

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 16, 2009

Volume 2 Issue 177

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				
September 8, 2009	Strong Breadth No 10-high	1-8 days	Bearish	-4.20%
Active - Long Term				
September 14, 2009	Nasdaq/S&P Lead/Lag Model		Bullish	
September 11, 2009	Appel Daily Breadth Impulse Signal	1-20 days	Bullish	5.00%
July 14, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish	
Dropped Tonight				
September 14, 2009	SPY close lower w/ higher hi/low stre	1-2 days	Bullish	1.20%
September 9, 2009	Low range & vol 20 close > 10ma	1-5 days	Bearish	

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

Short-term Outlook – updated 9/16

The Bottom Line

Upside persistence continues to brush aside historical norms. The downside edge seems to be dwindling even as the market stretches higher. Risk/reward still favors the downside, but further evidence will be required for the short-term bearish edge to remain in tact.

The Evidence

Once again all bearish indications were ignored and the market put in a solid day to the upside. The S&P, Dow and Nasdaq all closed up between 0.3% and 0.6%. Breadth was again solidly positive. The NYSE Up Issues % was 70% and the Up Volume % was 58%. Total volume rose to its highest level in over a week.

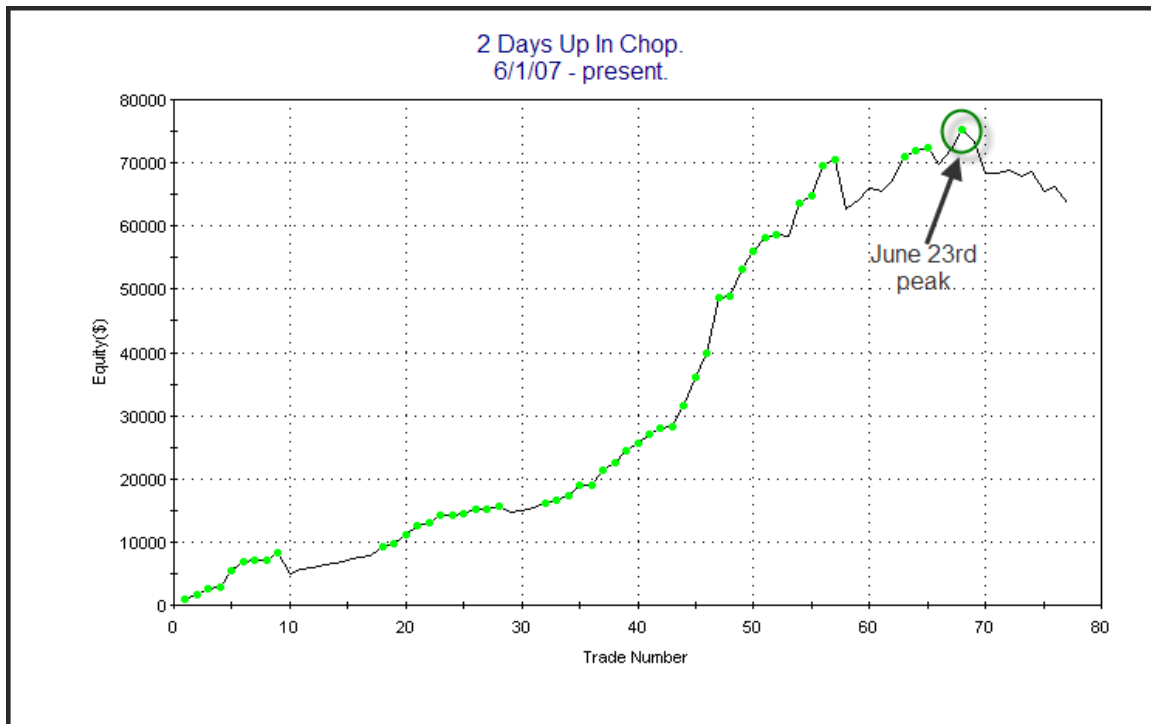
Momentum like we are seeing now, and also got a taste of in July, makes fading the market very difficult. The market is incredibly overbought yet it has failed to follow through on any downside indications – and we have seen plenty of them in the last week or so. Extremely overbought in an uptrend is not as reliable nor as explosive of a fade as extremely oversold in a downtrend. Up moves can often persist longer and when they end it isn't necessarily with an immediate sharp reversal as we most often see with short-covering rallies following down moves.

Risk/reward generally does favor the downside when the market gets this overbought, but the edge isn't substantial. Below is an example of one test I ran tonight that is representative of my findings.

SPX closes with RSI(2) > 95, at a 50-day high, and above its 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-5,317.56	39	20	19	51.28	839.84	-1,163.91	0.72	0.76	-136.35
4	-5,352.79	42	20	22	47.62	755.04	-929.71	0.81	0.74	-127.45
3	-5,230.96	46	21	25	45.65	736.95	-828.28	0.89	0.75	-113.72
2	-911.29	51	24	27	47.06	536.98	-511.07	1.05	0.93	-17.87
1	-1,803.44	75	37	38	49.33	302.98	-342.46	0.88	0.86	-24.05

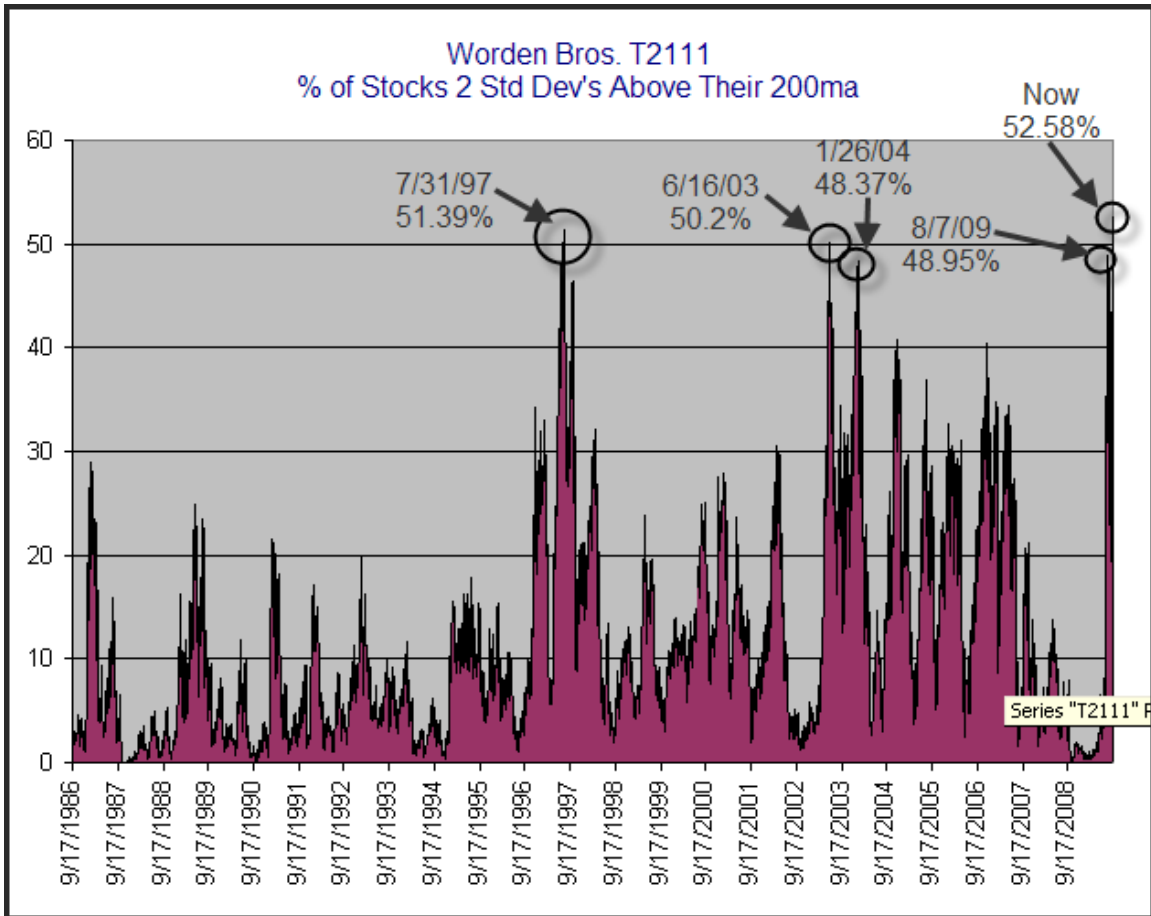
Note the winning percentage is just below 50% and the average trade is only very mildly negative.

Subscribers were likely aware that today would have marked the 2nd higher close in a row for the SPX. This is a short trigger for the “2 Days Up In Chop” strategy. The consistent edge that this system provided us hasn't been there for the last couple of months. Below is a profit curve for the system since June of 2007.



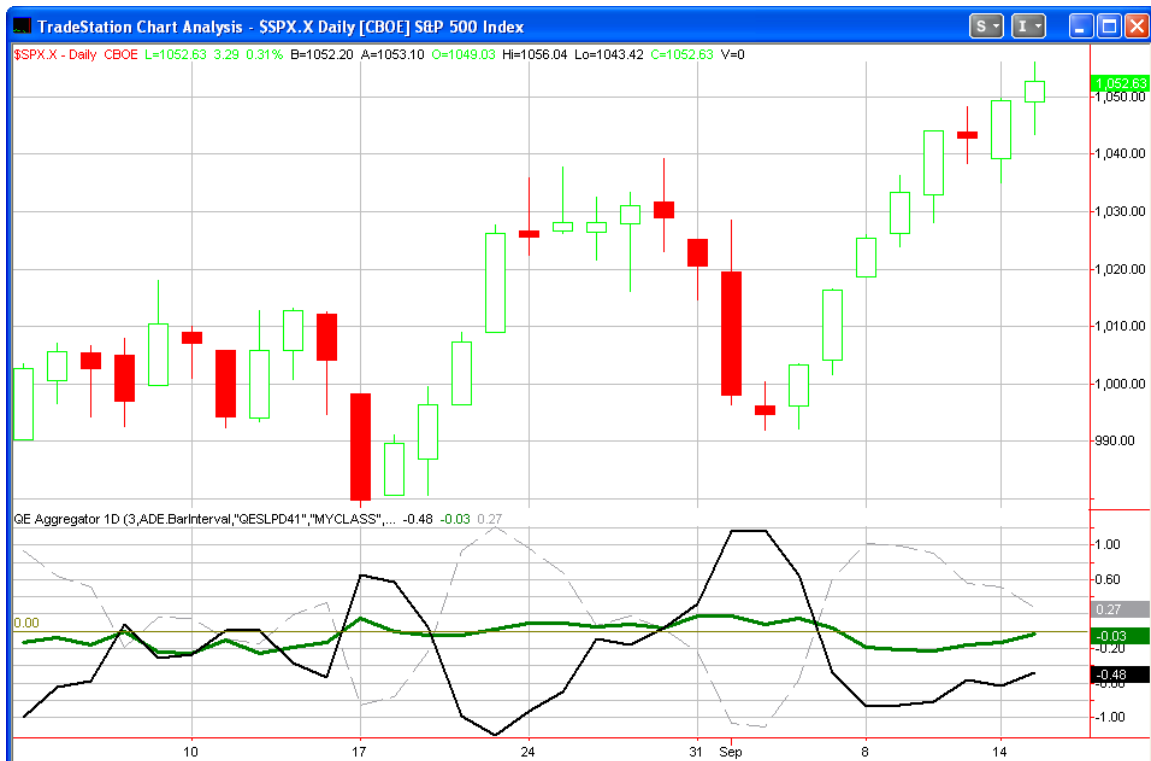
The drift lower has me on the sidelines with regards to this system. We'll need to determine whether this is a temporary respite or something more permanent. Until I begin to see further evidence that the market is going back to its choppy ways, or that downside opportunities are becoming higher reward scenarios, I'll likely hold off on "2 Days Up In Chop".

Near the end of [August I discussed that some of the breadth measures tracked by Worden were near all-time highs](#). This situation corrected itself as the market embarked on a brief selloff. Tonight two of their indicators actually registered their highest readings ever. These are T2109 and T21111 which track the number of stocks 1 and 2 standard deviations above their 200-day moving averages. Below is a long-term chart of T21111 with full history of the indicator going back to 1986.



I marked on the chart the 4 other instances where the current reading was approached. What you notice is that these spikes were generally brief. Every case was followed by at least a mild selloff that worked off the overbought conditions. In no case did the extreme spike mark the end to the bull market that created it. It's dangerous to read too much into only 4 instances, but a short-term pullback does seem reasonable. For those expecting a substantial market selloff to begin in the short-term, this extremely overbought indicator does not help to support the case for that.

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



The Aggregator chart still remains in a bearish configuration. A cursory glance will show that the downside edge, which seems so strong just days ago, is quickly fading. The green Aggregator line remains below 0, illustrating the net negative expectation of the studies over the next few days. The black Differential line also remains below 0, indicating the SPX has outperformed expectations over the last few days. The slopes of the 2 lines show that despite the rise of the last 2 days, the expectations have become less negative and the SPX outperformance has shrunk. The expectations could flip to positive as early as tomorrow barring some more bearish studies.

While there appears to be a bit of a downside edge based my research, it isn't terribly large. Momentum has ruled as of late. Before allocating any more to the short side I would need to see further bearish evidence based something other than just price action. Breadth, volume and sentiment are the primary areas to watch here for confirmation of a continued downside edge. Barring confirmation from one or more of those, we could see the negative inclinations dissipate completely.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/14 – somewhat bullish

The intermediate-term outlook has been removed to reduce the length of this Letter. Those who would like to review it may do so by checking out the 9/14/09 Subscriber Letter via the link below:

[2009-09-14 QE Subscriber Letter.pdf](#)

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.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	9/9/2009	\$103.12	\$105.72	-2.52%		
SPY(s)(1/4)	9/9/2009	\$105.45	\$105.72	-0.26%		

This trade will be taken off fairly quickly should the market pull back for a day or two. I'm not looking to generate a long-term position here. It is clearly a counter-trend trade. This is why I have been conservative in scaling in to it and why I will be quick to exit should it go my way.

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.