

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 4, 2009

Volume 2 Issue 148

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				
August 4, 2009	3 mildly bearish studies	1-2 days	Bearish	
August 3, 2009	2 Days Up In Chop	1-4 days	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%
Active - Long Term				
August 4, 2009	75% Up Issues 2 of 3 Days	1-20 days	Bullish	4.80%
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				
August 3, 2009	SPX up VIX up on Friday	1 day	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 8/4 – bearish

Monday was another big day for the market, primarily due to a large gap open. The major indices all finished higher and were able to tack on some gains from the open – a rarity when the market is already trading at a high. Breadth, which has been so strong the last several weeks, was again lopsided to the positive side. The NYSE Up Issue % came in at 83% and the Up Volume % appears to have just missed the 90% level. Total volume declined for the 2nd day in a row, but was still about average.

One consistent positive this past month has been the strong breadth. Tonight again we saw another bullish breadth study appear on the Quantifinder. The study originally appeared in the 4/21/08 blog. I've updated the stats in the table below:

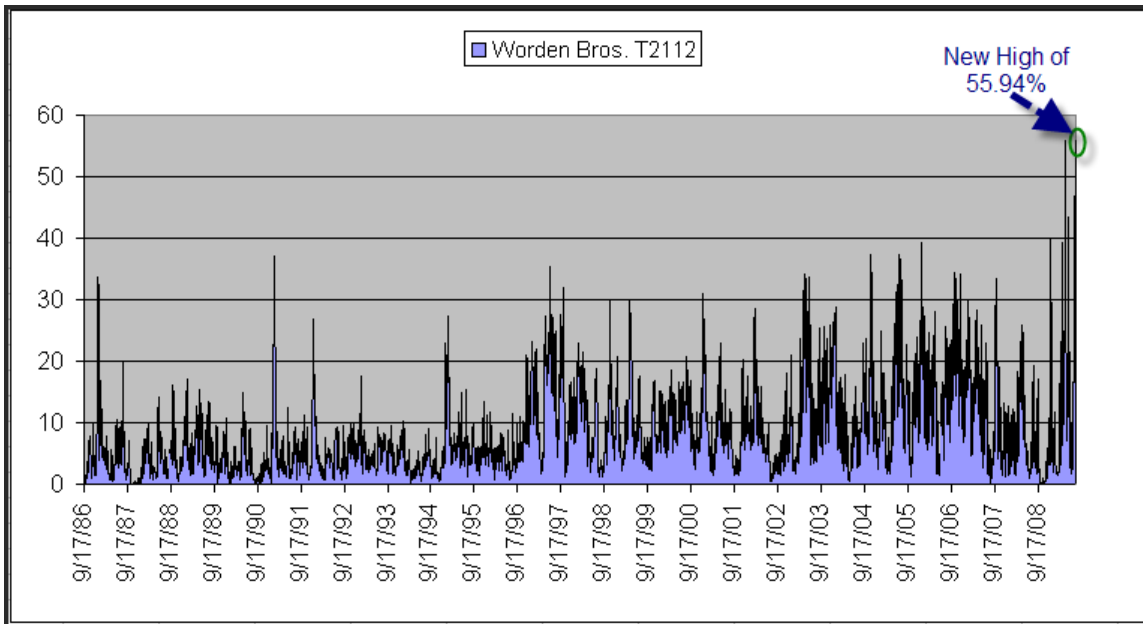
NYSE advance/decline ratio exceeds 3:1 today and either yesterday or the day before.
Buy on close. Sell X Days later. \$100k/trade. 1970-present.

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
30	99,099.42	37	24	13	64.86	5,991.58	-3,438.35	1.74	3.22	2,678.36
20	80,152.31	37	26	11	70.27	4,572.84	-3,521.96	1.30	3.07	2,166.28
15	51,327.95	41	25	16	60.98	4,050.52	-3,120.94	1.30	2.03	1,251.90
10	46,855.79	43	28	15	65.12	3,344.91	-3,120.12	1.07	2.00	1,089.67
9	43,727.39	43	28	15	65.12	3,369.55	-3,374.66	1.00	1.86	1,016.92
8	37,900.42	43	28	15	65.12	2,854.43	-2,801.58	1.02	1.90	881.41
7	34,574.45	43	27	16	62.79	2,946.15	-2,810.72	1.05	1.77	804.06
6	32,994.60	44	29	15	65.91	2,363.05	-2,368.93	1.00	1.93	749.88
5	28,718.04	45	28	17	62.22	2,233.40	-1,989.25	1.12	1.85	638.18
4	34,927.15	47	28	19	59.57	2,009.26	-1,122.75	1.79	2.64	743.13
3	27,736.96	49	31	18	63.27	1,939.01	-1,798.47	1.08	1.86	566.06
2	12,693.70	55	32	23	58.18	1,391.20	-1,383.69	1.01	1.40	230.79
1	20,879.48	61	37	23	60.66	972.81	-657.15	1.48	2.38	342.29

93% of instances closed above the trigger day close at some point within the next week.

While not as strong as the breadth signals we saw a few weeks ago, this still appears to be a squarely bullish study.

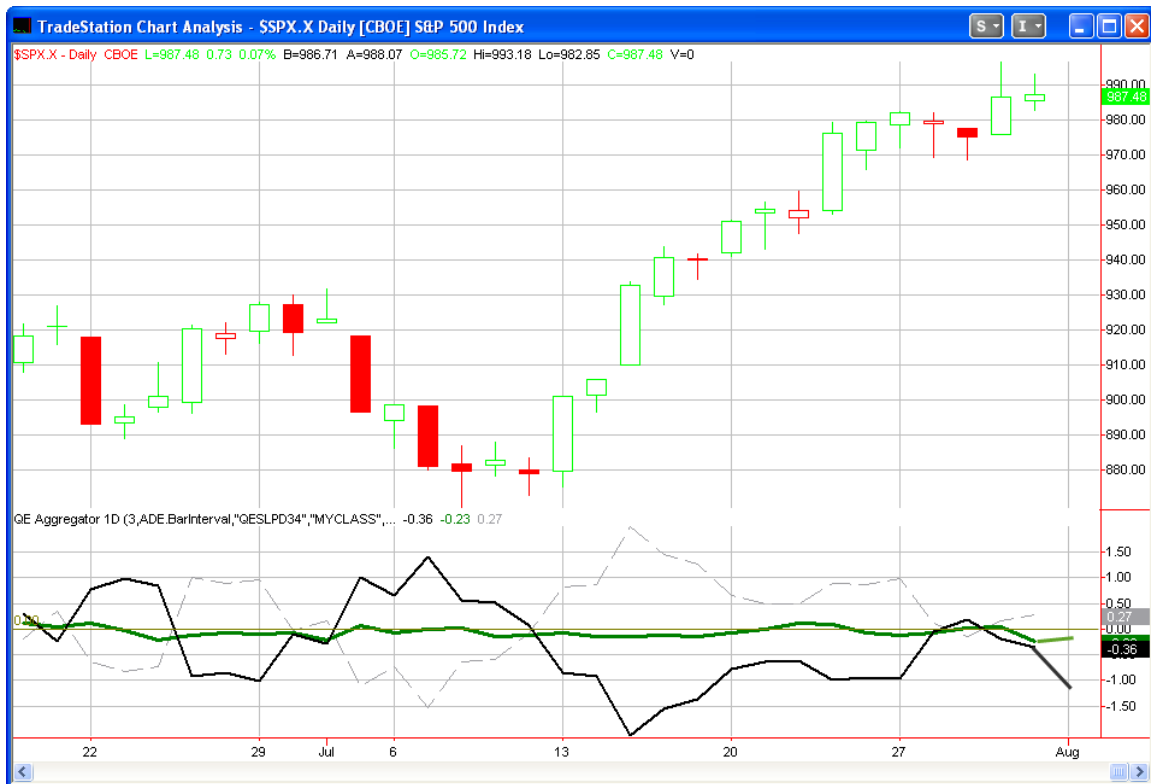
The issue with the extra-strong breadth we are currently seeing is that it may be getting a bit overdone. One indicator that is published by Worden Bros. measures the percentage of stocks closing at least 2 standard deviations above their 40-day moving average (T2112). In May this indicator hit a new all-time high. Following this the market pulled back for a few days and then consolidated. I mentioned the spike in this indicator [in the May 5th blog](#). It actually peaked on May 6th. On Monday it made a new high surpassing the record set in May. Below is an updated graph showing the full history back to 1986.



Spikes anywhere near what we are seeing now have been unsustainable in the past. This would seem to suggest a pullback is likely.

There were also some bearish studies shown in the Quantifinder tonight – though they were all fairly mild. These included “3 higher closes without increasing volume”, an unfilled gap to a new high above the 200ma, and a strong breadth on weak volume setup. Separately these studies provide mild edges. Together I might take them a little more seriously as a possible negative influence over the next couple of days.

The [Aggregator](#) chart is below. For some reason the Aggregator was giving me a terrible time again tonight and wouldn't import the data properly. This happened a couple of weeks ago also. Hopefully it will fix itself tomorrow as it did then. Between the intraday Quantifinder and the Aggregator I've got a lot to try and troubleshoot right now. To give you some idea of how it would look tonight I've drawn in line extensions showing where the data values currently are.



Tonight's positive breadth study gave a small boost to the green Aggregator line but it still remains squarely below zero, suggesting a negative bias from the studies over the next few days. Meanwhile the black Differential line is strongly below 0 illustrating the market has largely outperformed expectations over the last few days.

While the configuration and expectations are bearish that hasn't seemed to matter much lately. I'm going to tread lightly and will only add more short exposure tomorrow under the right circumstances.

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 @ \$101.25 LIMIT ON OPEN. IF not filled at open the order will be cancelled and I will look to fill it at \$101.25 LIMIT ON CLOSE. I will only take ¼ position total tomorrow – not both entries. If we get another gap up like Monday I'd be surprised to see it follow through – hence the possible entry on the open. Otherwise I'll be looking for the market to be even more stretched at the close tomorrow to add more exposure.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	8/3/09	\$99.85	\$100.44	-0.59%		

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2009 Hanna Capital Management, LLC.