

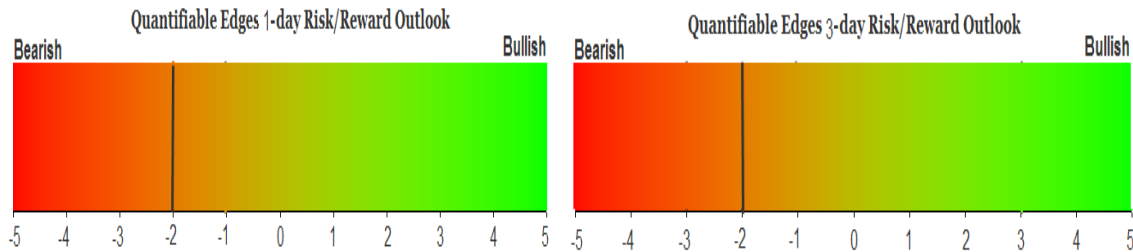
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 6, 2010

Volume 3 Issue 3

Market Overview



Tonight's Research Points

- The Aggregator System triggered a short today.

Short-term Outlook – updated 1/6

The Bottom Line

The market has become more overbought while short-term bullish indications have given way to short-term bearish ones. The implication now is for some short-term downside and I'm looking to take advantage of the probability.

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 5, 2009	5-day low to a 10-day high	1-5 days	Bearish	-1.90%
Active - Long Term				
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	
Dropped Tonight				
January 5, 2009	1st Day of Year closes up	1 days	Bullish	

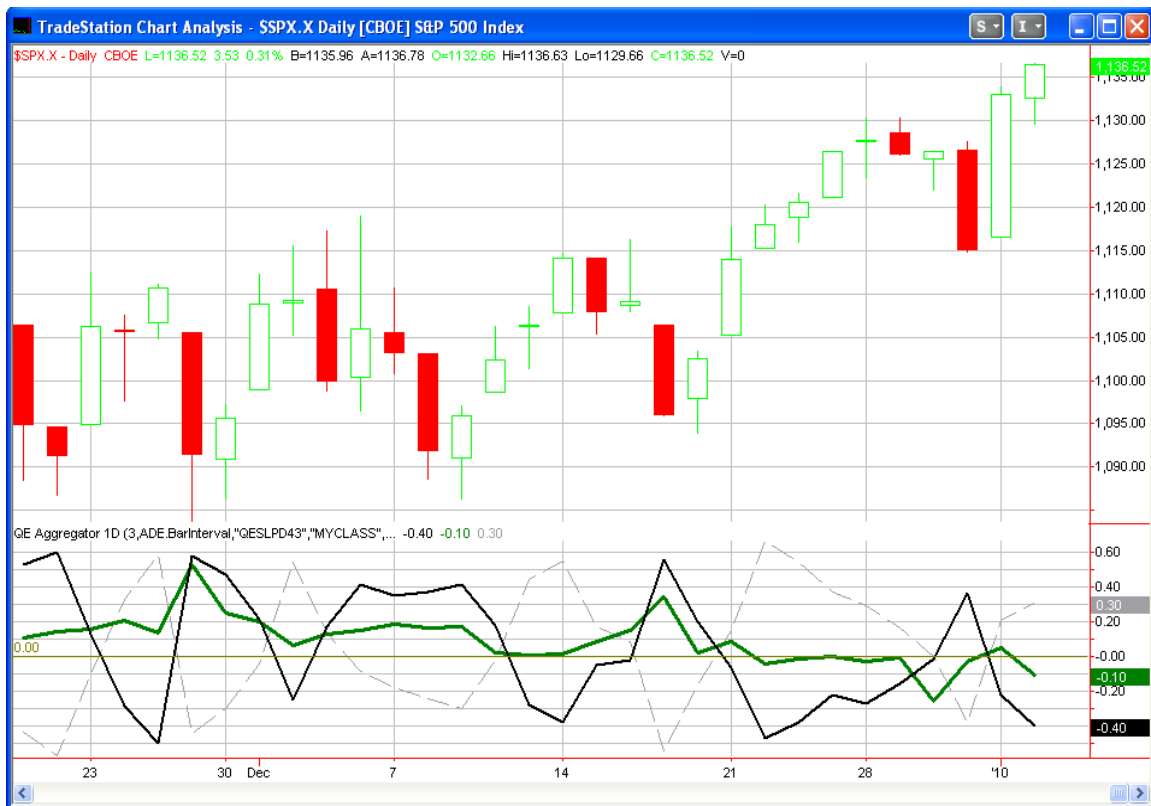
If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

The Evidence

The market opened basically flat today and chopped back and forth. At the close the S&P was up 0.3%, the Nasdaq was basically flat, and the Russell was down 0.25%. Breadth was positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 70%. Total volume increased over Monday's levels.

Tuesday was one of those rare days whose mild action awoke no Quantifinder studies and also left me without inspiration to test. The Active Studies list is very small at the moment. From a short-term perspective the only active study is the "5-day low to 10-day high" study from yesterday. We also saw yesterday how a move higher on the 1st day of the year often follows through for a day or two and then pulls back.

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



With the last short-term bullish study falling off the board the net expectations from are now negative. This is shown by the green Aggregator line. Meanwhile the black Differential line shows the market is about as overbought versus recent expectations as it has been in at least the last month and a half. Both lines are now below 0 as expectations are negative and the market is overbought versus recent expectations. This configuration has historically suggested a downside edge. Based on the configuration the Aggregator System triggered a short signal at the close this afternoon as I anticipated last night.

The Differential line is far below 0 and will have additional downside pressure tomorrow. For it to flip to the positive side the SPX would need to drop over 2.2% to 1,111.43 or

lower. The green Aggregator line is a bit more sensitive at the moment. A strongly bullish study could easily flip expectations positive. As usual I'll be monitoring the action and sending tweets once the Quantifinder and Systems pages are updated.

Intermediate-term Outlook (2 weeks – 2 months)– updated 1/4 –neutral

Nothing popped up this week in terms of studies with significant intermediate-term implications. Frankly I'd be a bit hesitant to use the holiday week as a reliable indication of the intermediate-term anyway.

On the positive side the Nasdaq is still exerting leadership and the intermediate-term uptrend for all indices remains in tact.

Bearish indications still remain based on studies related to options, volatility, and bond yields. In all the trend is up but indications remain mixed. I'll wait to see how the action looks this week now that light holiday trading should be over. Should there be no further indications of downside then I'll probably increase the intermediate-term outlook to the bullish side since the trend remains up.

Subscribers will notice on the systems page that I have now included the Nasdaq Trender signals. I will be releasing more information on this model in the next week or so. For the time being I just wanted to get the model running so that all of 2010 is live. It basically looks at leadership and trend. It will go both long and short.

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.

SPY – short 1/4 position at \$113.63 LIMIT. Now that the Aggregator signal is official I'll look to put the 2nd part on.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	1/5/2009	\$113.63	\$113.63	0.00%		shorted on close

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