

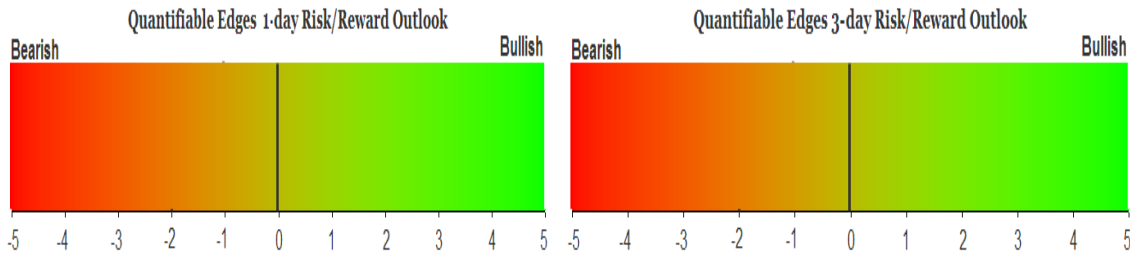
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 30, 2009

Volume 2 Issue 187

## 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 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	
<b>Active - Long Term</b>				
September 14, 2009	Nasdaq/S&P Lead/Lag Model		Bullish	
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 9/30*

#### *The Bottom Line*

The market action on Tuesday left little to go on. The Aggregator chart is now back to neutral. Overall I just don't see a compelling edge at this point.

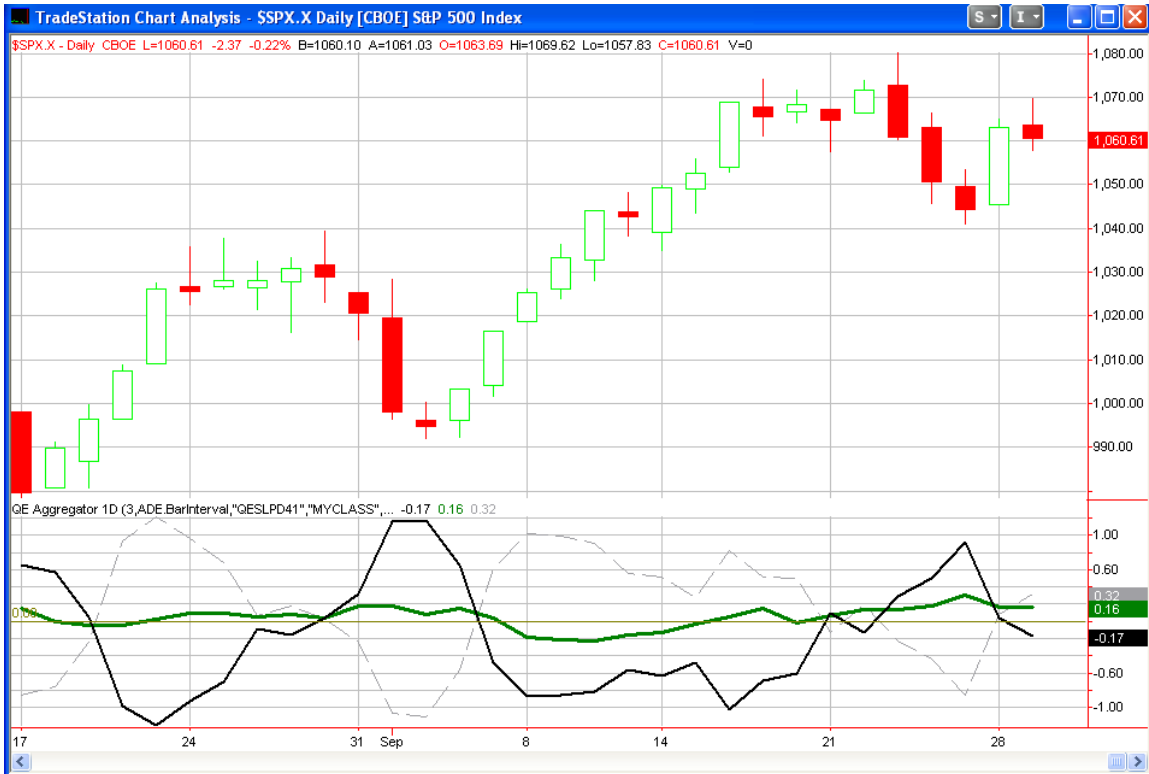
### ***The Evidence***

Often after a large move like we saw on Monday the market will spend a day or two digesting its gains. Such was the case Tuesday. The market opened strong and rallied a bit for the 1<sup>st</sup> half hour. It then hit a bump when the consumer confidence numbers came out. After chopping around and fluctuating back and forth from red to green, a weak finish saw both the Nasdaq and S&P close mildly lower. Breadth was mixed. The NYSE Up Issues % came in at 48% but the Up Volume % was 51%. Total volume rose from Monday's levels but was still well below average.

A mild selloff with in descript breadth and volume and a close in the middle of a short-term range leaves very little to go on tonight. While I looked at indicators from several different angles, nothing has stood out. Neither bullish nor bearish edges are making themselves readily available. Even the Quantifinder drew a blank. Once every couple of weeks this happens. Rather than try and decipher meaning from some obscure observation, it's normally best to simply show a little patience. No new studies tonight.

None of the current studies quite reached their targets so they are all left active. Both the 9/25 and 9/28 bullish studies came close but neither quite got there.

So without further delay, the [Aggregator](#) chart is updated below.



Without any changes to the studies the green Aggregator line remains above 0. This illustrates the net expectations of the active studies is positive over the next few days. Meanwhile the black Differential line is showing that over the last few days the SPX has outperformed expectations. When the Aggregator and Differential stand on opposite

sides of the 0 line that is basically considered a neutral configuration. I suggested in last night's letter that the probability of a neutral configuration seemed pretty high. I've now begun suggesting a probable Aggregator signal near the close. It can be found on the systems page as of a few minutes before the 4pm bell. I've also been sending notification via Twitter after I update it. Below is tonight's systems page.

<http://www.quantifiableedges.com/members/systems.php>

The buy signal which went active at the close on 9/23 was turned off today. The result of this last signal was basically a scratch as it lost 0.02%. The SPY trade ideas were scaled out of today and yesterday for a decent gain. Scaling in and out helped in this case but sometimes it hurts. How to handle the Aggregator trades and signals is a matter of preference. While the system suggests you're best off being aggressive, traders may have a bit more comfort using a scaling technique. It's been what I've preferred over the years. I'll continue to scale in to trade ideas in the Letter and also track the "all-in" mentality of the system approach. I'll have more information on the Aggregator System as well as full historical Aggregator data available fairly soon.

Speaking of systems, I often will review the systems triggers sheet for themes. A large number of buy triggers may suggest a bullish outlook while a large number of bearish signals could suggest a bearish outlook. Tonight there were no S&P 100 triggers and only 1 etf signal. Like everything else I've discussed tonight, this also suggests a neutral bias.

***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 good 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.

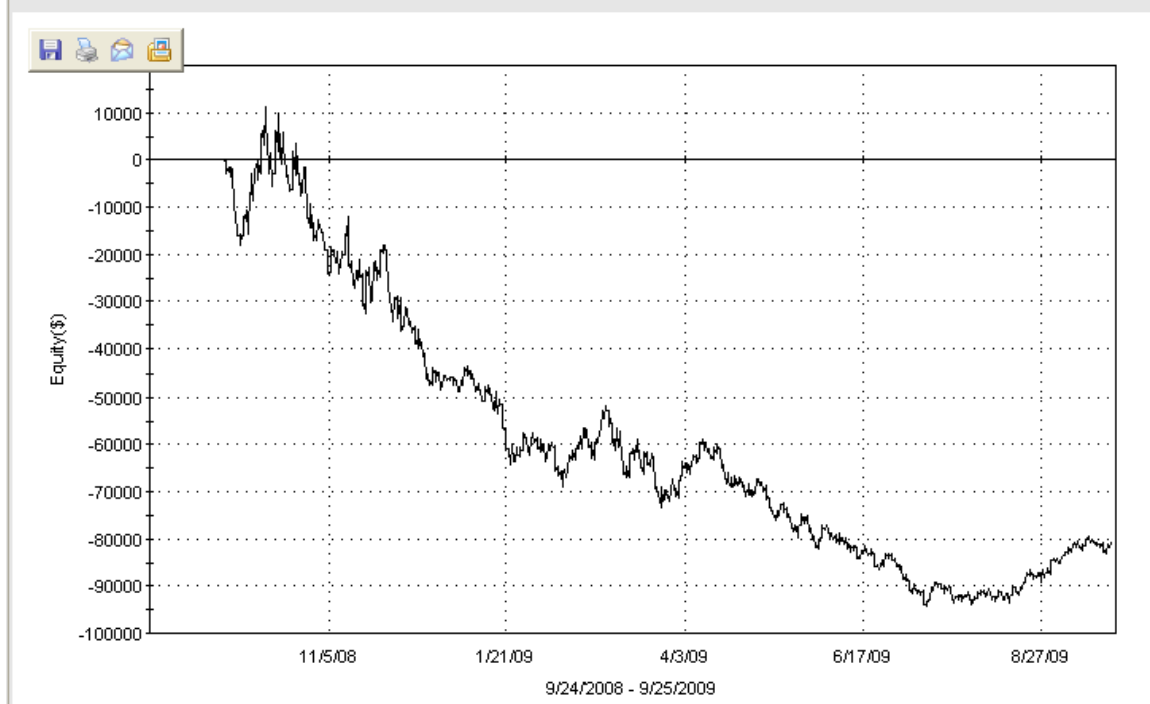
The Nasdaq/S&P 500 Relative Strength remains precariously bullish. This is now the 3<sup>rd</sup> weeks in a row the Nasdaq has been in a leading position. The lead is extremely small, though and will again depend on more outperformance this week to remain bullish. I've copied the chart from the website 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 – (entry not filled)*

#### ***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.*

*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(1/4)	9/25/2009	\$104.78	\$105.95	1.12%		stopped out intraday

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