

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 11, 2008

Issue 143

## 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	Avg Max Move	Avg MM + 1 Std Dev
September 11, 2008	Bad Breadth Rebound	1-6 Days	Bearish	-4.10%	-5.85%
September 5, 2008	Acceleration Down	1-5 days	Bullish	3.09%	5.45%
September 3, 2008	Large Gap Fail	1-7 days	Bullish		
8/27 & 9/11	Weak Bounce	1-17 days	Bearish	-5.30%	-8.90%
8/19 & 8/31	1% Drop Extreme Low Vol	1-10 days	Bearish	-4.04%	-7.14%
August 15, 2008	SPX up 0.5 Vol Lowest in 20	1-20 days	Bearish		
July 7, 2008	5 Weeks Lower	1-10 weeks	Bearish		
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		

If the avg max move is achieved it will appear in **bold and green**. If the avg + 1 std deviation is achieved, the study will in *bold italic blue*.

### *Short-term Outlook (1-5 days) –neutral approaching bearish – updated 9/11*

The market bounced a little on Wednesday. Volume came in lighter and breadth was less than impressive. Advancers inched out decliners by about 16 to 15.

The best bounces are typically impressive from the start. Those that start off weak many times roll over. The [weak bounce study from 8/27](#) is back in effect again tonight. Also in [tonight's blog](#) I show a study which looks at weak positive breadth occurring on a bounce following a sharp drop on strongly negative breadth. The setup has been quite bearish – especially recently. To examine how the up volume breadth % affected results I isolated that factor and ran some additional studies:

<b>Yesterday S&amp;P drops at least 2%. Down volume makes up at least 85% of total volume on NYSE. Today the market closes higher but up volume makes up &lt; X% total volume. Buy SPX on close. Sell 6 days later. \$100k/trade. 1970-present</b>										
< X% Vol	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
70%	(\$2,886.71)	40	17	23	42.50	\$2,876.04	(\$2,251.28)	1.28	0.94	(\$72.17)
65%	(\$4,336.99)	34	14	20	41.18	\$2,866.85	(\$2,223.65)	1.29	0.90	(\$127.56)
60%	(\$10,681.99)	26	10	16	38.46	\$2,829.39	(\$2,435.99)	1.16	0.73	(\$410.85)
55%	(\$14,776.17)	19	6	13	31.58	\$2,703.73	(\$2,384.50)	1.13	0.52	(\$777.69)
50%	(\$15,011.96)	11	2	9	18.18	\$2,942.16	(\$2,321.81)	1.27	0.28	(\$1,364.72)

In the study above you can see that the weaker the breadth has been on the bounce, the worse both the winning percentage and the average trade.

I also examined what happened when upside volume was ABOVE X%. Those results are below:

**Yesterday S&P drops at least 2%. Down volume makes up at least 85% of total volume on NYSE. Today the market closes higher and up volume makes up > X% total volume. Buy SPX on close. Sell 6 days later. \$100k/trade. 1970-present**

> X% Vol	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
80%	\$12,594.84	9	5	4	55.56	\$4,965.80	(\$3,058.54)	1.62	2.03	\$1,399.43
75%	\$12,806.59	14	6	8	42.86	\$4,800.60	(\$1,999.62)	2.40	1.80	\$914.76
70%	\$22,117.30	25	14	11	56.00	\$3,703.69	(\$2,703.13)	1.37	1.74	\$884.69
65%	\$23,567.58	31	17	14	54.84	\$3,565.20	(\$2,645.78)	1.35	1.64	\$760.24
60%	\$29,912.58	39	21	18	53.85	\$3,450.02	(\$2,363.22)	1.46	1.70	\$766.99
55%	\$20,820.17	47	24	23	51.06	\$3,240.52	(\$2,476.19)	1.31	1.37	\$442.98
50%	\$15,420.67	55	28	27	50.91	\$3,146.80	(\$2,692.22)	1.17	1.21	\$280.38

Nearly a mirror image of the previous study. The average trade climbs steadily as the breadth % increases.

Tonight's Aggregator chart is below:



The bullish studies have begun dropping off the list and we're now seeing some short-term bearish indications. The black differential line is still well above 0 since the S&P has underperformed expectations for the last few days.

Early on the bounce appears weak and ultimately likely to fail. If it continues for another day or two I will likely become interested in shorting again. Hopefully it will bounce enough to provide a favorable entry.

***Intermediate-term Outlook (1 week – 2 months)–neutral to slightly bearish-[updated 9/8](#)***

While the drop last week was sharp there is little sign from an intermediate-term standpoint that it was exhaustive in any way. The recent studies which have shown bullish implications are short-term in nature. Most of them will lose their influence by the end of this week.

The drop this week broke the market out of its 5-6 week consolidation and the July lows are the next level of support. At this point, many of the breadth and other exhaustive measures I look at have yet to reach significant levels. Examples of indicators that are nowhere near their mid-July levels include New 52-week lows, the % of Stocks Closing Below Their 40-day MA, the VIX and VIX:VXV Ratio, the CBI, which currently stands at 4, and sentiment surveys.

It's not surprising that panic has not set in since the move down is fairly new. Should the market reach its July lows, it will then be important to monitor these indicators to see if divergences or panic readings develop.

One notable index that broke down to new 52-week lows this week is the Semiconductors (SOX). I've shown some studies in the past that indicators the SOX can act as a leading indicator for the rest of the market. Those studies may be found [here](#) and [here](#). You may also find an interesting and related study on the MarketSci blog [here](#). So if the SOX does a nice job of leading the market to the upside, does a breakdown to a new low serve as a bad omen?

I looked back to 1995 to find all the times the SOX has broken to a 52-week low ahead of the S&P 500. I wanted to see whether the S&P 500 often followed it and also hit a 52-week low. Of the 10 instances I found of the SOX hitting a 52-week low without the S&P, only 3 of them led to a breakdown in the S&P within the next 20 days. Those three were 11/10/2000, 9/5/02, and 10/26/07. The seven instances that didn't lead to an S&P breakdown occurred on 1/15/96, 7/11/96, 12/12/97, 6/3/98, 8/27/98, 7/15/04, and 7/7/06. So while you would rather see the SOX running up and leading the market higher, it doesn't appear to be any kind of death sentence that it has broken down.

In summary it simply appears too early to tell whether the market is going to crack the July lows or not. I am not seeing strong evidence line up for either the bullish or bearish case for the long-term. It will be important to take things as they come at this point and evaluate the market with fresh eyes on a daily basis.

## **Catapult and Capitulative Breadth Statistics**

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

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

DELL –bought 1/3 position at \$20.22

EXC – bought 1/3 position @ \$63.97 limit

DELL – bought 1/3 position \$19.30

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

None

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

VWO – bought and listed in trades section

FXE – bought and listed in trades section

### ***Broad Market Large Cap CBI – 3/2 (2 DELL,EXC)***

### ***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	0.00	DJ US Energy	IYE	4.65
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	8.11	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	6.90	DJ US Industrial Sector	IYJ	1.92
DJ US Oil Equip & Svcs	IEZ	9.62	DJ US Consumer Goods	IYK	1.36
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	2.70
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	2.44	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.78	DJ US Technology Sector	IYW	4.02
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	1.32	Nasdaq 100	QQQQ	4.00

Oil equipment & services remains oversold even with a slight bounce today.

### **Additional New Trade Ideas**

*None. I'd prefer to sit out the bounce for another day or so and then look for short opportunities. Most of the interesting stocks tonight are all setting up for long trades. I'd prefer not to take on any additional long exposure at this time. There are a couple of long setups in the radar section for those who believe this bounce may have legs.*

### Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DELL	9/4/2008	\$20.22	\$19.31	-4.50%		Catapult
FXE	9/5/2008	\$143.20	\$140.39	-1.96%		Catapult
VWO	9/5/2008	\$37.50	\$36.90	-1.60%		Catapult
ETR	9/8/2008	\$96.85	\$95.21	-1.69%		Sold on open
EXC	9/9/2008	\$64.97	\$64.23	-1.14%		Catapult
DELL	9/4/2008	\$19.30	\$19.31	0.05%		Catapult

ETR hit its intraday exit trigger as noted Tuesday morning. Hopefully most Subscribers were able to profit from it.

### Stocks and ETF's on my Radar

MOT & EWW - Like X last night, there is 1 stock and 1 ETF set up with the following system from the May 9<sup>th</sup> subscriber letter.

*Setup based on the following criteria: 1) Closes below 10ma at least 10 days in a row. 2) Today it hit a 10-day low. 3) Yesterday it closed stretched further below the 10ma on a percent basis than any day of the selloff. 4) Today it again closed stretched further than any day of the selloff. Over the last 10 years across all current S&P 100 stocks, buy this setup on the close and selling on a close above the 5-period moving average would have produced the following results (as of May 9<sup>th</sup>):*

Trades	475
Winners	352
Pct Winners	74.1%
Avg Win	3.70%
Avg Loss	-4.93%
Avg Trade	1.55%
Profit Factor	2.3

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