

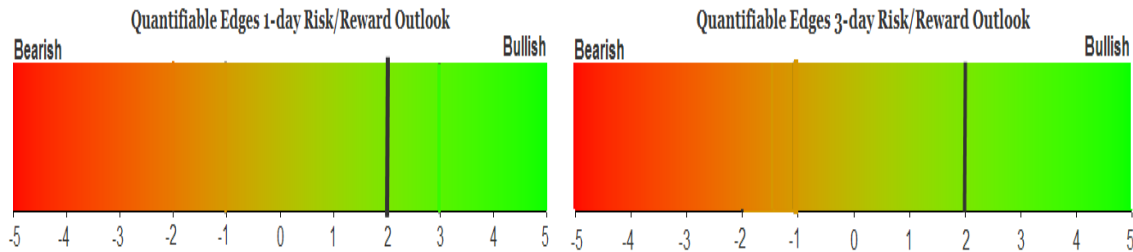
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 1, 2009

Volume 2 Issue 231

Market Overview



Tonight's Research Points

- 1st trading day of the month tends to have a bullish bias – but not in December.
- The Aggregator System remains long from Friday's close.

Short-term Outlook – updated 12/01

The Bottom Line

Monday's action provided little in the way of clues for either side. The outstanding studies are all bullish and the market is still a little overdone to the downside short-term. This suggests a short-term bullish bias – but not a terribly strong one at this point.

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)

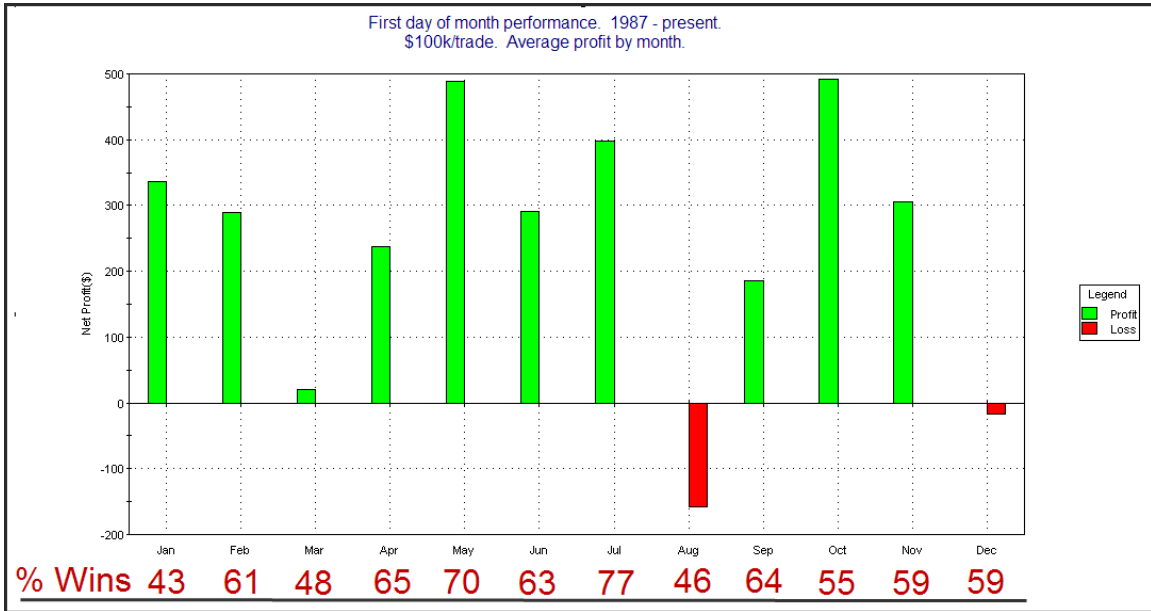
Study Date	Description	Time span	Bias	Avg Max Move
Active				
November 30, 2009	5% Up Vol & Close > Lowest In 10 days	1-2 days	Bullish	3.70%
November 30, 2009	2% Gap Dn. Close > open & < yesterday	1-2 days	Bullish	3.70%
November 20, 2009	SPX 1% drop & Advancers 2x Decliners	1-9 days	Bullish	2.90%
Active - Long Term				
November 10, 2009	75% Up Issues 2 of 3 above 200 & 10 hi	1-20 days	Bullish	5.90%

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

The Evidence

After trading lower for much of the day a late rally saw the market finish higher on Monday. The S&P finished up 0.4%, the Nasdaq 0.3% and the Russell 2000 closed 0.4% higher. Breadth was mildly positive. The NYSE Up Issues % came in at 56% and the Up Volume % was 57%. NYSE volume spiked to thigs level in a few weeks.

The one study that appeared in the Quantifinder this evening looked at the typically positive seasonality found on the 1st day of the month. There is a decent edge overall, but I'd note the month by month breakdown shown in the July study. December is one of only two months that hasn't had positive results over the last 21 years.



I struggled to find much else that would provide an edge tonight. I looked at the unfilled gap, the large volume today, and other notables. When I start to look “too hard” it often means there isn't a sizable edge. Therefore I have added no studies to the Active List this evening.

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



We're seeing a minor pullback in both the Aggregator and Differential lines tonight. Still, both remain positive and are projected to finish positive again tomorrow barring a very sharp rally or a strongly negative study. The positive value for the green Aggregator line illustrates the net positive expectations of the active studies over the next few days. The black Differential line is showing the SPX has underperformed expectations over the last few days. This is a bullish configuration and the Aggregator System is long as of Friday's close.

Should the long bias get removed tomorrow it would likely be due to some bearish studies. Both (bullish) studies from Sunday night will be dropping off the Active list and with only 2 active bullish studies left, 1 or 2 strongly bearish ones could have a major impact. I'll be watching the intraday Quantifinder for clues tomorrow.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/30 –slightly bullish

Very little changed this week from an intermediate-term perspective. The S&P tested the lower end of its recent range on Friday but closed above it. The potentially bearish breadth divergences I've noted recently in the A/D line and the New 52-week Highs % remain in place. It's now been about a month and a half since those measures have hit new highs. So there remains a yellow flag there.

Still I am void of any strongly bearish studies and prices haven't yet begun to breakdown in earnest. Until I see more evidence of bearish inclinations I'll remain cautiously bullish.

December is about to start, which means it is about time to prepare for the January effect. The January effect actually is strongest in the last 2 weeks of December. It suggests that smallcaps are likely to outperform large-cap over this period of time. I did a short study last year that addressed the January effect. I've reprinted that study below for any traders who may want to review and strategize over the next couple of weeks.

January Effect

One seasonal tendency that you may see mentioned in the next few weeks in the January Effect. The January Effect suggests that small caps (especially beaten down ones) tend to outperform large caps in January (and part of December). I decided to run some simple tests based on this hypothesis.

I found that over the last 20 years from December 15th (or the next trading day if that is a weekend) to February 1st the Russell 2000 has outperformed the S&P 500 12 times. While that isn't a sizeable winning percentage the total gains have outsized the total losses by about 5 to 1.

Even more interesting is the action the last few weeks of December. Again buying at the close on the 15th and this time selling at the close of the 1st day of the New Year, the Russell 2000 has outperformed the S&P 500 15 of the last 20 years. Gross gains have been 27.61% or 1.84%/win average. Gross losses have been only -5.15%, or -1.03% per average loss. The net gain was 22.46% or 1.12% per trade. This is a sizable difference when talking about a relatively short-term spread between 2 indices.

There are a number of ways to play this. The simplest of which perhaps would be to wait for a day or two of outperformance by the S&P and then enter a spread transaction in anticipation of both a mean reversion and a seasonal tendency.

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.

The large number of 90609 trend continuation triggers tonight would seem to be a positive indication. There are quite a few to choose from for those who desire more long exposure. I'm content to sit and monitor my SPY position at this point.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	11/20/2009	\$109.25	\$109.94	0.63%		sold 1/2 at \$110.99
SPY(1/4)	11/30/2009	\$109.48	\$109.94	0.42%		bought on open

I will look to exit the remaining portion of the 11/20 partial position tomorrow @ a limit price of \$109.94. Without additional bullish indications tonight I'm inclined to start taking some off the table. The Aggregator still favors the long side, so I will keep the other lot active.

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