

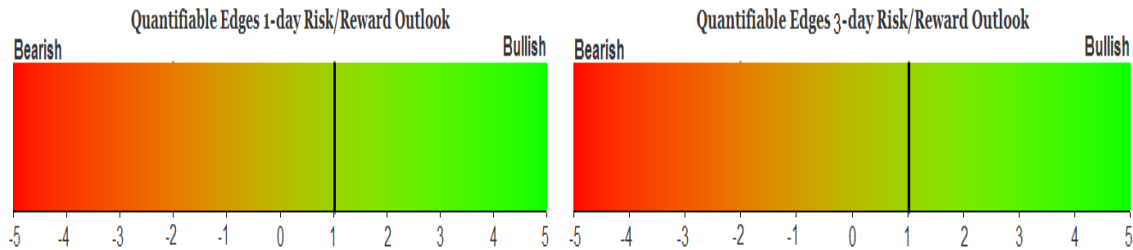
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 10, 2009

Volume 2 Issue 238

## Market Overview



## Tonight's Research Points

- Middling action on Wednesday is leaving little new to go on.
- The Aggregator System remained long again on Wednesday.

## Short-term Outlook – updated 12/10

### The Bottom Line

Wednesday's action did little to convince me of anything. We are mid-range and breadth and volume were very average. There should be some more room to the upside based on the outstanding studies and the Aggregator formation. The edge doesn't appear huge though.

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
<b>Active</b>				
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%
<b>Active - Long Term</b>				
December 7, 2009	Nasdaq Leading S&P	int. term	Bullish	
December 2, 2009	VIX:VXV crosses below 0.9	2-5 months	Bearish	
<b>Dropped Tonight</b>				
<b>December 3, 2009</b>	<b>Rally fading with volume &amp; price</b>	<b>1-5 days</b>	<b>Bearish</b>	<b>-1.70%</b>

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

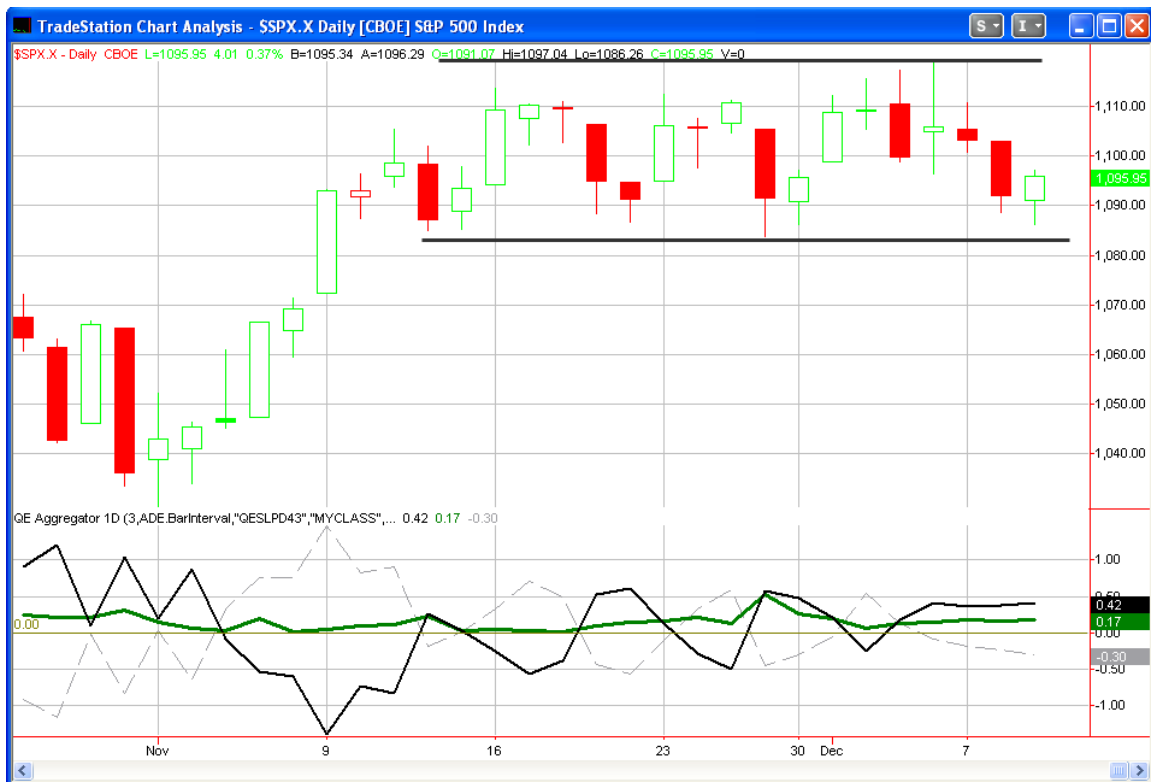
### ***The Evidence***

A choppy, indecisive day closed with a decent finish. The indices closed modestly higher. The SPX rose 0.4%, the Nasdaq tacked on 0.5%, and the Russell 2000 closed up 0.1%. Breadth was barely positive as the NYSE Up Issues % came in at 54% and the Up Volume % was 51%. Total volume declined to average levels.

Frankly I have very little to say tonight. It seems once every 10 days or so we have one of those nights where nothing looks terribly interesting. The market was modestly higher on middling breadth and middling volume. The close also put it right back in the middle of its recent range. As you're well aware I prefer to trade from extremes as I find little edge in the middles. And with breadth, volume, and range all smack dab in the middle, and positions already on, I'm not eager to do much other than let them ride.

With regards to the Active Studies list, the one outstanding bearish study from the 12/3/09 Subscriber Letter did manage to hit its price target today as it was getting ready to expire. All that remains from a short-term standpoint are a list of bullish studies that have a ways to go before their targets are reached.

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



I can't recall seeing both the Aggregator and Differential lines go nearly straight sideways for so long. With relatively short time frames they normally zig-zag quite a bit. The configuration remains the same as the last few days. The green Aggregator line is showing the net expectation from the active studies is short-term bullish. The black Differential line is illustrating the SPX has underperformed expectations over the last few

days. Oversold with positive expectations has historically provided a bullish edge. The Aggregator System remains long based on this configuration.

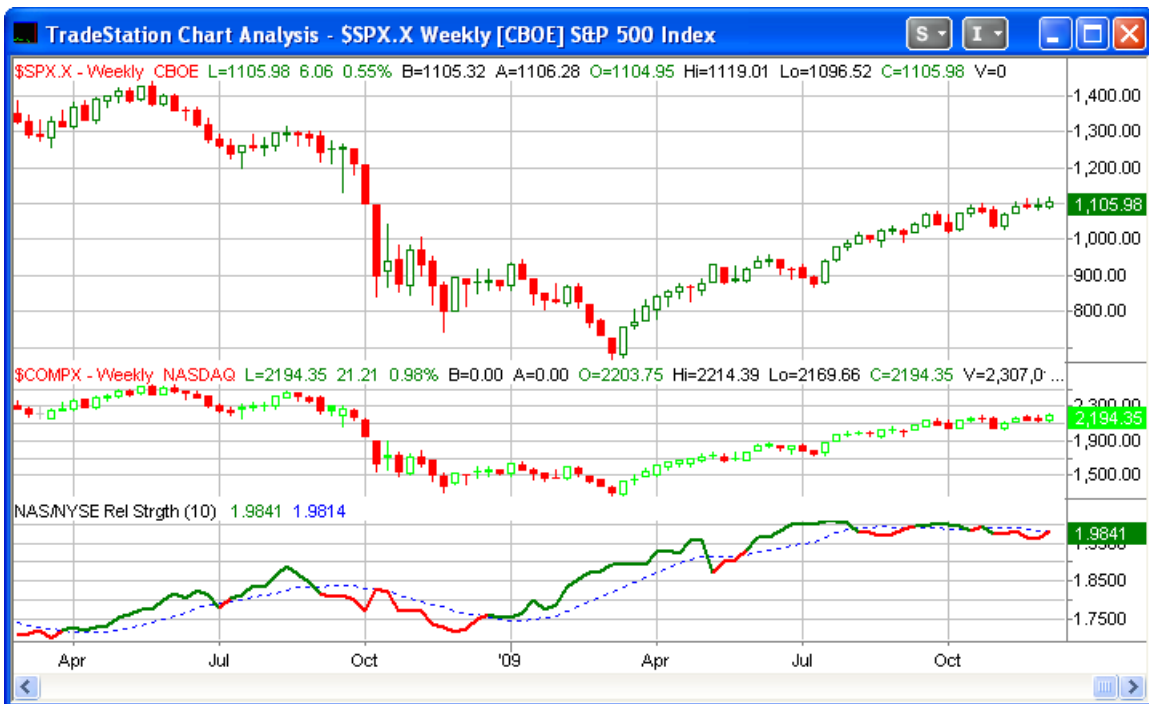
Based on the outstanding studies the Aggregator line is expected to remain positive tomorrow. The pivot level for the black Differential line is being calculated at 1,108.18. A close at or above that level would flip the Differential line negative and effectively close out the long signal from the Aggregator System. That would require a fairly strong rally from today's 1096 close. Friday evening we will see Tuesday's big drop exit the calculation. This will result in an easier target – somewhere around 1098 at the close on Friday. If we find ourselves above that 1098 level as we approach tomorrow's close, I may look to take part of the position off – especially if some bearish studies are appearing in the Quantifinder.

***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 1<sup>st</sup> 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-nasdaq-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***

ABT -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.*

No new trade ideas tonight. For those of you who would like to take a stab at a few positions there actually is quite a bit appearing on the triggers page tonight.

It appears I was a bit too conservative with my SPY limit price last night. SPY came within \$0.17 of filling but never quite got there. I struggled a bit last night with where to put that limit. I wanted it to be below the close. Other areas I considered were around \$109 or near Tuesday's low. In thinking about it today I realized that perhaps it wouldn't be a bad idea for me to talk a little more often about limit or trade decisions I struggle with. In doing so subscribers may be able to better understand my thought process and decide whether they want to take a more aggressive or conservative approach. I'll try and do this a bit more in the future.

### **Active Trades Table**

Symbol	Entry Date	Entry Price	Current Pr	% Gain/L	Stop	Notes
SPY(1/4)	12/4/2009	\$110.38	\$110.02	-0.33%		
IEZ	12/7/2009	\$40.68	\$39.95	-1.79%		system 80402
ABT	12/9/2009	\$53.24	\$53.61	0.69%		Catapult

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