

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 4, 2008

Issue 11

Market Overview

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> for details)

Study Date	Description	Time span	Bias
February 27, 2008	Significance of Lagging Nasdaq	1-10 weeks	Bearish
February 22, 2008	Triangles	intermediate	Bearish
February 12, 2008	Contraction of range	20 days	Bullish
February 1, 2008	FTD short-term implications	long-term	Bearish

Intermediate-term Outlook (2 weeks – 2 months) – neutral – updated 2/28/2008

At the end of January the market hit levels of “oversold” by several different measures. Many of the more significant readings came from breadth measures such as the massive number of 52-week lows, the McClellan Oscillator and the Quantifiable Edges CBI. Nearly everything I looked at told me the market had endured enough selling and that it was bound to rally for a while. Readings suggested a multi-week rally at a minimum and a possibility of an intermediate-term bottom.

A retest of the lows also seemed to be a fairly strong possibility. That retest has yet to arrive. We are now 5 weeks from the January bottom. The S&P 500 is 8.7% off its January lows, but really hasn’t made any headway in the last 3 ½ weeks. Most of the bullish studies I referenced back then are no longer exerting much influence. In their place is a batch of new studies – most of which have a bearish tilt.

The newest of these studies, “[The Intermediate Term Significance Of A Lagging Nasdaq](#)” was posted this morning. It suggested that with the NYSE composite hitting new 5-week highs, the degree with which the Nasdaq is currently lagging the NYSE has historically been bearish. Combined with other intermediate-term studies such as the [Triangles](#) and [FTD Short-term Implications](#) the picture my research is painting is becoming less rosy.

It’s fairly easy to discount or make excuses for results we don’t like. Take this morning’s lagging Nasdaq study, for instance. Many of the big name Nasdaq stocks like Apple, Google, Baidu and Research In Motion were leaders throughout 2007. Bear markets frequently force changes in leadership. Therefore, I wouldn’t expect the above stocks to lead now as they did last year. But just because I can come up with reasons an indicator

or study may not be relevant this time, doesn't mean it isn't. Studies should be considered with an open mind and not easily dismissed. When several of them begin to point in one direction, perhaps it's time to listen.

I'm reticent to turn outright bearish at this point since the readings near the January lows did have such a bullish tilt. Also the market has started to put in a series of higher lows which is allowing bases to build and providing support for the indices. For the time being, therefore I am going to let the short-term analysis act as the guide and move the intermediate-term outlook to neutral.

Short-term Outlook (1-10 days) – neutral – updated 3/4/08

For all its back and forth, the market accomplished very little today. Indices were mixed after gapping lower and then making moves in both directions during the day. The last hour was notable in that the morning lows were broken, but only briefly. After that a late surge moved the S&P into positive territory, the Dow close to breakeven and the Nasdaq well of its lows. From my standpoint that late surge messed things up.

If the market had closed near its lows I probably would have had enough extreme readings to begin scaling in to a long position – especially considering there was support nearby in the form of the February lows at 1316.75. A late 11 point run-up puts the S&P a bit far from that support for my taste. The run-up also moved several indicators (like the VIX) out of extreme territory.

An example of one simple system that just missed triggering with the S&P is buying when it closes down 4 days in a row and then exiting when it closes back above its 10-day moving average. While I wouldn't trade this without confirmation from other indicators, it has worked quite well on its own over time – even in downtrending markets. Looking back 25 years there have been 54 occurrences when the market was trading *below* its 200-day moving average. One broke even. Twelve were losers and forty-one (76%) were winners. Winners were nearly the same size as the losers giving the system a strong 3.22 profit factor. (Profit factor = gross gains / gross losses.)

I did see some extreme price movement in individual stocks today. There were 3 Catapult Big 50 trades that triggered (GRMN, MOT, AMZN) which are listed below. I also saw a few other system close calls. While no standard Catapults triggered, and the CBI remains at 3(1), there are some possibilities out there should we get further selling.

In summary, the market seems slightly more likely to bounce over the next few days but we're not at what I'd call a favorable entry point. The market has definitely been displaying weakness and this could dampen any bounce – reducing the reward we'd be hoping to capture. We're also not that close to support levels which increases the risk. Lastly, the oversold readings aren't extreme enough to provide a very high probability trade. Low probability and unfavorable risk/reward means we wait for a better setup before entering an index position.

In the meantime, our Big 50 triggers are providing solid risk/reward scenarios and have been about 72% profitable historically. My belief that some kind of index bounce is more likely than an immediate selloff strengthens my confidence in these trades. Still, the market is weak and further weakness could easily bring about many more Catapult opportunities. Therefore, keeping positions small is recommended. Should the market nosedive and hit the extreme levels we've been hoping for we want plenty of capital left to be able to put to work.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Trades

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
SLE	2/19/2008	\$13.10	\$12.93	-1.3%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$12.93	-1.4%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$12.93	-0.7%	bought @ \$13.02

The intraday price target estimate is now \$13.19 for Tuesday.

Open Big 50 Trades

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GRMN	3/3/2007	\$58.60	\$56.83	-3.0%		
STP	2/26/2008	\$36.90	\$37.25	0.9%	\$36.00	3/4 of position was sold @ \$40 for a 8.4% gain
GRMN	3/4/2008		\$56.83			buy @ \$56.83 limit
AMZN	3/4/2008		\$62.43			buy @ \$62.43 limit
MOT	3/4/2008		\$9.81			buy @ \$9.81 limit

GRMN triggered a 2nd entry and 1st entries were triggered in AMZN and MOT. See the last paragraph of my short-term market outlook for some thoughts on these triggers.

Open Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 3 (SLE)

While the basic reading is now a “3” it is only in one stock. This is not as significant as a “3” reading in 3 different stocks. On the blog I only show and evaluate the basic number. In the Subscriber Letter I will also discuss the complex count when the reading begins to reach significant levels.

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	3.45	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	1.35	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	4.05	DJ US Healthcare	IYH	2.82
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.00
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	1.36
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	2.04	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	4.76
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	1.51
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	5.26
DJ US Consumer Svcs	IYC	2.63	Nasdaq 100	QQQQ	2.00

No substantial capitulation evident among the sectors.

Additional New Trade Ideas

I don't want to get overextended on the long side. Three Big-50 signals today is a lot. Based on my short-term outlook, I think it's a bit late to initiate new short positions. No additional ideas tonight.

Longs

none

Shorts

none

Additional Trades Active Table

Symbol	Position	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLV	Short	2/29/2008	\$196.66	\$201.63	-2.5%	na	back to back doji's

Stocks and ETF's on my Radar

Ticker ***Notes***

Notable S&P 500 stocks outside my “tradable” radar

Oversold

WLP – Was quite oversold and put in a nice reversal bar today. It’s still stretched from recent levels and should have plenty more room to bounce.

Overbought

none.

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