

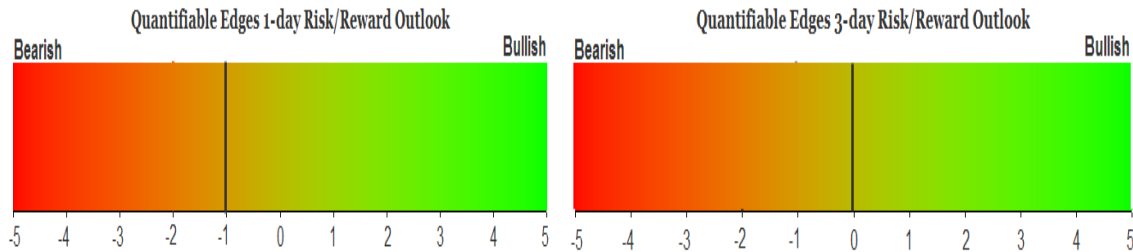
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 12, 2009

Volume 2 Issue 219

Market Overview



Tonight's Research Points

- With SPX closing at a new 50-day high, the VIX rose today. Historically this has most often led to a short-term pullback.
- The Aggregator remains neutral.
- Even a relatively small drop Thursday could flip the Differential line positive and trigger an Aggregator System buy signal.

Short-term Outlook – updated 11/12

The Bottom Line

More evidence tonight of a short-term pullback. The breadth thrust signal is still leading to positive Aggregator readings, though. Not much to do until the market pulls back.

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 12, 2009	SPX 50-day high and VIX up	1-2 days	Bearish	-0.80%
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

The market continued its relentless march higher today. After gapping higher and adding to those gains for the 1st hour it ran out of steam. A hard ½ hour of selling then led to choppy sideways action for the rest of the day. When it was over the major indices all closed solidly higher. The S&P was up ½%, the Nasdaq rose ¾% and the Russell 2000 was up 1%. Breadth was positive with the NYSE Up Issues % at 62% and the Up Volume % at 65%. Total volume declined and again was light.

The Quantifinder tonight identified that the SPX and VIX both closed higher. In the August 3rd Letter I looked at times the SPX and VIX both closed higher and broke it down by Mondays, Fridays, or midweek. Tonight I decided to take a closer look at the midweek results. As I've done with several other basic studies recently I decided to break this one down by uptrending behavior versus downtrending behavior. First I looked at all midweek instances below the 200ma.

SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-24,224.60	24	9	15	37.50	1,380.04	-2,443.00	0.56	0.34	-1,009.36
4	-39,097.95	25	7	18	28.00	1,214.18	-2,644.29	0.46	0.18	-1,563.92
3	-27,223.53	25	8	17	32.00	1,251.28	-2,190.22	0.57	0.27	-1,088.94
2	-22,321.60	25	8	17	32.00	1,567.26	-2,050.57	0.76	0.36	-892.86
1	-5,491.11	26	13	13	50.00	1,064.74	-1,487.14	0.72	0.72	-211.20

There appears to be a pretty solid downside edge under these circumstances. Now let's look at instances above the 200ma.

SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-2,942.28	74	40	34	54.05	1,139.38	-1,426.98	0.80	0.94	-39.76
4	-7,634.07	77	35	42	45.45	1,218.04	-1,196.80	1.02	0.85	-99.14
3	-7,628.93	81	40	41	49.38	976.25	-1,138.51	0.86	0.84	-94.18
2	-3,838.43	83	37	46	44.58	871.55	-784.48	1.11	0.89	-46.25
1	-5,424.97	91	44	47	48.35	483.23	-567.81	0.85	0.80	-59.62

These numbers are drastically different. Here a downside edge is barely perceptible. What's interesting about today, though is not only that the SPX is above it 200ma, but also that it closed at a new high. I further broke the above study down to look at instances that were at new highs versus those that weren't. First – times where the market was NOT at new highs.

SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close > 200ma but below a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	7,851.19	42	24	18	57.14	1,435.64	-1,478.01	0.97	1.30	186.93
4	2,581.86	42	22	20	52.38	1,367.94	-1,375.64	0.99	1.09	61.47
3	-1,316.30	44	25	19	56.82	1,081.42	-1,492.20	0.72	0.95	-29.92
2	5,386.08	45	26	19	57.78	957.14	-1,026.29	0.93	1.28	119.69
1	-1,278.65	46	23	23	50.00	694.31	-749.90	0.93	0.93	-27.80

No edge apparent here. Now times like today with the SPX at new highs.

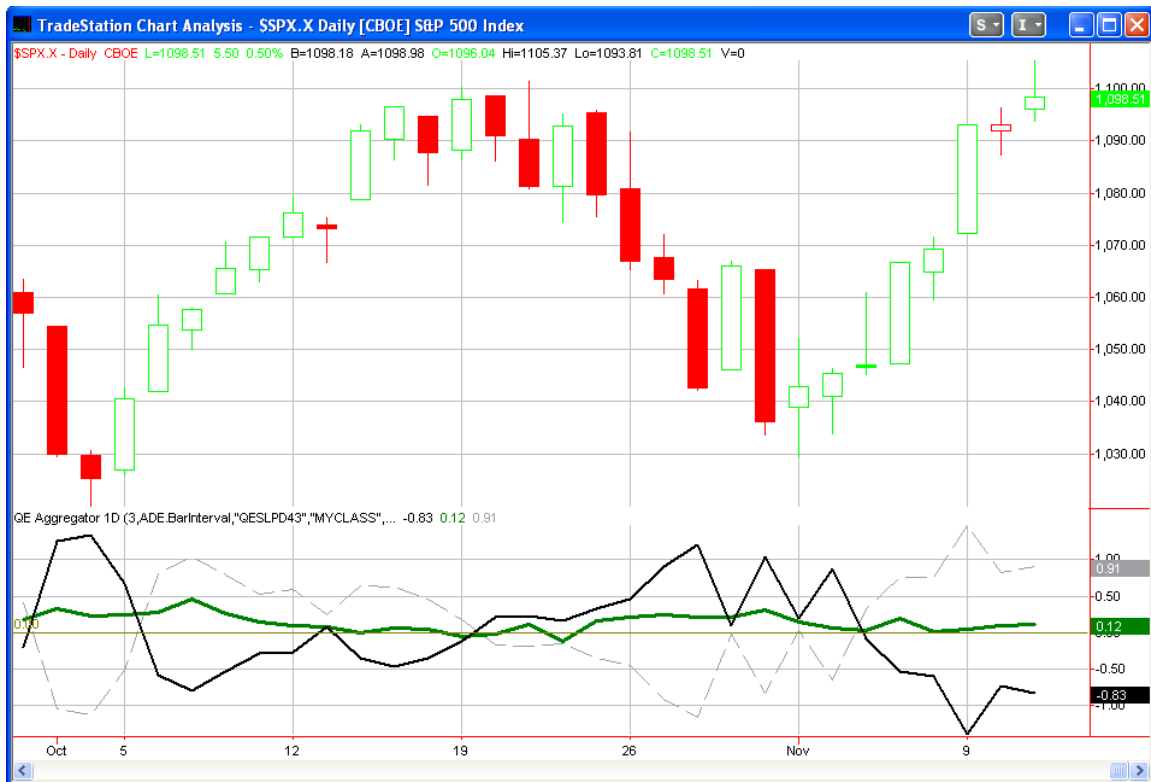
SPX & VIX both close higher on a Tuesday, Wednesday, or Thursday. Close > 200ma and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1998 - present.

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	-14,562.80	36	17	19	47.22	683.01	-1,377.57	0.50	0.44	-404.52
4	-10,833.53	38	14	24	36.84	921.44	-988.91	0.93	0.54	-285.09
3	-6,291.18	38	16	22	42.11	752.26	-833.06	0.90	0.66	-165.56
2	-9,224.51	38	11	27	28.95	669.26	-614.31	1.09	0.44	-242.75
1	-4,146.32	45	21	24	46.67	252.04	-393.30	0.64	0.56	-92.14

92% of instances closed lower than the entry price at some point in the next week.

These stats suggest an apparent downside edge. Apparently the VIX should not be on the rise when the SPX is hitting new highs. The fact that it rose today implies a short-term pullback.

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



The last few days have provided little in the way of actionable edges. Net positive expectations and a strongly overbought market have had the Aggregator sidelined. Today looks much the same. Despite the bearish inclinations of tonight's VIX study, the bullish breadth thrust is still exerting greater influence. The green Aggregator line therefore remains above 0. The black Differential line isn't largely changed either and remains well below 0.

Most interesting about the Differential line is that it is set to change rapidly tomorrow with Monday's big rally falling out of the equation. This will naturally pull the Differential value north towards 0. For the Differential to close above zero it will only require a close below 1095.90 by the SPX. So even a small pullback at this point could trigger a long trade via the Aggregator System. I'd likely take it slow rather than go full boar. With the sharp run-up its possible the market could fall back quite a ways before finding support.

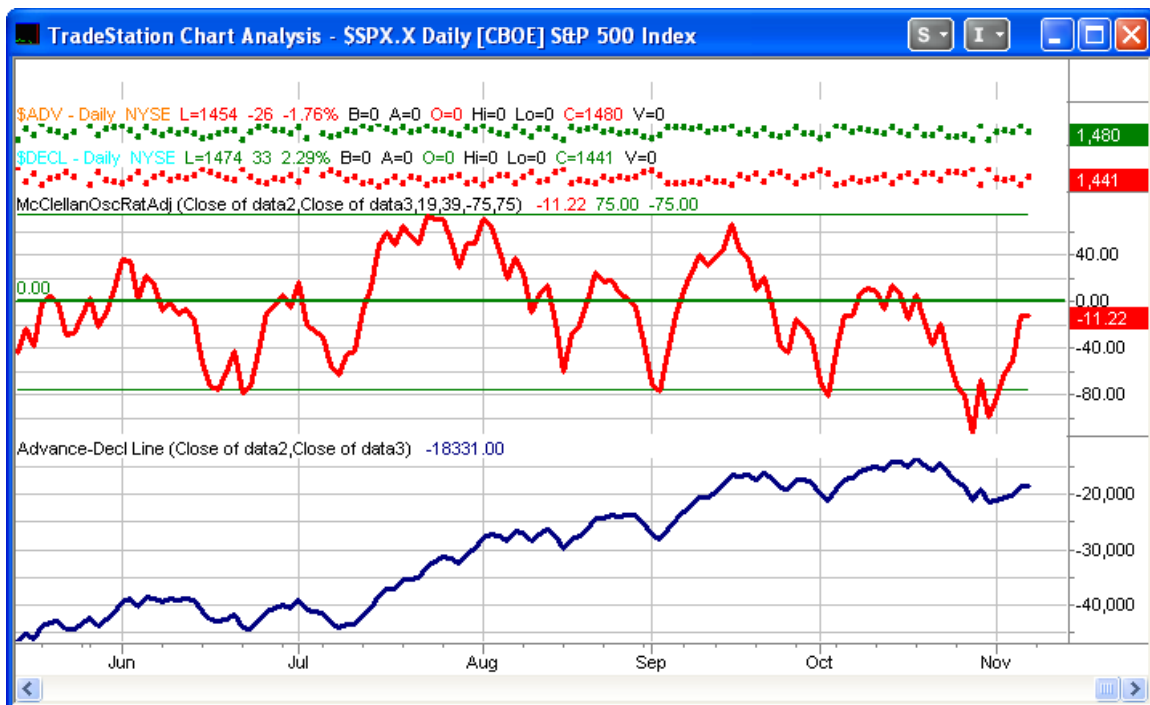
Intermediate-term Outlook (2 weeks – 2 months)– updated 11/9 – neutral

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 – still waiting for that pullback.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	11/9/2009	\$107.95	\$110.15	-2.04%		

The small SPY position has done everything possible to avoid being closed out the last few days. As mentioned above, even a small pullback at this point could turn the Aggregator formation positive. For now I'll look to cover the SPY position on any SPX close below 1096. I'll likely tighten that up during the day tomorrow.

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