

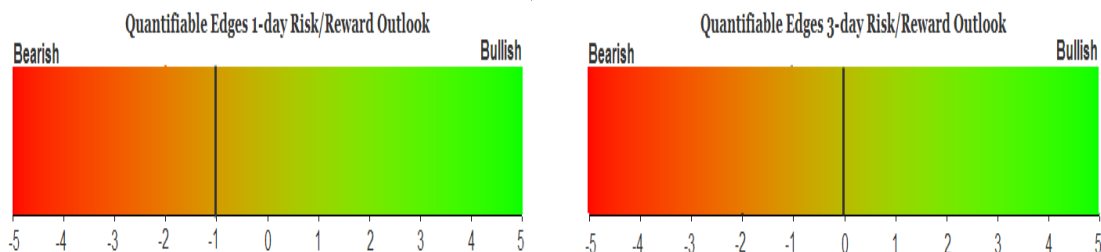
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 17, 2009

Volume 2 Issue 178

## 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>				
September 17, 2009	Up Issues > 70% twice. Vol & close high	1-2 days	Bullish	
September 17, 2009	CBOE Equity P/C 25% below avg	1 day	Bearish	
September 8, 2009	Strong Breadth No 10-high	1-8 days	Bearish	-4.20%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				

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

### **Short-term Outlook – updated 9/17**

#### **The Bottom Line**

The market has managed to turn the recent run-up into a historic march higher. In doing so bears have failed to gain any traction despite numerous bearish studies over the last week. As those studies have been expiring the rally has shown good breadth and volume. At this point I'll need to see more evidence than just price being stretched in order to get aggressive on the short side.

#### **The Evidence**

Today the market once again said “overbought be damned” and rallied pretty much from open to close. Breadth was very strong as the NYSE Up Issues % was 83% and the Up Volume % was 84%. Total volume rose to the highest level since September 1<sup>st</sup>.

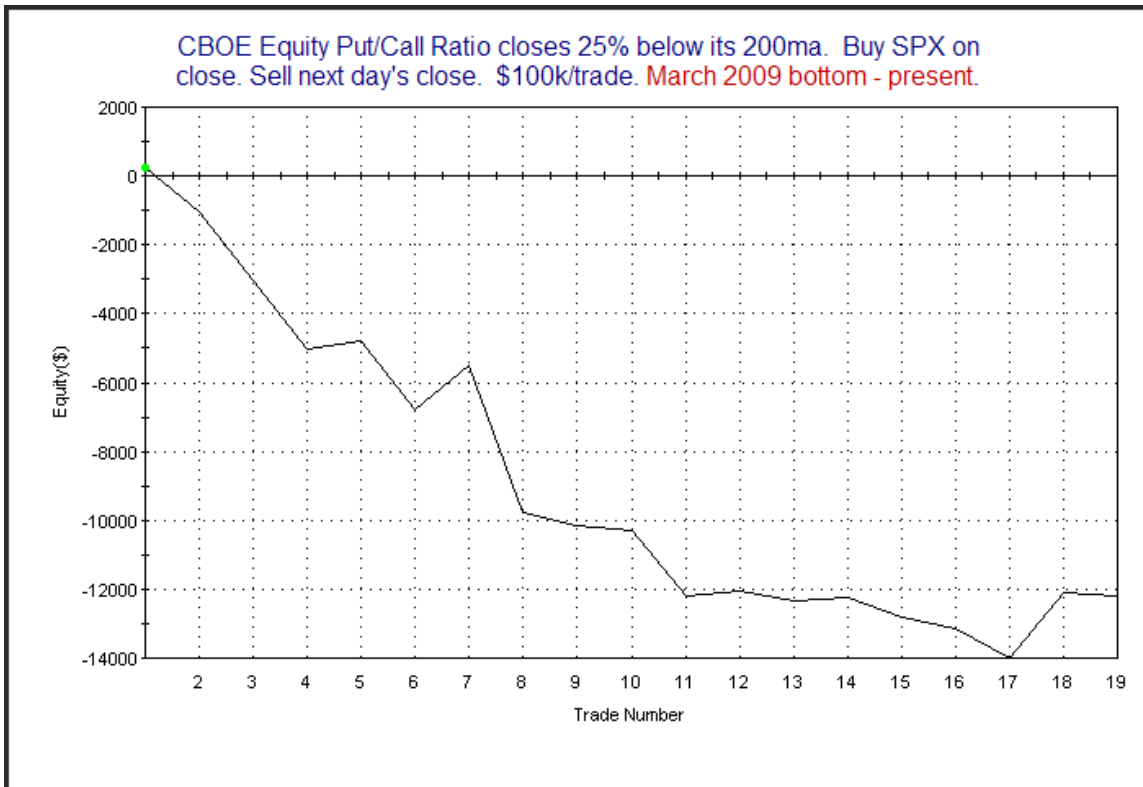
Today's trading gave some mixed signals for the next few days. The Quantifinder identified the fact that the CBOE Equity Put/Call Ratio came in over 25% below its 200ma. Extremely low readings such as this have consistently led to selloffs the following day. Below is an updated performance report of the study that 1<sup>st</sup> appeared in the 6/12/09 blog.

CBOE Equity Put/Call Ratio closes 25% below its 200ma. Buy SPX on close. Sell next day's close. \$100k/trade. 2007 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$16,511.22)	Profit Factor	0.27
Gross Profit	\$6,120.95	Gross Loss	(\$22,632.17)
Total Number of Trades	25	Percent Profitable	32.00%
Winning Trades	8	Losing Trades	17
Even Trades	0		
Avg. Trade Net Profit	(\$660.45)	Ratio Avg. Win:Avg. Loss	0.57
Avg. Winning Trade	\$765.12	Avg. Losing Trade	(\$1,331.30)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

2007 is when this particular study really became effective, which is why the results show back to that date. Most interesting though is the fact that since the March lows it has been extremely prevalent and equally as effective.

CBOE Equity Put/Call Ratio closes 25% below its 200ma. Buy SPX on close. Sell next day's close. \$100k/trade. March 2009 bottom - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$12,176.05)	Profit Factor	0.24
Gross Profit	\$3,810.25	Gross Loss	(\$15,986.30)
Total Number of Trades	19	Percent Profitable	31.58%
Winning Trades	6	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	(\$640.84)	Ratio Avg. Win:Avg. Loss	0.52
Avg. Winning Trade	\$635.04	Avg. Losing Trade	(\$1,229.72)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

Note that all of the key stats which I circled on the reports happen to match up very closely. Lastly, below is an equity curve showing the performance since the March bottom.



But while the put/call ratio was saying one thing, momentum, breadth, and volume are combining to suggest an upside edge. The Quantifinder noted a few studies that focused on strong breadth and volume the last two days. I've mashed a few studies together in a way that describes Wednesday's action.

NYSE Up Issue % > 70% two days in a row. NYSE volume today is highest in 10 days. Today SPX closes at a 10-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - present.

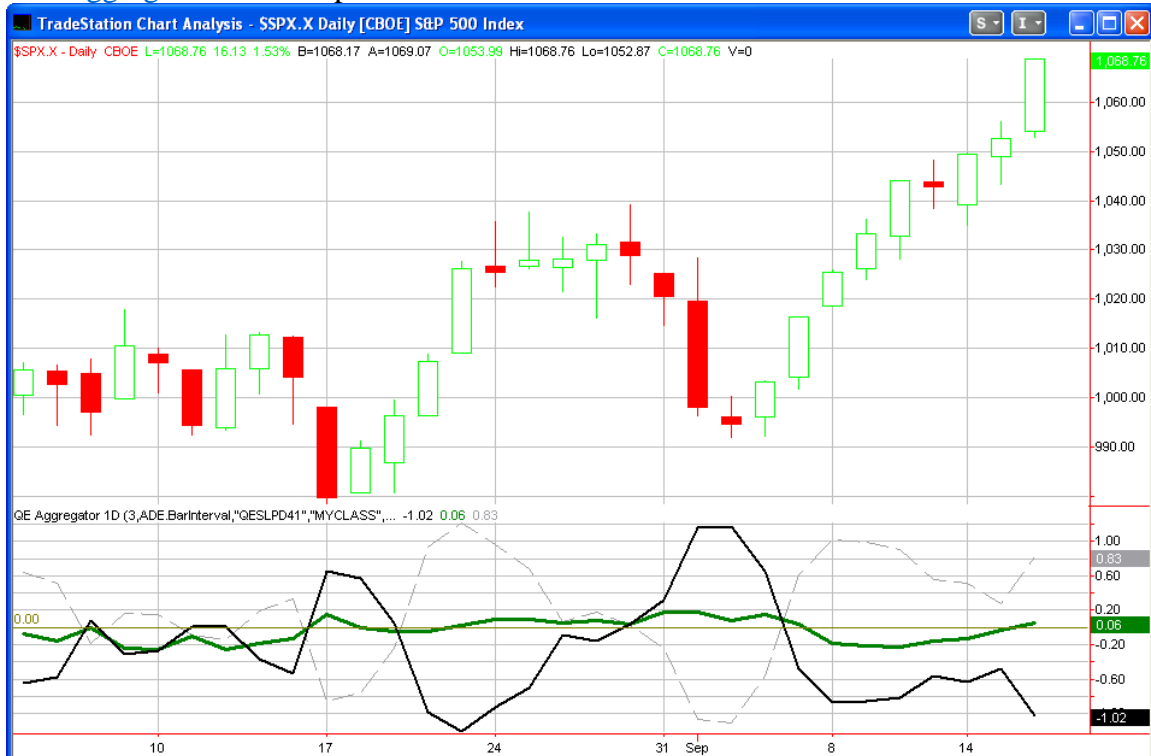
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	30,282.68	35	23	12	65.71	2,012.96	-1,334.62	1.51	2.89	865.22
4	24,072.02	36	23	13	63.89	1,900.53	-1,510.78	1.26	2.23	668.67
3	14,651.32	37	23	14	62.16	1,522.80	-1,455.21	1.05	1.72	395.98
2	20,408.47	37	26	11	70.27	1,128.19	-811.32	1.39	3.29	551.58
1	6,640.99	39	22	17	56.41	738.08	-564.52	1.31	1.69	170.28

**87% of instances closed above the entry price at some point in the next week.**

One thing I DON'T like about this study is that there have been very few instances in recent times. Since 1999 there have been only 3 instances. A large portion of the occurrences happened in the 70's and 80's in much different environments.

Last night I mentioned T2111 which measures the % of stocks that are trading at least 2 standard deviations above their 200ma. It was hitting an all-time high. Wednesday it went even higher. And joining T2109 and T2111 now is T2112 which measures the % of stocks that are at least 2 standard deviations above their 40-DAY moving average. T2112 is also now hitting a new historical high. Like I mentioned last night this doesn't signal an end to the current rally. Still with conditions so extremely overbought there's going to need to be a short-term correction or consolidation here soon.

The **Aggregator** chart is updated below.



In an unusual move the green Aggregator line has moved itself back into positive territory tonight. This suggests a net positive expectation from the studies over the next few days. Of course as the black Differential line shows the market is right now about as overbought versus expectations as it has been in a long time. So it isn't a time for buying.

When considering the two studies tonight I weight the Put/Call ratio greater as I feel it is more relevant in the current market. As we saw there have been 19 occurrences just since March. Tonight's 2<sup>nd</sup> study, on the other hand, has only 3 instances in the past decade.

The primary reason the Aggregator has gone positive here, though is that the rally is currently doing the right things. The move up is accompanied by both solid breadth and volume. We are now past the point of "the market is so stretched it's likely to pull back", and have reached "the market is so stretched it's likely to do anything". We're basically at a point where hints outside of mere price action are going to be needed to get aggressively short.

Digging into the numbers a little deeper, Thursday does have a net negative expectation, but Friday and Monday or looking bullish at this point. Therefore I'll look to take advantage of possible weakness tomorrow and exit at least half the short position. Should the market provide more evidence that a selloff is becoming a strong probability, I won't hesitate to jack the short exposure up again. For now the outlook is basically neutral, though. And with the market acting so out of touch with historical norms lately, I'm not eager to take on large positions.

I was asked today about the historically unusual action over the last couple of months and will discuss it in more detail tomorrow. I'll just quickly say that strong moves like we saw in July and are seeing again now are not unusual when the market is coming off a long-term bottom. I discussed this in detail around all of the bottom tries over the last year, including in March. It is EXTREMELY unusual to see such lopsided trading when the market is already six months off its lows as it is now. I personally cannot recall a period of time where the market managed to buck the historical norms so defiantly for so long (2+ months). I'll go into a bit more detail tomorrow. I also hope to show some stats and unveil the long-anticipated Aggregator System. I don't expect the recent detachment from historical tendencies to last much longer, though.

***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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Pr</b>	<b>% Gain/Lo</b>	<b>Stop</b>	<b>Notes</b>
SPY(s)(1/4)	9/9/2009	\$103.12	\$107.32	-4.07%		
SPY(s)(1/4)	9/9/2009	\$105.45	\$107.32	-1.77%		

I'll look to cover 1 lot @ \$106.50 limit. If not hit early in the morning I'll likely place a stop above the morning lows and hope to trail it lower.

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