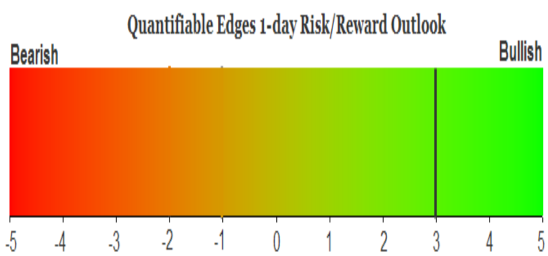
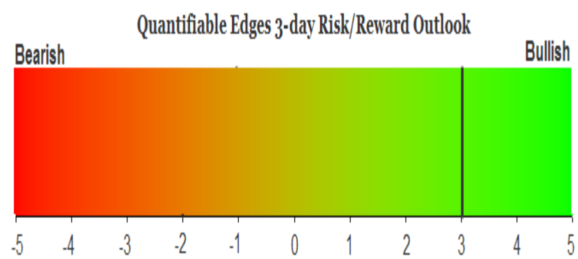
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 23, 2009 Volume 2 Issue 226

Market Overview





Tonight's Research Points

- A few somewhat bearish studies from the Quantifinder are seeming somewhat less bearish than might have appeared .
- The 1st 5-day closing low in the SPY in over 2 weeks suggests a short-term bullish edge.
- Two unfilled gaps down also suggest a short-term bullish edge.
- Thanksgiving week provides positive seasonality – especially Wed and Fri.
- The Aggregator System remains long from Thursday's close.

Short-term Outlook – updated 11/23

The Bottom Line

Down 3 days so far I'm not seeing strong evidence that this pullback will have teeth. In any case history suggests a bullish edge over the next few days. Whether the bounce will lead to a new high and continuation of the rally is up in the air. There should be a playable bounce nonetheless.

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 23, 2009	2 Unfilled Gaps Dn. Close > open	1-2 days	Bullish	1.60%
November 23, 2009	SPY 5 low 1st time in 10 days	1-4 days	Bullish	1.60%
November 20, 2009	SPX 1% drop & Advancers 2x Decliners	1-9 days	Bullish	2.90%
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%
November 23, 2009	VIX:VXV Ratio < 0.9	2-5 months	Bearish	
Dropped Tonight				
November 18, 2009	***20-day low vol. SPX above 10ma & 20***	***1-3 days***	***Bearish***	

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

The Evidence

For the 2nd day in a row the SPY gapped down and failed to close its gap. This time it did manage to close above the open, though. The major indices were all down, with the S&P losing 0.3%, the Nasdaq 0.5% and the Russell 2000 0.2%. Breadth was negative as the Up Issues % closed at 41% and the Up Volume % was 36%. Total volume rose on the NYSE but sunk on the Nasdaq. SPY volume was conspicuously light.

The low SPY volume was especially unusual considering Friday was options expiration. That triggered the below study from the July 20, 2009 Letter.

SPY posts lowest volume in a month on op-ex Friday.
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
6	-12,004.29	9	2	7	22.22	2,396.29	-2,399.55	1.00	0.29	-1,333.81
5	-8,107.70	9	3	6	33.33	1,727.34	-2,214.95	0.78	0.39	-900.86
4	-3,855.17	9	3	6	33.33	2,332.86	-1,808.96	1.29	0.64	-428.35
3	-2,456.04	9	4	5	44.44	1,619.79	-1,787.04	0.91	0.73	-272.89
2	1,189.39	9	5	4	55.56	1,801.71	-1,954.79	0.92	1.15	132.15
1	4,517.87	9	6	3	66.67	1,367.39	-1,228.83	1.11	2.23	501.99

What seemed to be strongly negative stats in July have weakened a bit thanks to July's rally. I'm no longer declaring this one bearish. Instead I will continue to monitor it, but will not include it as part of the Active Studies.

That wasn't the only study found by the Quantifinder on Friday whose implications don't seem quite as bearish under further examination. Below is one from the 3/30/09 Letter that looks at a combination of low range and low volume.

SPY posts lowest intraday range on lowest volume in 20 days.
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
20	-56,886.32	48	22	26	45.83	2,776.24	-4,537.07	0.61	0.52	-1,185.13
19	-60,423.04	48	23	25	47.92	2,599.29	-4,808.27	0.54	0.50	-1,258.81
18	-60,997.10	50	22	28	44.00	2,611.43	-4,230.30	0.62	0.49	-1,219.94
17	-66,086.06	51	23	27	45.10	2,583.79	-4,648.63	0.56	0.47	-1,295.81
16	-62,406.79	51	26	25	50.98	2,343.21	-4,933.21	0.47	0.49	-1,223.66
15	-58,397.47	51	26	25	50.98	2,124.18	-4,545.04	0.47	0.49	-1,145.05
14	-49,925.73	53	32	21	60.38	2,052.69	-5,505.32	0.37	0.57	-941.99
13	-42,849.98	53	34	19	64.15	2,062.08	-5,945.30	0.35	0.62	-808.49
12	-31,965.32	54	33	21	61.11	1,974.44	-4,624.84	0.43	0.67	-591.95
11	-31,094.99	55	31	24	56.36	1,977.11	-3,849.39	0.51	0.66	-565.36
10	-30,179.77	56	30	26	53.57	2,206.50	-3,706.72	0.60	0.69	-538.92
9	-23,101.81	56	31	25	55.36	2,196.59	-3,647.84	0.60	0.75	-412.53
8	-7,888.79	58	33	25	56.90	2,173.16	-3,184.12	0.68	0.90	-136.01
7	-8,764.74	58	31	27	53.45	2,311.30	-2,978.33	0.78	0.89	-151.12
6	-5,269.53	58	32	26	55.17	2,038.07	-2,711.07	0.75	0.93	-90.85
5	-19,507.42	61	28	33	45.90	1,922.55	-2,222.39	0.87	0.73	-319.79
4	-26,967.45	61	28	33	45.90	1,509.75	-2,098.19	0.72	0.61	-442.09
3	-17,531.02	65	29	36	44.62	1,459.17	-1,662.41	0.88	0.71	-269.71
2	-12,705.90	66	30	36	45.45	1,107.30	-1,275.69	0.87	0.72	-192.51
1	-14,745.90	67	29	38	43.28	798.05	-997.09	0.80	0.61	-220.09

Results here would seem to suggest bearish consequences both short and intermediate-term. Not discernable above is the fact that the bearish edge was really only evident during long-term downtrends. Applying a simple 200ma filter to the above study would yield the following results:

SPY posts lowest intraday range on lowest volume in 20 days. Close > 200ma.
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
20	-1,698.68	29	13	16	44.83	2,918.56	-2,477.50	1.18	0.96	-58.58
19	3,785.62	29	16	13	55.17	2,463.79	-2,741.15	0.90	1.11	130.54
18	8,481.48	30	16	14	53.33	2,675.85	-2,452.29	1.09	1.25	282.72
17	161.28	31	17	13	54.84	2,417.09	-3,148.40	0.77	1.00	5.20
16	6,562.46	31	19	12	61.29	2,311.12	-3,112.40	0.74	1.18	211.69
15	8,609.39	31	20	11	64.52	2,004.57	-2,862.00	0.70	1.27	277.72
14	9,686.79	32	21	11	65.63	2,005.52	-2,948.10	0.68	1.30	302.71
13	12,582.47	32	23	9	71.88	1,866.76	-3,372.55	0.55	1.41	393.20
12	5,048.91	33	20	13	60.61	1,890.47	-2,520.03	0.75	1.15	153.00
11	-377.24	34	18	16	52.94	2,093.65	-2,378.93	0.88	0.99	-11.10
10	-8,847.19	34	17	17	50.00	2,046.75	-2,567.18	0.80	0.80	-260.21
9	-8,616.86	34	18	16	52.94	1,941.63	-2,722.89	0.71	0.80	-253.44
8	-3,616.48	36	20	16	55.56	1,922.60	-2,629.28	0.73	0.91	-100.46
7	-7,592.58	36	19	17	52.78	1,761.70	-2,415.58	0.73	0.82	-210.91
6	-3,719.31	36	18	18	50.00	1,729.47	-1,936.10	0.89	0.89	-103.31
5	-2,735.92	38	19	19	50.00	1,433.15	-1,577.15	0.91	0.91	-72.00
4	-2,592.87	38	19	19	50.00	1,271.20	-1,407.66	0.90	0.90	-68.23
3	-2,431.67	41	19	22	46.34	1,079.14	-1,042.51	1.04	0.89	-59.31
2	4,973.55	42	23	19	54.76	827.33	-739.74	1.12	1.35	118.42
1	3,247.12	43	20	23	46.51	682.59	-452.37	1.51	1.31	75.51

Results in this case are neither bullish nor bearish. It suggests no edge provided by this particular setup.

One study from the Quantifinder that suggested a decent upside edge was the following from the 8/7/09 Letter, which looks at 5-days lows in the SPY after an extended absence:

SPY closes at a 5-day low after having not done so for at least 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	66,693.74	97	62	35	63.92	2,260.53	-2,098.83	1.08	1.91	687.56
9	56,690.19	97	61	36	62.89	2,075.05	-1,941.34	1.07	1.81	584.43
8	55,341.17	97	62	35	63.92	2,002.73	-1,966.51	1.02	1.80	570.53
7	43,352.58	97	62	35	63.92	1,891.35	-2,111.74	0.90	1.59	446.93
6	29,775.96	97	59	38	60.82	1,705.37	-1,864.23	0.91	1.42	306.97
5	28,483.84	97	59	37	60.82	1,594.10	-1,772.12	0.90	1.43	293.65
4	40,810.67	97	61	36	62.89	1,497.85	-1,404.40	1.07	1.81	420.73
3	26,030.73	97	57	40	58.76	1,377.03	-1,311.50	1.05	1.50	268.36
2	14,872.72	97	52	44	53.61	1,125.33	-991.92	1.13	1.34	153.33
1	8,419.29	97	54	43	55.67	863.66	-888.79	0.97	1.22	86.80

87% of instances posted a close above the entry price at some point in the next week.

Stats are updated and still suggest a short-term bullish edge.

Two consecutive unfilled gaps lower in the SPY is also an unusual situation. I checked to see if it suggested any kind of an edge.

SPY leaves unfilled downside gap 2 days in a row.
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	43,714.33	44	28	16	63.64	2,497.23	-1,638.00	1.52	2.67	993.51
9	36,035.14	44	30	14	68.18	2,206.76	-2,154.83	1.02	2.19	818.98
8	31,751.15	44	29	15	65.91	2,076.47	-1,897.77	1.09	2.12	721.62
7	25,918.85	44	28	14	63.64	1,909.27	-1,967.20	0.97	1.94	589.06
6	29,124.69	45	29	16	64.44	1,838.32	-1,511.67	1.22	2.20	647.22
5	29,037.31	45	31	14	68.89	1,626.08	-1,526.51	1.07	2.36	645.27
4	17,614.40	45	27	18	60.00	1,745.51	-1,639.68	1.06	1.60	391.43
3	14,031.97	45	25	20	55.56	1,431.03	-1,087.19	1.32	1.65	311.82
2	5,251.68	46	24	21	52.17	1,384.21	-1,331.87	1.04	1.19	114.17
1	7,964.33	50	29	20	58.00	783.69	-738.13	1.06	1.54	159.29

87% of instances posted a close above the entry price at some point in the next week.

This would seem to suggest a bit of a bullish edge over the next week. Also notable about the situation is that while Friday left an unfilled gap down, SPY actually closed above its open. I filtered the above results to see about other times this had occurred.

SPY leaves unfilled downside gap 2 days in a row. Today it closed above the open.
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
5	3,193.38	7	5	2	71.43	1,825.36	-2,966.70	0.62	1.54	456.20
4	4,043.03	7	4	3	57.14	2,646.16	-2,180.54	1.21	1.62	577.58
3	4,792.65	7	4	3	57.14	2,335.38	-1,516.29	1.54	2.05	684.66
2	6,573.35	7	6	1	85.71	1,346.91	-1,508.10	0.89	5.36	939.05
1	5,584.14	8	7	1	87.50	852.30	-381.99	2.23	15.62	698.02

Every instance closed above the entry price
on at least 1 of the next 2 days.

Instances are low but strongly suggestive of a bounce in the next few days.

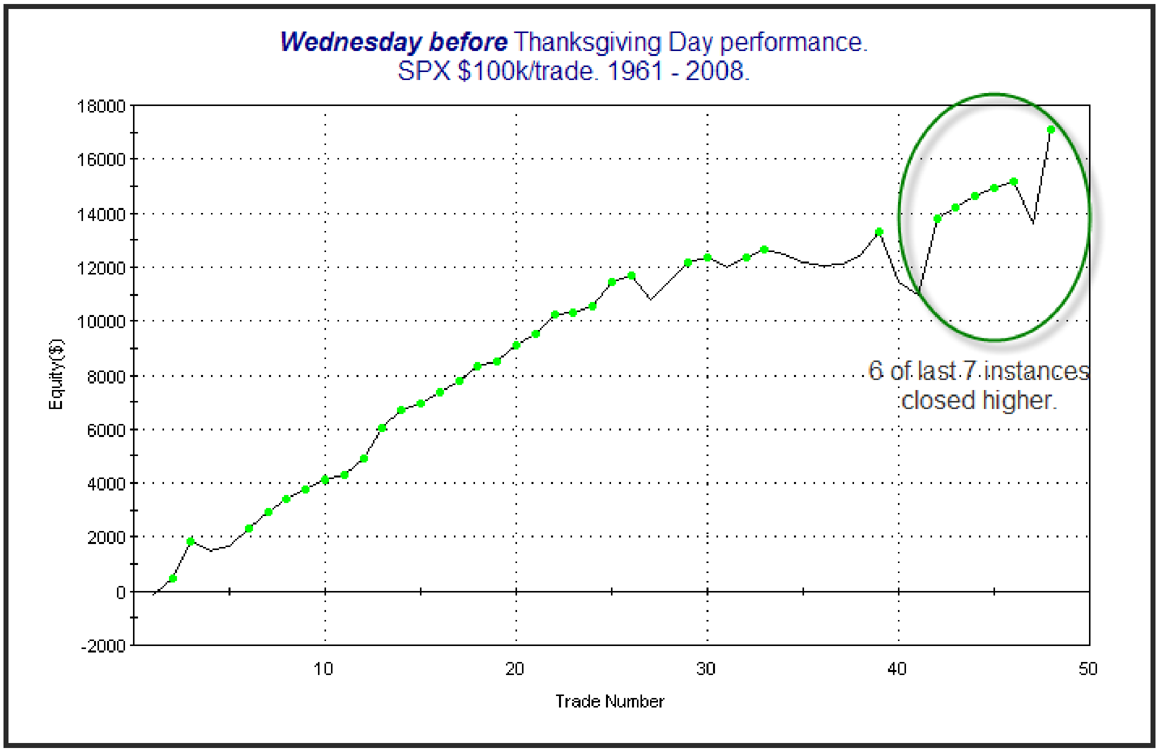
Seasonal influences are often cited around the Thanksgiving holiday. Therefore I decided I would examine returns during Thanksgiving week as well as the Monday following. Below is how the SPX has performed around Thanksgiving over the last 48 years.

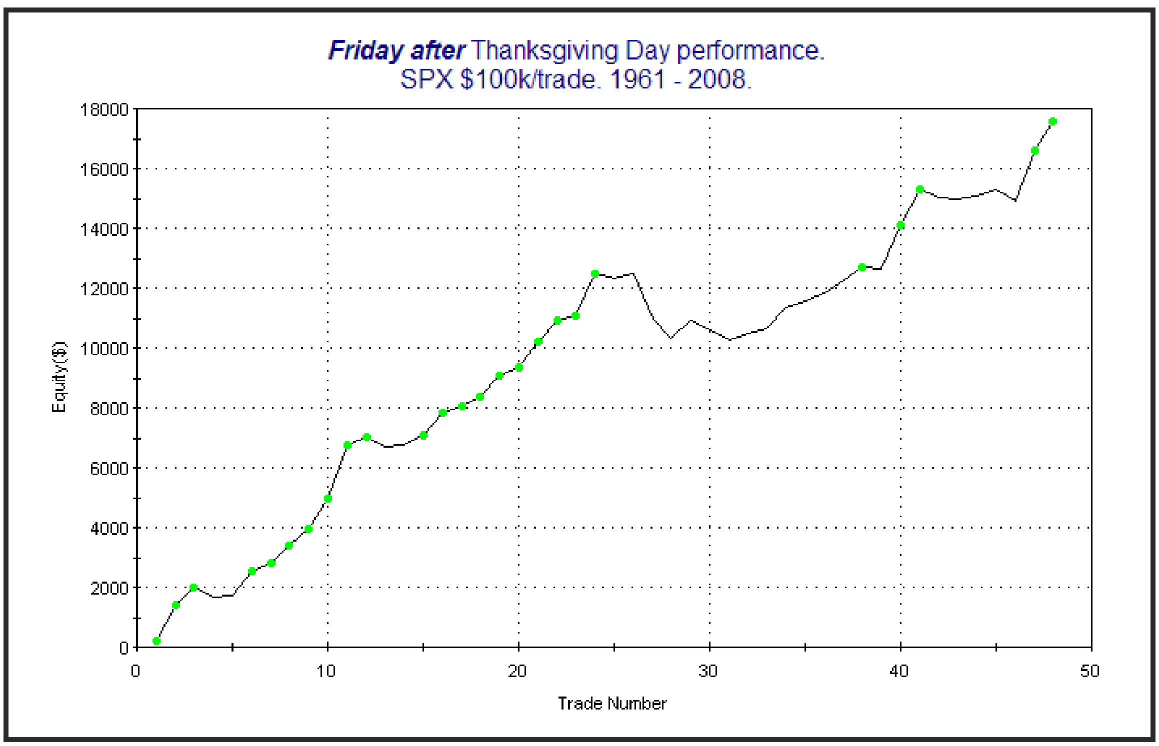
Thanksgiving Week Performance Broken Down by Day of Week.
Based on $100k invested in S&P 500. 1961 - 2008.

Day	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
Mon After	-21,906.47	48	18	30	37.50	830.12	-1,228.29	0.68	0.41	-456.38
Fri	17,544.51	48	37	11	77.08	592.39	-397.63	1.49	5.01	365.51
Wed	17,119.81	48	38	10	79.17	616.24	-629.74	0.98	3.72	356.66
Tues	4,421.60	48	30	18	62.50	615.22	-779.72	0.79	1.32	92.12
Mon	1,036.84	48	21	27	43.75	1,101.05	-817.97	1.35	1.05	21.60

Monday and Tuesday don't seem to carry a sizable edge. Monday's total return was actually negative prior to 2008 when it posted a gain of over 6%. Also notable is that the Monday AFTER Thanksgiving's stats were skewed a bit by the 2008 results. 2008 saw a drop of over 8% on that day. Even excluding 2008 there is a bit of a bearish edge apparent on the Monday following Thanksgiving.

Wednesday and Friday surrounding Thanksgiving have been the most consistent and bullish days of the period. Below are the profit curves for these 2 days over the last 48 years.





The steady upslopes are impressive in both cases. Later this week I will factor in these seasonal forces to the Aggregator. I have updated the Aggregator chart below.

Friday's trading did little to change the Aggregator chart. Both the green Aggregator line and the Black Differential line crept higher. Expectations over the next few days remain positive and the SPX has underperformed expectations over the last few days. This configuration has historically suggested a bullish edge and the Aggregator System is currently long. With positive seasonality in force later this week, several studies suggesting a bounce, and little evidence pointing towards further selling I'm looking to take advantage of a move higher.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/23 –slightly bullish

The pullback of the last 3 days is nearing the 1st level of minor price support, which is around 1085. This marks the Nov 13th swing low. Below that I am looking at the Nov 1st lows around 1030 as a major support level. Having not broken any kind of support at this point it would seem very early to try and call a top.

The negative divergences I noted last week in the Advance/Decline line and the New 52-week Highs persisted this week. Until these resolve themselves the narrowing breadth puts the market in danger of topping out. In most cases major tops have not occurred until such divergences were in place for between 2-12 months. At this point it is just over a month.

The VIX:VXV Ratio plunged below 0.9 this week. In the past when this ratio has gone below 0.9, it has suggested an intermediate-term sell signal for the S&P 500 until the ratio moves back above 1 again. Of course the last instance which triggered in July and didn't close until late October was a monumental failure. I'll be watching to see if this instance is effective or whether perhaps the edge has been eliminated from this particular indicator. See the link below for more discussion. (Scroll down to the intermediate-term section.)

2008-08-25 QE Weekly Research Letter.pdf

The bottom line is we have some bearish warnings at this point, but not bearish action. Before I get more concerned I'll need to see some of the following:

1) Support levels being broken.
2) SPX failing to bounce following bullish studies.
3) Bearish studies emerging.

For now I'm content to cautiously favor the long side.

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.

SPY – buy ¼ position at @ $109.43LIMIT ON CLOSE. I'd like to continue to scale in should the market keep pulling back. I anticipate continuing to do so on Tuesday as well.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	11/20/2009	$109.25	$109.43	0.16%		