QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 13, 2009 Volume 2 Issue 49

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 12, 2009	2 Days Up In Chop	1-4 days	Bearish		
March 10, 2009	200-day low on lowest vol 5	1-12 days	Bullish		
March 6, 2009	Bounce from 50 low fails	1-7 days	Bullish	5.30%	10.00%
February 26, 2009	SPX down 1% while SOX up 1%	1-15 days	Bullish	4.60%	7.10%
Active - Long Term					
March 13, 2009	2 90% Up Days	1-25 days	Bullish	8.00%	11.40%
Dropped Tonight					
March 11, 2009	GapUp & move higher from 50 low	1-2 days	Bearish		
March 11, 2009	90% Up From 50-low	1-2 days	Bearish		
March 5, 2009	Rally after CBI >= 10	1-5 days	Bullish		
March 4, 2009	5 lower closes @ 50-low	1-4 days	Bullish	2.10%	3.90%
March 10, 2009	CBI crosses under 9	1-4 days	Bullish		

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 3/13 – neutral

The market followed through on the gains of Tuesday and Wednesday with another very strong performance on Thursday. The Nasdaq and S&P rose over 4%. Breadth was again extremely strong. On the NYSE the Up Issues % was 89% and the Up Volume % was 94%. Total volume was again strong and rose above Wednesday's level.

The move off the lows so far has been quite impressive. Tuesday night we had two studies that showed strong short-term bearish implications. In most every instance among those two studies (1)90% Day Following 50-day Low & 2)Gap Up and Move Higher from 50-low) the S&P posted a lower close either one or 2 days later. The fact that the market pushed through this near-certain pullback and forged ahead is suggestive of exceptional strength.

Thursday was the 2nd 90% day in the last 3 days. Historically tight clusters of 90% days have almost always led to a further rally.

Twice in the last 5 days NYSE Up Volume comprises more than 90% of total volume.										
Buy on close. Sell X days later. $100k/trade. 1970 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
25	$38,772.41	7	6	1	85.71	$7,112.49	($3,902.52)	1.82	10.94	$5,538.92
20	$36,284.11	7	6	1	85.71	$6,325.11	($1,666.56)	3.80	22.77	$5,183.44
15	$31,094.86	7	5	2	71.43	$6,490.60	($679.08)	9.56	23.89	$4,442.12
10	$23,650.42	7	6	1	85.71	$4,204.75	($1,578.08)	2.66	15.99	$3,378.63
9	$22,175.78	7	7	0	100.00	$3,167.97	$0.00	100.00	100.00	$3,167.97
8	$21,712.90	7	7	0	100.00	$3,101.84	$0.00	100.00	100.00	$3,101.84
7	$23,040.97	7	6	1	85.71	$3,867.30	($162.81)	23.75	142.52	$3,291.57
6	$16,701.02	7	5	2	71.43	$3,633.77	($733.91)	4.95	12.38	$2,385.86
5	$8,684.73	8	5	3	62.50	$3,199.34	($2,437.33)	1.31	2.19	$1,085.59

Instances are small, so it's dangerous to rely too much on the results, but you've typically seen very strong moves after these tandems of 90% Up Volume days. Below I've listed all the occurrences along with the 20-day return of the market after such occurrences.

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts Profit	Net Profit Cum Net Profit	% Profit	Run-up DrawDown
11/29/71	Buy	$93.41	$0.00	1070	$9,137.80	9.14%	$9,137.80
12/28/71	Sell	$101.95		$9,137.80	$9,137.80		$0.00
08/20/82	Buy	$113.02	$0.00	884	$8,380.32	8.39%	$11,103.04
09/20/82	Sell	$122.50		$8,380.32	$17,518.12		($928.20)
08/02/84	Buy	$157.99	$0.00	632	$5,441.52	5.45%	$6,831.92
08/30/84	Sell	$166.60		$5,441.52	$22,959.64		$0.00
01/05/87	Buy	$252.19	$0.00	396	$9,603.00	9.62%	$11,388.96
02/02/87	Sell	$276.44		$9,603.00	$32,562.64		($23.76)
08/31/07	Buy	$1,473.99	$0.00	67	$4,894.35	4.96%	$5,027.01
10/01/07	Sell	$1,547.04		$4,894.35	$37,456.99		($2,324.90)
11/28/07	Buy	$1,469.01	$0.00	68	$493.68	0.49%	$3,710.08
12/27/07	Sell	$1,476.27		$493.68	$37,950.67		($2,268.48)
11/26/08	Buy	$887.68	$0.00	112	($1,666.56)	(1.68%)	$3,491.04
12/26/08	Sell	$872.80		($1,666.56)	$36,284.11		($8,062.88)

I also looked at the action of the last two days using price movement as the basis of the study rather than breadth. Interestingly, the results there were vastly different:

Today and either yesterday or the day before the market rises at least 4%.										
Buy 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
5	($23,431.89)	5	1	4	20.00	$3,699.74	($6,782.91)	0.55	0.14	($4,686.38)
4	($23,164.60)	5	1	4	20.00	$5,335.88	($7,125.12)	0.75	0.19	($4,632.92)
3	($12,696.41)	5	2	3	40.00	$6,225.20	($8,382.27)	0.74	0.50	($2,539.28)
2	($9,071.72)	5	2	3	40.00	$4,545.24	($6,054.06)	0.75	0.50	($1,814.34)
1	($7,216.36)	5	2	3	40.00	$1,778.32	($3,591.00)	0.50	0.33	($1,443.27)

Here we see the strength was followed by short-term weakness. Below again are all instances:

Date/Time	Signal	Price	Roll Over USD/Lot	Shares/Ctrts Profit	Net Profit Cum Net Profit	% Profit	Run-up DrawDown
10/09/74	Buy	$67.82	$0.00	1474	$3,699.74	3.70%	$7,252.08
10/16/74	Sell	$70.33		$3,699.74	$3,699.74		$0.00
10/21/87	Buy	$258.37	$0.00	387	($9,713.70)	(9.71%)	$0.00
10/28/87	Sell	$233.27		($9,713.70)	($6,013.96)		($12,418.83)
09/19/08	Buy	$1,255.08	$0.00	79	($3,282.45)	(3.31%)	$0.00
09/26/08	Sell	$1,213.53		($3,282.45)	($9,296.41)		($5,947.91)
10/20/08	Buy	$985.40	$0.00	101	($13,784.48)	(13.85%)	$4.04
10/27/08	Sell	$848.92		($13,784.48)	($23,080.89)		($13,921.84)
11/24/08	Buy	$851.81	$0.00	117	($351.00)	(0.35%)	$5,199.48
12/02/08	Sell	$848.81		($351.00)	($23,431.89)		($4,226.04)
03/12/09	Buy	$750.74		133	n/a	n/a	$0.00
open	n/a	$750.74		n/a	n/a		$0.00

Occurrences are too few to really take anything from. You'll notice none of the previous sharp rallies occurred in the context of a bull market, though. The last 3 have all occurred in the last 6 months. While I'm not including this study in the Aggregator since it just too low on instances, I do think it is worth keeping in the back of your mind.

Here's tonight's Aggregator chart:

While the green Aggregator line remains bullish, the black differential line shows the market has outperformed expectations over the last 3 days by a monstrous amount. When the black line drops sharply below 0 that is typically a time where I'll take profits. The drop back down to 2 in the CBI tonight also leaves us without the positive influence we had the last few days of an oversold market that hadn't yet relieved itself. It seems excessively bold not to take the remaining SPY off the table at this point – especially being primarily a short-term trader.

I keep mentioning how it is dangerous to short a market that is trying to emerge from a long-term bottom. While I'm going to look to exit the rest of my long position, I'll hold to that philosophy and not attempt to short the SPY at this point. While the market is extremely overbought, the studies still have a bullish tint, so even if I wasn't concerned about getting caught in a continuation of this move off the bottom, I really don't have a lot to base the trade on, other than the fact that the market is overbought.

It appears a case is being built for a rally lasting at least several weeks here. I do think it will pull back short term, but rather than trying to capture every wiggle I'd prefer to wait for that pullback to begin establishing the long position again.

Exit details are in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 3/9

Over the last week and a half the market has deteriorated rapidly without the requisite bounce that has historically occurred. Of course the period we are now dealing in is worse than anything seen in a very long time. One of the criticisms of some of the studies is that they mostly only go back to 1960 at the latest. And yet by my own admission we seem to be in a market that perhaps resembles the 30's more than any other previous decade.

There are different schools of thought when it comes to the historical analysis. One says that you should find a period most similar to the current period and use that as a roadmap for your decision making. Human nature remains the same and it is likely the market will act in a similar fashion under similar circumstances. The other school of thought says that rather than focusing on a distant but similar past, you are better off focusing on the more recent past. Market behavior is determined by its participants. If we're considering comparing today's market to 1930 that's fine, but there is no one trading now that was trading then. The makeup and experience of the current market participants is based on their own experiences in the last 5, 10, 20 years. It is their patterns of behavior over this time period that is more likely to determine their actions and ultimately the gyrations and direction of the market going forward.

I tend to favor the 2nd school of thought but readily admit the answer is probably more grey than black and white. But for those who subscribe more to the 1st school of thought I thought it would be an interesting exercise to run some recent tests over the 25 year period of 1929-1954 and see if results were similar or vastly different. Most of my breadth data only goes back as far as 1969 or so. Therefore I decided just to look at a couple of price studies.

First from Thursday night's Letter:

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

Now let's look at the same test from '29-'54 for the Dow:

Dow makes a 50 day low. Then closes 1% higher the next day. Then the day after that closes at a new 50-day low.										
Buy on close. Sell X days later. $100k/trade. 1929 - 1954.										
X Days	Net Profits	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	$9,343.90	18	12	6	66.67	$5,200.61	($8,843.90)	0.59	1.18	$519.11
9	($8,531.90)	19	9	10	47.37	$5,928.09	($6,188.47)	0.96	0.86	($449.05)
8	($19,757.80)	19	6	13	31.58	$7,447.70	($4,957.23)	1.50	0.69	($1,039.88)
7	($19,996.30)	19	8	11	42.11	$5,768.71	($6,013.27)	0.96	0.70	($1,052.44)
6	($26,741.90)	19	7	11	36.84	$4,738.24	($5,446.33)	0.87	0.55	($1,407.47)
5	($8,475.00)	20	10	10	50.00	$5,885.19	($6,732.69)	0.87	0.87	($423.75)
4	$20,677.00	21	12	9	57.14	$6,029.23	($5,741.52)	1.05	1.40	$984.62
3	$36,102.90	22	12	10	54.55	$5,657.28	($3,178.44)	1.78	2.14	$1,641.04
2	$10,257.70	23	12	11	52.17	$4,204.63	($3,654.35)	1.15	1.26	$445.99
1	$2,412.50	23	9	12	39.13	$3,799.60	($2,648.66)	1.43	1.08	$104.89

Rather than seeing the rally last 2 weeks or more, during the 30's and 40's the bounce often petered out after 3-4 days. Still, for the very short-term there still appeared to be a slight bullish bias.

Another recent bullish study looked at 5 lower closes at a 50-day low. Below is a similar study for the Dow from '29 – '54:

Dow Industrials make 5 lower closes and close at a 50-day low.										
Buy on close. Sell X days later. $100k/trade. 1929 - 1954.										
X Days	Net Profits	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	$28,116.40	22	14	8	63.64	$4,454.57	($4,280.95)	1.04	1.82	$1,278.02
9	$13,039.60	22	12	10	54.55	$4,944.38	($4,629.30)	1.07	1.28	$592.71
8	$14,599.50	22	12	10	54.55	$4,433.89	($3,860.72)	1.15	1.38	$663.61
7	$17,222.20	23	12	11	52.17	$4,285.63	($3,109.57)	1.38	1.50	$748.79
6	$25,693.40	23	13	10	56.52	$4,110.85	($2,774.77)	1.48	1.93	$1,117.10
5	$17,063.40	23	13	10	56.52	$3,278.53	($2,555.75)	1.28	1.67	$741.89
4	$23,943.90	23	15	8	65.22	$2,918.31	($2,478.85)	1.18	2.21	$1,041.04
3	$11,667.50	23	15	8	65.22	$2,828.79	($3,845.55)	0.74	1.38	$507.28
2	$15,741.90	23	15	8	65.22	$2,260.12	($2,269.99)	1.00	1.87	$684.43
1	$22,530.10	23	16	7	69.57	$1,880.31	($1,079.27)	1.74	3.98	$979.57

Here again we are seeing bullish results. While I'm not sure it's necessary, I find it encouraging that some of the recent bullish studies I've cited also seemed to provide a bullish edge even during the difficult 29-54 period.

I'm still expecting a sizable multi-month rally to emerge here at some point. I've yet to see strong evidence that any such rally has begun or is days from beginning. I'll continue to watch for such evidence. Even while trying to capture such a rally I will remain alert to the idea that there is a good chance the anticipated rally will be largely or completely retraced.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

RTN – bought 1/3 position
RTN – bought 1/3 position

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 2/1 (RTN-2)

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	1.16
DJ US Insurance Index	IAK	2.70		DJ US Financial	IYF	0.68
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	6.76		DJ US Healthcare	IYH	1.41
DJ US Oil&Gas Expl & Prod	IEO	1.72		DJ US Industrial Sector	IYJ	1.53
DJ US Oil Equip & Svcs	IEZ	1.92		DJ US Consumer Goods	IYK	1.36
DJ US Pharmaceuticals	IHE	5.41		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	5.56		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	0.00		Nasdaq 100	QQQQ	0.00

CBI %'s have dropped dramatically in the last 2 days as oversold conditions have ben relieved.

Additional New Trade Ideas

None tonight. This was the first night in a long time that the system triggers sheet was completely empty.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	2/19/2009	$78.18	$73.50	-5.99%		sold
RTN(1/3)	3/3/2009	$37.71	$34.84	-7.61%		Catapult
SPY(1/4)	3/3/2009	$70.07	$75.50	7.75%		
JNJ(1/3)	3/4/2009	$47.64	$49.00	2.85%		sold
RTN(1/3)	3/4/2009	$36.45	$34.84	-4.42%		Catapult

SPY – sell @ $75.25 limit. I don't want to sell into a big gap down, should that happen. I do want to get out near Thursday's close. I may re-evaluate after the open if the trade idea is not closed out early in the day.

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