

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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July 14, 2008

Issue 102

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## Market Overview

*Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)*

Study Date	Description	Time span	Bias
July 14, 2008	Drop prior to op-ex	1-4 days	Bullish
July 7, 2008	5 Weeks Lower	1-10 weeks	Bearish
July 2, 2008	CBI=10	1-8 days	Bullish
June 25, 2008	Advancers Exp MA Ratio Study	1-20 days	Bullish
June 24, 2008	WR7 High Vol Down / NR7	1-18 days	Bullish
June 23, 2008	Gap & Drop At 50-low	1-19 days	Bullish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

### ***Short-term Outlook (1-5 days) –bullish – updated 7/14***

The market endured yet another week of selling. This was the sixth week in a row that the S&P 500 finished down as it closed 1.85% lower. Much of the damage was done on Friday. After gapping down about 1% at the open it spent much of the day reacting to news of Fannie Mae and Freddie Mac – both up and down. When it was over the S&P closed slightly lower than it opened for a total decline of 1.1%. Volume was heavy. Breadth was about 2 to 1 negative.

Breadth has been providing extremely negative readings by almost every count for a couple of weeks now. These extreme negative readings have reached such levels that the market almost always bounces in a significant way. Measures discussed in the Letter and in the blog include the McClellan Oscillator, [the CBI](#), the % of stocks trading below their 40-day moving average (from last Sunday's Letter), the [% of stocks closing at least 2 standard deviations below their 40-week moving average](#), and the [Adv/Decline EMA study](#). Even with such overly negative reading the market selloff has persisted and a multi-day bounce of any magnitude has yet to materialize.

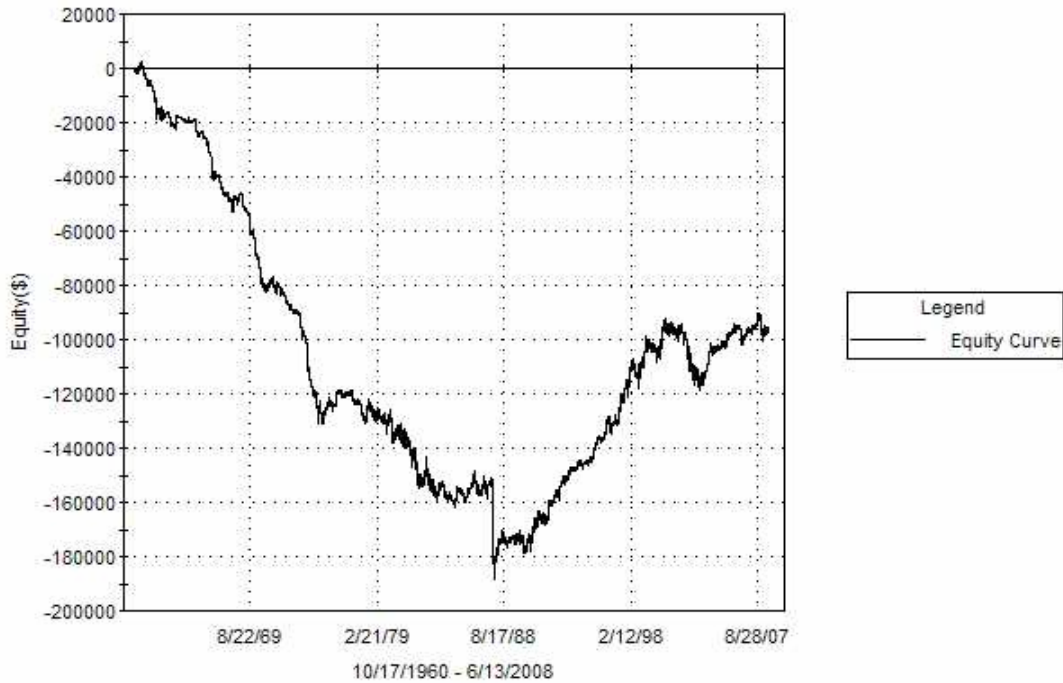
I've discussed two possible reasons why the bounce has not yet materialized: 1) Some fear indices had not yet spiked to levels that would spark a rally. This I consider of minor importance. Fear levels like the VIX and the Put/Call ratios many times will spike prior to a bounce, but it is not always necessary. 2) We are seeing a market environment that has not been seen since the 1970's. The persistence of the downtrend is unlike anything experienced in recent bear markets and corrections where panic selling was soon followed by panic buying.

Number 1 seems to no longer be an issue. On Friday the VIX spiked nearly up to 30, while the VXO, which is the old measure of the VIX got up over 32 before closing at 29.96. While the absolute levels are not significant, the spike to well above recent levels is. Another measure of volatility is the VXV, a 3-month measure similar to the 1-month VIX volatility measurement. One way to measure volatility is to look at the VIX compared to the VXV. The first person I saw do this was Bill Luby on his site [VIX and More](#). By comparing the two as a ratio you can see whether volatility is expected to rise or decline. When the VIX is significantly above the VXV then that is considered bullish. Significantly below the VXV may be considered bearish. The VXV has only been in existence since December, but the index was calculated by the CBOE going back to 2002. There is a paper available on the CBOE site ([click here](#)) which discusses some of the results of a VIX:VXV comparison back to 2002. The VIX:VXV ratio spiked up over 1.1 on Friday and closed at 1.075. Since December there have only been a few times where the ratio has closed this high. Near the January bottom there were three days and near the March bottom one day. The spike in volatility on Friday should be considered a positive for the market.

The 2<sup>nd</sup> issue, persistence unlike anything we've seen in many years, I will discuss more in the intermediate-term outlook section.

In a Subscriber Letter several weeks back I looked at what happened on both Monday and the rest of the week following a drop on Friday. Before I look at those results let's first look at the history of Monday's in the S&P 500. The chart below looks at every Monday from 1960 through June 15<sup>th</sup>, 2008:

Equity Curve Detailed - \$SPX.X Daily(01/04/60 16:00 - 06/13/08 16:00)



As you can see, Mondays were a consistent loser for about 27 years. This changed shortly after the worst Monday of the entire period – Black Monday in October 1987. Previously I decided to run the test from 1990 – present due to this change in character around that time. I did the same thing this weekend.

As a baseline, you should first know that the average Monday over the test period returned \$78.49, or 0.00785%. Also, Monday was the best day of the week. The average week returned \$185.24, or 0.0185%. Lastly for the following tests, I bought on Friday and sold the next day. If Monday was a holiday, then a Tuesday return is included in the results instead.

First let's look at a table from the previous research which shows Monday's return based on the size of Friday's drop:

<i>SPX drops on Friday by X percent. Buy at close. Sell Monday at close. \$100,000 per trade. 1990 - present</i>											
Days Held	Net Profit	Trades	Winners	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
2	(\$864.70)	35	22	62.86	\$3,322.23	(\$4,302.72)	\$891.96	(\$1,575.98)	0.57	(\$24.71)	0.96
1.75	\$1,007.76	48	30	62.50	\$3,877.95	(\$4,302.72)	\$945.68	(\$1,520.15)	0.62	\$21.00	1.04
1.5	\$8,568.23	60	40	66.67	\$3,877.95	(\$4,302.72)	\$907.74	(\$1,387.07)	0.65	\$142.80	1.31
1.25	\$4,581.27	81	50	61.73	\$3,877.95	(\$6,760.90)	\$945.29	(\$1,376.87)	0.69	\$56.56	1.11
1	(\$5,214.57)	118	67	56.78	\$3,877.95	(\$6,760.90)	\$874.30	(\$1,275.86)	0.69	(\$44.19)	0.92
0.75	(\$10,568.14)	175	95	54.29	\$5,054.10	(\$6,826.40)	\$843.58	(\$1,148.21)	0.73	(\$60.39)	0.88
0.5	\$954.94	242	139	57.44	\$5,054.10	(\$6,826.40)	\$793.05	(\$1,071.37)	0.74	\$3.95	1.01
0.25	\$3,284.41	336	187	55.65	\$5,054.10	(\$6,826.40)	\$789.92	(\$975.88)	0.81	\$9.78	1.02

Generally Mondays that came after a down Friday underperformed typical Mondays. Two negatives we found at the time were: 1) if the drop on Friday came at a time when the market was under its 200-day moving average, and 2) if the drop happened on options

expiration day. Below is the table of results when the Friday drop is 1% or more and the S&P closes below its 200-day MA:

<i>SPX drops on Friday by X percent and closes &lt; 200ma. Buy at close. Sell Monday at close. \$100,000 per trade. 1990 - present</i>											
Days Held	Net Profit	Trades	Winners	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
2	(\$7,478.85)	22	12	54.55	\$3,322.23	(\$4,302.72)	\$913.36	(\$1,843.91)	0.50	(\$339.95)	0.59
1.75	(\$7,377.40)	29	15	51.72	\$3,877.95	(\$4,302.72)	\$1,147.01	(\$1,755.89)	0.65	(\$254.39)	0.70
1.5	(\$581.33)	39	24	61.54	\$3,877.95	(\$4,302.72)	\$1,005.29	(\$1,647.22)	0.61	(\$14.91)	0.98
1.25	(\$4,351.84)	54	32	59.26	\$3,877.95	(\$6,760.90)	\$1,027.50	(\$1,692.35)	0.61	(\$80.59)	0.88
1	(\$11,523.77)	63	34	53.97	\$3,877.95	(\$6,760.90)	\$1,004.28	(\$1,631.05)	0.62	(\$182.92)	0.75
0.75	(\$18,166.16)	82	38	46.34	\$5,054.10	(\$6,760.90)	\$1,069.65	(\$1,367.74)	0.78	(\$221.54)	0.69
0.5	(\$19,343.78)	98	47	47.96	\$5,054.10	(\$6,760.90)	\$1,018.83	(\$1,344.58)	0.76	(\$197.39)	0.71
0.25	(\$14,703.31)	126	64	50.79	\$5,054.10	(\$6,760.90)	\$960.25	(\$1,248.51)	0.77	(\$116.69)	0.81

This past Friday was not options expiration, though. Rather it was the Friday *before* options expiration. While I've heard that the market many times will reverse course options expirations week, the results I found were still quite surprising.

First let's look at how Monday performed when Friday was down by AT LEAST X%:

<i>Fri before option expiration week market drops X%. Buy at close. Sell Monday on close. \$100,000 per trade. 1990 - present.</i>											
X % drop	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor	
1.5	\$3,201.55	15	66.67	10	5	\$1,066.56	(\$1,492.82)	0.71	\$213.44	1.43	
1	\$10,106.74	26	69.23	18	8	\$1,137.51	(\$1,296.05)	0.88	\$388.72	1.97	
0.75	\$11,532.44	41	68.29	28	13	\$939.44	(\$1,136.31)	0.83	\$281.28	1.78	
0.5	\$11,488.31	55	65.45	36	19	\$834.43	(\$976.37)	0.85	\$208.88	1.62	
0.25	\$13,737.12	72	63.89	46	26	\$806.60	(\$898.70)	0.90	\$190.79	1.59	

Here we see Monday's move from underperforming or negative to outperforming.

Now let's look at what happened over the course of the next week if the Friday prior to options expiration was down at least 1%:

<i>Friday prior to option expiration is down 1%. Buy at close. Hold X days. \$100,000 per trade. 1990-present</i>											
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor	
5	\$14,145.26	26	61.54	16	10	\$2,471.19	(\$2,539.39)	0.97	\$544.05	1.56	
4	\$15,036.43	26	61.54	16	10	\$1,973.81	(\$1,654.46)	1.19	\$578.32	1.91	
3	\$17,795.10	26	73.08	19	7	\$1,667.60	(\$1,984.18)	0.84	\$684.43	2.28	
2	\$25,899.22	26	69.23	18	8	\$1,884.00	(\$1,001.60)	1.88	\$996.12	4.23	
1	\$10,106.74	26	69.23	18	8	\$1,137.51	(\$1,296.05)	0.88	\$388.72	1.97	

Here we see some very strong returns, especially for Monday and Tuesday. But what if we again filtered by the 200-day moving average?

<i>Friday prior to option expiration is down 1% &amp; under 200ma. Buy at close. Hold X days. \$100,000 per trade. 1990-present</i>											
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor	
5	\$8,461.63	13	69.23	9	4	\$2,650.99	(\$3,849.31)	0.69	\$650.89	1.55	
4	\$6,640.57	13	53.85	7	6	\$2,646.39	(\$1,980.70)	1.34	\$510.81	1.56	
3	\$9,504.45	13	76.92	10	3	\$1,790.19	(\$2,799.14)	0.64	\$731.11	2.13	
2	\$16,130.43	13	76.92	10	3	\$2,133.37	(\$1,734.42)	1.23	\$1,240.80	4.10	
1	\$2,851.74	13	53.85	7	6	\$1,706.01	(\$1,515.06)	1.13	\$219.36	1.31	

The number of instances is getting small here, but at least we can see that being under the 200-ma doesn't seem to provide any disadvantage when looking at the above scenario. To further baseline the tests, I looked to see what happened when Friday was down 1% and it was NOT the week prior to expiration:

<b>Friday down 1%. Not week prior to option expiration Buy at close. Hold X days. \$100,000 per trade. 1990-present</b>										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$5,907.70	90	54.44	49	41	\$1,959.83	(\$2,198.14)	0.89	\$65.64	1.07
4	(\$11,901.02)	93	47.31	44	49	\$1,671.84	(\$1,744.13)	0.96	(\$127.97)	0.86
3	(\$6,514.55)	93	49.46	46	47	\$1,434.43	(\$1,542.51)	0.93	(\$70.05)	0.91
2	(\$14,667.01)	93	43.01	40	53	\$1,371.58	(\$1,311.89)	1.05	(\$157.71)	0.79
1	(\$15,309.31)	93	53.76	50	42	\$762.30	(\$1,272.01)	0.60	(\$164.62)	0.71

So again, this seems to confirm the idea that options expiration week may be providing an advantage when looking for a reversal.

To broaden the number of instances I decided to also look at what happened when the S&P was down 1% or more for the *week*, rather than just Friday, prior to options expiration.

<b>Week prior to option expiration is down 1%. Buy at close. Hold X days. \$100,000 per trade. 1990-present</b>										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$58,693.03	63	68.25	43	20	\$2,201.46	(\$1,798.50)	1.22	\$931.64	2.63
4	\$66,688.84	63	69.84	44	19	\$1,943.82	(\$991.55)	1.96	\$1,058.55	4.54
3	\$48,139.56	63	68.25	43	20	\$1,605.94	(\$1,045.80)	1.54	\$764.12	3.30
2	\$35,282.95	63	66.67	42	21	\$1,357.75	(\$1,035.36)	1.31	\$560.05	2.62
1	\$17,399.57	63	61.90	39	24	\$933.16	(\$791.40)	1.18	\$276.18	1.92

Results here are also highly positive. What about option expiration weeks when the S&P *doesn't* fall 1% the week prior?

<b>Week prior to option expiration is NOT down 1%. Buy at close. Hold X days. \$100,000 per trade. 1990-present</b>										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$79,022.58	189	60.32	114	74	\$1,647.42	(\$1,470.04)	1.12	\$418.11	1.73
4	\$98,357.24	189	66.14	125	64	\$1,420.83	(\$1,238.23)	1.15	\$520.41	2.24
3	\$72,259.74	189	61.90	117	71	\$1,196.14	(\$953.36)	1.25	\$382.33	2.07
2	\$58,071.70	189	63.49	120	68	\$970.37	(\$858.42)	1.13	\$307.26	1.99
1	\$39,451.46	189	65.61	124	65	\$621.73	(\$579.12)	1.07	\$208.74	2.05

Results are still positive but not nearly as much. The reversal tendency of these weeks seems to provide a nice edge. Let's once again factor in a close below the 200-day moving average to make sure that doesn't hurt the results:

<b>Week prior to op ex is down 1% &amp; closes &lt; 200-day MA. Buy at close. Hold X days. \$100,000 per trade. 1990-present</b>										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$39,210.08	30	73.33	22	8	\$2,635.96	(\$2,347.63)	1.12	\$1,307.00	3.09
4	\$40,243.77	30	70.00	21	9	\$2,374.04	(\$1,067.89)	2.22	\$1,341.46	5.19
3	\$31,750.00	30	73.33	22	8	\$1,889.57	(\$1,227.58)	1.54	\$1,058.33	4.23
2	\$26,540.37	30	76.67	23	7	\$1,511.55	(\$1,175.05)	1.29	\$884.68	4.23
1	\$16,534.17	30	66.67	20	10	\$1,222.82	(\$792.23)	1.54	\$551.14	3.09

These are the best results so far. The bottom line certainly seems to be that down moves the week prior to options expiration week seem to provide an upside edge.

Below is an updated chart of the [QE Aggregator](#):



Most of the studies remain bullish and this is reflected in the Aggregator. The position of the black differential line and the green aggregator line stretched above 0 still suggest a bounce is likely. The list of outstanding studies covers indications of breadth, price action, sentiment and more.

Between the heavily oversold breadth, the spike in fear, and the tendency to reverse up option expirations week, it seems something *should* be able to spark the reversal and oversold bounce I've been awaiting.

**Intermediate-term Outlook (1 week – 2 months) -neutral – updated 7/14**

As I discussed last week, my biggest concern remains the persistency of the downtrend. The S&P 500 has now closed below its 10-day moving average for 25 days in a row. Going back to 1960 this has only happened 8 other times. I've updated last week's table to show all the instances and how long they lasted.

25th Day Below	Total # of Days Below
November 8, 1967	25
November 27, 1973	27
June 16, 1969	28
February 9, 1984	29
March 14, 1980	30
January 31, 1977	31
May 1, 1970	38
May 22, 1962	45

As you can see, 1984 was the last time this has happened. The good news is these streaks normally ended with sharp spikes up. Below I listed what happened for the 5 longest.

- 1962 – Jumped 8.5% in 7 days.
- 1970 – Jumped 13.3% in 7 days.
- 1977 – Lame bounce before more downside.
- 1980 – Jumped 4.5% in 4 days
- 1984 – Jumped 3.25% in two days.

Of course this probable spike doesn't necessarily bode well for the intermediate-term. Another example of persistent selling from this week is that this week the %b calculation for the default 20-period, 2 standard deviation bands on a weekly chart of the SPX closed at 5 or lower for the 3<sup>rd</sup> week in a row. This is fairly unusual. I ran a study to see the results of other times this had happened:

Using standard 20-period, 2 deviation Bollinger Bands on a weekly chart the SPX closes with a %b value of 5 or less three weeks in a row.												
Buy on close. Sell "X" weeks later. \$100,000 per trade. 1960 - present.												
Weeks	Net Profit	Trades	% Wins	Winners	Losers	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	(\$48,851.99)	22	45.45	10	12	\$7,397.91	(\$13,766.30)	\$2,914.21	(\$6,499.50)	0.45	(\$2,220.55)	0.37
4	(\$27,359.46)	22	36.36	8	14	\$10,298.34	(\$14,280.39)	\$3,759.10	(\$4,102.30)	0.92	(\$1,243.61)	0.52
3	(\$10,358.92)	22	50.00	11	11	\$8,883.81	(\$6,842.75)	\$2,172.40	(\$3,114.12)	0.70	(\$470.86)	0.70
2	(\$14,866.61)	22	54.55	12	10	\$6,528.60	(\$9,632.70)	\$2,856.27	(\$4,914.19)	0.58	(\$675.76)	0.70
1	(\$17,992.54)	22	54.55	12	10	\$4,850.40	(\$11,533.34)	\$1,396.76	(\$3,475.36)	0.40	(\$817.84)	0.48

Results here were quite poor over the subsequent five weeks.

Another interesting measure of breadth that hit an extreme on Friday was the number of NYSE stocks hitting new 52-week lows. Rather than just looking at 52-week lows, I typically like to look at the net number of new highs minus new lows. As with many of the indicators I use, I believe it's important to normalize the results when looking over long time periods. For this indicator the need to normalize springs from the fact that the total issues trading on the NYSE is significantly greater now than it was in the 1970's. Therefore I divide the raw result by the number of issues outstanding to get a percent figure. The total result on Friday was a net of just over 23% of the total issues traded on the NYSE. This is larger than the number seen at the March lows, but not quite as large as the 28% net seen at the January lows.

Rather than look for 1 day spiked I like to see what the result is over the course of several days. I looked back over 5 days and summed the results. Over the last 5 days the sum of (New highs – New lows) / Total Issues has been about -73%. I looked back in time to see what happened at other periods in time when this had occurred. The first set of results is from 1988 – present:

Sum of results of (NYSE New Highs - New Lows) / Total Issues over the last 5 days > 72.										
Buy at close. Sell "X" days later. \$100,000 per trade. 1988 - present.										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
20	\$38,392.87	7	100.00	7	0	\$5,484.70	\$0.00	100.00	\$5,484.70	100.00
19	\$35,195.40	7	100.00	7	0	\$5,027.91	\$0.00	100.00	\$5,027.91	100.00
18	\$39,111.80	7	100.00	7	0	\$5,587.40	\$0.00	100.00	\$5,587.40	100.00
17	\$40,711.36	7	100.00	7	0	\$5,815.91	\$0.00	100.00	\$5,815.91	100.00
16	\$34,106.48	7	100.00	7	0	\$4,872.35	\$0.00	100.00	\$4,872.35	100.00
15	\$28,618.13	7	71.43	5	2	\$6,200.64	(\$1,192.53)	5.20	\$4,088.30	13.00
14	\$26,312.79	7	71.43	5	2	\$5,803.48	(\$1,352.30)	4.29	\$3,758.97	10.73
13	\$28,453.43	7	71.43	5	2	\$5,973.98	(\$708.24)	8.43	\$4,064.78	21.09
12	\$29,208.47	7	85.71	6	1	\$5,142.21	(\$1,644.81)	3.13	\$4,172.64	18.76
11	\$25,479.24	7	85.71	6	1	\$4,770.29	(\$3,142.47)	1.52	\$3,639.89	9.11
10	\$24,057.46	7	85.71	6	1	\$4,264.64	(\$1,530.36)	2.79	\$3,436.78	16.72
9	\$24,215.27	7	85.71	6	1	\$4,330.11	(\$1,765.40)	2.45	\$3,459.32	14.72
8	\$21,669.42	7	71.43	5	2	\$5,455.04	(\$2,802.90)	1.95	\$3,095.63	4.87
7	\$25,582.71	7	85.71	6	1	\$4,604.09	(\$2,041.85)	2.25	\$3,654.67	13.53
6	\$27,727.31	7	85.71	6	1	\$4,682.65	(\$368.60)	12.70	\$3,961.04	76.22
5	\$29,676.78	8	87.50	7	1	\$4,978.82	(\$5,174.95)	0.96	\$3,709.60	6.73
4	\$23,740.30	8	75.00	6	2	\$4,718.73	(\$2,286.03)	2.06	\$2,967.54	6.19
3	\$22,102.27	10	80.00	8	2	\$3,297.53	(\$2,139.00)	1.54	\$2,210.23	6.17
2	\$20,052.60	11	81.82	9	2	\$2,717.07	(\$2,200.50)	1.23	\$1,822.96	5.56
1	\$19,421.38	21	61.90	13	8	\$2,321.67	(\$1,345.04)	1.73	\$924.83	2.80

Low instances but a nice edge once you get out 3 weeks. All winners for an average 5% gain.

The second set of results is from 1970-1981:

Sum of results of (NYSE New Highs - New Lows) / Total Issues over the last 5 days > 72.										
Buy at close. Sell "X" days later. \$100,000 per trade. 1970-1981.										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
20	(\$11,851.10)	11	54.55	6	5	\$2,739.75	(\$5,657.91)	0.48	(\$1,077.37)	0.58
19	(\$16,516.59)	13	46.15	6	7	\$2,181.12	(\$4,229.05)	0.52	(\$1,270.51)	0.44
18	(\$12,089.70)	13	46.15	6	7	\$2,880.61	(\$4,196.19)	0.69	(\$929.98)	0.59
17	(\$11,679.24)	13	38.46	5	8	\$3,094.61	(\$3,394.04)	0.91	(\$898.40)	0.57
16	(\$13,648.70)	13	30.77	4	9	\$3,710.32	(\$3,165.55)	1.17	(\$1,049.90)	0.52
15	(\$15,034.15)	13	46.15	6	7	\$3,318.06	(\$4,991.78)	0.66	(\$1,156.47)	0.57
14	(\$12,823.66)	13	46.15	6	7	\$2,807.31	(\$4,238.22)	0.66	(\$986.44)	0.57
13	(\$13,512.35)	14	35.71	5	9	\$2,963.98	(\$3,148.03)	0.94	(\$965.17)	0.52
12	(\$11,924.34)	14	50.00	7	7	\$2,037.21	(\$3,740.68)	0.54	(\$851.74)	0.54
11	(\$2,946.35)	14	50.00	7	7	\$3,023.56	(\$3,444.47)	0.88	(\$210.45)	0.88
10	(\$5,645.63)	15	40.00	6	9	\$3,253.45	(\$2,796.26)	1.16	(\$376.38)	0.78
9	(\$14,979.74)	17	41.18	7	10	\$2,349.15	(\$3,142.38)	0.75	(\$881.16)	0.52
8	(\$3,013.85)	18	61.11	11	7	\$1,991.71	(\$3,560.39)	0.56	(\$167.44)	0.88
7	(\$718.49)	18	50.00	9	9	\$3,121.43	(\$3,201.26)	0.98	(\$39.92)	0.98
6	(\$6,065.44)	20	35.00	7	13	\$3,686.12	(\$2,451.41)	1.50	(\$303.27)	0.81
5	\$699.01	24	54.17	13	11	\$3,535.45	(\$4,114.71)	0.86	\$29.13	1.02
4	(\$422.54)	28	46.43	13	14	\$2,638.43	(\$2,480.15)	1.06	(\$15.09)	0.99
3	(\$2,512.22)	34	52.94	18	16	\$2,176.17	(\$2,605.21)	0.84	(\$73.89)	0.94
2	\$884.71	50	50.00	25	25	\$2,040.00	(\$2,004.61)	1.02	\$17.69	1.02
1	\$2,104.82	95	49.47	47	47	\$1,374.17	(\$1,329.38)	1.03	\$22.16	1.03

So here we have yet another profitable example of an oversold breadth indicator that just didn't fare well in the 70's.

Below is a table showing the results with a 40-day holding period.

<b>Sum of results of (NYSE New Highs - New Lows) / Total Issues over the last 5 days &gt; 72.</b>				
<b>Hold for 40 days and then sell.</b>				
Date	Type	Price	% Profit	Run-up/Drawdown
4/23/1970	Buy	\$83.04	-7.86%	\$0.00
6/18/1970	Sell	\$76.51		(\$16,555.00)
3/22/1973	Buy	\$108.84	-4.58%	\$3,552.66
5/18/1973	Sell	\$103.86		(\$4,571.64)
5/18/1973	Buy	\$103.86	1.79%	\$4,261.66
7/17/1973	Sell	\$105.72		(\$2,481.96)
11/26/1973	Buy	\$96.58	0.51%	\$3,332.70
1/23/1974	Sell	\$97.07		(\$4,574.70)
4/29/1974	Buy	\$90.00	-1.13%	\$3,444.10
6/25/1974	Sell	\$88.98		(\$3,455.21)
7/2/1974	Buy	\$84.30	-16.06%	\$818.34
8/28/1974	Sell	\$70.76		(\$16,058.44)
8/28/1974	Buy	\$70.76	-0.76%	\$3,871.62
10/24/1974	Sell	\$70.22		(\$11,982.24)
3/27/1980	Buy	\$101.23	9.27%	\$9,998.31
5/23/1980	Sell	\$110.61		(\$3,464.37)
9/28/1981	Buy	\$115.52	5.26%	\$9,065.20
11/23/1981	Sell	\$121.60		(\$795.80)
10/19/1987	Buy	\$224.83	7.99%	\$15,286.92
12/15/1987	Sell	\$242.80		(\$3,716.28)
8/23/1990	Buy	\$307.06	1.76%	\$6,327.75
10/19/1990	Sell	\$312.47		(\$4,078.75)
8/28/1998	Buy	\$1,027.25	4.39%	\$5,509.60
10/26/1998	Sell	\$1,072.30		(\$10,083.15)
9/21/2001	Buy	\$965.80	17.90%	\$18,795.44
11/16/2001	Sell	\$1,138.65		\$0.00
7/24/2002	Buy	\$843.43	-0.01%	\$14,345.26
9/19/2002	Sell	\$843.32		(\$3,223.76)
8/16/2007	Buy	\$1,411.27	10.67%	\$11,537.40
10/12/2007	Sell	\$1,561.80		\$0.00
1/22/2008	Buy	\$1,310.51	-0.92%	\$6,498.76
3/19/2008	Sell	\$1,298.51		(\$4,068.28)

Since 1980 there appears to be a substantial upside edge. During the 70's the setup led to more downside.

I am going to remain neutral for my intermediate-term bias, effectively deferring to the short-term for most of my decision making. While persistence is suggesting we may be entering an environment more like the 60's and 70's than anything seen since, I'm still hesitant to completely discount the last 25-30 years of data. Most of the current studies are suggesting a short-term low should be near. If the market reacts to many of the recent breadth and sentiment readings the way it has for the last 25 years or so, there is a good chance an intermediate-term rally of several weeks to a few months could ensue. If not it could be a long and painful summer for the bulls. Rather than try and guess how significant the bounce may be for the intermediate-term, we may be better served by evaluating the action as it unfolds.

## **Catapult and Capitulative Breadth Statistics**

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

### ***Open Catapult Trades***

NYX – bought 1/3 position @ \$49.51  
NYX – bought 1/3 position @ \$47.72  
UNH – bought 1/3 position @ \$22.71  
NYX – bought 1/3 position @ \$47.07  
CBS – bought 1/3 position @ \$17.59  
EP – bought 1/3 position @ \$18.91

### ***New Catapult Triggers***

#### ***Open Big 50 Trades***

None

#### ***Catapult for ETF's Trades***

MDY –bought @ \$141.67

***Broad Market Large Cap CBI – 6/4 ( NYX-3, UNH, CBS, EP)***

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

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
DJ US Broker Dealers	IAI	17.24	DJ US Energy	IYE	6.98
DJ US Insurance Index	IAK	6.76	DJ US Financial	IYF	10.27
DJ US Regional Banks	IAT	11.25	DJ US Financial Services	IYG	9.79
DJ US Utilities	IDU	1.35	DJ US Healthcare	IYH	2.11
DJ US Oil&Gas Expl & Prod	IEO	1.72	DJ US Industrial Sector	IYJ	4.98
DJ US Oil Equip & Svcs	IEZ	7.69	DJ US Consumer Goods	IYK	5.44
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	2.70
DJ US Healthcare Providers	IHF	6.12	DJ US Real Estate	IYR	10.98
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	6.03
DJ US Home Construction	ITB	9.52	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	9.21	Nasdaq 100	QQQQ	5.00

### **Additional New Trade Ideas**

As I was putting this all together, the [Fed announced a plan to possibly help Fannie Mae and Freddie Mac](#). This has the futures up about 0.75% as I type. A large gap up of at least this magnitude or greater could ignite a short-covering rally as bears scramble to lock in profits. The chance of a rally increases if the market can make it through the 1<sup>st</sup> half hour of trading without filling much of the large gap (should it happen). Subscribers may want to review my [large gaps up study from the blog](#).

Since it appears the large gap may create an environment more suited for day trading than entering based off of Friday's closing prices, I will hold off on additional trade ideas for tonight.

### **Active Trades Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
SPY	6/24/2008	\$131.05	\$123.84	-5.50%		
SPY	6/27/2008	\$128.28	\$123.84	-3.46%		
SPY	7/1/2008	\$126.52	\$123.84	-2.12%		
NYX	7/2/2008	\$49.51	\$42.33	-14.50%		Catapult
NYX	7/3/2008	\$47.72	\$42.33	-11.30%		Catapult
NYX	7/7/2008	\$47.07	\$42.33	-10.07%		Catapult
UNH	7/7/2008	\$22.71	\$22.16	-2.42%		Catapult
CBS	7/8/2008	\$17.59	\$17.21	-2.16%		Catapult
MDY	7/8/2008	\$141.67	\$142.61	0.66%		Catapult
EP	7/10/2008	\$18.90	\$19.57	3.54%		Catapult

### **Stocks and ETF's on my Radar**

There are a few "Big 50" trades triggering. If you're looking for possible bounce candidates these could be playable. I won't be officially tracking them as I'd prefer to just focus on standard Catapults at the moment. If the persistency of the downtrend had not been giving the Catapult trades such a difficult time, I would definitely be listing these. Possible trade candidates include:

NVDA  
VLO

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

*None*

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