QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 5, 2008 Issue 54

Market Overview

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

Study Date	Description	Time span	Bias
May 2, 2008	NDX Crosses 200ma	1-20 days	Bullish
May 1, 2008	3 Lower Closes (Letter not Blog)	1-10 days	Bullish
April 29, 2008	Narrow Range New High < 200	1-20 days	Bearish
April 22, 2008	Low Vol in Short-Term Uptrend	1-10 Days	Bearish
April 20, 2008	Double-Strong Breath	1-30 Days	Bullish
April 20, 2008	Sharp Rise-Weak Volume	1-10 Days	Bullish
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 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

Intermediate-term Outlook (2 weeks – 2 months) – slightly bullish – updated 5/5/2008

I am seeing a few troubling signs to go along with the positive studies of recent weeks. The first issue that troubles me is the continued light volume. As noted in the April 22nd study, buying interest has been drying up.

The market has seen some strong rotations over the past couple of weeks. Energy and commodities have suffered while Financial and Technology stocks have benefited. Normally sharp rotations lead to high volume environments. If money is rotating it means two transactions are taking place rather than just one. Sell energy, buy technology. Yet even with the rotational environment, volume has failed to materialize. I intend to look at some additional volume studies in the coming days but am not encouraged by the recent trend.

Another concern is recent put/call ratios. I mentioned Friday's Letter that the CBOE Equity Put/Call Ratio had hit its lowest level since Feb. 1st. Tonight I decided to look at recent put/call ratios relative to longer-term averages. Dr. Brett Steenbarger of the Traderfeed blog has done some excellent work over the years in looking at these ratios. One tool he uses compares the 10-day average of the equity put/call ratio to the 200-day average. His findings have revealed an edge exists when the 10-day becomes stretched above the 200-day. I decided to examine this indicator a bit further today.

I first looked at the CBOE Equity Put/Call Ratio. My data went back to 8/31/04. Since that time through 4/25/08 when the 10-day MA of the equity put/call crossed below the 200-day, the S&P 500 has gained 293.61 points. It has gained 342.30 points when the 10ma is above the 200 and lost 48.69 points when the CBOE equity p/c 10ma is below the 200.

I then looked at the CBOE Total Put/Call Ratio. In this case the data went back to 8/6/96. In between 8/6/96 and 4/18/2008 the S&P 500 gained 728.01 points. In that time the 10ma over 200ma p/c formation gained 709.25 points and the 200ma over 10ma p/c formation gained only 18.76 points.

Both of these studies strongly suggest difficult market conditions while the put/call ratios remain relatively low.

On the positive side, we still have several bullish studies in effect. Breadth remains solid. The Nasdaq has taken over a leadership role while the Nasdaq 100 has crossed its 200-day moving average in a fairly convincing manner.

Essentially it is now starting to look like the positive implications of recent price movement and breadth will be battling the negative implications of volume and sentiment. I suspect we may be in for some choppy trading in the coming weeks. I'm maintaining a slightly bullish intermediate-term posture as of now since the negative studies have so far been little more than subtle hints. The short-term outlook will now have a strong influence on trading decisions.

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

The market responded positively to the jobs report on Friday and gapped higher. It gave back all of the gap during the day but rebounded late and closed positive, but still below the open. Breadth was good. Volume was lower than Thursday's and remains light.

I was unable to uncover any significant short-term edge in looking at patterns this evening. In tonight's blog I discuss the fact that the market gapped above its upper Bollinger Band Friday morning. I looked at intraday ramifications of this in the blog. I also decided to look at swing-timeframe ramifications.

I looked at any time the SPY gapped above its upper Bollinger Band and then closed below its open. The implication of such a bar is that price reached a short-term overbought condition (an open above the Bollinger Band) and reversed (close lower than open). The question I had was whether a reversal from an overbought condition tended to persist over the next few days and weeks. This answer I found was "no". Buying the close of such a bar and holding over the next 1-10 days I found results to be slightly better than random in general. There was no indication of it being a reliable reversal signal.

I decided to further refine the study and look at these gap reversals only when the market is below the 200-day moving average. This filter left me with only 3 instances. They were 5/22/01, 12/2/02, and 4/2/08. I found nothing particularly interesting there.

As you can see by the S&P chart with the QE Aggregator below the market has been modestly outperforming expectations over the last few days. The Aggregator is showing a 0.04 reading for tomorrow. This estimates a return of 0.04% per day over the next three days. Based on the spreadsheet, it is poised to remain at 0.04 for at least the next three days with the current studies as well. The long-term drift of the S&P is about 0.035% per day, so the current studies are basically market neutral. This will likely change over the next few days as additional studies may affect the Aggregator estimates.

When the studies are just barely north of neutral and the S&P has been slightly outperforming estimates, there is no clear edge. A choppy short-term environment could be in the making.

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	0.00		DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	1.30		DJ US Financial Services	IYG	0.00
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	0.38
DJ US Oil Equip & Svcs	IEZ	3.85		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	2.04		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	0.50
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

Not much showing up here.

Additional New Trade Ideas

VZ – short @ $39.59. After spending a few days on the radar screen I'm looking to short here. A relatively rare setup based on the following parameters: 1) The 3-period RSI closes above 90 for at least 5 days in a row. 2) The close is below the 200-day moving average. Short next day at a limit price equal to today's close. Cover on a close below the 5-day moving average. Results for all S&P 100 stocks over the last 10 years below:

Trades	54
Winners	43
Losers	11
Pct Winners	79.6%
Avg Win	2.24%
Avg Loss	-3.42%
Avg Trade	1.08%
Profit Factor	2.6

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
GLD	5/2/2008	$83.96	$84.58	0.7%		bought on open

Stocks and ETF's on my Radar
none

Notable S&P 500 stocks outside my "tradable" radar
Oversold
None
Overbought
None