

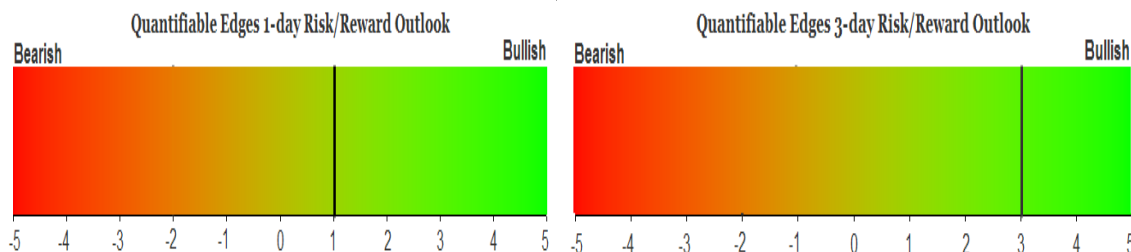
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 24, 2009

Volume 2 Issue 227

Market Overview



Tonight's Research Points

- Monday's early buying allowed both studies from last night's Letter to reach their profit targets.
- Buying Tuesday's close and selling Friday's close around Thanksgiving would have been a profitable strategy 41 of the last 48 years.
- The Aggregator System remains long from Thursday's close. It will likely turn flat tomorrow

Short-term Outlook – updated 11/24

The Bottom Line

A good bounce Monday. The Aggregator signal is expected to turn flat tomorrow based on the current configuration and outlook. Even so it may be worth considering maintaining some long exposure ahead of the seasonally strong Wed-Fri period.

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 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 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%

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

The Evidence

Thanks primarily to a strong overnight session, Monday saw some nice gains in the market. The S&P and Nasdaq rose 1.4% while the Russell 2000 gained 1.7%. Breadth was strong as the NYSE Up Issues % was 78% and the Up Volume % came in at 82%. Total volume fell to below average levels on both the NYSE and Nasdaq.

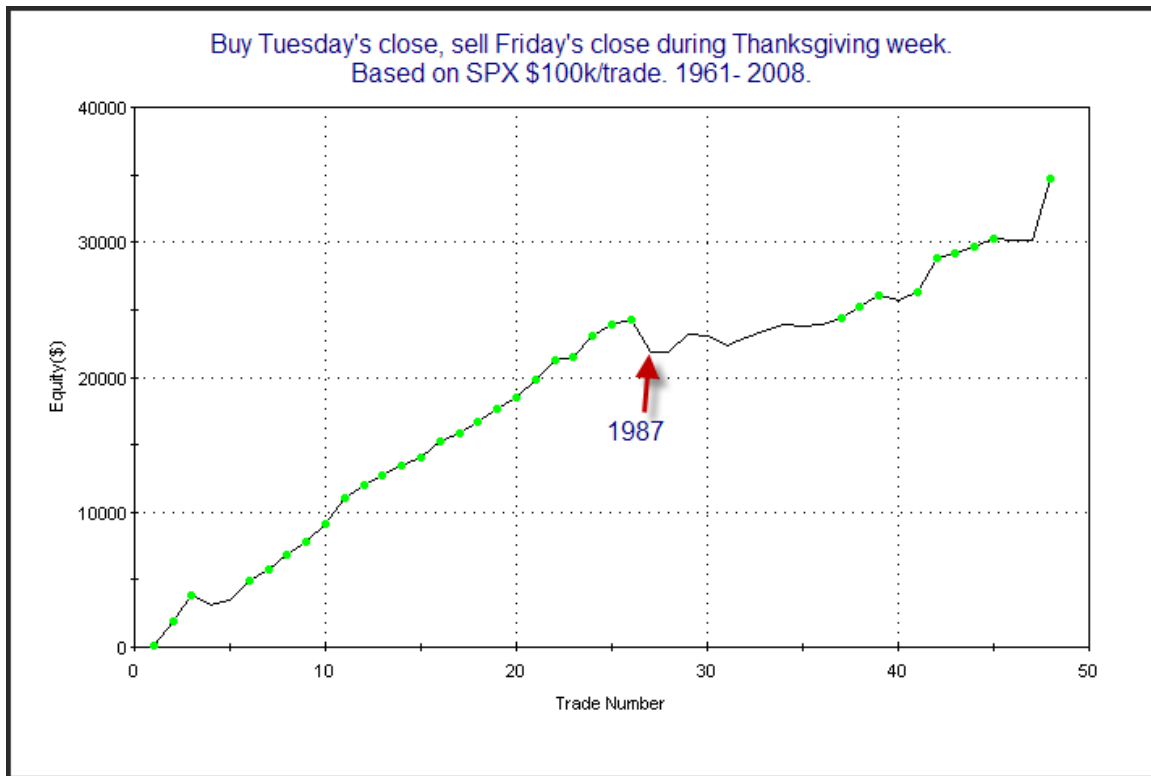
It's rare that we see a day with such strong action draw a blank on the Quantifinder, but that is exactly what happened. I found it interesting that SPY had an unfilled upside gap today after two unfilled downside gaps on Thursday and Friday. I looked at other instances where unfilled downside gaps were followed by unfilled upside gaps but found no compelling edge. I also examined the fact that today's bar saw the open and close occur in the lower end of the daily range while the upside gap went unfilled. Again - nothing compelling from either a bullish or bearish standpoint.

I wrote in some detail yesterday about Thanksgiving week tendencies. I found that over the last 48 years the Wednesday and Friday surrounding Thanksgiving have been consistently strong market days. Rather than view them separately as I did last night I decided to examine what would happen if you bought Tuesday's close and then sold Friday's close. Results below:

Buy Tuesday's close, sell Friday's close during Thanksgiving week. Based on SPX \$100k/trade. 1961- 2008.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$34,715.68	Profit Factor	8.72
Gross Profit	\$39,212.12	Gross Loss	(\$4,496.44)
Total Number of Trades	48	Percent Profitable	85.42%
Winning Trades	41	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$723.24	Ratio Avg. Win:Avg. Loss	1.49
Avg. Winning Trade	\$956.39	Avg. Losing Trade	(\$642.35)
Largest Winning Trade	\$4,506.60	Largest Losing Trade	(\$2,450.25)

Rarely do I make a big deal of seasonal tendencies, but these appear too strong to ignore.

Below is a profit curve of the system:

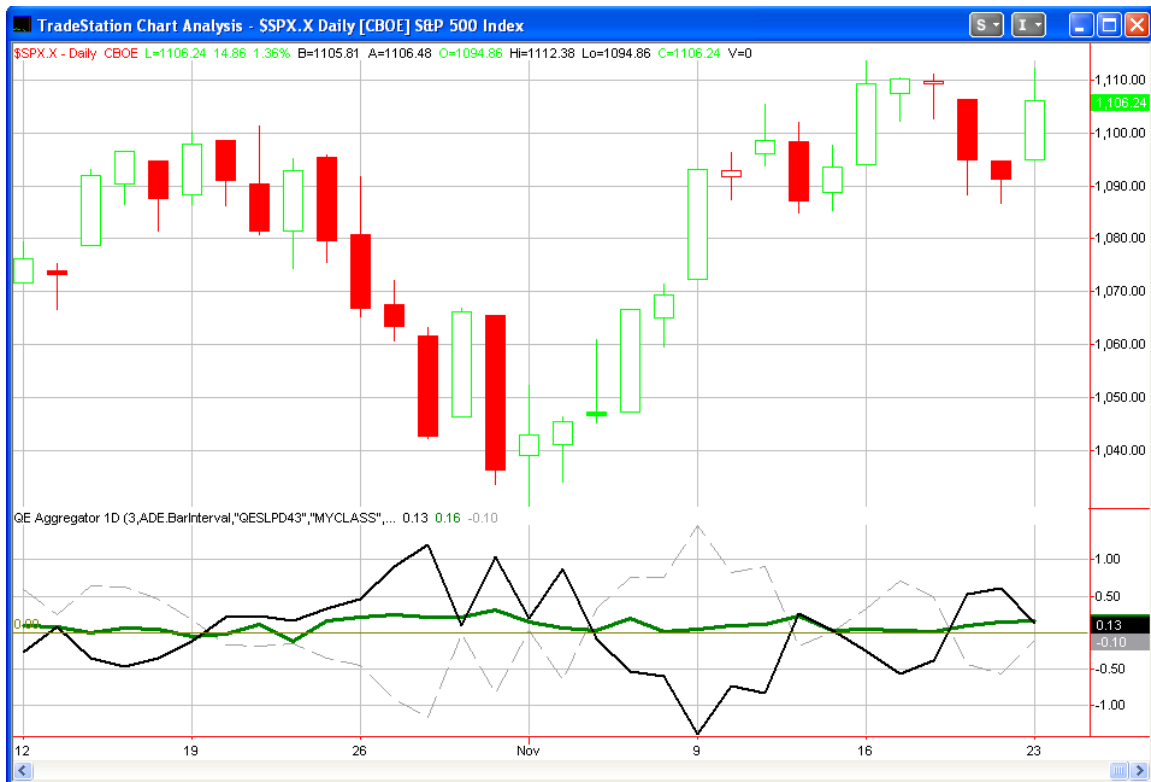


Other than the 2.5% pullback in 1987, there has been very little to derail the steady upward slope over the last 48 years.

I also examined a few different entries, such as buying Wednesday's open rather than Tuesday's close. This helped a little but the edge in waiting wasn't significant and was pretty evenly split when viewing those trades it helped versus those it hurt. I used SPY for this last test so only was able to poll 15 occurrences rather than 48.

Notable about today's action is that it was strong enough intraday to cause both of the new active studies from last night to hit their targets. They are now removed from the active studies list.

I have updated the [Aggregator](#) chart below.



The Aggregator chart doesn't look a lot different than the last few nights. The green Aggregator line is still above 0, indicating the net expectation for the studies over the next few days is bullish. The black Differential line is also positive; illustrating the SPX has underperformed expectations over the last 3 days. Both lines above zero is a historically bullish configuration.

Most interesting about the Aggregator calculations right now is that the black Differential line is set to take a dive tomorrow. Thursday's big drop will be eliminated from the Differential calculation Tuesday evening. This will have a gravitational effect on the Differential line. For the differential line to remain above 0 the SPX would need to close down over 10 points. If it closes up, or closes down LESS than 10 points, then the black Differential line will flip negative. This would cause the Aggregator System to go flat on the close.

If you're trading the Aggregator System this is good information to keep in mind. It means you may be able to more comfortably trail a stop tomorrow. If the market is up and anything other than a complete collapse will mean an exit at the close, then a trailing stop may allow you to keep more gains and avoid a late-day selloff. Of course if the SPX actually did sell off so much that it fell more than 10 point then the Aggregator System long signal would remain in tact. In this case you could consider buying back in at the close at a price that was lower than your exit price. Note that the Subscriber Letter would not jump back in at the close since I don't suggest entries via intraday updates. Instead I would likely look for an entry Wednesday morning.

Of course traders should handle all trade ideas however they best see fit, but I thought I might provide some things to consider when making trade management decisions on an Aggregator trade.

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 1/4 index position @ \$109.81 limit ON CLOSE. – A low close would likely keep the Aggregator positive. The Wed—Fri period also looks compelling for long exposure.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/L	Stop	Notes
SPY(1/4)	11/20/2009	\$109.25	\$110.82	1.44%		

I considered trailing a partial position stop during the day Monday, but decided I would rather let the edge play out – especially with the lack of bearish studies and the positive seasonality. With the SPY up as much as it was, there is nothing wrong with trailing a stop on an intraday basis to protect some profits.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2009 Hanna Capital Management, LLC.