

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 29, 2010

Volume 3 Issue 19

Market Overview



Tonight's Research Points

- A 50-day closing low so soon after a 50-day closing high is unusual but doesn't appear predictive.
- Also unusual but not apparently predictive is the fact that the CBI has remained at 0 while the market has dropped so steeply.
- The outside day closing near the low of the recent range during a long-term uptrend has triggered a very bullish study for the 2nd time in 3 days.
- The Aggregator System has changed back to long.

Short-term Outlook – updated 1/29

The Bottom Line

The market continues to struggle to put in a decent bounce. Thursday's selling has once again move the market to oversold and has triggered a fresh buy signal for the Aggregator.

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				
January 29, 2010	Outside day down bottom of range	1-6 days	Bullish	2.40%
January 28, 2010	False Breakdown >200ma & <10ma	1-5 days	Bullish	2.30%
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%
Active - Long Term				
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	
Dropped Tonight				
January 26, 2010	1.75% drop followed by bounce < 1/4	1-3 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

Thursday was a bad day for the market. All the major indices were hit hard and posted new lows for the recent pullback. The S&P 500 dropped 1.2%, the Nasdaq lost 1.9% and the Russell 2000 was off 1.7%. Breadth was strongly negative. The NYSE Up Issues % came in at 26% and the Up Volume % was 32%. Total volume was lower on the NYSE but higher on the Nasdaq.

Amazingly, Thursday’s close marked a 50-day low in the S&P. It was just last week that the S&P closed at a 50-day high. Moving from a 50-day closing high to a 50-day closing low so quickly is quite rare. I only found 6 other instances. Unfortunately, while it appears rare, it doesn’t appear predictive. Below is the stats table.

SPX closes at a 50-day low after having closed at a 50-day high at some point within the last 8 days. Buy on close. Sell X days later. \$100k/trade. 1960 - 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
10	-4,383.72	6	3	3	50.00	554.84	-2,016.08	0.28	0.28	-730.62
9	1,398.72	6	5	1	83.33	819.33	-2,697.93	0.30	1.52	233.12
8	2,027.81	6	4	2	66.67	1,418.90	-1,823.89	0.78	1.56	337.97
7	2,581.33	6	4	2	66.67	1,602.33	-1,913.99	0.84	1.67	430.22
6	-351.94	6	3	3	50.00	2,155.90	-2,273.21	0.95	0.95	-58.66
5	2,576.34	6	3	3	50.00	2,034.85	-1,176.07	1.73	1.73	429.39
4	-110.45	6	2	4	33.33	2,370.32	-1,212.77	1.95	0.98	-18.41
3	533.26	6	4	2	66.67	804.57	-1,342.50	0.60	1.20	88.88
2	2,905.99	6	5	1	83.33	698.45	-586.25	1.19	5.96	484.33
1	3,092.39	8	5	3	62.50	1,010.94	-654.10	1.55	2.58	386.55

The 6 distinct dates are 10/15/79, 9/12/86, 10/13/89, 11/22/91, 2/27/07, and 7/26/07.

Examining the individual charts left me with no deeper insights. I’ve listed the dates of each instance in case anyone else would like to have a closer look.

The bottom line with tonight is that the market has once again refused to put in a bounce suitable enough to resolve the deeply oversold conditions that have existed in both price and breadth statistics. My primary concern all week has been that the market is not conforming to historical norms. Wednesday it appeared a relief rally may have begun, but Thursday dashed all hopes of that. There should be a strong bounce occurring here very shortly, but in actuality, it should have already arrived.

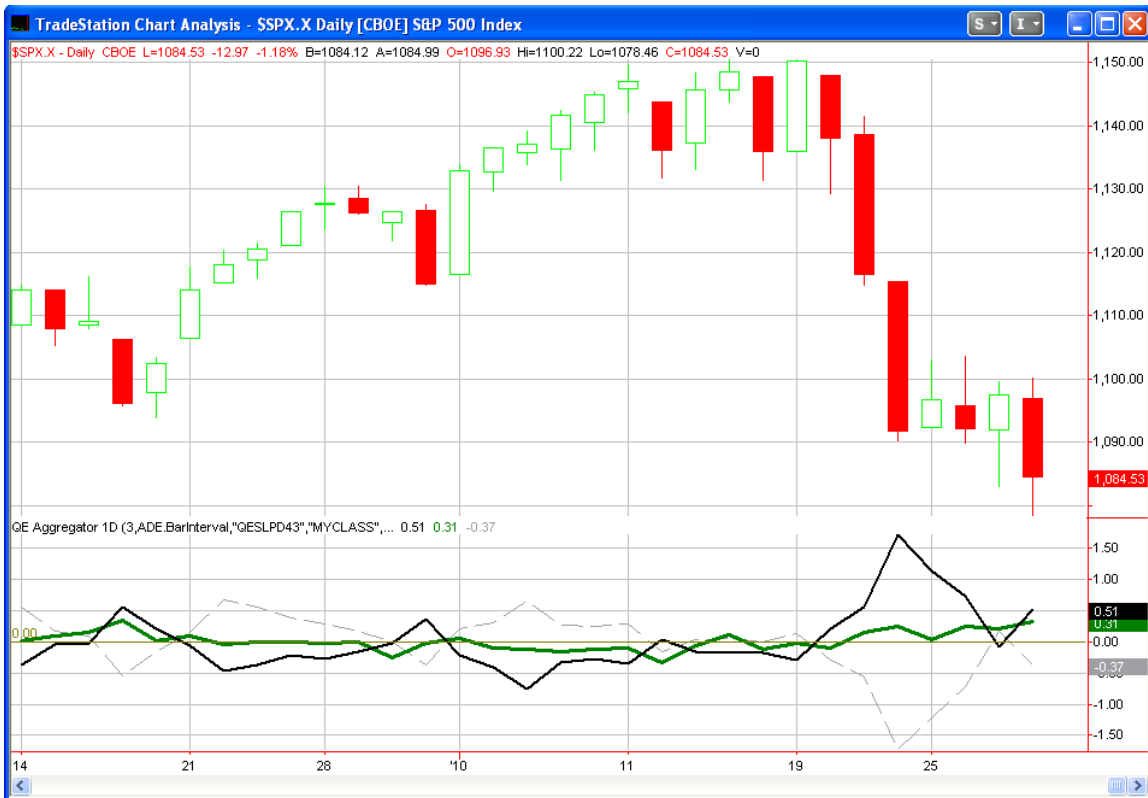
Two nights ago I showed a study that looked at outside days that close near the bottom of their recent range. Amazingly, that study has triggered again just 2 days later. Below is a copy of the stats table from Tuesday night’s letter:

SPX posts an outside day and closes down on the day. It closes in the bottom 10% of its 10-day range but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
10	39,754.43	23	19	4	82.61	2,340.14	-1,177.08	1.99	9.44	1,728.45
9	42,850.11	23	19	4	82.61	2,408.44	-727.57	3.31	15.72	1,863.05
8	43,451.26	23	19	4	82.61	2,482.87	-929.86	2.67	12.68	1,889.19
7	41,073.71	24	20	4	83.33	2,207.53	-769.23	2.87	14.35	1,711.40
6	41,284.54	24	22	2	91.67	1,960.99	-928.61	2.11	23.23	1,720.19
5	38,181.30	24	21	3	87.50	1,892.61	-521.20	3.63	25.42	1,590.89
4	27,523.62	24	19	5	79.17	1,764.41	-1,200.02	1.47	5.59	1,146.82
3	25,066.12	24	17	7	70.83	1,757.38	-687.04	2.56	6.21	1,044.42
2	16,449.20	25	17	8	68.00	1,175.99	-442.82	2.66	5.64	657.97
1	5,923.51	25	20	5	80.00	522.60	-905.71	0.58	2.31	236.94

As I noted Tuesday night, these stats are quite compelling. They would seem to suggest a rally should unfold that would see us trading quite a bit higher by Wednesday of next week. I reset the count on this study in the Active Studies list above.

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



Thursday's big selloff saw the black Differential line spike back up above 0. The Differential line compares the SPX performance over the last few days to the SPX *expected* performance over the last few days. A value above 0 means the SPX has

underperformed expectations (is oversold vs. expectations). Meanwhile, the green Aggregator line continues to post very positive values, illustrating the net positive expectations from the active studies. Both lines above 0 is a configuration that has historically suggested a short-term upside edge. This has moved the Aggregator System from flat to long.

Looking ahead to tomorrow the green Aggregator line is scheduled to remain above 0. The pivot level for the black Differential line is 1,097.74. In other words, it would require an SPX close at or above this number to move the Differential line negative tomorrow night.

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 1st 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

It's somewhat odd that with a pullback this strong there still have not been any Catapult trades. I looked at other pullbacks of at least 5% in a short time period that saw the CBI remain at 0. There have been less than 10 instances. I was unable to spot anything predictive about them.

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	\$108.57	-0.68%		Aggregator
VXX(s)	1/25/2010	\$31.89	\$31.02	2.73%		
SPY(1/4)	1/25/2010	\$109.50	\$108.57	-0.85%		Aggregator
SPY(1/4)	1/22/2010	\$111.20	\$108.57	-2.37%		Aggregator
SPY(1/4)	1/22/2010	\$111.20	\$108.57	-2.37%		Aggregator

In last night's letter I posted an exit target of \$110.30 for 2 of the 4 SPY lots. Unfortunately that target missed by \$0.05 during regular hours. Hopefully many of you either said "close enough", or exited pre-market at a higher price, or got out on Wednesday's close as the Aggregator System suggested. My posted target last night was unfortunate. With the Aggregator System now back on a buy I see no reason to exit here. If the subscriber letter trade idea had managed to close out Thursday then I'd be looking to get back in based on the new Aggregator long signal.

The VXX short has done very well despite the market selloff. I expect it to drop quite a bit more when the market finally does put in a decent bounce. I am holding firm on that position for now.

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