

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 13, 2009

Volume 2 Issue 154

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	Avg MM + 1/2 Std Dev
Active					
August 12, 2009	1% Drop & Advances/Decline > 2	1-9 days	Bullish	2.40%	
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%	
Active - Long Term					
August 4, 2009	75% Up Issues 2 of 3 Days	1-20 days	Bullish	4.80%	
July 14, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish		
Dropped Tonight					
August 12, 2009	RSI(2) < 20 pre-Fed day	1 day	Bullish		
August 12, 2009	2 Days Down In Chop	1-3 days	Bullish		
July 14, 2009	VIX:VXV hits 100-day low	1-20 days	Bearish	-3.80%	-5.50%
July 13, 2009	Nasdaq/NYSE Volume High	1-20 days	Bearish		

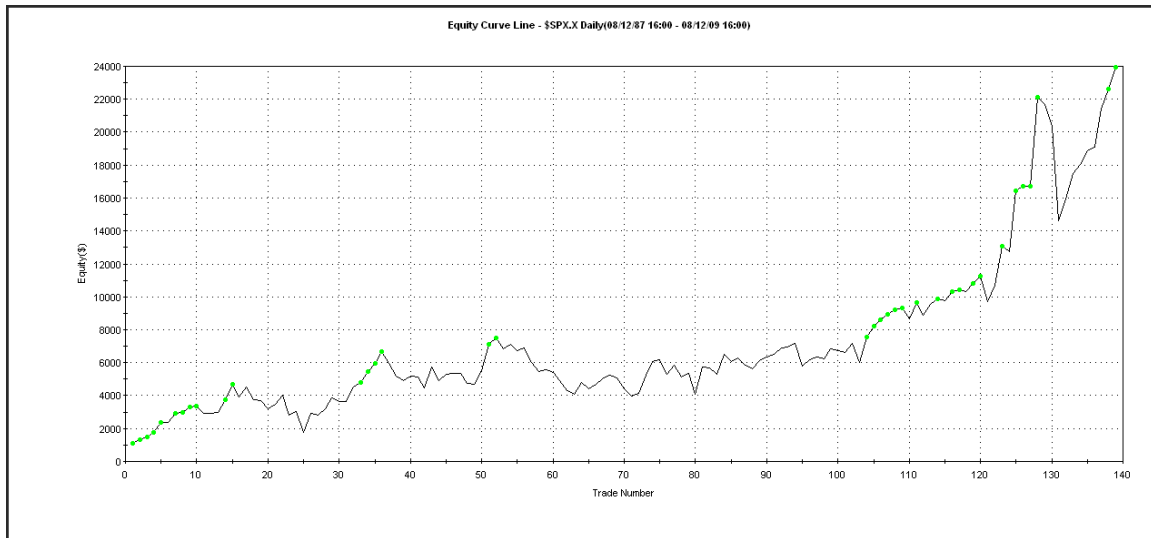
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active. With the reduced market volatility I am no longer requiring a move of Avg max + 1/2 Std Dev. To reach the target.

Short-term Outlook (1-5 days) – updated 8/13 – neutral

The S&P rallied over 1% this morning in anticipation of the Fed meeting. After the announcement there was a brief fade followed by a sharp rally that took it up almost 2%. Then in the last 15 minutes of the day there was a quick tank job that gave up the while post-announcement rally. It still closed up over 1% for the day. Breadth was strongly positive with the NYSE Up Issues % at 70% and the Up Volume % at 80%. Total volume came in slightly higher than Tuesday but still below average.

Strong moves on a Fed day typically get reversed in the following days. I pointed this out via Twitter this afternoon with two old studies. The one that actually triggered was [this one that looks at Fed meeting days where the market closes up at least 1%](#). But can we really call Wednesday a Fed rally when the market closed below the level it was at when the announcement was made? Using SPY as a proxy I looked for other times it managed to close up over 1% but below its 2pm price. There was only one other instance that I could find, which was on April 29th of this year. One instance isn't going to tell us anything but for those who are curious the next day it closed flat and then it rallied sharply for a few days after that. The point I'm making here is that although the market rose on a Fed day, the rally is unique in that it happened before the announcement. Therefore I'm inclined to treat it as a unique situation rather than lump it in with the old study from the blog.

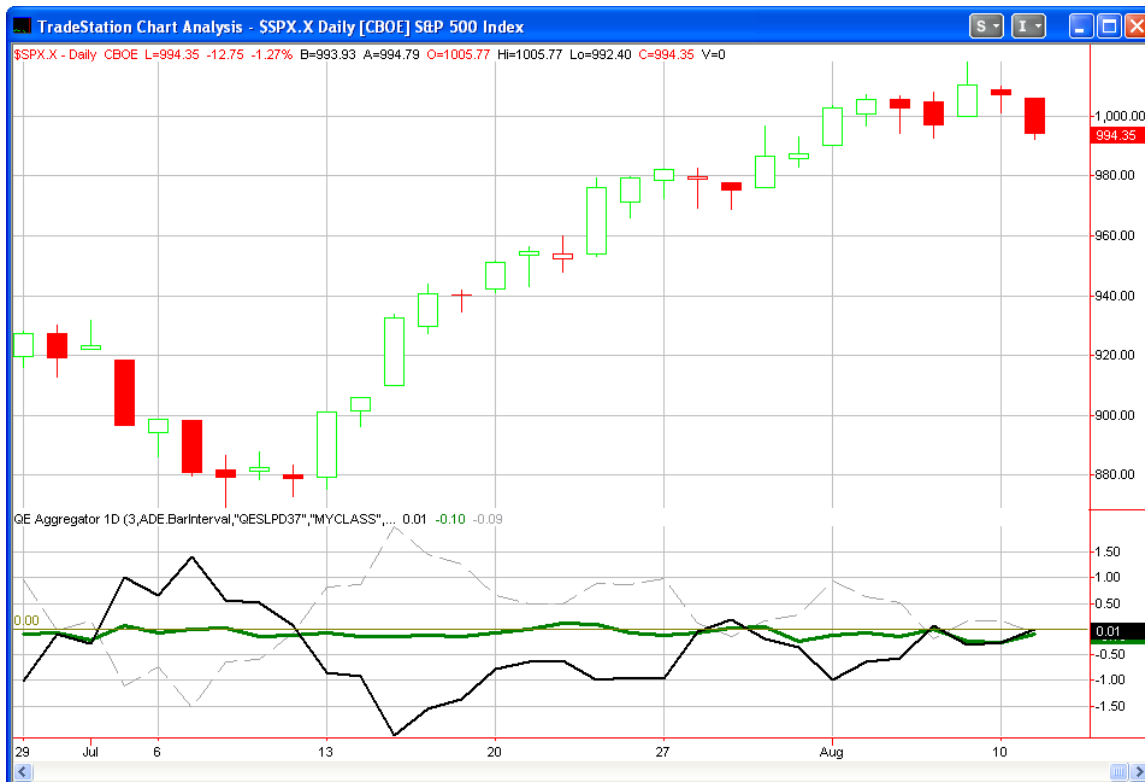
The Quantifinder came up dry tonight and there was not a lot that I noticed which seemed significant. The CBOE Index Put/Call ratio was quite high. It came in at 1.6, which is about 33% above its 200-day average. I looked at the market performance following other times it closed at least 25% above normal. A look at recent instances might suggest an upside edge but a longer term look makes any edge appear miniscule. Below is an equity graph showing results for buying any time the Index put/call ratio closed more than 25% above its norm and selling the next day.



As you can see, most of the profits have come lately in a limited number of sizable moves. As with the Fed test, I'm hesitant to read too much into this.

So it appears today's action left little in the way of clues for the next few days.

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



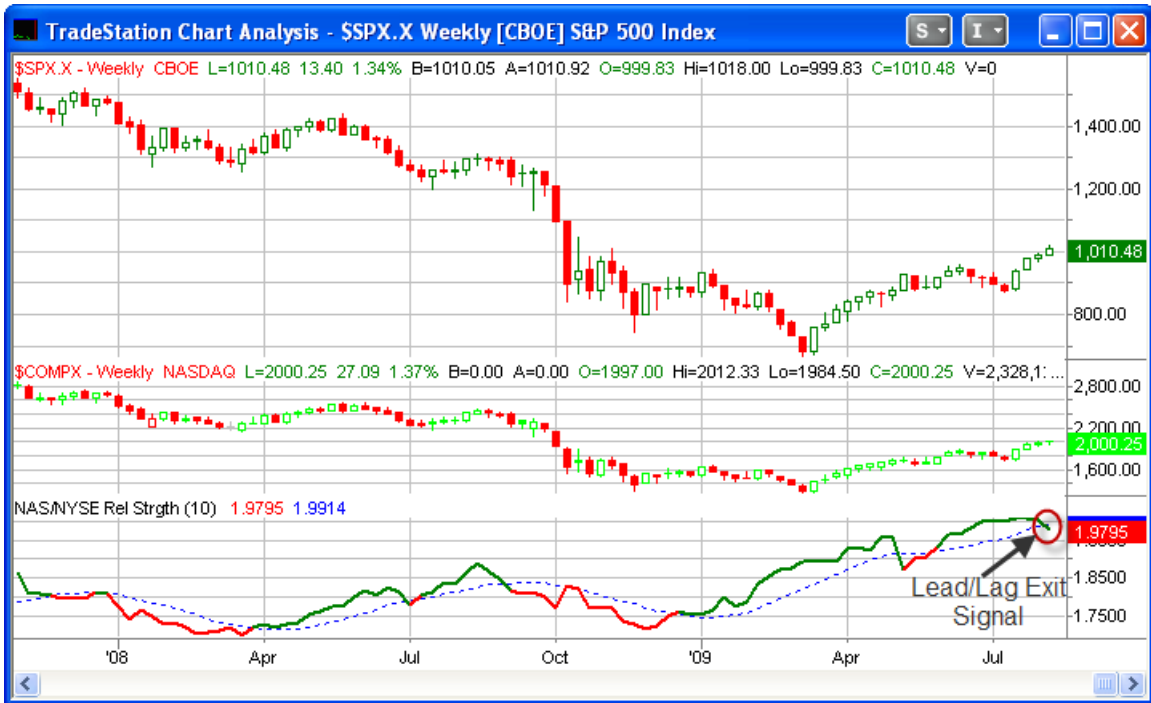
The Aggregator chart is in a similar position to last night. The green Aggregator line is suggesting a bearish tilt from the studies and the black Differential line is showing the market has performed in line with expectations over the last few days. The Aggregator line has dropped a bit tonight with 2 bullish short-term studies exiting the active list. Still, its appearance is a bit more bearish than my actual feelings.

I don't see a sizable edge either way at this point and would prefer to wait another day or two until the market gives us some better signals.

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

none

Catapult for ETF's Trades

None

Broad Market Large Cap CBI -0

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	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.

None tonight, although there are several on the triggers page for traders who are a bit more aggressive.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Loss	Stop	Notes
INTC	8/6/2009	\$18.70	\$18.79	0.48%		stopped out intraday
EWA	8/12/2009	\$19.08	\$19.51	2.25%		sold on close
IBB	8/12/2009	\$76.39	\$77.19	1.05%		stopped out near close

INTC and EWA both triggered exits.

I set an intraday stop of \$77.19 for IBB via an email update. This was done prior to the Fed announcement. The stop got hit with about 10 seconds left in the trading session. Personally I'm still in it and it still looks good to me. I did have to take the stop for subscriber letter tracking purposes. I may consider a re-entry in the days to come.

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