

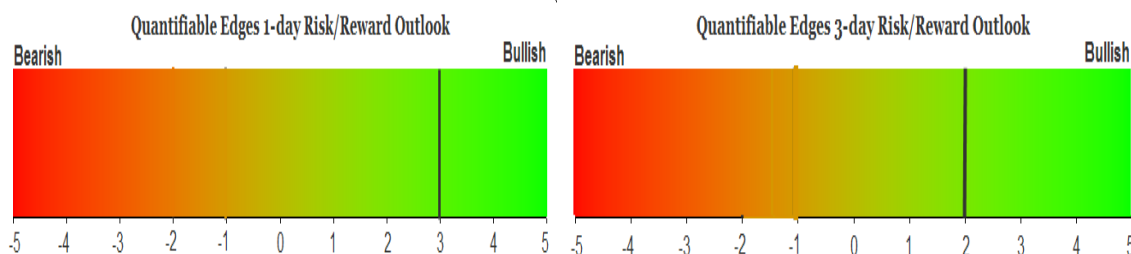
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 25, 2009

Volume 2 Issue 228

Market Overview



Tonight's Research Points

- Very low volume above the 10ma suggests a pullback is likely. Though in this case the low volume was expected. I expect to see low volume the next 2 days as well.
- The Aggregator System went flat at Tuesday's close.

Short-term Outlook – updated 11/25

The Bottom Line

Not much happened Tuesday, though the SPX is no longer oversold versus expectations. This caused the Aggregator System exit. I'm still anticipating a bit further upside over the next couple of days, partially due to the strong seasonal bias around Thanksgiving.

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 25, 2009	Thanksgiving Bias	2 days	Bullish	
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	

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

The Evidence

Tuesday saw the market pull back a bit, though selling was generally light. The S&P fell a mere 0.05% while the Nasdaq was down 0.3% and the Russell 2000 dropped 0.4%. Breadth was slightly negative as the NYSE Up Issues % was 45% and the Up Volume % was 44%. NYSE volume came in at the lowest levels in over a month.

There was little today in the way of unusual or notable action. Most of the day was spent in the range established in the 1st half hour of trading. The SPY did poke just above the high around 3pm but the breakout attempt failed and the market drifted lower for most of the last hour.

The one study that came up in the Quantifinder today was one that examines very low volume when the SPX is trading above its 10ma. It was from the 4/7/09 Letter.

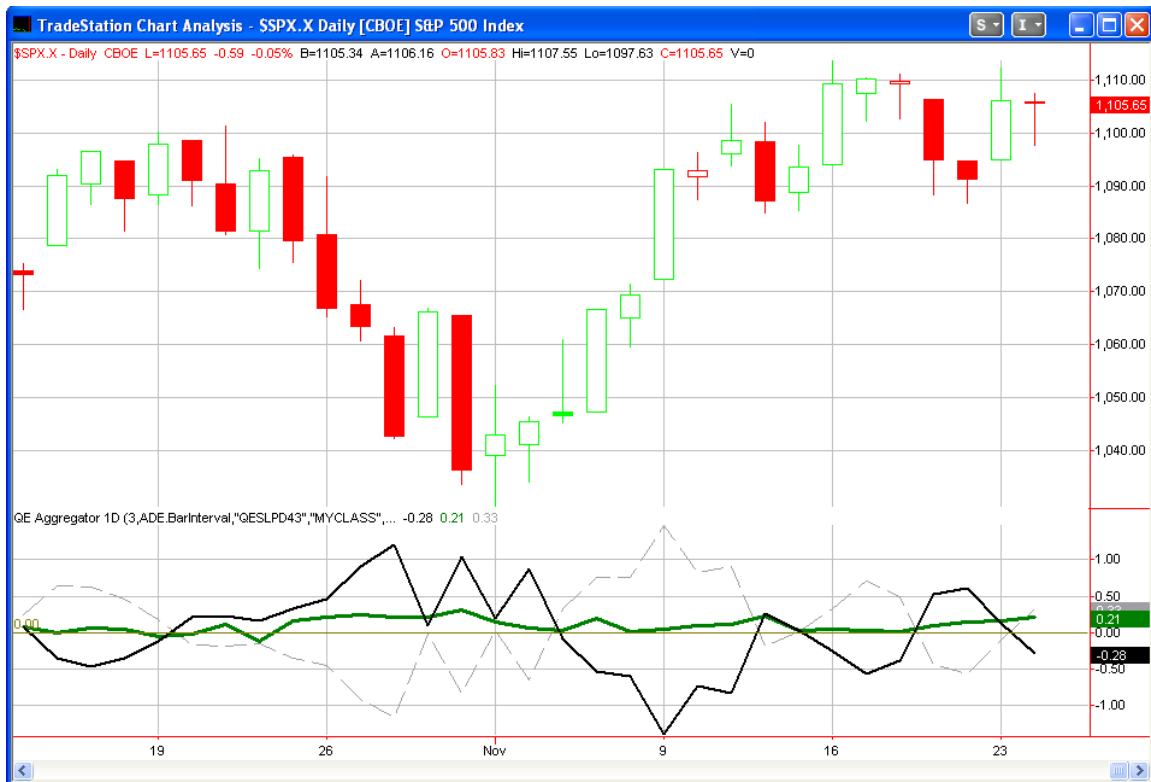
SPX closes > 10MA on the lightest NYSE volume in 20 days. Buy on close. Sell X days later. \$100k/trade. 1999 - present.										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-36,798.12	78	43	35	55.13	1,659.59	-3,090.31	0.54	0.66	-471.77
9	-34,823.13	80	43	37	53.75	1,676.77	-2,889.85	0.58	0.67	-435.29
8	-23,570.39	82	48	34	58.54	1,514.59	-2,831.49	0.53	0.76	-287.44
7	-40,354.81	83	43	40	51.81	1,401.17	-2,515.13	0.56	0.60	-486.20
6	-26,945.58	84	45	39	53.57	1,529.35	-2,455.54	0.62	0.72	-320.78
5	-44,012.13	89	39	50	43.82	1,552.39	-2,091.10	0.74	0.58	-494.52
4	-38,019.02	96	46	50	47.92	1,211.61	-1,875.06	0.65	0.59	-396.03
3	-38,032.03	99	43	56	43.43	1,141.70	-1,555.80	0.73	0.56	-384.16
2	-46,557.06	105	42	63	40.00	830.45	-1,292.63	0.64	0.43	-443.40
1	-26,007.57	127	61	66	48.03	674.18	-1,017.16	0.66	0.61	-204.78

In the Intraday Quantifinder comment I noted that a down close could eliminate the bearish edge. When I ran the test this afternoon there was an error and the data came out a little squirrely. When I double checked tonight I found the error. Upon further review, the up or down close seems to make little difference. The edge here isn't huge, and typically has played out over the next 2 days, but there is a bearish tilt.

The problem with including this study in the Aggregator is that the light volume was not likely due to complacency by market participants, but more likely traders taking time off ahead of the holiday. I expect Wednesday's volume will come in even lighter and Friday should be the lightest of all with the 1pm close. Unless the market sells off I expect to see this study pop up again both of the next 2 days.

The strong seasonality surrounding Thanksgiving is now upon us. I've included the upward bias of Wednesday and Friday in the Aggregator. Please refer to the 11/23 and 11/24 Subscriber Letters for more details on the Thanksgiving bias.

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



With last Thursday's steep selloff exiting the Differential calculation the black Differential line flipped to negative this evening. This illustrates the fact that the SPX has now outperformed expectations over the last few days. Meanwhile the net expectation from the Active Studies over the next few days is for further upside. This leaves us overbought with positive expectations. When both lines oppose each other in this way I consider it a neutral configuration. The Aggregator System, which generates automatic signals from the above chart, went flat today.

I suspect based on the Active Studies, we may get some more follow through over the next few days. We also may not get much in the way of additional directional clues until next week. I'm still holding a small amount of SPY in the Trade Ideas section below and anticipate being out of that by Friday's close at the latest. Once we get through this holiday week, it could take a few days for the next substantial edge to set up, so some patience may be required.

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.

None tonight.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/L	Stop	Notes
SPY(1/4)	11/20/2009	\$109.25	\$110.99	1.59%		sold 1/2 at close

I'll be looking to exit the rest on Thursday or Friday.

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.