

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 28, 2010

Volume 3 Issue 18

## Market Overview



### Tonight's Research Points

- False breakdown suggests bullish implications.
- The Aggregator System has changed to flat.

### *Short-term Outlook – updated 1/28*

#### *The Bottom Line*

The Aggregator system went flat but unless the market rallies tomorrow the system will slide back to a long. I'll take some off the table – especially if there is a large gap up.

*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
<b>Active</b>				
January 28, 2010	False Breakdown >200ma & <10ma	1-5 days	Bullish	2.30%
January 27, 2010	Outside day down bottom of range	1-6 days	Bullish	2.40%
January 26, 2010	1.75% drop followed by bounce < 1/4	1-3 days	Bearish	-2.20%
January 25, 2010	VIX, price, or breadth studies	1-7 days	Bullish	4.20%
January 22, 2010	2:1 negative breadth for 2 days	1-8 days	Bullish	2.10%
<b>Active - Long Term</b>				
January 13, 2010	No bearish divergence at high	int. term	Bullish	
December 23, 2009	SPX and TNX hit 50-day high	1-10 weeks	Bearish	
December 7, 2009	Nasdaq Leading S&P	int. term	Bullish	
<b>Dropped Tonight</b>				
January 27, 2010	Fed Day	1 day	Bullish	
January 22, 2010	50 high to 8 low in 2 days	1-4 days	Bullish	1.60%
January 26, 2010	Breadth < 60% upvol bounce	1-2 days	Bearish	-2.60%
January 22, 2010	VIX 20% above 10ma.	1-7 days	Bullish	2.50%

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

### ***The Evidence***

The market was due for a bounce and it finally got one on Wednesday – though it didn't begin until late in the day and the final numbers weren't huge. Still, there *was* upside action that even appears bullish according to the study below. The SPX finished up 0.5%, the Nasdaq rose 0.8% and the Russell 2000 gained 1%. Breadth was mixed. The NYSE Up Issues % was only 48% but the Up Volume % was 57%. Total volume rose to back above average.

The action today was basically that of a false breakdown. The lows established the last few days around 1090 were broken as the SPX approached as low as 1083 before reversing up. Days like today are a prime example of why I rarely use stops with my index trades. If I was very concerned about not sitting long through another leg down I would have instituted a stop last night near the recent lows. There are a few reasons I didn't. For one, the Aggregator was strongly bullish last night. And based on the configuration a selloff on Wednesday would just keep the Aggregator configuration bullish. So even if the market did break down I'd probably be looking to re-enter within a day anyway. The best case scenario for a stop would be that I exit and buy back lower. That can be a difficult thing to do – you are essentially hoping to profit by jumping aboard a short-term breakdown during a long-term uptrend...and during a period where the studies are suggesting a strong upside edge. So unless you are a very nimble intraday trader, just riding out the trades often provides the best risk/reward.

Anyway, the false breakdown and reversal often suggest further upside. There were a couple of studies identified by the Quantifinder tonight that showed this.

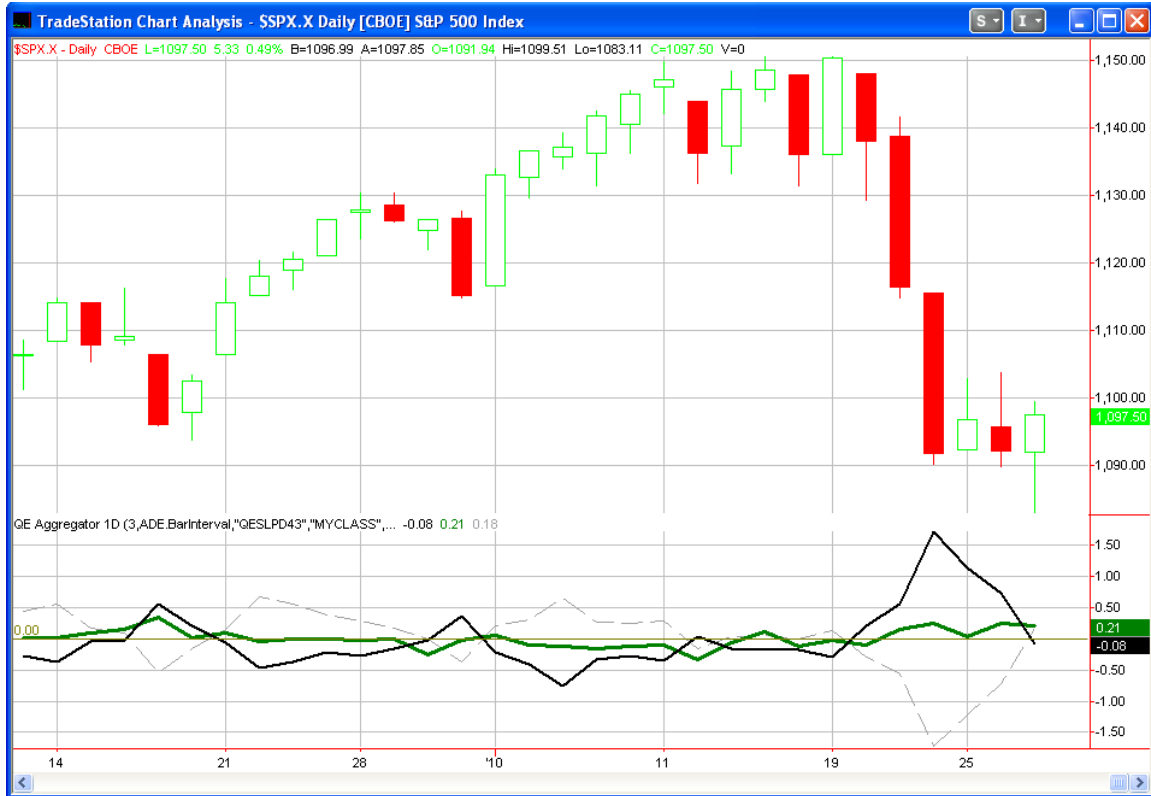
<p style="text-align: center;">Yesterday SPX makes a higher high and closes down on the day.            Today SPX makes a lower low and closes up on the day. Close &gt; 200ma and Close &lt; 10ma.            Buy on close. Sell X days later. \$100k/trade. 2000 - present.</p>										
X Days	All: Net Profit	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	22,331.88	15	12	3	80.00	1,878.92	-71.70	26.21	104.82	1,488.79
4	17,095.79	15	13	2	86.67	1,465.77	-979.62	1.50	9.73	1,139.72
3	8,290.42	15	11	4	73.33	1,211.07	-1,257.84	0.96	2.65	552.69
2	6,836.79	15	10	5	66.67	1,194.39	-1,021.41	1.17	2.34	455.79
1	2,810.28	15	8	7	53.33	762.62	-470.10	1.62	1.85	187.35

**14 of 15 instances (93%) closed above the entry price at least once during the next 5 days. Looking out 7 days, 100% had a profitable close.**

Instances are a little bit low here but the stats are overwhelmingly bullish. It's rare to find such short-term strength suggested by a study whose trigger occurs on an up day.

Several studies dropped off the active list tonight. There are still 4 bullish and 1 bearish that are active.

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



Wednesday's rally was just enough to flip the black Differential line negative. This shows that the SPX has outperformed expectations over the last few days. Meanwhile the green Aggregator line remains positive. This illustrates the net positive expectations from the active studies. So the positive expectations are being offset by the SPX outperformance over the last few days. This is considered a neutral configuration. The Aggregator System went flat at the close today.

The Aggregator line is again scheduled to post a positive reading tomorrow. The black Differential line is the one with the interesting setup. For the Differential value to remain negative, the SPX will need to close at 1,101.31 or higher. Flat trading (or even slightly up) tomorrow will produce another buy signal.

A strong move higher would lead me to exit most, if not all, of the current SPY trade idea in the trade ideas section below.

### ***Intermediate-term Outlook (2 weeks – 2 months)– updated 1/25 –somewhat bullish***

With all the charts we looked at in the short-term section I don't intend to delve into great detail here tonight. Just a few quick points.

Bear markets typically don't begin when 1) breadth stats have been solid and the uptrend has been hitting new highs, or 2) the VIX spikes anywhere near the amount it already has.

Uptrend lines and some key moving averages (20, 50) have quickly been broken. This could be a warning similar to the 1/4/2000 selloff we looked at above. The market didn't top for another few months there, but that was the 1<sup>st</sup> sign of weakness.

### **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.*

*No new trade ideas tonight.*

### **Active Trades Table**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/26/2010	\$109.31	\$109.83	0.48%		Aggregator
VXX(s)	1/25/2010	\$31.89	\$31.00	2.79%		
SPY(1/4)	1/25/2010	\$109.50	\$109.83	0.30%		Aggregator
SPY(1/4)	1/22/2010	\$111.20	\$109.83	-1.23%		sell @ \$110.30
SPY(1/4)	1/22/2010	\$111.20	\$109.83	-1.23%		sell @ \$110.30

The 4 point move needed to keep the Differential line negative equates to about \$0.40 in the SPY. Using Wednesday's closing price I added a little over \$0.40 and will look to exit half of the position there. Should the market rally strongly tomorrow I will almost certainly look to exit at least another ¼.

The VXX is still extended and I will hold on there for a bigger move.

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.