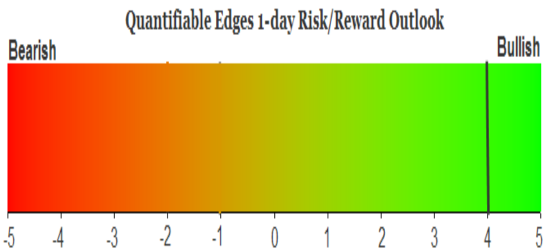
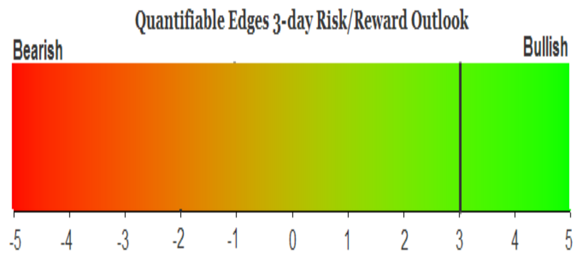
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 30, 2009 Volume 2 Issue 230

Market Overview





Tonight's Research Points

- Large gaps down like Friday that close above the open but still down on the day typically see upside over the next few days.
- Friday's 97% down volume is a level that most often suggests overblown selling and is followed by a bounce.
- The Aggregator System triggered a long signal at the close Friday.

Short-term Outlook – updated 11/30

The Bottom Line

Most everything was down Friday but the damage occurred before the open. Tonight's studies suggest a good chance of a bounce in the next day or 2. I'm favoring the long side at this point.

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 30, 2009	5% Up Vol & Close > Lowest In 10 days	1-2 days	Bullish	3.70%
November 30, 2009	2% Gap Dn. Close > open & < yesterday	1-2 days	Bullish	3.70%
November 20, 2009	SPX 1% drop & Advancers 2x Decliners	1-9 days	Bullish	2.90%
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 27, 2009	***SPX up VIX up***	***1-2 days***	***Bearish***	***-0.80%***
November 25, 2009	Thanksgiving Bias	2 days	Bullish	
November 17, 2009	70% Up Issues 2 in row & SPX 50 high	1-8 days	Bullish	2.40%
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

The Dubai Thanksgiving gap put the market way down at the open. Most often when a market gaps down in such a big way from a short-term high, it will sell off further during the day. Friday's gap down didn't attract further selling though. The open basically marked the low of the day and the market then rose for the next 90 minutes before settling into a range. The last 20 minutes of the day saw some selling which took it a bit lower, but still well above the open. When it was over the SPX and Nasdaq closed down 1.7% and the Russell 2000 was down 2.5%. Breadth was extremely weak. The NYSE Up Issues % was 14% and the NYSE Up Volume % was just 3%. With only a half day of trading volume was light but basically meaningless.

The most significant information in my eyes was the large gap down (along with the reaction to it), and the extremely negative breadth. The Quantifinder picked on some studies that resembled Friday's action from these standpoints.

The 1st one was from the 10/27/08 Letter. I've updated the study below:

SPY gaps down at least 2%, closes above its open but still down on the day.
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	33,471.82	14	8	6	57.14	5,795.31	-2,148.45	2.70	3.60	2,390.84
4	30,659.27	15	10	5	66.67	4,651.66	-3,171.46	1.47	2.93	2,043.95
3	23,552.43	15	11	4	73.33	2,973.53	-2,289.10	1.30	3.57	1,570.16
2	37,145.54	15	12	3	80.00	3,649.74	-2,217.11	1.65	6.58	2,476.37
1	22,965.57	15	9	6	60.00	3,436.20	-1,326.71	2.59	3.89	1,531.04

There tends to be a strong tendency for a quick bounce after such large gaps lower that partially recover. Interestingly, many of the other instances happened near new lows rather than new highs. In fact, I decided to simply filter by the 200ma and saw the number of instances greatly reduced.

SPY gaps down at least 2%, closes above its open but still down on the day. Close > 200ma.
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	613.82	5	1	4	20.00	5,479.60	-1,216.45	4.50	1.13	122.76
4	2,093.37	5	2	3	40.00	4,148.23	-2,067.69	2.01	1.34	418.67
3	3,574.64	5	3	2	60.00	2,373.70	-1,773.23	1.34	2.01	714.93
2	1,264.74	5	4	1	80.00	855.85	-2,158.67	0.40	1.59	252.95
1	-2,734.30	5	1	4	20.00	1,439.15	-1,043.36	1.38	0.34	-546.86

With so few instances I wouldn't read anything too deep here. I just find it interesting how volatile the results are. The "% Profitable" column flips from 20% to 80% back to 20% all within a week.

The extremely negative breadth brought about some studies as well. The one I've updated below was from the 10/2/09 Letter.

NYSE Up Volume % < 5%.
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	62,337.48	36	21	15	58.33	4,828.51	-2,604.09	1.85	2.60	1,731.60
4	42,245.04	38	22	16	57.89	3,984.20	-2,837.96	1.40	1.93	1,111.71
3	23,506.52	39	21	18	53.85	3,370.77	-2,626.65	1.28	1.50	602.73
2	27,894.77	39	27	12	69.23	2,404.11	-3,084.67	0.78	1.75	715.25
1	30,010.93	40	27	13	67.50	2,404.59	-2,685.62	0.90	1.86	750.27

Here we see some upside tendencies after such negative breadth. Also interesting is that when the setup does not coincide with a new short-term low the results appear to be even stronger. The study below shows this.

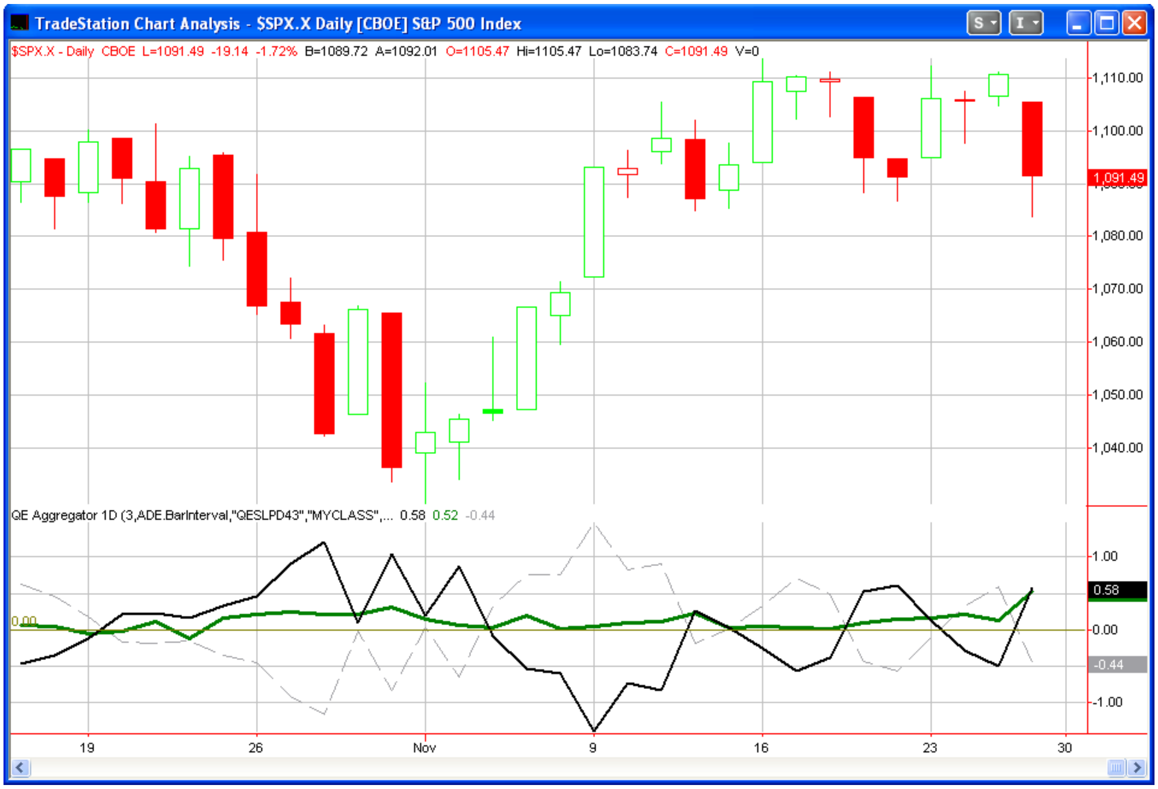
NYSE Up Volume % < 5%. Close > lowest close in last 10 days.
Buy on close. Sell X days later. $100k/trade. 1993 - present.

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
5	32,638.70	10	7	3	70.00	5,683.81	-2,382.65	2.39	5.57	3,263.87
4	29,007.34	10	7	3	70.00	5,820.55	-3,912.17	1.49	3.47	2,900.73
3	31,140.02	10	7	3	70.00	4,648.18	-465.75	9.98	23.29	3,114.00
2	21,613.07	10	9	1	90.00	2,424.92	-211.20	11.48	103.33	2,161.31
1	19,582.39	10	9	1	90.00	2,212.38	-329.00	6.72	60.52	1,958.24

All 10 instances closed above the trigger price on either day 1 or day 2.

The big gap down that only partially reversed, as well as the extremely negative breadth, both suggest a short-term upside edge. All indications from the "short-term active list" are now bullish.

I have updated the Aggregator chart below.



Both lines spiked up on Friday. The green Aggregator line estimates the net expectations of the active studies over the next few days. It is now strongly positive. The black Differential line posted a large spike to move from negative to positive. This indicates the SPX has underperformed expectations over the last few days. Both lines above the zero line means the SPX is oversold versus expectations and current expectations are positive. This is considered a bullish configuration. As I mentioned was likely to happen in the previous Letter, and as I posted to the Systems page shortly before the bell, the Aggregator System is now long.

Overall indications are fairly strong here that we should get a bounce shortly. I'm positioning to take advantage of such a bounce in the next few days. Still, it should be kept in mind that the market is only down 1 day here. It's certainly possible that we'll see a bit more downside before the expected bounce occurs.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/30 –slightly bullish

Very little changed this week from an intermediate-term perspective. The S&P tested the lower end of its recent range on Friday but closed above it. The potentially bearish breadth divergences I've noted recently in the A/D line and the New 52-week Highs % remain in place. It's now been about a month and a half since those measures have hit new highs. So there remains a yellow flag there.

Still I am void of any strongly bearish studies and prices haven't yet begun to breakdown in earnest. Until I see more evidence of bearish inclinations I'll remains cautiously bullish.

December is about to start, which means it is about time to prepare for the January effect. The January effect actually is strongest in the last 2 weeks of December. It suggests that smallcaps are likely to outperform large-cap over this period of time. I did a short study last year the addressed the January effect. I've reprinted that study below for any traders who may want to review and strategize over the next couple of weeks.

January Effect

One seasonal tendency that you may see mentioned in the next few weeks in the January Effect. The January Effect suggests that small caps (especially beaten down ones) tend to outperform large caps in January (and part of December). I decided to run some simple tests based on this hypothesis.

I found that over the last 20 years from December 15th (or the next trading day if that is a weekend) to February 1st the Russell 2000 has outperformed the S&P 500 12 times. While that isn't a sizeable winning percentage the total gains have outsized the total losses by about 5 to 1.

Even more interesting is the action the last few weeks of December. Again buying at the close on the 15th and this time selling at the close of the 1st day of the New Year, the Russell 2000 has outperformed the S&P 500 15 of the last 20 years. Gross gains have been 27.61% or 1.84%/win average. Gross losses have been only -5.15%, or -1.03% per average loss. The net gain was 22.46% or 1.12% per trade. This is a sizable difference when talking about a relatively short-term spread between 2 indices.

There are a number of ways to play this. The simplest of which perhaps would be to wait for a day or two of outperformance by the S&P and then enter a spread transaction in anticipation of both a mean reversion and a seasonal tendency.

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 index position @ $109.57 limit. Based on short-term market outlook and Aggregator System I'm looking take on more exposure.

SPY – buy ¼ index position @ $108.75 LIMIT ON CLOSE. I'll increase the buying should the market again close lower Monday.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	11/20/2009	$109.25	$109.57	0.29%		sold 1/2 at $110.99