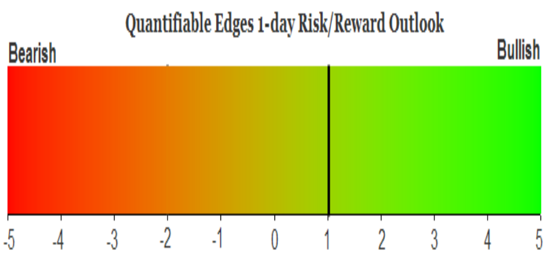
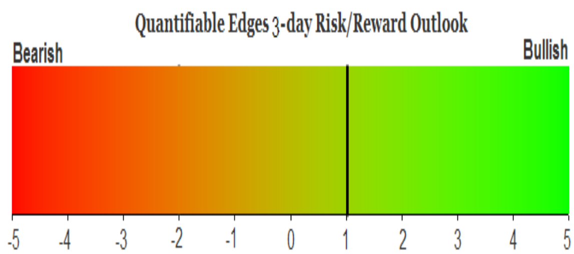
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 8, 2009 Volume 2 Issue 236

Market Overview





Tonight's Research Points

- Low S&P Volume Spyx level has been mildly bearish over time.
- An inside day after an outside day has provided no decided advantage over the last 10 years.
- The Aggregator System remained long again on Monday. .

Short-term Outlook – updated 12/8

The Bottom Line

With nothing overly bearish appearing on my radar tonight, I'm still favoring the long side. This narrowing range over the last few weeks could result in a strong move here in the near future. This has me trading lightly. Any close higher of 1 point or more would result in the Aggregator System long signal being closed out.

Summary of Recent Active Studies (see http://QuantifiableEdges.blogspot.com or Letters from listed dates for details)

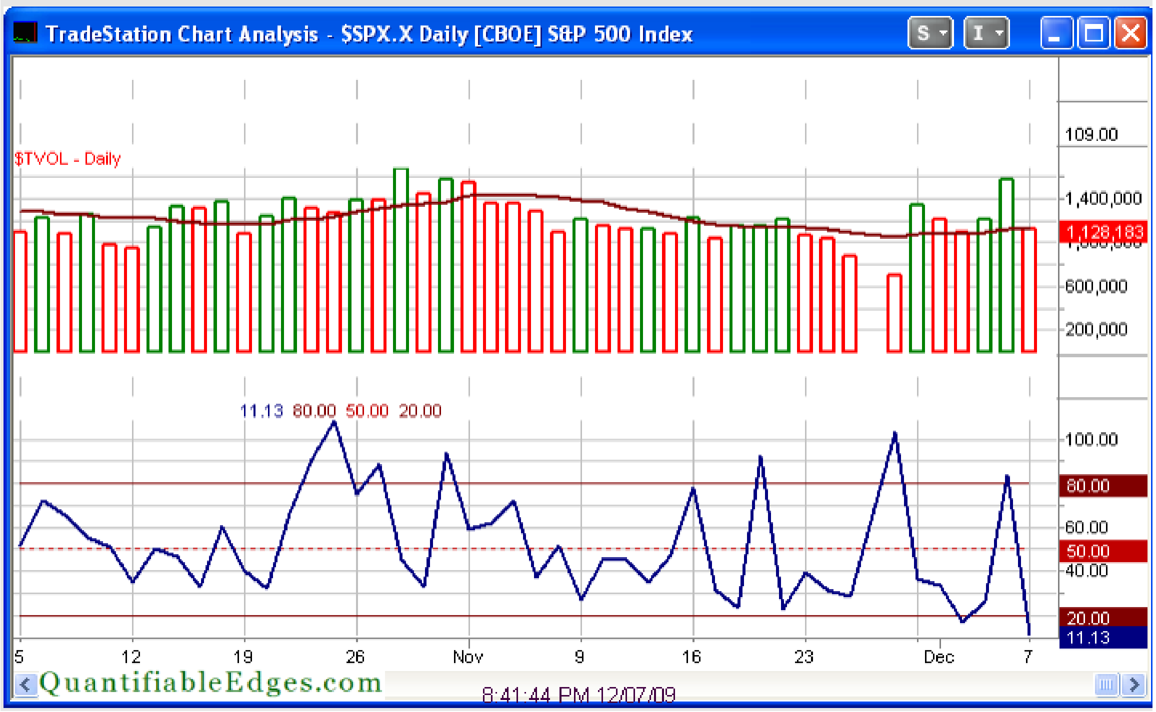
Study Date	Description	Time span	Bias	Avg Max Move
Active				
December 7, 2009	Double Outside Day	1-5 days	Bullish	2.00%
December 4, 2009	Gap up, reverse down close bottom10%	1-5 days	Bullish	4.00%
December 3, 2009	Rally fading with volume & price	1-5 days	Bearish	-1.70%
Active - Long Term				
December 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%
Dropped Tonight				
December 4, 2009	"Bearish Engulfing" from a high	1-2 days	Bearish	-1.70%

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

The Evidence
Monday saw some mixed and indecisive trading. The SPX fell 0.25%, the Nasdaq was down 0.2% and the Russell 2000 gained 0.1%. NYSE breadth was mixed. The Up Issues % came in at 53% and the Up Volume % was 43%. Total volume fell from Friday's level but was still about average.

I'm not seeing much as far as compelling evidence tonight. I did spot a few notables though. The S&P Volume Spyx Indicator posted a rather low reading today. I've included the chart from the members chart page below.

S&P 500 Volume SPYX



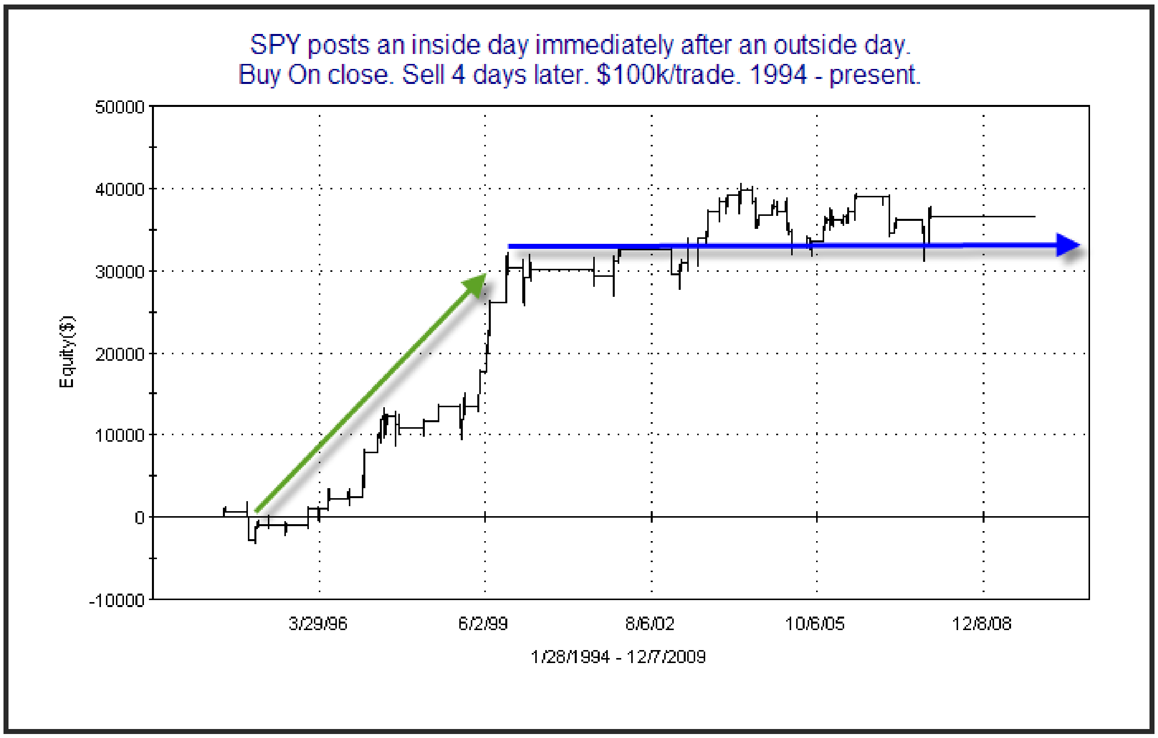
Generally the higher the reading the better. Of the last 4,011 market days there have been 1,296 that have had a reading above 60 at the close and 1,543 that have had a reading below 40. The remaining 1,172 days have posted readings between 40 and 60. The average day has posted a gain of about 0.03%. The average day with a close above 60 has gained 0.064% - about twice normal. And the average day below 40 has LOST 0.026%. Tonight's reading of 11 is the lowest in a few months. By itself that doesn't provide a huge edge but it is something to be aware of.

After posting an outside day on Friday, the SPY followed up with an inside day on Monday. This was also noted by Scott Andrews of Masterthegap.com this evening. I've recently become acquainted with Scott's site and find his application of statistical analysis to gap fade day trading to be interesting. I ran some tests to see if the outside day / inside day combination provided any edge over the next few days.

SPY posts an inside day immediately after an outside day.
Buy On close. Sell X days later. $100k/trade. 1994 - 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	31,732.12	64	41	23	64.06	1,588.56	-1,452.12	1.09	1.95	495.81
4	36,566.42	67	44	23	65.67	1,565.95	-1,405.88	1.11	2.13	545.77
3	26,764.02	68	40	27	58.82	1,503.31	-1,235.86	1.22	1.80	393.59
2	15,809.29	69	37	30	53.62	1,241.36	-1,004.03	1.24	1.52	229.12
1	12,765.77	69	37	32	53.62	1,021.32	-781.97	1.31	1.51	185.01

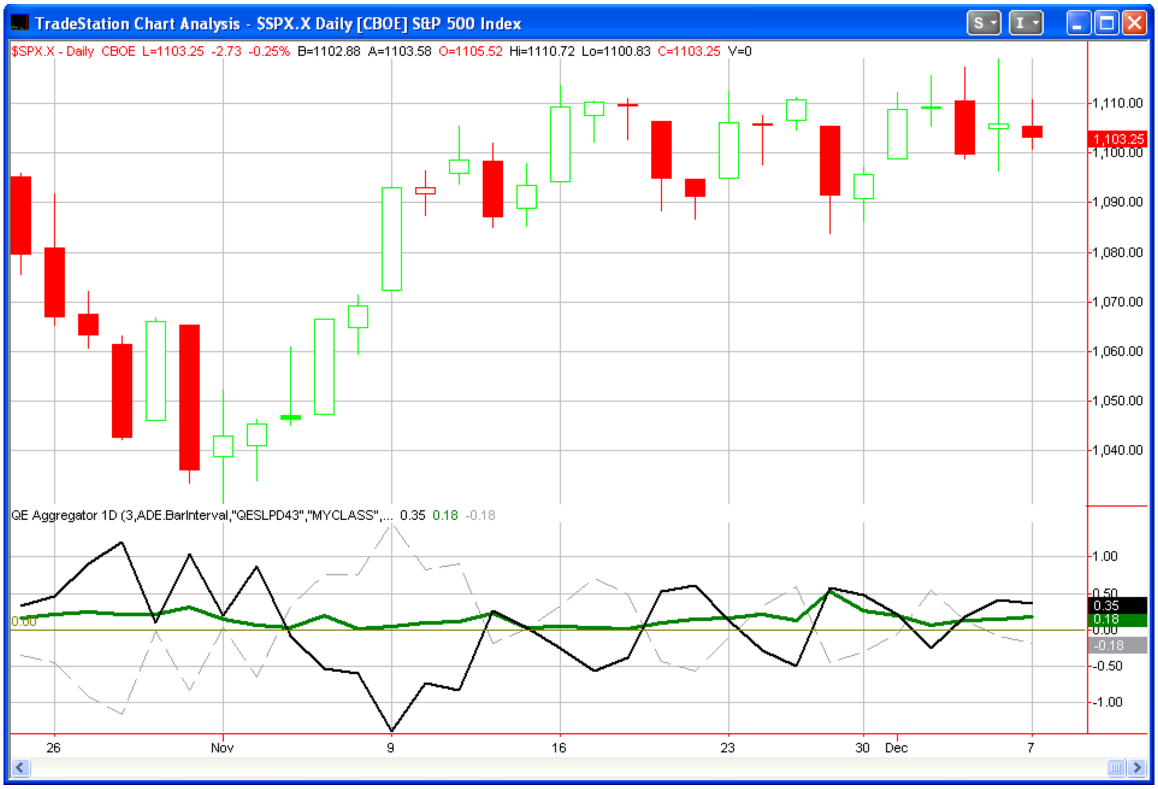
The initial results looked like there was a possibility of a mild upside edge. Further investigation suggested the edge more likely was non-existent. Below is a profit curve that shows a 4-day exit strategy which should explain why I say this.



From this chart is appears that an edge MAY have been in place during the raging bull of the 1990's. At that time just about any consolidation was followed by a strong move up. Since the end of 1999, though, the profit curve is a complete flatline. It appears that whatever edge there may have been back then is no longer in effect.

The "Bearish Engulfing" study from Friday has expired from the Active Studies list tonight and there is nothing being added.

I have updated the Aggregator chart below.



There is almost no change to the Aggregator configuration tonight. The green Aggregator line is still illustrating the positive bias of the active studies over the next few days. The black Differential line is still showing that the market has underperformed expectations over the last few days. Both lines above zero is a bullish configuration and the Aggregator System remains long.

Barring additional studies the green Aggregator line is schedule to close above zero tomorrow evening. For the black Differential line to fall below zero and signal an end to the long trigger, the SPX only needs to close up about 1pt. Should this happen then Aggregator System will move to flat (or perhaps short if there is a strongly bearish study as well).

One last notable from the chart above is that the SPX has traded in a very narrow range over the last 3 weeks. With range contracting the way it has a break out of that range could lead to an explosive move. With this in mind I'm not eager to add more exposure to the existing SPY position. I might consider doing so if we broke down and then became extended lower over the next few days. At these levels I'm not enthusiastic about taking on large amounts of exposure.

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.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	12/4/2009	$110.38	$110.84	0.42%		
IEZ	12/7/2009	$40.68	$40.68	0.00%		system 80402

I'll exit the SPY position tomorrow should the SPX close at 1,104.25 or higher.