

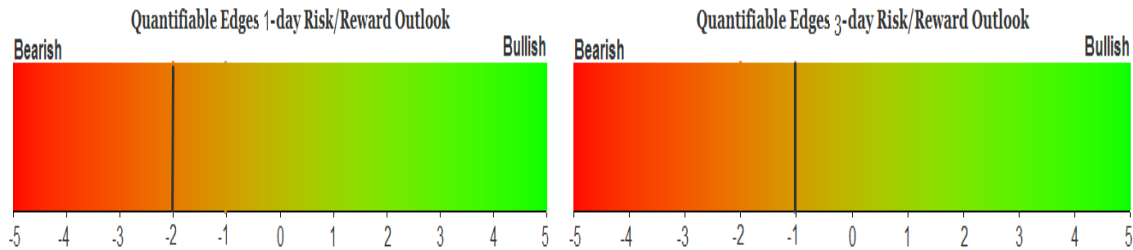
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 31, 2009

Volume 2 Issue 252

Market Overview



Tonight's Research Points

- The poor breadth numbers for both issues and volume on a day where SPX closes higher suggest a pullback is likely.
- Aggregator System again hangs on to its short position..

Short-term Outlook – updated 12/31

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 31, 2009	Strong finish makes for a weak gain	1 days	Bearish	
December 31, 2009	SPX rises. Up Vol % & Up Issue % < 45	1-2 days	Bearish	-2.45%
December 30, 2009	SPY close dn with higher h & lo post 3up	1-2 days	Bullish	1.20%
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	
Dropped Tonight				
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%

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

The Evidence

So this is 2009's final issue of the Subscriber Letter. 252 issues in 252 trading days. I should warn all subscribers that I will take a day off one of these years. A gap down on Wednesday morning couldn't bring about any serious selling. The market traded in a tight range for almost the entire day, and while most of the day was spent barely in negative territory, a last minute push saw the averages close green. The S&P and Russell both closed up less than 0.05% while the Nasdaq led the way with a 0.1% gain. Breadth was negative as the NYSE Up Issues % came in at 44% and the Up Volume % was just 36%. Total volume was again dismal.

Much of what appeared on the Quantifinder looked at the poor breadth today. The most significant of these studies was last published in the 7/7/09 Subscriber Letter and I have updated it below.

SPX rises while NYSE Up Issue % < 45% and Up Volume % < 45%. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-20,674.89	25	8	17	32.00	2,094.81	-2,201.96	0.95	0.45	-827.00
4	-31,152.26	25	7	18	28.00	1,504.71	-2,315.85	0.65	0.25	-1,246.09
3	-36,122.04	26	6	20	23.08	1,389.53	-2,222.96	0.63	0.19	-1,389.31
2	-35,770.39	26	9	17	34.62	953.76	-2,609.07	0.37	0.19	-1,375.78
1	-23,071.20	26	8	18	30.77	893.72	-1,678.94	0.53	0.24	-887.35

23 of 26 instances (88%) closed below the entry price at some point in the next week.

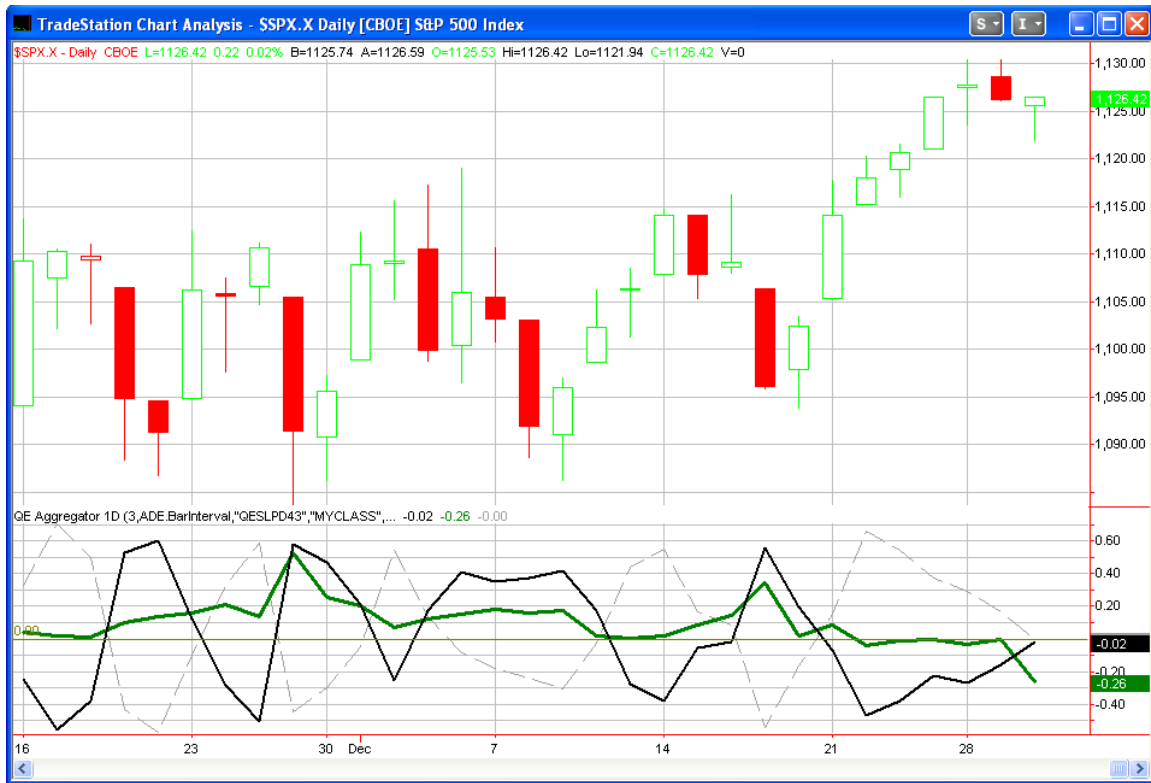
This study seems to suggest a pretty good chance of a pullback.

One aspect of Wednesday's trading that struck me is the fact that it needed a strong finish in order to close just barely positive. I ran a test back over the last 16 years to see how the S&P performed follow similar instances.

SPX closes up less than 0.25% but in the top 10% of its daily range. 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
3	-20,040.56	70	34	36	48.57	919.36	-1,424.96	0.65	0.61	-286.29
2	-21,084.59	73	34	39	46.58	548.33	-1,018.66	0.54	0.47	-288.83
1	-17,051.16	75	30	45	40.00	384.55	-635.28	0.61	0.40	-227.35

Not a huge edge here, but some suggestion that the SPX could struggle the next day or two. This seems to indicate that when it takes a lot to close up just a little you're likely to see a pullback short-term.

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



Tonight's bearish studies have caused the green Aggregator line to drop quite a bit. This shows the net expectations from the active studies over the next few days is negative. The black Differential line is just barely negative, indicating slight outperformance for the S&P versus expectations over the last few days. The late buying surge on Wednesday kept both values below 0 once again. Both lines in negative territory has historically suggested a downside edge. The Aggregator System remains short again tonight.

Like last night the studies are scheduled to remain negative barring any further studies making the active list tomorrow. Many will be expiring though and the studies that appear over the next few days will have a heavy influence on the Aggregator value. The Differential pivot for tomorrow is 1,127.28. In other words, for the SPX to continue its outperformance and keep the Differential line negative, it will need to close above 1,127.28. A breakeven day Thursday would see the Differential rise above zero. I'll again be sure to watch closely as we near the end of the day (and year).

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.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	12/23/2009	\$112.00	\$112.52	-0.46%		Aggregator
SPY(1/4)(s)	12/29/2009	\$113.01	\$112.52	0.43%		Aggregator

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