

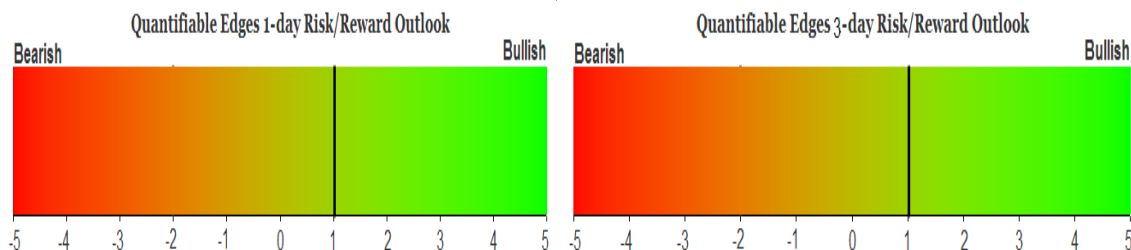
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 29, 2009

Volume 2 Issue 186

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 29, 2009	SPX up 1% on lowest vol in 20	1-3 days	Bearish	-1.80%
September 28, 2009	Pullback from 20-high drying up	1-5 days	Bullish	2.60%
September 25, 2009	50-high to 8-low in 2 days	1-6 days	Bullish	2.10%
September 24, 2009	SPX down 1% SOX up	1-6 days	Bullish	
Active - Long Term				
September 14, 2009	Nasdaq/S&P Lead/Lag Model		Bullish	
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 9/29

The Bottom Line

Sunday night was the 1st “5” rating I’d given since I began showing the thermometers about a month ago and the market responded nicely. The market isn’t greatly oversold anymore and a bearish study tonight has weakened the case for upside. Still, it appears the rally may have few more points in it. The short-term outlook tonight is lightly positive.

The Evidence

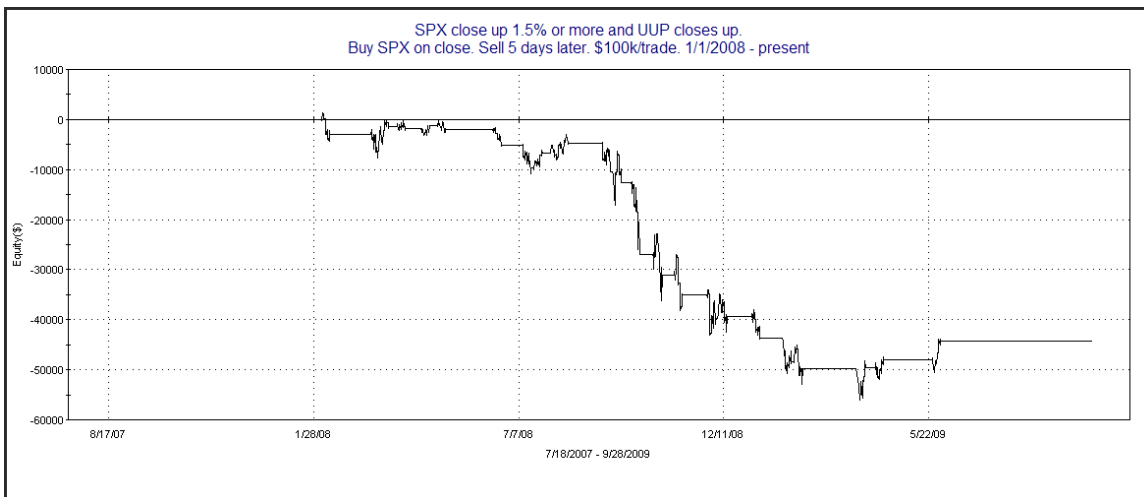
The market gapped up slightly Monday and never looked back, putting in its strongest day in a few weeks. The S&P finished up 1.8% while the Nasdaq was up 1.9%. Breadth was strong. The NYSE Up Issues % came in at 79% and the Up Volume % at 86%. Total volume was the lightest in over a month.

One potentially negative oddity about today was the fact that the SPX rose strongly while the dollar index also rose. Over the last year and a half or so the dollar and the S&P have had a strong inverse correlation, so to see the dollar rise while the S&P puts in a big day has been unusual. I looked in some detail at how the market has performed over the last few years when this has been the case.

SPX close up 1.5% or more and UUP closes up.
Buy SPX on close. Sell X days later. \$100k/trade. 1/1/2008 - 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
10	-40,621.18	17	8	9	47.06	1,727.79	-6,049.28	0.29	0.25	-2,389.48
9	-37,719.75	18	5	13	27.78	2,307.25	-3,788.92	0.61	0.23	-2,095.54
8	-55,776.49	20	5	15	25.00	1,920.25	-4,358.52	0.44	0.15	-2,788.82
7	-64,238.21	21	7	14	33.33	1,466.70	-5,321.80	0.28	0.14	-3,058.96
6	-59,581.28	24	5	19	20.83	1,310.48	-3,480.72	0.38	0.10	-2,482.55
5	-44,297.55	24	10	14	41.67	1,294.98	-4,089.09	0.32	0.23	-1,845.73
4	-38,872.21	26	8	18	30.77	1,638.72	-2,887.89	0.57	0.25	-1,495.09
3	-26,509.38	28	10	18	35.71	1,685.18	-2,408.96	0.70	0.39	-946.76
2	-23,028.79	32	13	19	40.63	1,881.83	-2,499.61	0.75	0.52	-719.65
1	-5,318.45	33	17	16	51.52	1,389.74	-1,809.01	0.77	0.82	-161.17

At first glance the returns appear to be strongly negative. When I took a deeper look at the individual performance reports, though, they told a story of an inconsistent edge. As an example, below is an equity curve of the 5-day exit.



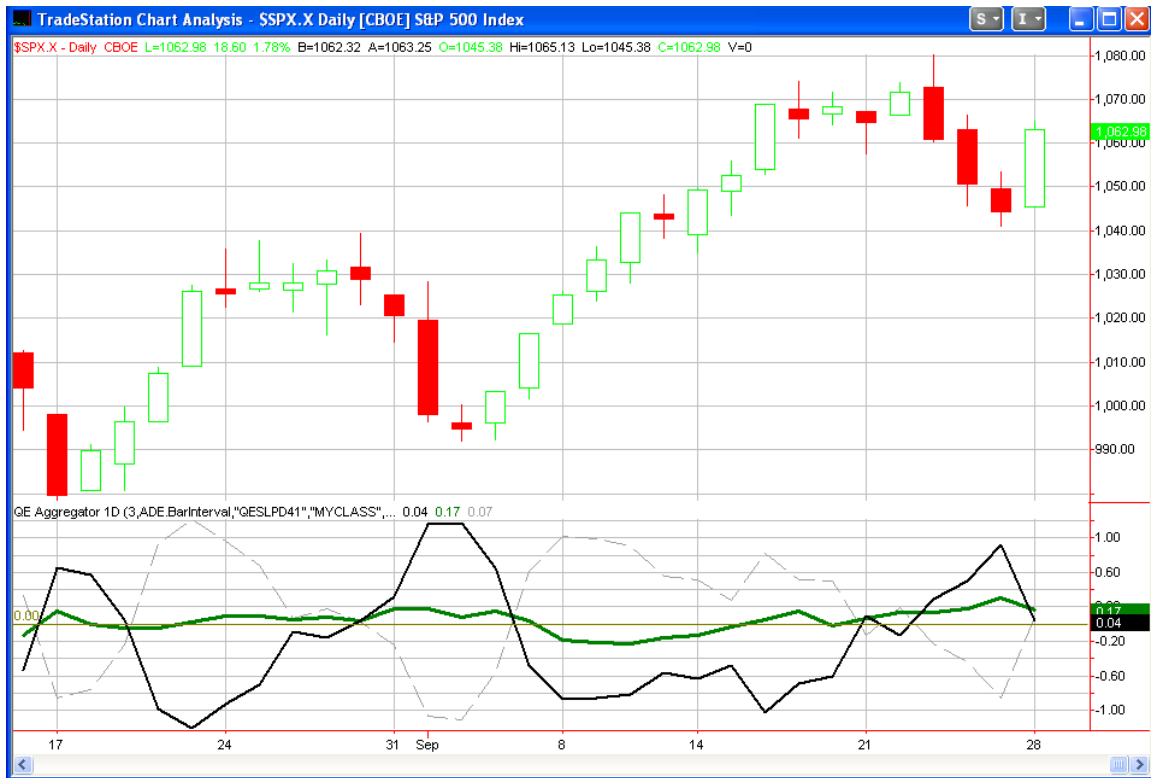
What's apparent in the chart above is that all the damage was done in the period of 9/2008 – the March bottom. During that time, basically every bounce was quickly sold, regardless of the action in the dollar. Without evidence that the edge persists outside of this very bearish period, I'm inclined to ignore it.

There were several studies from the Quantifinder on Monday that suggested the very low volume could be a concern. One of these was from the 5/13/08 blog. I chose to update this one below.

SPX rises 1% on the lowest NYSE volume in 20 days. Buy on close. Sell X days later. \$100k/trade. 1980 - 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
10	-31,739.66	30	13	17	43.33	2,387.43	-3,692.72	0.65	0.49	-1,057.99
9	-33,487.57	30	14	16	46.67	2,149.68	-3,973.94	0.54	0.47	-1,116.25
8	-22,949.35	30	15	15	50.00	1,836.05	-3,366.01	0.55	0.55	-764.98
7	-18,177.10	30	14	16	46.67	1,515.41	-2,462.05	0.62	0.54	-605.90
6	-23,648.18	30	15	15	50.00	1,340.65	-2,917.19	0.46	0.46	-788.27
5	-14,243.94	31	16	15	51.61	1,652.69	-2,712.47	0.61	0.65	-459.48
4	-6,048.75	31	17	14	54.84	1,325.29	-2,041.33	0.65	0.79	-195.12
3	-13,996.23	31	14	16	45.16	1,244.07	-1,963.33	0.63	0.55	-451.49
2	-10,444.59	31	12	19	38.71	1,094.23	-1,240.81	0.88	0.56	-336.92
1	-7,777.62	31	12	19	38.71	826.71	-931.48	0.89	0.56	-250.89

We've seen several studies like this over time and many of them were identified by the Quantifinder on Monday. With so many studies confirming each other, it seems the downside edge in these very low volume rises is for real. One caveat with Monday's action though is that it was Yom Kippur, meaning a lot of traders were out of action and somewhat lower volume could be expected. Still, it's been a steady enough edge that I decided to include it in the Aggregator tonight.

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



Tonight's bearish study helped to weaken the green Aggregator line. It still remains solidly above 0 though as net expectations from the studies on the active list remain bullish. As noted would happen in the intraday update, the close below 1064.25 failed to move the Differential line negative. It remains barely positive. In English this configuration means the studies are suggesting a solid chance of more upside while over the last few days the market has just barely underperformed expectations. Both lines above 0 is typically considered a bullish configuration and the Aggregator System remains long.

Targets will be much easier to achieve tomorrow. The Differential line could fall below zero on basically any close of 1055.17 or higher. The green Aggregator line is likely to remain positive. The only likely way this could change would be if the market followed though strongly upwards and both triggered additional bearish studies and reached the target prices for some of the current bullish ones. Therefore chances appear pretty good that we'll see the Aggregator System turn to neutral tomorrow afternoon.

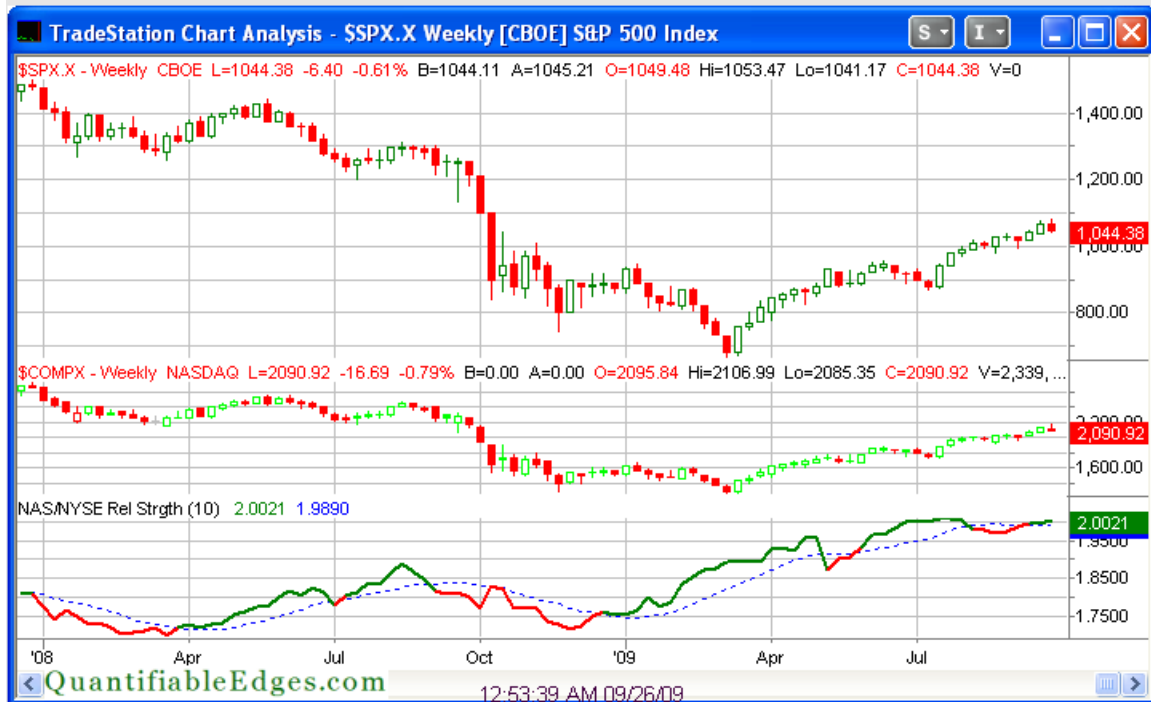
Intermediate-term Outlook (2 weeks – 2 months)– updated 9/28 – slightly bullish

While the short-term outlook is about as bullish as it gets after the 3-day pullback, the intermediate-term outlook has taken a little bit of a hit. The Appel Daily Breadth Impulse Signal was turned off as the market sold off hard on Thursday. While the signal was goof for a small 2 week gain, it did not lead to the kind of upside follow-through that it looks to capture. In any case, breadth is no longer signaling an intermediate-term rise.

The Nasdaq/S&P 500 Relative Strength remains precariously bullish. This is now the 3rd weeks in a row the Nasdaq has been in a leading position. The lead is extremely small,

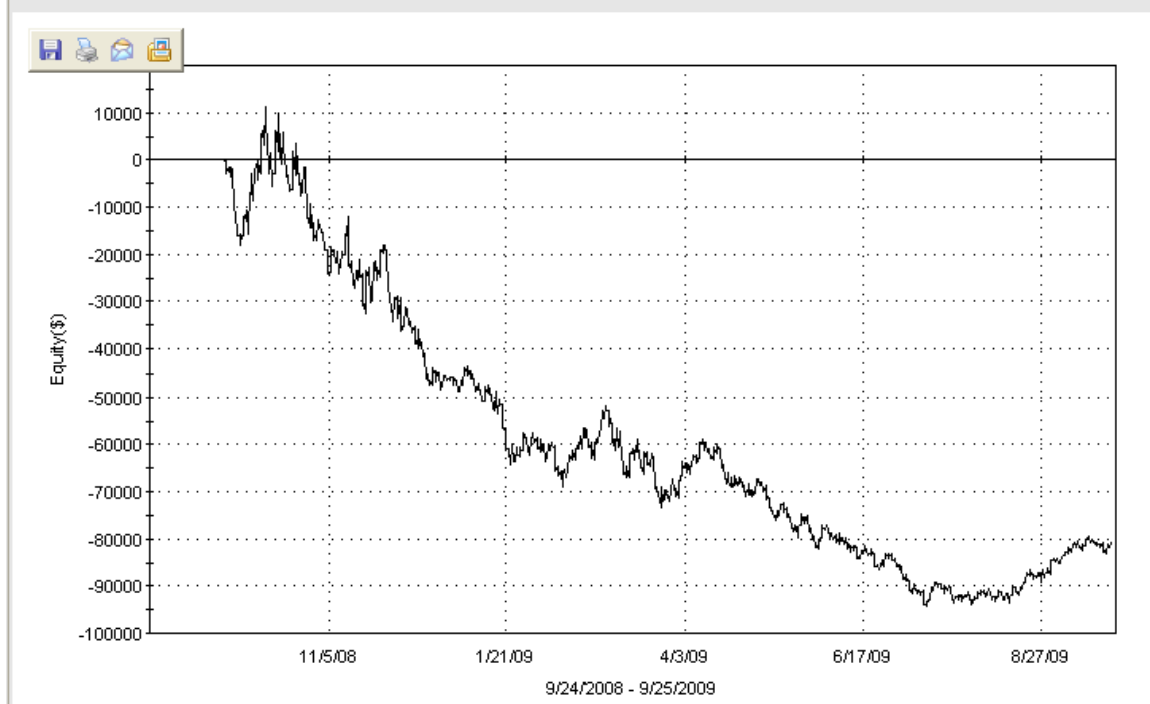
though and will again depend on more outperformance this week to remain bullish. I've copied the chart from the website below.

S&P 500/Nasdaq Relative Strength Weekly



Another notable chart is the Trend vs. Chop from the website. As you can see below the past 3 months we've seen more follow-through on a daily basis in the S&P 500 index than we have choppy behavior. This has made for a difficult time for mean reverting strategies. Runs have persisted substantially more than we've become accustomed to over the last few years. The last time the market spent this long without exhibiting choppy behavior was 2006.

Trend vs. Chop Daily



I am not yet convinced that it is time to break out strategies that rely on trendy day-to-day behavior. The chart does warrant watching, though. And traders should keep in mind we are no longer seeing consistent chop. You're swimming upstream a little bit at the present with short-term mean reversion strategies.

For more information on “trend vs. chop” and a longer-term chart, you can check out the [Trend vs. Chop detail page](#) on the website.

Bottom line is we've seen a slight weakening of the bullish case this week. With the short-term bias strongly bullish it will be important to monitor intermediate-term indications if we do get the anticipated short-term bounce. A weak bounce could suggest another leg down and perhaps worse. A strong bounce could lead to another leg higher. So far the outlook is slightly favoring upside, but that could change easily and quickly depending on the next few days.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

XRX @ 7.68 – buy 1/3 position @ \$7.68 limit ON CLOSE

Catapult for ETF's Trades

none

Broad Market Large Cap CBI -1(XRX)

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.

XRX – buy 1/3 position @ \$7.68 limit ON CLOSE. From Catapult section above. Subscribers are reminded that while the Catapult trades have done very well, they are extremely volatile and carry a good amount of risk. Chart-wise this is not my favorite looking Catapult either being that it is happening on a breakdown. Therefore rather than just the normal limit order I'll instead only look to enter on a lower CLOSE.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	9/24/2009	\$106.18	\$106.32	0.13%		sold on close
SPY(1/4)	9/25/2009	\$104.78	\$106.32	1.47%		

The unfilled gap on Monday morning was a bit unfortunate in the fact that we weren't able to get the third SPY lot on. The rally was strong enough though that even the early entries turned out all right. With the Aggregator System likely to turn neutral tomorrow I'll be looking to trail a stop once a range is established. I'll likely send out an update with a stop level after the market has traded for a bit.

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.