

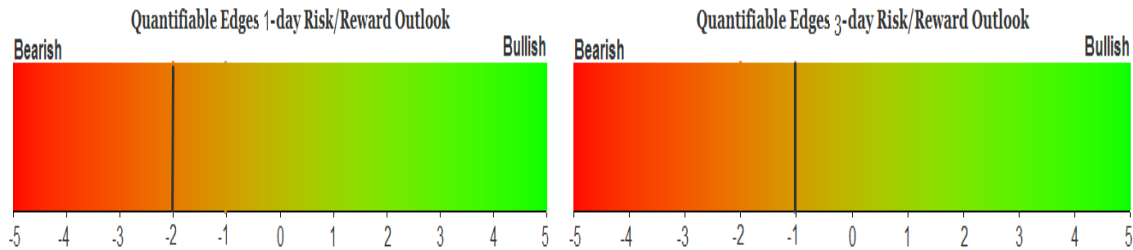
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 14, 2010

Volume 3 Issue 9

Market Overview



Tonight's Research Points

- Monday's rally eliminated any breadth divergences. It suggests a continuation of the uptrend in the S&P 500.
- Few studies are currently active. Therefore studies emerging over the next few days will be especially important to monitor.
- The Aggregator System is now short.

Short-term Outlook – updated 1/14

The Bottom Line

Scant evidence in the form of 1 active short-term study is suggesting a down day. Unless more bearish evidence emerges, the current Aggregator short will change to either flat or long.

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 | | | | |
| January 13, 2010 | 2:1 Neg brdth from 50-hi. No 1% drop | 1-2 days | Bearish | -1.80% |
| Active - Long Term | | | | |
| January 13, 2010 | No bearish divergence at high | int. term | Bullish | |
| December 23, 2009 | SPX and TNX hit 50-day high | 1-10 weeks | Bearish | |
| December 23, 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 | |

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

The Evidence

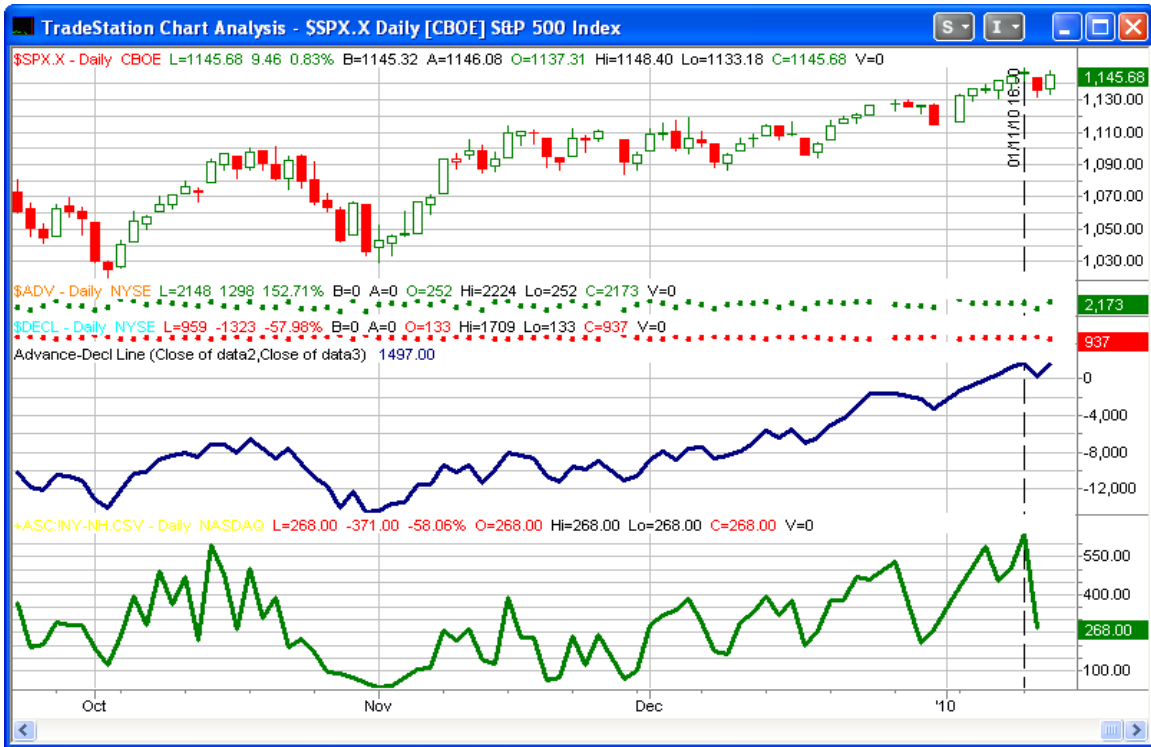
With strong action from 10:30 EST until 3:30pm EST the market was able to forge a solid up day. The major indices all finished nicely higher. The SPX was up 0.8%, the Nasdaq rose 1.1% and the Russell earned 1.3%. Breadth was solidly positive with the NYSE Up Issues % coming in at 70% and the Up Volume % at 72%. Total volume sank to the lowest levels of 2010 on the NYSE.

The Quantifinder came up blank tonight and I basically did also. I looked at such things as the SPX making the largest gain in a week on the lightest volume in a week. I looked at unfilled gaps down that are immediately followed by a day where the gap is then filled. (I looked at this several different ways.) I looked at a few other things that appeared notable. Nothing I looked at appeared to have much of an edge. Filtering by long-term trend didn't help either. I don't like to look TOO hard. I'm not trying to manufacture an edge. I'm just looking to see if my observations about the market have produced an edge in the past. In the case of Wednesday's action, no substantial edge is apparent.

One thing I forgot to note in last night's Letter is that fact that Monday's rally produced the largest number of new 52-week highs that we have seen during this rally. This is a bullish intermediate-term sign. I discussed breadth deterioration at tops in the 10/12/09 letter. There I found that every major top since 1970 had a breadth divergence in either the A/D line or the New 52-week highs of a at least 2 months before they topped. A link to that letter may be found below:

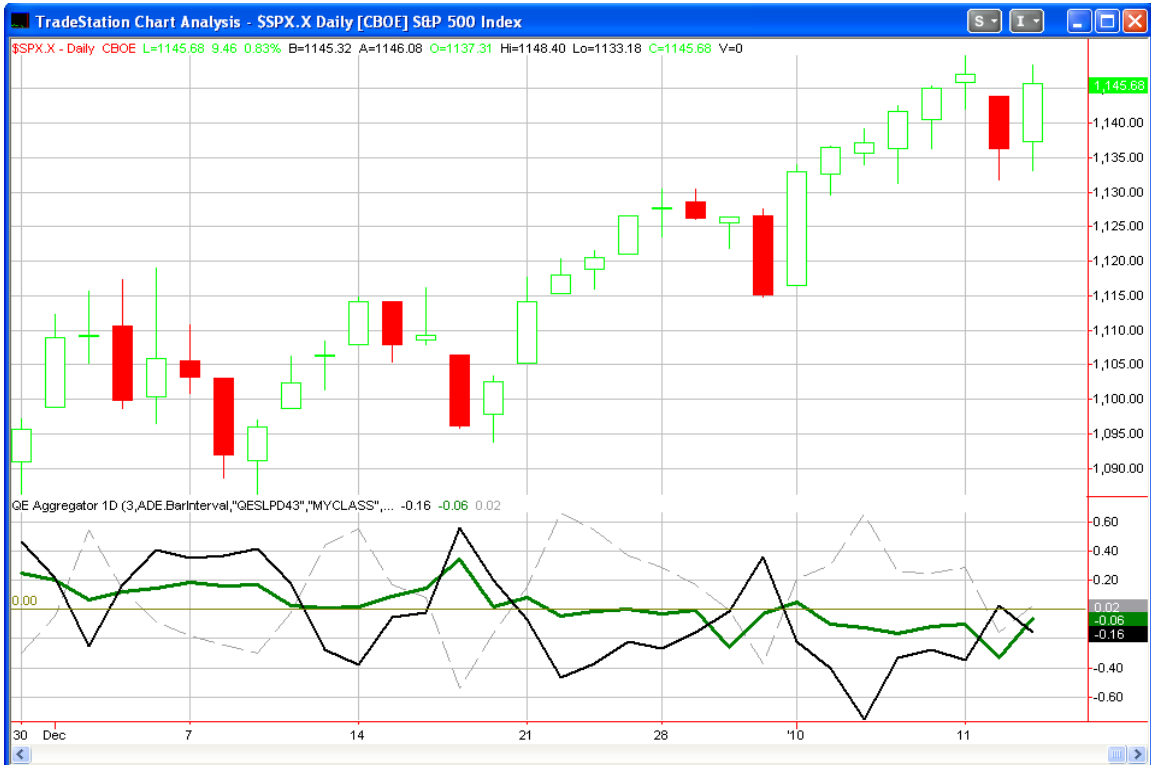
[2009-10-12 QE Subscriber Letter.pdf](#)

Below is a chart of the S&P 500. It also shows the A/D line and the new 52-week highs in the bottom 2 panels. You'll note that both hit new high levels along with the market on Monday.



Since there is no divergence currently this would seem to suggest that the rally may have a ways to go before topping out.

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



The Aggregator is going on very little tonight. This low-volume melt-up since Jan 1 has led to a very low number of active studies. While most often there are 4-7 studies all active at once, it's been 1-2 the last week and a half. The green Aggregator line is now just mildly bearish. The black Differential line dropped slightly below 0 tonight. With both lines south of 0 the Aggregator configuration is suggesting downside. The Aggregator System is short as of the close.

The value for the green Aggregator line is going to be completely dependent on tomorrow's action. Should bullish studies emerge it will be positive. Bearish ones will keep it negative. The pivot number for the black Differential line is 1,142.56. In other words a close at or below this level would flip the Differential line back above 0 and illustrate that the market has been underperforming expectations.

So unless more bearish evidence emerges tomorrow the Aggregator System signal will close out with only a 1-day holding period. It's fairly wide open at this point and we could easily see a long, short or flat signal come tomorrow's close.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/11 –slightly bullish

On Wednesday the NYSE New Highs reached 588. This was the highest level since 596 in October. It was also a good sign for the market. In the 10-12-09 Subscriber Letter I conducted a study of all the major market tops in the S&P 500 since 1970. What I found was that there was breadth deterioration evident in every case in either the advance/decline line, the new high %, or most often both. The advance/decline lines stopped showing a negative divergence a few weeks ago. Wednesday's move came within a whisker of eliminating the NH % divergence. You'd need to draw the trendline with an exceptionally sharp pencil to detect any kind of divergence at this point. In the study I showed that every major market top had a divergence in place for at least 2 months before price topped out. In most cases the divergence lasted significantly longer than that. Should we see new highs make a new high this week that should end all doubt about a divergence. It would also suggest we have at least 2 months before a significant price high will be established. A link to the 10/12/09 Letter is below.

[2009-10-12 QE Weekly Research Letter.pdf](#)

The Nasdaq continued to hold on to its leadership position this week although it looked dicey at times. As I often discuss, this is a positive.

On the negative side we still are showing some outstanding intermediate-term studies that suggest a pullback appears likely. These include studies related to volatility, bonds, and options action.

Even with these negatives the trend remains up, breadth is not diverging, and Nasdaq leadership remains in tact. That's not often a good combination to bet against. I'll exhibit a slightly bullish outlook for the time being.

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. – I may not be in the office at all tomorrow and will not be in a trading frame of mind. I'll sit out a day.

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