there.

SPY – short final 1/4 index position @ \$94.50 limit on close. Another strong day tomorrow as June-high resistance approaches will put me “all in”.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	7/14/2009	\$90.61	\$93.26	-2.92%		
SPY(s)(1/4)	7/15/2009	\$91.81	\$93.26	-1.58%		

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