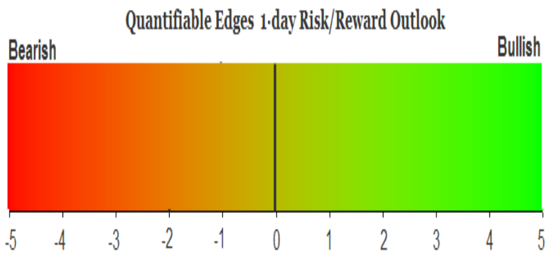
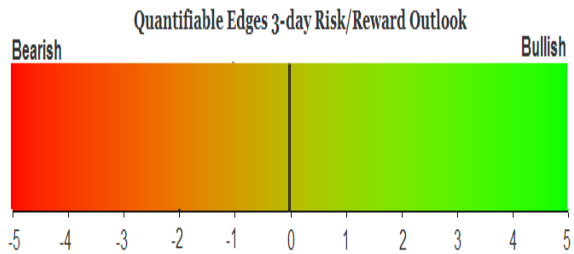
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 3, 2009 Volume 2 Issue 233

Market Overview





Tonight's Research Points

- The 3-day run-up appears to be losing some steam. Our one study tonight has a bearish tilt.
- The Aggregator System turned flat at the close.

Short-term Outlook – updated 12/03
The Bottom Line
This leg up may be getting old and weak. There no longer appears to be a significant edge. Individual names and ETFs are lacking as well. I'm content to stand aside for a day and see what happens.

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				
December 3, 2009	Rally fading with volume & price	1-5 days	Bearish	-1.70%
November 20, 2009	SPX 1% drop & Decliners 2x Advancers	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%
December 2, 2009	VIX:VXV corsses below 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.

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The Evidence

An early morning rally in SPX turned tail and dropped into negative territory Wednesday before fighting back to close just above even. The SPX rose a mere 0.38 points. The Nasdaq and Russell did better with rises of 0.4% and 1.2%. Breadth was strong. The NYSE Up Issues % was 65% and the Up Volume % came in at 59%. Volume sunk from Tuesday's levels on both exchanges.

With the progressively lower volume and the small move higher today this leg up appears to be losing steam in the SPX. The Quantifinder identified a study that was last published in the 6/3/09 Subscriber Letter that looked at just this type of action. I've updated the statistics below.

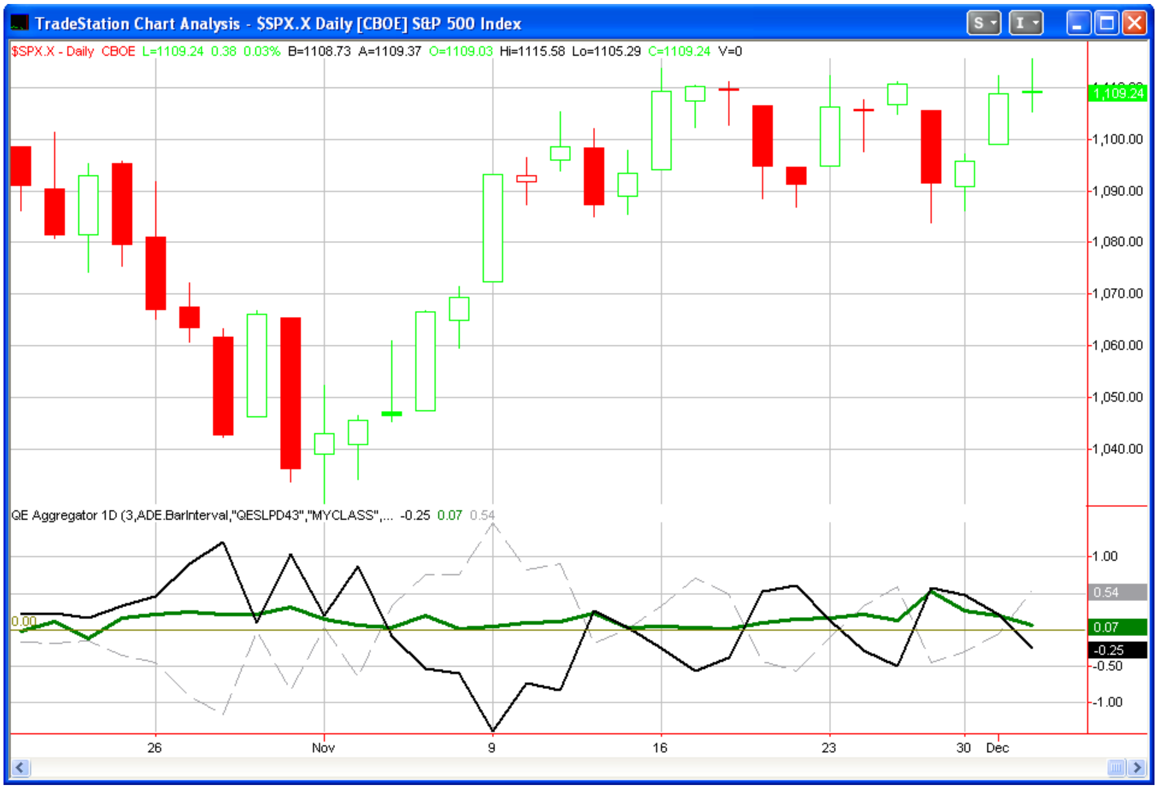
SPX advances for at least the 3rd day in a row. Volume falls both today and yesterday.
Today's rise is the smallest of the upmove. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 6/1/97 - present.

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	-13,535.03	27	9	18	33.33	1,644.92	-1,574.41	1.04	0.52	-501.30
4	-7,750.00	27	9	18	33.33	1,810.02	-1,335.57	1.36	0.68	-287.04
3	-5,655.53	27	12	15	44.44	1,316.62	-1,430.33	0.92	0.74	-209.46
2	-5,684.35	27	9	18	33.33	1,067.48	-849.54	1.26	0.63	-210.53
1	-3,680.86	27	11	16	40.74	667.12	-688.70	0.97	0.67	-136.33

85% of instances closed below the entry price at some point in the next 4 days.

The edge appears solid though not overwhelming. From a bearish standpoint this is about as strong of a downside edge as we've seen recently.

I have updated the Aggregator chart below.



The Aggregator chart formation changed a bit today. The green Aggregator line remains bullish even with tonight's bearish study. This shows the net expectations of the active studies is still positive over the next few days. The three day rally has caused the black Differential line to drop into negative territory. This illustrates that the SPX has outperformed expectations over the last few days. Positive expectations in an already overbought market is considered a neutral configuration. This caused the Aggregator System to turn flat at the close today. The long signal was closed out for a nice gain after 3 days.

Tomorrow's pivot number for the Differential line is estimated at 1105.58. In other words, a close above that level and the Differential will remain negative. Should SPX close below 1105.58 then the Differential line will flip back to positive. With the studies currently in place the green Aggregator line is primed to again finish positive tomorrow. This suggests a close below the 1105.58 level could very well trigger another long entry. Subscribers may monitor the Quantifinder as well as the Systems page as we approach the close to see the probable outlook.

Traders considering entry near tomorrow's close should keep in mind the jobs report is due out on Friday and is often a market mover. You may want to factor this in when considering position size.

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.

<u>Catapult and Capitulative Breadth Statistics</u>
(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.

The only thing showing up on the systems spreadsheet tonight was a short in GLD. I'm not eager to try and short that move.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	11/30/2009	$109.48	$111.07	1.45%		out - avg exit shown

My stop managed to just about pick the low of the day today. That was unfortunate, but the trade still turned out nicely.