

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 30, 2008

Issue 219

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	Avg MM + 1 Std Dev
Active					
December 29, 2008	10/100 ATR < 0.60	n/a	Bearish	n/a	n/a
December 24, 2008	NR10 Low Vol 10 under 200ma	1-4 days	Bearish	-2.60%	-4.90%
December 23, 2008	Santa Rally	1-5 days	Bullish	1.90%	3.60%
December 22, 2008	Nasdaq Volume Spyx < -5	1-6 days	Bearish	-4.50%	-9.20%
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		
Dropped Tonight					
December 29, 2008	2 Days up in chop	1-4 days	Bearish	-1.50%	-3.00%

If the avg max move is achieved it will appear in **bold and brown**. If the avg + 1 std deviation is achieved, the study will in **bold italic blue** and will be removed tomorrow.

Short-term Outlook (1-5 days) –slightly bearish – updated 12/30

More relatively quiet action on Monday. After selling off in the morning the market rallied back in the afternoon allowing the major indices to recoup most of their early losses. Breadth was negative, but not to a great extreme. Volume, while higher than yesterday has remained quite low.

It's tough to make a dull market sound interesting. With few indicators near extremes there doesn't appear to be much providing an edge at the moment. We've seen a consistent contraction in the indices lately. The Nasdaq has now gone 13 days without posting a new 10-high or a new 10-day low. This is only the 13th time since 1970 it has happened. I was unable to discern a directional edge based on those occurrences. I suspect the next sizable edge may not appear until the market breaks its recent trading range.

I have updated the [Aggregator](#) chart below:



Both the green Aggregator line and the black differential line remain below zero. This indicates the market has recently outperformed expectations and that expectations for the next few days are negative. This is a typical shorting configuration. Like last night I'm still a bit cautious. The market remains near the lower end of its recent trading range and it managed to close slightly lower on Monday. I'd prefer to see it a bit more extended to the upside and providing a better risk/reward. I will continue to look for a short entry at the right price. Details in the trade ideas section below.

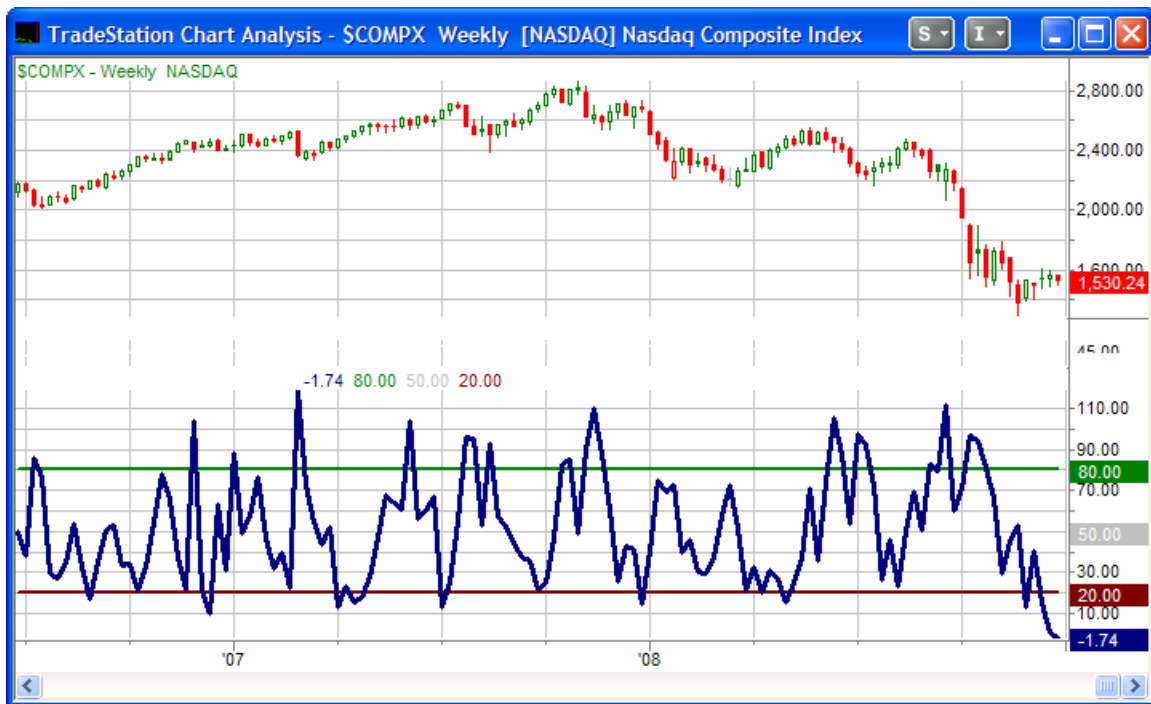
Intermediate-term Outlook (2 weeks – 2 months)– very slightly bullish -updated 12/29

It has now been about 5 weeks since the market bottomed in mid-November. After bouncing sharply from severely oversold conditions the 1st week, the market has failed to follow through at all since. As time goes by observations like positive divergences and strong thrusts off bottoms are waning in importance. I'm looking for further evidence that suggests a continued rally may be at hand. So far I'm not seeing much.

Last week I discussed [a recent study](#) that suggested a move above the 50-day moving average after spending so much time below it was most likely to lead to a range-bound market.

I also discussed the fact that the Nasdaq failing to take a leadership role was a potential negative. This remains the case.

Lastly, I showed a study which looked at Nasdaq Weekly Volume Spyx readings under 10. It suggested bearish implications for the next 4-5 weeks. This week's Nasdaq Volume Spyx dropped even lower and posted a -1.74 reading.



The negative influence remains in place this week for the Nasdaq Volume Spix indicator.

Also notable about the Nasdaq is that it has now has two inside weeks in a row. Last February I used two inside weeks as one definition of a triangle formation. [Results of that test](#) suggested that breakout of these triangles were more often false moves than not. The Nasdaq composite has had 6 such setups since 1970 with 5 of the breakouts actually working. Still with the majority of securities tested showing failed breakouts are more likely, I'd be wary of the first sharp move out of this consolidation.

2008 has certainly seen some historic action. Choppiness, volatility, and negative performance numbers have been approached only by Great Depression markets. We saw numerous examples of this in October and November. With the Dow down about 35% year-to-date I decided to look at performance following other years where it fell 30% or more. What I found is that there have only been 3 other years where the Dow has closed down over 30%. All 3 of these years came in the 1930's. They were 1930, 1931 and 1937. It's dangerous to infer much from only 3 instances, but there is nothing to suggest that extremely bad years are likely to be followed by extremely good ones. Both 1930 and 1931 were followed by further selling. And while 1937 was followed by a positive performance in 1938, it didn't happen without first dropping over 18% in the 1st quarter.

The more time goes by without a continuation of the rally off the November lows, the more neutral I've become. Even in the worst markets of all time there were substantial intermediate-term moves where the market rallied strongly higher for a few months before rolling over. No matter how dire the long-term outlook for the market may be, there should be some intermediate-term relief at some point. At this point, though, I'm

becoming less inclined to try and hang on to positions for intermediate-term gains. The short-term swing trading has been where I've found the best results in the last several months and that's where I'll likely continue to focus until I begin to see more evidence of a strong intermediate-term move.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

none

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	0.00	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	1.25	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	5.17	DJ US Industrial Sector	IYJ	0.38
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	2.44	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	0.00

Additional New Trade Ideas

SPY – short 1/4 index position on CLOSE OVER \$88.50. Based on short-term market outlook above. With Monday being a down day, I'd prefer to see the market rise a bit before attempting a short. A move to \$88.50 or above gets us near the midpoint of the recent range rather than shorting near the low end.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Loss	Stop	Notes
IEF(s)	12/19/2008	\$99.85	\$99.75	0.10%	\$99.75	covered @ \$99.75 stop

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