QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 16, 2009 Volume 2 Issue 11

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 16, 2009	Weak Breadth Rebound	1-10 days	Bearish	-4.10%	-5.70%
January 16, 2009	Weak Bounce	1-10 days	Bearish	-4.30%	-8.65%
January 15, 2009	5 Lower Lows & Biggest Drop	11-2 days	Bullish	3.10%	6.38%
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 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					

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) –bullish – updated 01/16

A sharp selloff in the morning turned into a furious rally in the afternoon followed by some volatile chop at the end of the day. When it was all over the Dow and S&P were just above unchanged. The Nasdaq did manage to put in a nice gain of over 1%. Breadth was about even and volume came in high.

While the big mid-day turnaround was nice, the fact that the market could not follow through on its gains and actually lost ground in the last hour is not encouraging. Just two days ago I showed a study that looked at weak bounces after big down days. The implications were bearish. That study has triggered again tonight.

It wasn't just the price level of the S&P that gained weakly. Breadth failed to rebound much as well. In September I showed a study that looked at the failure of breadth to rebound on an up day following a large and lopsidedly negative day. That study has triggered again tonight and I have updated the statistics below:

Yesterday S&P drops at least 2% and down volume makes up at least 85% of total volume on NYSE. Today the market closes higher but up volume makdes up < 60% of total volume. Buy on close. Sell X days later. $100k/trade. 2001-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	($35,500.88)	13	2	11	15.38	$3,044.66	($7,532.72)	$1,742.16	($3,544.11)	0.49	0.09	($2,730.84)
9	($27,512.16)	13	3	10	23.08	$4,912.60	($6,368.60)	$2,103.37	($3,382.23)	0.62	0.19	($2,116.32)
8	($18,469.11)	13	3	10	23.08	$10,740.40	($5,803.00)	$4,627.25	($3,235.09)	1.43	0.43	($1,420.70)
7	($20,956.37)	13	3	10	23.08	$6,400.90	($7,898.24)	$3,467.24	($3,135.81)	1.11	0.33	($1,612.03)
6	($27,457.19)	13	1	12	7.69	$6,670.40	($6,284.32)	$6,670.40	($2,843.97)	2.35	0.20	($2,112.09)
5	($35,891.16)	15	3	12	20.00	$5,057.80	($6,125.22)	$1,754.45	($3,429.54)	0.51	0.13	($2,392.74)
4	($21,903.58)	15	3	12	20.00	$2,417.80	($5,206.88)	$1,435.02	($2,184.05)	0.66	0.16	($1,460.24)
3	($18,529.70)	15	3	12	20.00	$3,564.00	($3,910.96)	$1,982.17	($2,039.68)	0.97	0.24	($1,235.31)
2	($16,568.32)	17	6	11	35.29	$2,390.96	($6,510.90)	$1,009.61	($2,056.91)	0.49	0.27	($974.61)
1	($10,414.44)	17	6	11	35.29	$3,644.16	($3,447.40)	$1,275.44	($1,642.46)	0.78	0.42	($612.61)

While instances are a bit low, these results are decidedly negative.

Volume was big but that on its own doesn’t mean much. I looked at other days where the market made a twenty-day low and then closed higher on the highest volume in 10 or 20 days. I compared those results with instances where the volume didn’t spike. There was little difference between the tests and in fact the higher volume days did slightly worse. I ran the study using both the SPY and the Nasdaq Composite. Frankly I think it would be a bit dangerous to try and read much into total volume anyway on a day where up and down volume %’s were almost equal.

I have updated the Aggregator chart below:

Created with TradeStation

In a somewhat unusual move the green Aggregator line flipped back below zero while the black differential line remains squarely above it. Thursday's action was not terribly encouraging as we've seen weak bounces fail time and again. The market remains heavily short-term oversold and certainly could put in a multi-day bounce here. With the Aggregator negative I'm more of a mind to look for a decent exit point here than I am to try and catch a multi-day bounce. Exit strategies are discussed in the trades section below. Should we actually get a multi-day bounce here it could set up a nice short opportunity.

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.

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	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	2.70	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	1.22
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.78	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

Lots of selling. Very little capitulation.

Additional New Trade Ideas

None –more aggressive traders may see systems triggers page for a few long entry ideas.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/15/2009	$84.12	$84.40	0.33%		

As I type this late at night the futures are up over 1%. This could certainly change come morning as CPI and Capacity Utilization and Industrial Production reports are all due out before the bell. If it holds, though I'll be looking to take some off right at the open. I'll probably send out an update in the morning but here's the game plan right now.

1) On an open above $84.75 sell ½ and place a stop on the 2nd half at $84.25. I'll be looking to trail this stop higher throughout the day via intraday updates.
2) On an open between $84.25 and $84.75 I'll sell the whole thing.
3) On an open below $84.25 I'll place an $84.25 limit sell. (I'll look for a bounce to sell into rather than selling into the gap down.)

I'll send out intraday updates tomorrow should the plan change in any way as the market action unfurls.

I don't place pre or post-market orders for tracking in the newsletter but if the gap up remains in place as of 8:00 then traders could consider unloading some before the CPI hits at 8:30. Whatever you're comfortable with.

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