

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 3, 2009

Volume 2 Issue 147

## Market Overview

*Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)*

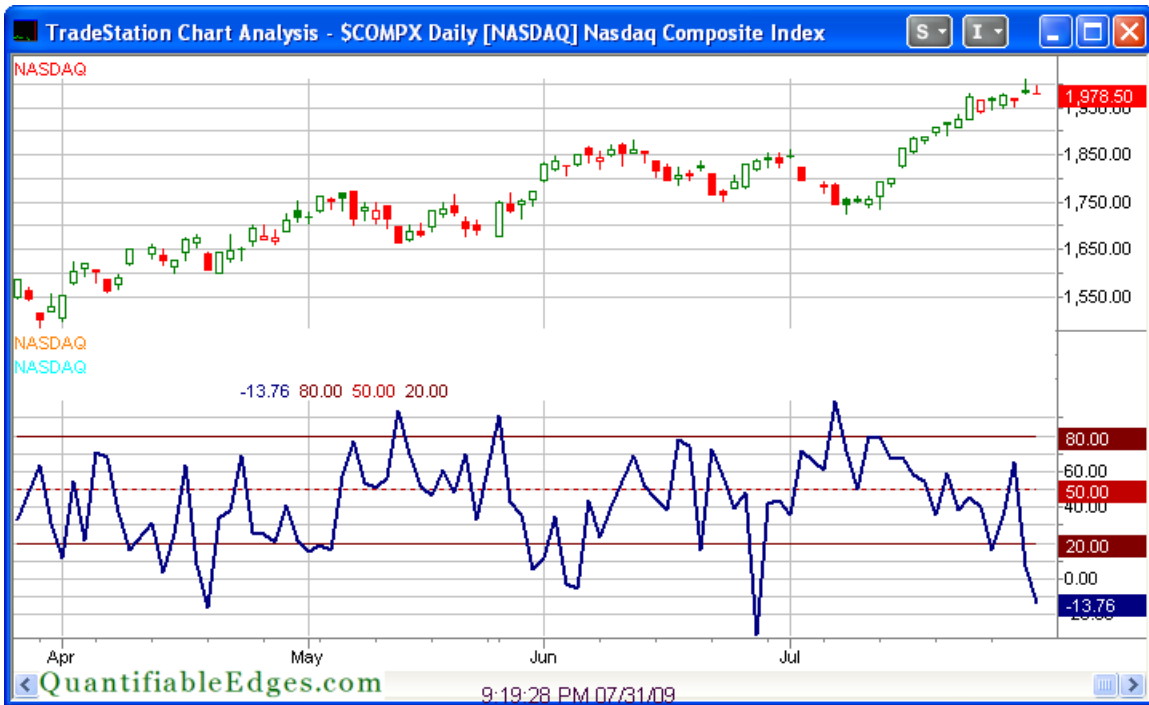
Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
August 3, 2009	2 Days Up In Chop	1-4 days	Bearish	
August 3, 2009	SPX up VIX up on Friday	1 day	Bearish	
August 3, 2009	Nas Spyx < -10	1-2 days	Bearish	
July 31, 2009	5 low to 10-high	1-5 days	Bearish	
July 31, 2009	Close bottom 10% & > yest. High	1-3 days	Bullish	1.50%
<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>				
July 28, 2009	3/10 HV low. RSI(3)>70.	1-3 days	Bearish	

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 8/3 –bearish**

There was not a lot of price action on Friday. After opening flat the market traded near that level for most of the day. When it was over the S&P had small gains on mildly positive breadth and the Nasdaq had small losses on mildly negative breadth. Total volume was down a bit from Thursday but still above average.

One of the more interesting readings came from the Nasdaq Volume Spyx chart which is posted on the charts page every night. Historically, very low readings have often been followed by quick declines and high readings have been followed by quick bounces. Below is a copy of the chart from the website.



As you can see, the -13.76 reading is quite unusual. I ran a test back to 2000 to see how the QQQQ has performed following other readings below -10.

Nasdaq Volume Spyx closes below minus 10.  
Buy QQQQ on close. Sell X days later. \$100k/trade. 2000 - 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	-29,540.35	16	6	10	37.50	1,971.48	-4,136.92	0.48	0.29	-1,846.27
4	-18,390.02	16	6	10	37.50	2,536.17	-3,360.71	0.75	0.45	-1,149.38
3	-27,454.40	16	6	10	37.50	1,428.98	-3,602.83	0.40	0.24	-1,715.90
2	-33,203.22	16	4	12	25.00	945.56	-3,082.12	0.31	0.10	-2,075.20
1	-21,738.79	18	7	11	38.89	1,186.22	-2,731.12	0.43	0.28	-1,207.71

**17 of 18 instances (94%) closed below the trigger day close within the next 4 days.**

While instances are a bit low there appears to be a significant downside edge over the next 2 days. I also broke it out to look at times when the extremely low Spyx readings came on a down day for the QQQQ.

Nasdaq Volume Spyx closes below minus 10. QQQQ closes down on the day. Buy QQQQ on close. Sell X days later. \$100k/trade. 2000 - 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	-23,876.76	8	2	6	25.00	2,783.13	-4,907.17	0.57	0.19	-2,984.60
4	-19,602.33	8	2	6	25.00	2,707.95	-4,169.70	0.65	0.22	-2,450.29
3	-27,007.48	8	1	7	12.50	2,697.87	-4,243.62	0.64	0.09	-3,375.94
2	-26,704.66	8	2	6	25.00	1,611.52	-4,987.95	0.32	0.11	-3,338.08
1	-17,493.68	9	4	5	44.44	1,346.29	-4,575.77	0.29	0.24	-1,943.74

Here the instances really are quite low. The average trade is very negative and should be noted with a loss of over 3% on average both 2 and 3 days out.

Another notable from Friday that I've seen some writing on lately is that the SPX and VIX both closed higher on the day. When considering VIX movement it should be remembered that it has a natural tendency to decline a little on Fridays prior to the weekend. It also has a bit of a tendency to rise on Mondays. Therefore I decided to break out the VIX up / SPX up setup a few different ways.

First I looked at all times it occurred on Monday. (Monday should be the most common due to its tendency to rise.

SPX and VIX both close up. Today is Monday.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998-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	-47,656.67	108	49	59	45.37	1,780.91	-2,286.80	0.78	0.65	-441.27
4	-39,127.02	112	49	63	43.75	1,615.88	-1,877.86	0.86	0.67	-349.35
3	-42,048.53	112	50	62	44.64	1,221.94	-1,663.64	0.73	0.59	-375.43
2	-35,281.59	112	48	64	42.86	955.12	-1,267.62	0.75	0.57	-315.01
1	-30,973.20	112	44	68	39.29	701.23	-909.22	0.77	0.50	-276.55

Even with Monday's tendencies taken in to account there seems to be a bit of a negative bias over the next few days. What about days other than Monday?

SPX and VIX both close up. Today is NOT Monday.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998-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	-45,237.46	115	55	60	47.83	1,200.20	-1,854.15	0.65	0.59	-393.37
4	-67,883.36	121	46	75	38.02	1,337.70	-1,725.57	0.78	0.48	-561.02
3	-56,045.23	129	56	73	43.41	1,089.09	-1,603.21	0.68	0.52	-434.46
2	-53,634.95	137	49	88	35.77	1,032.43	-1,184.36	0.87	0.49	-391.50
1	-43,161.75	148	63	85	42.57	590.83	-945.70	0.62	0.46	-291.63

**80% of instances closed below the trigger day close at some point in the next 3 days.**

Here you'll note the bearish influence appears to be slightly stronger.

But what if we isolate Fridays, who have a tendency to drift lower?

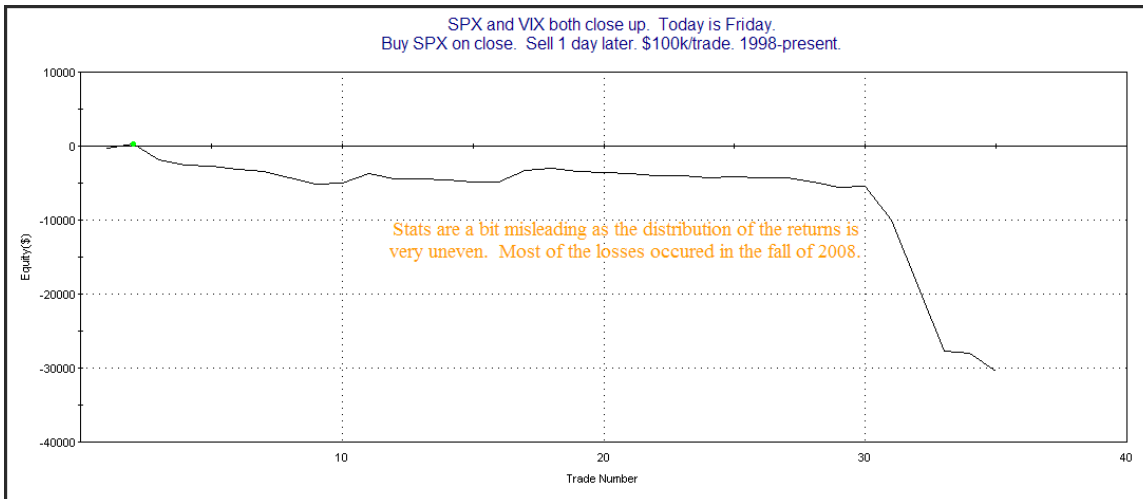
SPX and VIX both close up. Today is Friday.  
Buy SPX on close. Sell X days later. \$100k/trade. 1998-present.

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	-16,742.41	35	15	20	42.86	1,653.16	-2,076.99	0.80	0.60	-478.35
4	-23,513.57	35	13	22	37.14	1,708.05	-2,078.10	0.82	0.49	-671.82
3	-20,226.29	35	12	23	34.29	1,512.32	-1,668.44	0.91	0.47	-577.89
2	-23,628.87	35	8	27	22.86	1,405.98	-1,291.73	1.09	0.32	-675.11
1	-30,407.30	35	9	26	25.71	473.47	-1,333.41	0.36	0.12	-868.78

**31 of 35 instances (88%) closed below the trigger day close within the next 2 days.**

Here it appears that the bearish influence may be strongest on Fridays.

A look at an equity graph suggests a slightly less ominous picture than the above stats.



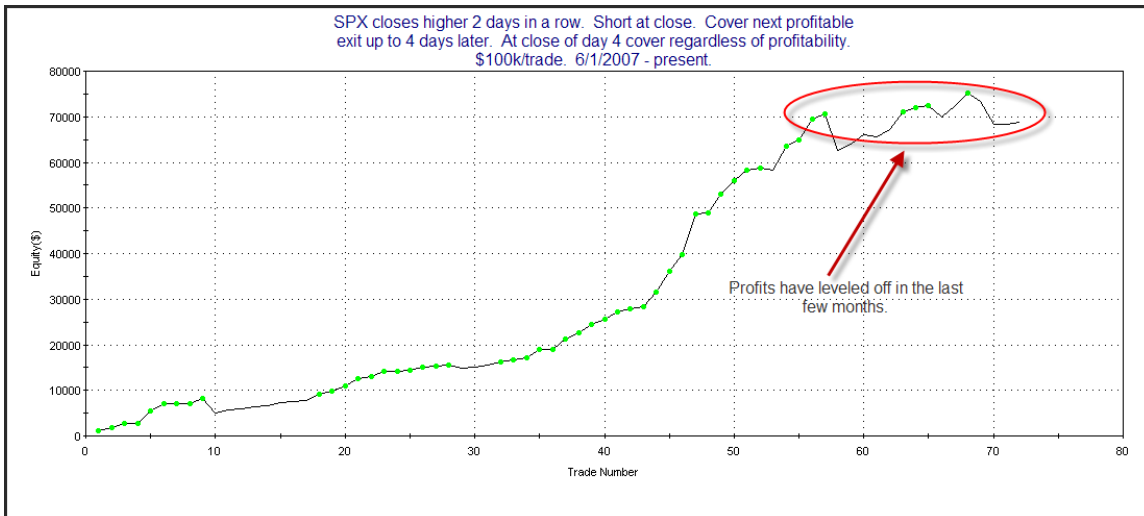
Even without factoring in the 3 trades in the fall of 2008 there is a downside bias. It just isn't as pronounced as it first appeared when looking at the stats table.

Friday being the 2<sup>nd</sup> day in a row with a higher close for the SPX triggered a "2 Days Up In Chop" short signal. Below I have updated stats for that system:

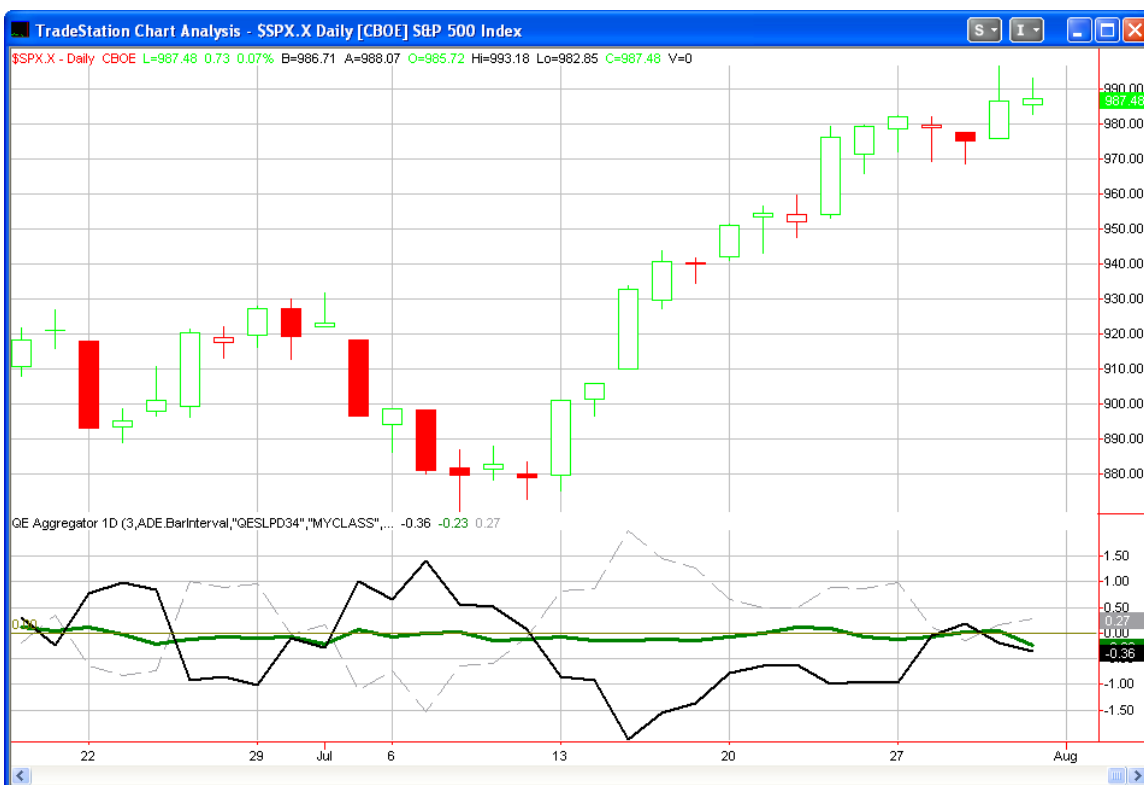
SPX closes higher 2 days in a row. Short at close. Cover next profitable close up to 4 days later. At close of day 4 cover regardless of profitability. \$100k/trade. 6/1/2007 - present.

TradeStation Performance Summary				Collapse
All Trades				
Total Net Profit	\$68,769.79	Profit Factor	4.08	
Gross Profit	\$91,100.73	Gross Loss	(\$22,330.94)	
Total Number of Trades	72	Percent Profitable	88.89%	
Winning Trades	64	Losing Trades	8	
Even Trades	0			
Avg. Trade Net Profit	\$955.14	Ratio Avg. Win:Avg. Loss	0.51	
Avg. Winning Trade	\$1,423.45	Avg. Losing Trade	(\$2,791.37)	
Largest Winning Trade	\$8,783.02	Largest Losing Trade	(\$7,832.88)	

Stats still appear quite favorable for shorts. Traders should keep in mind that the system has struggled to produce gains during the strong uptrend of the last few months. Below is an equity curve illustrating this.



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



With this weekend's studies now included the green Aggregator line has dropped substantially below 0 from Thursday night when it was poking just above it. This means the net expectation of the active studies is bearish over the next few days. Meanwhile the black Differential line is also below 0, illustrating the market has outperformed expectations over the last few days.

With both lines back below 0 zero we are again in a configuration that would often suggest a downside edge over the next few days. It would seem likely that the market will pull back at some point early this week.

Of course the 2<sup>nd</sup> half of July was an exercise in futility for short sellers. There was barely a pause as the market marched higher.

Will it be different this time? I don't know. Part of what suggested such strong bullishness was the breadth thrust signals from mid-July. While they were projected out 4 and 5 weeks both of them satisfied their Average Max Move targets this past week. With their targets achieved they are no longer among the Active Studies. Should the market continue to move higher it would be for reasons other than the breadth thrusts of 2 to 3 weeks ago.

This now leaves the Active Studies list with very little in the way of bullish studies. My inclination is that a short trade here stands a pretty good chance of succeeding over the short-term. I'll be looking to put some short-term short exposure back on early this week.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 8/3 – neutral***

The intermediate-term outlook remains muddled. On the one hand, momentum certainly favors the long side at the moment. The market has failed to pull back in any meaningful way in several weeks, while tacking on strong gains. On the other hand momentum appears to be slowing a bit, bearish signs remains, and there appears to be a lack of new catalysts.

On the bullish side of the ledger the Nasdaq/S&P 500 Lead/Lag system continues on its long signal. The Nasdaq's lead has shrunk a bit lately and some underperformance this week could see the indicator flip to bearish. It may be worth keeping an eye on this one. As has been demonstrated the last couple of weeks, momentum can be a difficult thing to fight. From a technical standpoint there is very little resistance in the S&P 500 for near 200 points (another 20% rise?) once 1000 is topped.

On the bearish side the VIX:VXV ratio is still suggesting a rise in volatility (and likely a tumble in stocks) is ahead. Also, the Nasdaq:NYSE volume ratio continues to suggest caution. We've already come a long way without much of a pause the last few months and at some point the market will correct – perhaps sharply.

It's a bit late to join the bullish parade and perhaps too early to start a bearish one. My focus will remain on the shorter time frames.

## **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 @ \$98.81 limit. Based on short-term market outlook. With the recent strong momentum I will not likely move past a ½ position in this trade.*

The S&P 100 list has 4 stocks triggering system 11111. I am not particularly excited about any of them primarily due to my negative short-term market outlook.

There are also several system triggers on the S&P 500 (minus the 100) list. This list is published to show some additional stocks with possible edges. I rarely use this list for sample trades in the subscriber letter.

### **Active Trades Table**

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	7/16/2009	\$93.15	\$98.65	-5.90%		covered on open
SPY(s)(1/4)	7/17/2009	\$94.25	\$98.65	-4.67%		covered on open
SPY(s)(1/4)	7/27/2009	\$98.30	\$99.25	-0.97%		intraday stop

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