

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 18, 2009

Volume 2 Issue 179

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 17, 2009	Up Issues > 70% twice. Vol & close high	1-2 days	Bullish	
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 8, 2009	Strong Breadth No 10-high	1-8 days	Bearish	-4.20%
September 17, 2009	CBOE Equity P/C 25% below avg	1 day	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 9/18

The Bottom Line

A slight down day Thursday did little to provide a tradable edge. Despite being overbought there is nothing suggesting substantial downside among our list of studies. This leaves the bias as basically neutral over the next few days. Action tomorrow and Monday should have a major impact on the outlook.

The Evidence

Not much was accomplished today. After opening slightly lower the market rallied for the 1st half hour. It then pulled back and dropped below its lows on the day before rallying to close near where it opened. The major indices all close down slightly. Breadth was generally negative. The NYSE Up Issues % came in at 43% and the Up

Volume % at 39%. Total volume was down slightly from Wednesday but still above average.

The candlestick formation in SPY today took the form of a doji. A doji occurs the a security opens and closes at nearly the same price. It suggests indecision. Many traders believe that a doji occurring after an extended run is a sign of a likely reversal. I decided to run a few tests on doji bars like today to see if I could decipher an edge.

For these tests I defined a doji as a bar where the difference between the open and the close was less than 10% of the daily range. So if today's high – low was \$1, then the difference between the open and the close would need to be less than \$0.10 to qualify.

I was unable to find any substantial edges from examining these bars in the SPY. What I did find interesting is that they tended to be more suggestive of a reversal when prices were less extreme. Below is one study that illustrates this.

Doji occurs in SPY while it makes an X-day intraday high. Buy on close. Sell 2 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
60	2,879.60	63	34	29	53.97	893.88	-948.70	0.94	1.10	45.71
50	2,394.64	64	34	30	53.13	893.88	-933.24	0.96	1.09	37.42
40	2,325.55	71	37	34	52.11	886.81	-896.66	0.99	1.08	32.75
30	-750.51	74	38	36	51.35	889.00	-959.23	0.93	0.98	-10.14
20	-5,527.91	87	42	45	48.28	885.71	-949.51	0.93	0.87	-63.54
10	-20,036.39	110	50	60	45.45	926.30	-1,105.85	0.84	0.70	-182.15

Here we see a doji at a 10-day high is more likely to lead to a short-term reversal than a doji at a 50-day high. In fact, as you move from shorter-term highs to longer-term highs the downside edge dissipates and reverses.

I ran this same test on the QQQQ to confirm the SPY findings:

Doji occurs in QQQQ while it makes an X-day intraday high. Buy on close. Sell 2 days later. \$100k/trade. 2000 - 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
70	2,997.16	20	11	9	55.00	1,358.16	-1,326.96	1.02	1.25	149.86
60	638.01	23	11	12	47.83	1,358.16	-1,191.81	1.14	1.04	27.74
50	-2,251.11	26	11	15	42.31	1,358.16	-1,146.06	1.19	0.87	-86.58
40	-5,047.91	27	11	16	40.74	1,358.16	-1,249.23	1.09	0.75	-186.96
30	-1,036.09	31	13	18	41.94	1,599.43	-1,212.71	1.32	0.95	-33.42
20	-3,778.13	34	14	20	41.18	1,530.49	-1,260.25	1.21	0.85	-111.12
10	-9,491.20	43	17	26	39.53	1,737.76	-1,501.28	1.16	0.76	-220.73

Here again the expectations move from negative to positive as the high become more extreme.

Nothing of significance showed up in the Quantifinder tonight, and I'm having trouble finding a substantial edge for the next few days. One thing to keep in mind is that tomorrow is options expiration. When the SPX performs well on options expiration week, it tends to pull back the following week. Below is an excerpt from the July 20, 2009 Subscriber Letter that discusses this concept:

Below are a couple of studies that appeared in the 4/20/09 Letter.

Today is option expiration Friday. SPX closes higher than 5 days ago. Buy SPX on close. Sell X days later. \$100k/trade. 1987-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	-48,586.20	157	69	88	43.95	1,306.43	-1,576.48	0.83	0.65	-309.47
4	-25,958.95	157	67	90	42.68	1,347.37	-1,291.47	1.04	0.78	-165.34
3	-23,790.49	157	70	87	44.59	1,163.03	-1,209.23	0.96	0.77	-151.53
2	-23,472.84	157	74	83	47.13	826.20	-1,019.41	0.81	0.72	-149.51
1	-14,676.80	157	60	97	38.22	905.38	-711.34	1.27	0.79	-93.48

When op-ex week closes higher there tends to be a bearish tilt to the following week. As in the 4/20/09 Letter I also broke down returns by the % gained option expirations week.

Today is option expiration Friday. SPX closes X% higher than 5 days ago. Buy SPX on close. Sell 5 days later. \$100k/trade. 1987-present.										
X%	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
3.0	-14,506.69	23	10	13	43.48	1,249.42	-2,076.99	0.60	0.46	-630.73
2.5	-20,533.49	37	16	21	43.24	1,027.96	-1,760.99	0.58	0.44	-554.96
2.0	-22,601.15	48	23	25	47.92	945.94	-1,774.31	0.53	0.49	-470.86
1.5	-33,930.33	75	32	43	42.67	1,211.70	-1,690.81	0.72	0.53	-452.40
1.0	-39,927.64	108	48	60	44.44	1,186.58	-1,614.73	0.73	0.59	-369.70
0.5	-45,793.17	135	59	76	43.70	1,290.06	-1,604.03	0.80	0.62	-339.21
0.0	-48,586.20	157	69	88	43.95	1,306.43	-1,576.48	0.83	0.65	-309.47

While the % winners doesn't change much, risk/reward tilts more negative the higher the op-ex week returns.

This past week the SPX gained almost 7%. To get a decent sized sample I looked at all instances greater than 3%.

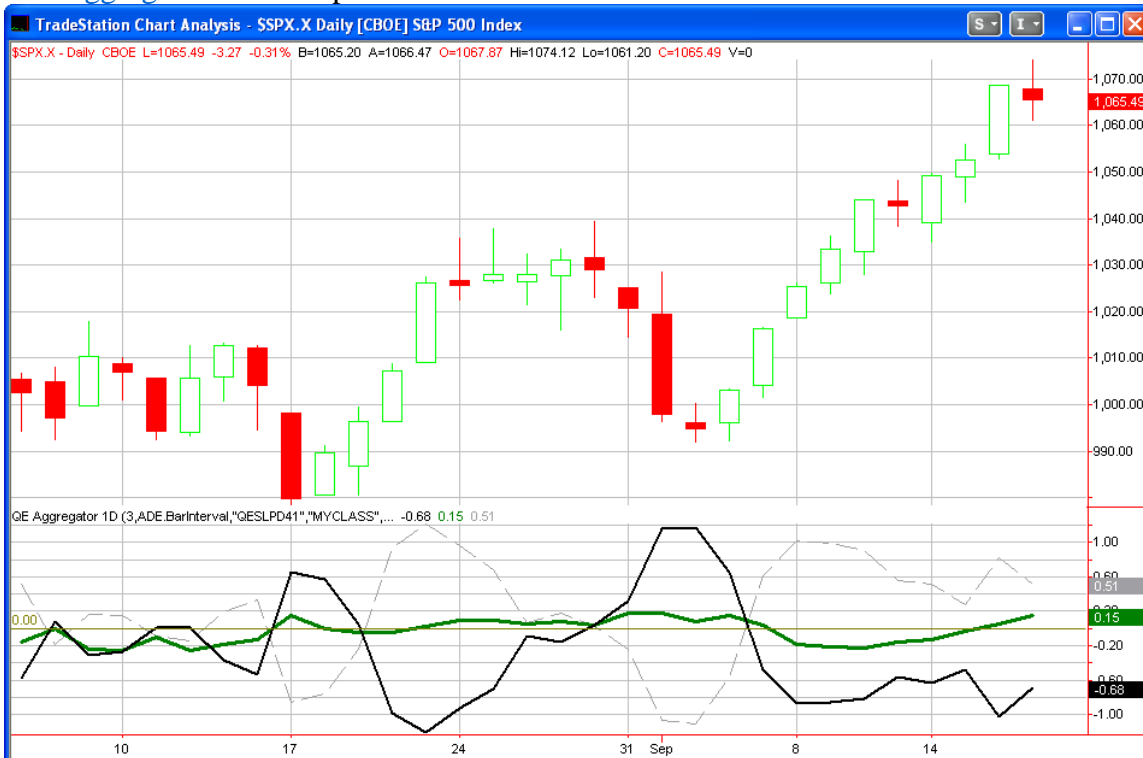
Today is option expiration Friday. SPX closes at least 3% higher than 5 days ago.
Buy SPX on close. Sell X days later. \$100k/trade. 1987-present.

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	-14,506.69	23	10	13	43.48	1,249.42	-2,076.99	0.60	0.46	-630.73
4	-7,873.16	23	9	14	39.13	1,416.19	-1,472.78	0.96	0.62	-342.31
3	-11,500.05	23	10	13	43.48	1,045.19	-1,688.61	0.62	0.48	-500.00
2	-5,108.92	23	10	13	43.48	1,064.42	-1,211.78	0.88	0.68	-222.13
1	538.18	23	10	13	43.48	1,425.23	-1,054.93	1.35	1.04	23.40

20 of 23 (87%) posted a close below the trigger day close at some point during the next week.

So the up expirations week sets up a negative expectation – especially when it is up strongly.

The **Aggregator** chart is updated below.



The green Aggregator line rose again tonight. It's now squarely above zero which means the net expectation for the active studies is bullish over the next few days. The active studies list is extremely small right now. With really only 2 studies contributing at this point, we are far below normal. This means that new studies that emerge over the next few days should have significant impact on the Aggregator. While expectations are positive, the market is still overbought versus expectations over the last few days. This is basically a neutral situation and suggests the sidelines may not be a bad place for the next day or so.

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. The Aggregator is neutral and the systems triggers page only has a few triggers on the S&P 500 (minus 100) list, which I typically don't track here in the Letter.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Loss	Stop	Notes
SPY(s)(1/4)	9/9/2009	\$103.12	\$107.16	-3.92%		covered on close
SPY(s)(1/4)	9/9/2009	\$105.45	\$107.16	-1.62%		

If the market opens below \$107.51, I'll place my stop on the remaining lot there. If it gaps up above this then I'll try and show some patience rather than buying in to the gap up.

There's a good chance I'll update the stop and target levels during the day.

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