

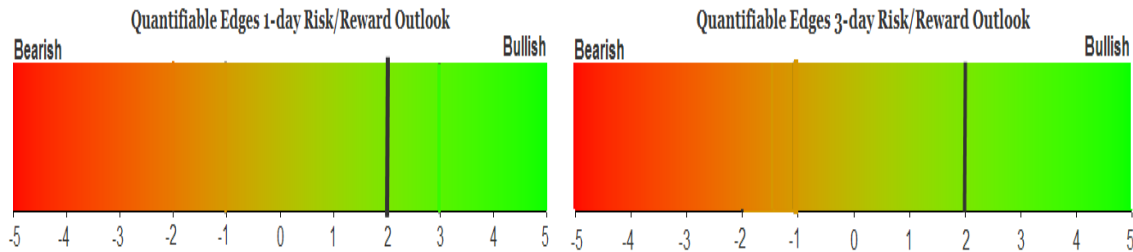
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 11, 2010

Volume 3 Issue 28

Market Overview



Tonight's Research Points

- With the market trying to put in a bottom here, traders may want to review the Quantifiable Edges studies on Follow Through Days.
- The Aggregator System remained long again tonight.

Short-term Outlook – updated 2/11

The Bottom Line

Wednesday action didn't provide much in the way of clues. Still the Aggregator remains long, but the exit criteria is easily achievable tomorrow. We could even sell off close to 4 points and still see the long signal closed out.

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				
February 10, 2010	Unfilled large gap from 50-low	1-2 days	Bearish	
February 9, 2010	Put/Call Ratio 3-day spike	1-4 days	Bullish	2.50%
February 5, 2010	2% Drop 10 low bottom 10% range	1-7 days	Bullish	4.50%
Active - Long Term				
February 8, 2010	Worden %>200ma - %>40ma > 40	3 - 7 weeks	Bullish	
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	
Dropped Tonight				
February 1, 2010	Failed Gap Up Bottom 10% Close	1-8 Days	Bullish	4.50%

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

The Evidence

A lot of up and down action without much final result on Wednesday. The major indices didn't change much. The SPX lost 0.2%, the Nasdaq lost 0.1% and the Russell gained 0.1%. NYSE breadth was mildly negative with the Up Issues % at 46% and the Up Volume % at 44%. Total volume was up slightly on the NYSE but the lowest in weeks on the Nasdaq.

Once in a while the market action provides very little in the way of fruitful research. The Quantifinder came up empty as did my efforts to explore some other ideas. One observation that I thought interesting was the fact that SPY posted a doji for the second day in a row. Unfortunately looking at the setup several different ways unveiled no substantial edge.

It's now been a few days since we hit the lows. With a potential bottom in place IBD followers and some other intermediate-term traders are eagerly awaiting a Follow Through Day (FTD) signal to start putting money to work again. FTD's get a lot of press but they are largely overrated as a predictive indicator and most all reports on them from IBD and others are filled with lore rather than facts. Back in 2008 I did a series on FTD's. I examined many claims about them and quantified them in detail. Traders who would like to learn more about FTD's or who would like a refresher may want to check out that series starting with the overview at the link below:

<http://quantifiableedges.blogspot.com/2008/07/follow-through-days-quantified.html>

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



The green Aggregator line and the black Differential line edged higher in lock-step today. The green Aggregator above 0 shows that expectations from the active studies over the next few days are for more upside for the SPX. Meanwhile the black Differential line is showing that the SPX has underperformed expectations over the last few days. Both lines above zero is considered a bullish configuration. It has historically provided an upside edge. The long signal from the 2/4/10 close is still active.

Looking ahead to Thursday there stands a decent chance that the long signal will be closed. The green Aggregator line is scheduled to remain positive but the number of studies has dwindled the last few days. Some strongly bearish evidence could flip it negative. Meanwhile the Differential line is already set up to flip negative. The pivot number for tomorrow is dropping way down to 1064.39. This means the market only needs to close at or above this level to flip the Differential line negative.

Intermediate-term Outlook (2 weeks – 2 months)– updated 2/8 –slightly bullish

Two useful breadth statistics that are tracked by Worden Bros. are the % of Stocks Trading Above the 200ma (T2107) and the % of Stocks Trading Above the 40ma (T2108). At the current time the difference between these two readings is very large. 72% of stocks remain above their 200ma, but only 24% stocks are above their 40ma. The only other time since 1986 when Worden Bros. began tracking these statistics that the difference has been this large was late October / early November of 2009. To get such a large difference between the readings you would need to have a strong pullback occur in a strong uptrend. I was curious to see whether such a strong pullback was likely to derail

the long-term uptrend and lead to further selling. To get a better sense I lowered the required difference between the 2 to 40. Below are those results.

Worden Bros T2107 (% stocks > 200ma) minus T2108 (% stocks > 40ma) crosses over 40. Buy SPX on close. Sell X days later. \$100k/trade. 1986 - 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	
35	21,475.58	4	4	0	100.00	5,368.90	0.00	100.00	100.00	
30	23,219.60	4	4	0	100.00	5,804.90	0.00	100.00	100.00	
25	21,741.08	4	4	0	100.00	5,435.27	0.00	100.00	100.00	
20	20,572.12	5	5	0	100.00	4,114.42	0.00	100.00	100.00	
15	19,107.91	5	5	0	100.00	3,821.58	0.00	100.00	100.00	

The 5 dates shown for the 20-days out test are:
10/27/97, 3/11/04, 3/2/07, 10/27/09, and 11/27/09.

In general returns were positive from day 1. From a long-term perspective, such sharp pullbacks have been followed by additional buying. Any uptrend strong enough that such a large number of stocks were trading above their 200ma that the difference could be as large as 40 simply didn't fall apart when a strong selloff occurred. The 2004 instance saw a retest of the highs before the market underwent a lengthy but shallow selloff. The other instances all rallied through their old highs and kept rising. Instances are definitely low but results couldn't be any more bullish.

While we are now way above a difference of 35, I also ran that to get a few more instances.

Worden Bros T2107 (% stocks > 200ma) minus T2108 (% stocks > 40ma) crosses over 35. Buy SPX on close. Sell X days later. \$100k/trade. 1986 - 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
35	23,068.19	10	9	1	90.00	5,402.87	-25,557.66	0.21	1.90	2,306.82
30	22,283.78	10	9	1	90.00	5,187.10	-24,400.14	0.21	1.91	2,228.38
25	33,480.55	10	8	2	80.00	4,272.10	-348.13	12.27	49.09	3,348.06
20	24,726.47	10	9	1	90.00	2,876.02	-1,157.70	2.48	22.36	2,472.65
15	35,452.69	12	11	1	91.67	3,320.18	-1,069.30	3.11	34.16	2,954.39

This seems to confirm the previous findings and suggests the current breadth differential is indicative of not a market about to fall apart, but rather a market that is likely to resume its uptrend.

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 Price	% Gain/Loss	Stop	Notes
SPY(1/4)	2/5/2010	\$106.56	\$107.01	0.42%		Aggregator
SPY(1/4)	2/5/2010	\$106.44	\$107.01	0.54%		Aggregator
VXX(s)	2/8/2010	\$33.31	\$32.09	3.66%		

Should the SPX close at 1,064.39 or higher I will exit both lots of SPY at the close.

Thursday is the type of day where I would consider selling a portion of the SPY holdings near the open should the market gap higher. I might also consider trailing a stop during the day if SPY moves nicely positive. This makes sense strategy-wise since I know there is a good chance I'll be exiting at the close anyway. If I sell into a rally and then see the SPX roll over and fail to close above 1064.38, I can always buy it back lower at the close. (In the Letter I would wait until Friday morning since I don't look to initiate new trade ideas through intraday updates.) The bottom line is if the market rallies tomorrow and I know I'll be exiting, I am going to want to try and earn as much as I can and will pay close attention to the intraday action.

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.