

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 12, 2009

Volume 2 Issue 153

## 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 12, 2009	RSI(2) < 20 pre-Fed day	1 day	Bullish	
August 12, 2009	2 Days Down In Chop	1-3 days	Bullish	
August 12, 2009	1% Drop & Advances/Decline > 2	1-20 days	Bullish	4.80%
August 11, 2009	SPY low vol 20 while > 10ma	1-5 days	Bearish	-2.10%
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%
<b>Active - Long Term</b>				
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	

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 8/12 – neutral***

Tuesday seemed like the 1<sup>st</sup> day of consistent selling that the market has experienced in a long time. It even ended with a late-hour fade rather than a rally. Breadth numbers were the weakest in over a month. The NYSE Up Issues % came in at 26% and the Up Volume % was 19%. Total volume rose but still came in below average.

One of the studies from the Quantifinder tonight looked at 1% drops on weak breadth. I've copied and pasted that study below from the 5/12/09 Subscriber Letter:

***SPX drops 1% and decliners more than double advancers. Yesterday the SPX did NOT close at a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. From 10/20/87 – present.***

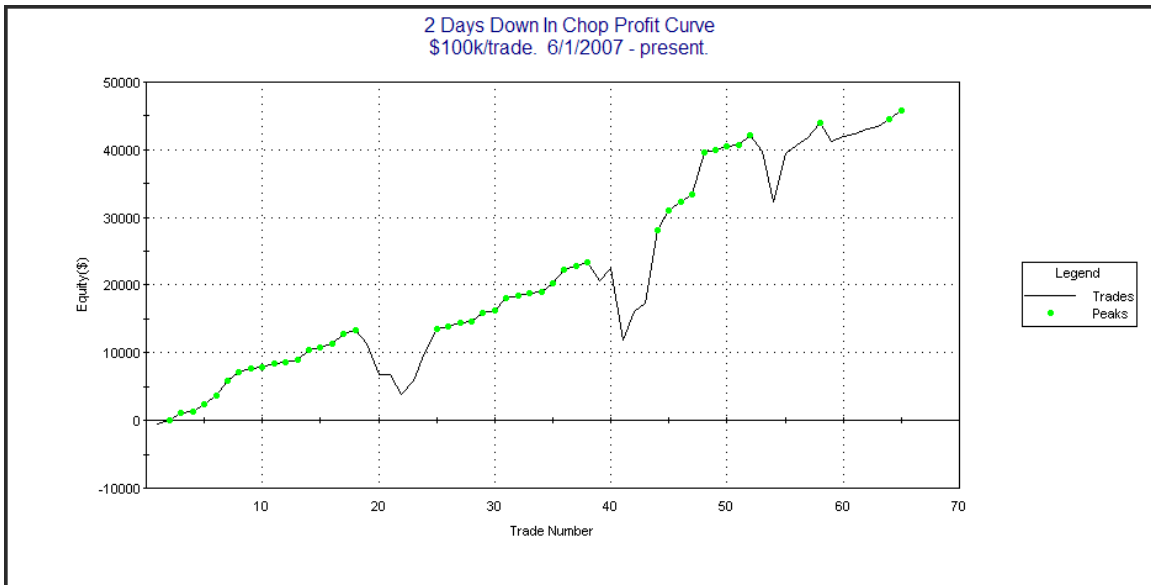
QE bad breadth pullb: daysin	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	206,671.42	217	141	76	64.98	2,928.93	-2,714.57	1.08	2.00	952.40
9	241,653.31	225	157	68	69.78	2,760.53	-2,819.86	0.98	2.26	1,074.01
8	209,396.43	237	155	81	65.40	2,752.59	-2,682.15	1.03	1.96	883.53
7	213,644.30	254	157	97	61.81	2,675.58	-2,128.06	1.26	2.03	841.12
6	198,827.77	269	168	101	62.45	2,541.39	-2,258.68	1.13	1.87	739.14
5	189,551.97	290	177	113	61.03	2,326.72	-1,967.06	1.18	1.85	653.63
4	137,226.48	308	181	127	58.77	2,109.98	-1,926.61	1.10	1.56	445.54
3	140,714.83	338	208	130	61.54	1,826.33	-1,839.71	0.99	1.59	416.32
2	143,263.80	384	217	167	56.51	1,758.36	-1,426.95	1.23	1.60	373.08
1	97,848.15	431	254	177	58.93	1,161.60	-1,114.12	1.04	1.50	227.03

There seems to be a clear bullish edge here – though it isn't overwhelming.

I also mentioned in today's intraday email update that the "2 Days Down In Chop" system was likely to trigger. It did. Below I've updated stats for that system.

SPX closes lower 2 days in a row. Buy on close. Sell next profitable close up to 3 days later. Sell the 3rd days close regardless of profitability. \$100k/trade. 6/1/2007 - present			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$45,892.94	Profit Factor	2.27
Gross Profit	\$81,994.50	Gross Loss	(\$36,101.56)
Total Number of Trades	65	Percent Profitable	86.15%
Winning Trades	56	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$706.05	Ratio Avg. Win:Avg. Loss	0.37
Avg. Winning Trade	\$1,464.19	Avg. Losing Trade	(\$4,011.28)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$10,506.45)

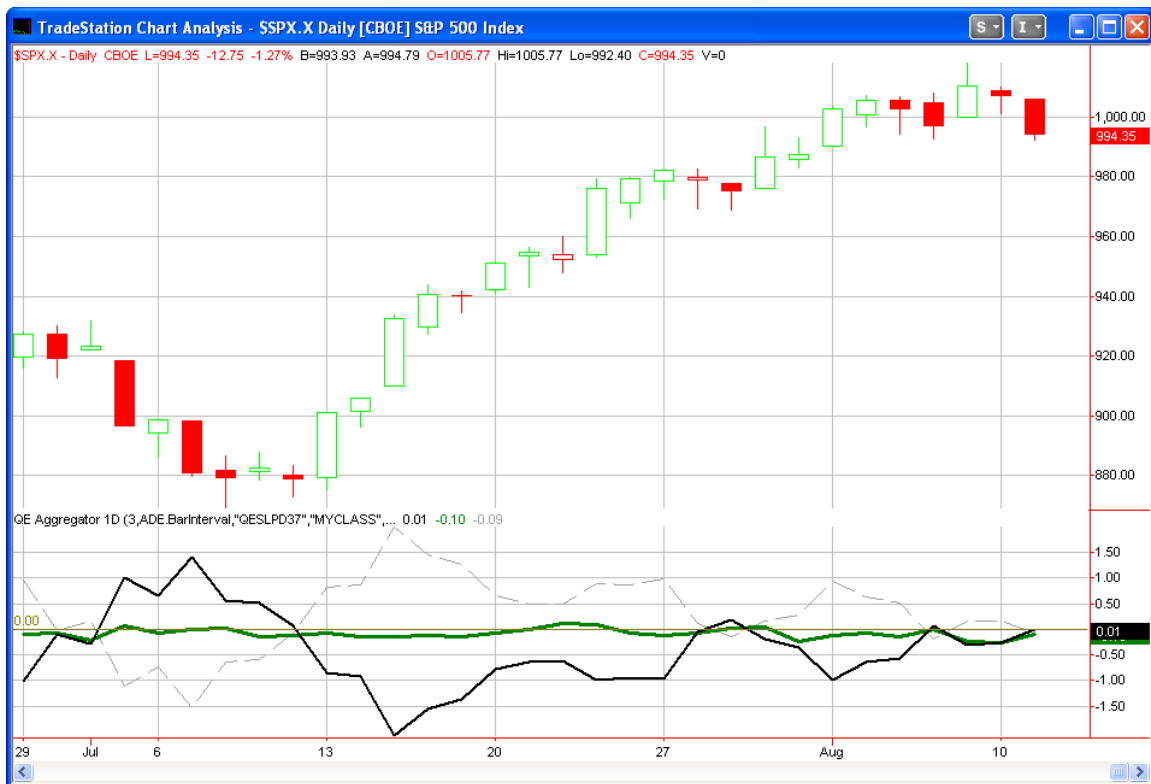
As they've been since I first began tracking the system nearly a year ago, the stats remain impressive. Below is an updated profit curve. The system is currently hitting new highs.



Tomorrow is a Fed day. The with the 2-day RSI of the SPX just below 20 the market qualifies for the Fed study posted below from the 8/5/2008 blog.

<http://quantifiableedges.blogspot.com/2008/08/when-s-is-oversold-going-into-fed-day.html>

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



The fact that some of the bearish studies from the weekend are so strong is keeping tonight's bullish studies from flipping the Aggregator to the positive. While some of their influence has already been exhausted, none of them has yet to reach their target, and therefore they remain on the active list. So the net expectation as illustrated by the green Aggregator line remains slightly bearish. Meanwhile, today's selloff brought the black Differential line to just a chin-hair above zero. This means the market has basically performed as expected over the last few days.

We're at one of those points where my opinion is a bit at odds with the Aggregator. Personally, I feel risk/reward favors the long side here, especially with the Fed meeting looming tomorrow. I'm glad to have gotten off the short at Tuesday's close and even considered taking some long index exposure.

At the same time the market has gone a long time without a sizable pullback, so it could certainly happen at any time. It could also drop a long way before finding any meaningful support. So I'll hold of on an index position for now.

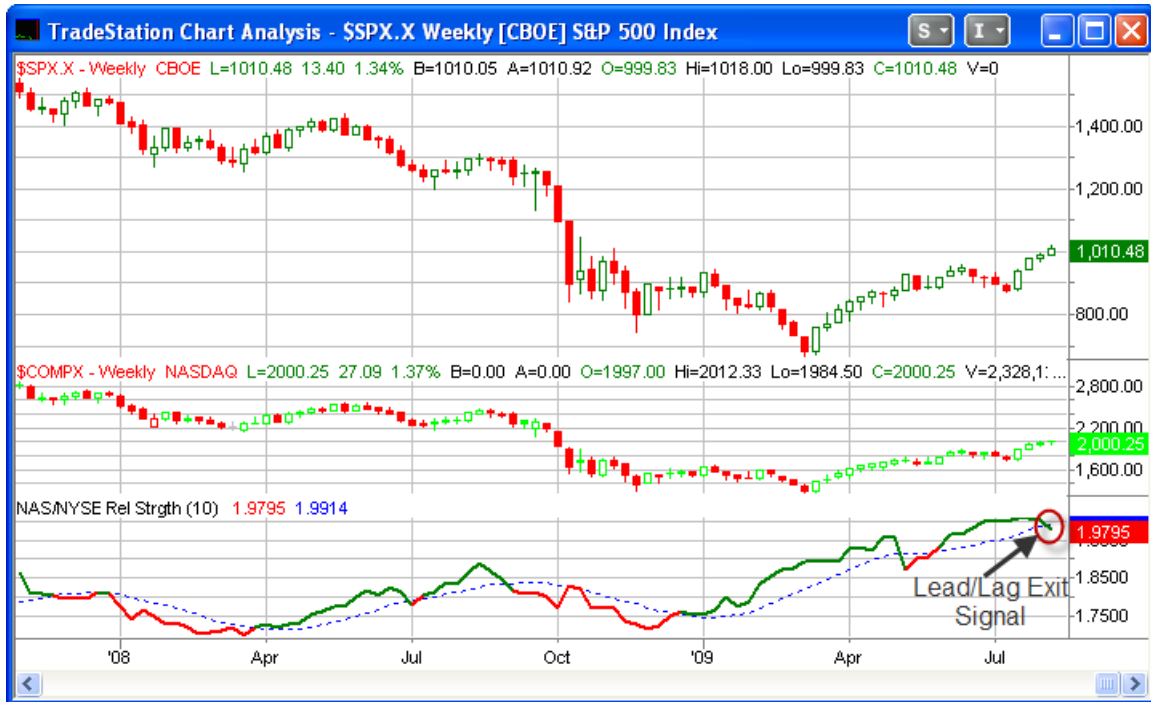
There are several long-side setups listed on the triggers page this evening and I've chosen 2 from the ETF list to highlight as trade ideas below.

***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 1<sup>st</sup> 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.)**

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
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	2.13
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	2.16
DJ US Home Construction	ITB	4.17	DJ US Telecommunications	IYZ	6.06
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	4.00

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.*

*IBB – buy @ \$76.50 limit. Based on system 90609, which tries to jump aboard an uptrend that is pulling back and ride it for a while. Should the market rally last a bit longer this one could be a nice play.*

*EWA – buy @ \$19.08 limit. If filled, a stop will be place at \$18.85. Based on system 11111. 11111 also looks for pullbacks, but is more of a quick hit than 90609. The stop is just under the recent swing low. I like this particular setup because of the ability to place a relatively tight support-based stop. It helps to skew risk/reward nicely.*

### **Active Trades Table**

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
INTC	8/6/2009	\$18.70	\$18.64	-0.32%	\$18.49	
SPY(1/4)(s)	8/10/2009	\$101.20	\$100.36	0.83%		avg cover price shown

INTC stop remains in place. Still shouldn't have to close much higher to trigger the 11111 exit signal tomorrow.

The 2<sup>nd</sup> part of the SPY position was exited at the close today as outlined in the intraday update to subscribers.

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