

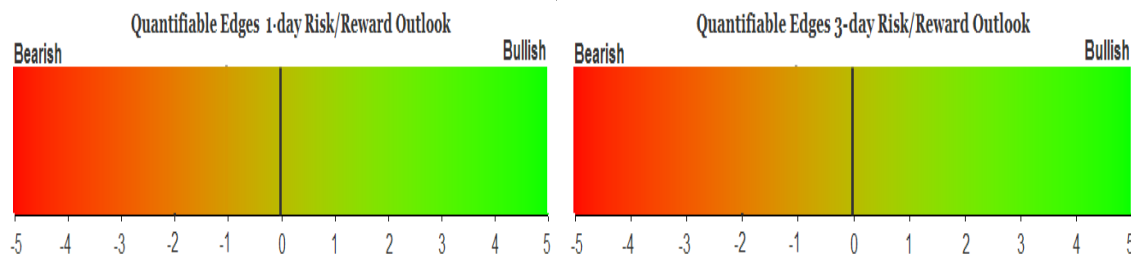
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 4, 2010

Volume 3 Issue 23

Market Overview



Tonight's Research Points

- The Quantifinder was blank tonight and we are mid-range with no obvious edge based on Wednesday's action.
- The Aggregator System is still flat.

Short-term Outlook – updated 2/4

The Bottom Line

With no clear edge and little to go on I'll wait for a better setup before committing additional capital.

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	Avg MM - 1/3 Std Dev
Active					
February 3, 2010	75% Up Issue 2 in a row. SPX > 200ma.	1-4 days	Bullish	2.50%	
February 1, 2010	Failed Gap Up Bottom 10% Close	1-8 Days	Bullish	4.50%	
January 29, 2010	Outside day down bottom of range	1-6 days	Bullish	2.40%	
Active - Long Term					
February 1, 2010	McClellan -60 for 6 days in a row	1-20 days	Bearish		
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		
Dropped Tonight					
January 22, 2010	2:1 negative breadth for 2 days	1-8 days	Bullish	2.10%	1.70%
January 25, 2010	VIX, price, or breadth studies	1-7 days	Bullish	4.20%	1.70%
January 28, 2010	False Breakdown >200ma & <10ma	1-5 days	Bullish	2.30%	

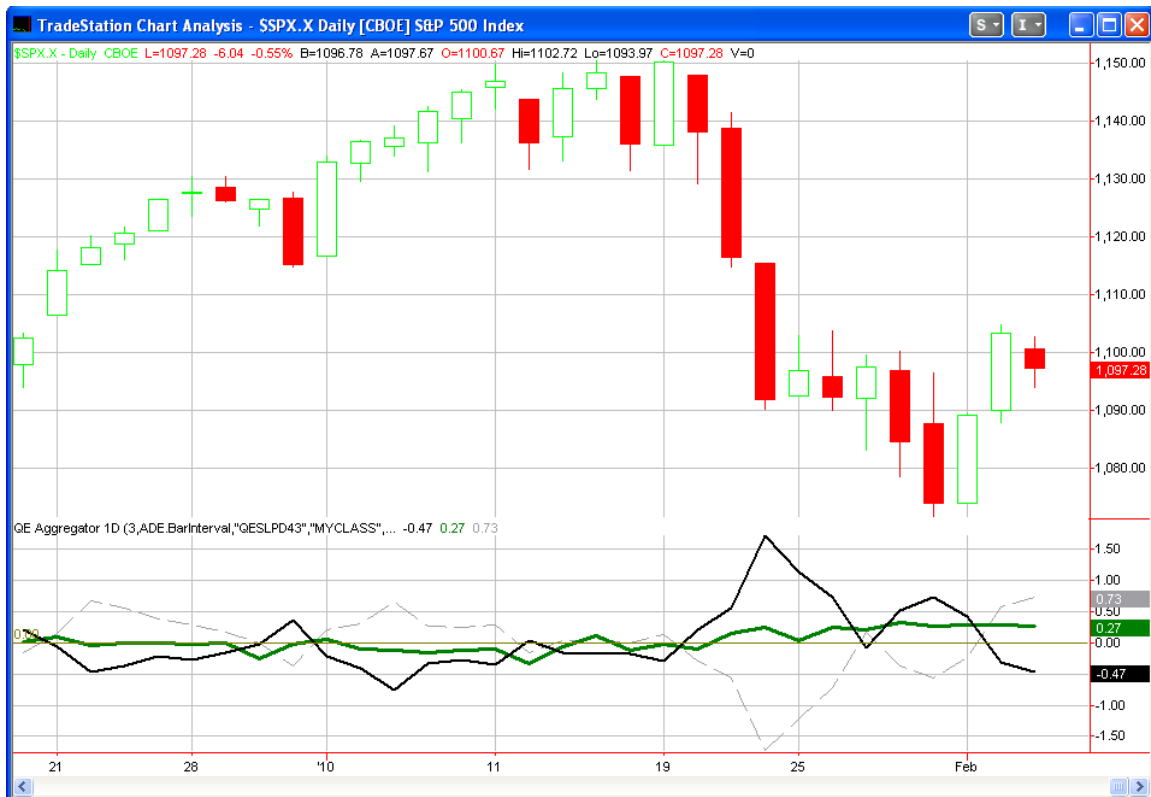
If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

The market was mostly lower on Wednesday. The SPX and Russell dropped 0.6% while the Nasdaq rose fractionally. The Nasdaq 100 performed well and played a little bit of catch-up with a 0.4% gain. Breadth was weak as the NYSE Up Issues % came in at 38% and the Up Volume % at 26%. Total volume came in light and fell from Tuesday's level.

Experienced readers know that about once every two weeks my studies and my creativity draw blanks. Tonight was one such night. The market is back near the middle of its recent range. We saw some inside days today. (I looked at today's SPY inside day a number of different ways.) Volume was light but not extreme. Breadth was poor but not extreme. The market provided very few clues on Wednesday as it consolidated quietly. Rather than try and contrive an edge from data mining, it's best to just wait for something more obvious to appear.

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



With no new studies tonight the Aggregator formation was little changed. The green Aggregator line remained bullish above zero as the net expectations from the Active Studies List is still positive. The black Differential line is again below zero as the SPX has outperformed expectations over the last few days. Both lines on opposite side of zero is considered a neutral configuration. In this case it is saying upside is expected but the market is already short-term overdone, so risk/reward isn't strong.

Looking ahead to tomorrow the green Aggregator line is scheduled to remain positive. The Differential line though is set to flip from negative to positive unless the market rallies a little. The SPX will need to close at 1,098.38 or above in order for the black Differential line to remain negative. Anything below that level would likely trigger a long signal for the Aggregator System.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/1 –neutral to bullish

Other than the McClellan Oscillator study mentioned in the short-term section tonight, there were a few other notables from an intermediate-term perspective.

First, the extremely sharp selling in the Nasdaq this week cause the Nasdaq/S&P 500 Relative strength indicator to move on Friday. The S&P is now exhibiting relative strength over the Nasdaq. This is not necessarily a bearish configuration, but rather neutral. Most of the market’s gains over the years have come with the Nasdaq leading. One study that popped up in the Quantifinder tonight looked at the fact that the 10-day average true range of the SPY had now increased to greater than 1.25 times the 100-day average true range. In the 9/29/08 Letter I looked at range expansions above certain levels. I’ve copied those results below (not updated):

SPY 10-day average true range crosses over X times the 100-day average true range. Buy on close. Sell 20 days Later. \$100k/trade. 1993-present.												
X * Normal	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
2	\$8,894.13	4	4	0	100.00	\$3,071.64	\$0.00	\$2,223.53	\$0.00	100.00	100.00	\$2,223.53
1.75	\$44,244.60	12	10	2	83.33	\$13,070.55	(\$1,394.86)	\$4,701.15	(\$1,383.43)	3.40	16.99	\$3,687.05
1.5	\$48,433.58	23	15	8	65.22	\$13,380.02	(\$7,534.80)	\$4,728.97	(\$2,812.62)	1.68	3.15	\$2,105.81
1.25	\$53,265.08	47	29	18	61.70	\$12,068.76	(\$19,949.25)	\$3,867.86	(\$3,272.39)	1.18	1.90	\$1,133.30

We see in the table that 1.25 times does suggest bullish implications, but if we see range expand even further then those implications would become even more bullish. Below is an updated detailed breakdown of the 1.25x level.

SPY 10-day average true range increases more than 1.25 times the 100-day average true range. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
20	42,402.69	51	32	19	62.75	4,025.62	-4,548.28	0.89	1.49	831.43
19	59,194.70	52	33	19	63.46	4,219.49	-4,213.07	1.00	1.74	1,138.36
18	59,313.66	53	32	21	60.38	4,217.30	-3,601.89	1.17	1.78	1,119.13
17	57,372.38	53	32	21	60.38	3,816.66	-3,083.84	1.24	1.89	1,082.50
16	63,374.77	55	34	21	61.82	3,656.79	-2,902.67	1.26	2.04	1,152.27
15	55,842.46	56	36	20	64.29	3,289.32	-3,128.66	1.05	1.89	997.19
14	54,415.12	58	38	20	65.52	2,996.47	-2,972.54	1.01	1.92	938.19
13	53,240.29	60	34	26	56.67	3,324.11	-2,299.21	1.45	1.89	887.34
12	50,746.57	63	39	24	61.90	2,739.22	-2,336.79	1.17	1.90	805.50
11	34,126.50	64	37	27	57.81	2,582.76	-2,275.39	1.14	1.56	533.23
10	29,523.16	64	32	31	50.00	2,921.94	-2,063.83	1.42	1.46	461.30
9	38,052.35	64	35	29	54.69	2,492.01	-1,695.45	1.47	1.77	594.57
8	41,823.12	65	35	30	53.85	2,576.87	-1,612.25	1.60	1.86	643.43
7	44,150.85	66	39	27	59.09	2,516.20	-1,999.29	1.26	1.82	668.95
6	42,938.79	68	41	27	60.29	2,376.34	-2,018.20	1.18	1.79	631.45
5	31,192.10	73	42	31	57.53	1,892.94	-1,558.44	1.21	1.65	427.29
4	40,471.15	77	49	28	63.64	1,915.09	-1,906.01	1.00	1.76	525.60
3	46,899.95	79	51	27	64.56	1,770.34	-1,606.95	1.10	2.08	593.67
2	26,447.19	83	48	35	57.83	1,563.73	-1,388.91	1.13	1.54	318.64
1	21,336.25	83	50	33	60.24	1,271.74	-1,280.32	0.99	1.50	257.06

Implications are bullish, but not overwhelmingly so.

This pullback so far has been quite extreme. We are beginning to run low on historical comparisons. Additionally, we are now starting to see some signs that it could be negative for the intermediate-term. These include the McClellan Oscillator study from the short-term section and the switch in the Nasdaq/S&P Relative Strength model.

Despite this, I'm still of the opinion that it is unlikely a new bear market has begun. In the study of tops I referred to several times over the last few weeks we found that all previous major tops showed sign of a weakening market prior to the ultimate price high. This was seen using breadth indicators like the New 52-Week High % and the Advance/Decline line. In every case there was a divergence in place prior to ultimate high. There was no such divergence this time. It's now looking very possible that this current pullback may be a warning of things to come. The oversold studies should eventually kick in here and lead to a very sharp bounce. I would be surprised if the market didn't manage to hit new highs in the next few months. What very well may happen, and what traders should be careful to watch out for, is that the next high may come with a breadth divergence. Damage is already being done to the A/D line. When the price rises again, if this damage is unable to correct itself, we may THEN have the makings of a major top in place that could lead to the next big bear move.

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
VXX(s)	1/25/2010	\$31.89	\$29.13	8.65%	\$32.00	out 1/2 @ \$29.02

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