

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 28, 2009

Volume 2 Issue 143

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
Active				
July 27, 2009	2 Days Up In Chop	1-4 days	Bearish	
July 27, 2009	Gap Down and Reverse to New High	1-2 days	Bearish	
July 24, 2009	SPX much stronger than \$\$	1-4 days	Bearish	-1.60%
Active - Long Term				
July 17, 2009	Appel Daily Breadth	1-20 days	Bullish	5.80%
July 14, 2009	VIX:VXV hits 100-day low	1-20 days	Bearish	-3.80%
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				
July 27, 2009	New Highs Contract at 50-day high	1 day	Bearish	
July 20, 2009	SP low vol on op ex with low VIX	1-6 days	Bearish	
July 16, 2009	2 90% Up Days in 1 Week	1-25 days	Bullish	5.30%

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active. With the reduced market volatility I am no longer requiring a move of Avg max + ½ Std Dev. To reach the target.

Short-term Outlook (1-5 days) – updated 7/28 –bearish

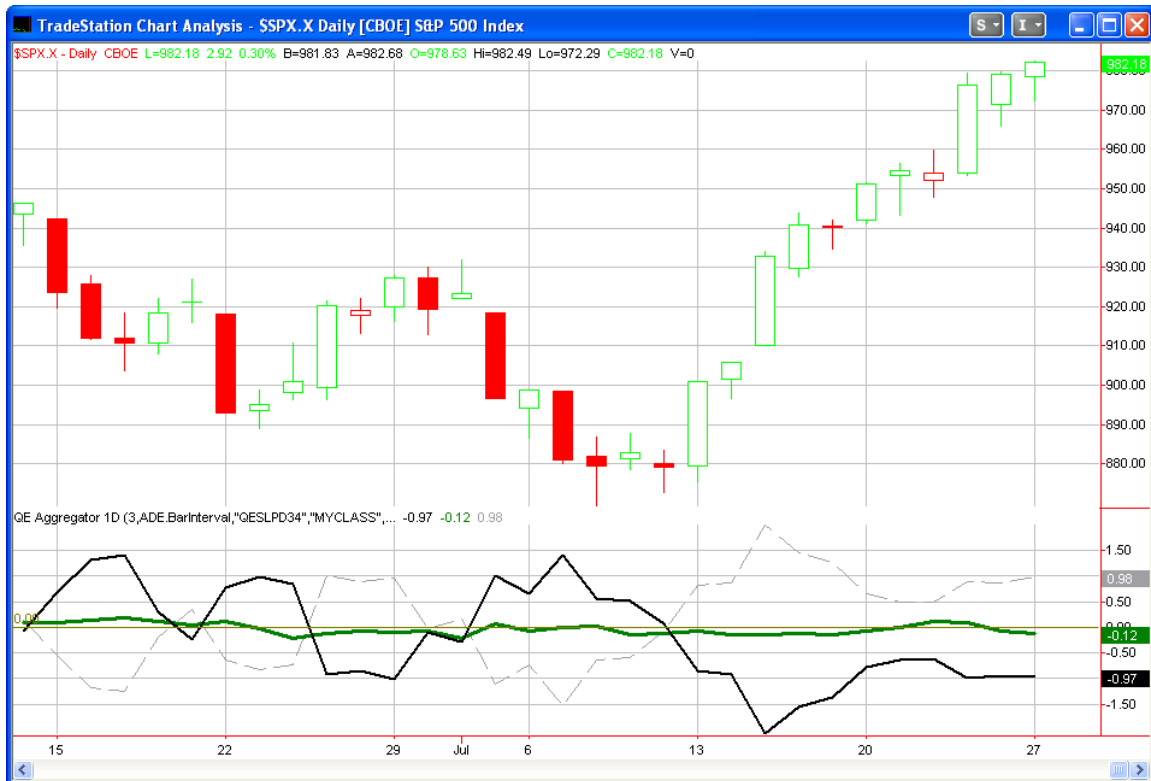
What has become an unprecedented melt-up from a few perspective continued on Monday. After selling off in the morning an afternoon turnaround brought the market back to positive for the day. Breadth was positive as NYSE Up Issues % and Up Volume % came in at 63%. Volume came in slightly higher but still below average.

I had difficulty finding anything notable today other than the streaks of higher highs and higher lows and higher closes all continuing. At this point there is little value in counting streaks and seeing how long they've gone in the past. Several are already way past anything we've seen since the market became extremely choppy near the turn of the century. The market has been overbought and it stayed there today.

One observation I did explore a bit was the fact that volume is decreasing not only since the March bottom, but on a year over year basis as well. July looks to be the third month in a row where we will see lower NYSE volume than in 2008. Since the long-term trend of volume has been steadily up I decided to look at other times the market's monthly volume had declined on a year over year basis. There were 543 months in the test and

the average month gain a little over ½%. There have been 125 times where volume has come in lower than the same month the year before. Results following such months were in line with all months as a whole. I was unable to decipher any edge, bullish or bearish, to a year over year decline in volume.

The [Aggregator](#) chart, which gave me so much trouble last night, worked tonight. I did nothing different. I have no idea why it didn't work last night but did again tonight. I do hate computers some times.



The green Aggregator line remains squarely below 0. There were 3 studies that came off the active list tonight. The most significant of which was the double 90% study that was so bullish. It reached it's target and therefore was removed before it was scheduled. The impact of this is what helped to drop the green Aggregator line, and net expectations, lower. The black differential line shows the market continues to strongly outperform expectations. Both lines below 0 suggests a downside edge.

I am already back to a ¾ short SPY index position. With the Aggregator remaining negative and the market way overdue for a pullback I was tempted to put the last 1/4 back on. The lack of any significant bearish studies tonight is what held me back. Should the market rally again tomorrow there's a good chance I'll put the final piece back on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/27 – neutral

Almost nothing has changed from an intermediate-term standpoint from last week. Therefore I will not spend too much time discussing it. From a bullish perspective the Nasdaq/S&P Relative strength indicator has been bullish and generally right for several weeks now. The breadth thrusts we saw off the failed head & shoulders pattern have also proven correct. I noted in the last couple of days that we are already close to the average maximum gains that are generated by the two breadth thrust studies listed in the intermediate-term section above. (See last week's intermediate-term section for details on these.) This doesn't mean that just because the average max move has been achieved the market will roll over. But from my perspective it means that further gains are likely due to influences other than the breadth thrust patterns. This is why I look to remove studies from the active list after they achieve their targets.

Bearish and so far wrong have been sentiment indicators such as the VIX:VXV ratio and the Nasdaq/NYSE Volume ratio. Neither of these has budged at all and it seems while their timing was off, at some point their bearish influence may take hold.

As I've demonstrated with some short-term trades lately this is a tough market to fight. While bearish indications remain, a neutral to slightly bullish intermediate-term outlook seems appropriate.

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.

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/L	Stop	Notes
SPY(s)(1/4)	7/16/2009	\$93.15	\$98.35	-5.58%		
SPY(s)(1/4)	7/17/2009	\$94.25	\$98.35	-4.35%		
SPY(s)(1/4)	7/27/2009	\$98.30	\$98.35	-0.05%		

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