

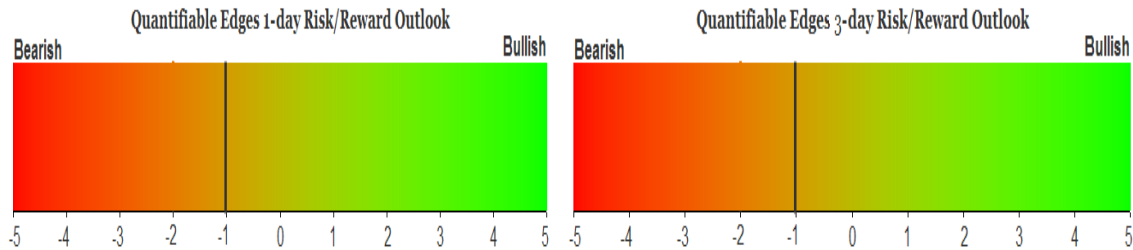
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 30, 2009

Volume 2 Issue 251

Market Overview



Tonight's Research Points

- SPY posting a lower close but higher high and higher low after several days of all 3 being higher suggests upside in the coming days.
- Aggregator System remains short, though just barely.

Short-term Outlook – updated 12/30

The Bottom Line

There appears to be some room for the pullback to continue. With many active studies expiring in the next few days the Aggregator is going to be heavily influenced by upcoming action. I'm still short with a reduced size. I'll be looking to cover should the market head lower tomorrow.

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				
December 30, 2009	SPY close dn with higher h & lo post 3up	1-2 days	Bullish	1.20%
December 23, 2009	Twas 3 nights before Christmas	1-5 days	Bullish	1.90%
December 23, 2009	SPX 10-high on 10-low vol. Close>200	1-5 days	Bearish	-2.20%
December 21, 2009	Low HV with no new highs	1-8 days	Bearish	-3.50%
December 18, 2009	SPX down 1% & Declines 2x Advancers	1-9 days	Bullish	3.40%
Active - Long Term				
December 23, 2009	SPX and TNX hit 50-day high	1-10 weeks	Bearish	
December 23, 2009	Low p/c without strong SPX rise	1-5 weeks	Bearish	
December 7, 2009	Nasdaq Leading S&P	int. term	Bullish	
December 2, 2009	VIX:VXV crosses below 0.9	2-5 months	Bearish	

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

The Evidence

Each day I try and think of a new way to say the market did basically nothing. Hmm. Today the market did basically nothing. It did open near its high and close near its low, but they weren't very far apart. The major indices closed down slightly with the S&P, Russell, and Nasdaq all losing 0.1% on the day. Breadth was negative with the NYSE Up Issues % coming in at 45% and the Up Volume % at 37%. Total volume was the lightest full day in a long time.

The studies that appeared in the Quantifinder tonight generally looked at pullbacks following extended runs higher. The most compelling was from the 9/14/09 Letter. I've updated the stats below:

SPY makes at least 3 consecutive higher highs, lows, and closes. It then closes down on the day but still makes a higher high and a higher low. Buy on close. Sell X days later. \$100k/trade. 1994 - present.

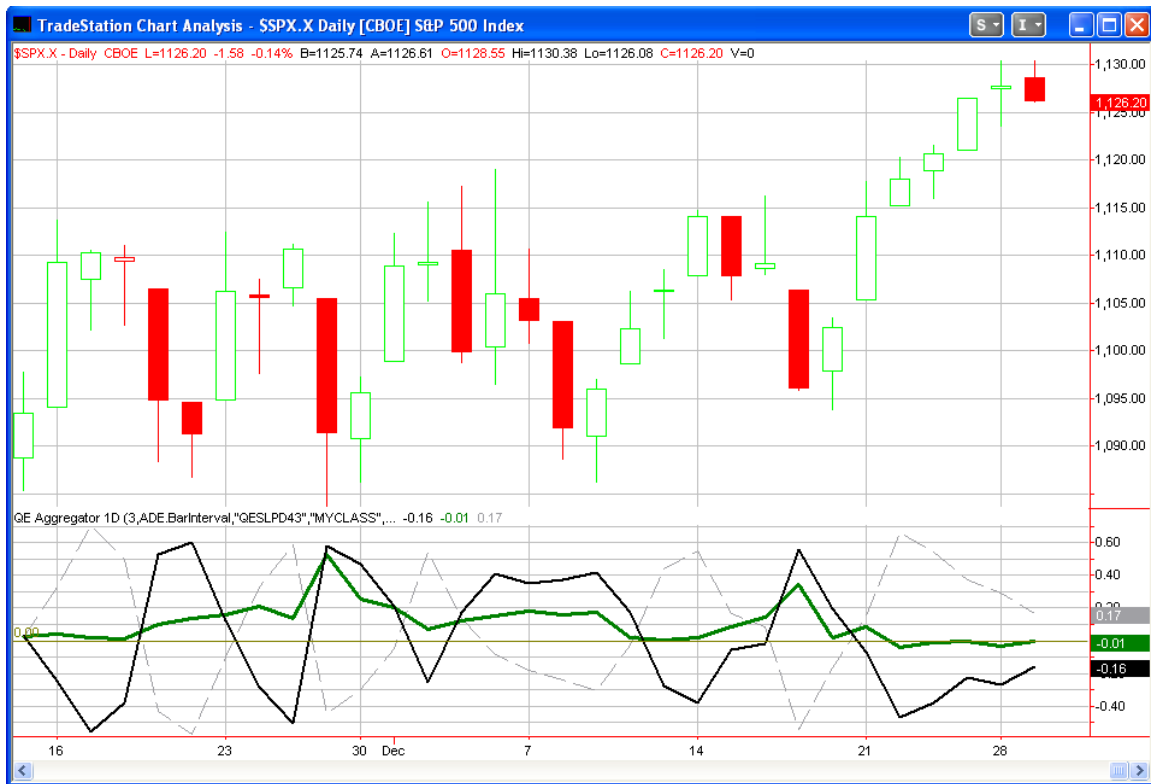
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	10,101.29	20	12	8	60.00	2,052.95	-1,816.77	1.13	1.70	505.06
4	8,835.95	20	14	6	70.00	1,299.51	-1,559.53	0.83	1.94	441.80
3	7,754.06	20	13	7	65.00	1,222.73	-1,163.05	1.05	1.95	387.70
2	8,609.60	20	16	4	80.00	927.07	-1,555.87	0.60	2.38	430.48
1	7,068.74	20	13	7	65.00	751.20	-385.27	1.95	3.62	353.44

90% of instances posted a close above the entry price at some point in the next 4 days.

Despite the slightly lower close, the higher high and higher low suggest momentum may still favor the bulls. The positive tendencies of the above study generally play out within the next 2 days.

Another study with potentially bullish consequences was the one that looked at closes in the bottom 10% of the daily range since March. After some consideration I elected not to include this study for a number of reasons. For one it hasn't been as effective lately. Looking out 3 days, which had a near perfect record a couple of months ago, there are now 3 losers in a row. Also, while we finished near the low, it's not as if the selling was that severe. The low was just below yesterday's close and well above yesterday's low. I'm also already including the SPY study from above in tonight's Active Studies list. I don't often like to incorporate more than one study based on the same indicator (price, volume, breadth, etc.) in the same day. So with all that going against it, I left the 10% range study off the Active List. The other studies identified, including the lone bearish one, were either underwhelming or repetitive.

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



Little movement in the market again leads to little movement in the Aggregator configuration. Despite tonight's bullish study the green Aggregator line still couldn't manage to close positive. The net expectations from the active studies remains negative for the next few days. The black Differential line shows the SPX has outperformed expectations over the last few days. This combination with both lines below 0 has historically provided a downside edge. As such, the Aggregator System remains short once again tonight.

The current studies are all projected to expire within the next few days. Without additional studies making the active list tomorrow night the net expectation will remain negative. This could easily change should some bullish studies emerge. The position of the green Aggregator line in the next day or two will be almost entirely dependent on the studies that appear rather than those that are currently active. Meanwhile the black Differential line is also creeping closer to 0. As of tomorrow the pivot level for the Differential will be 1,125.85. This means all the S&P needs to do to flip the black Differential line back to positive would be to close down about ½ point. Upcoming action is going to be watched very carefully as it is expected to have a large impact on the Aggregator configuration. As always I'll be closely monitoring the intraday action and posting the Intraday Quantifinder and updating the Systems page in the last hour.

Intermediate-term Outlook (2 weeks – 2 months)– updated 12/28 –neutral

The intermediate-term outlook may be found in the 12-28 Subscriber Letter. Link below.

[2009-12-28 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.

None tonight. One interesting ETF for those looking for action in this dull market is AGG. It has pulled back strongly over the last few days and is now possibly setting up for a bounce just above its 200ma.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	12/23/2009	\$112.00	\$112.56	-0.50%		Aggregator
SPY(1/4)(s)	12/29/2009	\$113.01	\$112.56	0.40%		Aggregator

With the Aggregator looking largely dependent on upcoming action I will likely look to trail a stop tomorrow should the market head lower in the morning.

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.