

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 8, 2008

Issue 35

Market Overview

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

Study Date	Description	Time span	Bias
April 8, 2008	Negative Reversal Bars	3-5 days	Bearish
April 4, 2008	Trend Over Volatility (TOV)	20 days	Bullish
April 1, 2008	3 Surge Days	2-6 weeks	Bullish
February 1, 2008	FTD's Short-Term Implications	long-term	Bearish
March 25, 2008	VXO Stretch	1-10 days	Bearish
March 24, 2008	Nasdaq Leadership Bullish	1-10 weeks	Bullish
March 19, 2008	Bottom Explosion 2	1-20 days	Bullish
March 19, 2008	3.5% Up Cluster	10-20 days	Bullish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish
March 12, 2008	Bottom Explosion - Now What?	1-20 days	Bullish

Intermediate-term Outlook (2 weeks – 2 months) – bullish – updated 3/31/2008

On March 20th the market put in an IBD Follow Through Day, rising strongly on high volume. On March 24th another Follow Through Day was posted. Over the last three days (26th, 27th, 28th) the market has steadily pulled back. The S&P 500 is now trading over 1% below its March 20th closing level. In the February 1st, 2008 study on Short-term Implication of Follow Through Days, I determined that success or failure of a Follow Through Day was many times predicted by the action in the first week. If the market was able to add on to its gains over the 1st week, then there was about a 2/3 chance that the Follow Through Day would succeed. On the other hand, a failure to add to the gains over the first week led to a failure of the rally about 2/3 of the time. This study is therefore predicting a failure of the recent rally.

While it is the most current in terms of its price action, it is still the only study with bearish intermediate-term implications. All of the studies listed above from March 12th to March 24th with intermediate-term influence suggest the market has made a low which should hold for at least several more weeks and that we should see rising prices over the next month or so.

Those studies are what still have me favoring the bullish camp. We have the first warning sign, though. Over the next several days and weeks it will be important to continually monitor price, sentiment, breadth, and volume and look for further hints with bearish or bullish implications. The bullish outlook remains in tact...for now.

Short-term Outlook (1-5 days) – bearish – updated 4/8/08

My research last night indicated the market was more likely to break its tight 3-day consolidation to the upside than the downside. This led me to look at taking a long-side trade. The action today was less than ideal as the market did break the range to the upside but then reversed and closed near its lows for the day.

I posted some tests on the blog tonight which looked at reversal bars like were witnessed on Monday in the NDX and SPX. Results were generally negative 3-5 days out. Combined with the fact that the VIX stretched even lower today and I'm seeing additional overbought readings, such as relatively high numbers of stocks trading above their 50-day moving average, all while the market remains in a long-term downtrend, I've decided to move the short-term outlook to bearish.

The SPY trade that was listed last night did get filled on the late-day reversal. It finished the day mildly positive, but I'd rather look for an exit at this point and hopefully re-enter in a few days at a lower price.

There were numerous stocks displaying overbought readings that also put in reversal bars today. I'm suggesting trades in two of them and have listed several other in the "radar" section for subscribers to do what they please with.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

none

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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	0.00	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.70
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	0.00
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	0.00

No signs of capitulative selling at the present time.

Additional New Trade Ideas

Longs

none

Shorts

NOK – short @ \$34.02. This trade qualifies under the same rules as SLE from last week. Perhaps we’ll have a bit better luck this time. Below are the rules and results from last week (doesn’t include our SLE trade).

1) Close < 200-day moving average. (Long term downtrend) 2) Has closed higher at least 7 days in a row. (Short-term overbought).

3) Today is the lightest volume in 5 days. (The low volume is a clue that the buying enthusiasm is drying up.)

Shorting this setup and covering on a close below the 5-day MA in the S&P 100 stocks over the last 10 years would have produced the following results:

50 trades.

41 winners (82%)

Avg win = 2.2%

Avg Loss = 2.8%

Avg Trade = 1.3%

Profit Factor = 3.54

SLB – Short @ \$90.58. SLB meets the following conditions:
 Close < 200ma, Close < open, Close lower than yesterday. High > upper Bollinger Band and at least 5 higher highs in a row. Shorting this setup and covering on a close below the 10-ma over the last 10 years in the S&P 100 compnenet stocks would have produced the following results:

196 trades.
 131 winners (67%)
 Avg win = 3.2%
 Avg Loss = 5.6%
 Avg Trade = 0.4%
 Profit Factor = 1.19

This setup isn't nearly as strong as the NOK setup. I wouldn't consider it without the bearish short-term market outlook. I feel its worth a shot here, though.

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLE	4/3/2008	\$14.50	\$14.46	0.3%	\$14.46	covered @ \$14.46
SPY	4/8/2008	\$136.89	\$136.96	0.1%	\$135.59	sell @ \$136.95

For SPY, I'm not so negative on the market that I want to sell into a gap down. Therefore I put a limit order right near today's close and kept the stop suggested last night in place.

The gap open in SLE triggered the stop immediately. This turned out to be a nothing trade.

Stocks and ETF's on my Radar

Tickers with reversal-type bars

CVX, RIG, X, F, EWA, AAPL, HAL, VGK, EWY, EZU, IEV

Notable S&P 500 stocks outside my "tradable" radar

Oversold

None

Overbought

None

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