QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 13, 2008 Issue 123

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
August 10, 2008	Strong Friday	1-4 Days	Bullish
7/30 & 8/10	Big up after big down	1-12 days	Bullish
August 8, 2008	Nasdaq Dn Sox Up	1-30 Days	Bullish
August 7, 2008	20 day high on low volume	1-10 days	Bearish
August 6, 2008	Fed day spike	1-10 days	Bearish
August 6, 2008	Put/Call 100-day low	1-10 days	Bearish
July 31, 2008	Strong move on rising volume	1-10 days	Bullish
July 29, 2008	Down 1.5% lowest vol in10days	1-12 days	Bullish
July 18, 2008	2% then 1% gains under the 200	1-19 days	Bullish
July 7, 2008	5 Weeks Lower	1-10 weeks	Bearish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) –neutral – updated 8/13

The market sold off today with the SPX and Dow both falling over 1%. Breadth was negative by a little over 2 to 1. Volume came in lighter.

The SOX once again finished positive while the major indices struggled. In tonight's blog I showed how the market has performed after days where the S&P 500 lost over 1% and the SOX posted a gain. I also looked at how the setup has performed when the S&P was below its 200-day moving average. Those results are below:

SPX drops more than 1% & closes under 200ma while SOX finishes positive on day.										
Buy SPX on close. Sell X days later. $100,000/trade. 1995-present.										
X Days	**Net Profit**	**Trades**	**Wins**	**Losses**	**% Wins**	**Avg Win**	**Avg Loss**	**W/L Ratio**	**Profit Factor**	**Avg Trade**
20	$48,863.38	12	11	1	91.67	$5,398.74	($10,522.80)	0.51	5.64	$4,071.95
15	$38,710.29	12	10	2	83.33	$4,719.40	($4,241.88)	1.11	5.56	$3,225.86
14	$31,613.68	12	8	4	66.67	$5,034.20	($2,164.98)	2.33	4.65	$2,634.47
13	$25,994.30	12	9	3	75.00	$4,195.23	($3,920.91)	1.07	3.21	$2,166.19
12	$23,411.94	12	8	4	66.67	$4,255.77	($2,658.55)	1.60	3.20	$1,951.00
11	$28,731.83	12	9	3	75.00	$4,305.34	($3,338.73)	1.29	3.87	$2,394.32
10	$17,461.05	12	8	4	66.67	$3,621.18	($2,877.09)	1.26	2.52	$1,455.09
9	$8,836.62	12	6	6	50.00	$3,813.97	($2,341.20)	1.63	1.63	$736.39
8	$17,516.67	12	8	4	66.67	$3,545.22	($2,711.28)	1.31	2.62	$1,459.72
7	$19,835.79	12	8	4	66.67	$3,906.94	($2,854.94)	1.37	2.74	$1,652.98
6	$4,183.31	13	8	5	61.54	$2,624.55	($3,362.61)	0.78	1.25	$321.79
5	$3,401.95	13	8	5	61.54	$2,736.63	($3,698.22)	0.74	1.18	$261.69
4	$14,037.42	13	10	3	76.92	$2,446.04	($3,474.33)	0.70	2.35	$1,079.80
3	$16,647.15	14	12	2	85.71	$2,220.20	($4,997.64)	0.44	2.67	$1,189.08
2	$18,472.00	14	11	3	78.57	$2,441.05	($2,793.17)	0.87	3.20	$1,319.43
1	$12,517.29	14	10	4	71.43	$1,464.47	($531.86)	2.75	6.88	$894.09

While the number of samples is a bit low, 11 for 12 for a 4% gain over the following 4 weeks is impressive. This shows the setup has actually performed better when the market is trading below its 200-day MA.

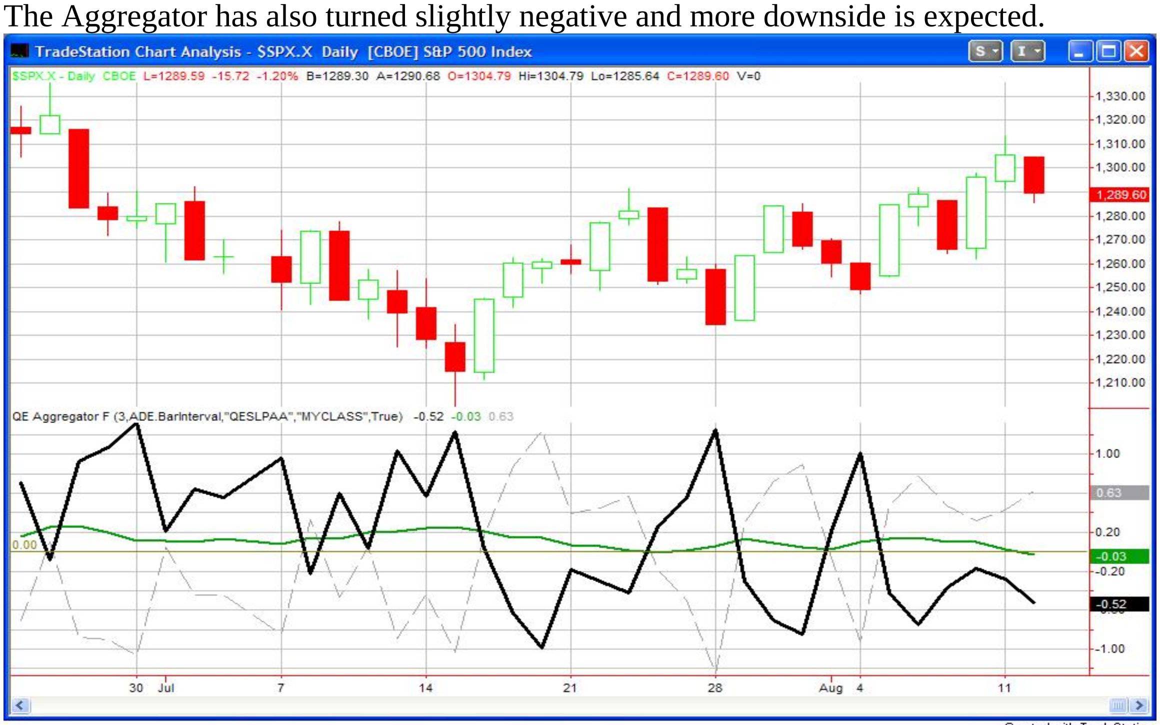
One issue with the SOX right now is that it is quite extended. In fact, the SMH has triggered a system I published in the 5/5/08 Subscriber Letter:

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

This setup is even more rare among ETF's. Over the last 10 years among my list of 104 highly liquid ETF's it has only triggered 7 times. Not enough to produce meaningful statistics. The fact that it is so rare does exemplify how overbought SMH is. Significant near term upside appears unlikely.

The Aggregator has also turned slightly negative and more downside is expected.



The entrypoint of the SPY trade from last night's Letter was never hit since the market gapped down this morning an never filled the gap. This is the 3rd time in a week that the market has gapped in the direction of an index trade idea and never provided a fill. Incredibly frustrating to see such strong moves and not have the allocation I wanted to profit from the move. While more downside in the next day or so seems likely, I'm not eager to short into a market that already dropped fairly hard today. I'll therefore wait for a lower-risk entry.

Intermediate-term Outlook (1 week – 2 months) -neutral – updated 8/11

The market has continued to rally and put in a series of higher highs and higher lows since the July bottom. As I noted in the short-term outlook above, price action has been quite strong. Also in the bullish camp is the fact that the market bounced after such extremely poor breadth readings in July. This was discussed in the July 20th Letter. (Feel free to email me if you need a copy.)

Up until this week the volume pattern had been about picture perfect. With the studies noted above, that has changed over the last few days. There are also some other indicators which have received some attention this week that could have bearish implications.

The first is the ratio of Nasdaq volume to NYSE volume. I saw this keenly noted on both MarketTells.com and also on Cobra's Market View blog. The basic idea with the indicator is that when Nasdaq volume becomes extreme compared to NYSE volume, that suggests that more activity is occurring in more speculative stocks. Speculative alpha chasing is the type of behavior often associated with tops.

Over the last three days Nasdaq volume has exceeded NYSE by over 1.8 times on average. Below are some study results showing S&P performance after such occurrences. Note that the sizable discrepancy in instances is due to significant overlap.

Nasdaq volume exceeds NYSE volume by an average of 1.8 times over the last 3 days. Buy at close. Sell X days later. $100k/trade. 1991-present.

X Days	Trades	% Wins	Wins	Losses	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
40	8	12.50	1	7	$13,176.96	($23,376.92)	$13,176.96	($15,904.75)	0.83	0.12	($12,269.54)
35	9	33.33	3	6	$13,052.40	($18,057.60)	$8,523.49	($10,092.96)	0.84	0.42	($3,887.48)
30	10	20.00	2	8	$10,660.08	($16,490.88)	$7,402.89	($8,728.64)	0.85	0.21	($5,502.33)
25	10	50.00	5	5	$13,586.28	($20,825.68)	$7,000.58	($8,489.70)	0.82	0.82	($744.56)
21	12	33.33	4	8	$11,888.40	($10,968.87)	$6,923.14	($7,178.38)	0.96	0.48	($2,477.88)
20	12	41.67	5	7	$8,590.80	($17,959.41)	$4,126.97	($8,380.84)	0.49	0.35	($3,169.25)
19	12	41.67	5	7	$8,500.58	($23,213.34)	$4,415.80	($9,129.53)	0.48	0.35	($3,485.64)
18	13	53.85	7	6	$12,472.20	($23,902.20)	$4,909.63	($11,416.69)	0.43	0.50	($2,625.60)
17	13	46.15	6	7	$9,881.04	($20,850.20)	$4,013.81	($9,268.36)	0.43	0.37	($3,138.13)
16	13	46.15	6	7	$12,002.34	($20,064.80)	$5,807.00	($8,444.60)	0.69	0.59	($1,866.94)
15	13	53.85	7	6	$12,336.24	($15,990.52)	$5,982.35	($7,896.37)	0.76	0.88	($423.21)
10	17	52.94	9	8	$19,103.70	($13,342.28)	$5,212.24	($6,833.32)	0.76	0.86	($456.26)
9	18	33.33	6	12	$16,181.10	($14,900.50)	$6,617.99	($4,286.15)	1.54	0.77	($651.44)
8	20	45.00	9	11	$13,582.20	($14,101.50)	$4,747.81	($5,396.13)	0.88	0.72	($831.35)
7	21	38.10	8	13	$11,615.94	($20,116.10)	$5,733.21	($5,153.48)	1.11	0.68	($1,006.17)
6	23	34.78	8	15	$11,698.20	($20,365.66)	$4,370.65	($6,723.92)	0.65	0.35	($2,864.94)
5	24	41.67	10	14	$10,069.18	($14,282.04)	$3,891.48	($5,881.82)	0.66	0.47	($1,809.61)
4	27	44.44	12	15	$9,677.70	($10,446.50)	$4,128.53	($5,153.36)	0.80	0.64	($1,028.08)
3	32	46.88	15	17	$11,553.60	($9,696.48)	$3,106.19	($4,564.24)	0.68	0.60	($968.73)
2	41	36.59	15	26	$14,168.40	($7,943.52)	$3,734.31	($3,312.52)	1.13	0.65	($734.41)
1	76	43.42	33	43	$13,967.69	($7,146.40)	$2,333.51	($2,237.73)	1.04	0.80	($252.85)

It's fairly apparent why others track this indicator. I'm not quite sure how I feel about the study at the present time, though. While I'd rather the market weren't producing such readings, it seems as though "speculative excess" is an unlikely issue with the current market. With consumer and investor sentiment posting extremely low levels by numerous measures I'm having a hard time believing that's a problem. And even if the market did sell off from here, I don't believe anybody would refer to the current levels as a "top". So while historically similar readings have frequently led to weakness, the premise of the indicator seems off. For now I'm simply going to keep this indicator in mind and not necessarily include it in the Aggregator.

Another issue that I've seen noted a few different places is the low number of new highs versus new lows. On the surface this seemed to be potentially concerning to me so I took a look:

S&P 500 makes highest high and higest close in 30 days. New 52 week lows exceed new 52 week highs.												
Buy SPX on close. Sell X days later. $100k per trade. 1970 - present.												
X Days	Net Profit	Trades	% Wins	Wins	Losses	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
30	$6,646.50	8	62.50	5	3	$5,520.40	($5,127.30)	$3,249.86	($3,200.94)	1.02	1.69	$830.81
20	$5,376.89	8	75.00	6	2	$5,489.32	($7,374.60)	$2,814.87	($5,756.16)	0.49	1.47	$672.11
10	$7,555.25	11	72.73	8	3	$2,887.48	($2,409.62)	$1,494.66	($1,467.34)	1.02	2.72	$686.84
9	$945.02	12	58.33	7	5	$2,295.48	($3,732.52)	$1,582.86	($2,027.00)	0.78	1.09	$78.75
8	($1,138.05)	12	58.33	7	5	$2,995.40	($3,823.64)	$1,420.52	($2,216.34)	0.64	0.90	($94.84)
7	($805.32)	12	58.33	7	5	$2,945.08	($4,006.56)	$1,503.46	($2,265.90)	0.66	0.93	($67.11)
6	$3,426.73	13	53.85	7	6	$4,035.12	($3,429.12)	$1,725.15	($1,441.55)	1.20	1.40	$263.59
5	$10,266.56	13	69.23	9	4	$4,290.80	($2,424.39)	$1,635.13	($1,112.40)	1.47	3.31	$789.74
4	$4,532.00	15	66.67	10	5	$4,275.84	($4,240.48)	$1,290.30	($1,674.19)	0.77	1.54	$302.13
3	($424.13)	16	62.50	10	6	$2,458.20	($4,080.75)	$930.76	($1,621.95)	0.57	0.96	($26.51)
2	$4,905.55	17	58.82	10	7	$2,212.98	($1,664.97)	$1,056.50	($808.49)	1.31	1.87	$288.56
1	$1,498.52	18	50.00	9	9	$1,516.26	($1,294.50)	$576.14	($409.64)	1.41	1.41	$83.25

Results appear choppy and under perform a random sampling. The instances are quite small, and before jumping to conclusions it's important to isolate the affect of the indicator. So below is the same test when news highs exceeded new lows:

S&P 500 makes highest high and higest close in 30 days. New 52 week highs exceed new 52 week lows.												
Buy SPX on close. Sell X days later. $100k per trade. 1970 - present.												
X Days	Net Profit	Trades	% Wins	Wins	Losses	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
30	$45,407.22	76	60.53	46	30	$10,181.64	($16,698.36)	$3,357.61	($3,634.76)	0.92	1.42	$597.46
20	$46,874.84	95	67.37	64	31	$9,782.36	($12,082.93)	$2,259.23	($3,152.12)	0.72	1.48	$493.42
10	($7,081.82)	152	49.34	75	77	$5,768.50	($7,084.34)	$1,726.07	($1,773.21)	0.97	0.95	($46.59)
9	($1,724.40)	157	52.23	82	75	$4,946.98	($8,605.65)	$1,509.54	($1,673.42)	0.90	0.99	($10.98)
8	($5,070.33)	164	50.61	83	81	$4,503.68	($7,137.90)	$1,422.91	($1,520.64)	0.94	0.96	($30.92)
7	($237.39)	179	48.60	87	92	$4,443.12	($8,722.04)	$1,446.51	($1,370.48)	1.06	1.00	($1.33)
6	($622.58)	192	52.08	100	92	$5,064.60	($4,802.89)	$1,180.83	($1,290.28)	0.92	0.99	($3.24)
5	($13,249.83)	211	50.71	107	104	$4,683.84	($4,624.70)	$1,071.24	($1,229.55)	0.87	0.90	($62.80)
4	($8,503.07)	228	52.63	120	108	$3,276.08	($4,617.49)	$914.93	($1,095.32)	0.84	0.93	($37.29)
3	($17,401.51)	264	50.76	134	130	$3,578.64	($4,034.70)	$837.79	($997.42)	0.84	0.87	($65.91)
2	($14,754.10)	322	50.31	162	160	$3,061.60	($4,033.80)	$672.02	($772.64)	0.87	0.88	($45.82)
1	($5,741.46)	463	49.24	228	235	$2,286.84	($3,515.37)	$442.73	($453.98)	0.98	0.95	($12.40)

These results are worse than the 1st case where lows exceeded highs. So while the market may pull back (which it frequently does after making 30-day highs), the blame shouldn't be laid on the lagging number of new highs.

Overall, the intermediate-term outlook hasn't changed much from last week. I'm still expecting stronger conditions down the road, but the next few weeks appear less certain. I believe volume will be a key component to watch. Hopefully some of the volume indicators and patterns discussed lately can improve. It would also be nice to see stronger breadth participation. Those are two areas I will be watching especially carefully as I believe they should help to provide some clues.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

none

Open Big 50 Trades

None

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	3.49
DJ US Insurance Index	IAK	0.00		DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	0.00		DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	1.72		DJ US Industrial Sector	IYJ	0.77
DJ US Oil Equip & Svcs	IEZ	7.69		DJ US Consumer Goods	IYK	0.68
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	1.01
DJ US Home Construction	ITB	0.00		DJ US Telecommunications	IYZ	5.26
DJ US Consumer Svcs	IYC	0.00		Nasdaq 100	QQQQ	2.00

Additional New Trade Ideas

CSCO – *short @ $24.50. Stop @ $25.01.* From the 3/25 Subscriber Letter:

The following conditions are present: 1) %b closes at 98 or above 4 days in a row. 2) Today's close is lower than yesterdays. 3) Today's close is below the 200-day moving average. Looking back 10 years and shorting under these conditions and then covering when the %b closed below 75 would have produced 96 trades across all S&P 100 stocks. Seventy-five (78.1%) were winners. Gross gains outsized gross losses by 2.3 to 1. The expected value of each trade was a 1.9% gain.

The dwindling volume shows buyer enthusiasm has fallen off over the last few days.

This one looks to be providing decent risk/reward since using a tight stop in possible.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IP(S)	8/6/2008	$28.34	$29.51	-4.13%	$29.51	stopped out
SLE(S)	8/12/2008	$14.90	$14.71	1.28%	$15.16	cover close < 10ma

Stocks and ETF's on my Radar

Semiconductor ETF's: SMH, IGW, PSI, and XSD. A pullback entry could offer nice longer-term risk/reward.

USO – pulling back sharply and nearing the 200-day ma support. Qualifies under the system published 4/2/08 that required 10 closes below the 10ma, a close above the 200ma and the lowest close in 10 days. A close above the 10ma was the exit criteria.

GLD and SLV – Both are extremely oversold and put in tight ranges today. Could off solid risk/reward for a bounce trade using today's low as a potential stop area.