**QUANTIFIABLE EDGES**
**SUBSCRIBER LETTER**

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 9, 2009 Volume 2 Issue 26

## 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 9, 2009 | 1st Friday Up 1% | 1-5 days | Bearish | -2.70% | -5.60% |
| February 9, 2009 | Up 2.5%-5% During Bear | 1-2 days | Bearish | -3.00% | -5.00% |
| February 9, 2009 | 2 Days Up In Chop | 1-4 days | Bearish | | |
| February 6, 2009 | Gap Dn & Reverse w/ Strong Close | 1-2 days | Bearish | -2.80% | -5.90% |
| **February 5, 2009** | **Gap Up & Fail With Poor Close** | **1-3 days** | **Bullish** | **2.70%** | **5.60%** |
| February 4, 2009 | S&P Up 1.25% while Spyx < 25 | 1-4 days | Bearish | -2.20% | -4.10% |
| Active - Long Term | | | | | |
| February 9, 2009 | Nasdaq Breadth Trhust | 1-20 days | Bullish | 5.90% | 9.60% |
| March 17, 2008 | Consumer Sentiment Stretch | 1-12 months | Bullish | | |
| Dropped Tonight | | | | | |
| **January 28, 2009** | **3 Up Days < 200 Declining Vol** | **1-10 days** | **Bearish** | **-3.15%** | **-5.70%** |
| December 18, 2008 | Break above 50-day | | Neutral - Trading Range | | |

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 2/9 – bearish***

The market gapped higher on Friday and showed continued strength throughout the day. The S&P, Dow, and Nasdaq all gained between 2.5% and 3% on the day. Breadth was strongly positive on both the NYSE and the Nasdaq. NYSE Up Issues % came in at 81% and Up Volume % was 92%. This was the first 90% up volume day in 2009. Total volume was above normal but just below Thursday's levels.

On Friday afternoon I sent a special report to subscribers that talked about the Friday-Monday follow through tendencies and specifically how the edges played out following the 1st Friday of the month. What was found was that Mondays after the 1st Friday of the month did not follow through quite as well as other Fridays. Still, they did carry a bullish expectation. The expectation in such cases did turn fairly strongly bearish for the rest of the week, though. Overbought on Friday or the following Monday early in the month was typically followed by a pullback during the week. The study was fairly detailed, so rather than re-post the entire thing I've attached a link below for those who may not have read it on Friday:

2009-02-06 Excerpt from Jan 5 QE Letter.pdf

In addition to the somewhat bearish bias that was already in place Thursday night, one reason I discussed in Thursday night's Letter for possibly shorting the S&P 500 was that an up day Friday would also trigger our simple "2 Days Up In Chop" system. First discussed on the blog on August 28th, the system simply looks to short the S&P any time it closes higher for 2 days in a row. The position is covered at the first close that would be profitable up to 4 days later. On the 4th day after entry the position is closed regardless of profitability. Since that blog post there have been 13 trades. Twelve winners that totaled 37.43% in profits and 1 loser which lost 0.38%. Few people (including myself) have done as well as this simple system since the end of August. Below are the complete system results dating back to June of 2007 when the markets tendency to chop turned extremely strong:

| All Trades | | | |
|---|---|---|---|
| Total Net Profit | $65,155.65 | Profit Factor | 15.72 |
| Gross Profit | $69,581.64 | Gross Loss | ($4,425.99) |
| Roll Over Credit | $0.00 | | |
| Open Position Profit/Loss | $0.00 | | |
| Select Total Net Profit | $56,372.63 | Select Profit Factor | 13.74 |
| Select Gross Profit | $60,798.62 | Select Gross Loss | ($4,425.99) |
| Adjusted Total Net Profit | $53,042.53 | Adjusted Profit Factor | 8.60 |
| Adjusted Gross Profit | $60,023.87 | Adjusted Gross Loss | ($6,981.34) |
| Total Number of Trades | 56 | Percent Profitable | 94.64% |
| Winning Trades | 53 | Losing Trades | 3 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | $1,163.49 | Ratio Avg. Win:Avg. Loss | 0.89 |
| Avg. Winning Trade | $1,312.86 | Avg. Losing Trade | ($1,475.33) |
| Largest Winning Trade | $8,783.02 | Largest Losing Trade | ($3,230.74) |
| Largest Winner as % of Gross Profit | 12.62% | Largest Loser as % of Gross Loss | 72.99% |

With S&P gaining over 2.5% on Friday the move was quite strong from a price standpoint. In the past I've looked at both 5% Up Days and 5% Down Days. I found both had a tendency to reverse short-term. Last month I also looked at 2.5% - 5% Down Days during the bear market from October 2007. Rather than reverse I found moves of this magnitude tended to follow-through with more downside. But what about moves such as Friday's where the market was UP between 2.5% and 5%?

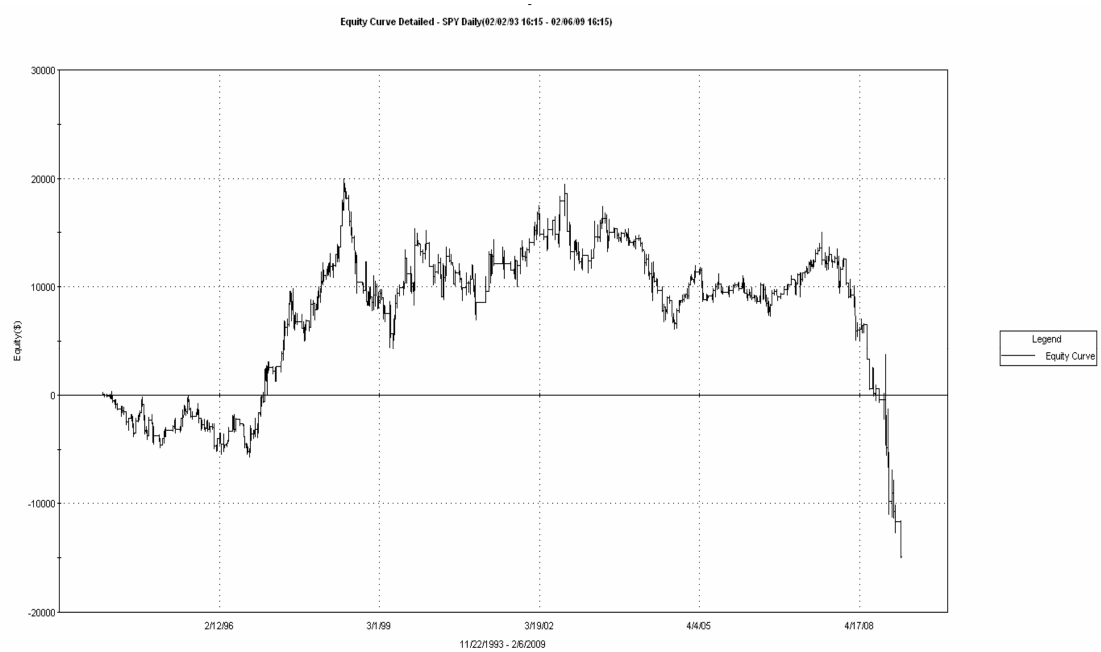
| S&P closes between 2.5% and 5% higher on the day. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Buy on close. Sell X days later. $100k/trade. 10/10/2007 - 2/6/2009. | | | | | | | | | | |
| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Factor | Avg Trade |
| 5 | ($21,771.54) | 16 | 8 | 8 | 50.00 | $1,325.78 | ($4,047.22) | 0.33 | 0.33 | ($1,360.72) |
| 4 | ($15,728.59) | 16 | 6 | 10 | 37.50 | $1,441.70 | ($2,437.88) | 0.59 | 0.35 | ($983.04) |
| 3 | ($18,425.21) | 18 | 9 | 9 | 50.00 | $1,761.70 | ($3,808.95) | 0.46 | 0.46 | ($1,023.62) |
| 2 | ($32,046.65) | 19 | 7 | 12 | 36.84 | $1,314.91 | ($3,437.58) | 0.38 | 0.22 | ($1,686.67) |
| 1 | ($14,281.71) | 22 | 8 | 14 | 36.36 | $1,805.61 | ($2,051.90) | 0.88 | 0.50 | ($649.17) |

What we've seen here is decent tendency for some immediate pullback. It's important to keep in mind, though, that these results were achieved during a strong bear market. Let's take a longer-term look to see if the same pullback tendency stands the test of time. Below is a snapshot of the period from 1988 until October of 2007:

| S&P closes between 2.5% and 5% higher on the day. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Buy on close. Sell X days later. $100k/trade. 1/1/1988 - 10/10/2007. | | | | | | | | | | |
| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Factor | Avg Trade |
| 5 | $34,721.09 | 50 | 32 | 18 | 64.00 | $2,603.15 | ($2,698.88) | 0.96 | 1.71 | $694.42 |
| 4 | $24,736.07 | 52 | 33 | 19 | 63.46 | $2,141.73 | ($2,417.96) | 0.89 | 1.54 | $475.69 |
| 3 | $22,255.29 | 55 | 31 | 24 | 56.36 | $2,119.76 | ($1,810.72) | 1.17 | 1.51 | $404.64 |
| 2 | $14,414.37 | 57 | 33 | 24 | 57.89 | $1,394.83 | ($1,317.30) | 1.06 | 1.46 | $252.88 |
| 1 | $9,486.78 | 59 | 36 | 23 | 61.02 | $874.00 | ($955.53) | 0.91 | 1.43 | $160.79 |

As you can see, there is no pullback tendency of this time period. Rather such strong days often saw additional follow through.

Another study I looked at tonight was how the market reacted following times when the SPY gapped higher, never traded down to the previous day's close, and closed above its open as it did on Friday. Friday was a bit of a borderline example since the gap was small and it came within 1 cent of filling the overnight gap, but the results were interesting nonetheless. Rather than use a results table I decided to show an equity curve of this study. It may be a bit difficult to read the dates below. The test was run from the SPY inception in 1993 though 2/6/09.




What I see is an incredibly strong and consistent tendency to reverse and trade lower has been evident since the bear market began in late 2007. It is worth taking note of such test results for a couple of reasons: 1) To understand how the market is reacting to such setups currently (or in the recent past), and 2) To consider possible implications if these kind of setups stop preceding strong negative market reactions. If the market no longer is reacting negatively to such setups as this that have only been strongly negative during the recent bear market then when they stop working it could signal that the market is preparing to rally.

Besides just looking for trade ideas on the Systems Triggers page, I also find it useful to peruse it to see if how many securities are triggering and whether the triggers are decidedly bullish or bearish. There weren't a huge number of triggers tonight, but it was the most we've had in a few weeks. What was interesting is that they were all short setups except for the 3 long setups in bond etf's. A strong consensus among the triggers can often be a good indication of short-term market direction. The triggers page is also suggesting a pullback is likely.

Tonight's Aggregator chart is below:


The Aggregator is positioned as bearish as is has been so far in 2009. The green Aggregator line is strongly below zero, indicating the current studies are strongly suggesting downside over the next few days. Meanwhile the black differential line is about as far south as it has been this year. This shows that over the last 3 days the S&P has outperformed expectations by a large degree. So the market is overbought vs. recent expectations and forward expectations are strongly negative. This is exactly what we look for in a short setup. I began scaling in to this short on Friday near the bell and I'll continue to do so on further strength early this week.

***Intermediate-term Outlook (2 weeks – 2 months)–SLIGHTLY bullish -updated 2/9***

One nice sign we've seen of late is the emerging leadership position of the Nasdaq relative to the NYSE. Below is a chart I sometimes refer to which shows the Nasdaq vs. NYSE relative strength:


I first discussed this indicator on the blog last February. Since the inception of the Nasdaq in 1971, close to 100% of the gains in the NYSE have come when the Nasdaq has been in a leadership position. The indicator is a bit controversial since part of the reason it works is due to the fact that the Nasdaq typically has a higher beta. In other words, it goes up more in up markets and down more in down markets. Since it goes up more in up markets it will often be in the lead when the NYSE is rising. Still, another possible reason this indicator works well is that is measures investors' appetite for risk. Nasdaq stocks have traditionally been riskier that NYSE stocks. When investors are more willing to take on that additional risk, it normally means good things for the stock market as a whole. In any event, the track record is good enough that it deserves a glance once in a while, and when its in a leading position as it is now I consider that a positive.

Another Nasdaq positive is that Nasdaq breadth has been especially strong lately. As can be seen on our charts page, the 10-day ema of the Nasdaq Up Volume % is now close to 64%. This is the highest level it has been at since the bear market began. The chart on that page uses Tradestation's data, which only goes back to 2000. To get a longer term look at the indicator I used Quotes Plus data, which goes back to 1/1/92. There are normally minor discrepancies between data sources when looking at breadth and volume data and Quotes Plus data currently puts the 10-day ema at almost 65%. The test below looks at breadth thrusts that move the ema above 64%:

| Nasdaq Up Volume % 10-day ema crosses over 64%. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Buy Nasdaq on close. Sell X days later. $100k/trade. 1992-2/6/2009 | | | | | | | | | | |
| X Days | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fact | Avg Trade |
| 30 | $75,056.27 | 19 | 13 | 6 | 68.42 | $7,414.21 | ($3,554.75) | 2.09 | 4.52 | $3,950.33 |
| 20 | $65,533.02 | 20 | 16 | 4 | 80.00 | $5,134.87 | ($4,156.21) | 1.24 | 4.94 | $3,276.65 |
| 15 | $51,774.69 | 23 | 15 | 8 | 65.22 | $4,863.23 | ($2,646.72) | 1.84 | 3.45 | $2,251.07 |
| 10 | $18,455.29 | 23 | 17 | 6 | 73.91 | $1,742.47 | ($1,861.11) | 0.94 | 2.65 | $802.40 |
| 9 | $27,723.57 | 23 | 16 | 7 | 69.57 | $2,339.08 | ($1,385.95) | 1.69 | 3.86 | $1,205.37 |
| 8 | $28,370.26 | 24 | 18 | 6 | 75.00 | $2,136.44 | ($1,680.96) | 1.27 | 3.81 | $1,182.09 |
| 7 | $16,080.32 | 24 | 15 | 9 | 62.50 | $1,827.48 | ($1,259.10) | 1.45 | 2.42 | $670.01 |
| 6 | $10,124.79 | 24 | 14 | 10 | 58.33 | $1,949.10 | ($1,716.26) | 1.14 | 1.59 | $421.87 |
| 5 | $4,087.16 | 24 | 12 | 12 | 50.00 | $1,708.39 | ($1,367.79) | 1.25 | 1.25 | $170.30 |
| 4 | $9,701.14 | 25 | 15 | 10 | 60.00 | $1,637.33 | ($1,485.88) | 1.10 | 1.65 | $388.05 |
| 3 | ($1,260.22) | 28 | 16 | 12 | 57.14 | $1,643.20 | ($2,295.95) | 0.72 | 0.95 | ($45.01) |
| 2 | ($3,929.78) | 29 | 18 | 11 | 62.07 | $955.48 | ($1,920.77) | 0.50 | 0.81 | ($135.51) |
| 1 | ($7,608.66) | 29 | 14 | 15 | 48.28 | $731.38 | ($1,189.86) | 0.61 | 0.57 | ($262.37) |

A slight pullback has often been followed by bullish action. Rather than looking at just an exit of X days out, I also decided to use a drop in the 10-day ema as a possible exit as well. Below are the results of buying into an Up Volume % 10-day ema thrust above 64% and then holding until the indicator dips below X%:

| Nasdaq Up Volume % 10-day ema crosses over 64%. | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Buy Nasdaq on close. Sell when Up Vol % ema crosses below X. $100k/trade. 1992-2/6/2009 | | | | | | | | | | |
| X% ema | Net Profit | Trades | Wins | Losses | % Wins | Avg Win | Avg Loss | W/L Ratio | Profit Fact | Avg Trade |
| 0.44 | $112,624.78 | 17 | 11 | 6 | 64.71 | $11,798.99 | ($2,860.69) | 4.12 | 7.56 | $6,624.99 |
| 0.45 | $105,842.15 | 18 | 11 | 7 | 61.11 | $11,615.21 | ($3,132.17) | 3.71 | 5.83 | $5,880.12 |
| 0.46 | $115,435.57 | 18 | 12 | 6 | 66.67 | $11,197.13 | ($3,155.00) | 3.55 | 7.10 | $6,413.09 |
| 0.47 | $118,500.16 | 18 | 12 | 6 | 66.67 | $11,426.80 | ($3,103.56) | 3.68 | 7.36 | $6,583.34 |
| 0.48 | $59,627.05 | 20 | 10 | 10 | 50.00 | $8,273.10 | ($2,310.40) | 3.58 | 3.58 | $2,981.35 |
| 0.49 | $37,459.30 | 21 | 10 | 11 | 47.62 | $6,542.43 | ($2,542.27) | 2.57 | 2.34 | $1,783.78 |
| 0.5 | $42,355.20 | 21 | 11 | 10 | 52.38 | $6,250.12 | ($2,639.62) | 2.37 | 2.60 | $2,016.91 |

Making the exits too tight here reduced profitability greatly. Once the exit trigger dropped to 0.47 or below it appears to be fairly solid. Below is a more detailed performance report which enters on a move above 64% and uses the 47% number as the exit.

| All Trades | | | |
|---|---|---|---|
| Total Net Profit | $126,672.37 | Profit Factor | 7.80 |
| Gross Profit | $145,293.75 | Gross Loss | ($18,621.38) |
| Roll Over Credit | $0.00 | | |
| Open Position Profit/Loss | $0.00 | | |
| Select Total Net Profit | $126,672.37 | Select Profit Factor | 7.80 |
| Select Gross Profit | $145,293.75 | Select Gross Loss | ($18,621.38) |
| Adjusted Total Net Profit | $77,127.53 | Adjusted Profit Factor | 3.94 |
| Adjusted Gross Profit | $103,351.06 | Adjusted Gross Loss | ($26,223.53) |
| Total Number of Trades | 18 | Percent Profitable | 66.67% |
| Winning Trades | 12 | Losing Trades | 6 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | $7,037.35 | Ratio Avg. Win:Avg. Loss | 3.90 |
| Avg. Winning Trade | $12,107.81 | Avg. Losing Trade | ($3,103.56) |
| Largest Winning Trade | $40,548.60 | Largest Losing Trade | ($4,386.96) |
| Largest Winner as % of Gross Profit | 27.91% | Largest Loser as % of Gross Loss | 23.56% |

Most of the numbers here look outstanding. Twice as many winners as losers and the average win is nearly 4 times the average loss. This puts the profit factor at a gaudy 7.8. The one red flag on this report is the "largest winning trade", which I circled above. This trade makes up nearly 28% of all the gross profits. So to more deeply analyze the results I've shown below the listing of al the individual trades.

| # | Type | Date/Time | Signal | Price | Roll Over Pips | Shares/Ctrts Profit/Loss | Gross P/L Cum Net Profit | % Profit |
|---|---|---|---|---|---|---|---|---|
| 1 | Buy | 10/16/92 | Daily Breadth | $582.61 | $0.00 | 171 | $14,155.38 | 14.21% |
| | Sell | 02/16/93 | Sell | $665.39 | | $14,155.38 | $14,155.38 | |
| 2 | Buy | 06/19/95 | Daily Breadth | $922.09 | $0.00 | 108 | $12,523.68 | 12.58% |
| | Sell | 09/26/95 | Sell | $1,038.05 | | $12,523.68 | $26,679.06 | |
| 3 | Buy | 04/25/96 | Daily Breadth | $1,184.17 | $0.00 | 84 | $2,436.84 | 2.45% |
| | Sell | 06/14/96 | Sell | $1,213.18 | | $2,436.84 | $29,115.90 | |
| 4 | Buy | 05/05/97 | Daily Breadth | $1,339.24 | $0.00 | 74 | $24,243.14 | 24.46% |
| | Sell | 10/17/97 | Sell | $1,666.85 | | $24,243.14 | $53,359.04 | |
| 5 | Buy | 11/02/98 | Daily Breadth | $1,800.91 | $0.00 | 55 | $28,043.40 | 28.31% |
| | Sell | 02/09/99 | Sell | $2,310.79 | | $28,043.40 | $81,402.44 | |
| 6 | Buy | 07/02/99 | Daily Breadth | $2,741.02 | $0.00 | 36 | ($4,386.96) | (4.45%) |
| | Sell | 07/26/99 | Sell | $2,619.16 | | ($4,386.96) | $77,015.48 | |
| 7 | Buy | 11/16/99 | Daily Breadth | $3,293.05 | $0.00 | 30 | $40,548.60 | 41.04% |
| | Sell | 03/29/00 | Sell | $4,644.67 | | $40,548.60 | $117,564.08 | |
| 8 | Buy | 04/19/01 | Daily Breadth | $2,182.04 | $0.00 | 45 | ($3,364.20) | (3.43%) |
| | Sell | 05/11/01 | Sell | $2,107.28 | | ($3,364.20) | $114,199.88 | |
| 9 | Buy | 11/13/01 | Daily Breadth | $1,892.11 | $0.00 | 52 | $1,374.36 | 1.40% |
| | Sell | 12/20/01 | Sell | $1,918.54 | | $1,374.36 | $115,574.24 | |
| 10 | Buy | 11/01/02 | Daily Breadth | $1,360.70 | $0.00 | 73 | ($3,030.23) | (3.05%) |
| | Sell | 11/11/02 | Sell | $1,319.19 | | ($3,030.23) | $112,544.01 | |
| 11 | Buy | 11/21/02 | Daily Breadth | $1,467.55 | $0.00 | 68 | ($2,529.60) | (2.53%) |
| | Sell | 12/04/02 | Sell | $1,430.35 | | ($2,529.60) | $110,014.41 | |
| 12 | Buy | 05/02/03 | Daily Breadth | $1,502.88 | $0.00 | 66 | $7,119.42 | 7.18% |
| | Sell | 06/23/03 | Sell | $1,610.75 | | $7,119.42 | $117,133.83 | |
| 13 | Buy | 08/29/03 | Daily Breadth | $1,810.45 | $0.00 | 55 | $373.45 | 0.38% |
| | Sell | 09/25/03 | Sell | $1,817.24 | | $373.45 | $117,507.28 | |
| 14 | Buy | 01/12/04 | Daily Breadth | $2,111.78 | $0.00 | 47 | ($1,617.27) | (1.63%) |
| | Sell | 01/28/04 | Sell | $2,077.37 | | ($1,617.27) | $115,890.01 | |
| 15 | Buy | 04/05/04 | Daily Breadth | $2,079.11 | $0.00 | 48 | ($3,693.12) | (3.70%) |
| | Sell | 04/15/04 | Sell | $2,002.17 | | ($3,693.12) | $112,196.89 | |
| 16 | Buy | 05/19/05 | Daily Breadth | $2,042.58 | $0.00 | 48 | $513.12 | 0.52% |
| | Sell | 06/24/05 | Sell | $2,053.27 | | $513.12 | $112,710.01 | |
| 17 | Buy | 08/30/06 | Daily Breadth | $2,185.73 | $0.00 | 45 | $10,355.40 | 10.53% |
| | Sell | 12/21/06 | Sell | $2,415.85 | | $10,355.40 | $123,065.41 | |
| 18 | Buy | 09/04/07 | Daily Breadth | $2,630.24 | $0.00 | 38 | $3,606.96 | 3.61% |
| | Sell | 10/19/07 | Sell | $2,725.16 | | $3,606.96 | $126,672.37 | |

While the 41% gain was certainly an outlier, half of the 12 winners achieved gains of greater than 10%, and the largest loser was less than 5%. Even in the low volatility environment of 2006 we see a 10% gain. So while more instances would certainly be preferable, it appears we have a decent amount of evidence here to suggest an upside edge.

The Nasdaq has now moved through its 50-day moving average and the S&P in on the verge of doing so. Support for the S&P around 800 held last week and there has been a lengthy consolidation from the November lows. With the Nasdaq attempting to take on a leadership position it is possible a rally could develop here. While I'm still not optimistic about the long-term picture a decent intermediate-term rally lasting a few months convincing some participants the worst may be behind us is already overdue. Intermediate-term traders may want to be at the ready to see if they can catch a multi-month move here soon. Should a rally emerge though it should be treated with great skepticism as it appears unlikely that it will be the beginning of a multi-year bull run. Selloffs may remain treacherous and traders may need to be nimble to avoid giving back rally gains.

**Catapult and Capitulative Breadth Statistics**

*(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 | 1.37 |
| DJ US Regional Banks | IAT | 3.75 | DJ US Financial Services | IYG | 2.80 |
| 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 | 0.50 |
| DJ US Home Construction | ITB | 0.00 | DJ US Telecommunications | IYZ | 0.00 |
| DJ US Consumer Svcs | IYC | 0.44 | Nasdaq 100 | QQQQ | 0.00 |

No significant capitulative action evident.

**Additional New Trade Ideas**

*SPY – short (1/4) index position @ $87.90 limit.* This is near the 1/28 swing high. Should SPY move through that high I would expect it to at least come back and retest it. It's possible the high could serve as resistance and the approach to it would lead to a selloff.

*SPY – short (1/4) index postion @ $87.00 limit ON CLOSE*. Should we get another up day on Monday I'll look to put another ¼ on.

These trade ideas are not offsetting. If both trigger then a 50% allocation will be added tomorrow.

*QQQQ – short @ $31.37 limit*. Based on system -81217 from the systems triggers page. I'll be tracking this as a normal ETF system trade. This is NOT an index trade. The primary difference for me is that ETF system trades get a much lower allocation than an index trade. The system trades also have pre-defined exits which the index trades do not. The possible reward here seems worth it but risks are a bit high and the position is counter to the intermediate-term Nasdaq research shown above. Hence the small position.

**Active Trades Table**

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---|---|---|---|---|---|---|
| IEF | 2/5/2009 | $93.90 | $93.55 | -0.37% | | exit on close>10ma |
| SPY(s)(1/4) | 2/6/2009 | $86.98 | $86.98 | 0.00% | | shorted @ close |

As I finalize this Letter late Sunday night the S&P futures are down about 1.5%. Just last Monday in the blog I showed the tendency for gaps down of 2% or more to reverse themselves. Should the SPY gap down to $85.25 or lower on Monday's open, I will look to take profits on ½ the outstanding position at the open and let the 2nd half ride and see if the selloff continues for another day or so. If it opens above this then there will be no set exit target and the cover order will be cancelled.