

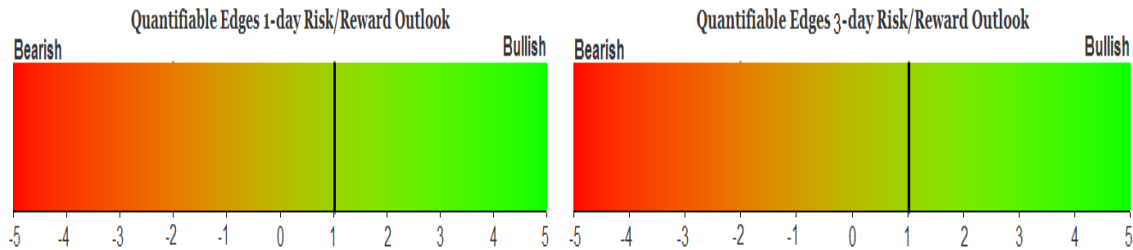
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 16, 2009

Volume 2 Issue 221

Market Overview



Tonight's Research Points

- Friday's volume was very light. Several studies indicate that with prices at current levels the volume action we're seeing suggests a short-term bearish edge.
- The breadth thrust from Monday remains in place, but we're still awaiting confirmation from the A/D Line and the New 52-Week Highs.
- The Aggregator System just missed going flat. It remains long and could be moved anywhere depending on action early this week.

Short-term Outlook – updated 11/16

The Bottom Line

A decent bounce Friday came on weak volume. Active studies are quite few at the moment but the extremely weak volume on Friday is not encouraging. Still, the negative implications of Friday's volume are outweighed by the open breadth thrust study for the next few days. The position of the Aggregator is tenuous, though there appears to be a slight upside edge overall at the moment.

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 16, 2009	20-day low vol. SPX up & above 10ma	1-2 days	Bearish	-1.20%
Active - Long Term				
November 10, 2009	75% Up Issues 2 of 3 above 200 & 10 hi	1-20 days	Bullish	5.90%
Dropped Tonight				
November 9, 2009	10-day high close on 10-day low vol	1-5 days	Bearish	-2.50%

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

The Evidence

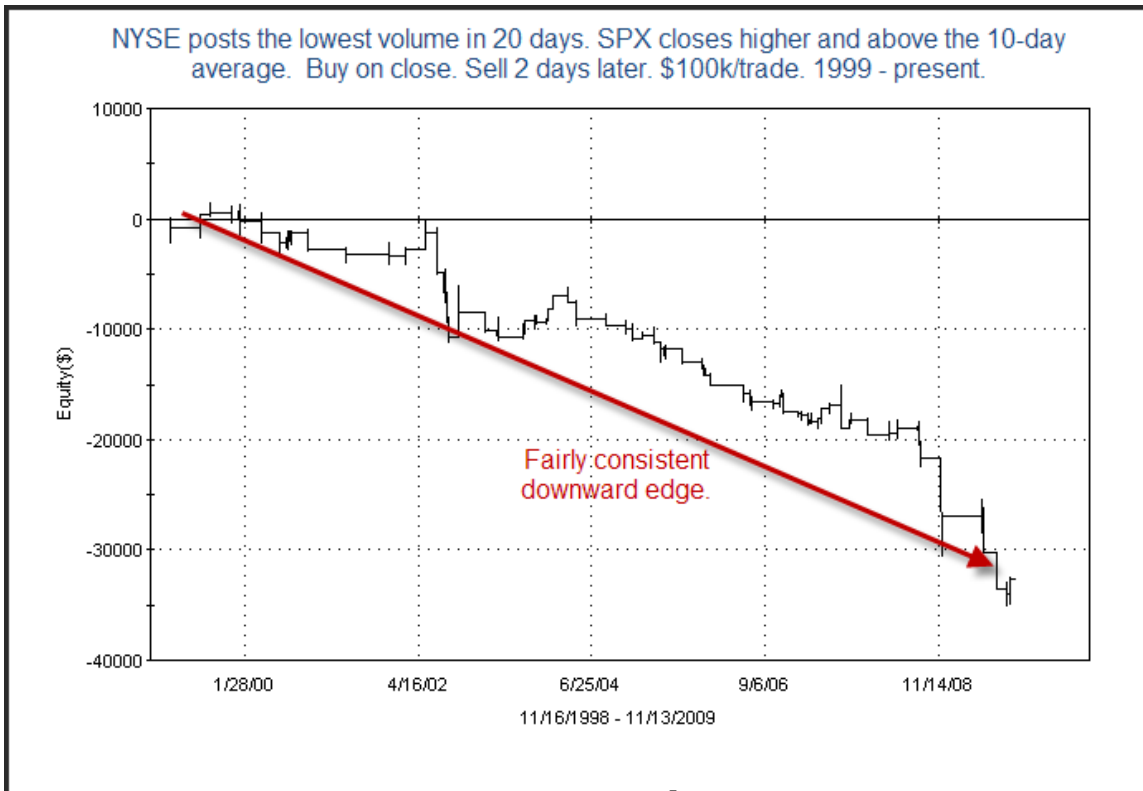
After selling off Thursday there was a bit of a rebound in the market on Friday. The SPX rose 0.6%, the Nasdaq was up 0.9% and the Russell 2000 tacked on 1%. Breadth was solidly positive as the NYSE Up Issues % was 74% and the Up Volume % came in at 71%. Total NYSE volume came in at the lowest level in over a month.

The primary theme among Quantifinder studies was the fact that the SPX traded higher and near the upper end of its recent range while volume came in very light. A number of different studies suggest this behavior typically has short-term bearish implications. Below I have updated the study from the 6/10/09 Letter that mostly closely represented the current setup.

NYSE posts the lowest volume in 20 days. SPX closes higher and above the 10-day average. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-36,274.30	63	27	36	42.86	1,597.23	-2,205.54	0.72	0.54	-575.78
4	-26,384.86	65	29	36	44.62	1,232.37	-1,725.65	0.71	0.58	-405.92
3	-32,130.86	69	30	39	43.48	1,064.88	-1,643.01	0.65	0.50	-465.66
2	-32,569.37	70	26	44	37.14	725.09	-1,168.68	0.62	0.37	-465.28
1	-14,395.09	77	36	41	46.75	639.34	-912.48	0.70	0.62	-186.95

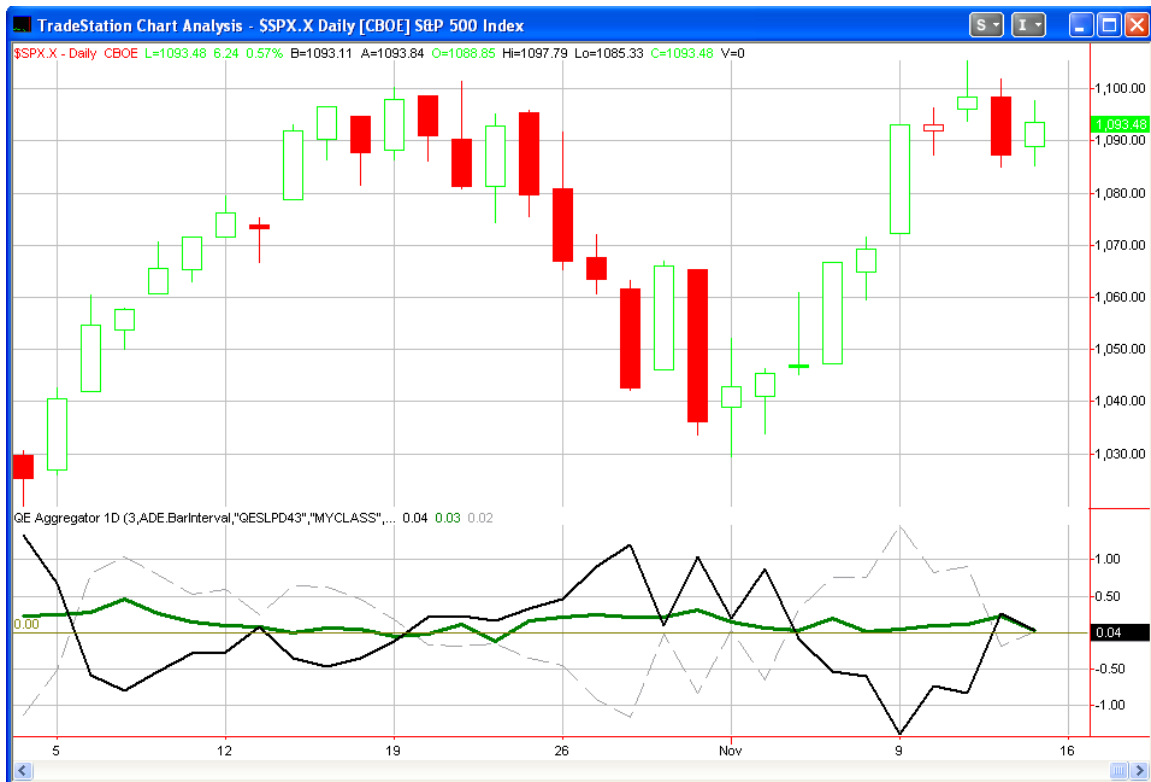
75% of instances closed lower than the entry price on either day 1 or day 2. 86% did it within 4 days.

Much of the bearish edge suggested in the above study plays out within 2 days. Below is a look at the profit curve using a 2-day exit.



Volume has been poor for a while now. With breadth doing well over the last several days it seems volume is leaning bearish while breadth is leaning bullish. Back in July a similar battle took place (although breadth indicators were a bit stronger at that time). Breadth won that battle. It'll be interesting to see how it plays out here. With indicators, sometimes they just don't matter...until they do. Is volume ready to matter? We'll see.

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



Both the green Aggregator line and the black Differential line dropped Friday and are now close to 0. The Aggregator reading is 0.03 and the Differential reading is 0.04. The drop in the Aggregator reading was due to the tonight's price/volume study. With both lines positioned above 0, the Aggregator chart is still suggesting a bullish edge. Net expectations are mildly positive and the market has slightly underperformed expectations over the last few days.

The way things are setting up for the next few days the estimated SPX values required to flip the Differential line negative would be 1,101.29 or higher on Monday but only about 1092 or higher on Tuesday. Without additional studies triggering on Monday, the green Aggregator line is set to remain mildly positive. Should we see additional bearish indications on Monday, the Aggregator could easily flip negative. I'll be watching the Quantifinder closely Monday as we could easily see the Aggregator System finish anywhere from long to flat to short.

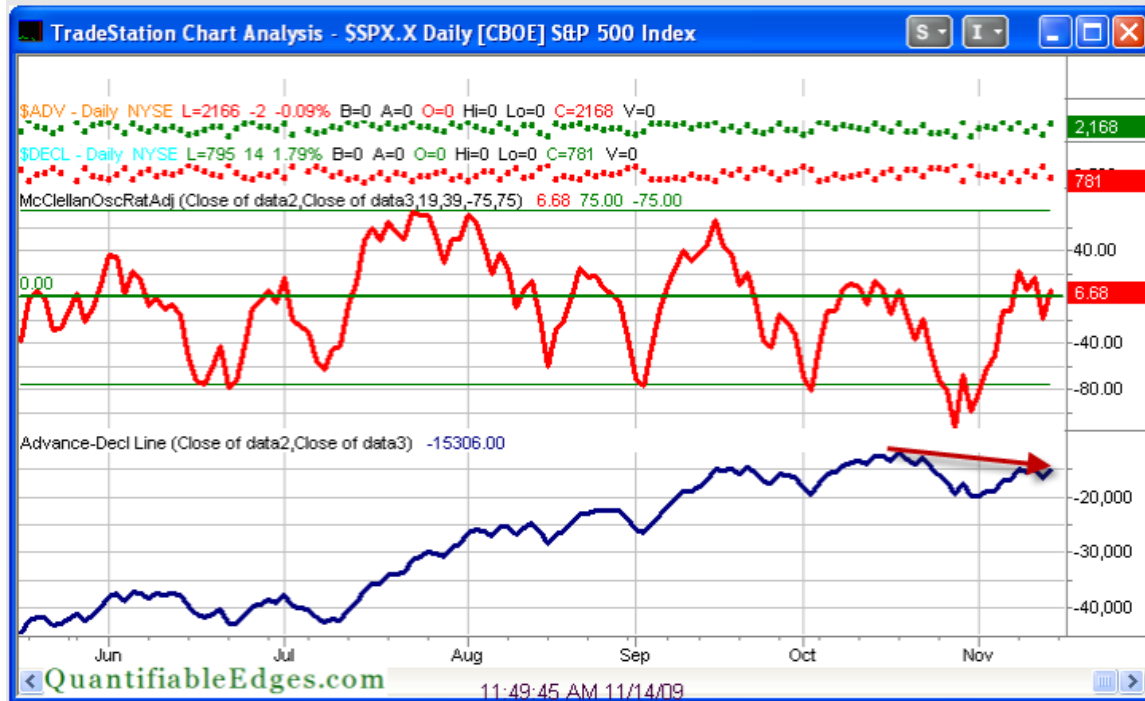
Intermediate-term Outlook (2 weeks – 2 months)– updated 11/16 – very slightly bullish
 Breadth has been the topic the last couple of weeks and from an intermediate-term standpoint it continues to keep my interest this week.

On Monday the 9th the market rallied in a big way and breadth was exceptionally strong for the 2nd time in 3 days. This created a breadth thrust type situation. I outlined this in a special report on Monday afternoon. If you'd like to review that report you may use the link below:

[2009-11-09 QE Special Report.pdf](#)

While the above study paints the breadth picture in a very positive light, I did note some divergences forming on Thursday night. Below are updated charts of the NYSE Advance/Decline Line and the NYSE Net New Highs. First let's look at the A/D Line.

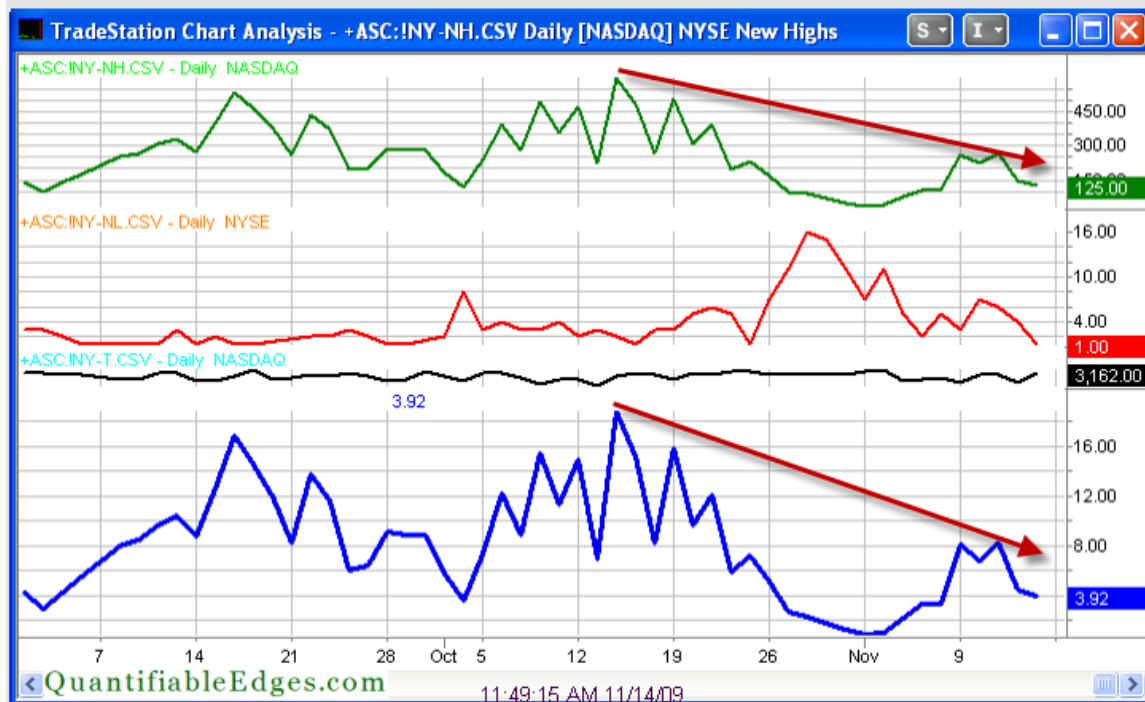
NYSE Ratio Adjusted McClellan Oscillator & NYSE Advance/Decline Line



The A/D Line is the blue line in the bottom panel. The indicator above that is the Ratio Adjusted McClellan Oscillator. As you can see the A/D Line peaked about a month ago. While new price highs were made this week, it's happening on weaker breadth. The A/D Line doesn't always hit new highs ahead of or at the same time as the indices. It is possible that breadth will confirm the price highs with new A/D Line highs in the coming days or weeks. If so, then that would be a positive sign. Failure to do so would suggest continued internal deterioration. This kind of deterioration would likely eventually lead to a significant top.

The new highs is another breadth measure I look at. Below is that chart from the website.

NYSE Net New Highs



The top panel contains the raw number of new 52-week highs on the NYSE. The bottom panel shows the net new high %. As a reminder the calculation for net new high % is “(New highs – new lows) / total issues”. Here again we see new highs peaked about a month ago. The net new high % has dropped substantially since then. It was over 16% in mid-October and was only around 8% when the market hit a new high on Wednesday.

So with both indicators suggesting breadth is waning even as the market advances traders should be on alert for a potential top. I looked at how such divergences had led to past tops in the 10/12/09 letter. Those who wish to review it may use the link below:

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

From a price standpoint I’m viewing the S&P 500 11/2/09 lows around 1030 as important. The 11/2/09 Letter contained a study based on the McClellan Oscillator that suggested the SPX has reached its line in the sand. A close much below there would signal a deeper correction. An ability to hold above that area could spark a nice rally. Those lows held nicely and the market hit new highs. Let’s see if it revisits those lows or if it can continue to hit new highs. And if it reaches new highs can breadth expand and confirm the rally?

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.

Note: The systems triggers page was blank tonight for the 1st time in a long time.

Active Trades Table

None tonight. The Aggregator System signal from Thursday afternoon remains long. My attempted Subscriber Letter entry based on that signal did not receive a fill on Friday.

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