

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 18, 2008

Issue 43

Market Overview

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

Study Date	Description	Time span	Bias
April 15, 2008	WR7 Down NR7	1-15 Days	Bullish
April 14, 2008	Sharp Selloff in Consolidation	20 days	Bearish
April 10, 2008	Relatively High Put/Call	20 days	Bullish
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 24, 2008	Nasdaq Leadership Bullish	1-10 weeks	Bullish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) –neutral – updated 4/18/08

Today was a digestion day. Volume came in lighter. Breadth was almost dead even. The indices were relatively flat. After the big move up yesterday, being able to hold on to those gains can normally be considered constructive for the bullish case.

From my standpoint, today was not helpful. As someone who feeds off of overbought and oversold conditions, quiet sideways trading doesn't get you to either place. Last night I mentioned that a pullback seemed like a decent possibility in the next few days. Normally there is some give-back after moves like yesterday. The studies I discussed, though were quite mixed and I didn't feel there was any strong edge in trying to short. Although the market was overbought on an intraday chart, the daily was right in the middle of congestion. Today served to work off some of the overbought conditions on the intraday timeframes while accomplishing nothing on the daily. While I can guess at direction over the next few days, I see no strong statistical case for either side. The last week and a half has been filled with marginal edges and choppy trading. As difficult as it sometimes is to remain patient, it is normally the right thing to do. From an index standpoint I remain in "wait and see" mode.

There is one system trade idea listed below.

Intermediate-term Outlook (2 weeks – 2 months) – neutral – updated 4/14/2008

On Friday April 11th the market took a bit of a dive. The catalyst for the selloff was GE's poor earnings announcement. In a healthier market environment the large gap down at the open would have been viewed by market participants as a buying opportunity and the market would have spent the day clawing back from its losses rather than extending them. By the end of the day Friday, the S&P 500 had lost over 2% and the Nasdaq 100 had lost nearly 3%. This action is concerning.

In [tonight's blog](#), I looked at large selloff's in the past that occurred in non-trending markets and were not breakdowns. For this test I used ADX to define trend and a violation of a 10-day closing low to determine a possible break of support. The results were quite negative over every exit point from 1-day to 4-weeks out. This is the first study with bearish intermediate-term implications I've produced for several weeks.

As I mentioned in my last intermediate-term outlook a few days ago we are also seeing some of the more bullish studies from a few weeks back begin to age and expire. The first one occurred last Thursday. This Thursday the 17th both of the bullish studies from March 19th will fall off the list as their influence wanes.

Another concern is the action in the Nasdaq this week, and especially Friday. As I mentioned above, GE was the catalyst, and the prime culprit for their earnings miss was the disruption in the financial markets. You would expect financials to take this news poorly and sell off in sympathy. The Nasdaq, which had taken a leadership role over the NYSE Composite a few weeks ago, should have held up a bit better. GE is largely unrelated to technology. Yet it fell even harder than the broad market – nearly 3% versus the S&P 500's 2%. This has moved the weekly relative strength of the Nasdaq below the NYSE's. As I've discussed in the past, the general market has typically struggled to advance when the Nasdaq has failed to take leadership from the NYSE.

It will be important to monitor the market's ability to hold above recent support levels. As noted, it has failed to break down in any way so far. Friday did move the S&P 500 and Nasdaq below their 50-day moving averages. While these are lines that many analysts looked at to possibly provide support, I find it neither surprising nor concerning that they were broken. Moving averages many times will provide support or resistance based on their slope. A moving average which has a nice up-slope serves a decent chance of providing at least temporary support. When a moving average is flat, many times it will act more as a pendulum than a support/resistance level. The recent move up in the market served to flatten out the 50-day moving averages. It may cross back and forth above and below it several times before the direction is fully determined and the moving average will begin to act as a support/resistance level again.

The late March lows are more significant in my eyes. These were around 1313 for the S&P 500. If the market can remain above these then the series of higher lows remains in tact and the baby rally has a chance of growing up. If these are broken then the last line of defense is the mid-March lows around 1257. If they're broken then it's a bit late to begin to notice the failure.

For now there still are many positives to look at. Even outside of the March 19th explosion studies that will be falling off the board, there are several more that make the bullish case. These include Trend Over Volatility, the High Put/Call, the 3 Surge Days and sharp drop in Consumer Sentiment. There is no need to overreact to the negative inferences of the April 11th market action. It is simply the first intermediate-term caution flag we've seen in the last month. It should be respected and we'll need to keep a close watch on further action. For now, I am moving the overall bias to neutral. I will therefore be willing to take both longs and shorts equally.

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	0.00	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	1.35	DJ US Financial	IYF	0.68
DJ US Regional Banks	IAT	1.25	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.00
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	1.35
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	1.22
DJ US Medical Devices	IHI	2.44	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	0.50
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

ABT – buy @ \$50.93 limit. Enter stop at \$49.94 if filled.

The ABT idea is based on the following setup:

- 1) ABT closes below its lower Bollinger Band (standard 20,2) for three days in a row. (Also could say %b < 0.)
- 2) Volume has increased for 3 days in a row. (Indicating possible selling climax.)

Buying under these conditions and selling when the %b closes at 25 or higher has yielded the following results over the last 10 years:

	ABT	All S&P 100 Components
Number of Trades	2	220
Winners	2	161
Losers	0	59
Percent Winners	100%	73%
Avg Win	8.50%	5.40%
Avg Loss	0	4.30%
Avg Trade	8.50%	2.80%
Profit Factor	na	3.4

Profit factor = Gross Gain / Gross Loss.

There was no stop used in the test. I am placing a stop below the March lows.

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLB	4/8/2008	\$90.58	\$95.30	-5.2%		cover on close < 10ma
GRMN	4/11/2008	\$45.25	\$42.50	-6.1%		

GRMN and SLB continue to fair poorly. The intention with GRMN all along was to put a stop under it as soon as it began to bounce. Unfortunately that hasn't happened yet. While it can be hard to sit through these kinds of trades as they continue to go against you, it is almost always better to wait for a bounce.

I am sometimes asked about position sizing. For trades without stops like GRMN and SLB I typically keep position sizes smaller than for trades with stops (like MSFT which was sold for a profit yesterday or the ABT idea tonight). Small position sizes in these trades are one way to control risk. Another would be to use options. I will try and discuss some ideas for using options in short-term trades in the next few Letters.

Stocks and ETF's on my Radar

*Strong Selloffs In Congestion – now bouncing and could be shortable soon
AXP, WFR, WM, RIMM, AMZN (bounce stalling out?), ATI.*

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

Oversold

None

Overbought

None

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