

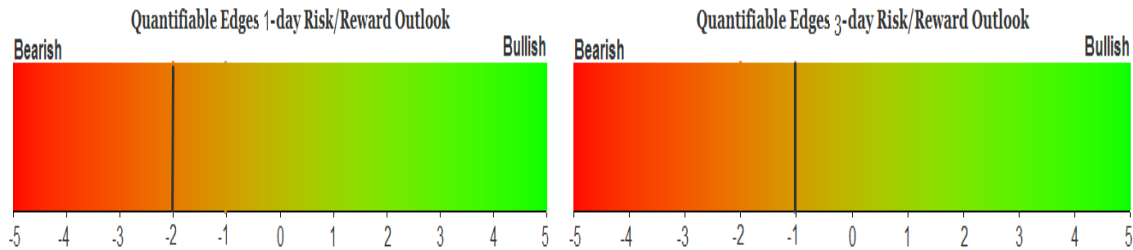
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 24, 2009

Volume 2 Issue 248

## Market Overview



### Tonight's Research Points

- VIX and SPX both rising suggests a pullback.
- Aggregator System remains short.

### *Short-term Outlook – updated 12/24*

#### *The Bottom Line*

The Aggregator remains just barely short. It won't take much of a pullback to turn it back neutral tomorrow. The shortened session will likely be fairly quiet with many traders taking the day off or leaving early.

*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 22, 2009	Twas 3 nights before Christmas	1-5 days	Bullish	
December 22, 2009	SPX 10-high on 10-low vol. Close>200	1-5 days	Bearish	-2.20%
December 21, 2009	Low HV with no new highs	1-8 days	Bearish	-3.50%
December 18, 2009	SPX down 1% & Declines 2x Advancers	1-9 days	Bullish	3.40%
<b>Active - Long Term</b>				
December 22, 2009	SPX and TNX hit 50-day high	1-10 weeks	Bearish	
December 22, 2009	Low p/c without strong SPX rise	1-5 weeks	Bearish	
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>				
December 21, 2009	Strong, hi-vol op-ex	1 day	Bearish	
December 18, 2009	SPX closed in bottom 10% of daily range	1-3 days	Bullish	2.70%

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

### The Evidence

After gapping higher to open the day, the market did a decent job of holding on, and in most cases adding to, it opening gains. The S&P lagged with only a 0.2% gain while the Nasdaq rose 0.75% and the Russell ran up a strong 1.2%. Breadth was positive as the NYSE Up Issue % closed at 71% and the Up Volume % was 59%. Total volume shrank again and should be exceptionally low tomorrow.

Most of what appeared in the Quantifinder tonight was related to low volume. I suspect we'll see some low volume studies appear tomorrow as well. Having already added a volume study yesterday I didn't see the need to add another one, especially with the low volume so attributable to it being Christmas week. One study that appeared and is worth considering is the SPX and VIX both rising study. Below I've updated the 8/3/09 study and narrowed it from "not Monday" to "Tues, Wed or Thurs".

SPX and VIX both close higher. Today is Tues, Wed, or Thurs. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.										
QE Finder Tester: daysin	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	-27,103.39	100	50	50	50.00	1,180.46	-1,722.53	0.69	0.69	-271.03
4	-45,782.41	104	43	61	41.35	1,214.08	-1,606.36	0.76	0.53	-440.22
3	-34,029.87	108	49	59	45.37	1,021.27	-1,424.95	0.72	0.60	-315.09
2	-27,967.76	110	45	65	40.91	995.23	-1,119.28	0.89	0.62	-254.25
1	-13,663.35	119	57	62	47.90	615.85	-786.56	0.78	0.72	-114.82

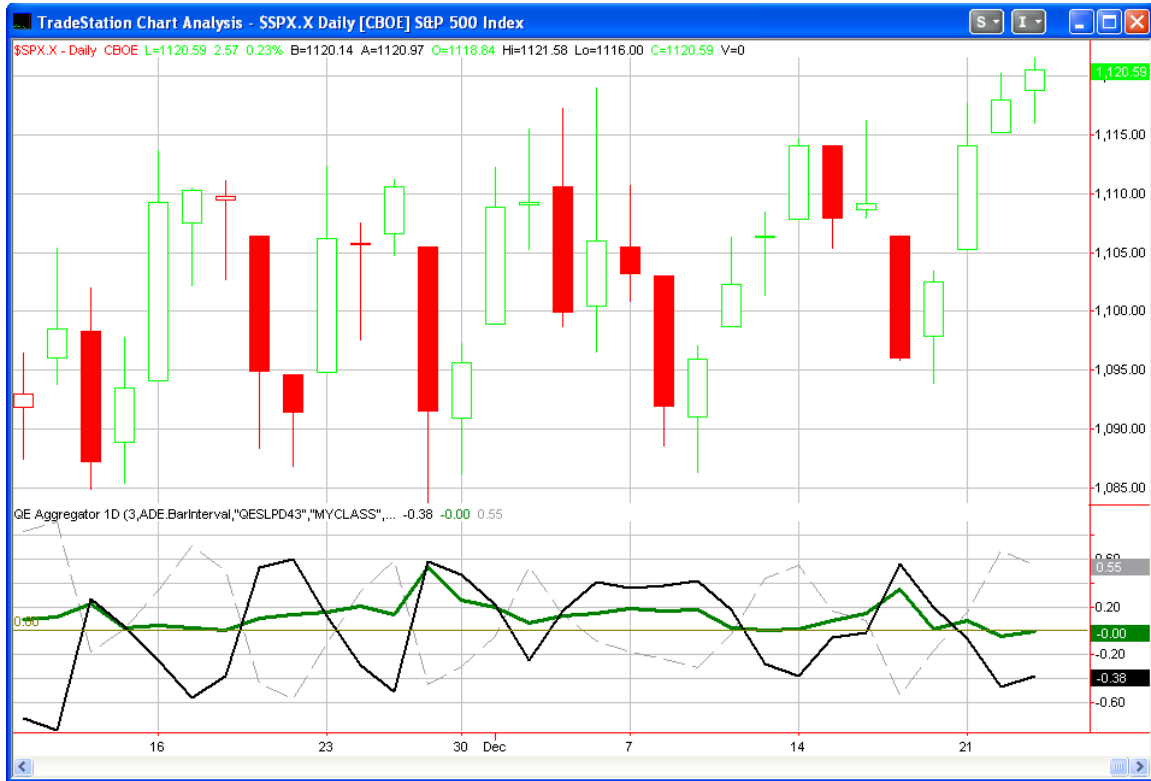
81% of instances posted a close below their entry price at some point in the next 4 days.

In the 11/2709 letter I looked at "not Monday" results when the market was in an uptrend. Those are pasted below (not updated).

SPX and VIX both close up. Today is NOT Monday. SPX closes > 200ma and at 10-day high. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-14,090.20	60	28	32	46.67	1,124.14	-1,423.94	0.79	0.69	-234.84
4	-16,529.58	62	23	39	37.10	1,212.27	-1,138.76	1.06	0.63	-266.61
3	-12,106.22	63	28	35	44.44	851.19	-1,026.84	0.83	0.66	-192.16
2	-18,457.77	65	18	47	27.69	820.31	-706.88	1.16	0.44	-283.97
1	-9,644.89	73	31	42	42.47	358.97	-494.59	0.73	0.54	-132.12

Results aren't quite as strong but still suggest some downside over the next couple of days. The average max downside is about 0.8% over the next couple of days.

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



The configuration remained essentially the same tonight. The green Aggregator line is just fractionally below zero as net expectations from the active studies are barely negative over the next few days. Meanwhile the black Differential line illustrates the fact that the SPX has outperformed expectations over the last few days. With both lines below zero we are looking at an overbought situation with negative expectations. Historically this has provided a downside edge. The Aggregator System went short at Tuesday's close and remains there.

Based on the current Active Studies List the green Aggregator line is set to remain below zero tomorrow. The black Differential line will flip to positive on any close below 1,119.03. Overall, downside is expected but again the edge doesn't appear to be overwhelming. I'm maintaining a small short position.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 12/23 –neutral***

Intermediate-term bearish studies are beginning to build up. Between bonds, options, historical volatility and the VIX:VXV ratio, there's growing evidence suggesting a top. Of course price is currently at a new high. I won't get bearish without a price confirmation, but I'm moving to neutral at this point and will discuss in more detail this weekend.

## **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.*

*None tonight.*

### **Active Trades Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Pr</b>	<b>% Gain/Lo</b>	<b>Stop</b>	<b>Notes</b>
SPY(1/4)(s)	12/23/2009	\$112.00	\$111.95	0.04%		shorted on open

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