QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 2, 2009 Volume 2 Issue 63

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					
April 2, 2009	2 Strong Breadth Days - No 10 High	1-8 days	Bearish	-3.30%	-6.00%
April 2, 2009	2 Days up in chop	1-4 days	Bearish		
April 1, 2009	1% below high but up on day	1-7 days	Bullish	6.10%	9.90%
March 31, 2009	Double Dn 1.75% No 10-low	1-9 days	Bullish	5.00%	7.90%
March 30, 2009	20 low range and vol while SPY>10ma	1-10 days	Bearish	-4.40%	-9.90%
March 25, 2009	20day high with low volume & range	1-10 days	Bearish	-2.50%	-4.60%
Active - Long Term					
March 26, 2009	Rise after follow through day		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 4/2 – neutral

A large gap down reversed and turned into a trend day higher on Wednesday. The major indices all put in strong gains over 1%. Breadth was again strong with the NYSE Up Issues % coming in at 74% and the NYSE Up Volume % at 83%. Volume was low and sank from the previous day.

The most obvious notable from today was that the “2 days up in chop” system has triggered. This system looks to short any two up days and then covers on the 1st profitable close. If the trade isn’t profitable after 4 days then the position is closed anyway. It has been effective since the market became especially choppy in June, 2007. Below is an updated performance report going back to June 1, 2007:

TradeStation Performance Summary

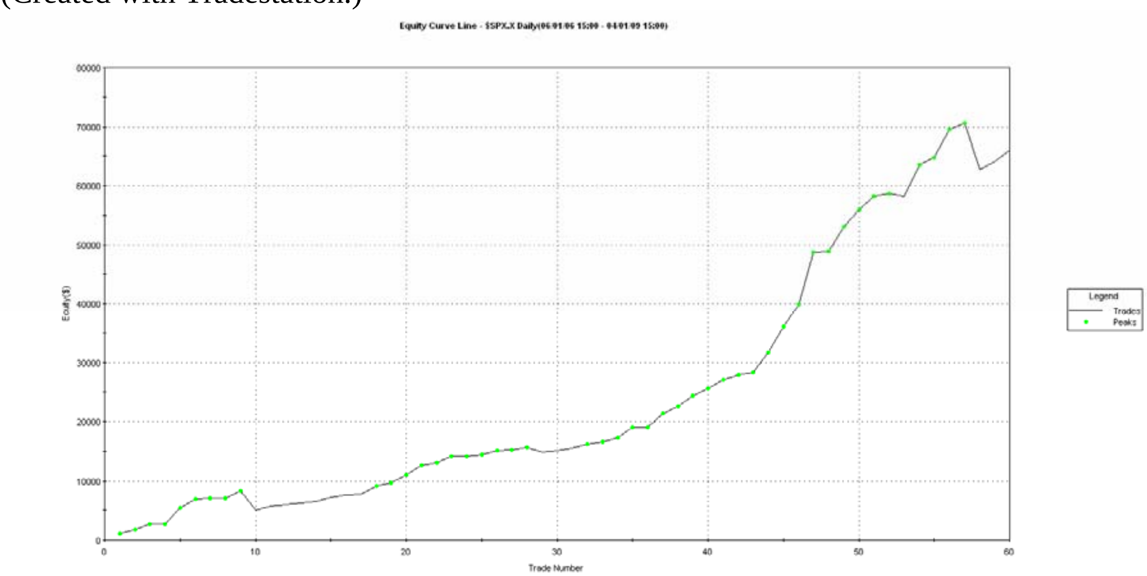
Collapse

All Trades

Total Net Profit	$66,050.82	Profit Factor	6.39
Gross Profit	$78,309.69	Gross Loss	($12,258.87)
Roll Over Credit	$0.00		
Open Position Profit/Loss	$0.00		
Select Total Net Profit	$57,267.80	Select Profit Factor	5.67
Select Gross Profit	$69,526.67	Select Gross Loss	($12,258.87)
Adjusted Total Net Profit	$49,456.81	Adjusted Profit Factor	3.69
Adjusted Gross Profit	$67,845.12	Adjusted Gross Loss	($18,388.30)
Total Number of Trades	60	Percent Profitable	93.33%
Winning Trades	56	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	$1,100.85	Ratio Avg. Win:Avg. Loss	0.46
Avg. Winning Trade	$1,398.39	Avg. Losing Trade	($3,064.72)
Largest Winning Trade	$8,783.02	Largest Losing Trade	($7,832.88)

There was a losing trade recently just after the March low was made. Below is an equity curve of the system.

(Created with Tradestation.)



In the August 29, 2008 newsletter I showed a couple of studies that looked at returns after consecutive strong breadth days. Those studies again qualified tonight and I've updated the statistics.

The first one looks at advancing vs. declining issues:

NYSE Advancers exceed decliners by at least 7 to 3 for the 2nd day in a row.										
Today the market fails to make a 10-day high. 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 Facto	Avg Trade
10	($64,359.19)	22	6	16	27.27	$1,025.22	($4,406.91)	0.23	0.09	($2,925.42)
9	($60,484.57)	22	5	17	22.73	$1,443.27	($3,982.41)	0.36	0.11	($2,749.30)
8	($65,117.82)	22	5	17	22.73	$1,136.51	($4,164.73)	0.27	0.08	($2,959.90)
7	($56,915.31)	22	6	16	27.27	$1,350.21	($4,063.54)	0.33	0.12	($2,587.06)
6	($37,615.17)	22	6	16	27.27	$1,507.10	($2,916.11)	0.52	0.19	($1,709.78)
5	($25,778.93)	22	8	14	36.36	$1,149.85	($2,498.41)	0.46	0.26	($1,171.77)
4	($18,119.72)	22	11	11	50.00	$1,263.64	($2,910.89)	0.43	0.43	($823.62)
3	($7,942.46)	22	11	11	50.00	$1,247.79	($1,969.83)	0.63	0.63	($361.02)
2	($7,395.87)	22	9	13	40.91	$1,220.01	($1,413.53)	0.86	0.60	($336.18)
1	($5,512.22)	22	10	12	45.45	$718.65	($1,058.23)	0.68	0.57	($250.56)

The failure to make a 10-day high after two strong up days suggests there was a strong move down prior to this. Most often the strong down move will reassert itself or at least cause a pullback. As a point of comparison, below are the numbers when the back-to-back the strength does coincide with a 10-day high:

NYSE Advancers exceed decliners by at least 7 to 3 for the 2nd day in a row.										
Today the market makes a 10-day high. 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 Facto	Avg Trade
10	$55,949.73	69	46	23	66.67	$2,517.21	($2,601.82)	0.97	1.93	$810.87
9	$39,835.34	69	40	29	57.97	$2,534.70	($2,122.50)	1.19	1.65	$577.32
8	$34,495.45	70	42	28	60.00	$2,304.93	($2,225.41)	1.04	1.55	$492.79
7	$33,111.15	70	43	27	61.43	$2,302.80	($2,441.08)	0.94	1.50	$473.02
6	$29,762.34	73	46	27	63.01	$1,985.84	($2,280.97)	0.87	1.48	$407.70
5	$28,953.27	73	43	30	58.90	$1,859.05	($1,699.53)	1.09	1.57	$396.62
4	$18,052.72	74	43	31	58.11	$1,632.38	($1,681.93)	0.97	1.35	$243.96
3	$16,109.84	77	44	33	57.14	$1,493.44	($1,503.07)	0.99	1.32	$209.22
2	$13,866.77	81	48	33	59.26	$1,040.47	($1,093.21)	0.95	1.38	$171.19
1	$7,554.89	90	45	45	50.00	$721.81	($553.92)	1.30	1.30	$83.94

Strong negative expectations turn positive under this scenario.

Below is another simple study updated from the August 29, 2008 Subscriber Letter. This one looks at Up/down volume.

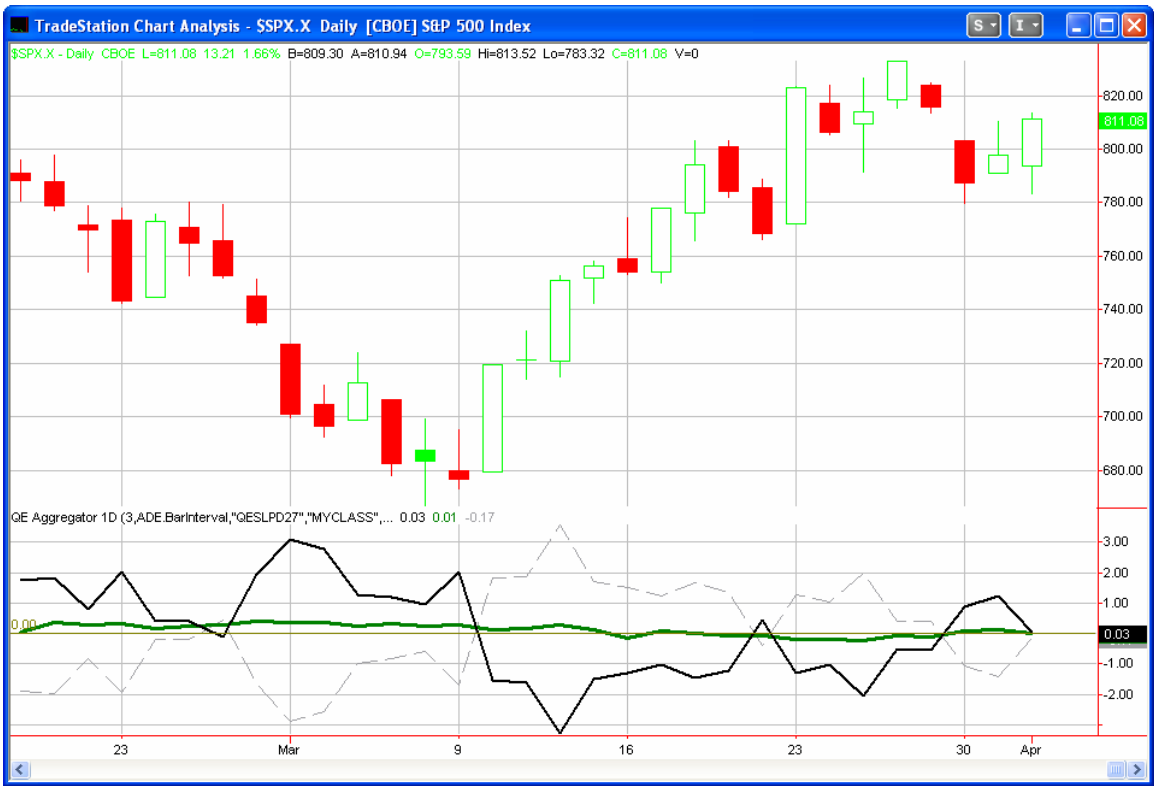
NYSE Advancing volume exceeds declining volume by at least 3 to 1 for the 2nd day in a row.										
Today the market fails to make a 10-day high. Buy on close. Sell X days later. $100k/trade. 1970 - present.										
X days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Facto	Avg Trade
10	($47,434.83)	39	12	27	30.77	$2,473.66	($2,856.25)	0.87	0.38	($1,216.28)
9	($47,572.79)	39	11	28	28.21	$2,451.04	($2,661.94)	0.92	0.36	($1,219.82)
8	($47,293.79)	40	12	28	30.00	$2,057.82	($2,570.99)	0.80	0.34	($1,182.34)
7	($47,053.26)	40	14	26	35.00	$2,126.38	($2,954.72)	0.72	0.39	($1,176.33)
6	($35,891.56)	40	16	24	40.00	$1,974.96	($2,812.12)	0.70	0.47	($897.29)
5	($20,310.83)	40	17	23	42.50	$1,930.75	($2,310.16)	0.84	0.62	($507.77)
4	($14,310.02)	40	17	23	42.50	$1,670.40	($1,856.82)	0.90	0.66	($357.75)
3	($4,947.49)	40	22	18	55.00	$1,300.65	($1,864.55)	0.70	0.85	($123.69)
2	($8,969.86)	40	19	21	47.50	$1,175.12	($1,490.34)	0.79	0.71	($224.25)
1	($3,776.54)	41	22	19	53.66	$890.55	($1,229.92)	0.72	0.84	($92.11)

Quite bearish numbers again here. And again looking at the breadth scenario without the requirement of no 10-day high:

NYSE Advancing volume exceeds declining volume by at least 3 to 1 for the 2nd day in a row.										
Today the market makes a 10-day high. 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 Factc	Avg Trade
10	$48,144.01	106	66	40	62.26	$2,229.54	($2,475.14)	0.90	1.49	$454.19
9	$18,564.54	108	55	52	50.93	$2,334.44	($2,112.11)	1.11	1.17	$171.89
8	$19,332.61	110	59	51	53.64	$2,025.90	($1,964.62)	1.03	1.19	$175.75
7	$34,610.87	110	64	46	58.18	$1,958.90	($1,973.02)	0.99	1.38	$314.64
6	$24,635.23	114	66	47	57.89	$1,704.50	($1,869.40)	0.91	1.28	$216.10
5	$12,279.19	116	66	50	56.90	$1,457.56	($1,678.40)	0.87	1.15	$105.86
4	$14,061.54	116	66	50	56.90	$1,281.40	($1,410.21)	0.91	1.20	$121.22
3	($700.58)	118	65	53	55.08	$1,198.28	($1,482.81)	0.81	0.99	($5.94)
2	$21,057.43	120	72	48	60.00	$932.19	($959.59)	0.97	1.46	$175.48
1	($2,166.69)	128	58	69	45.31	$587.21	($525.00)	1.12	0.94	($16.93)

Here too we see strongly negative results turn positive.

Tonight's Aggregator chart is below:



Unfortunately I was a bit too conservative with the slight bullish bias last night and didn't take advantage of Wednesday's move. At this point the Aggregator chart is almost completely neutral. Both the green Aggregator line and the black differential line are extremely close to the zero line. The studies are mixed and the market is in an area of congestion. It's wait and see time. If I had to pick a direction, I'd probably pick down since tonight's studies were all bearish. One nice thing about being a trader is that you don't have to pick a direction all the time. It's not about constant engagement with the market. It's about picking your spots when there is a tradeable edge. Right now my indicators are mixed and no edge seems substantial.

Intermediate-term Outlook (2 weeks – 2 months)–neutral -updated 3/30

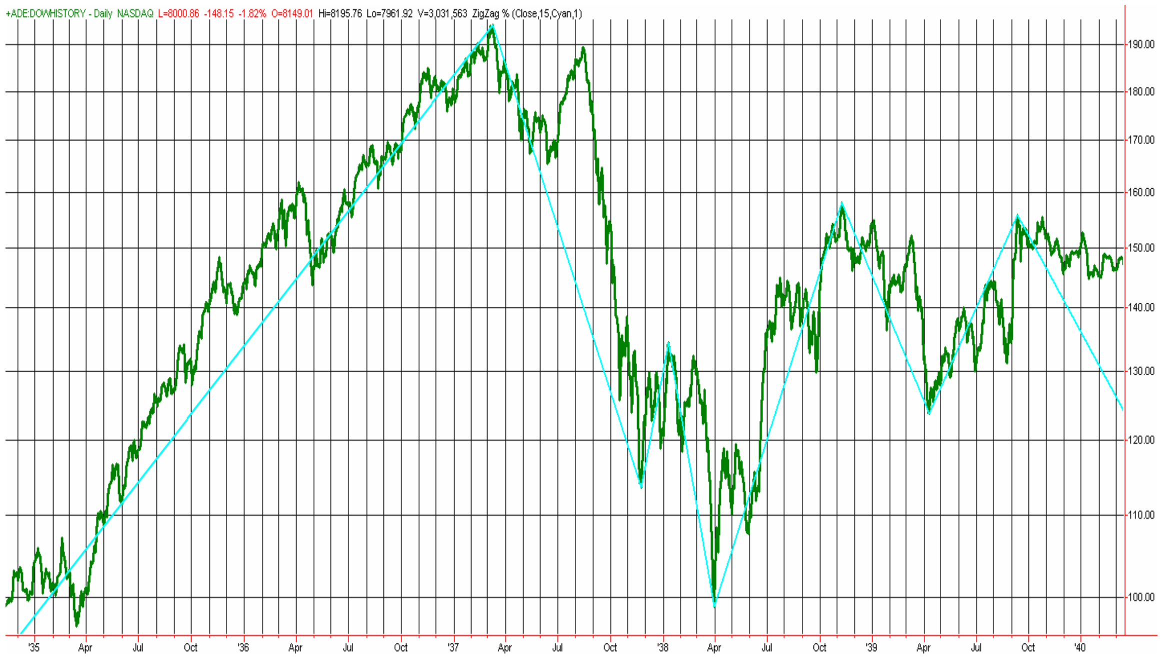
The question that I keep hearing over and over is "Is this rally for real?" What needs to be considered when formulating an answer is what constitutes a "real" bull move. It is my contention that the current environment most resembles that of the 30's from a trading standpoint. Certainly the kind of damage that has been done to the market has not occurred since at least that time period. Additionally, volatility levels reached during the course of this bear have reached levels not seen since at least the 30's in some cases.

I'm of the belief that the market is likely to trade in a very wide range over the next few years. It is unlikely to begin a new secular bull market during this time. Rather I believe we are likely to see both bull and bear runs occur. Some of these, such as the October and November rallies, may be too quick for most traders to capture significant portions of. Others may last several months before reversing course in a convincing manner. Below I've again pulled up some charts from the 30's. In this case I've overlayed the zig-zag indicator in light blue.

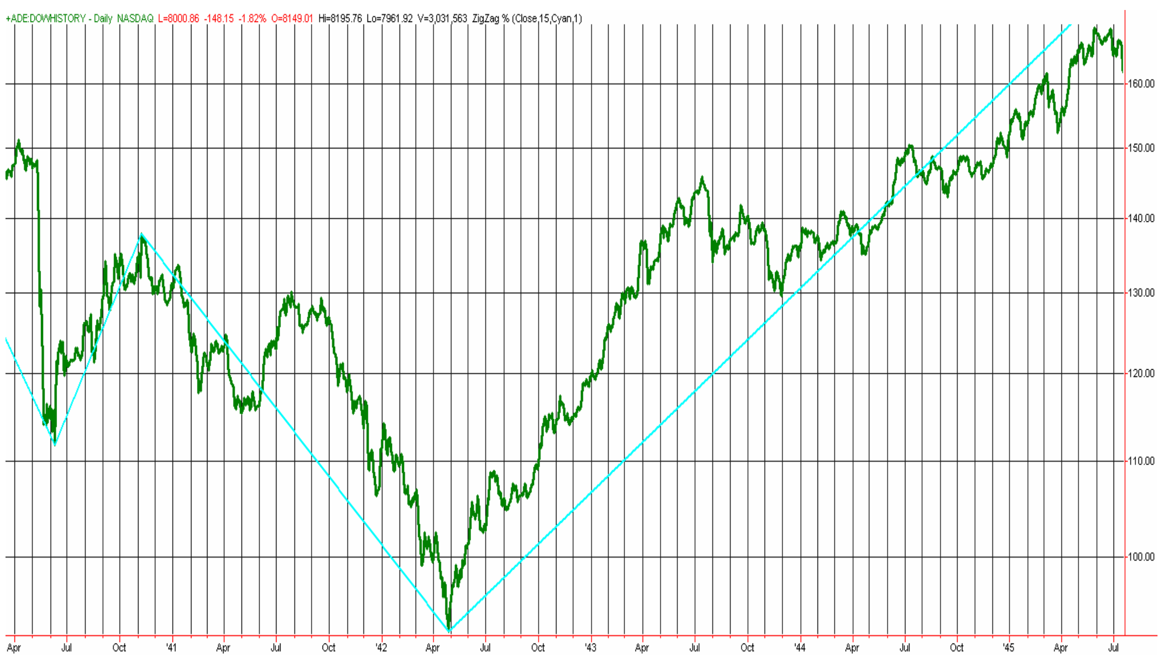
What the zig-zag does is identify all moves of at least 15% either up or down from close to close. You'll notice there was a substantial number of these moves during that time:

Late 1929 – late 1934. (created with Tradestation)

Next is late '34 to late '40 (created with Tradestation):



Several bull and bear markets could also be identified here. The next great bull move, though didn't take place until 1942 as can be seen below:



So is it for real? Well, I'm not at all convinced that we're looking at a 1942 bottom at this point. My contention is we are likely years away from that. The moves seen between 1929 and 1941 offered plenty of opportunity, though. I expect the next several years of this market will as well. Traders need not worry whether we are in a bull or bear market. Leave that to the media and instead just focus on the likely direction based on the evidence for the next few days or weeks. Remain nimble in your assessment as conditions may change rapidly. Whether the "ultimate" bottom gets hit is irrelevant. The ultimate bottom in the charts above was made in 1932. Close to 10 years passed before the next great bull market emerged. Picking that 1932 ultimate bottom and riding the wave higher was not the key to big profits. Much more important than picking the bottom would have been to stay nimble and take advantage of some of the vast directional opportunities over the next 10 years – prior to the "real" bull emerging.

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	0.00
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	0.00
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	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	0.00
DJ US Home Construction	ITB	0.00		DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.00		Nasdaq 100	QQQQ	0.00

Nothing happening here.

Additional New Trade Ideas

None – Even slim pickings among the system triggers.

Active Trades Table

None