QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 6, 2009 Volume 2 Issue 44

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					
March 6, 2009	Lowest Vol 5 at 50-day Low	1-8 days	Bullish	4.60%	8.20%
March 6, 2009	Bounce from 50-low fails	1-7 days	Bullish	5.30%	10.00%
March 6, 2009	Mon-Thurs Lower	1 day	Bearish		
March 5, 2009	Rally after CBI >= 10	1-5 days	Bullish		
March 5, 2009	Gap-n-Go from 50-low	1-2 days	Bearish		
March 5, 2009	BKX Down 0.5% SPX Up 1%	1-2 days	Bearish		
March 4, 2009	5 lower closes @ 50-low	1-4 days	Bullish	2.10%	3.90%
March 3, 2009	CBI >= 10	1-3 days	Bullish	3.40%	7.30%
March 2, 2009	Gap Dn to 50 low and Close Lower	1-5 days	Bullish	6.30%	12.20%
February 26, 2009	SPX down 1% while SOX up 1%	1-15 days	Bullish	4.60%	7.10%
Active - Long Term					
none					

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 3/6 – slightly bullish

Another big drop today in what is fast becoming a selloff unlike any other. A large gap lower failed to attract any buyers and the market trended lower for most of the day. The major averages closed lower by 4% or more. Breadth was over 9 to 1 negative for both issues and volume. Total volume on the NYSE declined again. This time to the lowest level in the last 5 days.

In today's intraday update I showed a table that, while rare, the pattern of the last 3 days was potentially bullish. Below is a copy of that study:

S&P 500 closes at 50-day low 2 days ago. Yesterday it rises more than 1%. Today is again closes at 50-day low.										
Buy S&P 500 on close. Sell X days later. $100k/trade. 1960 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	$31,343.36	8	5	3	62.50	$6,811.87	($905.33)	7.52	12.54	$3,917.92
9	$30,112.27	8	7	1	87.50	$4,377.66	($531.34)	8.24	57.67	$3,764.03
8	$17,145.23	8	4	4	50.00	$6,490.51	($2,204.21)	2.94	2.94	$2,143.15
7	$23,500.92	8	6	2	75.00	$4,830.01	($2,739.56)	1.76	5.29	$2,937.62
6	$21,082.74	8	6	2	75.00	$4,844.94	($3,993.44)	1.21	3.64	$2,635.34
5	$14,934.23	8	5	3	62.50	$4,724.79	($2,896.58)	1.63	2.72	$1,866.78
4	$14,756.46	9	6	3	66.67	$4,575.75	($4,232.67)	1.08	2.16	$1,639.61
3	$13,191.78	9	6	3	66.67	$3,409.96	($2,422.66)	1.41	2.82	$1,465.75
2	$10,136.83	9	4	5	44.44	$5,076.88	($2,034.14)	2.50	2.00	$1,126.31
1	$2,583.80	9	5	4	55.56	$1,557.24	($1,300.60)	1.20	1.50	$287.09

Also notable is that 8 of 9 instances posted a close higher than the trigger at some point in the next 3 days. The lone loser was 9/17/01 which saw a major bottom a few days later.

In the blog tonight I showed a study suggesting the light volume on Thursday was a potential positive. Up until now I have not had any confirming volume studies to accompany the breadth and price action studies which have been suggesting a bounce. The blog post looks at making a 50-day low on either high or low volume and finds low volume to provide superior odds. If you also look for the move to the low to be accompanied by a 1% or greater drop the difference between the two studies is even more pronounced:

S&P 500 closes down at least 1% and at a 50-day low. NYSE volume is the highest in 5 days.										
Buy S&P 500 on close. Sell X days later. $100k/trade. 1960 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	$9,432.27	28	16	12	57.14	$4,085.16	($4,660.86)	0.88	1.17	$336.87
19	($4,681.37)	29	18	11	62.07	$3,648.02	($6,395.06)	0.57	0.93	($161.43)
18	$9,981.98	29	17	12	58.62	$4,356.63	($5,340.07)	0.82	1.16	$344.21
17	$1,954.75	30	17	13	56.67	$3,851.22	($4,885.84)	0.79	1.03	$65.16
16	$15,553.09	32	16	16	50.00	$5,023.71	($4,051.64)	1.24	1.24	$486.03
15	$7,087.92	32	17	15	53.13	$4,584.62	($4,723.37)	0.97	1.10	$221.50
14	$6,022.21	33	19	14	57.58	$4,078.04	($5,104.32)	0.80	1.08	$182.49
13	$18,815.63	33	18	15	54.55	$4,226.21	($3,817.08)	1.11	1.33	$570.17
12	$9,769.98	33	17	16	51.52	$4,289.02	($3,946.46)	1.09	1.15	$296.06
11	$30,641.56	35	18	17	51.43	$4,625.98	($3,095.66)	1.49	1.58	$875.47
10	($5,819.96)	36	18	18	50.00	$3,876.91	($4,200.24)	0.92	0.92	($161.67)
9	$297.87	39	24	15	61.54	$3,288.41	($5,241.60)	0.63	1.00	$7.64
8	($6,112.63)	39	21	18	53.85	$3,379.04	($4,281.80)	0.79	0.92	($156.73)
7	$7,997.37	40	22	18	55.00	$3,501.43	($3,835.22)	0.91	1.12	$199.93
6	$1,079.24	40	20	20	50.00	$2,944.62	($2,890.66)	1.02	1.02	$26.98
5	$14,561.83	40	18	22	45.00	$3,446.07	($2,157.61)	1.60	1.31	$364.05
4	($3,068.22)	44	20	24	45.45	$3,020.69	($2,645.08)	1.14	0.95	($69.73)
3	($1,665.36)	45	23	22	51.11	$2,048.24	($2,217.04)	0.92	0.97	($37.01)
2	($5,431.95)	48	23	25	47.92	$2,614.66	($2,622.77)	1.00	0.92	($113.17)
1	$11,066.71	53	32	21	60.38	$1,663.93	($2,008.52)	0.83	1.26	$208.81

Here we see no real edge when the sharp drop to new lows is accompanied by a spike in volume.

And with light volume…

S&P 500 closes down at least 1% and at a 50-day low. NYSE volume is the lightest in 5 days.										
Buy S&P 500 on close. Sell X days later. $100k/trade. 1960 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	$28,001.15	6	5	1	83.33	$6,957.15	($6,784.61)	1.03	5.13	$4,666.86
19	$26,789.25	6	5	1	83.33	$6,793.46	($7,178.07)	0.95	4.73	$4,464.88
18	$21,795.76	6	5	1	83.33	$6,744.84	($11,928.43)	0.57	2.83	$3,632.63
17	$21,023.97	6	5	1	83.33	$6,882.18	($13,386.91)	0.51	2.57	$3,504.00
16	$15,552.24	6	5	1	83.33	$5,689.98	($12,897.66)	0.44	2.21	$2,592.04
15	$12,374.85	6	5	1	83.33	$5,996.54	($17,607.85)	0.34	1.70	$2,062.48
14	$12,956.57	6	4	2	66.67	$7,208.22	($7,938.15)	0.91	1.82	$2,159.43
13	$12,601.94	6	4	2	66.67	$6,541.34	($6,781.71)	0.96	1.93	$2,100.32
12	$17,626.18	6	4	2	66.67	$7,057.83	($5,302.58)	1.33	2.66	$2,937.70
11	$24,561.72	6	5	1	83.33	$6,202.11	($6,448.83)	0.96	4.81	$4,093.62
10	$22,935.29	6	5	1	83.33	$5,981.88	($6,974.13)	0.86	4.29	$3,822.55
9	$26,716.17	6	4	2	66.67	$8,228.28	($3,098.47)	2.66	5.31	$4,452.70
8	$25,762.30	6	5	1	83.33	$6,126.02	($4,867.78)	1.26	6.29	$4,293.72
7	$22,836.82	6	5	1	83.33	$5,417.73	($4,251.84)	1.27	6.37	$3,806.14
6	$21,311.24	6	4	2	66.67	$6,939.52	($3,223.41)	2.15	4.31	$3,551.87
5	$17,873.83	7	5	2	71.43	$4,138.37	($1,409.00)	2.94	7.34	$2,553.40
4	$15,069.18	7	7	0	100.00	$2,152.74	$0.00	100.00	100.00	$2,152.74
3	$17,268.23	7	7	0	100.00	$2,466.89	$0.00	100.00	100.00	$2,466.89
2	$6,244.12	7	4	3	57.14	$2,310.20	($998.90)	2.31	3.08	$892.02
1	$4,309.95	7	4	3	57.14	$1,889.20	($1,082.28)	1.75	2.33	$615.71

Instances are low but the edge is very strong, both from a winning % and from an average trade standpoint. You may see the blog for additional results along these lines.

Over the last several years the market has become quite skittish on Fridays. This has translated into a tendency for Friday's to follow the performance of the rest of the week and makes an immediate bounce less likely. Below are some studies that illustrate this.

S&P 500 is X% higher through Thursday of the current week.										
Buy S&P 500 on close. Sell 1 day later. $100k/trade. Sept 2001 - present										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
2	$12,936.00	44	27	16	61.36	$836.07	($602.37)	1.39	2.34	$294.00
1.75	$14,266.56	56	33	22	58.93	$826.47	($591.23)	1.40	2.10	$254.76
1.5	$14,768.73	69	42	26	60.87	$784.84	($699.80)	1.12	1.81	$214.04
1.25	$8,011.48	90	50	39	55.56	$683.77	($671.21)	1.02	1.31	$89.02
1	$2,936.68	115	66	48	57.39	$616.83	($786.96)	0.78	1.08	$25.54
0.75	$2,915.99	137	78	58	56.93	$617.83	($780.60)	0.79	1.06	$21.28
0.5	$720.01	157	90	66	57.32	$589.82	($793.40)	0.74	1.01	$4.59
0.25	$5,503.35	175	100	74	57.14	$637.42	($787.01)	0.81	1.09	$31.45

Generally if you're up through Thursday, you've got a decent chance of a good Friday. Next we look at being down through Thursday:

S&P 500 is X% lower through Thursday of the current week.										
Buy S&P 500 on close. Sell 1 day later. $100k/trade. Sept 2001 - present.										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
2	($7,180.05)	48	21	27	43.75	$1,455.63	($1,398.08)	1.04	0.81	($149.58)
1.75	($10,278.67)	60	27	33	45.00	$1,231.20	($1,318.82)	0.93	0.76	($171.31)
1.5	($5,917.03)	71	36	35	50.70	$1,095.34	($1,295.69)	0.85	0.87	($83.34)
1.25	($8,963.56)	82	41	41	50.00	$1,097.26	($1,315.88)	0.83	0.83	($109.31)
1	($11,132.95)	98	47	51	47.96	$1,104.45	($1,236.12)	0.89	0.82	($113.60)
0.75	($11,867.90)	114	54	60	47.37	$1,045.32	($1,138.58)	0.92	0.83	($104.10)
0.5	($13,780.16)	135	64	71	47.41	$974.69	($1,072.68)	0.91	0.82	($102.08)
0.25	($14,301.95)	153	73	80	47.71	$896.88	($997.17)	0.90	0.82	($93.48)

Here we see the exact opposite. If you're down going into Friday, you're most likely to continue lower.

Here's how it all looks in tonight's Aggregator chart:

The market is grossly oversold and the studies continue to produce predominantly bullish results. Of course this has been the case for quite a while. Let's hope it starts to matter soon. Rallies from conditions as bad as this have historically been extremely sharp. While it's unlikely the index trade ideas will close out profitable, a large amount of the current open losses could be made up quickly. I'll continue to wait for the bounce and re-evaluate the action each day and night.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 3/1

Another down week. Another new low. I'm seeing nothing from an intermediate-standpoint that has me excited about either side right now. Too low to aggressively short and no evidence of an ability to rally. Most notable from a technical perspective is that the S&P 500 broke its last nearby level of technical support this past week. There's no telling where it might next find support. Still, the overall intermediate-term mantra will remain the same as it has:

I expect we're likely to see a decent rally of 30% or more lasting at least 2-3 months emerge here at some point. I have serious doubts that next rally will lead to a multi-year bull market run, though. Until I see signs otherwise, I'm treating this market as one that is more similar to the 1930's than any other period in time. Past evidence of this *includes volatility studies, Dow Trend vs. Chop studies, and studies of severe selloffs such as we saw in the fall. I'll be sure to revisit these studies when appropriate. For now my focus remains short-term.*

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

DOW (Dow Chemical) –@ $9.29 (1/3)
DOW (Dow Chemical) –@ $8.62 (1/3)
DOW (Dow Chemical) – bought last 1/3 position @ $8.60
PM – bought 1/3 position @ $32.79
PM – bought 1/3 position @ $32.75
BA – bought1/3 position @ $29.51
RTN – bought 1/3 position @ $37.71
PM – buy 1/3 position @ $32.34 limit
BA – buy 1/3 position @ $29.36 limit
RTN – no fill
GE – buy 1/3 position @ $7.01 limit
JNJ – buy 1/3 position @ $47.64 limit
UTX –no fill
GE – buybought 1/3 position @ $6.69

New
KFT – buy 1/3 position @ $21.00 limit
COV – buy 1/3 position @ $28.31 limit
GE - I'll hold off on final piece unless it drops further.

Catapult for ETF's Trades

DIA – bought @ $73.73 limit

Broad Market Large Cap CBI – 17/9 (DOW-3, PM-3, BA-2, RTN-2, GE - 3, JNJ, UTX, KFT, COV)

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	3.49
DJ US Insurance Index	IAK	17.57		DJ US Financial	IYF	9.25
DJ US Regional Banks	IAT	15.00		DJ US Financial Services	IYG	9.09
DJ US Utilities	IDU	24.32		DJ US Healthcare	IYH	11.27
DJ US Oil&Gas Expl & Prod	IEO	8.62		DJ US Industrial Sector	IYJ	11.49
DJ US Oil Equip & Svcs	IEZ	3.85		DJ US Consumer Goods	IYK	7.48
DJ US Pharmaceuticals	IHE	18.92		DJ US Basic Materials	IYM	12.16
DJ US Healthcare Providers	IHF	10.20		DJ US Real Estate	IYR	3.66
DJ US Medical Devices	IHI	12.20		DJ US Transportation	IYT	23.81
DJ US Aerospace & Defense	ITA	13.89		DJ US Technology Sector	IYW	4.02
DJ US Home Construction	ITB	0.00		DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	7.02		Nasdaq 100	QQQQ	2.00

Additional New Trade Ideas

See KFT and COV triggers in Catapult section.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DOW(1/3)	2/17/2009	$9.29	$6.47	-30.36%		Catapult
DOW(1/3)	2/18/2009	$8.62	$6.47	-24.94%		Catapult
SPY(1/4)	2/18/2009	$79.22	$68.80	-13.15%		
DOW(1/3)	2/19/2009	$8.60	$6.47	-24.77%		Catapult
SPY(1/4)	2/19/2009	$78.18	$68.80	-12.00%		
DIA	2/23/2009	$73.73	$66.07	-10.39%		Catapult
PFE(1/3)	2/24/2009	$13.27	$12.67	-4.52%		sold on close
SPY(1/4)	3/2/2009	$72.52	$68.80	-5.13%		
PM(1/3)	3/2/2009	$32.79	$32.95	0.49%		Catapult
PM(1/3)	3/3/2009	$32.61	$32.95	1.04%		Catapult
RTN(1/3)	3/3/2009	$37.71	$35.79	-5.09%		Catapult
BA(1/3)	3/3/2009	$29.51	$29.39	-0.41%		Catapult
SPY(1/4)	3/3/2009	$70.07	$68.80	-1.81%		
GE(1/3)	3/4/2009	$7.01	$6.66	-4.99%		Catapult
JNJ(1/3)	3/4/2009	$47.64	$47.67	0.06%		Catapult
BA(1/3)	3/4/2009	$29.36	$29.39	0.10%		Catapult
RTN(1/3)	3/4/2009	$36.45	$35.79	-1.81%		Catapult
GE(1/3)	3/5/2009	$6.69	$6.66	-0.45%		Catapult

June/July 2008 was a difficult selloff that saw the Catapults struggle. In large part due to the persistency of the downtrend. Traditionally sharp selloffs are short and herky-jerky, creating nice opportunities. March 2008, October and November were three terrific windows of opportunity for Catapult trades. The persistency and steepness of the current cluster has made for the most difficult conditions I've experienced. DOW may well turn out to be the worst Catapult trade of all time. Overall I expect the numbers will look significantly better than they do above when the cluster is finally closed out.