

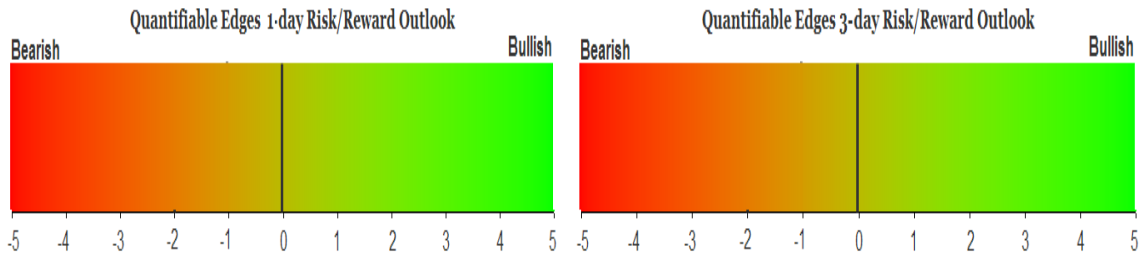
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 5, 2011

Volume 4 Issue 3

Market Overview



Tonight's Research Points

- The strong underperformance in the Russell 2000 coming off a high appears to be a bullish sign.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

The short-term Active Studies remain bullish but the market is still overbought. I'm still awaiting a better risk/reward scenario before putting capital back to work.

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, 2011	SPX down from high. RUT dn 1% more.	1-7 days	Bullish	3.00%
January 3, 2011	SPX down last 2 days of up quarter	1-8 days	Bullish	2.90%
December 30, 2010	2 Days of gap, reverse but positive close	1-5 days	Bullish	2.20%
December 27, 2010	1 day drop after 5 up days.Close>200ma	1-10 days	Bullish	2.20%
Active - Long Term				
January 4, 2011	SPX up 1st day of year	1-13 days	Bearish	
January 3, 2011	SPX down last 2 days of up quarter	1-15 days	Bullish	
December 30, 2010	SPX closes > 10ma every day of month	1 month	Bullish	
December 16, 2010	2 Hindenburg Signals	1-50 days	Bearish	
December 9, 2010	SPX & TNX 50-day highs	1-50 days	Bearish	
December 6, 2010	SPY 3 lower volume up days	1-19 days	Bearish	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
January 4, 2011	SPX up 1st day of year	1 day	Bullish	

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

The Evidence

Tuesday had a fair amount of back and forth action. The SPX and NASDAQ both gapped higher to start the day and then sold off for most of the morning and early afternoon. About 1 PM they bottomed and worked their way higher into the close. When it was over the damage was fairly light. The SPX declined 0.1%, the NASDAQ dropped 0.4%, and the Russell 2000 suffered much worse, losing 1.6%. Breadth was negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 40%. Total volume rose again to the highest level in the last couple of weeks.

The Quantifinder went quiet tonight, which is odd considering how many interesting studies have appeared lately while the market action was dull. Now we finally get some real action in the market and it fails to trigger any substantial studies.

The one thing I found most striking about today's trading was the massive underperformance by the Russell 2000. It lost close to 1.5% more than the SPX. I decided to examine what this might suggest with the SPX coming off a high. I used a 1% underperformance figure as the filter. Results are below.

SPX closed at a 20-day high yesterday. Today it closed down. The Russell 2000 closed down at least 1% more than the SPX. Buy SPX on close. Sell X days later. \$100k/trade. 1987 - 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	25,465.85	11	9	2	81.82	3,595.47	-3,446.68	1.04	4.69	2,315.08
15	27,328.95	11	10	1	90.91	3,424.49	-6,915.92	0.50	4.95	2,484.45
10	11,932.47	12	9	3	75.00	2,081.63	-2,267.41	0.92	2.75	994.37
9	21,294.14	13	9	4	69.23	2,809.98	-998.93	2.81	6.33	1,638.01
8	22,686.52	13	11	2	84.62	2,355.17	-1,610.18	1.46	8.04	1,745.12
7	22,135.82	13	12	1	92.31	2,185.14	-4,085.84	0.53	6.42	1,702.76
6	10,123.08	13	11	2	84.62	1,537.86	-3,396.69	0.45	2.49	778.70
5	6,713.94	13	8	5	61.54	1,825.88	-1,578.62	1.16	1.85	516.46
4	6,914.06	14	8	6	57.14	2,278.33	-1,885.43	1.21	1.61	493.86
3	12,582.65	16	9	7	56.25	2,289.89	-1,146.63	2.00	2.57	786.42
2	4,919.10	16	10	6	62.50	1,579.40	-1,812.49	0.87	1.45	307.44
1	-3,176.18	16	9	7	56.25	1,244.06	-2,053.24	0.61	0.78	-198.51

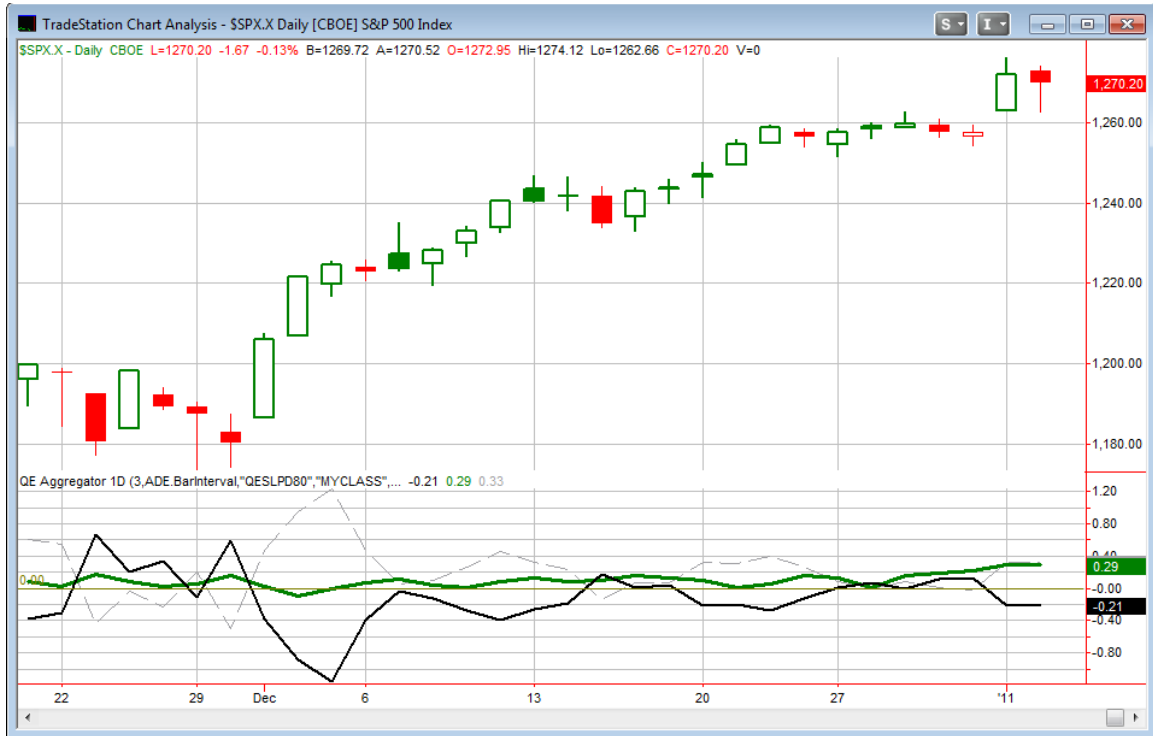
After running thousands of market studies, I'm rarely surprised at results anymore. These results did surprise me a bit. Frankly, I wasn't expecting this study to suggest much of an edge, and if it did I thought it might be mildly bearish. Instead it appears that the sharp drop and underperformance by the Russell 2000 is bullish. Perhaps the pattern is

representative of a downside overreaction in an uptrending market. Whatever the reason, the results certainly aren't bearish. Seven days out the stats are heavily skewed to the bullish side with 12 of 13 instances showing positive results. To get a better feel for the results I have listed all 13 instances below using the 7-day exit strategy.

SPX closed at a 20-day high yesterday. Today it closed down. The Russell 2000 closed down at least 1% more than the SPX. Buy SPX on close. Sell 7 days later. \$100k/trade. 1987 - present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
03/20/00	Buy	\$1,456.69	3.56%	\$6,540.24
03/29/00	Sell	\$1,508.52		(\$722.84)
05/16/03	Buy	\$944.30	0.94%	\$1,584.45
05/28/03	Sell	\$953.22		(\$3,386.25)
12/15/03	Buy	\$1,068.04	2.43%	\$2,688.63
12/24/03	Sell	\$1,094.04		\$0.00
06/03/04	Buy	\$1,116.63	1.38%	\$2,273.95
06/15/04	Sell	\$1,132.00		\$0.00
09/06/06	Buy	\$1,300.26	1.51%	\$1,853.64
09/15/06	Sell	\$1,319.87		(\$709.08)
12/18/06	Buy	\$1,422.48	0.16%	\$459.90
12/28/06	Sell	\$1,424.73		(\$854.00)
03/24/09	Buy	\$806.34	3.48%	\$4,869.48
04/02/09	Sell	\$834.38		(\$3,289.72)
04/06/09	Buy	\$835.48	3.57%	\$4,149.53
04/16/09	Sell	\$865.30		(\$2,493.05)
04/20/09	Buy	\$832.39	4.96%	\$5,960.40
04/29/09	Sell	\$873.64		(\$667.20)
05/07/09	Buy	\$907.39	0.26%	\$2,505.80
05/18/09	Sell	\$909.71		(\$3,129.50)
08/14/09	Buy	\$1,004.09	2.38%	\$3,332.34
08/25/09	Sell	\$1,028.00		(\$2,532.42)
11/12/09	Buy	\$1,087.24	1.75%	\$2,406.95
11/23/09	Sell	\$1,106.24		(\$173.81)
08/05/10	Buy	\$1,125.81	(4.12%)	\$301.84
08/16/10	Sell	\$1,079.38		(\$4,956.16)

I find it interesting that there were no occurrences prior to 2000. There have also been a large number in the last two years. It is encouraging that the results are fairly steady and not due to one or two large outliers.

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



There was very little change to both the Aggregator and the Differential lines tonight. Without any short-term bearish indications the green Aggregator line remains well above zero. The positive value indicates the net expectation from the Active Studies over the next few days is for a move higher. Meanwhile the black Differential line is still below 0. The negative value means the SPX has outperformed expectations over the last few days. So net expectations are for upside but the SPX is overbought. This is considered a neutral configuration. Neutral configurations occur whenever both lines are on opposite sides of 0. Due to this the Aggregator System stayed flat at the close.

The green Aggregator line tomorrow is set up to remain above 0. This is unlikely to change unless strong bearish evidence emerges. Meanwhile the Differential Pivot will be 1,264.63. This is about 0.4% below Tuesday's close. So it would take a drop of at least this amount in order for the Differential line to move back above 0. Based on the current studies it would appear that a move down on Wednesday would be the best chance for an Aggregator signal to trigger.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/3 – neutral to slightly bullish

The intermediate-term outlook has not changed. If you'd like to see it you may use the link below to view the 1/3/11 Letter.

[2011-01-03 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

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 though the triggers page is showing a fair amount of both bullish and bearish triggers.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	12/31/2010	\$125.53	\$127.33	1.43%		sold on open

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