

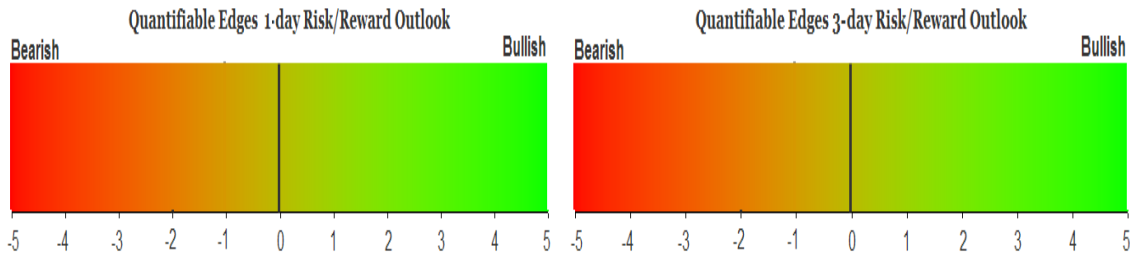
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 7, 2011

Volume 4 Issue 5

## Market Overview



## Tonight's Research Points

- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

## Short-term Outlook

### The Bottom Line

The Aggregator is neutral and I'm sidelined awaiting better risk/reward.

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
<b>Active</b>				
January 6, 2011	SPY gap below 2 ago low then 50-high	1-3 days	Bearish	-3.00%
January 5, 2011	SPX down from high. RUT dn 1% more.	1-3 days	Bullish	3.00%
January 3, 2011	SPX down last 2 days of up quarter	1-8 days	Bullish	2.90%
<b>Active - Long Term</b>				
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	
<b>Dropped Tonight</b>				
January 6, 2011	VIX:VXV < 0.85 & SPX 50-day high	1 day	Bearish	
December 27, 2010	1 day drop after 5 up days. Close > 200ma	1-10 days	Bullish	2.20%

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

## The Evidence

Trading action was muted on Thursday. The major indices were mixed from the start and finished that way. The SPX lost 0.2%, the NASDAQ was up 0.3%, and the Russell 2000 declined 0.5%. Breadth was solidly negative as the NYSE Up Issues % came in at 39% and the Up Volume % was 33%. Despite the somewhat quiet action NYSE volume rose from Wednesday's level.

The Quantifinder didn't reveal anything compelling tonight. And though I examined several ideas, nothing emerged that I felt worthy of serious consideration. This tends to happen once every few weeks or so. When I find myself trying too hard to find a compelling edge, it often means there isn't one. Giving it a rest is typically a better idea than trying force an edge with data mining.

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



Despite the lack of new studies tonight, we did see a change in the Aggregator configuration. The green Aggregator line remained negative as expectations are still calling for more downside. Meanwhile the black Differential line popped back above 0. The positive value means the SPX has underperformed expectations over the last few

days. So net expectations are for downside but the SPX has failed to rise enough over the last few days to meet recent expectations. This leaves both lines on opposite sides of zero, which is considered a neutral configuration. Due to this the Aggregator System changed to flat at the close.

The green Aggregator line tomorrow is set up to remain below 0. Of course this could change if enough bullish evidence emerges. Meanwhile the Differential Pivot will be 1280.38. This is about 0.5% above Thursday's close. So the SPX will need to rise at least this much in order to be considered "overbought versus expectations". Without such a move, the Differential line will again close above 0.

The SPX closed lower on Thursday, but the decline is not yet anywhere near as powerful as was suggested by yesterday's studies. The Differential line calculation says the market is no longer overbought versus expectations, but there are several indicators that would suggest the overbought condition remains. The December 30<sup>th</sup> study on the long term Active List noted that the SPX went the entire month of December without closing below its 10-day moving average. A week later it still hasn't managed to do so. It will at some point. So a case could be made for holding onto a short position. In fact, any trades from last night that were entered based on system-80514 would still be holding short.

I exited the Aggregator SPY short position at the close as I indicated I would do in last night's letter. I simply feel upside risk is too high to try and press the short side at this time. While we may be overdue for a larger pullback, the market remains in a strong uptrend over several time frames. It would be extremely rare that I would be inclined to override the Differential reading to stay in a countertrend trade. Friday morning is the employment report, which can often generate a good amount of volatility. This adds even more risk...more risk I'm not interested in taking. So I'll watch tomorrow's action with interest and closely monitor emerging studies as I await a more compelling risk/reward setup to avail itself.

***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.

## **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	1/6/2011	\$127.69	\$127.39	0.23%		covered on close

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