

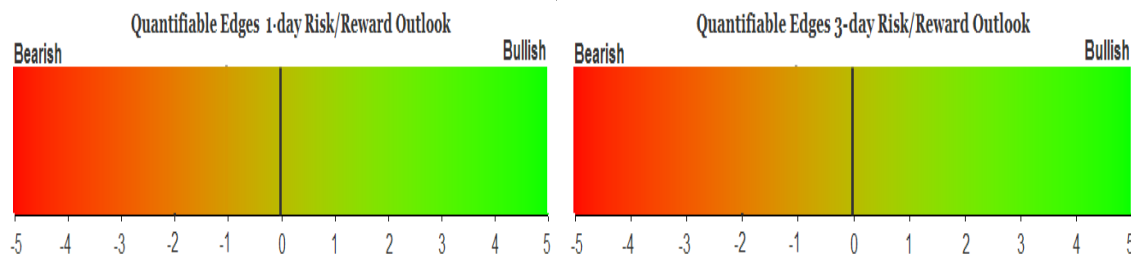
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 17, 2009

Volume 2 Issue 222

## Market Overview



## Tonight's Research Points

- A second (slightly less impressive) breadth thrust signal triggered today following the one from last Monday. Breadth continues to suggest a bullish edge.
- A look at the large number of unfilled gaps recently did not show anything consistent.
- The Aggregator System moved from long to flat at the close Monday, making for a nice 2% gain since triggering on Thursday afternoon.

## Short-term Outlook – updated 11/17

### The Bottom Line

A strong day in the market is hinting at even higher prices. At this point it is short-term extended, though. The Aggregator chart is neutral. I'm waiting for a better edge before taking on new trades.

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>				
November 17, 2009	70% Up Issues 2 in row & SPX 50 high	1-8 days	Bullish	2.40%
November 16, 2009	20-day low vol. SPX up & above 10ma	1-2 days	Bearish	-1.20%
<b>Active - Long Term</b>				
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 gapped up and never looked back on Monday. While it finished of its highs, the lows were made in the first minute or so of trading. The S&P and Nasdaq closed up a little less than 1.5%. Meanwhile the Russell 2000 shot up 2.8%. As the Russell performance would hint at, breadth was strong. The NYSE Up Issues % came in at 81% and the Up Volume % was 88%. Volume rose and it was the first day in about 2 weeks where NYSE volume closed above its 20ma.

In the intraday update I included the following study:

SPX closes at a 50-day high while the NYSE Up Volume % close > 90%. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
21	66,250.56	16	13	3	81.25	5,314.80	-947.29	5.61	24.31	4,140.66
20	59,416.79	17	13	4	76.47	5,105.66	-1,739.19	2.94	9.54	3,495.11
19	56,188.99	17	14	3	82.35	4,568.72	-2,591.04	1.76	8.23	3,305.23
18	52,597.01	17	13	4	76.47	4,768.23	-2,347.49	2.03	6.60	3,093.94
17	45,628.34	17	13	4	76.47	4,442.24	-3,030.20	1.47	4.76	2,684.02
16	43,842.00	17	12	5	70.59	4,744.13	-2,657.51	1.79	4.28	2,567.18
15	45,653.48	17	13	4	76.47	4,391.20	-2,858.02	1.54	4.99	2,685.50
14	35,151.48	18	13	5	72.22	4,142.55	-3,740.34	1.11	2.88	1,952.86
13	30,920.05	18	13	5	72.22	3,773.18	-3,626.26	1.04	2.71	1,717.78
12	33,165.24	18	11	7	61.11	4,500.07	-2,333.65	1.93	3.03	1,842.51
11	37,504.81	18	11	7	61.11	4,264.55	-1,343.60	3.17	4.99	2,083.60
10	35,501.76	18	12	6	66.67	3,824.66	-1,732.36	2.21	4.42	1,972.32
9	25,265.04	18	11	6	61.11	3,476.45	-2,162.66	1.61	2.95	1,403.61
8	24,873.22	18	12	6	66.67	3,305.37	-2,465.20	1.34	2.68	1,381.85
7	24,220.47	18	12	6	66.67	3,197.44	-2,358.14	1.36	2.71	1,345.58
6	25,043.14	18	12	6	66.67	2,797.62	-1,421.39	1.97	3.94	1,391.29
5	29,139.19	19	15	4	78.95	2,331.05	-1,456.62	1.60	6.00	1,533.64
4	23,823.24	19	16	3	84.21	1,935.10	-2,379.47	0.81	4.34	1,253.85
3	20,616.55	19	14	5	73.68	1,778.35	-856.06	2.08	5.82	1,085.08
2	20,893.52	19	17	2	89.47	1,261.72	-277.87	4.54	38.60	1,099.66
1	13,553.71	20	14	6	70.00	1,119.17	-352.45	3.18	7.41	677.69

Unfortunately, the late day fade dropped the Up Vol % down to 88%. I decided to re-run the study this evening and look at times the Up Vol % finished between 80% and 90%. Those results are below.

SPX closes at 50-day high while NYSE Up Volume % closes between 80% and 90%.  
Buy on close. Sell X days later. \$100k/trade. 1970 - 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	19,759.25	127	72	55	56.69	2,036.64	-2,306.89	0.88	1.16	155.58
9	29,732.49	133	77	56	57.89	1,993.16	-2,209.65	0.90	1.24	223.55
8	39,746.65	138	74	64	53.62	1,967.98	-1,654.43	1.19	1.38	288.02
7	51,899.85	143	81	62	56.64	1,790.26	-1,501.79	1.19	1.56	362.94
6	28,113.80	151	85	65	56.29	1,498.57	-1,527.15	0.98	1.28	186.18
5	12,647.53	157	85	72	54.14	1,358.51	-1,428.14	0.95	1.12	80.56
4	10,508.77	164	85	79	51.83	1,189.42	-1,146.73	1.04	1.12	64.08
3	7,413.49	169	87	82	51.48	1,066.13	-1,040.73	1.02	1.09	43.87
2	25,985.09	178	102	75	57.30	757.03	-683.09	1.11	1.51	145.98
1	24,201.48	183	109	73	59.56	519.55	-444.24	1.17	1.75	132.25

Based on the above, a 1-day breadth surge to these levels doesn't appear to provide an edge. It just looks like some mild positive drift to me. Of course today wasn't just a 1-day surge. We also saw some strong breadth on Friday, which led the Quantifinder to point out the 9/8/09 study which I have updated below:

NYSE Up Issues % closes above 70% for the 2nd day in a row. SPX makes a 10-day intraday high today. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
15	71,315.40	77	45	32	58.44	3,422.08	-2,583.70	1.32	1.86	926.17
14	76,997.78	77	45	32	58.44	3,216.14	-2,116.51	1.52	2.14	999.97
13	79,030.41	78	50	28	64.10	3,002.71	-2,539.48	1.18	2.11	1,013.21
12	55,040.83	78	49	29	62.82	2,686.91	-2,641.99	1.02	1.72	705.65
11	47,373.67	78	50	28	64.10	2,549.05	-2,859.95	0.89	1.59	607.35
10	58,832.71	78	51	27	65.38	2,566.51	-2,668.86	0.96	1.82	754.27
9	43,875.19	79	46	33	58.23	2,540.00	-2,211.06	1.15	1.60	555.38
8	36,149.17	80	48	32	60.00	2,302.92	-2,324.72	0.99	1.49	451.86
7	30,417.43	81	47	34	58.02	2,336.32	-2,334.99	1.00	1.38	375.52
6	32,055.01	85	50	35	58.82	2,058.61	-2,025.02	1.02	1.45	377.12
5	30,672.70	86	51	35	59.30	1,779.98	-1,717.32	1.04	1.51	356.66
4	18,558.19	88	51	37	57.95	1,538.91	-1,619.62	0.95	1.31	210.89
3	10,797.21	90	48	42	53.33	1,398.47	-1,341.18	1.04	1.19	119.97
2	11,890.95	94	54	40	57.45	978.58	-1,023.80	0.96	1.29	126.50
1	9,848.79	103	54	48	52.43	658.32	-535.43	1.23	1.38	95.62

I also decided to see how it performed at 50-day highs, similar to the intraday study.

NYSE Up Issues % closes above 70% for the 2nd day in a row. SPX makes a 10-day intraday high today. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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	37,102.76	33	23	10	69.70	2,565.81	-2,191.08	1.17	2.69	1,124.33
9	38,196.70	35	21	14	60.00	2,786.05	-1,450.74	1.92	2.88	1,091.33
8	34,957.00	35	24	11	68.57	2,273.91	-1,783.36	1.28	2.78	998.77
7	26,918.46	36	21	15	58.33	2,522.21	-1,736.53	1.45	2.03	747.74
6	15,322.74	37	21	16	56.76	1,940.17	-1,588.81	1.22	1.60	414.13
5	14,193.85	37	22	15	59.46	1,703.56	-1,552.29	1.10	1.61	383.62
4	15,479.42	38	23	15	60.53	1,457.66	-1,203.12	1.21	1.86	407.35
3	8,516.81	39	22	17	56.41	1,286.29	-1,163.63	1.11	1.43	218.38
2	14,823.04	40	25	15	62.50	975.67	-637.91	1.53	2.55	370.58
1	12,552.51	45	29	16	64.44	654.03	-400.89	1.63	2.96	278.94

Results were a bit better here and suggest a decent bullish edge. If nothing else it serves as confirmation that last week's breadth thrust is healthy and breadth remains a positive. Since it is a completely different thrust instance with slightly different parameters I decided I would include it in the Aggregator as a short-term study along with last week's.

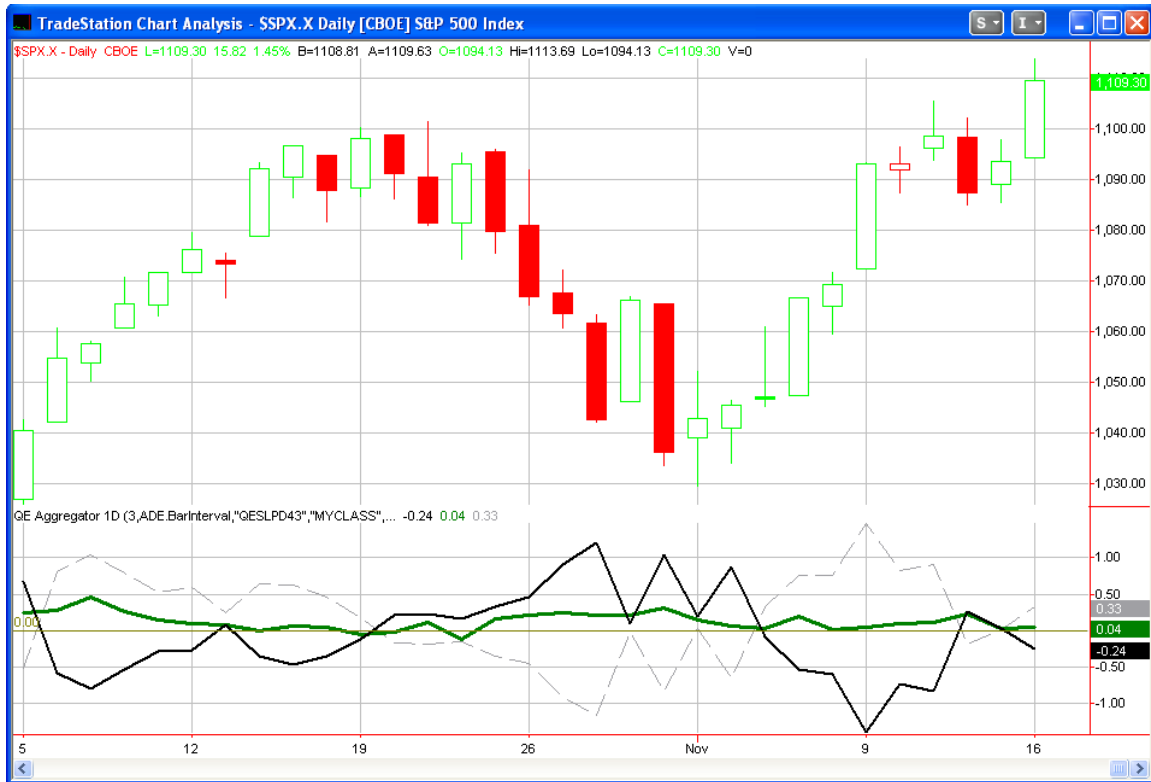
I also found it interesting that today market the 4<sup>th</sup> time in the last 2 weeks that the SPY gapped above yesterday's close and never filled that gap. Wondering whether this might be indicative of anything I ran the following test:

SPY posts a low above the previous day's close for at least the 4th time in the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-1,451.06	38	18	20	47.37	1,877.68	-1,762.47	1.07	0.96	-38.19
9	-17,432.41	39	13	24	33.33	1,906.31	-1,758.94	1.08	0.59	-446.98
8	-16,059.17	39	15	23	38.46	1,849.29	-1,904.28	0.97	0.63	-411.77
7	-8,124.92	40	17	22	42.50	1,811.35	-1,769.00	1.02	0.79	-203.12
6	-5,345.84	41	21	20	51.22	1,317.68	-1,650.86	0.80	0.84	-130.39
5	2,949.40	46	24	22	52.17	1,270.47	-1,251.90	1.01	1.11	64.12
4	-6,834.77	49	24	25	48.98	1,030.56	-1,262.73	0.82	0.78	-139.49
3	-677.29	53	25	28	47.17	1,082.96	-991.11	1.09	0.98	-12.78
2	1,211.99	58	27	31	46.55	908.27	-751.98	1.21	1.05	20.90
1	-2,169.23	64	27	37	42.19	682.01	-556.31	1.23	0.89	-33.89

In this case I'm not seeing a consistent edge.

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



The strong rally on Monday caused the black Differential line to drop squarely below 0. This indicates the SPX has outperformed expectations over the last few days. Meanwhile the green Aggregator line is still showing net positive expectations for the next few days. With both lines on opposite sides of 0, the Aggregator chart is in a neutral position. The Aggregator System long signal from Thursday afternoon moved to flat today. This change was posted to the Systems page 10-15 minutes before the bell as it is most every day.

So expectations remain slightly positive but the market is overbought versus expectations. I see no reason to bet aggressively here. I'm in "wait and see" mode in search of a more substantial edge to trade.

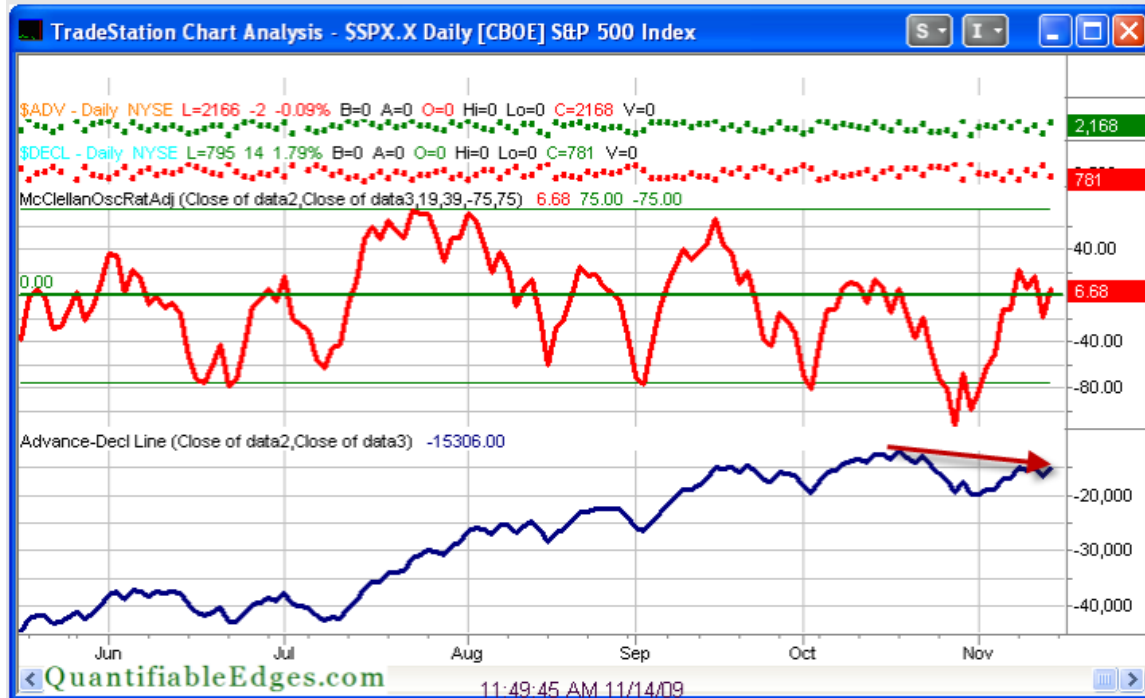
***Intermediate-term Outlook (2 weeks – 2 months)– updated 11/16 – very slightly bullish***  
 Breadth has been the topic the last couple of weeks and from an intermediate-term standpoint it continues to keep my interest this week.

On Monday the 9<sup>th</sup> the market rallied in a big way and breadth was exceptionally strong for the 2<sup>nd</sup> 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.

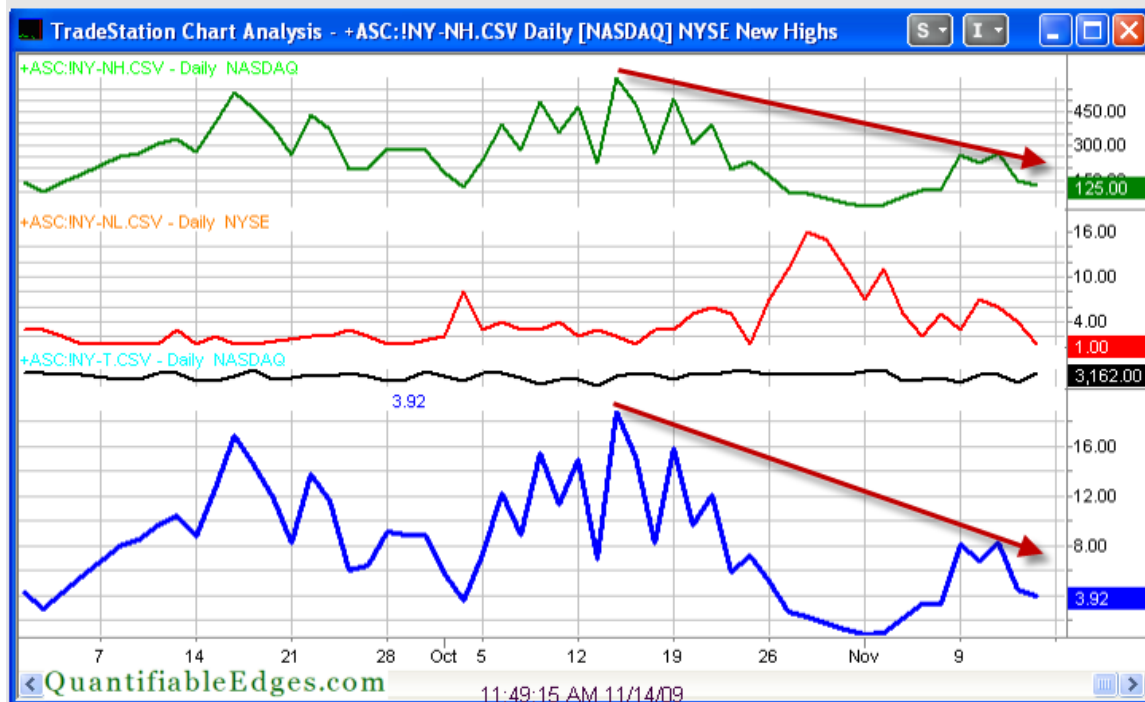
### NYSE Ratio Adjusted McClellan Oscillator & NYSE Advance/Decline Line



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.*

## **Active Trades Table**

None tonight.

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