

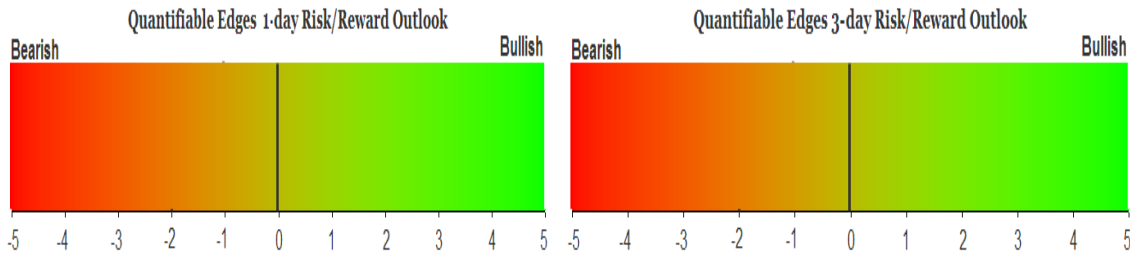
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 11, 2009

Volume 2 Issue 218

Market Overview



Tonight's Research Points

- Several studies in the Quantifinder this evening showed a mixed outlook with no decided edge.
- The most compelling study looked at pullback after streaks up of 5 or more days. It suggested bullish implications, especially once you got a few days out.
- The Aggregator remains neutral. While the market is still overbought, there hasn't been enough evidence to trigger an Aggregator short signal.

Short-term Outlook – updated 11/11

The Bottom Line

Tuesday's (lack of) action did little to tip off the direction for the next few days. Studies were mixed.

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				
November 9, 2009	10-day high close on 10-day low vol	1-5 days	Bearish	-2.50%
Active - Long Term				
November 10, 2009	75% Up Issues 2 of 3 above 200 & 10 hi	1-20 days	Bullish	5.90%

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

The Evidence

Tuesday was a tight range, nothing day for the major indices. The Dow, S&P and Nasdaq all finished close to breakeven. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % came in at 41%. Nasdaq numbers were similar. Volume once again came in light. Especially low volume tonight was noticed in the QQQQ, which follows Monday's low SPY volume and Friday's low NYSE volume.

Not a whole lot to go over tonight. The market didn't do much and the Quantifinder came up with a good number of studies that were basically neutral. The QQQQ volume study was neutral over the 200ma, and having discussed SPY and NYSE volume the last two nights, there really isn't any need to get into that. The down close did provide one study that was somewhat compelling. It was from the 10/14/09 Letter less than 1 month ago.

The study looked at what happens after a streak of 5+ up days ends above the 200ma. The results below have not been updated.

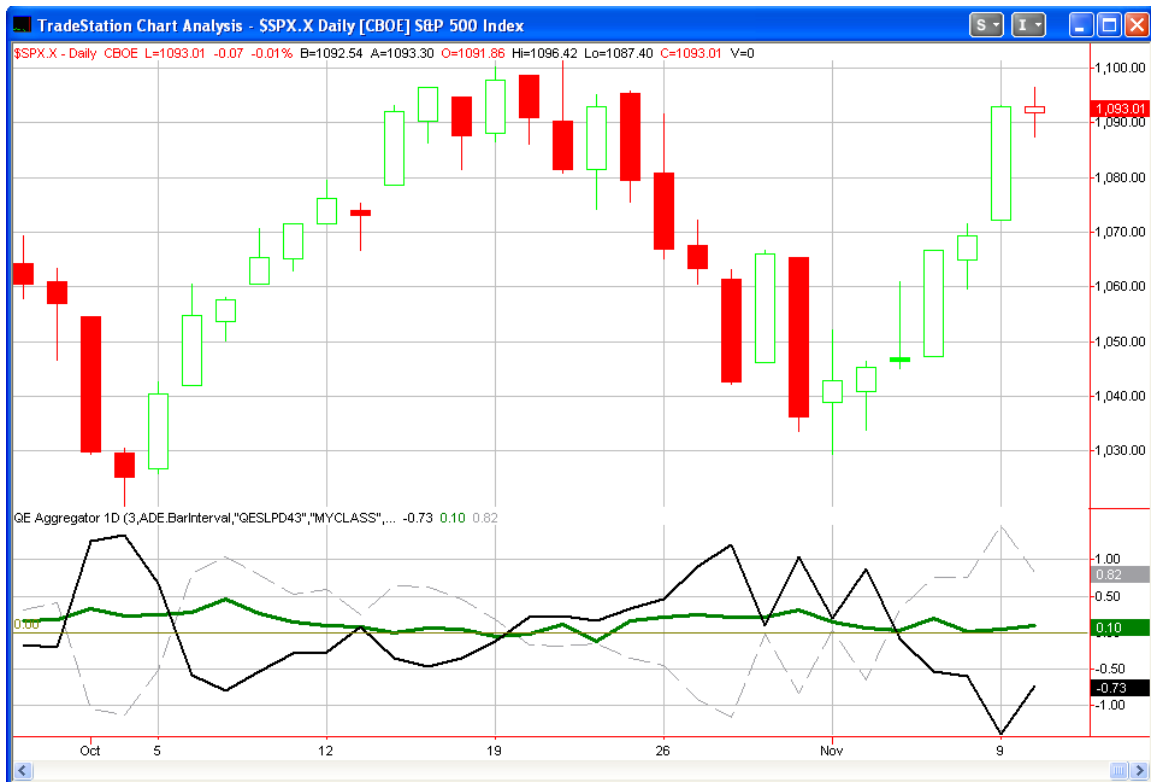
After closing higher for at least 5 days in a row, the SPX closes lower today but above its 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.

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
10	59,570.40	48	40	8	83.33	1,796.38	-1,535.62	1.17	5.85	1,241.05
9	63,124.16	52	44	8	84.62	1,729.55	-1,622.03	1.07	5.86	1,213.93
8	54,427.47	52	38	14	73.08	1,902.66	-1,276.69	1.49	4.05	1,046.68
7	43,800.68	53	37	16	69.81	1,640.59	-1,056.33	1.55	3.59	826.43
6	36,206.46	55	36	19	65.45	1,568.84	-1,066.93	1.47	2.79	658.30
5	23,973.15	55	34	21	61.82	1,311.58	-981.93	1.34	2.16	435.88
4	21,838.08	55	32	23	58.18	1,235.01	-768.80	1.61	2.24	397.06
3	9,565.09	55	31	24	56.36	1,054.40	-963.38	1.09	1.41	173.91
2	4,112.11	55	32	23	58.18	811.44	-950.17	0.85	1.19	74.77
1	1,941.90	55	31	23	56.36	536.25	-638.33	0.84	1.13	35.31

48 of 55 instances (87%) closed higher than the entry price at some point in the next week.

The edge here is muted at first but gains steam after the 1st few days. Of course the lower close on Tuesday was just 0.07 lower in the SPX. It doesn't get much more breakeven than that. So while technically it qualifies, it's a bit too borderline for my taste. I'd rather wait for a more definitive price move before adding a price-based study to the Aggregator.

The [Aggregator](#) chart is updated below.



The Aggregator chart formation didn't change much tonight. The green Aggregator line is still above zero showing positive net expectations from the studies. The black Differential line is still well below 0, illustrating how overbought the market is versus recent expectations. Overbought with positive expectations is considered a neutral configuration.

I sometimes discuss that there are 2 ways to work off overbought (or oversold) conditions. The 1st and most obvious is with price. A short-term pullback will relieve overbought conditions. The other metric than can relieve extended conditions is time. If after becoming extended the market moves sideways for a period of time rather than pulling back, that is another way the overbought (oversold) market will become less stretched. One nice thing about the black Differential line is that you can see this concept in action. When price chops sideways, the Differential line reverts towards 0.

This is why you can't go short overbought (or long oversold) and just wait forever for the market to revert. Even when overbought gets worked off it may do so simply by going sideways. While I'm still in the small SPY position expecting a short-term pullback, another move sideways tomorrow would strongly suggest an exit.

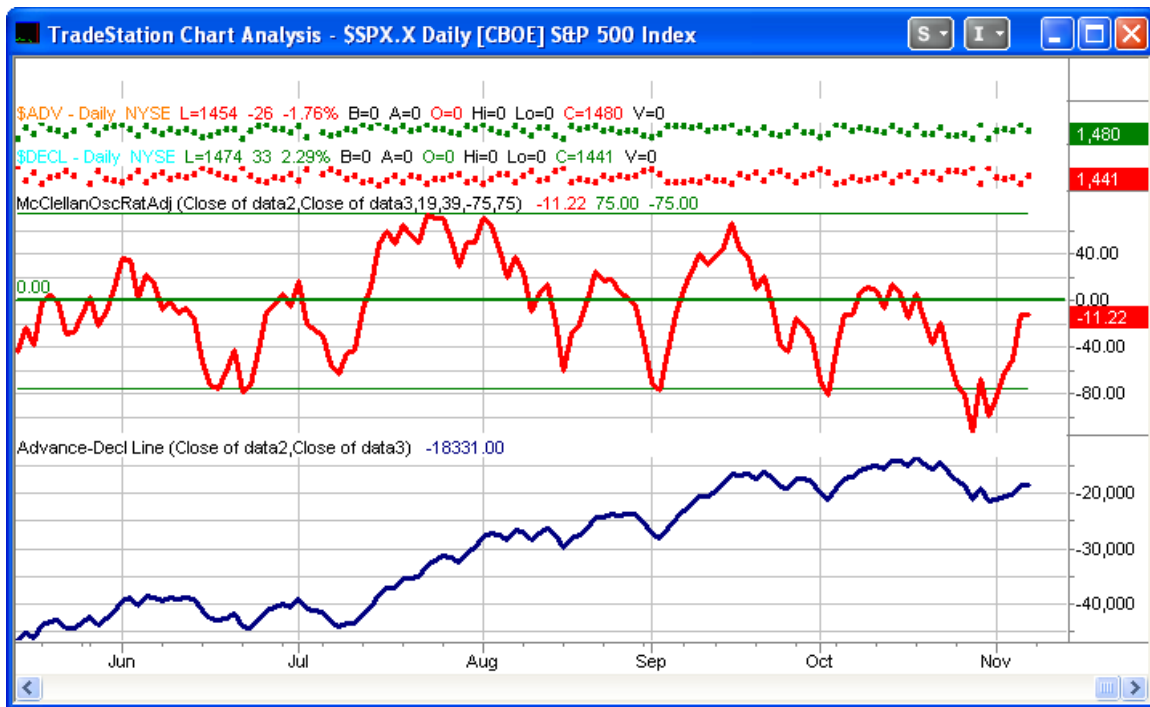
Intermediate-term Outlook (2 weeks – 2 months)– updated 11/9 – neutral

In last weekend's intermediate-term outlook I discussed the extremely stretched state of the Ratio Adjusted McClellan Oscillator. That study suggested that selling had reached levels that normally shouldn't occur in an uptrend. The study also suggested the low of Friday October 30th could be a line in the sand. A move much below that level would mean a deeper decline lasting at least a few weeks was likely. If that line could hold,

though, then the market might actually be able to begin a substantial rally over the next 4-5 weeks. So far so good as the market has risen 5 days in a row since then. I'll still be watching the low of the recent pullback as important. The short-term outlook is suggesting a pullback is likely early this week. Should the pullback hold above the recent swing low, then a bullish outlook would appear reasonable. A close below that level would suggest a bearish outlook. Those wishing to review last week's study may use the link below:

[2009-11-02 QE Weekly Research Letter.pdf](#)

I've shown a few breadth studies in recent weeks that looked at measures other than those included on the charts page. Based on subscriber requests, I've created a new chart on the charts page that from now on will show on a daily basis the Ratio Adjusted NYSE McClellan Oscillator and the NYSE Advance/Decline line. A copy of that chart is below.



The Ratio Adjusted McClellan Oscillator is the red line and the Advance / Decline line is blue. In the near future I will add a new page with a longer-term chart and research links similar to the other chart detail pages.

Most major tops have seen breadth divergences occur prior to the actual price peak. Of course it's entirely possible that the current rally could top out without breadth divergences that I'd noted were prevalent in past reports. To review the study that looked at divergent breadth action prior to significant tops see the October 12th Letter below.

[2009-10-12 QE Weekly Research Letter.pdf](#)

A top from here may or may not be considered “major” since the market is not near all-time highs. Still I’ll continue to watch the New Highs and the A/D line for divergence clues. For now the uptrend remains in tact. A move below last weeks low or a new high that isn’t soon accompanied by an expansion of New Highs and a breakout in the A/D line would suggest trouble ahead.

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/L	Stop	Notes
SPY(1/4)(s)	11/9/2009	\$107.95	\$109.59	-1.52%		

So after sending out an intraday update saying I would exit on any down close, SPY manages to close up \$0.02. I anticipate more Aggressively looking for an exit tomorrow.

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