QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 11, 2008 Issue 186

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
November 11, 2008	SPY Gap Up Fail < 200 Low Vol	1-2 days	Bullish	2.50%	4.80%
November 9, 2008	2.5% Rally On Poor Volume	1-7 days	Bearish	-5.15%	-10.10%
November 7, 2008	2 Lower Closes On High Volume	1-3 days	Bearish		
November 6, 2008	S&P 500 Drops 5% today	1-4 days	Bullish	5.28%	8.43%
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		

If the avg max move is achieved it will appear in **bold and brown**. 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) – slightly bullish – updated 11/11

After gapping up over 1% to start the day, the S&P 500 started selling off almost immediately. It fell throughout most of the day and finished lower by over 1%. Volume on the NYSE was the lightest in over a week. Breadth was negative by a little over 2 to 1 in terms of both issues and volume on the NYSE..

The S&P is almost exactly halfway between the October 27th closing low and the November 4th closing high. Over the next few days or weeks traders will eagerly await a breakout of this range to possible signal the next move for the market. Most of the indicators I look to for guidance are now range-bound as well and offering little guidance.

Monday's price pattern is somewhat interesting, though. Too many who look at it a large gap up that fails to hold above yesterdays close appears to be a bearish configuration. In the past I looked at a similar pattern for the NDX and actually found it to be slightly bullish. Tonight I ran several characteristics of today's move through the wayback machine and came up with the following study:

SPY gaps up at least 0.5% and closes below yesterday's close and the 200-day moving average. Volume is lower than yesterday.										
Buy on close. Sell X days later. $100k/trade. 1993 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	$11,681.46	25	16	9	64.00	$3,051.59	($4,127.10)	0.74	1.31	$467.26
9	$24,134.53	25	16	9	64.00	$3,502.20	($3,544.53)	0.99	1.76	$965.38
8	$16,534.58	26	19	7	73.08	$2,816.48	($5,282.66)	0.53	1.45	$635.95
7	$33,630.67	26	19	7	73.08	$3,356.47	($4,306.04)	0.78	2.12	$1,293.49
6	$12,961.20	27	16	11	59.26	$3,229.60	($3,519.31)	0.92	1.33	$480.04
5	$20,029.77	28	18	10	64.29	$2,590.05	($2,659.11)	0.97	1.75	$715.35
4	$18,363.32	28	19	9	67.86	$2,076.26	($2,342.84)	0.89	1.87	$655.83
3	$15,377.30	28	19	9	67.86	$2,075.09	($2,672.16)	0.78	1.64	$549.19
2	$31,520.16	29	21	8	72.41	$2,446.47	($2,481.95)	0.99	2.59	$1,086.90
1	$1,637.41	29	18	11	62.07	$1,220.43	($1,848.22)	0.66	1.08	$56.46

Not the most overwhelmingly bullish study I've shown, but consistently so. It would take some elaborate lying to be able to pass off the above results as bearish. Also notable is the fact that 25 of 28 (89%) instances closed higher than the entry trigger at some point in the next 4 days.

Tonight's Aggregator chart is below:

With tonight's study the green Aggregator line managed to hold above 0 for one more day. Once again it is scheduled to dip below 0 tomorrow barring the addition of more bullish studies tomorrow evening. With the 2nd 5% down day about to fall off the black differential line calculation, it would take a close near 900 tomorrow to keep the differential line above zero. So again it appears the studies are suggesting a bounce appears likely in the next day or so, but that bounce is not expected to last at this point. Aggressive traders could try and take a shot at the long side, perhaps even using Friday's low as a possible stop. With the focus of the Subscriber Letter more on 2-5 day trades rather than 0-2 days, I'll not be listing an index trade idea tonight. Instead I'll wait for an edge with a bigger perceived opening.

Intermediate-term Outlook (1 week – 2 months)– bullish -updated 11/10

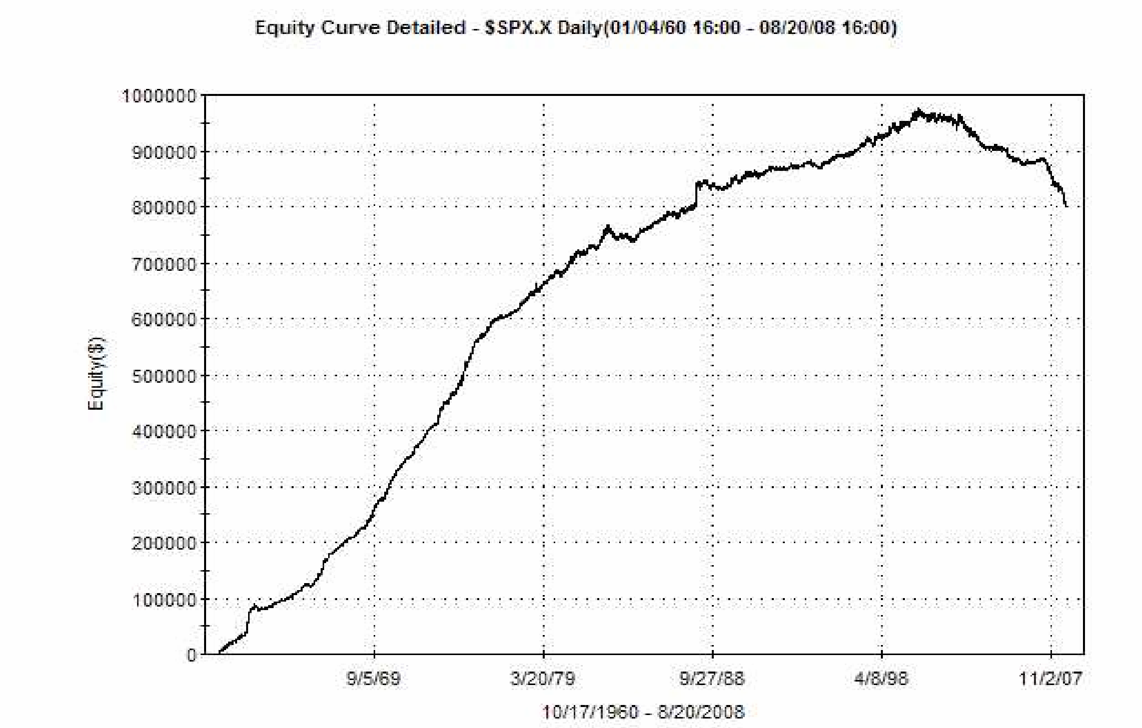
While the market did suffer a steep drop mid-week, it did manage to hold substantially above its October lows. Extremes anywhere close to those we saw at the October lows that I've previously outlined have almost always led to rallies lasting a few weeks to a few months. Much of this was discussed in the 10/26 intermediate-term outlook.

Last week I looked at the short-covering component of the rally, and what that suggested. That research indicated rallies that begin with short covering tend to serve a *better* chance of continuing than those that are led by previously strong stocks. The outperformance of the S&P 500 over the IBD 100 off the recent lows suggested there was a good chance the rally would continue through November.

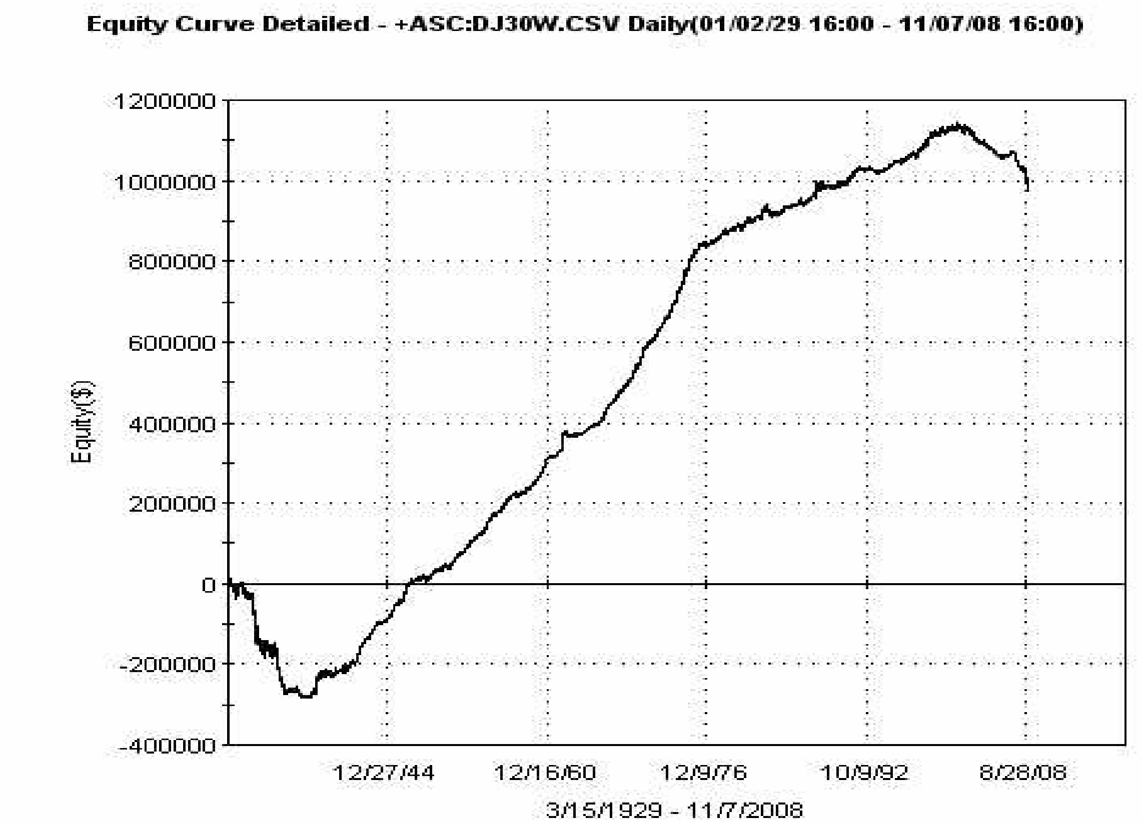
As of yet the market has shown nothing to dissuade me from the idea that it could continue upwards through at least November and perhaps longer.

Some of the more interesting research I've done in the last few months had to do with the recent tendency of the market to chop rather than trend. One of the findings of that research was that prior to 2000 the S&P 500 has most often followed up days with more positive days and down days with more negative days. The market had a strong tendency to trend in this way. In 2000 this reversed and starting in 2007 the tendency to chop has accelerated. The test went back to 1960, which is as far back as my S&P data went.

The chart below is taken from that study. It shows the results of buying the S&P on any up day and then selling and reversing the position short on any down day. An uptrending graph suggests follow-through prevails, while a downtrending graph suggests choppy conditions prevail:



As you can see, trendiness dominated until 2000 – even during bear market periods. This weekend I decided to run the same test on my Dow data going back to the beginning of 1929. Once again I found the results very interesting:



Here we see that by extending the study beyond the original 1960 date there is one more period in history where chop was as prevalent as it is today – the Great Depression. There are many differences in what is happening now versus what happened then. The world is certainly not the same as it was 70-80 years ago. But as I noted on the blog recently, study after study of historical extremes and market action are continuing to point back to this period in time as the only resemblance of today.

Difficult to see in the chart above is that the market changed from a choppy to a trending behavior about a year prior to the 1937 bottom – which was the ultimate low for the period. I believe there are several reasons it would be well worth monitoring the trend vs. chop market behavior going forward. One reason is that a shift back to a trending environment may either confirm or anticipate a bottom of some importance as it did in the 1930's. I shall be adding trend vs. chop charts to the charts section of the website this week.

In summary I believe the market has set up for a tradable rally here. I am not terribly optimistic that it will be the start of the next great bull market and that we will see steadily rising prices for the next 10 years. I am also not ready to suggest we will continue to see lower lows for the next several years. I do think we are in a very tricky period where constant evaluation and study will be important. I intend to handle it in just that way.

Catapult and Capitulative Breadth Statistics

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

Open Catapult 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	1.16
DJ US Insurance Index	IAK	0.00		DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	0.00		DJ US Healthcare	IYH	2.11
DJ US Oil&Gas Expl & Prod	IEO	1.72		DJ US Industrial Sector	IYJ	0.77
DJ US Oil Equip & Svcs	IEZ	0.00		DJ US Consumer Goods	IYK	2.72
DJ US Pharmaceuticals	IHE	0.00		DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	4.08		DJ US Real Estate	IYR	3.66
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	2.01
DJ US Home Construction	ITB	4.76		DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	2.63		Nasdaq 100	QQQQ	0.00

Additional New Trade Ideas

None – Setups have been scarce the last few days, which happens when the market is in a range. Patience is key though. Forcing trades just to trade has never served me well.

The triggers page has also been quiet. Tonight GM triggered system 80418 based on the following conditions:

1) Has closed below lower Bollinger Band (20 period, 2 std dev) 3 days in a row.
2) Volume has increased each of the last 3 days.

Since it's just breaking down out of its range, it isn't a setup I'm particularly excited about. I won't be listing it as a trade idea, but it could work for more aggressive traders. I'd encourage everyone to check out the triggers page each night for possible ideas.

I hope to get the re-design finished in the next few of days so that subscribers can easily view the charts and triggers pages from the front page of the website. Once I do, I will begin to add more systems to the triggers page as well.

Active Trades Table

none