

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 31, 2009

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## 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
<b>Active</b>				
July 31, 2009	5 low to 10-high	1-5 days	Bearish	
July 31, 2009	Close bottom 10% & > yest. High	1-3 days	Bullish	1.50%
July 28, 2009	3/10 HV low. RSI(3)>70.	1-3 days	Bearish	
July 28, 2009	1 day down from RSI(2)>98	1-2 days	Bearish	
July 24, 2009	SPX much stronger than \$\$	1-4 days	Bearish	-1.60%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
<b>July 17, 2009</b>	<b>Appel Daily Breadth</b>	<b>1-20 days</b>	<b>Bullish</b>	<b>5.80%</b>
<b>July 30, 2009</b>	<b>2 Days Down In Chop</b>	<b>1-3 days</b>	<b>Bullish</b>	

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 7/31 –neutral**

A big gap up to a new high on Thursday saw strong follow-through in the morning but reversed to close a little below the open. The major indices still posted strong gains across the board. NYSE breadth was strongly positive. The NYSE Up Issues % came in at 79% and the Up Volume % was 70%. Total volume rose and came in relatively high.

I looked at the gap action a few different ways tonight. First I wanted to see whether the gap to a new high that failed to follow through provided an edge. Below are results from that study:

SPY gaps up to a 1-month high and closes below the open. Buy on close. Sell Xdays 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
5	15,448.05	84	45	38	53.57	1,378.82	-1,226.29	1.12	1.33	183.91
4	15,216.38	85	48	37	56.47	1,200.37	-1,145.99	1.05	1.36	179.02
3	16,080.39	91	57	34	62.64	935.83	-1,095.95	0.85	1.43	176.71
2	22,011.43	95	56	38	58.95	956.19	-829.87	1.15	1.70	231.70
1	9,400.38	98	59	38	60.20	579.94	-653.06	0.89	1.38	95.92

Results here suggested a bit of an upside edge – at least over the first few days.

But today didn't just close below the open. The close was extremely low in relation to the daily range. I thereby examined other times the SPY closed in the bottom 10% of its daily range while still holding a gap up.

SPY closes in the bottom 10% of its daily range but still above yesterday's high. 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
5	6,523.26	15	9	6	60.00	1,600.53	-1,313.58	1.22	1.83	434.88
4	9,124.09	15	12	3	80.00	1,190.32	-1,719.91	0.69	2.77	608.27
3	13,784.81	15	12	2	80.00	1,216.66	-407.55	2.99	17.91	918.99
2	11,483.88	15	12	3	80.00	1,053.41	-385.69	2.73	10.92	765.59
1	9,381.12	16	13	3	81.25	832.15	-478.93	1.74	7.53	586.32

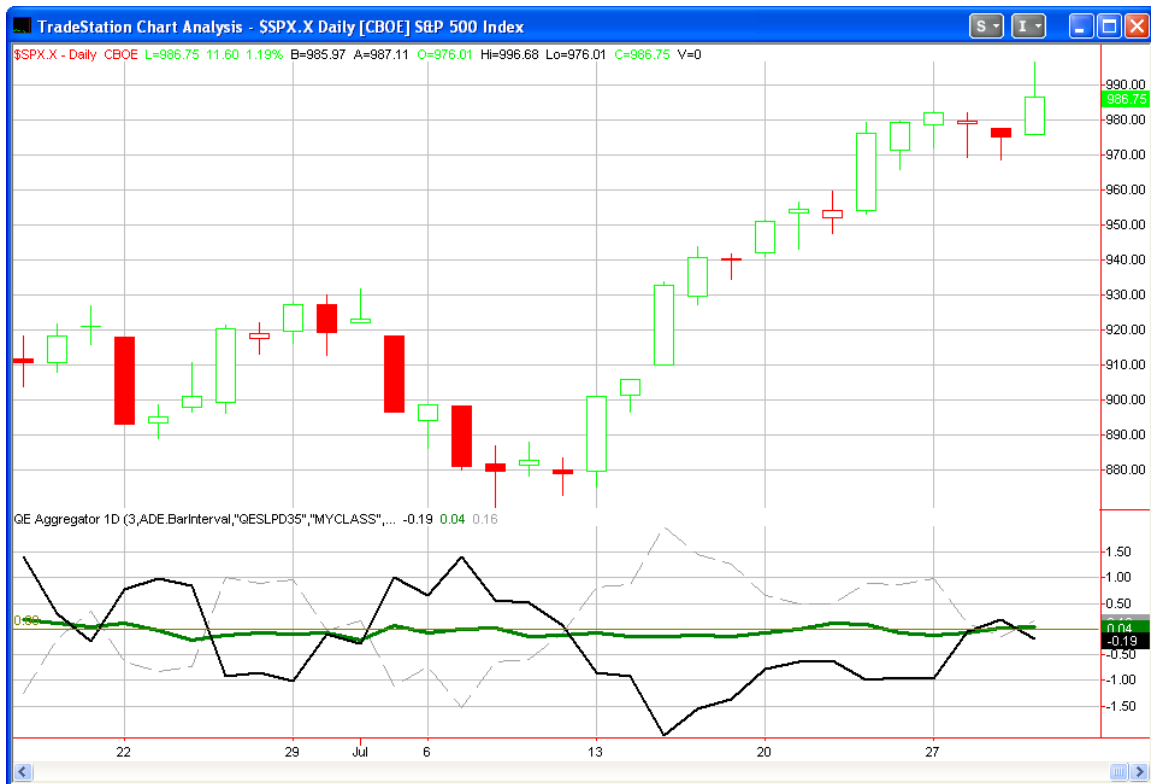
**All 16 instances closed above the trigger day close within the next 2 days.**

The number of instances was a little bit low. These results are strongly suggestive of upside over the next few days, though. The profit factor (gross gains / gross losses) over the first 3 days is especially impressive. Also compelling is the fact that every instances saw a bounce in the next day or two.

The quick move from a 5-day low to a 10-day high is something we saw on 5-27-09. That study suggested possible negative implications.

Also notable tonight is that the Appel Daily Breadth signal achieved its avg max move early and will be removed from the active list.

The [Aggregator](#) chart is updated below.



With tonight's studies the Aggregator line has managed to remain above 0. The black differential line did drop below 0 though. So we're expecting upside but already a bit overbought.

With the neutral stance I'll once again look to unload the short position. Details in the trade ideas section below.

***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 – although stocks like ITW, FCX and OMC from the 500 list look tempting. I normally just track ideas from the S&P 100 and ETF lists and so will pass on these others for now.*

### **Active Trades Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Pr</b>	<b>% Gain/Lo</b>	<b>Stop</b>	<b>Notes</b>
SPY(s)(1/4)	7/16/2009	\$93.15	\$98.71	-5.97%		
SPY(s)(1/4)	7/17/2009	\$94.25	\$98.71	-4.73%		
SPY(s)(1/4)	7/27/2009	\$98.30	\$98.71	-0.42%		

I'm going to look to exit some or all of the current short position tomorrow. Should the market gap lower by at least \$0.25 I'll look to cover 1 or 2 lots right at the open. (Say 1 if I don't get a morning update out.) Without a gap lower I'll once again be looking to trail a stop during the day.

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