QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 5, 2008 Issue 203

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
December 5, 2008	Late day surge	1 day	Bearish	-2.90%	-4.80%
December 4, 2008	***2 Days Up In Chop***	***1-3 days***	***Bearish***	***-1.50%***	***-3.20%***
December 4, 2008	**Gap Down & Reverse**	**1-2 days**	**Bearish**	**-2.60%**	**-5.20%**
December 2, 2008	**5% Drop**	**1-4 days**	**Bullish**	**5.30%**	**8.50%**
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) – very slightly bearish – updated 12/5

The market gapped down again Thursday morning. It filled its gap and then headed back south. With about 20 minutes to go before the close the S&P was down over 4%. With a late surge at the end of the day it managed to close down just shy of 3%. Breadth was weak but not to a large extreme. Volume came in light.

The selloff we were anticipating last night arrived on Thursday. Unfortunately from a trade idea standpoint I got a little to fine with the entry and there was no official fill. It's been a slow week since taking nice profits on Monday's selloff. It tends to get a little frustrating when I'm picking direction correctly but not getting the fills I want. Hopefully some subscribers were a bit more aggressive and were able to benefit.

The market remains range bound and I'm not seeing a whole lot to get me excited about either side tonight. The triggers page has been quiet the last few days and that's typical during choppy, range bound trading.

One observation that may provide a clue for tomorrow's action is the late-day surge that brought the S&P up over 1% in the last 20 minutes. In October on the blog I showed a study that looked at 0.75% surges in the last 10 minutes of the day. The results were bearish. I ran a similar test tonight that looked at times where the market closed at least 1% higher than the low of the last 20minutes of trading. Over the last 23 instances dating back to May of 2000 results have been poor. The performance report is below based on $100k/trade:

All Trades			
Total Net Profit	($28,575.09)	Profit Factor	0.31
Gross Profit	$13,068.18	Gross Loss	($41,643.27)
Total Number of Trades	23	Percent Profitable	30.43%
Winning Trades	7	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	($1,242.40)	Ratio Avg. Win:Avg. Loss	0.72
Avg. Winning Trade	$1,866.88	Avg. Losing Trade	($2,602.70)
Largest Winning Trade	$6,420.72	Largest Losing Trade	($6,094.64)
Max. Consecutive Winning Trades	3	Max. Consecutive Losing Trades	6

The Aggregator chart is updated below:

As expected the black differential line dropped below zero today as Monday's selloff left the calculation. The green Aggregator line is slightly bearish. Two issues I have with shorting this setup are 1) the SPX dropped nearly 3% today already, and 2) all of the short-term studies are set to expire Friday afternoon. My studies are not providing the forward looking clarity at the present time that they usually do. Therefore I will remain sidelined until the market tips its hand a bit. That may require it either getting stretched in one direction or breaking out of its current range. Either case could provide a better opportunity than the current one. Wait and see for me.

Intermediate-term Outlook (2 weeks – 2 months)–slightly bullish -updated 12/1

The market has managed to bounce strongly from levels that were extremely oversold based on historical measures. Most of the time in the past this has led to continued follow through over the next few weeks or months. This is the third try for such a rally since early October. The first two attempts quickly died out.

The S&P has already rallied over 19% off its lows. It rallied about 12% just last week. In the November 2nd Letter I showed a study that compared the 1st week gains of the S&P off the lows with the 1st week gains of the IBD 100. The IBD 100 is an active index whose components change from week to week. It is compiled and tracked by Investors Business Daily and it is supposed to represent leading stocks.

The premise of the study was that outperformance of the S&P 500 over the IBD 100 could suggest a rally driven by short-covering as laggards were outperforming leaders. What was found out was that this kind of short-covering is desirable at the beginning of a new rally. Those attempts that saw the IBD 100 lag in week one actually performed quite a bit better than those that didn't. While the October attempts struggled I'd still consider it a good sign that the S&P has performed so strongly as compared to the IBD 100 over the last week.

Another notable occurrence from last week is the possible direction change in the trend vs. chop chart, which can be found on the website by clicking here. While it's too early to know for sure, it appears the trend vs. chop chart is also attempting to put in a bottom. This would signal a character change for the market as the environment could move from one where directional moves are more often reversed strongly on a daily basis to one that favors follow-through day to day. The last such attempt to move from a choppy to a trendy environment was in early October and that reverted to choppy very quickly. I'll continue to keep an eye on this attempt.

Basically I'm seeing evidence that would suggest the market got so overdone and has bounced so violently that it is likely to put in a rally that could last from a few weeks to a few months. Unfortunately many of the same indications were given at the October rally attempts. Should the pullback manage to put in a higher low, which seems likely at this point, I will likely begin to trade with a bit of a bullish bias.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

MDT hit its intraday target today. It is no longer active and the cluster is finally closed with the CBI back to 0.

Catapult for ETF's Trades

None new

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	2.33
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	2.82
DJ US Oil&Gas Expl & Prod	IEO	3.45		DJ US Industrial Sector	IYJ	0.00
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	1.35
DJ US Healthcare Providers	IHF	2.04		DJ US Real Estate	IYR	1.22
DJ US Medical Devices	IHI	2.44		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	1.75		Nasdaq 100	QQQQ	2.00

Additional New Trade Ideas

None

Stock to watch – USO has dropped 5 days in a row and is in a freefall. Looking for possible either extra large drop or possible reversal to buy for a swing trade.

Active Trades Table

None.