

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 14, 2009

Volume 2 Issue 155

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 14, 2009	CBOE Equity P/C < 25% of 200ma	1 day	Bearish	
August 14, 2009	SPX hig close 20. NYSE low vol 20.	1-5 days	Bearish	-1.90%
August 14, 2009	2 Days Up In Chop	1-4 days	Bearish	
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	

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 8/14 – bearish

After chopping around for much of the day the market finished up and right near its high. Breadth was solidly positive. The NYSE Up Issues % was 65% and the Up Volume % was 76%. Total volume was very low.

The Quantifinder was filled tonight with studies related to low volume occurring at or near new highs. Below I've updated one of the more extreme versions of those studies from the June 15 Letter:

SPX makes highest close in 20 days on lowest NYSE volume in 20 days.
Buy on close. Sell x Days later. \$100k/trade. 1978 - present.

QE Finder Tester: 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	-16,157.51	44	24	20	54.55	1,371.48	-2,453.65	0.56	0.67	-367.22
9	-13,425.56	45	25	20	55.56	1,350.67	-2,359.61	0.57	0.72	-298.35
8	-15,434.43	45	25	20	55.56	1,176.03	-2,241.75	0.52	0.66	-342.99
7	-20,963.03	45	19	26	42.22	1,285.96	-1,746.01	0.74	0.54	-465.85
6	-28,792.75	45	20	25	44.44	1,055.83	-1,996.38	0.53	0.42	-639.84
5	-25,644.88	45	19	26	42.22	964.13	-1,690.90	0.57	0.42	-569.89
4	-22,982.08	46	18	28	39.13	893.48	-1,395.17	0.64	0.41	-499.61
3	-17,861.08	46	18	28	39.13	656.70	-1,060.06	0.62	0.40	-388.28
2	-17,054.39	48	24	24	50.00	484.79	-1,195.39	0.41	0.41	-355.30
1	-11,967.84	51	22	29	43.14	325.88	-659.91	0.49	0.37	-234.66

89% of instances posted a close lower than the entry trigger at some point in the next week.

This would suggest a pullback over the next few days is likely. While the pullback hasn't necessarily been severe, it has been consistent.

Another notable today was the CBOE Equity Put/Call Ratio. It closed at 0.52. This is the 2nd time in a week it has closed more than 25% below its 200ma. Below is an excerpt from Sunday night's Letter discussing this setup.

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

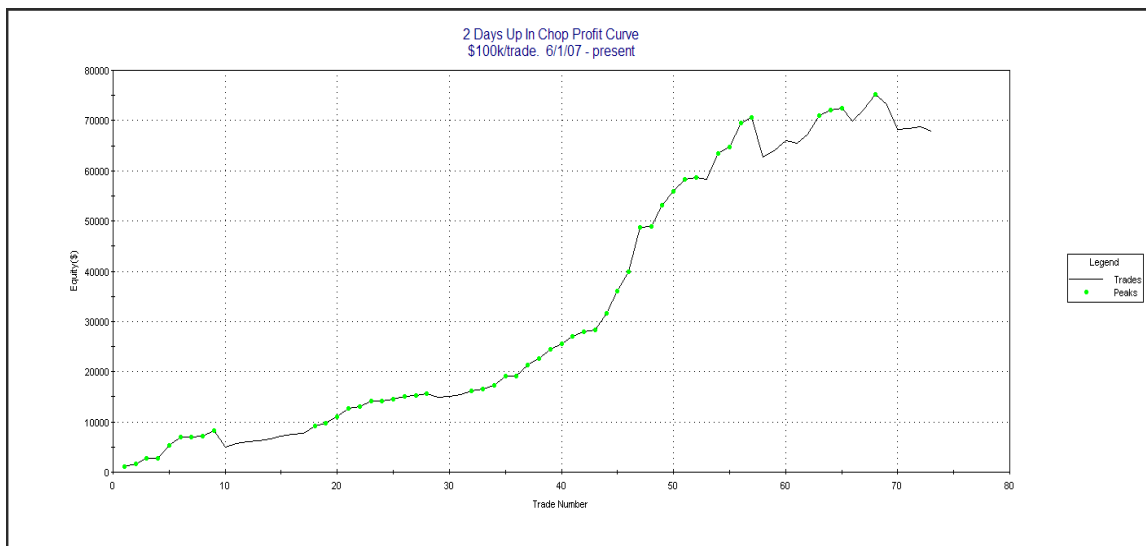
The far right hand column shows the intraday runup/drawdown. I've circled in green the -\$393.90 result from July 31st. Since the trades are based on \$100,000 each, \$393.90 represents a move of about 0.4%. What you'll notice when looking at the list is that the 0.4% drop that day was the smallest intraday 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.

Note that the above does not include Monday's action in which the SPX never traded higher than Friday's close, fell nearly 1% intraday and close down 0.33% - in line with the rest of the sample.

Of course most subscribers will also have realized with the 2nd up day in a row that Quantifiable Edges “2 Days Up In Chop” system has triggered. The system has generally provided a nice edge over the last 2+ years since the market became especially choppy. Below are updated stats.

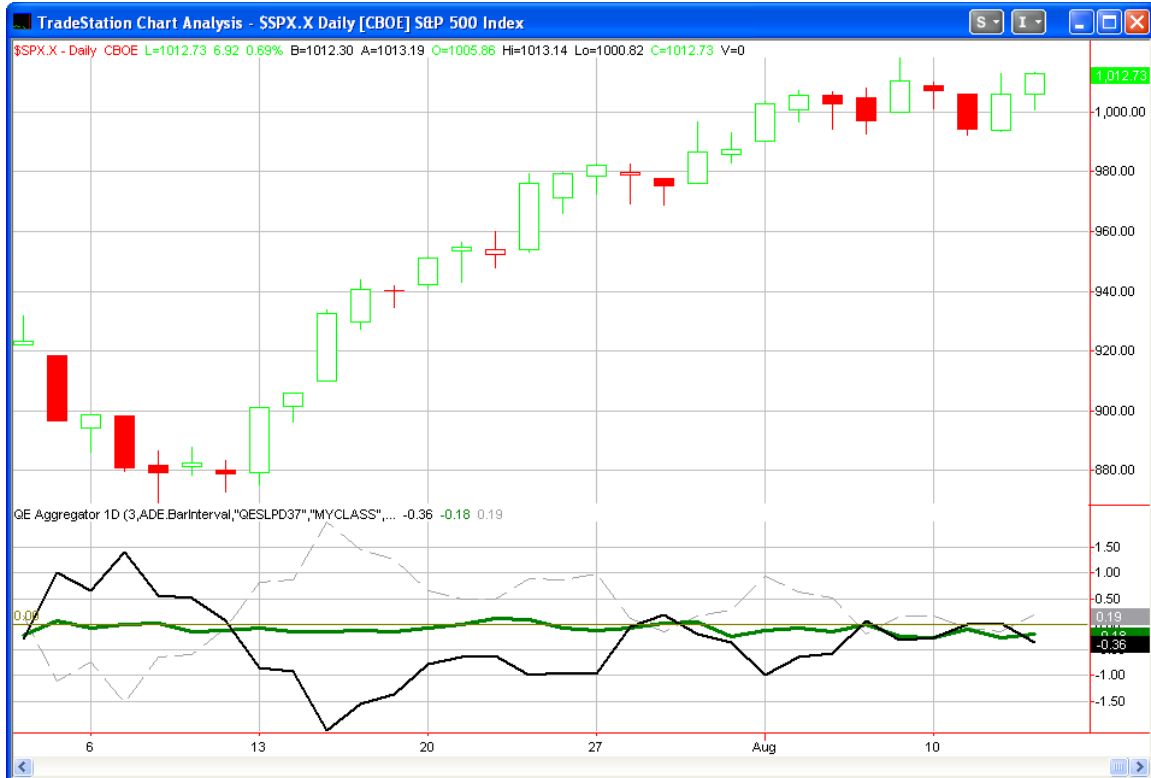
SPX closes higher 2 days in a row. Short on close. Cover first profitable close up to 4 days later. Cover day 4 regardless of profitability. \$100k/trade. 6/1/2007 -present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$67,800.19	Profit Factor	3.91
Gross Profit	\$91,100.73	Gross Loss	(\$23,300.54)
Total Number of Trades	73	Percent Profitable	87.67%
Winning Trades	64	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$928.77	Ratio Avg. Win:Avg. Loss	0.55
Avg. Winning Trade	\$1,423.45	Avg. Losing Trade	(\$2,588.95)
Largest Winning Trade	\$8,783.02	Largest Losing Trade	(\$7,832.88)

They look favorable for shorting. Unfortunately while the market has rallied strongly since March, the system has basically flatlined. Below is a profit curve that illustrates this.



At this point a lone signal from the system would be fairly weak evidence of a pullback. Yet the market still appears choppy enough to suggest an edge. And when you combine this signal with the other bearish indications we’re seeing tonight it seems to serve as some confirmation of a downside edge.

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



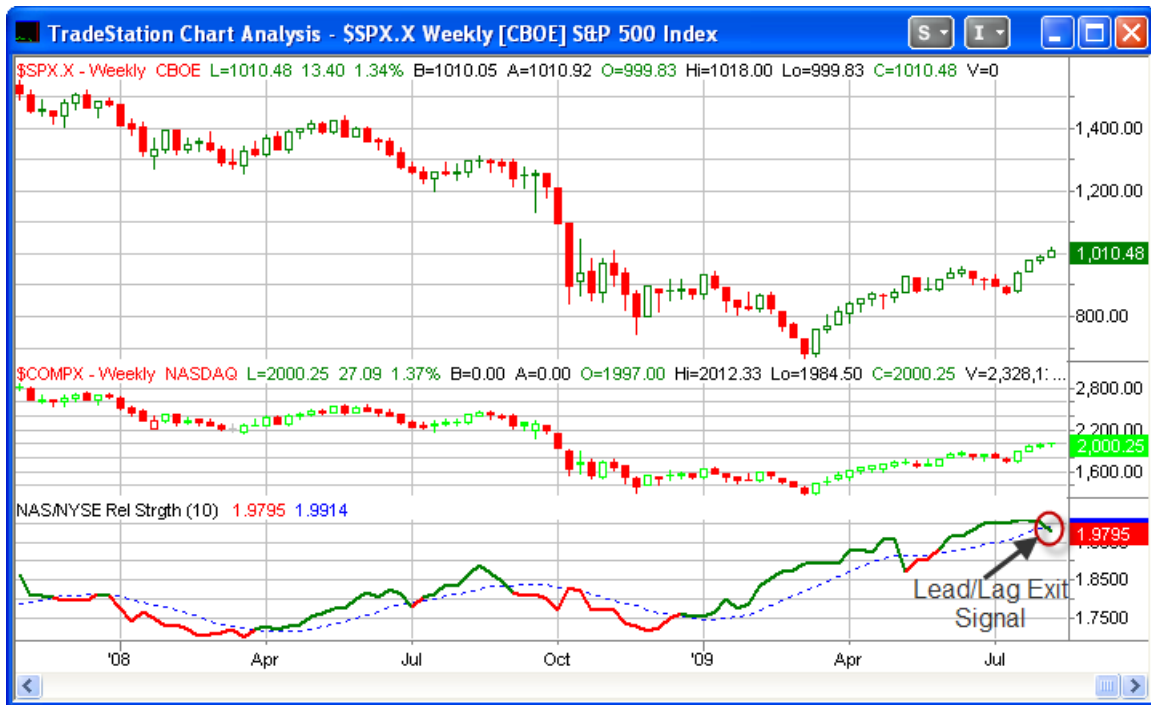
Three new bearish studies combined with the existing ones have helped to keep the Aggregator squarely below 0 tonight. Additionally, the rally put the Differential line back below 0. We are now back in a bearish configuration with the studies suggesting downside and the market having outperformed expectations over the last few days. This would seem to suggest a bearish edge.

Shorting remains tough so I'm still a bit cautious about being. I'll look to start scaling in short with a favorable entry point tomorrow. Details in the trade ideas section 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 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

New

SLE – 1/3 @ \$9.48 limit (I'm looking to take AT CLOSE tomorrow.)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI –1(SLE)

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

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 – sell short under 1 of the following scenarios 1) short ¼ index position @ \$102.50 limit on open. 2) short ¼ index position @ \$102.25 limit on close. The short term market outlook is leaning bearish. I'd like to try and get a favorable entry here. A large gap up to a new high is typically bearish and could provide that. If that doesn't occur I'll be looking to get short at the close if the market moves up a bit again tomorrow.

SLE – buy @ 9.48 limit ON CLOSE. It has already set up as a Catapult but may still be in the process of breaking down. I'd rather not step in too soon and will look to start scaling in at the close rather than the open.

There are numerous other stocks set up on the systems trigger page tonight. They are mostly long plays. Due to the market outlook I'm a little wary of the long side at the present. Traders looking for long ideas could find several there.

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.