

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 23, 2009

Volume 2 Issue 15

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 22, 2009	Tight range Inside Days	1-6 days	Bearish	-2.60%	-4.90%
January 22, 2009	Volume Weak Bounce	1-2 days	Bearish	-2.60%	-4.90%
January 21, 2009	VIX 20% Stretch Above 10ma	1-4 days	Bullish	4.10%	8.35%
January 21, 2009	5% Drop	1-4 days	Bullish	5.50%	8.67%
January 5, 2009	Appel Breadth Thrust	1-20 days	Bullish	3.70%	5.70%
Active - Long Term					
December 18, 2008	Break above 50-day		Neutral - Trading Range		
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) – updated 1/23

Thursday the market put in an inside day as it failed to break Wednesday's range to the upside or the downside. As far as inside days go, Thursday was quite wild. Prices fluctuated strongly throughout the day. When it was over the S&P closed down 1.5% the Nasdaq down 2.75% and the banking index down almost 6%. Downside issues and volume exceeded upside by about 4:1. Total volume was the lightest in a week. Today's action provided little in the way of inspiration for new studies.

Inside days have historically acted as a short-term negative for the SPY. This is especially true when the SPY is in a long-term downtrend:

<i>SPY posts an inside day under the 200-day moving average.</i>										
<i>Buy on close. Sell X days later. \$100k/trade. 1994-present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg. Trade
15	(\$45,018.85)	55	27	28	49.09	\$3,053.36	(\$4,552.13)	0.67	0.65	(\$818.52)
14	(\$43,647.67)	57	27	30	47.37	\$3,028.86	(\$4,180.89)	0.72	0.65	(\$765.75)
13	(\$51,717.17)	60	32	28	53.33	\$2,553.48	(\$4,765.30)	0.54	0.61	(\$861.95)
12	(\$48,633.05)	64	36	28	56.25	\$2,434.97	(\$4,867.57)	0.50	0.64	(\$759.89)
11	(\$20,127.32)	65	38	27	58.46	\$2,707.39	(\$4,555.86)	0.59	0.84	(\$309.65)
10	(\$16,246.62)	67	36	31	53.73	\$3,188.60	(\$4,226.97)	0.75	0.88	(\$242.49)
9	(\$25,062.04)	68	36	32	52.94	\$2,792.48	(\$3,924.73)	0.71	0.80	(\$368.56)
8	(\$19,459.38)	72	39	33	54.17	\$2,363.60	(\$3,383.02)	0.70	0.83	(\$270.27)
7	(\$20,414.80)	77	40	36	51.95	\$2,235.12	(\$3,050.54)	0.73	0.81	(\$265.13)
6	(\$38,790.29)	85	36	49	42.35	\$2,433.42	(\$2,579.46)	0.94	0.69	(\$456.36)
5	(\$38,495.32)	89	44	45	49.44	\$1,917.38	(\$2,730.23)	0.70	0.69	(\$432.53)
4	(\$25,158.78)	99	52	47	52.53	\$1,797.52	(\$2,524.04)	0.71	0.79	(\$254.13)
3	(\$55,085.50)	104	50	53	48.08	\$1,741.12	(\$2,681.92)	0.65	0.61	(\$529.67)
2	(\$47,185.33)	118	55	63	46.61	\$1,220.34	(\$1,814.35)	0.67	0.59	(\$399.88)
1	(\$34,631.24)	124	59	65	47.58	\$891.01	(\$1,341.55)	0.66	0.60	(\$279.28)

The fact that today's range was not only inside yesterday's but also the smallest of the last 3 days is also a bad sign:

SPY posts an inside day under the 200-day moving average. Range is smallest in 3 days.
Buy on close. Sell X days later. \$100k/trade. 1994-present.

X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
15	(\$73,836.06)	48	24	24	50.00	\$2,587.11	(\$5,663.61)	0.46	0.46	(\$1,538.25)
14	(\$47,126.22)	49	24	25	48.98	\$2,535.56	(\$4,319.19)	0.59	0.56	(\$961.76)
13	(\$47,715.63)	50	24	26	48.00	\$2,512.52	(\$4,154.47)	0.60	0.56	(\$954.31)
12	(\$73,742.77)	50	27	23	54.00	\$2,039.35	(\$5,600.23)	0.36	0.43	(\$1,474.86)
11	(\$43,229.83)	51	29	22	56.86	\$2,415.95	(\$5,149.66)	0.47	0.62	(\$847.64)
10	(\$41,564.08)	54	27	27	50.00	\$2,888.10	(\$4,427.51)	0.65	0.65	(\$769.71)
9	(\$28,422.79)	55	30	25	54.55	\$2,543.41	(\$4,189.00)	0.61	0.73	(\$516.78)
8	(\$25,009.80)	58	33	25	56.90	\$2,015.49	(\$3,660.84)	0.55	0.73	(\$431.20)
7	(\$47,355.91)	62	29	32	46.77	\$2,078.98	(\$3,363.95)	0.62	0.56	(\$763.81)
6	(\$65,261.72)	66	27	39	40.91	\$1,935.84	(\$3,013.57)	0.64	0.44	(\$988.81)
5	(\$57,808.67)	69	30	39	43.48	\$1,685.05	(\$2,778.47)	0.61	0.47	(\$837.81)
4	(\$49,151.79)	76	35	41	46.05	\$1,603.91	(\$2,568.02)	0.62	0.53	(\$646.73)
3	(\$58,319.03)	82	36	46	43.90	\$1,678.59	(\$2,581.49)	0.65	0.51	(\$711.21)
2	(\$40,737.50)	88	39	48	44.32	\$1,170.77	(\$1,799.95)	0.65	0.53	(\$462.93)
1	(\$36,318.75)	90	38	52	42.22	\$798.71	(\$1,282.11)	0.62	0.46	(\$403.54)

Wednesday was actually an inside day as well. I could have mentioned it last night but the range was incredibly wide and the SPX did not confirm with an inside day of its own.

Below is tonight's [Aggregator](#) chart:



The green Aggregator line is just above 0 in a neutral position. The studies are not convincingly bullish or bearish at the current time. The black differential line remains positive as the S&P has underperformed expectations over the last 3 days. Without a strong selloff tomorrow the black differential line will flip to negative as Tuesday's 5% drop falls out of the calculation. With the current studies the Aggregator is set to remain positive, though. The bias here is very slightly bullish and nothing I'm eager to allocate new capital to. Wait and see again tonight. Half of the outstanding SPY position remains in place.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 1/20

Notable for the bullish case this week is that the Nasdaq has taken the lead from the NYSE based on the 10-week EMA relative strength. This can be seen in the chart below with the RS indicator in the bottom pane crossing above the dashed line:



I've discussed this chart in the past. Historically the market has made nearly all its gains while the Nasdaq has been in a leading position. In looking at relative strength crosses as we've seen above I found little to no value in using them as a timing indicator. Still, the market is typically better off with the Nasdaq leading so I consider this development to be a positive one.

The break below the 850 support level this past week suggests this latest rally may be on life support. The exceptionally weak bounce leaves me no confidence that Thursday's intraday low will hold, allowing the market to avoid another swing lower. We're still quite a ways from the November lows of 741 so there remains plenty of room for the market to be able to right itself before those would be taken out.

I believe we will get a strong rally of intermediate-term duration at some point here, but so far the market has given little indication that it is imminent. The inauguration studies posted to the blog and mentioned above provide some hope that optimism will prevail over the coming weeks and months. For now I'm keeping an open mind and a neutral intermediate-term bias until I see more evidence that a strong trending move is emerging.

This means I shall be favoring neither bullish nor bearish setups but rather be looking to trade both sides as the setups dictate.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

BAC (1/20)

BAC (1/21)

C (1/21)

USB (1/21)

DOW (1/21)

No change in the CBI configuration. None of the Catapults have reached heir targets yet and there have been no new triggers the last 2 days

Catapult for ETF's Trades

KBE (1/21)

Broad Market Large Cap CBI – 5 (BAC-2, C, USB, DOW)

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	3.08
DJ US Regional Banks	IAT	6.25	DJ US Financial Services	IYG	5.59
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.70
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	5.41	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	0.00	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	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	0.00

Still not much capitulation.

Additional New Trade Ideas

None – There are a few setups on the triggers page tonight in the S&P 500 stocks. They are all greatly oversold financials. If anyone is looking to trade these I'd suggest very conservative position sizing.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/21/2009	\$80.57	\$82.75	2.71%	\$80.39	sold 1/2 @ \$83.89

The afternoon rally took the SPY up above \$84 and provided a fill on the exit for half the open position. The stop on the remaining will once again be set at \$80.39, although the \$81 level is another option. With nice profits in the bag on half the position I'm willing to use a loose stop on the 2nd half.

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