

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 28, 2009

Volume 2 Issue 165

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 28, 2009	False breakdown & close @ new high	1-5 days	Bullish	2.10%
August 28, 2009	2 days up in chop	1-3 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 drops below 0.9	2-5 months	Bearish	
Dropped Tonight				
August 24, 2009	Op-ex week positive return	1-5 days	Bearish	-0.90%
August 24, 2009	Strong breadth & vol breakout	1-5 days	Bullish	1.50%

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

Short-term Outlook – updated 8/28

The Bottom Line

The tight range continues. Thursday's action gave some indication that an upside breakout is becoming more probable. The morning drop was reversed in the afternoon, leaving the impression of a false breakdown. Risk/reward on a possible upside move isn't great. The market remains slightly overbought. Opening range breakout strategies remain one possible way to try and take advantage of a sharp move higher.

The Proof

Suddenly the market is boring. Every day this week we've seen a marginal change in the market compared to the prior day's close. Thursday looked like it might turn into a big move down, but an afternoon rally brought the market back above breakeven – slightly. Breadth came in positive. The NYSE Up Issues % was 52% and the Up Volume % was 69%. Total volume rose from Wednesday and was about average.

Trying to determine a substantial edge in a tight consolidation pattern like this is very difficult. We've seen a few studies come up the last couple of nights that have looked at tight consolidations forming in the middle of uptrends. Most have suggested an upside breakout is more likely but there was one last night that indicated SPX was too overbought and set for a drop.

On the negative side, the S&P has now closed up for 3 days in a row. I've included the last 3 days of "2 Days Up In Chop" in the Aggregator. We also saw a slightly bearish study in the Quantifinder tonight that looked at 3 up days without a consistent increase in volume. Also notable is the fact that the Dow has now closed higher for 8 days in a row.

The fact that the market tried to break down from the range Thursday and then reversed to close at a new high could be interpreted as bullish. Below is a test that describes Thursday's action:

SPY makes a 4-day intraday low and then closes at a 4-day closing high. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	33,453.35	37	25	12	67.57	2,021.73	-1,424.15	1.42	2.96	904.14
4	28,437.54	37	24	13	64.86	1,804.64	-1,144.14	1.58	2.91	768.58
3	27,312.32	37	24	12	64.86	1,873.86	-1,471.70	1.27	2.55	738.17
2	13,493.36	37	24	13	64.86	1,166.66	-1,115.89	1.05	1.93	364.69
1	2,609.79	37	20	17	54.05	726.11	-700.72	1.04	1.22	70.53

This would suggest an upside breakout of the current range appears more likely.

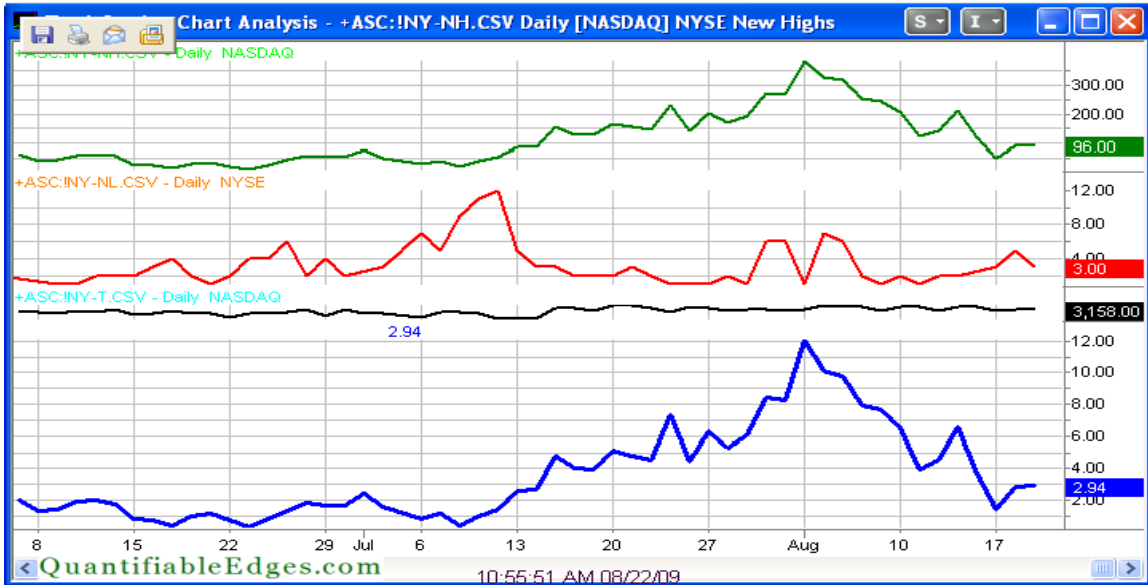
The [Aggregator](#) chart is updated below.



The green Aggregator line is a little above 0 – suggesting a slight upside edge over the next 3 days. The black Differential line is illustrating the fact that the market has slightly outperformed expectations over the last few days. This is basically a neutral configuration, though I might give a slight edge to the long side based on the Aggregator line. Risk/reward is a little low, though.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/24 – very slightly bullish

Whether this rally can continue or whether it flounders may depend greatly on the breadth of the rally. Breadth is giving somewhat mixed signals lately. One oddity that traders may notice from the charts page is that while the market is now trading at new highs there has been a noticeable dropoff in the number of individual issues hitting new highs. Below is the chart from the website to demonstrate.



SPX makes a 20-day intraday high and close above its 200ma. The net % of stocks hitting new highs on the NYSE is at least 5 points lower than its 20-day high. Buy on close. Sell X days later. 1970 - present

QE NHs lag on rally: daysin	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
20	16,885.06	26	16	10	61.54	2,088.30	-1,652.78	1.26	2.02	649.43
19	10,845.83	26	14	12	53.85	2,186.88	-1,647.54	1.33	1.55	417.15
18	2,558.27	26	14	12	53.85	1,831.28	-1,923.30	0.95	1.11	98.40
17	-356.37	27	14	13	51.85	1,681.95	-1,838.75	0.91	0.99	-13.20
16	-6,924.34	27	14	13	51.85	1,539.03	-2,190.06	0.70	0.76	-256.46
15	2,688.11	27	15	12	55.56	1,630.76	-1,814.45	0.90	1.12	99.56
14	-2,709.75	27	13	14	48.15	1,733.16	-1,802.92	0.96	0.89	-100.36
13	-1,942.53	29	14	15	48.28	1,922.41	-1,923.75	1.00	0.93	-66.98
12	3,525.81	29	16	13	55.17	1,503.91	-1,579.75	0.95	1.17	121.58
11	2,925.81	29	14	15	48.28	1,467.47	-1,174.59	1.25	1.17	100.89
10	2,778.74	30	15	15	50.00	1,426.81	-1,241.56	1.15	1.15	92.62
9	1,293.47	33	19	14	57.58	951.41	-1,198.80	0.79	1.08	39.20
8	2,294.14	35	20	15	57.14	1,165.27	-1,400.75	0.83	1.11	65.55
7	-2,728.57	38	21	17	55.26	1,212.78	-1,658.64	0.73	0.90	-71.80
6	-627.21	40	24	16	60.00	1,106.06	-1,698.29	0.65	0.98	-15.68
5	-13,004.25	40	17	23	42.50	1,053.26	-1,343.90	0.78	0.58	-325.11
4	-9,092.87	42	17	25	40.48	955.78	-1,013.64	0.94	0.64	-216.50
3	-7,474.66	46	23	23	50.00	664.15	-989.14	0.67	0.67	-162.49
2	-12,506.03	52	22	30	42.31	583.81	-845.00	0.69	0.51	-240.50
1	-8,443.40	67	30	37	44.78	441.60	-586.25	0.75	0.61	-126.02

Is it BETTER to have the number of new highs expanding? Yes. Below I show a similar test where net new highs are also hitting a new high:

SPX makes a 20-day intraday high and closes above its 200ma. The net % of stocks hitting new highs on the NYSE the highest in 20 days. Buy on close. Sell X days later. 1970 - present

QE NHs lag on rally: daysin	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
20	59,666.34	87	55	32	63.22	2,926.27	-3,164.95	0.92	1.59	685.82
19	82,536.66	91	59	32	64.84	2,958.05	-2,874.64	1.03	1.90	907.00
18	86,537.02	91	60	31	65.93	2,844.26	-2,713.51	1.05	2.03	950.96
17	65,533.97	93	57	36	61.29	2,718.05	-2,483.18	1.09	1.73	704.67
16	71,709.96	96	61	35	63.54	2,550.55	-2,396.39	1.06	1.85	746.98
15	72,810.49	99	63	36	63.64	2,537.90	-2,418.82	1.05	1.84	735.46
14	58,225.04	102	65	37	63.73	2,360.60	-2,573.34	0.92	1.61	570.83
13	64,551.10	105	72	33	68.57	2,039.31	-2,493.30	0.82	1.78	614.77
12	51,733.67	108	67	41	62.04	2,073.75	-2,127.01	0.97	1.59	479.02
11	51,450.24	112	70	42	62.50	1,997.82	-2,104.69	0.95	1.58	459.38
10	46,021.40	114	66	48	57.89	2,001.49	-1,793.27	1.12	1.53	403.70
9	52,224.07	115	72	43	62.61	1,816.61	-1,827.25	0.99	1.66	454.12
8	46,836.80	123	73	50	59.35	1,736.29	-1,598.25	1.09	1.59	380.79
7	43,034.75	124	73	51	58.87	1,640.14	-1,503.84	1.09	1.56	347.05
6	28,952.82	131	76	55	58.02	1,450.06	-1,477.31	0.98	1.36	221.01
5	19,908.03	138	79	59	57.25	1,285.57	-1,383.93	0.93	1.24	144.26
4	29,381.48	145	76	69	52.41	1,228.56	-927.38	1.32	1.46	202.63
3	23,529.89	153	84	69	54.90	988.79	-862.73	1.15	1.40	153.79
2	22,182.02	167	87	80	52.10	803.28	-596.29	1.35	1.46	132.83
1	17,266.09	217	118	99	54.38	558.37	-491.13	1.14	1.36	79.57

So if we see this number expand then that would help the rally's chances to continue. On the positive side the advance/decline line is hitting new highs. We also had a 90% day on Friday. As we saw in July, if we get a couple of 90% up days within close proximity then that can often be a decent intermediate-term buy signal. Therefore I'll be very interested to see if we get some additional days of extremely strong breadth this week.

Many of the negatives that had been present are still present, such as the low VIX:VXV ratio, the excessive Nasdaq vs. NYSE volume and the generally downsloping total volume over the last few months. Still, the negative effects of these influences has been slow to kick in.

Right now the market is still in rally mode, and betting against it for any extended period of time has not worked. Short trades need to be small and profits taken when available. I expect we're going to see a substantial selloff begin at some point in the next several months. I don't see evidence of it happening just yet.

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.

None tonight – Neutral market bias and almost nothing showing up on the triggers page. Wait and see mode.

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.