

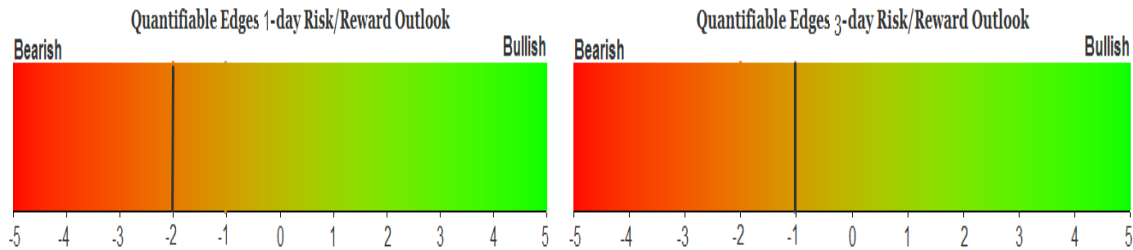
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 15, 2009

Volume 2 Issue 198

Market Overview



Tonight's Research Points

- The breakout to a new 50-day high from congestion in an uptrend suggest **bullish** implications.
- “Gap & Go” for SPY along with closing at a new high is often reversed over the next 1-3 days. **Bearish** implications.
- CBOE Equity Put/Call Ratio comes in more than 25% below normal. **Bearish**.
- Recently infrequent bearish Aggregator signal tonight likely to only last 1 day.

Short-term Outlook – updated 10/15

The Bottom Line

A mix of studies tonight is suggesting a mild bearish edge. The edge may not last, though as the bearish studies are very short-term in nature. The Aggregator System flipped from long to short at the close today after making substantial 1-day gains.

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				
October 15, 2009	CBOE Equity p/c 25% below 200ma	1 day	Bearish	
October 15, 2009	Gap & Go to new high	1-2 days	Bearish	-1.30%
October 15, 2009	Breakout above 50-day high	1-5 days	Bullish	1.80%
October 14, 2009	SPX 5 up then down while > 200ma	1-9 days	Bullish	2.10%
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				
October 12, 2009	SPX 5 higher closes over 200ma.	1-5 days	Bullish	1.15%

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

The Evidence

Earnings news helped to fuel a big pre-market gap up. After the gap up the market did little but trade sideways until the last hour of the day. In the last hour the market broke higher and finished up strongly and at new highs for the year. The SPX gained 1.75% while the Nasdaq and Dow were up 1.5%. Breadth was strong as the Up Issues % came in at 75% and the Up Volume % was 88%. According to my data provider, more stocks hit 52-week highs on the NYSE today than any day since January of 2004. Total volume rose over the last few days and was above average.

Studies are a bit mixed tonight. There's a little more evidence of a short-term pullback than a continuation. On the positive side, breakouts to new highs after a multi-week period of consolidation during an intermediate-term uptrend often get some upside follow through. Below is a study similar to the one I showed on June 2nd.

**SPX breaks out to close above its 50-day intraday high. It has not made a 50-day intraday high in the last 12 days. The 50ma is sloping upwards.
Buy on close. Sell X days later. \$100k/trade. 1961 - 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: Profit Factor	All: Avg Trade
5	66,403.43	117	81	36	69.23	1,330.28	-1,148.60	1.16	2.61	567.55
4	53,803.17	117	78	39	66.67	1,141.39	-903.22	1.26	2.53	459.86
3	42,017.55	117	77	40	65.81	987.01	-849.57	1.16	2.24	359.12
2	40,685.51	117	76	41	64.96	808.90	-507.09	1.60	2.96	347.74
1	26,835.58	117	76	40	64.96	515.10	-307.79	1.67	3.18	229.36

85% of instances closed higher than the entry price at some point in the next week.

Not overwhelming, but generally some decent follow through over the next week.

The problem with today's breakout is that it may have been overdone. I'm seeing two different indications of this - one based on price and one based on option activity.

The large gap-n-go formation today is one we last looked at on 7/16/09. An updated study is below:

SPY gaps at least 1% above yesterday's close. It never trades <= yesterday's close, makes a 10-day intraday high and closes > the open. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	6,479.74	17	9	8	52.94	1,971.87	-1,408.38	1.40	1.58	381.16
4	6,034.39	18	11	7	61.11	1,579.38	-1,619.82	0.98	1.53	335.24
3	-3,943.70	18	9	9	50.00	1,102.20	-1,540.39	0.72	0.72	-219.09
2	-6,838.97	18	8	10	44.44	435.63	-1,032.40	0.42	0.34	-379.94
1	-2,651.24	18	8	10	44.44	668.12	-799.62	0.84	0.67	-147.29

78% of instances closed below their entry price at some point in the next 3 days.

The downside edge doesn't last long but there is often a brief pullback after such a day.

The extremely low CBOE Equity Put/Call Ratio is another sign that we could get a pullback tomorrow. The Quantifinder identified the fact that the 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 1st 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	(\$16,546.49)	Profit Factor	0.28
Gross Profit	\$6,389.79	Gross Loss	(\$22,936.28)
Total Number of Trades	27	Percent Profitable	33.33%
Winning Trades	9	Losing Trades	18
Even Trades	0		
Avg. Trade Net Profit	(\$612.83)	Ratio Avg. Win:Avg. Loss	0.56
Avg. Winning Trade	\$709.98	Avg. Losing Trade	(\$1,274.24)
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.

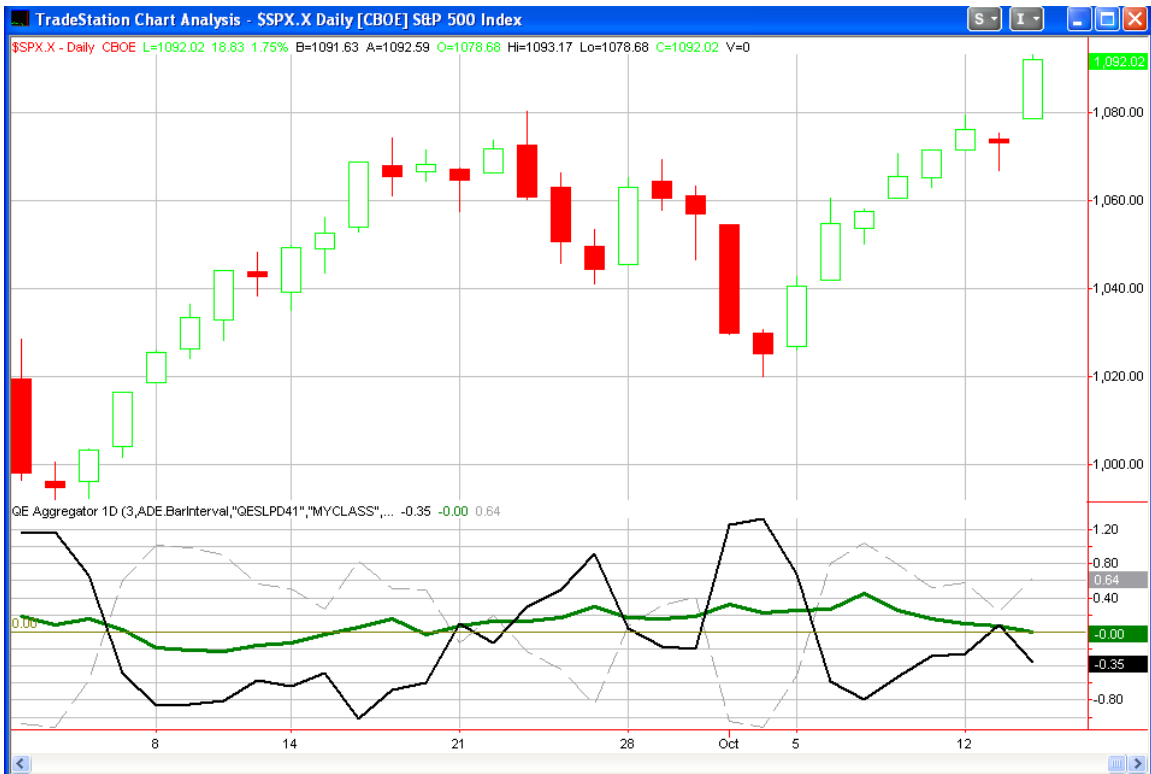
CBOE Equity Put/Call Ratio closes 25% below its 200ma. Buy SPX on close.
 Sell next day's close. \$100k/trade. March 2009 bottom - present.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	(\$12,211.32)	Profit Factor	0.25	
Gross Profit	\$4,079.09	Gross Loss	(\$16,290.41)	
Total Number of Trades	21	Percent Profitable	33.33%	
Winning Trades	7	Losing Trades	14	
Even Trades	0			
Avg. Trade Net Profit	\$581.49	Ratio Avg. Win:Avg. Loss	0.50	
Avg. Winning Trade	\$582.73	Avg. Losing Trade	(\$1,163.60)	
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.

Also notable about today's action is that the rally saw the "5 Higher Closes" momentum study hit its target. It was therefore dropped from the Active List.

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



With tonight's studies now taken into account the green Aggregator line has gone from positive to *just barely* negative. The reading on the Aggregator chart is "-0.00". If it was

barely positive it would read “0.00” without the “-“sign. This illustrates the net expectations from the active studies is slightly negative at the moment. Based on the current active studies list, the Aggregator line is set to flip back to the positive side as of tomorrow afternoon. Additional bearish studies would need to emerge tomorrow to prevent this from happening. The sharp rally today caused the black Differential line to move solidly below zero once again. This illustrates the fact that the SPX has outperformed expectations over the last few days. Both lines below 0 is generally a short-term bearish configuration. It’s the configuration I prefer when considering short exposure. I discuss taking on some short SPY exposure in the trade ideas section below.

It should also be noted that the Aggregator System flipped from long to short at the close today.

{information below repeated from yesterday}

The system page was updated about 10 minutes before the close to alert subscribers of the likely long signal. This page is typically updated 10-15 minutes before the close each day. A tweet is sent out as soon as it is updated to alert and remind subscribers of the update. To sign up to receive the tweets you may go to:

<http://twitter.com/qerob>

Subscribers may also note that the full Aggregator & Differential value history is now available on the Proprietary Data Download page. Those that wish to download it for testing or incorporating into their own strategies may do so. It will NOT be updated each night as the other data files are. Instead I will update it occasionally. Of course the Aggregator chart is shown each night in the letter. A link to the proprietary data download page is below.

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

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/12 – somewhat bullish

The intermediate-term outlook is unchanged since the 10/12 Letter. That Letter may be accessed using the link below:

[2009-10-12 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.

SPY – short 1/4 index position at \$109.31 limit. If not filled in the 1st half-hour of trading, cancel the order. Based on the short-term market outlook. Tomorrow's outlook is negative, so I will look to take advantage of that. There's a good chance it will move to either neutral or positive at the close tomorrow, so I don't want to be taking positions beyond early morning.

SPY – short 1/4 index position at \$110.00 limit ON OPEN. Cancel if not filled on open. Should the market gap strongly open tomorrow I'll be looking to sell into that strength.

In all likelihood a down close tomorrow will lead me to exit whatever short position I have.

Active Trades Table

none.

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