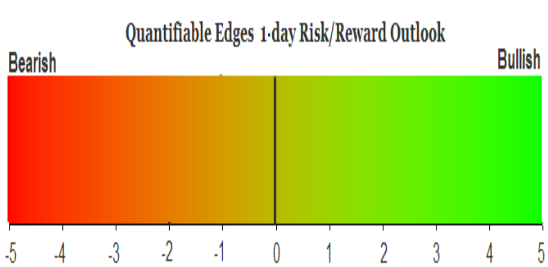
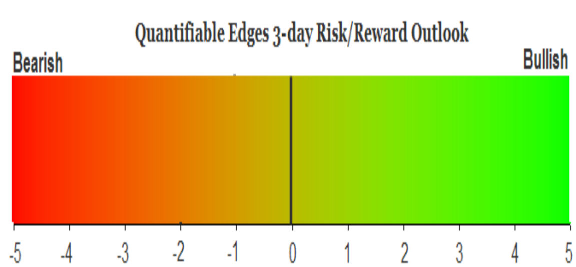
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 19, 2009 Volume 2 Issue 224

Market Overview





Tonight's Research Points

- Wednesday's trading gave no real hints for the likely direction over the next few days.
- Aggregator is still neutral. Overbought with slightly positive expectations over the next few days. A pullback or continued sideways action could turn it bullish tomorrow.

Short-term Outlook – updated 11/19

The Bottom Line

Time is eroding the overbought nature of the market. It's not quite fully eroded yet though. Tomorrow could go either way, though a pullback might provide an upside edge.

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%

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

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

The Evidence

Wednesday marked the 2nd day in a row with very little action. The S&P closed down a fraction. The Nasdaq lost ½% and the Russell 2000 was down 1/3%. Breadth was mixed. The NYSE Up Issues % came in at 44% but the Up Volume % was 53%. Total volume rose a bit from Tuesday.

Sometimes, like yesterday, nothing days suggest a bit of an edge, and sometimes nothing days suggest…nothing. Today seems to be a double nothing day. With the number of studies in the Quantifinder now approaching 700 it's rare that we get a day that draws a complete blank as today did. Yet I can't find anything worthwhile to test this evening.

When that happens it most often means there isn't a huge edge to be found. Anything I may eventually scrape up could be questionable.

I have updated the Aggregator chart below. I also note below that a failure to rally could move the black Differential line above zero and trigger an entry.

As we have seen for the last few days, the Aggregator is basically in a neutral configuration at this point. The green Aggregator line is slightly above zero as the studies have a mild net expectation over the next few days. Meanwhile the black Differential line remains below 0 as the last 3 days the market has managed to outperform expectations. This outperformance is thanks to Monday's big rally. As of tomorrow night, Monday's rally will no longer be a part of the Differential calculation. This will result in a positive pull on the Differential line.

A positive pull on the Differential line in this case means the SPX will need to close at 1112.54 or above for the Differential line to remain negative. Anything below 1112.54 and the SPX will have underperformed expectations.

The green Aggregator line is set to bump up a little tomorrow should no new studies become active. Of course days like today where we get a “double nothing” market are rare, so it will be important to check the Quantifinder. Should the market pull back, though, there is a good chance the Aggregator will show a bullish configuration tomorrow night and the Aggregator System will trigger a long entry at the close.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/16 – very slightly bullish

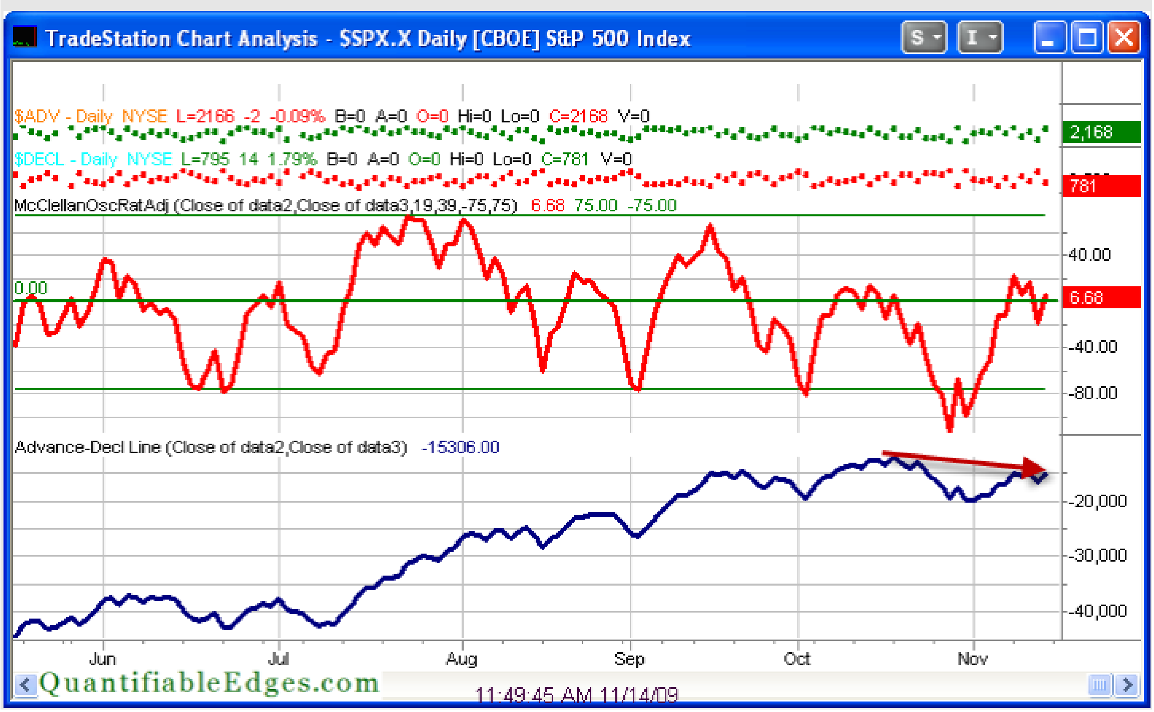
Breadth has been the topic the last couple of weeks and from an intermediate-term standpoint it continues to keep my interest this week.

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.

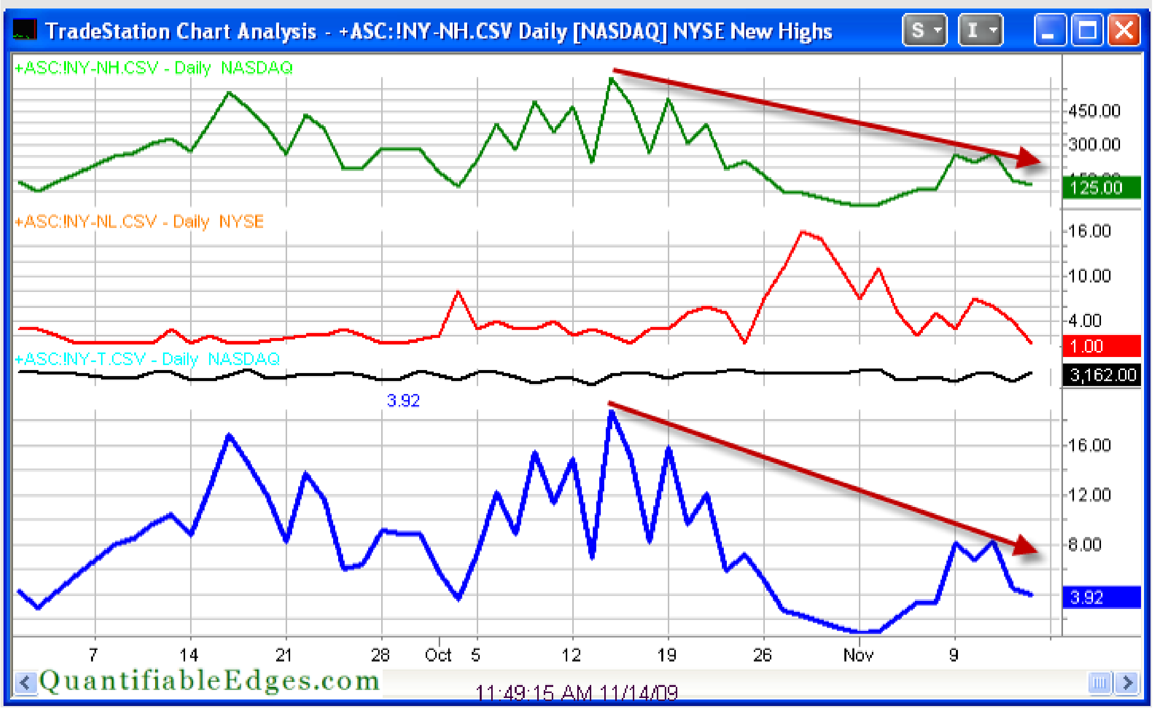
NYSE Ratio Adjusted McClellan Oscillator & NYSE Advance/Decline Line



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.

None tonight. The trader in me is dying to post some trade ideas. I just don't see an edge at the moment and the more this moves sideways the more likely an explosive move may follow. I don't want to be in a trade I'm not confident in and have an explosive move go against me. So I continue to wait. Perhaps we'll get that pullback tomorrow which could be bought into.

Active Trades Table

None.