QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 23, 2009 Volume 2 Issue 182

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 23, 2009	Fed Day	1 day	Bullish	
September 21, 2009	Op-ex week up 2%-3%	1-5 days	Bearish	-1.20%
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				

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

Short-term Outlook – updated 9/23

The Bottom Line

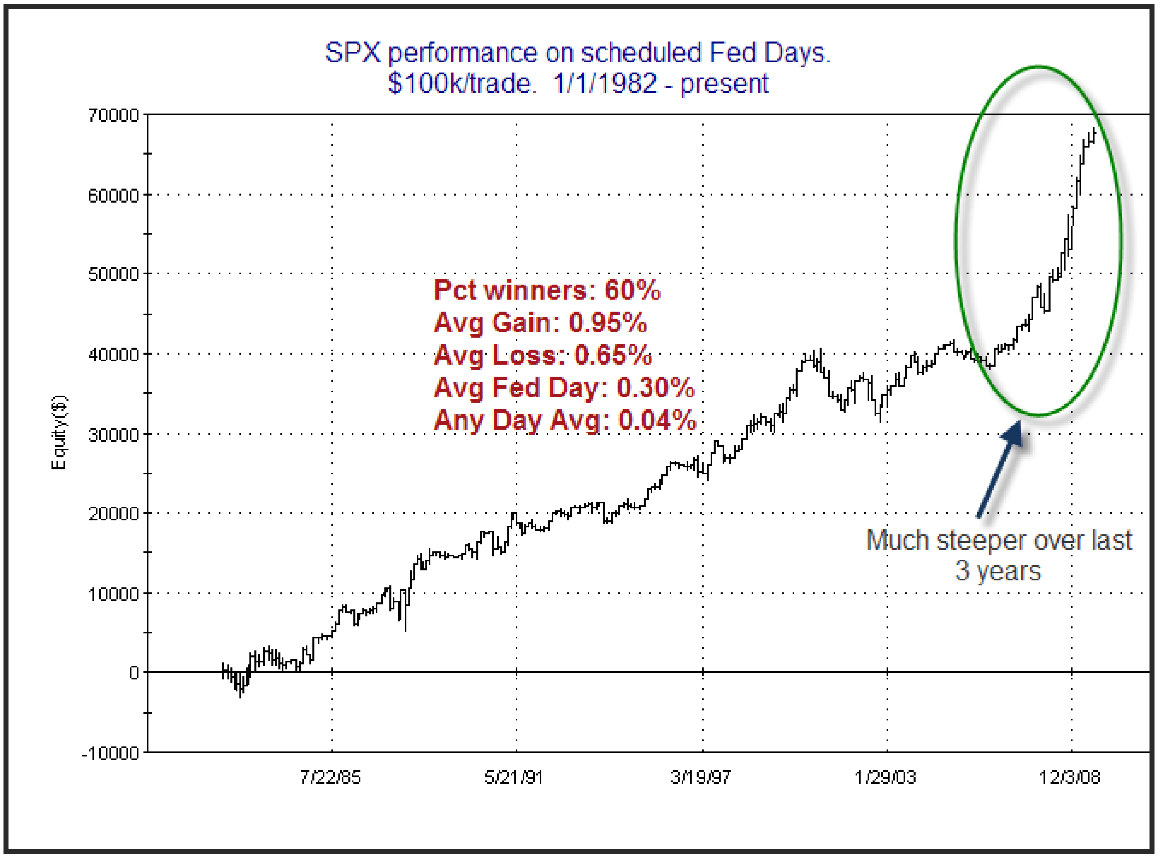
Between tomorrow's Fed day and the active breadth thrust study it appears risk/reward is favoring the bulls. The neutral 3-day outlook is direct from the Aggregator chart. So while the edge would be more substantial if the market wasn't overbought, I'm still leaning that way based on the studies.

The Evidence

A large gap up this morning pulled back but never quite filled in the morning before rallying back up above its open price. This high was hit shortly afternoon when it appears most market participants fell asleep. The SPY traded in a narrow $0.40 sideways range the rest of the day. Breadth was positive as the NYSE Up Issues % came in at 70% and the Up Volume % at 76%. Volume was quiet but just above yesterday's level.

The patterns and indicators haven't provided much in the way of clues lately. A large potential influence tomorrow is the fact that it is a Fed day. There's quite a bit on the blog with regards to Fed days. Subscribers may want to peruse some of those studies tomorrow as we approach the announcement. I decided tonight to at actual Fed days in some detail.

Below is a long term chart of market performance on scheduled Fed days. I didn't include non-scheduled meetings. Those are generally surprise rate cuts that are aimed at boosting the market. They're inherently bullish yet unpredictable since the meetings aren't scheduled. Therefore there is no point in including them in the performance.



There's been a consistent bullish bias on these days since the beginning of my data in 1982. That bias has accelerated in the last 3 years. Since June of 2006 the average Fed day has produced a return of 1.1%.

I also broke the data down by year:

A year by year look at scheduled Fed days.
$100k/trade.

1900 + Year	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
109	9,364.20	5	5	0	100.00	1,872.84	0.00	100.00	100.00	1,872.84
108	12,480.78	8	5	3	62.50	2,888.21	-653.43	4.42	7.37	1,560.10
107	4,820.59	8	6	2	75.00	1,225.71	-1,266.84	0.97	2.90	602.57
106	1,371.48	8	3	5	37.50	1,004.44	-328.37	3.06	1.84	171.44
105	-1,397.52	8	3	5	37.50	513.20	-587.43	0.87	0.52	-174.69
104	1,989.71	8	6	2	75.00	573.96	-727.02	0.79	2.37	248.71
103	4,177.64	8	6	2	75.00	974.33	-834.18	1.17	3.50	522.21
102	-561.50	8	4	4	50.00	968.33	-1,108.71	0.87	0.87	-70.19
101	-2,190.23	8	3	5	37.50	903.43	-980.10	0.92	0.55	-273.78
100	2,156.30	8	4	4	50.00	1,059.84	-520.77	2.04	2.04	269.54
99	4,086.75	8	5	3	62.50	1,098.59	-468.73	2.34	3.91	510.84
98	4,465.67	8	8	0	100.00	558.21	0.00	100.00	100.00	558.21
97	231.71	8	4	4	50.00	1,104.42	-1,046.49	1.06	1.06	28.96
96	1,798.57	8	4	4	50.00	572.27	-122.62	4.67	4.67	224.82
95	4,108.97	8	6	2	75.00	696.94	-36.32	19.19	57.57	513.62
94	-483.93	8	4	4	50.00	557.97	-678.96	0.82	0.82	-60.49
93	1,553.44	8	4	4	50.00	542.25	-153.89	3.52	3.52	194.18
92	1,817.94	8	4	4	50.00	584.01	-129.52	4.51	4.51	227.24
91	1,505.61	8	4	4	50.00	1,201.79	-825.39	1.46	1.46	188.20
90	1,158.93	8	5	3	62.50	775.83	-906.73	0.86	1.43	144.87
89	461.37	8	4	4	50.00	470.23	-354.89	1.33	1.33	57.67
88	4,166.71	9	7	2	77.78	829.89	-821.26	1.01	3.54	462.97
87	1,801.54	8	5	3	62.50	1,525.05	-1,941.24	0.79	1.31	225.19
86	1,066.94	8	6	2	75.00	499.02	-963.60	0.52	1.55	133.37
85	3,400.00	8	6	2	75.00	682.90	-348.71	1.96	5.88	425.00
84	3,348.65	8	5	3	62.50	1,152.18	-804.08	1.43	2.39	418.58
83	-992.22	8	2	6	25.00	786.31	-427.47	1.84	0.61	-124.03
82	1,919.13	9	5	4	55.56	838.30	-568.09	1.48	1.84	213.24

Owning the market on the 13 Fed days since the beginning of 2008 would have produced an additive, non compounded return of nearly 22%.

We're also on a 6-day win streak since December. Below are the last 6 meeting days.

Hanna Capital Management, LLC   16 Hillcrest Rd., Medfield, Massachusetts   02052   781-956-6952

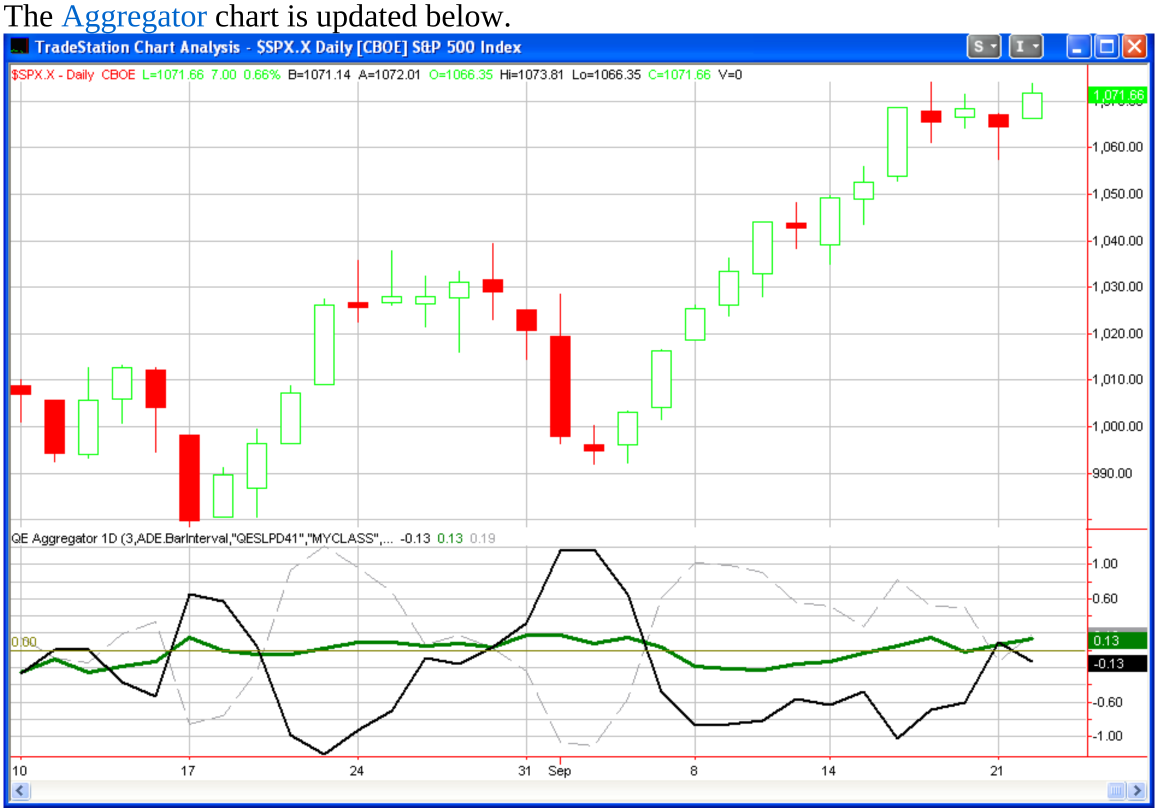
Last 6 Fed Days

Date/Time	Signal	Price	% Profit	Run-up DrawDown
12/15/08	Buy	$868.57	5.14%	$5,300.35
12/16/08	Sell	$913.18		$0.00
01/27/09	Buy	$845.71	3.36%	$3,754.76
01/28/09	Sell	$874.09		$0.00
03/17/09	Buy	$778.12	2.09%	$3,189.76
03/18/09	Sell	$794.35		($1,597.44)
04/28/09	Buy	$855.16	2.16%	$3,120.40
04/29/09	Sell	$873.64		$0.00
06/23/09	Buy	$895.10	0.65%	$1,748.25
06/24/09	Sell	$900.94		$0.00
08/11/09	Buy	$994.35	1.15%	$1,843.00
08/12/09	Sell	$1,005.81		($99.00)

Avg. Gain = 2.4%.
All gained at least 1.75% intraday.

I can't think of any other "seasonal" tendencies as strong as this one. Fed days certainly seem to provide and upside edge.

The Aggregator chart is updated below.



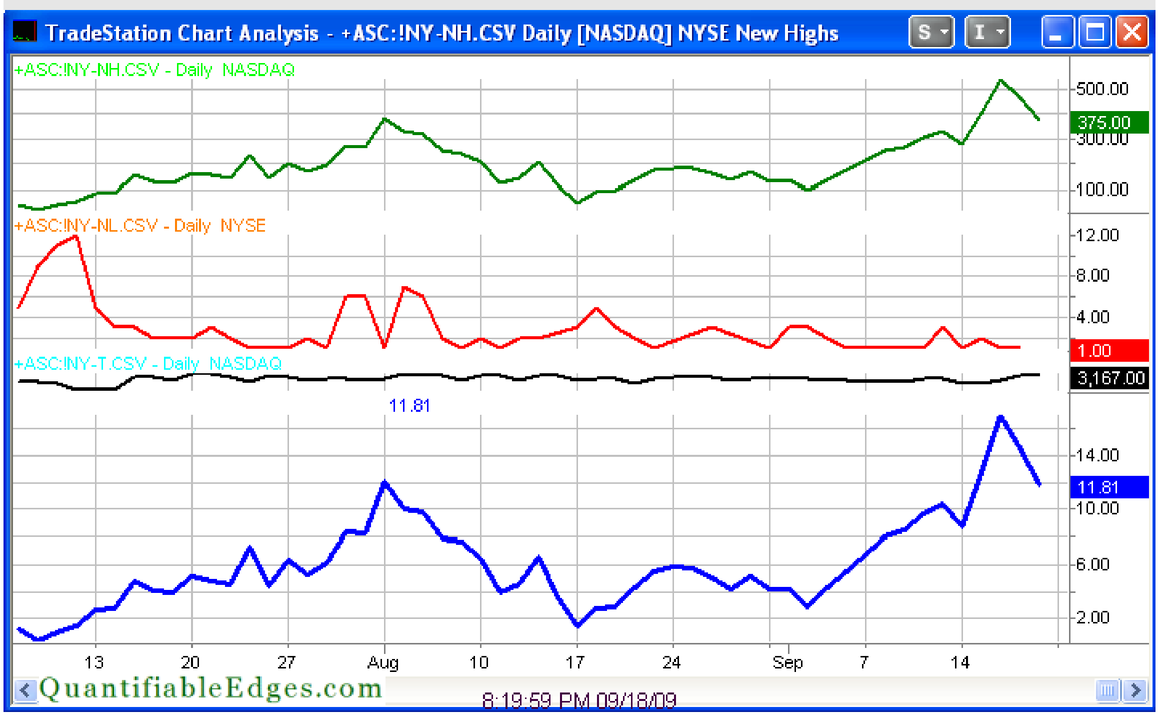
Today's rally caused the black differential line to fall back below 0. Meanwhile, with the help of tomorrow's Fed day, the green Aggregator line has risen further above 0. When net expectations are positive but the market is already a bit overbought that represents a neutral outlook from the Aggregator.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/21 – somewhat bullish

Nothing really has changed since last week from an intermediate-term standpoint. In last week's Letter we reviewed 2 bullish indications and one bearish. The bullish indications came from 1) the Nasdaq/S&P 500 Relative strength chart, which is tracked on the website and 2) The Appel Daily Breadth Thrust signal which is triggered by a high reading in the Up Issues % 10-day ema. This can also be seen on the charts page. Both of these indicators remain bullish. We'll need to see continued outperformance by the Nasdaq and solid breadth readings this week for both indicators to remain bullish.

I also noted last week that it was worth keeping an eye on the NYSE Net New Highs %. It had failed to register a new high since August 1st, even while the indices had all been hitting new highs. My research showed that this was not a death sentence for the rally but that if the new highs could expand that would serve as confirmation for the rally. Under such circumstances the market has historically outperformed the times new highs weren't confirming. This week saw a large expansion of new highs and the August levels were easily taken out. Below is a copy of the chart kept on the website that illustrates this.

NYSE Net New Highs



The current lone dissenter among the intermediate-term studies was the low VIX:VXV ratio study. This ratio remains stretched to the downside and is still suggesting an uptick in volatility, which would likely be accompanied by a market selloff. Interestingly, while this ratio remains stretched the VIX and the VXO are both right around their 10-day moving averages.

My conclusion remains the same as last week:

As long as I see the Nasdaq lead, breadth remain strong, and the new highs continue to expand, I'll look for a continuation of the current rally. All of these indications can flip in a fairly short period so they will need to be monitored. At some point the market will likely undergo a sharp correction.

The basic premise I'm working under remains that we are in a 1930's – style environment in which both rallies and selloffs will be much more exaggerated than most market participants are used to. Just as the bear market up to March 2009 was incredibly extreme, so has been the rally since then. I believe there is going to be a lot of back and forth over the next few years and the swings will continue to feel extreme. It may be important to keep this in mind when considering market action.

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. I'll wait to see how the Fed announcement turns out before looking for new positions.

Active Trades Table

none