QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 3, 2009 Volume 2 Issue 64

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 4/3 – neutral approaching bearish

The market gapped up close to 2% Thursday morning. It then made its low during the early morning and spent most of the day trending higher. Selling kicked in during the last half hour but a sharp reversal with about 2 minutes to go move the market back up closer to its highs. 87% of issues on the NYSE traded higher and 89% of the volume went to the upside. Total volume rose above levels of the last few days.

Friday morning the jobs report is due out. Historically when the market has made a strong short-term move into the employment report, then that momentum has carried through the employment day.

Employment report comes out tomorrow. 2-day RSI condition below is met.										
Buy on close. Sell at close on jobs day. $100k/trade. 1960-present.										
2-Day RSI	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
RSI > X										
90	$14,084.74	104	63	40	60.58	$553.53	($519.69)	1.07	1.68	$135.43
80	$35,298.44	168	110	57	65.48	$604.98	($548.24)	1.10	2.13	$210.11
RSI < X										
20	($9,990.72)	113	52	61	46.02	$751.92	($804.77)	0.93	0.80	($88.41)
10	($11,034.55)	60	24	36	40.00	$752.20	($807.99)	0.93	0.62	($183.91)

There's no "buy the rumor, sell the news" setup here.

Not a lot new showed up tonight. Price is getting stretched but we already have a few price setups from last night that are active. The S&P did close at its highest level since early February on Thursday. Since the beginning of 2002 there has been a strong tendency for the market to pull back after hitting news highs while trading under the 200-day moving average. Below are results of some simple systems. These systems call for shorting the S&P 500 any time it hits an X day high while under the 200ma. The trade is covered when the S&P 500 next closes below its Y-day moving average.

SPX closes under the 200-day moving average and at an X day high.													
Short on close. Cover on cross of Y day average. $100k/trade. 1/1/2002 - present.													
X Day Hig	Y Day Avg	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	Max Win	Max Loss	W/L Ratio	Profit Factor	Avg Trade
5	5	$49,607.43	71	53	18	74.65	$1,788.49	($2,510.14)	$9,455.49	($9,743.92)	0.71	2.10	$698.70
10	5	$49,769.21	37	29	8	78.38	$1,978.10	($949.45)	$8,883.33	($2,367.40)	2.08	7.55	$1,345.11
10	10	$61,651.37	32	23	9	71.88	$3,284.46	($1,543.46)	$9,986.13	($4,893.07)	2.13	5.44	$1,926.61
15	5	$35,672.17	30	25	5	83.33	$1,617.57	($953.41)	$5,245.02	($2,293.92)	1.70	8.48	$1,189.07
15	10	$39,527.70	25	19	6	76.00	$2,450.24	($1,171.16)	$9,986.13	($1,870.88)	2.09	6.63	$1,581.11
20	5	$26,846.22	23	18	5	78.26	$1,756.29	($953.41)	$5,245.02	($2,293.92)	1.84	6.63	$1,167.23
20	10	$24,792.91	18	13	5	72.22	$2,335.58	($1,113.91)	$9,986.13	($1,870.88)	2.10	5.45	$1,377.38

As you can see, hitting new highs here really isn't something the bulls should get too excited about.

While the market has rallied recently, volatility has remained high. Often we see high volatility occur during a selloff and it contains a bullish edge leading to a reversal. Seeing high volatility when the market is rising is a bit more unusual. I looked at this a couple of different ways tonight trying to glean an edge.

First off the 10-day Absolute Average Gap for the SPY hit its highest level in 3 weeks. I looked at other times where this indicator hit a 3-week high at the same time the market was also making a 3-week high. Results were extremely mixed and choppy and contained no sizable edge.

I also noticed that while the S&P rose over 2%, so did the VXO. I looked at other times the S&P rose over 2% and the VXO matched its return. Results here were disappointingly inconclusive as well.

Tonight's Aggregator chart is below:

The green Aggregator line remains basically neutral at this point. The differential line, on the other hand, shows that the market has greatly outperformed expectations over the last 3 days. Should the market close strongly higher tomorrow then the March 31st bullish study will come off the board. In that case the Aggregator line should turn solidly bearish to jive with the differential line. Therefore, I'll be looking to short the S&P should it close strongly higher on Friday. Details are in the trade ideas section below.

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

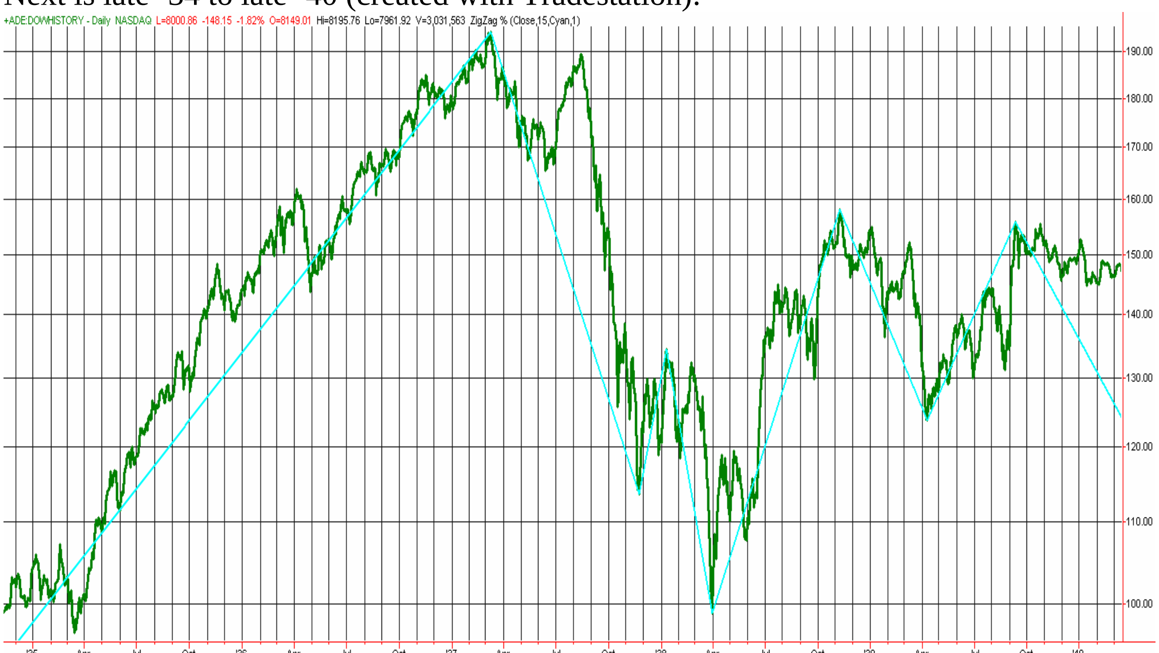
The question that I keep hearing over and over is "Is this rally for real?" What needs to be considered when formulating an answer is what constitutes a "real" bull move. It is my contention that the current environment most resembles that of the 30's from a trading standpoint. Certainly the kind of 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.

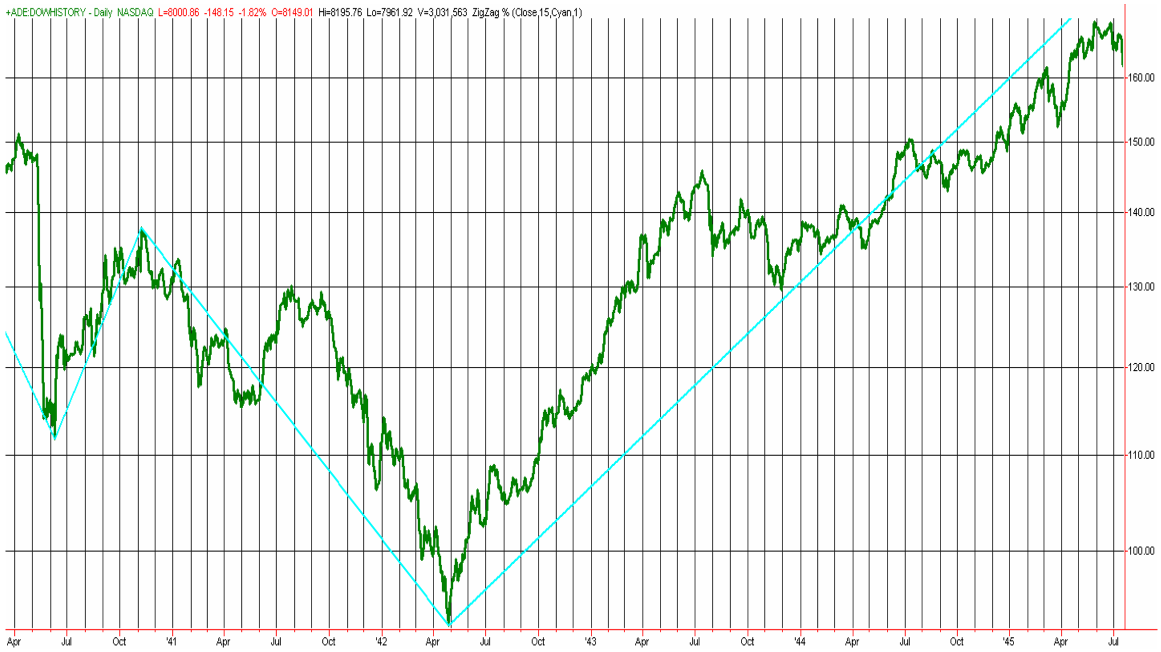
What the zig-zag does is identify all moves of at least 15% either up or down from close to close. You'll notice there was a substantial number of these moves during that time:

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	0.00
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	0.00
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

SPY – short ¼ index position ON CLOSE @ $85.00 limit. As discussed in the short-term market outlook this would turn the Aggregator bearish and suggest a solid downside edge.

Active Trades Table

None