

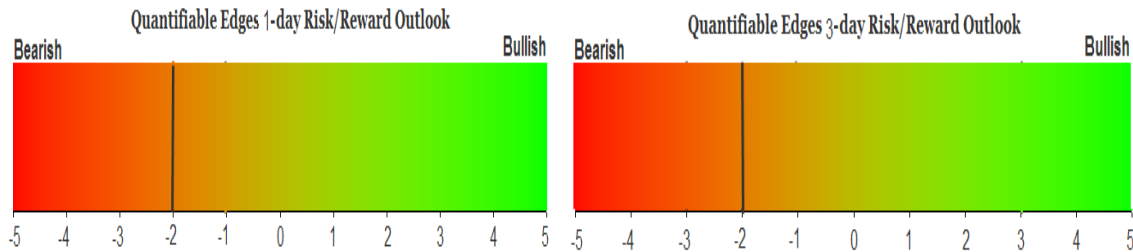
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 8, 2010

Volume 3 Issue 5

Market Overview



Tonight's Research Points

- Outside day at new highs on good volume in uptrend suggests short-term downside.
- The Aggregator System remains short.

Short-term Outlook – updated 1/8

The Bottom Line

Despite the slight bearish implications by the active studies the market continues to inch higher. Implications remain bearish but the employment report in the morning will add some extra risk.

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 8, 2010	Outside day at a high rising vol	1-3 days	Bearish	
January 5, 2010	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 5, 2009	1st Day of Year closes up	1 days	Bullish	

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

The Evidence

Some morning selling in the S&P 500 reversed course as it managed to close up 0.4% and at a new high. The Russell gained 0.6% while the Nasdaq closed barely in the red. NYSE breadth was somewhat positive. The Up Issues % was 61% and the Up Volume % came in at 69%. Total volume rose slightly from Wednesday's level.

Despite the SPX hitting new highs the number of individual NYSE stocks reaching new highs on Thursday shrunk substantially from Wednesday. I ran a few tests to see if the decline in new highs while the SPX made a new 50-day high was predictive in any way. I failed to find solid evidence suggesting either a bullish or bearish edge. So though the decline in new highs might seem bearish, I couldn't find any evidence backing up that idea.

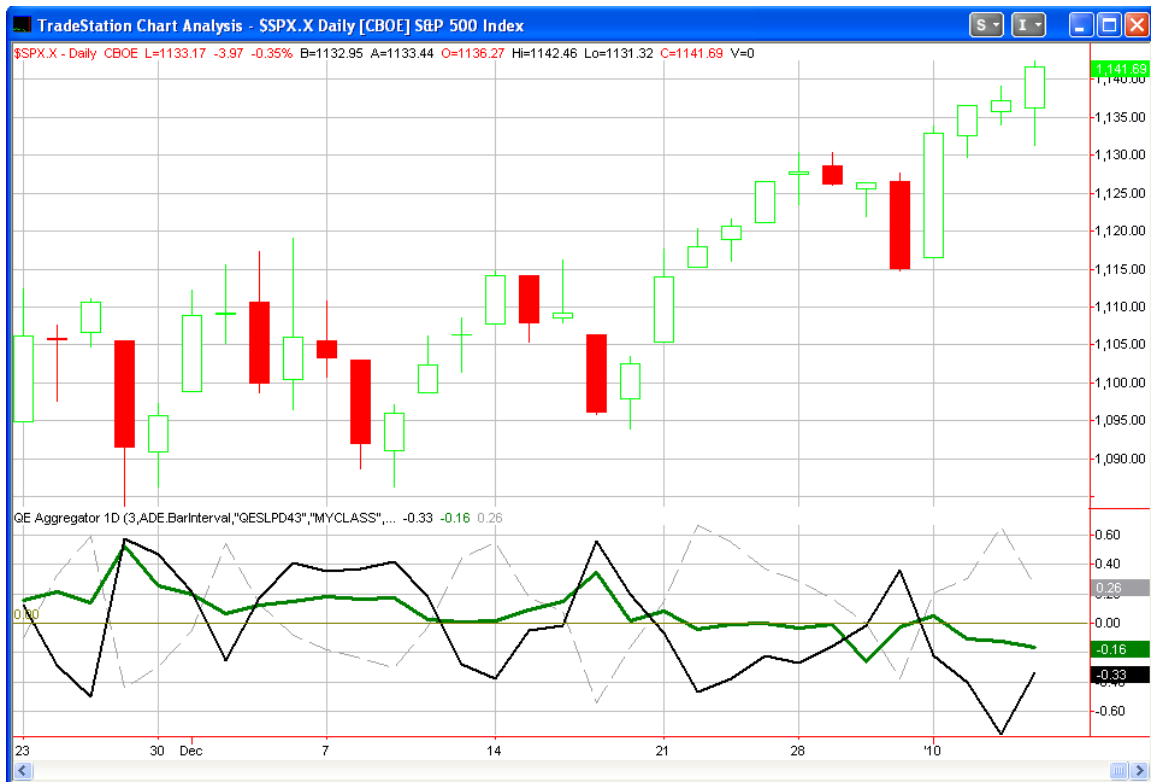
Thursday's price & volume action had a lot of characteristics that would appear bullish. These include the fact that it posted an outside day and closed higher. It also made a new 50-day intraday high. The SPX is in a long-term uptrend and trading above its 200ma. Lastly, the volume rose Thursday as the market rallied. Sometimes it can be interesting to take a number of market observations like these that would seem to obviously suggest a bullish edge and run them through the wayback machine. Below is a study that did just that:

SPY posts an outside day and makes a 50-day high. It closes higher than yesterday and above the 200ma. Volume > yesterday. 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	-8,350.29	23	13	10	56.52	946.06	-2,064.91	0.46	0.60	-363.06
4	-6,114.39	25	12	13	48.00	824.37	-1,231.29	0.67	0.62	-244.58
3	-7,040.89	25	11	14	44.00	794.69	-1,127.32	0.70	0.55	-281.64
2	-3,026.33	26	11	15	42.31	679.81	-700.28	0.97	0.71	-116.40
1	-1,051.81	26	10	16	38.46	524.72	-393.69	1.33	0.83	-40.45

**With a 3-day exit strategy 7 of the last 8 instances have been losers.
85% of instances closed lower than the trigger price at some point in the next 3 days.**

Rather than combining for a bullish edge it appears the scenario above has often been followed by downside.

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



Again tonight we are seeing an Aggregator formation with both the green Aggregator line and the black Differential line below 0. This means the net expectation from the studies is negative and the SPX has outperformed expectations over the last few days. Historically this formation has been short-term bearish. The Aggregator System remains short from Tuesday's close.

The Differential pivot number for Friday is 1,135.61. An SPX close at or below this number would flip the Differential line to positive and close out the short signal. For the green Aggregator line the turn negative we would need to see some bullish studies appear.

The unemployment report comes out at 8:30am EST time Friday. That could very well give the market a jolt to open trading. Should you wish to hedge any positions you'll need to do it before 8:30.

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. The jobs report is due early in the morning. If the report is followed by a strong rally Friday then that may set up a pullback early next week. Under the right circumstances this would lead me to increase short-side exposure.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	1/5/2010	\$113.63	\$114.23	-0.53%		Aggregator
SPY(1/4)(s)	1/6/2010	\$113.63	\$114.23	-0.53%		Aggregator

I'll look to sell both lots on a close of 1,1135.61 or lower in the SPX.

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