# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 4, 2009 Volume 2 Issue 23


## 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 | | | | | |
| February 4, 2009 | S&P Up 1.25% while Spyx < 25 | 1-4 days | Bearish | -2.20% | -4.10% |
| **January 28, 2009** | **3 Up Days < 200 Declining Vol** | **1-10 days** | **Bearish** | **-3.15%** | **-5.70%** |
| **Jan 22 and Jan 28** | **Tight range Inside Days** | **1-6 days** | **Bearish** | **-2.60%** | **-4.90%** |
| Active - Long Term | | | | | |
| December 18, 2008 | Break above 50-day | | Neutral - Trading Range | | |
| March 17, 2008 | Consumer Sentiment Stretch | 1-12 months | Bullish | | |
| Dropped Tonight | | | | | |
| **January 29, 2009** | **Gap Up N Go** | **1-4 days** | **Bearish** | **-3.70%** | **-7.70%** |
| **January 30, 2009** | **Gap & Crap** | **1-3 days** | **Bearish** | **-3.40%** | **-6.40%** |
| January 30, 2009 | 2.5% - 5% Drop During Bear | 1-3 days | Bearish | -4.90% | -9.40% |
| **February 2, 2009** | **2 Down In Chop** | **1-3 days** | **Bullish** | **1.60%** | **3.40%** |

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 2/4 – slightly bearish***

After spending the morning in a narrow range, the market broke higher in the afternoon on Tuesday and put in some solid gains. The Dow, Nasdaq and S&P 500 all rose over 1%. The most notable laggard was the banking sector which suffered a 5% decline. Breadth was solid at about 3:2 positive for both NYSE issues and volume. NYSE volume rose slightly over Monday's level.

Although the day's high in the S&P was about 1.5% higher than Monday's high the total number of new NYSE 52-week highs contracted. I looked at all instances since 1992 where the S&P posted a high at least 1% higher and new highs contracted. Prior to the start of the current bear market no edge was apparent. While not quite statistically significant there has been an apparent bearish tendency of late. Below are all occurrences since the end of 2007 and their 1-day returns (the 1st and last columns are really the only important ones):

| Date/Time | Signal | Price | Roll Over USD/Lot | Shares/Ctrts Profit | Net Profit Cum Net Profit | % Profit |
|---|---|---|---|---|---|---|
| 01/24/08 | Buy | $1,352.14 | $0.00 | 73 | ($1,571.69) | (1.59%) |
| 01/25/08 | Sell | $1,330.61 | | ($1,571.69) | ($13.19) | |
| 10/13/08 | Buy | $1,003.35 | $0.00 | 99 | ($528.66) | (0.53%) |
| 10/14/08 | Sell | $998.01 | | ($528.66) | ($541.85) | |
| 10/14/08 | Buy | $998.01 | $0.00 | 100 | ($9,017.00) | (9.03%) |
| 10/15/08 | Sell | $907.84 | | ($9,017.00) | ($9,558.85) | |
| 10/28/08 | Buy | $940.51 | $0.00 | 106 | ($1,104.52) | (1.11%) |
| 10/29/08 | Sell | $930.09 | | ($1,104.52) | ($10,663.37) | |
| 10/31/08 | Buy | $968.75 | $0.00 | 103 | ($252.35) | (0.25%) |
| 11/03/08 | Sell | $966.30 | | ($252.35) | ($10,915.72) | |
| 11/04/08 | Buy | $1,005.75 | $0.00 | 99 | ($5,245.02) | (5.27%) |
| 11/05/08 | Sell | $952.77 | | ($5,245.02) | ($16,160.74) | |
| 11/13/08 | Buy | $911.29 | $0.00 | 109 | ($4,142.00) | (4.17%) |
| 11/14/08 | Sell | $873.29 | | ($4,142.00) | ($20,302.74) | |
| 11/24/08 | Buy | $851.81 | $0.00 | 117 | $652.86 | 0.66% |
| 11/25/08 | Sell | $857.39 | | $652.86 | ($19,649.88) | |
| 01/02/09 | Buy | $931.80 | $0.00 | 107 | ($465.45) | (0.47%) |
| 01/05/09 | Sell | $927.45 | | ($465.45) | ($20,115.33) | |

The Quantifiable Edges Volume Spyx indicator provided an exceptionally low reading tonight, coming in at 15. Overall, very low readings have been bearish while very high readings have been bullish for this indicator. Below is a study showing returns following all instances where the S&P rose at least 1.25% and the Spyx finished below 25.

| *S&P 500 rises at least 1.25% while Spyx closes below 25.* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Buy on close. Sell X days later. $100k/trade. 1995-present.* | | | | | | | | | | |
| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fac | Avg Trade |
| 10 | ($34,269.30) | 36 | 15 | 21 | 41.67 | $2,619.98 | ($3,503.28) | 0.75 | 0.53 | ($951.93) |
| 9 | ($30,735.43) | 36 | 16 | 20 | 44.44 | $2,372.80 | ($3,435.01) | 0.69 | 0.55 | ($853.76) |
| 8 | ($42,562.13) | 36 | 16 | 20 | 44.44 | $2,021.77 | ($3,745.52) | 0.54 | 0.43 | ($1,182.28) |
| 7 | ($23,703.92) | 36 | 14 | 22 | 38.89 | $2,140.25 | ($2,439.43) | 0.88 | 0.56 | ($658.44) |
| 6 | ($21,621.67) | 37 | 15 | 22 | 40.54 | $1,800.80 | ($2,210.62) | 0.81 | 0.56 | ($584.37) |
| 5 | ($20,099.86) | 37 | 15 | 22 | 40.54 | $1,544.95 | ($1,967.00) | 0.79 | 0.54 | ($543.24) |
| 4 | ($31,945.00) | 38 | 15 | 23 | 39.47 | $1,200.10 | ($2,171.58) | 0.55 | 0.36 | ($840.66) |
| 3 | ($20,610.08) | 38 | 15 | 23 | 39.47 | $1,181.35 | ($1,666.54) | 0.71 | 0.46 | ($542.37) |
| 2 | ($5,300.02) | 39 | 17 | 22 | 43.59 | $1,185.29 | ($1,156.82) | 1.02 | 0.79 | ($135.90) |
| 1 | ($5,713.19) | 41 | 16 | 24 | 39.02 | $917.60 | ($849.78) | 1.08 | 0.72 | ($139.35) |

Most of the bearish tendency plays out within the first 4 days. As a baseline the average 4-day return of the S&P 500 following a 1.25% gain with a Spyx reading ABOVE 25 is almost dead even at -$0.13. This is substantially higher than the average -$840.66 decline shown in our study. Like the “New Highs” study above, this setup has been especially bearish during the current bear market. Below are all instances since October 2007 along with their 4-day returns:

| Date/Time | Signal | Price | Roll Over USD/Lot | Shares/Ctrts Profit | Net Profit Cum Net Profit | % Profit |
|---|---|---|---|---|---|---|
| 11/13/07 | SPYX B | $1,481.01 | $0.00 | 67 | ($3,198.58) | (3.22%) |
| 11/19/07 | Sell | $1,433.27 | | ($3,198.58) | ($8,166.31) | |
| 12/05/07 | SPYX B | $1,485.00 | $0.00 | 67 | ($494.46) | (0.50%) |
| 12/11/07 | Sell | $1,477.62 | | ($494.46) | ($8,660.77) | |
| 12/21/07 | SPYX B | $1,484.50 | $0.00 | 67 | ($402.67) | (0.40%) |
| 12/28/07 | Sell | $1,478.49 | | ($402.67) | ($9,063.44) | |
| 02/13/08 | SPYX B | $1,367.20 | $0.00 | 73 | ($524.14) | (0.53%) |
| 02/20/08 | Sell | $1,360.02 | | ($524.14) | ($9,587.58) | |
| 03/20/08 | SPYX B | $1,329.51 | $0.00 | 75 | ($280.50) | (0.28%) |
| 03/27/08 | Sell | $1,325.77 | | ($280.50) | ($9,868.08) | |
| 07/22/08 | SPYX B | $1,277.01 | $0.00 | 78 | ($3,325.14) | (3.34%) |
| 07/28/08 | Sell | $1,234.38 | | ($3,325.14) | ($13,193.22) | |
| 08/28/08 | SPYX B | $1,300.65 | $0.00 | 76 | ($4,850.32) | (4.91%) |
| 09/04/08 | Sell | $1,236.83 | | ($4,850.32) | ($18,043.54) | |
| 10/31/08 | SPYX B | $968.75 | $0.00 | 103 | ($6,578.61) | (6.59%) |
| 11/06/08 | Sell | $904.88 | | ($6,578.61) | ($24,622.15) | |
| 12/08/08 | SPYX B | $909.70 | $0.00 | 109 | ($3,266.73) | (3.29%) |
| 12/12/08 | Sell | $879.73 | | ($3,266.73) | ($27,888.88) | |
| 01/28/09 | SPYX B | $874.09 | $0.00 | 114 | ($4,056.12) | (4.07%) |
| 02/03/09 | Sell | $838.51 | | ($4,056.12) | ($31,945.00) | |

Ten for ten to the downside in this case.

The studies list has changed quite a bit. Three bearish studies as well as our lone bullish study have now expired or reached their target.

With all that in mind tonight's Aggregator chart is below:


Our new bearish Spyx study tonight has helped to keep the green Aggregator line squarely below zero. The black differential line is now neutral. Without a decent sized down day tomorrow it will drop into negative territory. Barring some new bullish studies this would set up the chart in a configuration ripe for a short trade. I'll look for a possible scale-in short at the close tomorrow should we get another up day. Details in the trade idea section below.

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

I looked at a few things from a little bit longer-term perspective this weekend. The S&P 500 has now closed down 4 weeks in a row. I checked to see if 4 lower weekly closes suggested an edge. Results below:

| *SPX down 4 weeks in a row.* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Buy on close. Sell X weeks later. $100k/trade. 1987-present.* | | | | | | | | | | |
| **X Days** | **Net Profit** | **Trades** | **Wins** | **Losses** | **% Wins** | **Avg Win** | **Avg Loss** | **W/L Ratio** | **Profit Fact** | **Avg Trade** |
| 10 | $48,015.62 | 54 | 33 | 21 | 61.11 | $5,563.60 | ($6,456.34) | 0.86 | 1.35 | $889.18 |
| 9 | $40,592.46 | 56 | 32 | 24 | 57.14 | $5,369.25 | ($5,467.65) | 0.98 | 1.31 | $724.87 |
| 8 | $50,995.86 | 57 | 32 | 25 | 56.14 | $5,231.00 | ($4,655.84) | 1.12 | 1.44 | $894.66 |
| 7 | $46,230.73 | 58 | 34 | 24 | 58.62 | $4,759.93 | ($4,816.95) | 0.99 | 1.40 | $797.08 |
| 6 | $52,869.27 | 59 | 33 | 26 | 55.93 | $4,693.49 | ($3,923.69) | 1.20 | 1.52 | $896.09 |
| 5 | $54,791.42 | 59 | 34 | 25 | 57.63 | $4,210.57 | ($3,534.72) | 1.19 | 1.62 | $928.67 |
| 4 | $19,033.43 | 59 | 31 | 28 | 52.54 | $3,793.51 | ($3,520.19) | 1.08 | 1.19 | $322.60 |
| 3 | $26,545.00 | 59 | 34 | 25 | 57.63 | $2,836.35 | ($2,795.64) | 1.01 | 1.38 | $449.92 |
| 2 | $12,459.35 | 59 | 32 | 27 | 54.24 | $2,657.04 | ($2,687.63) | 0.99 | 1.17 | $211.18 |
| 1 | $17,256.79 | 59 | 36 | 23 | 61.02 | $1,777.65 | ($2,032.11) | 0.87 | 1.37 | $292.49 |

While there is a very slight upside bias it is nothing I would consider basing a trade on.

The January effect is a well known study from the Stock Traders Almanac. It states that "as goes January, so goes the year". In other words, if January closes down, there is a good chance the entire year will close down. Of course the bear case has a head start. I decided to eliminate that head start and look at performance from the end of January forward. Below performance is shown from the end of January to the end of the year.

| *SPX closes lower in January.* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Buy at close. Sell X months later. $100k/trade. 1960-present.* | | | | | | | | | | |
| **X Days** | **Net Profit** | **Trades** | **Wins** | **Losses** | **% Wins** | **Avg Win** | **Avg Loss** | **W/L Ratio** | **Profit Fact** | **Avg Trade** |
| 11 | ($47,567.58) | 18 | 9 | 9 | 50.00 | $10,000.30 | ($15,285.59) | 0.65 | 0.65 | ($2,642.64) |
| 10 | ($56,286.10) | 18 | 8 | 10 | 44.44 | $9,503.63 | ($13,231.51) | 0.72 | 0.57 | ($3,127.01) |
| 9 | ($70,879.26) | 18 | 8 | 10 | 44.44 | $7,353.36 | ($12,970.61) | 0.57 | 0.45 | ($3,937.74) |
| 8 | ($81,899.17) | 18 | 8 | 10 | 44.44 | $6,661.22 | ($13,518.89) | 0.49 | 0.39 | ($4,549.95) |
| 7 | ($43,885.48) | 18 | 7 | 11 | 38.89 | $7,979.11 | ($9,067.20) | 0.88 | 0.56 | ($2,438.08) |
| 6 | ($53,810.18) | 18 | 8 | 10 | 44.44 | $6,800.71 | ($10,821.58) | 0.63 | 0.50 | ($2,989.45) |
| 5 | ($53,532.70) | 18 | 7 | 11 | 38.89 | $6,274.77 | ($8,859.65) | 0.71 | 0.45 | ($2,974.04) |
| 4 | ($21,887.49) | 18 | 10 | 8 | 55.56 | $4,686.30 | ($8,593.81) | 0.55 | 0.68 | ($1,215.97) |
| 3 | ($7,998.32) | 18 | 9 | 9 | 50.00 | $3,468.34 | ($4,357.04) | 0.80 | 0.80 | ($444.35) |
| 2 | ($5,965.88) | 18 | 6 | 12 | 33.33 | $3,936.34 | ($2,465.33) | 1.60 | 0.80 | ($331.44) |
| 1 | ($24,782.03) | 18 | 5 | 13 | 27.78 | $2,210.29 | ($2,756.42) | 0.80 | 0.31 | ($1,376.78) |

What strikes me here is that other than the first two months, wins and losses are almost dead even. Any bearish case is very slight and based upon the Win/Loss Ratio. I also looked at it using the Dow going back to 1920:

| *Dow closes lower in January.* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Buy at close. Sell X months later. $100k/trade. 1920-present.* | | | | | | | | | | |
| **X Days** | **Net Profit** | **Trades** | **Wins** | **Losses** | **% Wins** | **Avg Win** | **Avg Loss** | **W/L Ratio** | **Profit Fac** | **Avg Trade** |
| 11 | $93,414.67 | 30 | 15 | 15 | 50.00 | $15,810.85 | ($9,583.21) | 1.65 | 1.65 | $3,113.82 |
| 10 | $49,283.15 | 30 | 13 | 17 | 43.33 | $15,653.97 | ($9,071.67) | 1.73 | 1.32 | $1,642.77 |
| 9 | $8,519.35 | 30 | 14 | 16 | 46.67 | $11,317.60 | ($9,370.44) | 1.21 | 1.06 | $283.98 |
| 8 | ($7,747.59) | 30 | 13 | 17 | 43.33 | $9,790.42 | ($7,942.53) | 1.23 | 0.94 | ($258.25) |
| 7 | $22,837.72 | 30 | 16 | 14 | 53.33 | $7,949.61 | ($7,454.01) | 1.07 | 1.22 | $761.26 |
| 6 | ($5,962.86) | 30 | 14 | 16 | 46.67 | $9,087.40 | ($8,324.15) | 1.09 | 0.96 | ($198.76) |
| 5 | ($72,220.54) | 30 | 13 | 17 | 43.33 | $7,591.34 | ($10,053.41) | 0.76 | 0.58 | ($2,407.35) |
| 4 | ($39,658.16) | 30 | 15 | 15 | 50.00 | $6,603.48 | ($9,247.35) | 0.71 | 0.71 | ($1,321.94) |
| 3 | ($11,533.00) | 30 | 16 | 14 | 53.33 | $5,136.93 | ($6,694.56) | 0.77 | 0.88 | ($384.43) |
| 2 | $5,689.22 | 30 | 13 | 17 | 43.33 | $4,624.38 | ($3,201.63) | 1.44 | 1.10 | $189.64 |
| 1 | ($3,683.40) | 30 | 15 | 15 | 50.00 | $3,084.60 | ($3,330.16) | 0.93 | 0.93 | ($122.78) |

Here again the winners and losers are about even for the rest of the year. I see no significant edge here.

I also broke January's performance down by percent lost to see if that made a difference looking forward.

| *SPX closes January down X%.* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Buy on close. Sell 11 months later. 1960-present.* | | | | | | | | | | |
| **X%** | **Net Profit** | **Trades** | **Wins** | **Losses** | **% Wins** | **Avg Win** | **Avg Loss** | **W/L Ratio** | **Profit Fac** | **Avg Trade** |
| 0 | ($47,567.58) | 18 | 9 | 9 | 50.00 | $10,000.30 | ($15,285.59) | 0.65 | 0.65 | ($2,642.64) |
| 0.01 | ($39,286.21) | 16 | 8 | 8 | 50.00 | $10,957.82 | ($15,868.60) | 0.69 | 0.69 | ($2,455.39) |
| 0.02 | $4,312.23 | 11 | 6 | 5 | 54.55 | $10,715.82 | ($11,996.54) | 0.89 | 1.07 | $392.02 |
| 0.03 | ($31,041.17) | 9 | 4 | 5 | 44.44 | $7,235.38 | ($11,996.54) | 0.60 | 0.48 | ($3,449.02) |
| 0.04 | ($22,706.69) | 8 | 4 | 4 | 50.00 | $7,235.38 | ($12,912.05) | 0.56 | 0.56 | ($2,838.34) |
| 0.05 | ($29,840.73) | 6 | 3 | 3 | 50.00 | $5,470.16 | ($15,417.07) | 0.35 | 0.35 | ($4,973.46) |

Doesn't seem to matter much here. Each level shows about a 50% chance of success. Let's again look at the Dow under such circumstances:

| *Dow closes January down X%.* | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| *Buy on close. Sell 11 months later. 1920-present.* | | | | | | | | | | |
| **X%** | **Net Profit** | **Trades** | **Wins** | **Losses** | **% Wins** | **Avg Win** | **Avg Loss** | **W/L Ratio** | **Profit Fac** | **Avg Trade** |
| 0 | $93,414.67 | 30 | 15 | 15 | 50.00 | $15,810.85 | ($9,583.21) | 1.65 | 1.65 | $3,113.82 |
| 0.01 | $34,832.11 | 25 | 12 | 13 | 48.00 | $14,463.36 | ($10,671.40) | 1.36 | 1.25 | $1,393.28 |
| 0.02 | $19,334.61 | 20 | 10 | 10 | 50.00 | $11,341.61 | ($9,408.15) | 1.21 | 1.21 | $966.73 |
| 0.03 | ($9,582.63) | 17 | 8 | 9 | 47.06 | $8,711.11 | ($8,807.95) | 0.99 | 0.88 | ($563.68) |
| 0.04 | ($35,429.05) | 12 | 5 | 7 | 41.67 | $6,670.39 | ($9,825.86) | 0.68 | 0.48 | ($2,952.42) |
| 0.05 | $8,921.66 | 8 | 5 | 3 | 62.50 | $6,670.39 | ($8,143.43) | 0.82 | 1.37 | $1,115.21 |

More of the same here. Appears to be a 50-50 shot to me.

With the market still range bound, I'm still not seeing much that would lead me to strongly favor either the bullish or bearish case. My focus will remain short-term and I will look to trade both sides of the market.

**<u>Catapult and Capitulative Breadth Statistics</u>**

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

***Open Catapult Triggers***

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 | 0.68 |
| DJ US Regional Banks | IAT | 1.25 | DJ US Financial Services | IYG | 1.40 |
| 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 | 2.70 | DJ US Basic Materials | IYM | 1.35 |
| 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 | 0.50 |
| 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 |

**<u>Additional New Trade Ideas</u>**

*SPY – short @ $85.00 or above on CLOSE.*  As mentioned in the short-term market outlook a strong move higher tomorrow should set up a solid short-entry based on the Aggregator.

*The DOW chemical trade idea from last night did not fill as it closed quite a bit higher.*

**<u>Active Trades Table</u>**

none