QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 15, 2008 Issue 125

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 15, 2008	SPX up 0.5 Vol Lowest in 20	1-20 days	Bearish
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 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 8/15

The market moved up a bit today. Breadth was strong as up volume exceeded down volume by about 2:1. Volume was the weak hand though, coming in at the lowest level since the July 3rd pre-holiday half day.

I showed a study on the blog tonight that looked at performance following days the market rose on exceptionally weak volume. Over the last 10 years performance has been quite weak. Below is the table from the blog:

SPX closes up at least 0.5%. Volume comes in at 20-day low. Buy at close. Sell X days later. $100k/trade. Last 10 yrs.

X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	($41,380.14)	29	11	18	37.93	$4,189.13	($4,858.92)	0.86	0.53	($1,426.90)
19	($32,007.04)	30	13	17	43.33	$3,814.11	($4,799.44)	0.79	0.61	($1,066.90)
18	($36,471.13)	31	14	17	45.16	$3,124.14	($4,718.18)	0.66	0.55	($1,176.49)
17	($29,969.23)	31	13	18	41.94	$3,259.68	($4,019.17)	0.81	0.59	($966.75)
16	($20,645.58)	31	13	18	41.94	$3,313.74	($3,540.23)	0.94	0.68	($665.99)
15	($30,285.15)	31	13	18	41.94	$3,177.62	($3,977.46)	0.80	0.58	($976.94)
14	($30,947.85)	31	12	19	38.71	$3,389.57	($3,769.62)	0.90	0.57	($998.32)
13	($23,928.59)	31	15	16	48.39	$2,619.03	($3,950.88)	0.66	0.62	($771.89)
12	($40,842.62)	31	11	20	35.48	$3,071.43	($3,731.42)	0.82	0.45	($1,317.50)
11	($29,679.04)	31	10	21	32.26	$3,226.23	($2,949.59)	1.09	0.52	($957.39)
10	($26,688.87)	32	13	19	40.63	$2,449.53	($3,080.67)	0.80	0.54	($834.03)
9	($25,429.22)	32	15	17	46.88	$2,412.33	($3,624.37)	0.67	0.59	($794.66)
8	($22,123.22)	32	16	16	50.00	$2,145.43	($3,528.13)	0.61	0.61	($691.35)
7	($25,540.26)	32	16	16	50.00	$2,101.10	($3,697.37)	0.57	0.57	($798.13)
6	($17,644.30)	32	18	14	56.25	$1,809.20	($3,586.42)	0.50	0.65	($551.38)
5	($28,724.38)	34	16	18	47.06	$2,007.36	($3,380.12)	0.59	0.53	($844.83)
4	($13,700.94)	34	15	19	44.12	$1,765.33	($2,114.78)	0.83	0.66	($402.97)
3	($17,683.25)	34	15	18	44.12	$1,428.04	($2,172.43)	0.66	0.55	($520.10)
2	($14,093.70)	34	11	23	32.35	$1,192.93	($1,183.30)	1.01	0.48	($414.52)
1	($2,316.82)	35	14	21	40.00	$1,164.43	($886.61)	1.31	0.88	($66.19)

The reason that I only showed the last 10 years for this study is that prior to that there was no discernable edge.

The studies have begun to move from predominantly bullish to predominantly bearish over the last week or so. This can be seen in the green Aggregator line on the Aggregator chart below:

Created with TradeStation

I'm starting to lean towards the short side, but will give it another day or so before looking to initiate an index position.

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

EZU – buy ½ position @ $45.90

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	1.16
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	0.00
DJ US Oil&Gas Expl & Prod	IEO	0.00		DJ US Industrial Sector	IYJ	0.38
DJ US Oil Equip & Svcs	IEZ	1.92		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	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

Additional New Trade Ideas

See Catapult for ETF's trade of EZU in Catapult section above.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLE(S)	8/12/2008	$14.90	$14.38	3.52%		
CSCO(S)	8/13/2008	$24.50	$24.67	-0.69%	$25.01	cover close < 5ma

Half of the SLE trade was covered at the open and the other half at the close.

Stocks and ETF's on my Radar

Semiconductor ETF's: SMH, IGW, PSI, and XSD. Still waiting for a pullback.