

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 6, 2009

Volume 2 Issue 150

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 6, 2009	Equity p/c 25% below norm	1 day	Bearish	
August 3, 2009	2 Days Up In Chop	1-4 days	Bearish	
July 31, 2009	5 low to 10-high	1-5 days	Bearish	
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 4, 2009	3 mildly bearish studies	1-2 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 8/6 –slightly bearish

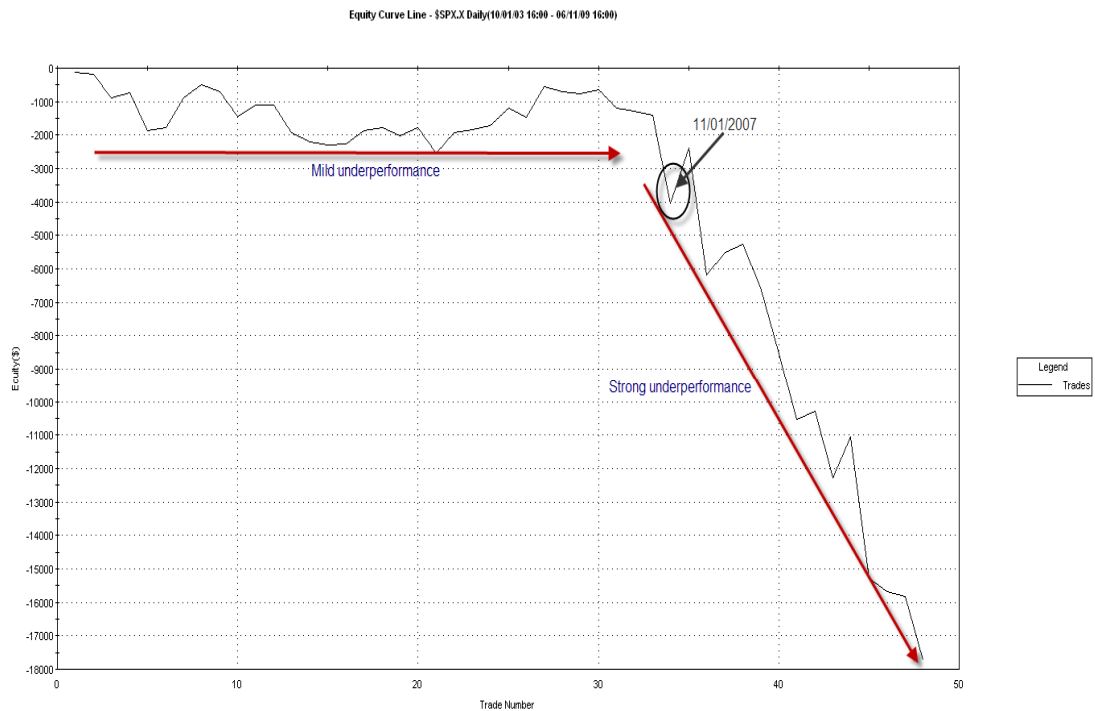
Wednesday looked like it might turn into a rout in the morning, but as has happened so many times recently an afternoon rally saved the day. The major indices did close lower, though, with the Nasdaq getting the worst of it on higher volume. Breadth was mixed. While the NYSE Up Issues % was 44%, the Up Volume % came in at a curiously strong 65%. Total volume came in at the highest level in over a month.

Although it seemed there was some notable price and volume action I found nothing too compelling with tests I ran in regards to it. The most compelling study is the one the Quantifinder identified today that looked at the equity put/call ratio. Below is an excerpt from the 6/12/09 Subscriber Letter that examined this study in more detail than the blog post (stats not updated):

When looking at put/call ratios I always normalize them with a long-term moving average. To understand why this is necessary you may review [this post from June of 2008](#). For today's study I normalized using the 200-day moving average. The Equity P/C Ratio today came in at 0.55, which is a little over 25% below the 200ma of 0.74. I then looked at all other times the Equity P/C came in more than 25% below its 200ma.

CBOE Equity Put/Call finishes more than 25% below its 200-day average. Buy SPX on close. Sell X days later. \$100k/trade 11/2004 - 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	9,682.10	31	17	14	54.84	1,555.27	-1,196.96	1.30	1.58	312.33	
4	9,010.80	33	20	13	60.61	1,350.96	-1,385.26	0.98	1.50	273.05	
3	4,662.03	38	21	17	55.26	1,316.35	-1,351.84	0.97	1.20	122.69	
2	-2,204.03	40	18	22	45.00	1,248.25	-1,121.48	1.11	0.91	-55.10	
1	-17,715.56	46	20	28	41.67	451.87	-955.46	0.47	0.34	-369.07	

As you can see in the above table, while there seem to be negative implications from such readings, they only last 1 day. Now let's take a deeper look at those 48 trades and see what the results looked like over time. (Chart from Tradestation.)



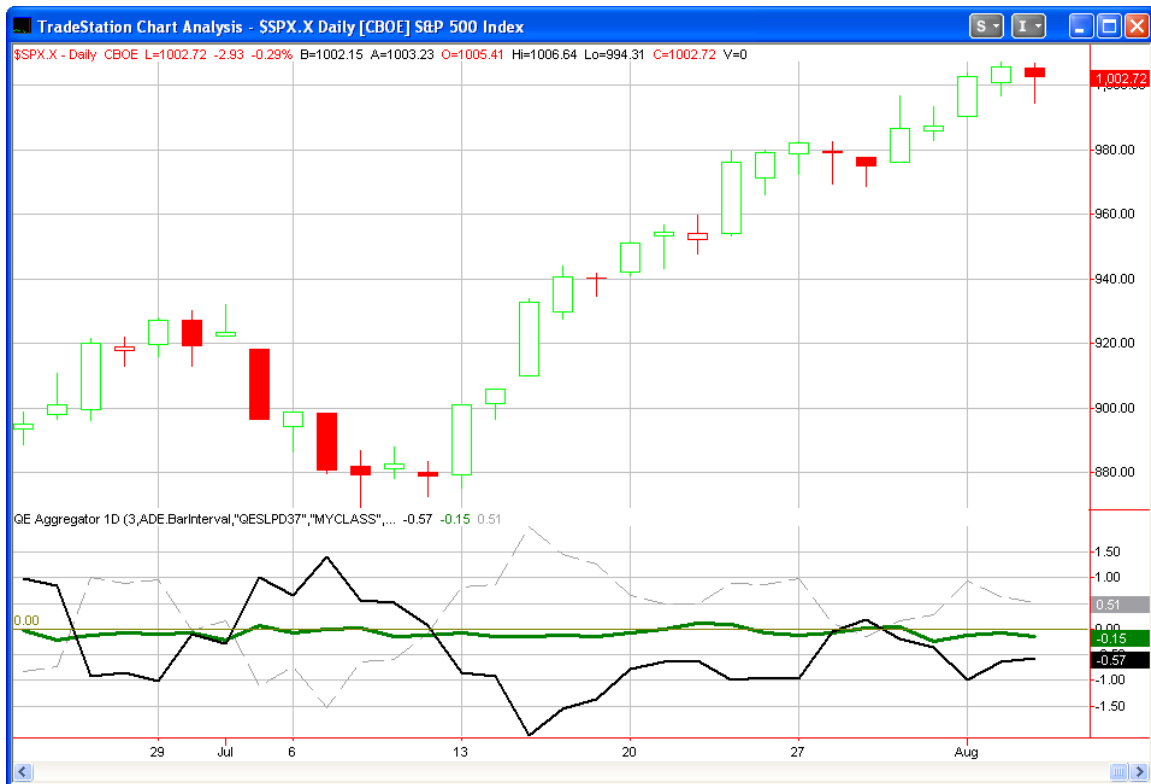
From 2004 until near the end of 2007 there wasn't much of an edge provided. From November 2007 – present though there has been a strong bearish tendency. Seeing this graph would make many people wonder whether the negative performance is primarily just a byproduct of a horrible bear market.

There's no way to answer this for sure. One thing we can do though is to see what performance has looked like since the March bottom. All qualifying trades are listed below:

Date	Signal	Price	% Gained	Runup/ Drawdown
03/10/09	Buy	\$719.60	0.24%	\$1,700.16
03/11/09	Sell	\$721.36		(\$793.50)
03/18/09	Buy	\$794.35	(1.30%)	\$1,111.25
03/19/09	Sell	\$784.04		(\$1,566.25)
03/19/09	Buy	\$784.04	(1.98%)	\$618.49
03/20/09	Sell	\$768.54		(\$2,265.68)
03/23/09	Buy	\$822.92	(2.01%)	\$88.33
03/24/09	Sell	\$806.34		(\$2,110.24)
04/09/09	Buy	\$856.56	0.25%	\$899.00
04/13/09	Sell	\$858.73		(\$1,300.36)
04/13/09	Buy	\$858.73	(2.01%)	\$0.00
04/14/09	Sell	\$841.50		(\$2,143.68)
04/14/09	Buy	\$841.50	1.25%	\$1,348.74
04/15/09	Sell	\$852.06		(\$698.56)
04/17/09	Buy	\$869.60	(4.28%)	\$0.00
04/20/09	Sell	\$832.39		(\$4,241.94)
05/04/09	Buy	\$907.24	(0.38%)	\$50.60
05/05/09	Sell	\$903.80		(\$1,089.00)
05/18/09	Buy	\$909.71	(0.17%)	\$728.12
05/19/09	Sell	\$908.13		(\$489.41)
05/26/09	Buy	\$910.33	(1.90%)	\$382.59
05/27/09	Sell	\$893.06		(\$2,012.14)
06/11/09	Buy	\$944.89	n/a	\$0.00
open	n/a	\$944.89		\$0.00

Even during the furious rally of the last 3 months low readings in the Equity P/C Ratio have been followed by strongly negative action. This leads me to conclude that the CBOE Equity P/C Ratio may provide a short-term edge and its suggesting downside for Friday's trading.

The [Aggregator](#) chart magically worked tonight. It is below.



The Aggregator chart is much as it has been the last couple of days. The green Aggregator line is squarely below 0, illustrating the net bearish expectation from the active studies. The black Differential line is also below 0 as the market has strongly outperformed expectations over the last few days. In other words, the configuration remains bearish as the market is overbought and the expectations are negative.

I'm trading a bit lightly here, and failed to get fills on the SPY trade ideas the last couple of days. I'm not going to look to add more exposure tomorrow. Should the SPX close down tomorrow I'll be looking to cover the SPY position. For one a close below 1000 would likely move the Differential line back above 0. Also, it would trigger a "2 Days Down In Chop" formation, which have done quite well lately.

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.

INTC – buy at \$18.86 limit ON CLOSE. – system 11111

TGT – buy at \$41.80 limit ON CLOSE. – system 11111

While system 11111 calls for an open purchase order, tomorrow's market outlook is bearish. Should the market actually follow through on that we may be able to get into one or both of the above positions at a nice price just as the market outlook begins to shift positive.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	8/3/2009	\$99.85	\$100.41	-0.56%		

SPY cover at \$100.40 limit ON CLOSE.

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