

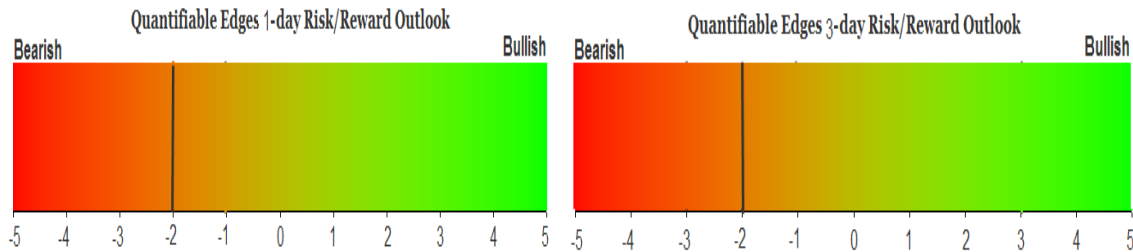
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 7, 2010

Volume 3 Issue 4

Market Overview



Tonight's Research Points

- Slow drifts higher in uptrends aren't terribly predictive.
- The Aggregator System remains short.

Short-term Outlook – updated 1/7

The Bottom Line

The market is now strongly overbought versus expectations. The slow drift higher over the last couple of days has done little to provide substantial edges. I continue to expect some downside and remain short.

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	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	

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

The Evidence

Not much happened in the market on Wednesday. The entire day was spent in a relatively narrow range. The S&P and Russell finished close to unchanged while the Nasdaq lost about 0.3%. Breadth was somewhat positive on the NYSE. The Up Issues % came in at 60% and the Up Volume % at 67%. Total volume pulled back from Tuesday's levels.

The last two days have been basically void of substantial edges. The issue with the current environment is that we're experiencing mild "melt-ups" in a longer-term uptrend. This kind of scenario often makes finding a short-term trading edge difficult. A bullish edge may be found if 1) the market pulls back and offers a possible bargain entry price 2) strong moves as measured by breadth and/or volume begin to appear. For a bearish edge to reveal itself you often need more than just price movement. Here too volume and breadth can be helpful. If we were in a long-term downtrend then a simple "3 higher closes" observation would suggest a bearish edge. In an uptrend it doesn't particularly suggest anything. See what I mean below. First let's look at 3 higher closes in a downtrend since the inception of the SPY.

SPY closes higher for the 3rd day in a row and close < 200ma. 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
5	-23,646.50	69	33	35	47.83	2,104.11	-2,659.49	0.79	0.75	-342.70
4	-45,704.95	72	29	43	40.28	1,721.16	-2,223.69	0.77	0.52	-634.79
3	-54,210.16	72	27	44	37.50	1,473.84	-2,136.45	0.69	0.42	-752.92
2	-23,735.34	72	34	38	47.22	990.52	-1,510.87	0.66	0.59	-329.66
1	1,572.58	72	38	34	52.78	1,133.31	-1,220.39	0.93	1.04	21.84

Here you see that after you get out a day or two there is a decided downside edge.

But now look at the same test in long term uptrends.

SPY closes higher for the 3rd day in a row and close > 200ma. 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
5	-4,979.25	195	108	87	55.38	1,250.55	-1,609.64	0.78	0.96	-25.53
4	11,725.46	214	121	92	56.54	1,160.99	-1,399.50	0.83	1.09	54.79
3	8,733.65	214	120	92	56.07	971.78	-1,172.60	0.83	1.08	40.81
2	11,382.36	214	114	100	53.27	821.65	-822.85	1.00	1.14	53.19
1	-3,713.90	214	96	117	44.86	657.56	-571.28	1.15	0.94	-17.35

Here you see that the when the SPX is in a long-term uptrend there is neither a bullish nor bearish edge.

This is what we have been faced with the last 2 days (and much of the holiday week last week). Mild price moves higher on ordinary breadth and volume during a long-term uptrend aren't ingredients for a sizable trading edge.

From an intermediate-term standpoint traders may want to keep an eye on NYSE New Highs. Wednesday's level just barely missed surpassing the October readings. Should the October levels be overtaken in the next few days that would eliminate the current divergence. This would be a positive sign and suggest more upside over the next couple of months. I'll discuss this more in the intermediate-term section this weekend.

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



The Aggregator configuration remains essentially the same tonight. The green Aggregator line remains below zero as the lack of bullish indications is keeping it down. Meanwhile the black Differential line shows the SPX is more overbought versus expectations than it has been in a long while. Overbought with negative expectations suggests a downside edge. The Aggregator System remains short tonight.

The studies are again tenuous. Anything strongly bullish at this point could flip the Aggregator value positive. The black Differential is set to rise tomorrow as Monday's action will be falling out of the equation. The pivot number for the Differential looks to be 1,130.33. In other words, it will take a close below this number for the black Differential line to move back above 0.

I'm not seeing overwhelming evidence, but rather we have a somewhat overbought market and subtle hints of downside. I don't see any reason to get aggressive here but will stay the course and manage my short positions.

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.

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	1/5/2010	\$113.63	\$113.71	-0.07%		Aggregator
SPY(1/4)(s)	1/6/2010	\$113.63	\$113.71	-0.07%		Aggregator

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