

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 26, 2011

Volume 4 Issue 17

Market Overview



Tonight's Research Points

- SPX up < 0.25% but in top 10% of daily range has been followed by struggles the next day.
- Wednesday is a Fed Day.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

I'm still looking for more upside. But with the market remaining overbought I'm inclined to wait for a better entry.

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 26, 2011	Fed Day	1 day	Bullish	
January 26, 2011	SPX up < 0.25% and in top 10% of range	1 day	Bearish	
January 24, 2011	Nas/Rus down 3. SPX 3-day high.	1-5 days	Bullish	
January 21, 2011	1st close < 10ma in over 25 days	1-11 days	Bullish	3.60%
January 21, 2011	SPY gap down & partial revers fr 5-low	1-10 days	Bullish	3.20%
January 19, 2011	SPX 20-day high. Vol 20-day high.	1-9 days	Bullish	2.40%
Active - Long Term				
January 21, 2011	SPY 1st close < 10ma in over 25 days	1-20 days	Bullish	
January 19, 2011	SPX 20-day high. Vol 20-day high.	int term	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	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
January 24, 2011	SPX up. VIX up. Friday.	1-2 days	Bearish	

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

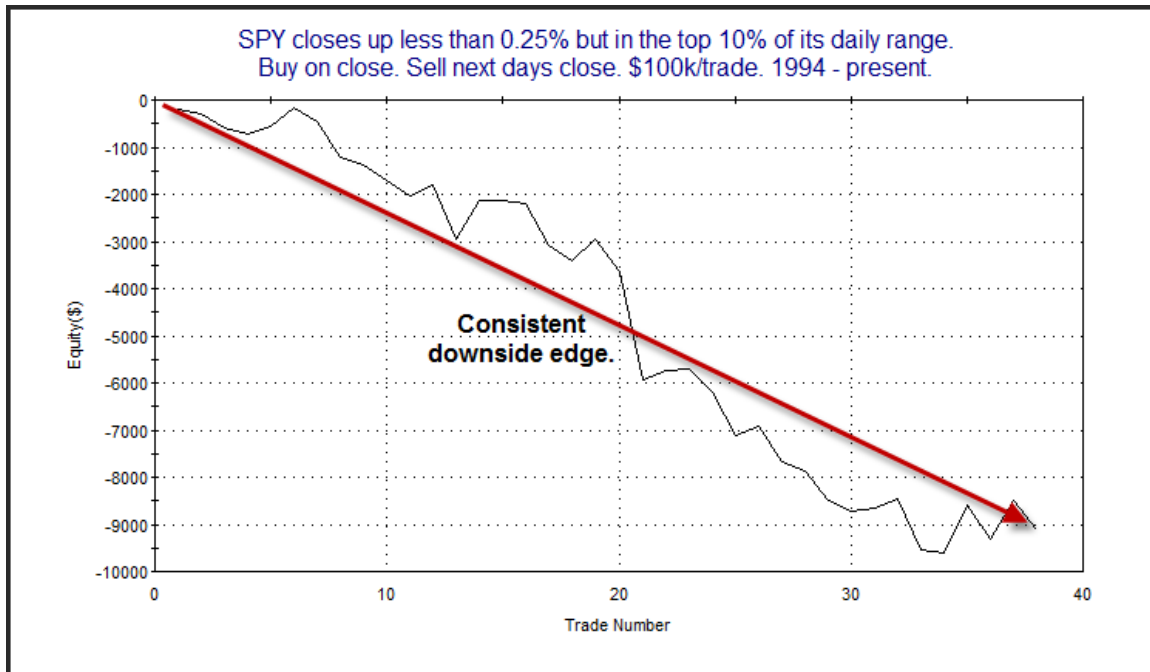
The Evidence

The market spent most of the day in negative territory, but a strong rally in the last hour allowed most of the major indices to finish positive on the day. The SPX, NASDAQ, and Russell 2000 all closed up, but less than 0.1%. Breadth was mixed as the NYSE Up Issues % came in at 53% but the Up Volume % was 37%. Total volume rose from Monday's low levels to about average.

Days where the market needs to exert a lot of energy at the end of the day just to sneak back above breakeven are often followed by a dip. I showed a study in the 3/16/10 Subscriber Letter that exemplified this. I have updated that study below.

SPY closes up less than 0.25% but in the top 10% of its daily range. 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
5	-1,584.51	36	19	17	52.78	1,642.33	-1,928.75	0.85	0.95	-44.01
4	-3,142.57	36	19	17	52.78	1,194.90	-1,520.34	0.79	0.88	-87.29
3	-5,425.12	36	21	15	58.33	901.85	-1,624.27	0.56	0.78	-150.70
2	-3,422.20	37	17	18	45.95	855.48	-998.07	0.86	0.81	-92.49
1	-9,105.28	38	13	25	34.21	353.71	-548.14	0.65	0.34	-239.61

These results seem to suggest a downside edge lasting only one day. I also ran an equity curve to show how the edge has played out over time.



This is a fairly nice looking down slope. I have included this study on the active list.

Of course as I discussed in detail last night, Wednesday is a Fed Day. Fed Days in general have been historically bullish. This bullish tendency is greatly reduced when the market closes near the upper end of its daily range. Also a close at a 20-day high would've also suggested the Fed Day edge would be eliminated. The market just missed seeing that happen. But here again is the study from last night showing top quartile finishes like we saw Tuesday.

SPY closes in top 25% of daily range the day before a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$7,873.38	Profit Factor	1.47
Gross Profit	\$24,784.21	Gross Loss	(\$16,910.83)
Total Number of Trades	56	Percent Profitable	48.21%
Winning Trades	27	Losing Trades	27
Even Trades	2		
Avg. Trade Net Profit	\$140.60	Ratio Avg. Win:Avg. Loss	1.47
Avg. Winning Trade	\$917.93	Avg. Losing Trade	(\$626.33)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

So possible Fed Day bullish tendencies appear weak going in to tomorrow.

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



Not much change tonight to the Aggregator configuration. The green Aggregator line remains above 0. The positive value means the net expectation from the Active Studies

List is for upside over the next few days. But the black Differential is 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 has outperformed recent expectations. This is considered a neutral configuration. A neutral configuration is evident on the chart whenever both lines are on opposite sides of zero. Due to this the Aggregator System remained flat at the close.

The green Aggregator line is tentatively set up to remain above 0 on Wednesday. Of course this could change if strong bearish evidence emerges. Meanwhile the Differential Pivot will be 1,285.15. This is almost 0.5% below Tuesday's close. So the SPX would need to fall at least this far for the Differential line to rise back above zero.

The Aggregator remained neutral and the market failed to set up for a bullish Fed Day as we'd hoped. More Fed /day related studies could emerge based on Wednesday's action. At these levels negative Fed-day studies emerging is unlikely. With the EWJ trade idea hitting its target and closing I'm now flat. I am not looking to add exposure until risk/reward increases.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/24 - mildly bullish

The intermediate-term outlook may be found in the 1/24/11 Subscriber Letter. There is a link below.

[2011-01-24 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
EWJ	1/21/2011	\$10.96	\$11.12	1.46%		exited on close per 11111

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