

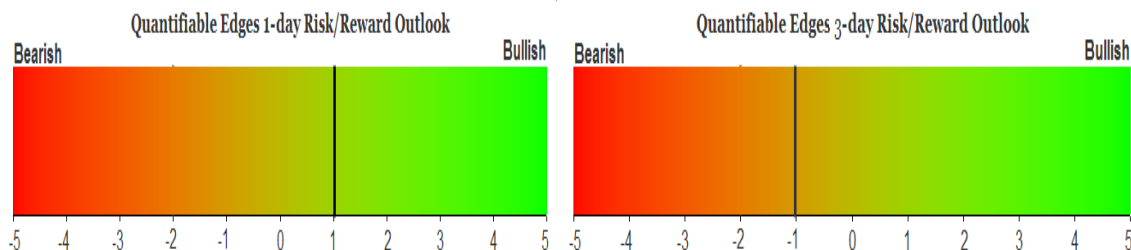
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 5, 2010

Volume 3 Issue 2

Market Overview



Tonight's Research Points

- A move from a 5-day low to a 10-day high has often been followed by weakness over the last 15 years.
- A positive 1st day of the year frequently leads to more upside in the very short term but that is often followed by weakness.
- The Aggregator System remains flat.

Short-term Outlook – updated 1/5

The Bottom Line

Based on tonight's studies, Tuesday could get some follow through, but we're likely to see a bit of pullback shortly after that. The Aggregator is flat but would likely turn bearish on any close higher.

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 5, 2009	1st Day of Year closes up	1 days	Bullish	
January 5, 2009	5-day low to a 10-day high	1-5 days	Bearish	-1.90%
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				
January 4, 2009	1st Day of Month	1 days	Bullish	
December 31, 2009	SPX rises. Up Vol % & Up Issue % < 45	1-2 days	Bearish	-2.45%

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

The Evidence

A large gap up that never looked back made for a strong start to the new year. The major indices all finished substantially higher with the SPX closing up 1.6%, the Nasdaq 1.7% and the Russell 2.4%. Breadth was strongly positive with the NYSE Up Issues % at 80% and the Up Volume % at 86%. Total volume rose as traders returned from vacation.

One bearish study that appeared in the Quantifinder tonight looked at other times since 1994 that the SPX went from closing at a 50day low to closing at a 10-day high the next day. I've updated that study below.

Yesterday the SPX close at a 5-day low. Today it closed at a 10-day high. 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
10	1,131.30	24	15	9	62.50	1,604.54	-2,548.54	0.63	1.05	47.14
9	-4,762.30	24	13	11	54.17	1,578.25	-2,298.14	0.69	0.81	-198.43
8	-10,998.56	24	13	11	54.17	1,518.43	-2,794.38	0.54	0.64	-458.27
7	-15,042.07	24	11	13	45.83	1,570.85	-2,486.26	0.63	0.53	-626.75
6	-16,503.96	24	11	13	45.83	1,210.85	-2,294.10	0.53	0.45	-687.67
5	-16,310.22	24	10	14	41.67	1,105.52	-1,954.67	0.57	0.40	-679.59
4	-9,368.11	24	11	13	45.83	1,274.20	-1,798.79	0.71	0.60	-390.34
3	-3,310.22	24	15	9	62.50	891.64	-1,853.87	0.48	0.80	-137.93
2	-7,125.69	24	9	15	37.50	836.06	-976.68	0.86	0.51	-296.90
1	-2,266.12	24	15	9	62.50	473.51	-1,040.97	0.45	0.76	-94.42

20 of 24 instances (83%) closed below the entry price at some point in the next week.

Over the last 15 years there appears to be a downside edge over the following week.

I received a note today from a subscriber who had seen something suggesting the 2nd trading day of the year is the most bullish. I did some studying of it myself. The initial tests suggested there was a possible upside edge but recent years have a seen a deterioration in that edge. Further testing revealed some more interesting tendencies. I decided to filter performance over the few days and weeks based on whether the 1st day of the year closed positive or negative. First let's look at times like Monday where the 1st day of the year was positive.

SPX closes higher on the 1st day of the year.
Buy on close. Sell X days later. \$100k/trade. 1961 - 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
15	-12,938.26	21	6	15	28.57	5,862.48	-3,207.54	1.83	0.73	-616.11
14	-13,592.67	21	7	14	33.33	4,885.80	-3,413.81	1.43	0.72	-647.27
13	-20,702.67	21	6	15	28.57	4,865.82	-3,326.51	1.46	0.59	-985.84
12	-16,054.74	21	6	15	28.57	5,047.24	-3,089.21	1.63	0.65	-764.51
11	-8,356.21	21	9	12	42.86	3,506.51	-3,326.24	1.05	0.79	-397.91
10	-4,435.79	21	9	12	42.86	3,250.52	-2,807.54	1.16	0.87	-211.23
9	-8,049.92	21	9	12	42.86	3,361.89	-3,192.10	1.05	0.79	-383.33
8	-11,556.46	21	10	11	47.62	3,005.57	-3,782.92	0.79	0.72	-550.31
7	-11,973.63	21	9	12	42.86	2,851.00	-3,136.05	0.91	0.68	-570.17
6	-12,412.59	21	10	11	47.62	2,646.55	-3,534.37	0.75	0.68	-591.08
5	-7,653.82	21	12	9	57.14	1,953.15	-3,454.62	0.57	0.75	-364.47
4	-3,937.86	21	10	11	47.62	1,747.88	-1,946.97	0.90	0.82	-187.52
3	6,366.47	21	13	8	61.90	1,533.56	-1,696.22	0.90	1.47	303.17
2	11,964.19	21	15	6	71.43	1,262.16	-1,161.37	1.09	2.72	569.72
1	10,760.76	21	17	4	80.95	807.06	-739.82	1.09	4.64	512.42

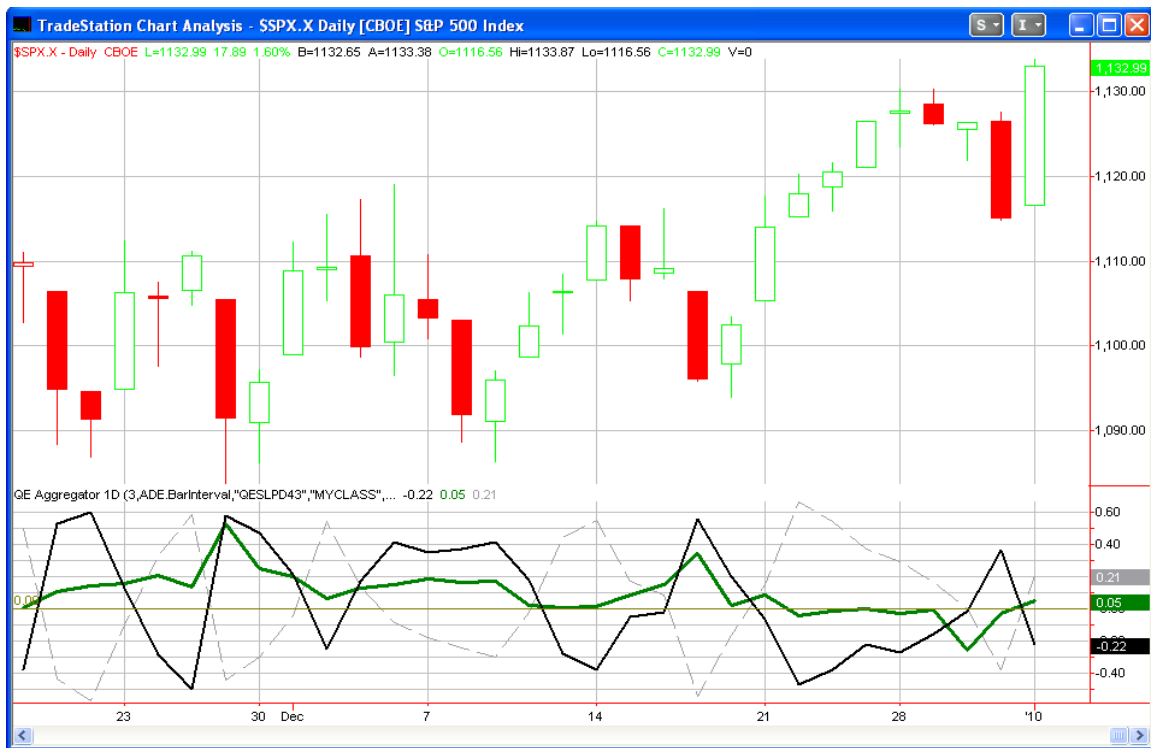
19 of the 21 instances (90%) closed higher than the entry price on either day 1 or day 2. Interestingly, the 2 instances that didn't also didn't manage to post a profitable close at any point during the rest of the month. The basic pattern that is evident among the instances above is that immediate follow through is often followed by weakness.

Interesting, while a close lower on the 1st day of the year leads to a slower initial rebound, the evidence suggests over the next few weeks the market is more likely to perform well.

SPX closes lower on the 1st day of the year.
Buy on close. Sell X days later. \$100k/trade. 1961 - 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
15	30,314.32	27	19	8	70.37	3,155.79	-3,705.72	0.85	2.02	1,122.75
14	25,326.75	27	19	8	70.37	2,949.30	-3,838.75	0.77	1.82	938.03
13	28,990.83	27	18	9	66.67	3,124.04	-3,026.88	1.03	2.06	1,073.73
12	29,133.96	27	18	9	66.67	2,943.21	-2,649.32	1.11	2.22	1,079.04
11	33,734.38	27	19	8	70.37	2,883.11	-2,630.59	1.10	2.60	1,249.42
10	30,470.29	27	18	9	66.67	2,758.15	-2,130.72	1.29	2.59	1,128.53
9	28,159.56	27	20	7	74.07	2,414.55	-2,875.92	0.84	2.40	1,042.95
8	21,435.41	27	18	9	66.67	2,326.30	-2,270.88	1.02	2.05	793.90
7	17,361.36	27	18	9	66.67	2,138.66	-2,348.27	0.91	1.82	643.01
6	16,142.30	27	18	9	66.67	2,051.52	-2,309.45	0.89	1.78	597.86
5	13,496.00	27	17	10	62.96	1,924.59	-1,922.21	1.00	1.70	499.85
4	10,902.23	27	16	11	59.26	1,989.22	-1,902.30	1.05	1.52	403.79
3	11,385.81	27	16	11	59.26	1,862.91	-1,674.61	1.11	1.62	421.70
2	10,499.92	27	16	11	59.26	1,620.19	-1,402.10	1.16	1.68	388.89
1	9,780.54	27	17	10	62.96	1,137.33	-955.40	1.19	2.02	362.24

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



Today's strong move up caused everything to flip. The current net expectations are for more upside as can be seen by the positive green Aggregator line. Unfortunately the strong move on Monday sent the black Differential line sharply lower. The SPX has now outperformed the market versus expectations over the last few days. So the Aggregator chart configuration is completely opposite last night. Rather than being oversold with negative expectations the market now has positive expectations but is overbought. This again places both lines on opposite sides of zero and is considered a neutral configuration. The Aggregator System remains flat.

Looking ahead to tomorrow the green Aggregator line is schedule to turn negative barring additional bullish studies. For the black Differential line to flip back positive the SPX would need to close below 1,122.85. This suggests a possible short trade setting up. I'll be looking to take advantage the anticipated weakness should we first get more strength on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/4 –neutral

Nothing popped up this week in terms of studies with significant intermediate-term implications. Frankly I'd be a bit hesitant to use the holiday week as a reliable indication of the intermediate-term anyway.

On the positive side the Nasdaq is still exerting leadership and the intermediate-term uptrend for all indices remains in tact.

Bearish indications still remain based on studies related to options, volatility, and bond yields. In all the trend is up but indications remain mixed. I'll wait to see how the action

looks this week now that light holiday trading should be over. Should there be no further indications of downside then I'll probably increase the intermediate-term outlook to the bullish side since the trend remains up.

Subscribers will notice on the systems page that I have now included the Nasdaq Trender signals. I will be releasing more information on this model in the next week or so. For the time being I just wanted to get the model running so that all of 2010 is live. It basically looks at leadership and trend. It will go both long and short.

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.

SPY – short ¼ position at \$113.83 LIMIT ON OPEN. Order should be cancelled if not filled on open. If the market overdoes it early then a large gap up could provide a nice entry price. Also of note from MasterTheGap.com tonight in the free email it was mentioned that “Today's large unfilled up gaps increase the probability of gaps in either direction filling on Tuesday.” This would further suggest a substantial up gap may provide a nice short entry price.

SPY - short ¼ index position @ \$113.34 LIMIT ON CLOSE – Bullish studies aren't likely to exert themselves on a move higher tomorrow. I'll look to short a close higher in anticipation of an Aggregator System short signal.

Active Trades Table

None

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