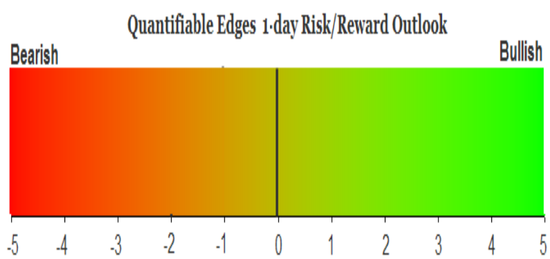
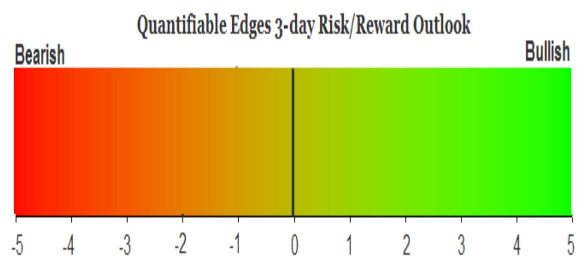
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 18, 2009 Volume 2 Issue 223

Market Overview





Tonight's Research Points

- The lowest volume in 20 days and an SPX over the 10ma and 200ma present a 1-3 day bearish edge. This edge isn't enough to flip the Aggregator.
- Aggregator is still neutral. Overbought with slightly positive expectations over the next few days.

Short-term Outlook – updated 11/17

The Bottom Line

The overbought nature of the market persists while evidence of a pullback remains scarce. I'm neutral until a bigger edge appears.

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 18, 2009	20-day low vol. SPX above 10ma & 200ma	1-3 days	Bearish	
November 17, 2009	70% Up Issues 2 in row & SPX 50 high	1-8 days	Bullish	2.40%
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 16, 2009	20-day low vol. SPX up & above 10ma	1-2 days	Bearish	-1.20%

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

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The Evidence

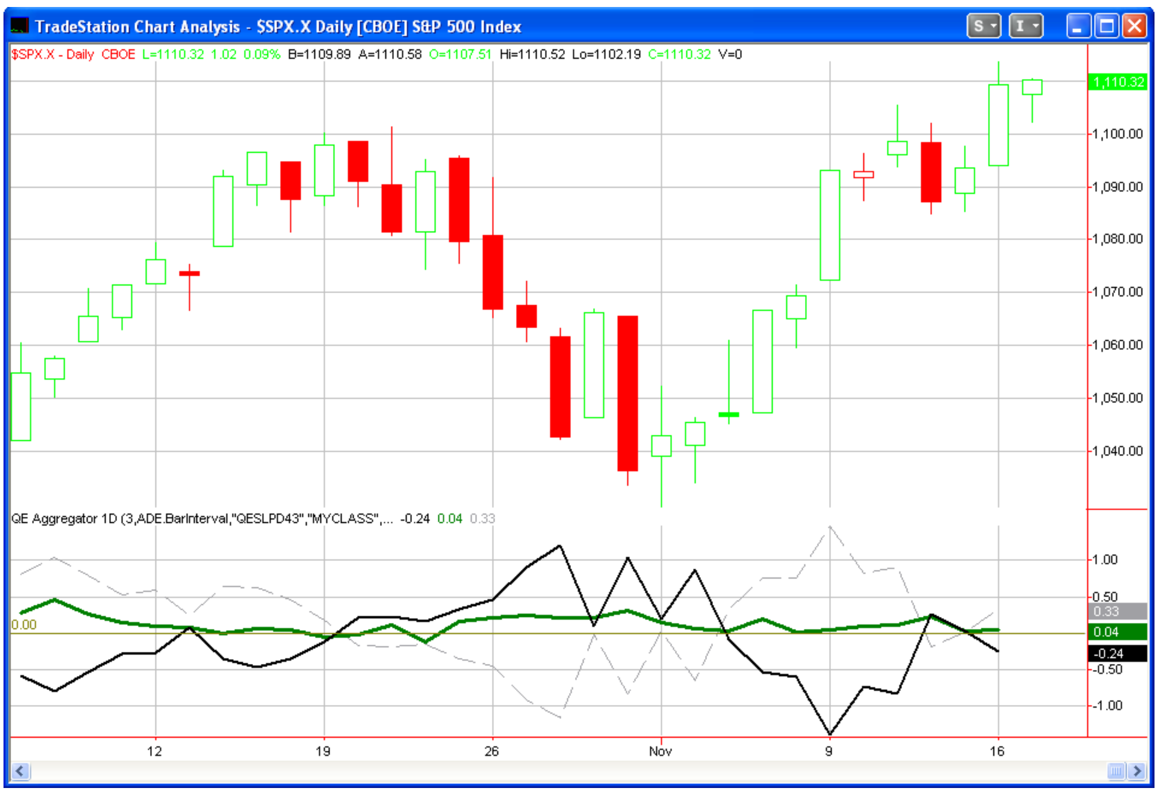
The intraday Quantifinder hinted that we may again see the lowest volume in a month. Should that be the case the following study would likely trigger:

NYSE Volume is the lowest in 20 days. SPX closes above both the 200ma and 10ma.
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	-18,018.49	57	26	31	45.61	1,256.68	-1,635.23	0.77	0.64	-316.11
4	-21,070.14	62	28	34	45.16	885.71	-1,349.12	0.66	0.54	-339.84
3	-21,476.40	64	28	36	43.75	828.84	-1,241.22	0.67	0.52	-335.57
2	-16,301.43	68	30	38	44.12	719.43	-996.96	0.72	0.57	-239.73
1	-6,082.08	83	46	37	55.42	464.63	-742.03	0.63	0.78	-73.28

This appears to present a bit of a downside edge over the next few days. I have included it in the Aggregator.

The Aggregator chart is updated below.



The Aggregator wasn't updating quite right just after the bell. I don't have time to fix it before I have to leave. Very little change though. Both still on opposite sides of 0 with the green Aggregator value down to 0.02 and the Differential even lower than yesterday.. Positive expectations represented by the green Aggregator line and overbought conditions as represented by the black Differential line suggest a neutral configuration. I'm still in wait and see mode.

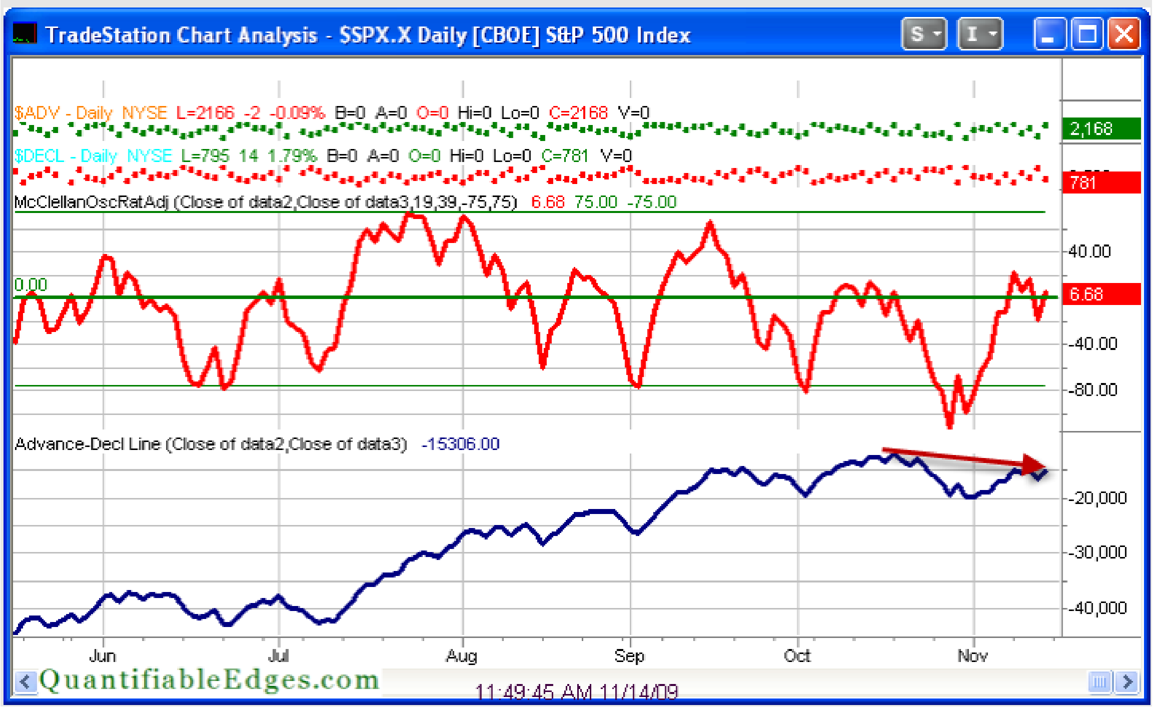
Intermediate-term Outlook (2 weeks – 2 months)– updated 11/16 – very slightly bullish
Breadth has been the topic the last couple of weeks and from an intermediate-term standpoint it continues to keep my interest this week.

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

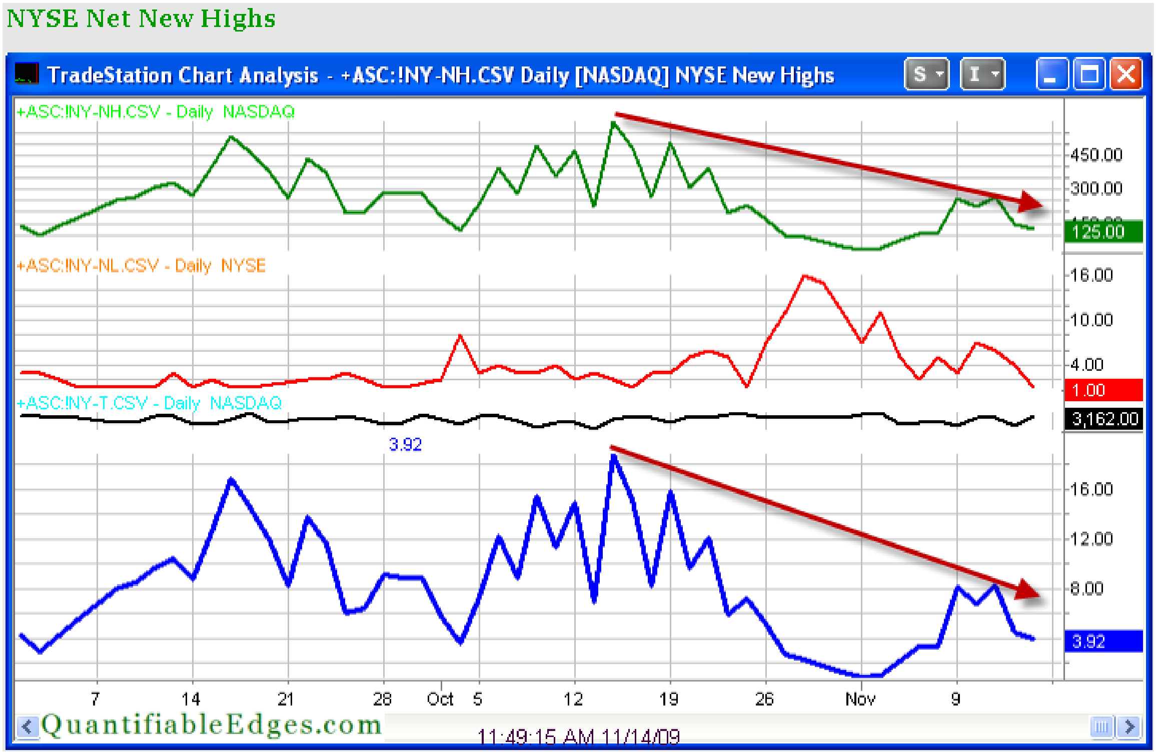
While the above study paints the breadth picture in a very positive light, I did note some divergences forming on Thursday night. Below are updated charts of the NYSE Advance/Decline Line and the NYSE Net New Highs. First let's look at the A/D Line.

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.



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. I will run the systems triggers and update the spreadsheet on the website very late tonight or early tomorrow morning.