QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 24, 2008 Issue 216

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
Active					
December 24, 2008	2 Days Down In Chop	1-3 days	Bullish	1.70%	3.50%
December 24, 2008	NR10 Low Vol 10 under 200ma	1-4 days	Bearish	-2.60%	-4.90%
December 23, 2008	Santa Rally	1-5 days	Bullish	1.90%	3.60%
December 22, 2008	Nasdaq Volume Spyx < -5	1-6 days	Bearish	-4.50%	-9.20%
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		
Dropped Tonight					
December 23, 2008	Late day surge	1 day	Bearish	-1.70%	-3.00%

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) –neutral – updated 12/24

All the major averages dropped today. Losses generally were close to 1%. Trading was somewhat subdued even with the losses. Price range and volume were both extremely low. Breadth was poor as the Up Issues % came in at 39% and the Up Volume % finished at 31%.

Narrow range combined with low volume while in a long-term downtrend has historically been a bearish combination. While the holiday week action had an influence, below I've updated a relevant study from the October 22nd Subscriber Letter:

SPX has NR10 day on lightest volume in 10 dyas and closes under 200ma										
Buy on close. Sell X days later. $100k/trade. 1978-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
15	($83,785.53)	67	30	37	44.78	$2,570.70	($4,348.82)	0.59	0.48	($1,250.53)
14	($85,690.29)	69	35	34	50.72	$2,170.02	($4,754.15)	0.46	0.47	($1,241.89)
13	($87,811.05)	70	36	34	51.43	$1,999.70	($4,700.01)	0.43	0.45	($1,254.44)
12	($80,800.99)	70	36	34	51.43	$1,933.22	($4,423.44)	0.44	0.46	($1,154.30)
11	($68,510.76)	74	34	40	45.95	$2,201.77	($3,584.27)	0.61	0.52	($925.82)
10	($60,887.10)	77	38	39	49.35	$2,139.86	($3,646.20)	0.59	0.57	($790.74)
9	($55,816.37)	77	39	38	50.65	$1,865.02	($3,382.96)	0.55	0.57	($724.89)
8	($45,596.20)	77	38	39	49.35	$1,934.38	($3,053.91)	0.63	0.62	($592.16)
7	($58,480.42)	77	33	44	42.86	$2,182.89	($2,966.27)	0.74	0.55	($759.49)
6	($61,887.91)	79	33	46	41.77	$1,870.63	($2,687.36)	0.70	0.50	($783.39)
5	($57,886.59)	81	36	45	44.44	$1,823.63	($2,745.27)	0.66	0.53	($714.65)
4	($65,341.90)	82	34	48	41.46	$1,499.34	($2,423.32)	0.62	0.44	($796.85)
3	($59,211.38)	82	30	51	36.59	$1,553.33	($2,074.73)	0.75	0.44	($722.09)
2	($45,338.35)	82	33	49	40.24	$1,271.03	($1,781.27)	0.71	0.48	($552.91)
1	($29,466.07)	87	36	51	41.38	$1,015.57	($1,294.64)	0.78	0.55	($338.69)

There seems to be some bearish influence days 1-4 before the market drifts for a while and then heads lower again.

Also notable about today is that it was the 2nd day lower in a row for the Nasdaq and S&P 500. This once again triggers the 2 Days Lower in Chop system that has been a consistent winner over the last 18 months. I've updated stats for it below:

SPX closes down 2 days in a row. Buy on close. Sell 1st profitable close up to 3 days later. Sell 3 days later regardless of profitability.

All Trades			
Total Net Profit	$39,920.22	Profit Factor	2.70
Gross Profit	$63,352.96	Gross Loss	($23,432.74)
Total Number of Trades	49	Percent Profitable	87.76%
Winning Trades	43	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	$814.70	Ratio Avg. Win:Avg. Loss	0.38
Avg. Winning Trade	$1,473.32	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	2.37	Avg. Bars in Losing Trades	4.00

I have updated the Aggregator chart below:

The Aggregator formation is nearly identical to yesterday. The green Aggregator line is barely positive and in neutral territory. The black differential line remains squarely above 0 as the S&P has significantly underperformed expectations over the last 3 days. With the studies mixed and the Aggregator basically neutral I'm not excited about getting heavily long. I'm planning on maintaining the current index position for now and re-evaluating after tomorrows close.

Intermediate-term Outlook (2 weeks – 2 months)– very slightly bullish -updated 12/22
The market has stumbled higher off its mid-November lows. Some key ingredients for an intermediate-term rally were in place as I discussed at the time. These included extremely oversold conditions followed by sharp rallies higher and bullish divergences. The pullbacks have been fairly mild and the market has worked its way higher.

Notable this week was that the S&P closed above its 50-day moving average for the first time in a long time. I posted a study on the blog a few days ago that looked at other times the S&P had spent a long time below its 50 and then moved above it. The results suggested a trading range was more likely than a strong market move in either direction. Results were also slightly bullish.

Last week I noted the Nasdaq had so far failed to take on a leadership role. This is a bit concerning since the market has achieved over 100% of its gains in the last 38 years while the Nasdaq was leading. As you can see below, the Nasdaq has still failed to take on a leadership role (relative strength line that the bottom is red).

This weekend I looked at other times the market has come off an intermediate-term bottom and after five weeks the Nasdaq had still failed to take on a leadership role. Surprisingly, results were not materially different from those where the Nasdaq quickly began to lead.

I also noticed that it was not only the daily Nasdaq Volume Spyx that posted an extreme reading Friday, but the weekly Nasdaq Volume Spyx closed extremely low as well. I've included a chart of it below:

The 0.61 reading is exceptionally low. I ran a test back to 2000 to see how the Nasdaq performed following readings below 10:

Nas Spyx Weekly closes below 10.										
Buy on close. Sell X days later. $1mil/trade. 2000-present. (One entry at a time.)										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
13	($69,942.29)	9	4	5	44.44	$91,331.55	($87,053.70)	1.05	0.84	($7,771.37)
12	$48,468.49	9	4	5	44.44	$94,100.62	($65,586.80)	1.43	1.15	$5,385.39
11	$167,927.75	9	4	5	44.44	$108,411.96	($53,144.02)	2.04	1.63	$18,658.64
10	$130,824.68	10	6	4	60.00	$64,729.34	($64,387.83)	1.01	1.51	$13,082.47
9	($58,162.56)	12	6	6	50.00	$74,164.03	($83,857.79)	0.88	0.88	($4,846.88)
8	($139,047.47)	12	6	6	50.00	$54,592.55	($77,767.13)	0.70	0.70	($11,587.29)
7	($112,341.13)	13	5	8	38.46	$47,663.04	($43,832.04)	1.09	0.68	($8,641.63)
6	($177,179.20)	13	4	9	30.77	$59,619.19	($46,184.00)	1.29	0.57	($13,629.17)
5	($261,007.76)	14	4	10	28.57	$56,164.53	($48,566.59)	1.16	0.46	($18,643.41)
4	($267,695.62)	14	5	9	35.71	$42,002.62	($53,078.75)	0.79	0.44	($19,121.12)
3	($28,192.81)	16	8	8	50.00	$46,429.31	($49,953.41)	0.93	0.93	($1,762.05)
2	($111,156.21)	18	8	10	44.44	$40,635.74	($43,624.21)	0.93	0.75	($6,175.35)
1	($33,565.97)	22	10	12	45.45	$23,571.01	($22,439.67)	1.05	0.88	($1,525.73)

These numbers look a bit bigger than most tests because it was run using a $1mil/trade instead on $100k. The Nasdaq has struggled over the following five weeks or so by a fairly sizable amount.

For most tests I only allow one entry at a time. This way the is no double-counting on certain weeks. Sometimes I'll run them and allow multiple positions to be active at one time. I decided to do that here and have posted those results below:

Nas Spyx Weekly closes below 10.										
Buy on close. Sell X days later. $1mil/trade. 2000-present. (Multiple entries at a time.)										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
13	($781,862.96)	22	7	15	31.82	$85,053.99	($91,816.06)	0.93	0.43	($35,539.23)
12	($613,187.24)	22	8	14	36.36	$77,306.95	($87,974.49)	0.88	0.50	($27,872.15)
11	($416,236.65)	22	7	15	31.82	$105,589.40	($77,024.17)	1.37	0.64	($18,919.85)
10	($377,068.42)	22	9	13	40.91	$75,966.77	($81,597.64)	0.93	0.64	($17,139.47)
9	($228,620.32)	22	10	12	45.45	$72,780.38	($79,702.01)	0.91	0.76	($10,391.83)
8	($290,904.91)	22	10	12	45.45	$56,955.03	($71,704.60)	0.79	0.66	($13,222.95)
7	($147,928.86)	22	8	14	36.36	$53,951.24	($41,395.63)	1.30	0.74	($6,724.04)
6	($265,528.77)	22	7	15	31.82	$58,952.31	($45,212.99)	1.30	0.61	($12,069.49)
5	($343,882.18)	22	7	15	31.82	$56,905.58	($49,481.42)	1.15	0.54	($15,631.01)
4	($421,294.95)	22	8	14	36.36	$45,679.29	($56,194.95)	0.81	0.46	($19,149.77)
3	($197,222.46)	22	10	12	45.45	$43,699.31	($52,851.29)	0.83	0.69	($8,964.66)
2	($154,309.00)	22	10	12	45.45	$38,003.11	($44,528.34)	0.85	0.71	($7,014.05)
1	($33,565.97)	22	10	12	45.45	$23,571.01	($22,439.67)	1.05	0.88	($1,525.73)

Results appear even more negative here. This isn't surprising considering there are some bad weeks that are being double counted.

Overall, the market is still stair-stepping it way higher. We're near a seasonally bullish time of year. The government has indicated it is going to do whatever it takes to get the economy moving again. Aside from the Nasdaq Volume Spyx readings I'm not seeing much that would suggest a selloff is imminent. It does appear unlikely that the market is just going to blast off from here, though. Right now a range bound scenario appears the most likely to me. If forced to pick a direction beyond a few weeks, I'd likely lean bullish.

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	0.00
DJ US Insurance Index	IAK	0.00		DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	1.25		DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00		DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	0.00		DJ US Industrial Sector	IYJ	0.38
DJ US Oil Equip & Svcs	IEZ	0.00		DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	0.00		DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00		DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00		DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00		DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00		DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.00		Nasdaq 100	QQQQ	0.00

No capitulative action evident.

Additional New Trade Ideas

None tonight. (There were a few triggers on the triggers page for anyone looking for possible action..)

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
IEF(s)	12/19/2008	$99.85	$99.21	0.64%		cover on close < 10ma
QQQQ(1/4)	12/23/2008	$29.06	$29.06	0.00%		