QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 18, 2008 Issue 191

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 18, 2008	2 Days Down in Chop	1-2 days	Bullish	1.50%	3.20%
November 18, 2008	Up Issues Ratio EMA Cross < 36	1-6 days	Bullish	4.30%	8.48%
November 14, 2008	S&P Rises 2% and Spyx > 80	1-6 days	Bullish	3.40%	5.80%
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) – somewhat bullish – updated 11/18

Another rollercoaster day for the market on Monday was capped by a late-day selloff. This time the S&P lost over 2% in the last half hour of trading. Not only was the action similar to Friday, but breadth was again weak and volume declined.

It was the 2nd day in a row where the NYSE Up Issues Ratio closed under 25%. In doing so the 10-period EMA of the ratio as tracked in the charts section of the website crossed below 0.36. I looked back to see how the market has performed other times the indicator has dropped this low.

NYSE Up Issues Ratio 10-day EMA crosses below 0.36 and the S&P 500 closes at a 10-day low.												
Buy on close. Sell X days later. $100k/trade. 1982-present.												
X days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	$53,912.84	30	23	7	76.67	$15,280.64	($17,858.85)	$3,735.24	($4,571.11)	0.82	2.68	$1,797.09
9	$36,146.85	30	23	7	76.67	$14,515.20	($21,711.35)	$3,445.35	($6,156.60)	0.56	1.84	$1,204.90
8	$35,970.09	30	20	10	66.67	$15,738.88	($21,738.15)	$4,064.47	($4,531.94)	0.90	1.79	$1,199.00
7	$41,558.72	30	21	9	70.00	$13,776.64	($23,590.70)	$4,176.65	($5,127.88)	0.81	1.90	$1,385.29
6	$63,206.65	31	23	8	74.19	$18,349.11	($16,703.10)	$4,451.98	($4,898.62)	0.91	2.61	$2,038.92
5	$43,769.88	31	20	11	64.52	$13,733.46	($16,693.05)	$3,926.60	($3,160.20)	1.24	2.26	$1,411.93
4	$25,256.91	31	21	10	67.74	$14,020.11	($14,820.98)	$3,335.63	($4,479.14)	0.74	1.56	$814.74
3	$16,069.50	32	22	10	68.75	$12,304.89	($20,518.75)	$3,060.08	($5,125.22)	0.60	1.31	$502.17
2	$5,741.73	33	20	13	60.61	$9,496.89	($24,538.75)	$3,092.09	($4,315.39)	0.72	1.10	$173.99
1	$25,516.72	33	24	9	72.73	$10,716.03	($5,702.04)	$2,019.59	($2,550.39)	0.79	2.11	$773.23

Not shown above is that 81% of instances closed higher at some point in the next 3 days.

I've nearly beaten to death the fact that this market has been dominated by chop. Here I go again though. Two days down once again triggers the simple 2-day chop system:

If the S&P 500 falls 2 days in a row, buy on close. Sell at first close where the trade is profitable. Sell 3 days later regardless of profitability. $100k/trade. 6/1/2007 – present.

All Trades			
Total Net Profit	$32,367.85	Profit Factor	2.38
Gross Profit	$55,800.59	Gross Loss	($23,432.74)
Total Number of Trades	46	Percent Profitable	86.96%
Winning Trades	40	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	$703.65	Ratio Avg. Win:Avg. Loss	0.36
Avg. Winning Trade	$1,395.01	Avg. Losing Trade	($3,905.46)
Largest Winning Trade	$10,716.03	Largest Losing Trade	($10,506.45)
Max. Consecutive Winning Trades	17	Max. Consecutive Losing Trades	2
Avg. Bars in Winning Trades	2.40	Avg. Bars in Losing Trades	4.00

The Aggregator chart is updated below:

Difficult to see is that the green Aggregator line is positive with a respectable 0.17 reading. The black differential line is near flat as the market has underperformed ever so slightly over the last 3 days. Tomorrow we will see Thursday's 7% gain exit the calculation. So barring a huge move up we should see a spike in the differential line. I'm not overwhelmed, but I think now that we're starting to get confirmation from a few different perspectives a small index position may be worth a shot. Cautious traders could look for an intraday entry. I'll start with a ¼ position and see how it goes. Alos note another Catapult triggered today for those who like to play them.

Intermediate-term Outlook (1 week – 2 months)–somewhat bullish -updated 11/17
New bear market lows were made this past week as the market has been unable to mount any kind of sustained move higher in the last few months.

Thursday's reversal set up the possibility that several divergences are emerging as the market is trying to hammer out a bottom. One such divergence which can easily be seen on the charts page is the Net New Highs. There are substantially less new 52-week lows on the NYSE than there were at the October low. While many technicians may point to this as a positive divergence, my March study showed no evidence of that. We've seen it happen a few times since then without success as well.

In the past I've shown some short-term trading systems based on "time stretches". Basically when price spends an extended period of time below a moving average, it tends to revert and rally back above it. I typically use it with regards to short-term moving averages like the 10-day. At this point there is a 200-day moving average time stretch that is in notable territory, though.

It has now been 225 days since the S&P last closed above its 200-day moving average. Looking back to 1960 there have only been 5 other instances where the S&P remained below the 200ma for this long. Buying on the 225th day and then selling when it crossed back above the 200-day moving average would have resulted in a winning trade every time, with an average gain of 6%.

Unfortunately this market has showed us time and again that it is unlike anything we've seen over at least that amount of time. Therefore I once again used the Dow to look and see how the strategy would have worked in the 1930's. After slicing through the 200 during the early part of the crash of '29 the market totaled 225 days below it on 9/15/30. Buying at that point would have been a disaster. It stayed below the 200ma until 8/22/32. Over that nearly 2-year period from the entry point it lost just over 70%.

One of the things that had me looking for an index reversal a little too early in October was the "mini-crash" on September 29th. Drops of that magnitude have either marked the bottom (1987) or led to a temporary bottom that the market would rally off with in a few weeks. Such was the case with many of the sharp drops between 1929 and 1932. In all those cases a rally emerged that lasted at least a month or so and gained at least 16%.

While we have not had a sustainable rally, there have been two sizable ones since early October. From the low on October 10th to the high on October 14th the S&P rallied over 24%. From the low on 10/28 to the high on 11/4 the market rallied over 19%. The 2nd one was the longest – 6 trading sessions. So while we haven't had a sustainable rally and lower prices were seen after both of these two, they did meet the requirements from a percent change standpoint. Have they simply been condensed versions of they rallies of the past? Or is a more sustainable rally lasting a few weeks to a few months still likely to occur?

It's unclear at this point, but I'm still of the opinion that the market is more likely to launch a substantial move higher form here than a substantial move lower. That's not to say we won't roll right back over after rallying for a month or two. But even if we get another quick leg down here, it would seem unlikely to me that the market won't be trading quite a bit higher between now and the end of the year.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

IP - bought @ $11.77 limit (now out although the signal is officially still active)
CBS – bought @ $6.07 limit

New
GD – buy 1/3 position @ 53.51 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3 (IP, CBS, GD)

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	5.81
DJ US Insurance Index	IAK	2.70		DJ US Financial	IYF	2.74
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	1.40
DJ US Utilities	IDU	0.00		DJ US Healthcare	IYH	10.56
DJ US Oil&Gas Expl & Prod	IEO	5.17		DJ US Industrial Sector	IYJ	9.96
DJ US Oil Equip & Svcs	IEZ	9.62		DJ US Consumer Goods	IYK	12.93
DJ US Pharmaceuticals	IHE	2.70		DJ US Basic Materials	IYM	2.70
DJ US Healthcare Providers	IHF	16.33		DJ US Real Estate	IYR	4.88
DJ US Medical Devices	IHI	12.20		DJ US Transportation	IYT	4.76
DJ US Aerospace & Defense	ITA	11.11		DJ US Technology Sector	IYW	9.55
DJ US Home Construction	ITB	9.52		DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	13.60		Nasdaq 100	QQQQ	5.00

Additional New Trade Ideas

SPY – buy ¼ position @ $85.47 limit. Based on the current bullish studies as discussed in the market overview section above.

GD – buy 1/3 position @ $53.51 limit. From Catapult section above

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GOOG	11/12/2008	$302.05	$310.02	2.64%	$306.04	stopped out
IP	11/13/2008	$11.77	$12.77	8.50%	$11.77	stopped out
CBS	11/13/2008	$6.07	$6.11	0.66%	$6.07	sold 1/2 @ $6.41