QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 30, 2008 Issue 178

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
October 29, 2008	Strong Bounce Without Volume	1-2 Days	Bearish	-3.50%	-6.20%
October 27, 2008	***Up Iss 10 MA<.375 SP 100 low***	***1-10 Days***	***Bullish***	***4.57%***	***9.12%***
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*** and will be removed tomorrow.

Short-term Outlook (1-5 days) – neutral – updated 10/30

An incredibly odd market day today. Early morning chop turned into a drift higher as the Fed announcement approached. After the announcement the market sold off a bit only to turn and rally strongly from 2:35 to 3:50. With less than 15 minutes to go in the trading day the S&P 500 was up over 3%. It appeared certain that last night's SPY short idea was going to trigger an entry at the close. Then a GE headline surface and the S&P 500 dropped over 4.5% in the last 10 minutes of the day. It closed the day down over 1%. Volume overall came in lower – largely due to the quiet trading before the announcement. Breadth ended up generally positive. Decliners on the NYSE outnumbered advancers by more than 3 to 2.

My data was able to look back to 1969 to calculate an advancing issues percentage. Since that time there has never been a day where up issue were over 60% of total issues and the S&P 500 declined 1%. In fact, the highest reading of up issues accompanying a 1% decline over that time period was 53%. Only 4 times did the S&P drop 1% and the up issues manage to finish above 50% - 2/7/01, 12/31/01, 2/15/02, and 5/3/02.

Frankly, that's fine that the daily data is a bit cockeyed. When the daily picture changes that much based on a headline in the last 10-minutes of the day, I'm reticent to try and read too much into the daily statistics. For instance, last night I pointed to some Fed studies. While I could pull out others looking at strong negative reactions on Fed days, they wouldn't seem to represent the spirit of the day. I would suggest the reaction to the Fed was generally positive. If not for GE, the market was set to finish strong.

What we can take away from today is that the market remains highly reactive to news (and rumors). Fear is still present. It is important to keep in mind that extremely strong reactions such as we saw in the last 10 minutes today, can frequently be over-reactions.

In tonight's blog I showed a study that looked at strong selloffs in the last 10-minutes of the day. Today's was the strongest in the last 25 years. There have been 3 others of 2% or greater. All 3 led to sizable gains the next day. Too small a sample size to use for analysis, but something to keep in mind when considering what extremely strong moves many times suggest – an overreaction.

The oversold breadth study that was active over the last few days did hit its max move + 1 standard deviation target today and will be removed from the active studies list. That leaves us with 1 short-term bearish study set to expire tomorrow. In other words – I'm simply not finding a sizable edge to trade at this point. Had the markets closed 10 minutes earlier we would have had a nice short setup and active trade idea going into tomorrow. I'm not keen on trying that short at this point when the market is already down 4.5%. Too much fear and volatility remain to trade without a sizable edge.

The systems triggered tonight were once again almost 0. CVG triggered system 80509 and that was it. (It's not a trade I'm considering based on the market outlook and lack of confirmation from other stocks. It could be a tradable stock for intraday traders to consider as it is very much in play lately.)

The CBI dropped down to 4 today – a weak 4 with only 2 separate stocks. It is basically neutral at this point. Sizeable gains were taken in the remaining Catapult positions.

From an intermediate-term perspective I think there's a pretty good chance we get a tradable rally. Short-term I'm not seeing an edge that interests me. So I'll wait until I do.

Intermediate-term Outlook (1 week – 2 months)–slightly bullish -updated 10//20

I generally list the time frame of the Intermediate-term Outlook to be 2 weeks – 3 months. In this market environment 3 months appears to be farther out than I'd be comfortable anticipating. By several measures I've discussed lately the action over the past 4 weeks has been worse than anything ever witnessed. Historical comparisons are few outside of the Crash of '29 and to a lesser degree the Crash of '87. More than anything this suggests to me that we are at a period in time that is unique in many ways.

It is very difficult to time the market when many indicators have posted and continue to post readings that have rarely or never been seen before. A couple of weeks ago I showed a table with some incredible historical extremes I was seeing. The suggestion was that the market was more overdue for a bounce than it had ever been by many measures. That bounce arrived on 10/13. It was one of the strongest one-day rallies in the history of the market. It lasted until just after the opening bell the next day.

Rallies from conditions as extreme as we saw 2 weeks ago should last longer than 1-2 days – especially when they begin so strong. We are now hitting new extremes for several of the same indicators along with some new ones:

Current Condition	Severity
Breadth Extremes	
% Stocks 2 Std Dev Below 200 MA = 86%	Highest since data available back to 1986
%Stocks 1 Std Dev Below 200 MA = 95%	Highest since data available back to 1986
Price Extremes	
SPX over 32% below 200ma	Since 1960 (as far back as data goes) this is the lowest
Dow Industrials 29% below 200ma	10/10/2008 was slightly lower - other than that this is the lowest since 1938.
Volatility Extremes	
VIX close @ 79.13 and high @ 89.53	Both all time high (back to 1990)
SPY 20-period Avg True Range = 7.6%	Highest since SPY inception
SPY 10-period Absolute Avg Gap = 3.07%	Highest since SPY inception
S&P 500 20-per. Avg True Range = 6.70%	Highest since at least 1960

Some truly incredible numbers here. Most astonishing to me is the fact that the SPY has gapped an AVERAGE of 3% during the last 2 weeks. Again, this is suggesting a bounce should be in the cards here fairly soon. I believe the next strong bounce is likely to result in at least a multi-week rally similar to those we saw coming off the January, March and July "bottoms".

My visibility beyond that is poor and will depend largely upon how the world economies react to the global stimulus plans currently in place.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

AIG & COV – no official entries in either.

Catapult for ETF's Trades

None

Broad Market Large Cap CBI –4/2 (AIG-3, COV)

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	6.76		DJ US Financial	IYF	7.19
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00		DJ US Healthcare	IYH	21.13
DJ US Oil&Gas Expl & Prod	IEO	0.00		DJ US Industrial Sector	IYJ	6.90
DJ US Oil Equip & Svcs	IEZ	1.92		DJ US Consumer Goods	IYK	13.61
DJ US Pharmaceuticals	IHE	5.41		DJ US Basic Materials	IYM	5.41
DJ US Healthcare Providers	IHF	28.57		DJ US Real Estate	IYR	21.95
DJ US Medical Devices	IHI	21.95		DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	5.56		DJ US Technology Sector	IYW	7.54
DJ US Home Construction	ITB	9.52		DJ US Telecommunications	IYZ	7.89
DJ US Consumer Svcs	IYC	7.02		Nasdaq 100	QQQQ	4.00

Additional New Trade Ideas

none

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MA	10/27/2008	$127.63	$140.80	10.32%		closed
MA	10/28/2008	$126.35	$140.80	11.44%		closed
HPQ	10/28/2008	$31.18	$35.50	13.86%		closed

All of the open Catapult positions were closed out for nice gains as per the stops and targets sent out via the intraday alerts.

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