

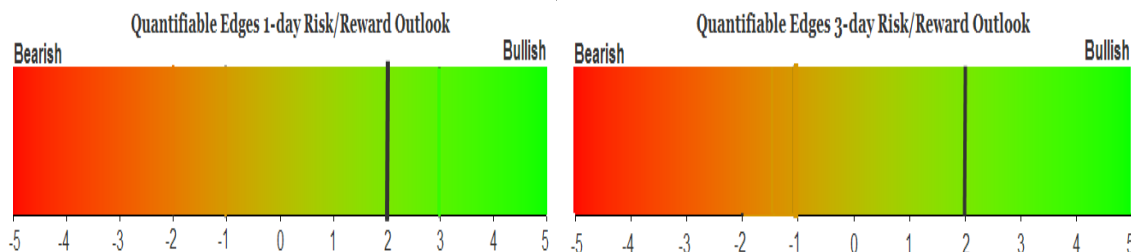
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 9, 2009

Volume 2 Issue 237

Market Overview



Tonight's Research Points

- SPX down 1% with SOX positive on the day suggests bullish implications.
- Strong selling on strongly negative breadth also suggests bounce.
- The Aggregator System remained long again on Tuesday .

Short-term Outlook – updated 12/9

The Bottom Line

Several studies are showing up bullish tonight. They are based on price action, breadth, and leadership. The market seems due for a bounce about now but we still aren't too far below mid-range. Risks are a little elevated but the long side is tempting.

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 9, 2009	SPX down 1% & Declines 2x Advancers	1-9 days	Bullish	3.40%
December 9, 2009	SPX down 1% while SOX positive	1-6 days	Bullish	2.90%
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 crosses below 0.9	2-5 months	Bearish	
Dropped Tonight				
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

The market suffered a tough day on Tuesday. A gap down never filled in most indices and most everything closed down on the day. The SPX and Russell 2000 lost 1% and the Nasdaq was down 0.8%. Breadth was strongly negative with the NYSE Up Issues % coming in at 29% and the Up Volume % at 16%. Total volume rose to above average levels.

Several bullish studies appeared in the Quantifinder tonight. I've chosen the most compelling ones to review tonight. The SPX weakness and SOX strength study below was last seen in the 9/24/09 letter. I've updated the stats below.

SPX drops more than 1% while SOX closes positive on the day. Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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
20	97,175.01	37	31	6	83.78	3,864.15	-3,768.95	1.03	5.30	2,626.35
19	85,735.36	37	30	7	81.08	3,804.50	-4,057.09	0.94	4.02	2,317.17
18	85,943.83	38	30	8	78.95	3,943.06	-4,043.49	0.98	3.66	2,261.68
17	93,834.58	38	33	5	86.84	3,558.87	-4,721.62	0.75	4.97	2,469.33
16	98,387.23	38	32	6	84.21	3,613.76	-2,875.51	1.26	6.70	2,589.14
15	96,363.10	40	34	6	85.00	3,419.12	-3,314.51	1.03	5.85	2,409.08
14	86,095.30	40	31	9	77.50	3,401.26	-2,149.30	1.58	5.45	2,152.38
13	71,455.34	41	33	8	80.49	3,072.67	-3,742.83	0.82	3.39	1,742.81
12	59,237.78	41	32	9	78.05	2,723.39	-3,101.20	0.88	3.12	1,444.82
11	62,356.76	41	31	10	75.61	3,141.27	-3,502.27	0.90	2.78	1,520.90
10	42,339.53	41	30	11	73.17	2,660.86	-3,407.83	0.78	2.13	1,032.67
9	34,046.24	43	29	14	67.44	2,490.47	-2,726.96	0.91	1.89	791.77
8	46,598.27	43	28	15	65.12	2,680.37	-1,896.80	1.41	2.64	1,083.68
7	48,295.68	44	29	15	65.91	2,808.18	-2,209.44	1.27	2.46	1,097.63
6	48,638.83	45	32	13	71.11	2,744.65	-3,014.60	0.91	2.24	1,080.86
5	41,955.11	46	29	17	63.04	2,693.81	-2,127.38	1.27	2.16	912.07
4	37,580.06	46	28	18	60.87	2,369.19	-1,597.63	1.48	2.31	816.96
3	24,190.08	48	28	20	58.33	2,158.61	-1,812.56	1.19	1.67	503.96
2	15,340.96	49	26	23	53.06	2,010.52	-1,605.76	1.25	1.42	313.08
1	14,728.62	51	23	28	45.10	1,611.25	-797.51	2.02	1.66	288.80

89% of instances closed above the entry price at some point in the next 6 days.

Both requirements were barely achieved today, but the numbers here are fairly compelling. It certainly seems suggestive of a bounce.

The strongly negative breadth on the sizable drop today triggered some studies from the May 12, 2009 Letter. I reran both of them as they were designed that night. The 1st just looks at 1% drops with 2:1 negative breadth.

SPX drops at least 1% and delciners more than double advancers.
Buy SPX on close. Sell X days later. \$100k/trade. 10/20/87 - 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	236,001.75	241	164	77	68.05	2,729.63	-2,748.79	0.99	2.12	979.26
9	257,847.48	246	170	76	69.11	2,673.00	-2,586.35	1.03	2.31	1,048.16
8	218,319.97	261	170	90	65.13	2,627.02	-2,536.37	1.04	1.96	836.47
7	230,029.57	281	176	105	62.63	2,616.24	-2,194.57	1.19	2.00	818.61
6	210,273.32	297	185	112	62.29	2,470.91	-2,203.98	1.12	1.85	707.99
5	189,511.28	326	195	131	59.82	2,295.90	-1,970.91	1.16	1.73	581.32
4	135,930.53	348	201	147	57.76	2,043.33	-1,869.24	1.09	1.49	390.60
3	160,626.17	380	236	144	62.11	1,756.73	-1,763.63	1.00	1.63	422.70
2	152,395.20	433	244	189	56.35	1,691.64	-1,377.59	1.23	1.59	351.95
1	112,434.84	485	290	195	59.79	1,124.34	-1,095.51	1.03	1.53	231.82

Some fairly positive results can be seen here. Back in May I found the edge appears to even be a bit stronger when the SPX is not coming off a 20-day high. I've updated those stats below.

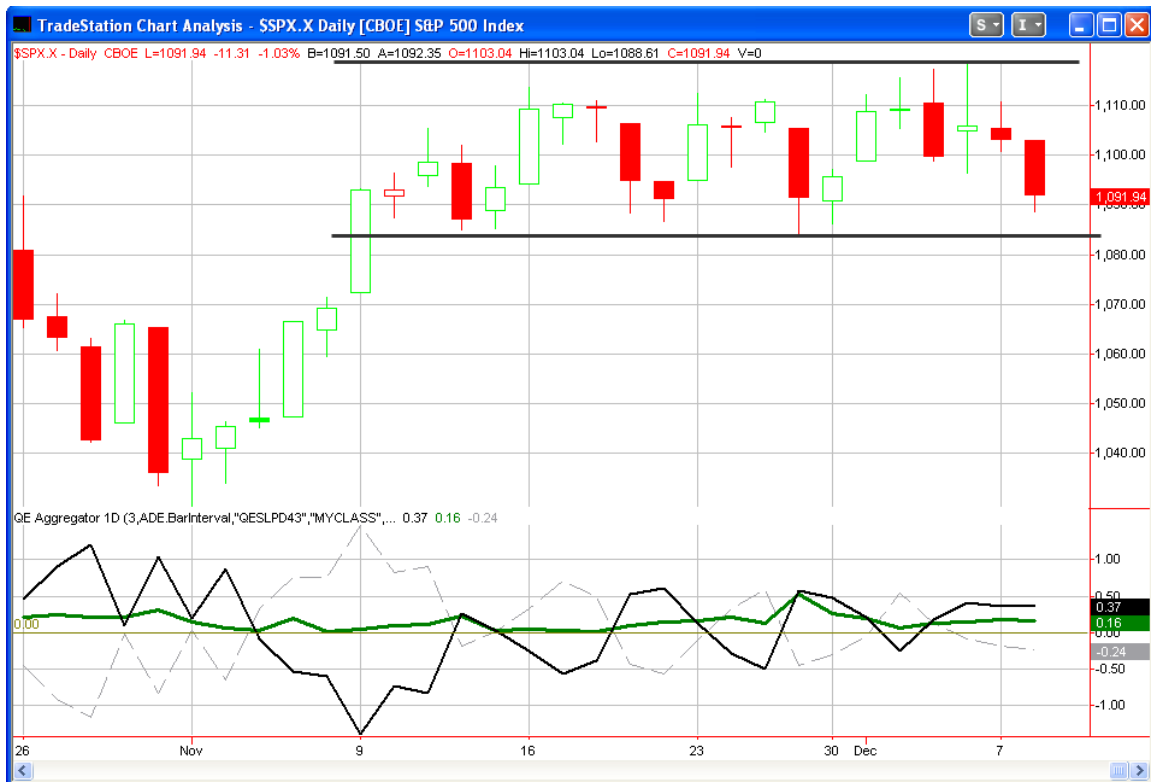
SPX drops at least 1% and delciners more than double advancers. Yesterday the SPX did NOT close at a 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 10/20/87 - present.

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	231,909.51	225	148	77	65.78	2,967.33	-2,691.62	1.10	2.12	1,030.71
9	268,624.13	234	165	69	70.51	2,797.38	-2,796.28	1.00	2.39	1,147.97
8	232,022.63	246	163	82	66.26	2,774.98	-2,686.58	1.03	2.05	943.18
7	228,698.86	263	165	98	62.74	2,656.16	-2,138.44	1.24	2.09	869.58
6	209,365.29	278	175	103	62.95	2,526.13	-2,259.29	1.12	1.90	753.11
5	194,766.75	300	182	118	60.67	2,338.32	-1,956.00	1.20	1.84	649.22
4	150,826.11	320	188	132	58.75	2,137.46	-1,901.64	1.12	1.60	471.33
3	155,213.21	351	218	133	62.11	1,837.99	-1,845.63	1.00	1.63	442.20
2	152,884.13	400	228	172	57.00	1,735.51	-1,411.69	1.23	1.63	382.21
1	103,298.07	448	263	185	58.71	1,154.15	-1,082.40	1.07	1.52	230.58

The results are fairly strong and I've included them in the Aggregator.

Another thing I noticed today is that SPY has now closed below its open for 5 days in a row. I looked at this in a bit of detail and wasn't comfortable that there was a clear edge. Slicing and dicing a few different ways gave me mixed results. Still it would seem to suggest that there has been an absence of true buying interest over the past week. With all the other positives lining up right now I'd expect to see some buyers re-enter here soon – if just for a bounce.

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



Both the green Aggregator and the black Differential line have barely budged over the last few days. More bullish studies are keeping the net expectations fairly elevated and Tuesday's selloff allowed the SPX to maintain its recent underperformance versus expectations. Oversold with positive expectations means the configuration is bullish (still). The Aggregator System remains long.

The pivot number for the Differential tomorrow is over 1,109.5. So without a very strong performance tomorrow or the additional of some very strong bearish studies it appears the system is likely to remain long for at least a couple of days.

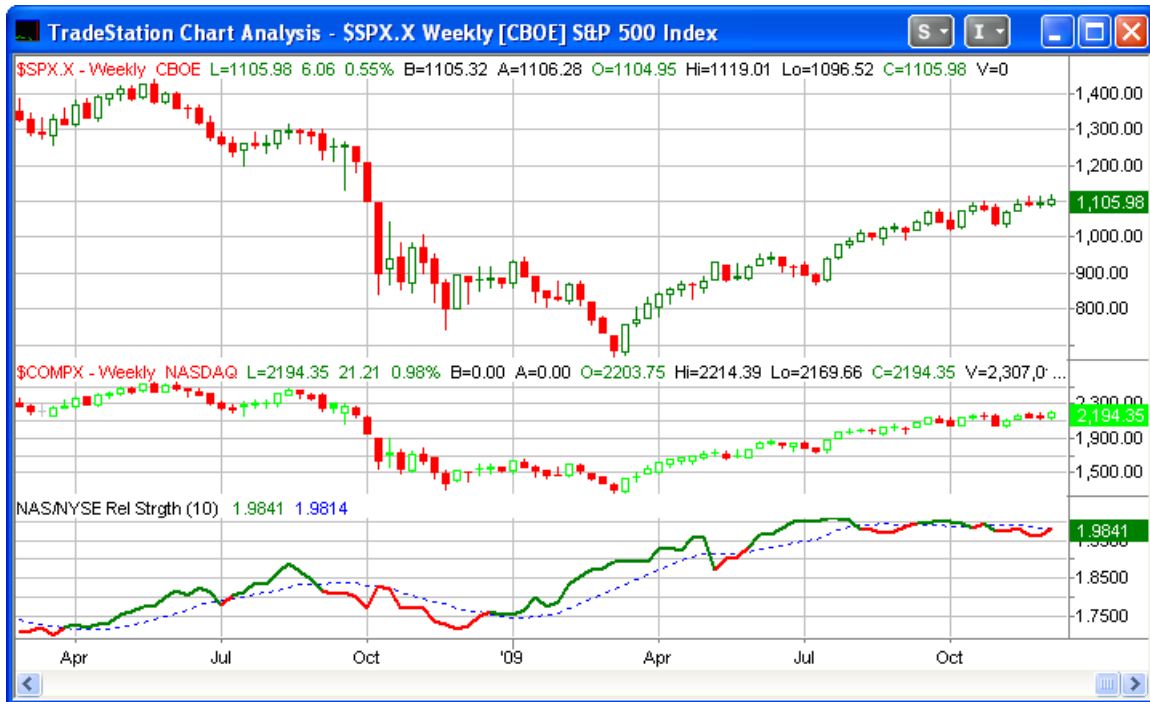
The SPX remains locked in the range. At least now it is in the lower end of it, which improves risk/reward a bit. I mentioned last night that I was wary of a breakdown from the range. I still am. There seems to be enough positives, though at this point to consider upping the ante a little bit. I'll make sure to keep some ammo handy and avoid full exposure in case the range is broken to the downside. Details in trade idea section below.

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

New

ABT – buy 1/3 position @ \$53.24

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 1(ABT)

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.

ABT – buy 1/3 position @ \$53.24 – Based on Catapult trade above. Traders should keep in mind that while the Catapult trades have done very well over the years they have also been extremely volatile. Also, based on the configuration of this particular stock it appears unlikely that a 2nd entry will occur in the next few days. Still, I'll go with a 1/3 size position as I usually do.

SPY – buy @ \$108.85 limit. As we get closer to the bottom of the range I'm looking to add another 1/4 to the current SPY position.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)	12/4/2009	\$110.38	\$109.61	-0.70%		
IEZ	12/7/2009	\$40.68	\$39.72	-2.36%		system 80402

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