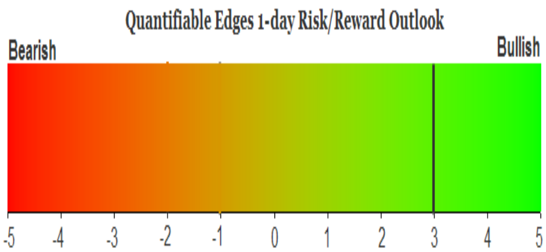
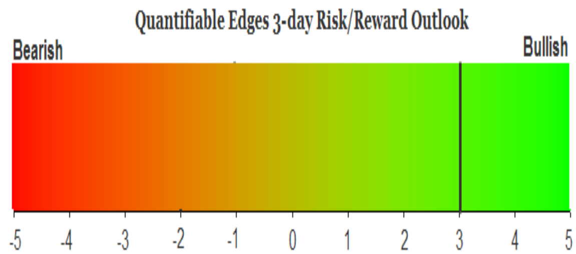
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 7, 2009 Volume 2 Issue 235

Market Overview





Tonight's Research Points

- 2 Outside days in a row suggest more upside over the next 1-5 days.
- Nasdaq/S&P Relative Strength model shifts bullish as Nasdaq takes over the lead.
- Breadth divergences and dollar action bear watching as potential uptrend spoilers.
- The Aggregator System remained long on Friday.

Short-term Outlook – updated 12/7

The Bottom Line

Friday's action appears to be suggestive of more upside over the next few days. The Aggregator System remains long as well. Short-term the market action and the studies are all pointing northward. As I note in the intermediate-term section, though, the studies could be trumped by continued dollar strength. Friday it rallied up near its 50ma, where it has consistently struggled since March. If the dollar manages to break through and continue to rally here then that could possibly overrule the positives I'm seeing.

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 7, 2009	Double Outside Day	1-5 days	Bullish	2.00%
December 4, 2009	"Bearish Engulfing" from a high	1-2 days	Bearish	-1.70%
December 4, 2009	Gap up, reverse down close bottom10%	1-5 days	Bullish	4.00%
December 3, 2009	Rally fading with volume & price	1-5 days	Bearish	-1.70%
Active - Long Term				
December 7, 2009	Nasdaq Leading S&P	int. term	Bullish	
December 2, 2009	VIX:VXV corsses below 0.9	2-5 months	Bearish	
November 10, 2009	75% Up Issues 2 of 3 above 200 & 10 hi	1-20 days	Bullish	5.90%

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

The Evidence

Friday's trading was wide and loose. A large gap up in the morning attracted more buying early on. Eventually the market rolled over though and the gap was filled. The move down didn't stick either. At the end of the day all the major indices were higher. The SPX rose 0.6%, the Nasdaq was up 1%, and the Russell 2000 tacked on 2.4%. Breadth was solidly positive. The NYSE Up Issues % came in at 71% and Up Volume was 74%. NYSE total volume came in at the highest level in over a month.

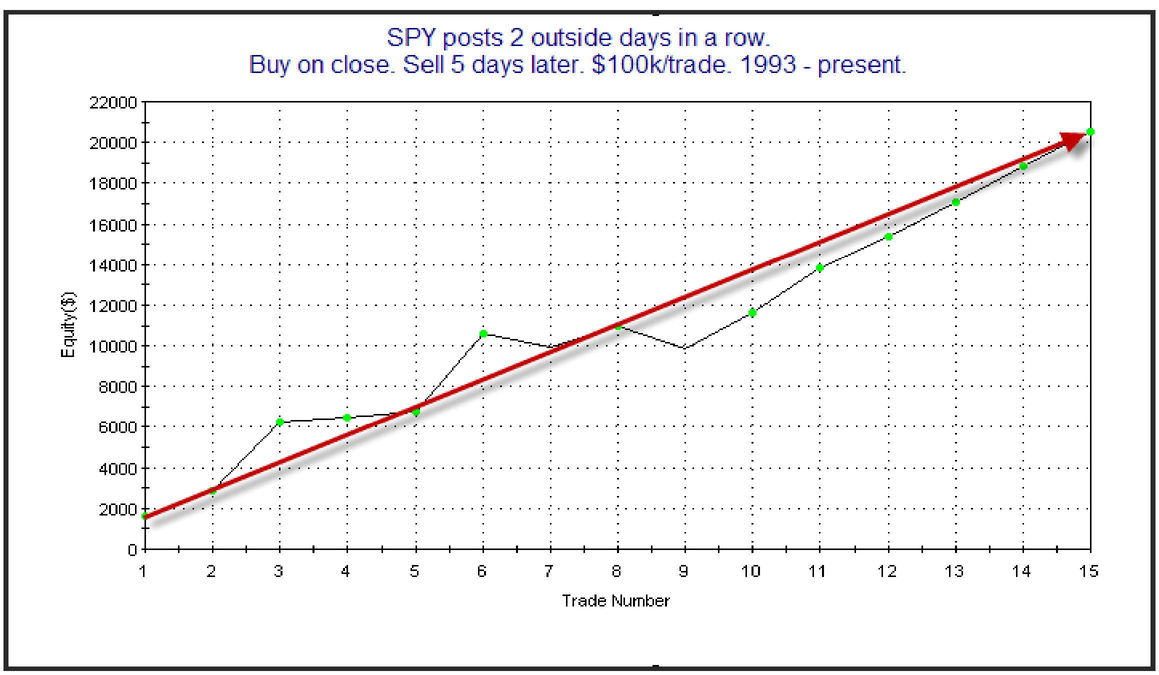
Friday was the 2^{nd} outside day in a row. Looking back to the inception of the SPY, other times there have been back to back outside days have typically been followed by rallies over the next few days. The study below illustrates this.

SPY posts 2 outside 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
5	20,521.02	15	13	2	86.67	1,714.44	-883.32	1.94	12.62	1,368.07
4	17,818.36	15	14	1	93.33	1,383.14	-1,545.66	0.89	12.53	1,187.89
3	16,419.99	15	11	4	73.33	1,690.64	-544.27	3.11	8.54	1,094.67
2	9,353.47	15	11	4	73.33	1,107.05	-706.01	1.57	4.31	623.56
1	5,866.69	15	11	4	73.33	764.11	-634.62	1.20	3.31	391.11

I initially used additional filters, such as requiring the 2^{nd} day to be a higher close. I decided any extra filters weren't necessary since instances were so low and any slicing really didn't seem to matter.

This can also be seen by evaluating the profit curve.



Notable above is that there is very little deviation from the trendline. This suggests profits were steady rather than attributable to a few large trades.

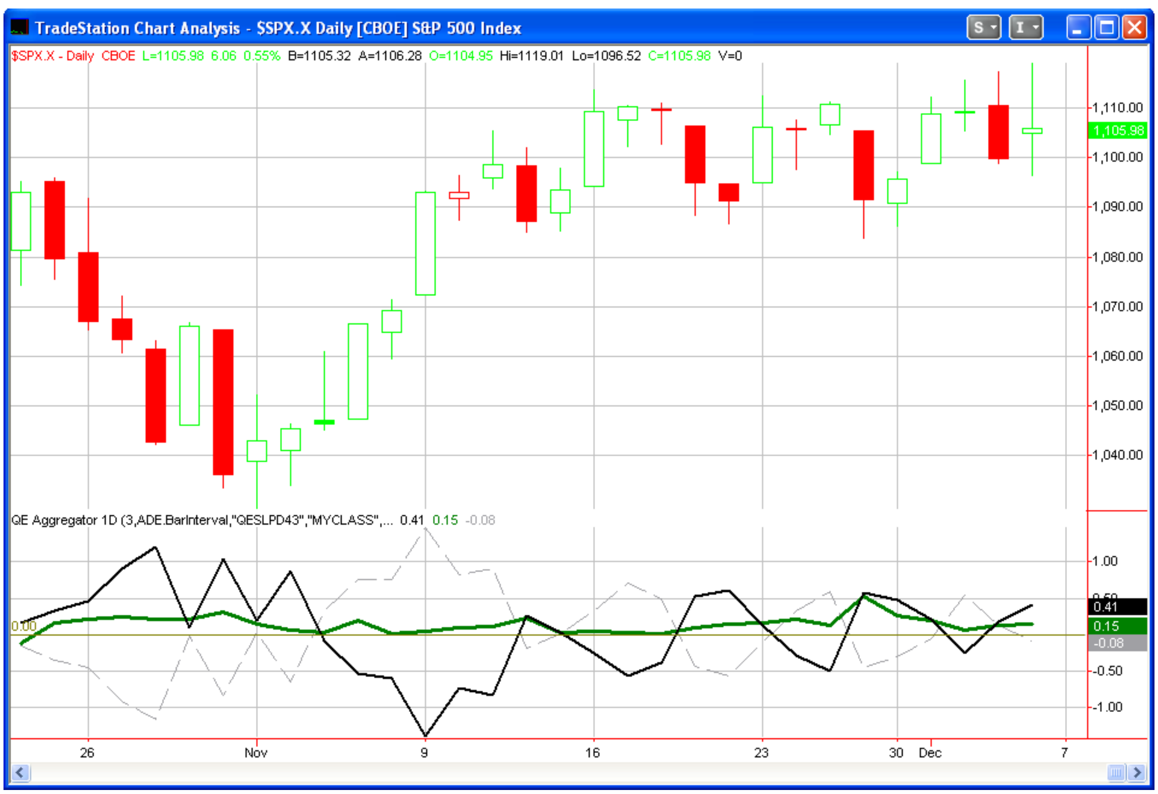
The same pattern occurred in QQQQ and I ran the study there al well to see if it would confirm SPY's bullish results.

QQQQ posts 2 outside days in a row.
Buy on close. Sell X days later. $100k/trade. 2000 - 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	12,406.01	9	6	3	66.67	2,716.48	-1,297.62	2.09	4.19	1,378.45
4	12,434.63	9	6	3	66.67	2,857.34	-1,569.81	1.82	3.64	1,381.63
3	9,139.53	9	5	4	55.56	2,815.77	-1,234.83	2.28	2.85	1,015.50
2	3,723.51	9	6	3	66.67	1,635.52	-2,029.86	0.81	1.61	413.72
1	5,926.69	9	7	2	77.78	1,054.07	-725.89	1.45	5.08	658.52

Here too there appears to be an upside edge.

I have updated the Aggregator chart below.



The Aggregator configuration is much the same as it was Thursday night. The Active Studies list contains net expectations over the next few days for more upside. This is shown by the green Aggregator line. Meanwhile, over the last few days the SPX has underperformed expectations. This leads to positive values for the black Differential line. Both lines above zero means we have a situation where expectations are positive and the market is currently oversold versus expectations. Historically this configuration has contained a bullish edge. The Aggregator System went long on Thursday and remains long.

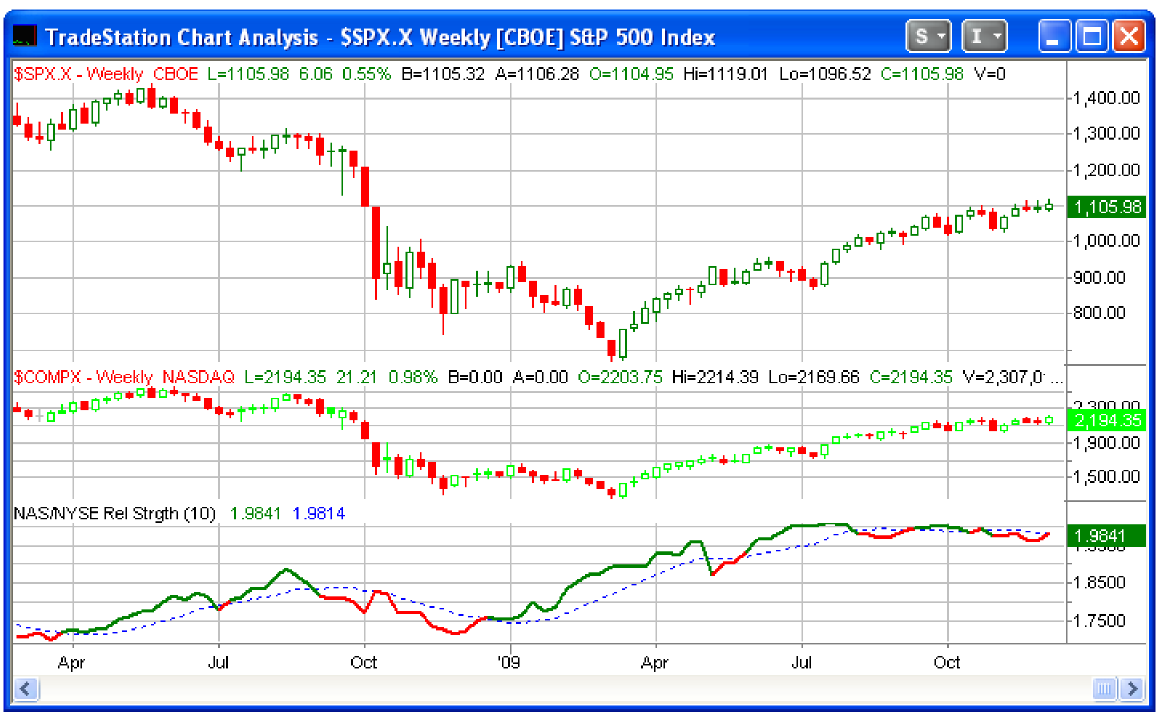
The current active studies will continue to show net positive expectations over the next few days. Of course some bearish studies occurring in the next few days could change this. For the Differential line to flip negative on Monday (illustrating SPX outperforming expectations) the S&P would need to close at 1,114.94 or higher. On Tuesday the pivot number is expected to drop well below the 1114 level as Thursday's selloff exits the calculation.

Intermediate-term Outlook (2 weeks – 2 months)– updated 12/7 –somewhat bullish

The Nasdaq took leadership back from the S&P this week for the 1st time in about a month and a half. Historically the market has made essentially no headway when the S&P was in a leadership position and strong headway when the Nasdaq has led. Earlier this year I did some detailed posts on this indicator. Those who are interested may find more information using the links below:

http://quantifiableedges.blogspot.com/2009/05/simple-powerful-timing-indicator.html
http://quantifiableedges.blogspot.com/2009/06/tweaking-nasdaqs-leadlag-model.html

Below is the chart from the members section.



As you can see the solid line has barely crossed above the dotted line. In other words the Nasdaq isn't leading by much and could quickly flip back into a lagging position as it did in mid-October. For now the implications are bullish.

The breadth divergences that have been in place since October in the NYSE Advance/Decline line and the Net 52-week Highs still remain but they are getting closer to resolution with last week's action. We've noted before that other major tops have seen these divergences persist for at least 2 months before price topped out. We're nearing the 2-month mark now. Failure to confirm the price highs soon would put us on alert for topping action.

One other thought to keep in mind is the increased gap sizes I noted this past week. The U.S. stock market now appears to be more strongly influenced by other markets than is customary. These include the U.S. dollar index as well as foreign stock indices. On Friday the dollar index spiked higher. This seemed to contribute greatly to the swoon in the middle of the day. I've included below a chart of UUP, which is the US Dollar Bullish ETF.

The blue line is the 50-day moving average. You'll note that Friday's big rally fell just barely shy of it. Since March (when the stock market bottomed) every time the 50-day moving average has been tested, the dollar has retreated within a day or two. Should we see a break of the 50ma and a continued move higher this would likely put a good amount of pressure on the U.S. stock market. There's a bit more to watch now than just stock market indicators. Traders should consider currency action to be important as well.

In summary, prices have struggled to make much headway over the last several weeks, but they haven't begun to break down and the trend remains up. Nasdaq leadership could help. Divergences do remain in place, though. Resolution of those divergences would improve the outlook further and suggest an acceleration upwards. Another possible spoiler is the US dollar. Keep one eye on that as well.

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.

IEZ – buy @ $40.68 limit. Based on system 80402. I haven't tracked anything from the triggers page in while. This looked interesting to me tonight. There are several individual energy stocks triggering as well.

The GLD short trigger I noted and mentioned I didn't want to touch on Thursday sure would have made for a nice trade. Hopefully some of you were bolder than I.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	12/4/2009	$110.38	$111.01	0.57%		