QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 14, 2009 Volume 2 Issue 9

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					
January 14, 2009	Weak Bounce	1-10 days	Bearish	-4.30%	-8.65%
January 9, 2009	NDX 1% while SOX down	1-6 days	Bearish	-4.70%	-9.60%
January 5, 2009	Appel Breadth Thrust	1-20 days	Bullish	3.70%	5.70%
December 31, 2008	***10/200 Put/Call < 0.85***	***1-9 days***	***Bearish***	***-2.70%***	***-5.00%***
December 29, 2008	10/100 ATR < 0.60	n/a	Bearish	n/a	n/a
Active - Long Term					
December 18, 2008	Break above 50-day		Neutral - Trading Range		
December 21, 2008	Nasdaq Lagging		Bearish		
December 21, 2008	Nasdaq Vol Spyx Low	1-5 weeks	Bearish		
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		
Dropped Tonight					
January 13, 2009	2 Down In Chop	1-3 days	Bullish	1.65%	3.50%

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***.

Short-term Outlook (1-5 days) –neutral – updated 01/14

After two strong days of selling the market put in a feeble bounce today. Breadth was marginally positive with NYSE up issues % coming in at 51% and the Up Volume % coming in at 56%. Total volume was barely higher than yesterday.

When the market sells off hard one day and then bounces weakly the next it is normally not a good sign. In August I posted a study to the blog about this setup. Below I have updated the statistics to include the last few months:

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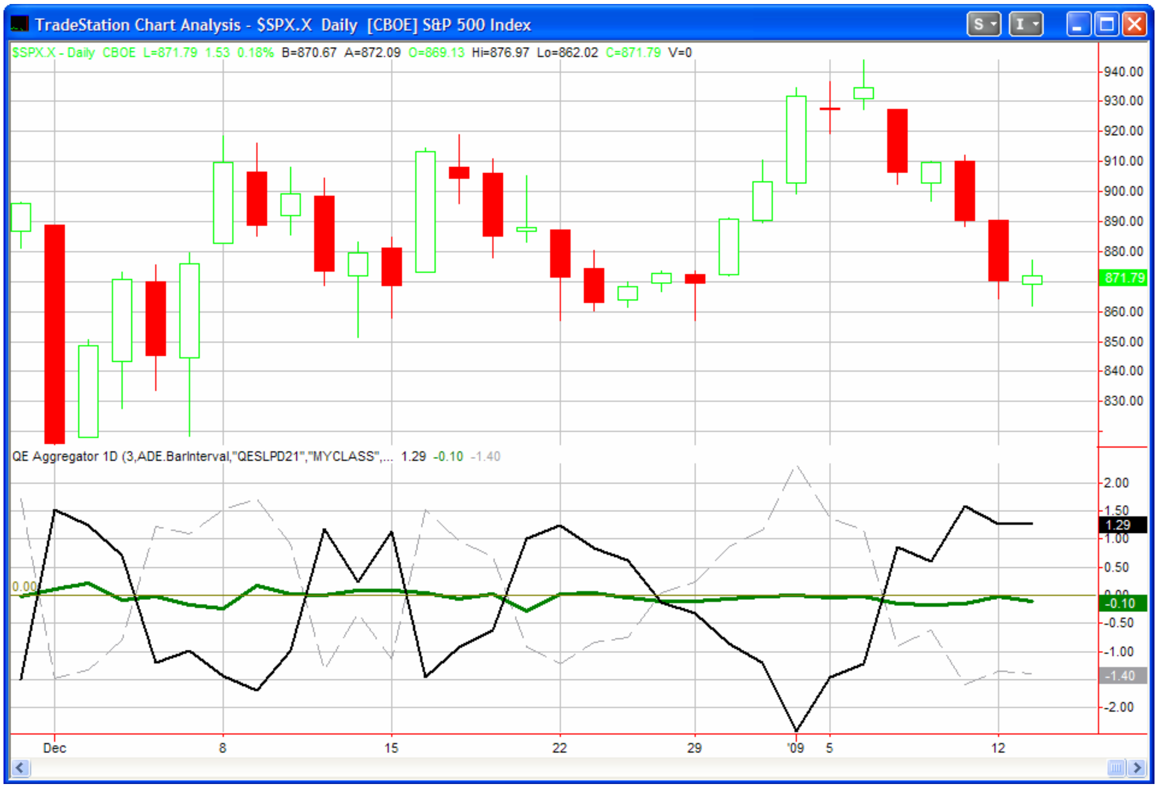
SPX drops 1.75% or more yesterday. Today it closes higher but recovers less than 1/4 of yesterday's drop.										
Buy on close. Sell X days later. $100k/trade. Last 20 years.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	($59,042.24)	34	12	22	35.29	$2,771.93	($4,195.70)	0.66	0.36	($1,736.54)
19	($64,370.54)	34	11	23	32.35	$2,021.06	($3,765.31)	0.54	0.26	($1,893.25)
18	($59,547.85)	35	11	24	31.43	$2,547.82	($3,648.91)	0.70	0.32	($1,701.37)
17	($65,562.06)	35	10	25	28.57	$2,635.61	($3,676.73)	0.72	0.29	($1,873.20)
16	($67,058.96)	36	10	26	27.78	$2,722.66	($3,626.37)	0.75	0.29	($1,862.75)
15	($51,945.58)	37	12	25	32.43	$3,031.70	($3,533.04)	0.86	0.41	($1,403.93)
14	($56,682.55)	37	14	23	37.84	$2,301.91	($3,865.62)	0.60	0.36	($1,531.96)
13	($43,039.64)	38	13	25	34.21	$2,958.02	($3,259.76)	0.91	0.47	($1,132.62)
12	($40,099.03)	39	14	25	35.90	$2,339.70	($2,914.20)	0.80	0.45	($1,028.18)
11	($36,022.34)	39	15	24	38.46	$2,210.95	($2,882.78)	0.77	0.48	($923.65)
10	($47,182.29)	40	12	28	30.00	$2,570.33	($2,786.65)	0.92	0.40	($1,179.56)
9	($44,659.82)	41	15	26	36.59	$2,149.67	($2,957.88)	0.73	0.42	($1,089.26)
8	($37,642.83)	43	15	28	34.88	$2,519.91	($2,694.34)	0.94	0.50	($875.41)
7	($39,016.23)	45	16	29	35.56	$2,588.13	($2,773.32)	0.93	0.51	($867.03)
6	($36,530.37)	45	15	30	33.33	$2,299.72	($2,367.54)	0.97	0.49	($811.79)
5	($32,646.73)	48	20	28	41.67	$1,651.43	($2,345.55)	0.70	0.50	($680.14)
4	($30,136.20)	48	19	29	39.58	$1,520.78	($2,035.55)	0.75	0.49	($627.84)
3	($31,784.77)	50	17	33	34.00	$1,763.11	($1,871.44)	0.94	0.49	($635.70)
2	($21,661.55)	51	24	27	47.06	$1,167.61	($1,840.16)	0.63	0.56	($424.74)
1	($21,286.71)	51	20	31	39.22	$743.77	($1,166.52)	0.64	0.41	($417.39)

Within the 1st 3 days 79% of all instances posted at least one close below the entry point.

Another notable indicator nearing an extreme is the VIX:VXV ratio. It dropped to under 0.92 today. Readings under 0.9 have historically had bearish implications.

On the plus side, at least for tomorrow, the Volume Spyx readings were both high. It was especially so for the Nasdaq as that registered a 113.

I have updated the Aggregator chart below:



The market is still oversold as compared to recent expectations. This can be seen with the high value of the black differential line. While somewhat oversold, the studies have remained bearish and expectations as measured by the green Aggregator line are for more selling.

The selloff over the past week has been different than most recent selloffs. It has failed to produce bullish studies. For the past 3 or 4 days I've felt as is I was itching to get long. The breakout and breadth thrust on January 2nd put me in a frame of mind that I should be looking to buy pullbacks. Yet while I've wanted to buy this pullback I've had to remain sidelined due to the studies results and Aggregator's continued bearishness. The profit taking on the shorts at the close on the 7th has proved a bit premature. Fortunately to this point the studies have kept me safely away from the long side. I believe there remains a decent chance that the market may rally in the next couple of days. I've now resigned to the likelihood that I will miss that bounce. What appears more likely is that I will be looking to short said bounce as it unfolds.

For those traders more confident than I about this bounce there are a few long triggers listed on the triggers page. I'm going to sit it out here and see what tomorrow brings.

Intermediate-term Outlook (2 weeks – 2 months)–very slightly bullish -updated 1/12/9
This week's action did little to change current long-tem studies or to ignite new ones. Last week's breadth thrust failed to follow through as major indices pulled back 4% or more this week. Still it remains above recent swing lows which would equal about 860 in the S&P 500.

The study that's shown to be the most predictive among the long-term actives is the "Break above 50-day" which suggested a choppy trading range was more likely than a strong trend.

Last week I wrote "*between the price breakout and the breadth thrust there may be some hope for an intermediate-term rally. I'm slightly bullish right now and without further evidence that the rally is likely to fail I may begin to buy oversold conditions more aggressively than I short overbought ones*." The problem so far with this 1st pullback is that it has failed to reveal bullish edges. While I'd love to be able to get aggressive we remain in the unusual position of experiencing a selloff where bearish short-term studies continue to dominate.

If support levels fail to hold that could invalidate both the breadth thrust and the inverse head and shoulders breakout ideas from last week – effectively wiping out the bullish thesis for now. I'm keeping an eye on the 850-860 range and also looking to see whether study results come out bullish or bearish these next few days. This week could be a critical test of the upmove.

<u>Catapult and Capitulative Breadth Statistics</u>
(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	0.00
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	0.00
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	0.00
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	5.26
DJ US Consumer Svcs	IYC	0.00		Nasdaq 100	QQQQ	0.00

Still nothing doing.

Additional New Trade Ideas

The SPY trade idea from last night missed filling by 7 cents.

FXI and EWW triggered system 80421, but I won't track either officially. Wait and see for me.

Active Trades Table

None currently open.