

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 10, 2009

Volume 2 Issue 151

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 10, 2009	NDX up 1% Sox Down	1-6 days	Bearish	
August 10, 2009	S&P Up 1% and UUP up 0.5%	1-6 days	Bearish	-5.30%
August 10, 2009	CBOE Equity P/C < 75% of 200ma	1 day	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	
Dropped Tonight				
August 7, 2009	2 Days Down In Chop	1-3 days	Bullish	
June 1, 2009	Nasdaq Relative Strength Leading		Bullish	

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 8/10 – neutral

Positive employment news helped to spark a gap higher and the markets momentum added to the gains throughout much of the day Friday. While there was a bit of a late-day fade, the S&P, Dow and Nasdaq all closed up around 1.3%. The Russell 2000 showed some relative strength by close 2.65% higher. Breadth was strong as the NYSE Up Issue % came in at 77% and the Up Volume % at 79%. Total volume rose from Thursday's levels and was well above average.

Odd about Friday is that while the general market was strong we saw some areas that acted counter to what has been bullish in the past. One example of this is the semiconductors (SOX). In January I looked at times the NDX rose at least 1% while the SOX fell on the day. What I failed to notice at the time was how that edge has evolved over time. During the late 90's it was very difficult finding a bearish Nasdaq edge. This was the case here as well. Since 2000 the setup has proven extremely bearish. Below are up to date results shown over this time period:

NDX rises at least 1% while SOX closes down on the day.
Buy NDX at 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
10	-87,387.40	35	12	23	34.29	5,661.20	-6,753.12	0.84	0.44	-2,496.78
9	-77,079.26	35	11	24	31.43	5,928.26	-5,928.75	1.00	0.46	-2,202.26
8	-73,158.93	36	10	26	27.78	6,678.09	-5,382.30	1.24	0.48	-2,032.19
7	-83,070.57	37	8	29	21.62	8,912.40	-5,323.10	1.67	0.46	-2,245.15
6	-107,162.38	37	8	29	21.62	8,031.79	-5,910.92	1.36	0.37	-2,896.28
5	-76,065.17	38	13	25	34.21	4,434.63	-5,348.62	0.83	0.43	-2,001.72
4	-47,992.89	38	17	21	44.74	3,368.62	-5,012.35	0.67	0.54	-1,262.97
3	-29,123.45	39	15	24	38.46	4,938.05	-4,299.76	1.15	0.72	-746.76
2	-3,268.07	41	19	22	46.34	3,704.41	-3,347.81	1.11	0.96	-79.71
1	-3,576.02	43	19	24	44.19	2,987.98	-2,514.49	1.19	0.94	-83.16

78% losers and an average decline of 3% over the next 6 days appears to be substantial.

Another oddity on Friday was the fact that while the S&P put in a strong performance, the dollar did also. I noted in June the strong inverse correlation that the S&P and the dollar have had over the last year and a half or so. It's been quite unusual to see them both do well on the same day – especially to the degree we saw on Friday. I looked back at all the times since the beginning of 2008 where the SPX and UUP (the dollar bullish ETF) rose at least 1% on the day. Results are below.

SPX rises 1% while UUP (dollar bullish ETF) also rises 1%.
Buy SPX on close. Sell X Days later. \$100k/trade. 2008 - 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
8	-43,819.66	8	1	7	12.50	110.88	-6,275.79	0.02	0.00	-5,477.46
7	-32,329.64	8	1	7	12.50	2,466.24	-4,970.84	0.50	0.07	-4,041.21
6	-28,067.09	8	0	8	0.00	0.00	-3,508.39	0.00	0.00	-3,508.39
5	-25,317.96	8	2	6	25.00	463.52	-4,374.17	0.11	0.04	-3,164.75
4	-16,078.66	8	3	5	37.50	831.27	-3,714.49	0.22	0.13	-2,009.83
3	-10,247.77	9	3	6	33.33	1,619.86	-2,517.89	0.64	0.32	-1,138.64
2	-9,697.85	9	2	7	22.22	2,785.63	-2,181.30	1.28	0.36	-1,077.54
1	-6,532.84	10	4	6	40.00	852.22	-1,656.95	0.51	0.34	-653.28

While instances are low, these results certainly seem to suggest a bearish edge. Listed below are all the instances using a 6-day exit.

SPX rises 1% while UUP (dollar bullish ETF) also rises 1%.
Buy SPX on close. Sell 6 Days later. \$100k/trade. 2008 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
03/18/08	Buy	\$1,330.71	(0.37%)	\$2,172.75
03/27/08	Sell	\$1,325.77		(\$2,661.75)
04/01/08	Buy	\$1,370.15	(1.14%)	\$1,194.48
04/09/08	Sell	\$1,354.49		(\$1,452.96)
08/08/08	Buy	\$1,296.31	(1.36%)	\$1,296.68
08/18/08	Sell	\$1,278.64		(\$1,678.60)
08/22/08	Buy	\$1,292.18	(1.13%)	\$836.22
09/02/08	Sell	\$1,277.56		(\$2,230.69)
09/16/08	Buy	\$1,213.57	(2.27%)	\$4,227.10
09/24/08	Sell	\$1,186.02		(\$6,565.74)
09/30/08	Buy	\$1,166.36	(15.55%)	\$56.95
10/08/08	Sell	\$984.94		(\$16,608.15)
10/31/08	Buy	\$968.75	(5.11%)	\$3,992.28
11/10/08	Sell	\$919.21		(\$7,108.03)
11/26/08	Buy	\$887.68	(1.31%)	\$959.84
12/05/08	Sell	\$876.07		(\$8,062.88)
08/07/09 open	Buy n/a	\$1,010.48 \$1,010.48	n/a	\$0.00 \$0.00

To try and get a few more instances included in the results I also loosened the criteria to only require a 0.5% rise in UUP.

SPX rises 1% while UUP (dollar bullish ETF) rises 0.5%.
Buy SPX on close. Sell X Days later. \$100k/trade. 2008 - 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
8	-67,176.70	17	4	13	23.53	1,193.38	-5,534.63	0.22	0.07	-3,951.57
7	-61,782.18	18	6	12	33.33	1,193.87	-5,745.45	0.21	0.10	-3,432.34
6	-57,820.75	19	4	15	21.05	557.63	-4,003.42	0.14	0.04	-3,043.20
5	-46,457.34	20	6	14	30.00	721.40	-3,627.55	0.20	0.09	-2,322.87
4	-43,381.99	20	4	16	20.00	1,018.46	-2,965.99	0.34	0.09	-2,169.10
3	-23,882.68	22	7	15	31.82	1,110.84	-2,110.57	0.53	0.25	-1,085.58
2	-26,828.18	23	7	16	30.43	1,581.81	-2,368.80	0.67	0.29	-1,166.44
1	-11,717.14	24	11	13	45.83	801.98	-1,579.92	0.51	0.43	-488.21

Still looks substantially bearish.

Based on the NDX/SOX and the S&P/\$\$ studies above it would appear that either there may be a fairly strong downside edge emerging or a decoupling of these relationships is about to happen.

One other notable from Friday was the extremely low reading in the CBOE Equity Put/Call Ratio. It closed at 0.49 – more than 31% below its 200-day moving average. In

June I looked in detail at other times the Equity Put/Call closed more than 25% below its 200ma. It suggested a bearish edge for the following day has existed since the end of 2007. Concerned that the results were just a byproduct of a bear market I also showed all of the trades since the March low. Below I've updated that list with some additional observations.

CBOE Equity Put/Call closes 25% below its 200-day ma. Buy SPX on close. Sell next day's close. \$100k/trade.				
Date/Time	Signal	Price	% Profit	Run-up 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	0.14%	\$148.05
06/12/09	Sell	\$946.21		(\$969.15)
07/27/09	Buy	\$982.18	(0.26%)	\$17.17
07/28/09	Sell	\$979.62		(\$1,295.83)
07/30/09	Buy	\$986.75	0.07%	\$649.43
07/31/09	Sell	\$987.48		(\$393.90)
08/05/09	Buy	\$1,002.72	(0.56%)	\$516.78
08/06/09	Sell	\$997.08		(\$1,012.77)
08/07/09	Buy	\$1,010.48	n/a	\$0.00
open	n/a	\$1,010.48		\$0.00

The far right hand column shows the intraday runup/drawdown. I've circled in green the -\$393.90 result from July 31st. Since the trades are based on \$100,000 each, \$393.90 represents a move of about 0.4%. What you'll notice when looking at the list is that the 0.4% drop that day was the smallest intraday drop of any of the 15 instances listed since March 10th. In red I have circled every instance where the intraday runup the next day was less than 0.4%. As you can see of the 15 instances, 7 of them had an intraday runup

of less than 0.4%. This is all during a huge rally off the March lows. As with the tests above this would also seem to suggest a sizable downside edge for tomorrow.

One edge I looked at in great detail last year was the concept of Friday-Monday follow through. We found that when trading below the 200ma moves on Friday's tend to provide a decent edge to follow through on Monday. Unfortunately this edge has not played out when the market is in a long-term uptrend. Below are the results for all strong Fridays since 1990 while the SPX is above its 200ma..

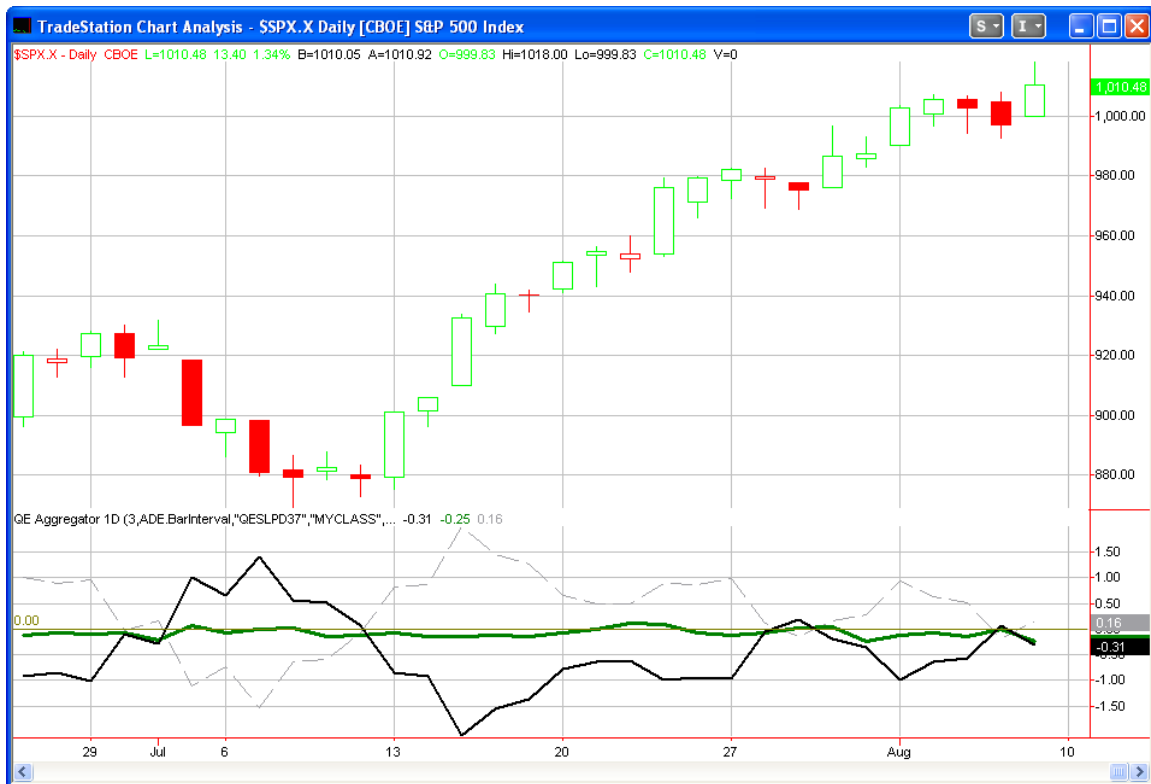
Friday closes up at least X% and above the 200ma. Buy on close. Sell next day's close. \$100k/trade. 1990-present.										
QE Friday pop: pctup	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
1.50	-2,248.84	25	11	14	44.00	719.19	-725.71	0.99	0.78	-89.95
1.25	2,493.66	40	22	18	55.00	597.91	-592.24	1.01	1.23	62.34
1.00	8,486.95	71	37	34	52.11	734.31	-549.48	1.34	1.45	119.53
0.75	26,523.16	110	63	47	57.27	770.84	-468.93	1.64	2.20	241.12
0.50	37,805.69	172	100	72	58.14	709.22	-459.95	1.54	2.14	219.80
0.25	35,898.78	257	148	109	57.59	633.57	-530.92	1.19	1.62	139.68
0.00	35,140.26	373	205	168	54.96	617.74	-544.62	1.13	1.38	94.21

Once the move got over 0.75% it appears mean reversion was more favored than follow through. I also looked at instances where it was the 1st Friday of the month.

1st Friday of the month closes up at least X% and above the 200ma. Buy on close. Sell next day's close. \$100k/trade. 1990-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
1.00	781.84	27	11	16	40.74	693.24	-427.74	1.62	1.11	28.96
0.75	4,168.36	39	19	20	48.72	639.59	-399.19	1.60	1.52	106.88
0.50	9,805.56	51	28	23	54.90	699.88	-425.70	1.64	2.00	192.27
0.25	15,649.43	65	40	25	61.54	647.01	-409.23	1.58	2.53	240.76
0.00	11,587.17	87	48	39	55.17	587.88	-426.44	1.38	1.70	133.19

Results are similar here. Strong moves on Friday's don't have the same tendency to follow through when the market is in an uptrend as when it is in a downtrend.

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



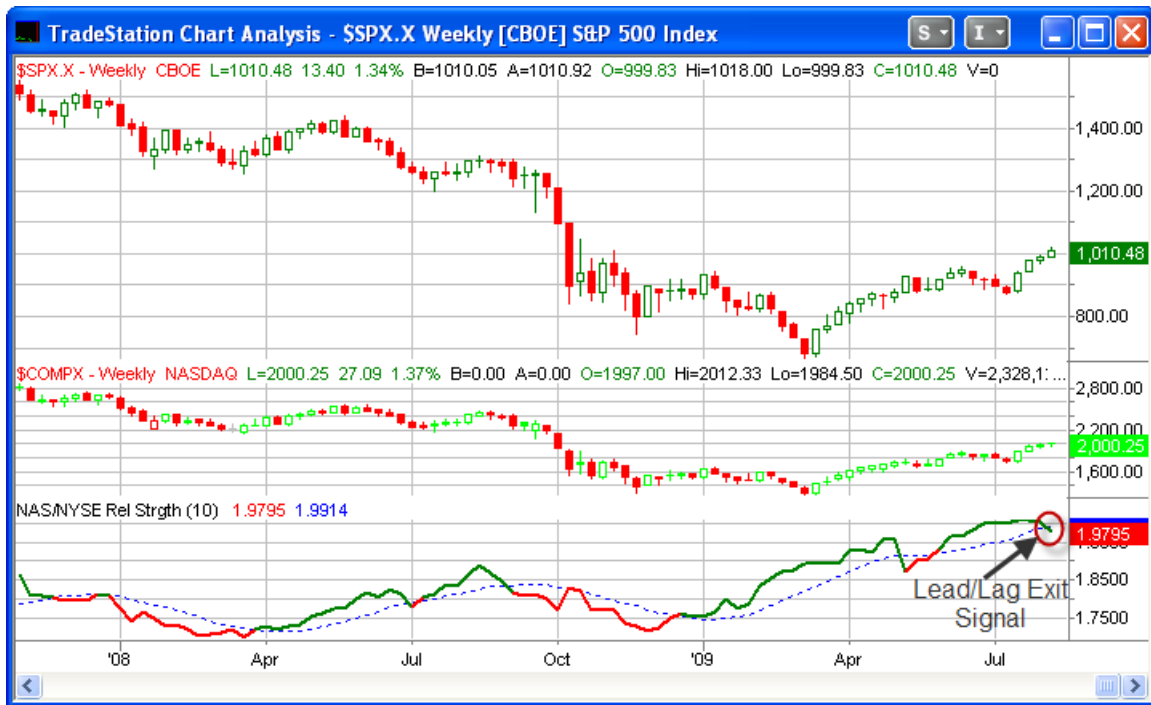
With the strongly bearish results of tonight's studies the green Aggregator line has dropped sharply. The black differential line has also dropped sharply as the S&P rose strongly on Friday. Both lines squarely below 0 means the studies have a net negative expectation and the market is overbought vs. recent expectations. This is generally a bearish configuration although the last few weeks the market has exhibited unique strength and ignored such bearish inclinations.

So again it is a case of upside momentum vs. bearish indicators. In the face of such bearish indications I'd be very wary of attempting long trades – at least until there is a pullback. Aggressive traders may consider starting a short position with the understanding that shorting has been a difficult proposition and even when the market has pulled back recently it hasn't pulled back enough to really make it worth it.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/10 – neutral

On the intermediate-term front the Nasdaq/S&P Lead/Lag Model has flipped this week. This is the 1st time since late May that the Nasdaq has not been in the bullish leading position. Note that this is not a bearish indication, but rather a neutral position. The market has struggled to do much more than breakeven over the years when the Nasdaq has lagged but it hasn't necessarily signals selloffs.

Below is a copy of the chart from the website.



As has been the case recently the intermediate-term outlook is based on a showdown of positive breadth and momentum versus the negative influences of excess and overbought measures. The VIX:VXV ratio and the Nasdaq to NYSE volume ratio studies remain on the bearish long-term active list. At some point all the bearish studies will matter and the market will falter. Trying to pick a turning point here without confirmation does not seem like a wise endeavor.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

INTC @ \$18.50 (1/3)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(INTC)

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	0.00	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	2.70	DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.00
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	1.42
DJ US Pharmaceuticals	IHE	2.86	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	1.08
DJ US Home Construction	ITB	4.17	DJ US Telecommunications	IYZ	6.06
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	3.00

There's actually a little bit of action in the Catapults as some strong pullbacks have taken place.

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 1/4 index position @ \$101.20 limit. Based on the short-term market outlook. This is for aggressive traders only.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/L	Stop	Notes
INTC	8/6/2009	\$18.70	\$18.50	-1.07%		
TGT	8/6/2009	\$41.71	\$42.93	2.92%		sold on close

INTC triggered an odd looking Catapult trade today. On Friday INTC suffered along with the SOX while the rest of the market rose. I ran the NDX up 1% and SOX down study to see how the SOX reacted after such instances. As you might expect from the NDX performance data, the SOX also performed poorly. Only 55% of instances even managed a close above the trigger day close at some point within the next 3 days. Catapults have an excellent track record and the Subscriber Letter has done very well with them over the last year and a half. The biggest advantage exists when they occur in clusters, though. INTC is a one-off. This doesn't mean it won't succeed, but the edge simply isn't as large. Between the negative market outlook and the poor action in the SOX, I'd prefer to look for an exit here. Should we get some additional selling and more Catapult triggers in this stock, then I'll consider stepping back into it at a lower level.

Since it has already triggered a Catapult trade I am not interested in selling into a gap down. I will place a stop at \$18.49 as long as INTC opens above there.

Should it gap up to \$18.75 or higher I will sell on open.

Should it gap down I will place a sell limit order at \$18.45. If not hit in the 1st half hour I may place a stop below that level.

If none of the stop or limit orders are hit in the morning I will likely look to trail a stop as the day progresses.

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