QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 4, 2009 Volume 2 Issue 84

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					
May 4, 2009	10-high low volume low bar pattern	1-5 days	Bearish	-2.00%	-3.50%
April 30, 2009	1% Gap-n-Go	1-3 days	Bearish	-3.20%	-5.80%
April 27, 2009	Gap-n-go	1-9 days	Bearish	-3.40%	-6.50%
April 24, 2009	Poor Nasdaq Breadth on Up Day	1-9 days	Bearish	-4.10%	-8.20%
Active - Long Term					
April 20, 2009	Low Nasdaq Weekly Vol Spyx	1-10 weeks	Bearish		
March 26, 2009	Rise after follow through day		Bullish	920 before 666	
Dropped Tonight					
April 6, 2009	Appel Daily Breadth	1-20 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 5/4 – bearish

Friday's market action seemed indecisive. The market spent most of the day hovering around breakeven. A last half-hour surge allowed prices to close positive and several indices to close at new closing highs. Breadth was mildly positive on both the NYSE and Nasdaq. Volume came in low.

One potential positive is that the Nasdaq 100 is holding above its 200-day moving average. From a short-term trading perspective, overbought/oversold in an uptrend tends to work a bit differently than overbought/oversold in a downtrend. Should other indices follow suit and also capture their 200-day moving averages, many of our studies will need to recognize this and adjust accordingly. I will show an example of this in Monday morning's blog.

Generally the move up on Friday was weak, and there were a few bearish indications. The weakness could be seen a number of ways. First, as I've discussed the bearish implications of many times recently, volume came in very light. Second, the bar pattern was weak. While the S&P closed higher it posted a lower high and a lower low. All this suggests Friday's move lacked conviction and enthusiasm. Also, several of the major indices did post new closing highs. As I showed in the April 3 blog, new highs when the market is under the 200ma typically carry a downside edge and can be opportune times to short.

Below is a study that looks at times the SPY closed at a 20-day while under the 200-day moving average.

SPY closes at 20-day high but under its 200ma.									
Buy on close. Sell X days later. $100k/trade. 1994-present.									
Days In	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	($16,705.99)	59	29	30	49.15	$2,412.11	($2,888.57)	0.84	0.81	($283.15)
9	($32,660.75)	60	32	28	53.33	$1,672.36	($3,077.72)	0.54	0.62	($544.35)
8	($39,858.49)	65	32	33	49.23	$1,849.81	($3,001.59)	0.62	0.60	($613.21)
7	($15,791.35)	68	35	33	51.47	$1,948.80	($2,545.43)	0.77	0.81	($232.23)
6	($32,846.33)	73	34	39	46.58	$1,770.95	($2,386.12)	0.74	0.65	($449.95)
5	($46,576.30)	80	35	44	43.75	$1,765.41	($2,462.86)	0.72	0.57	($582.20)
4	($58,254.16)	88	37	51	42.05	$1,512.81	($2,239.76)	0.68	0.49	($661.98)
3	($60,516.38)	99	35	62	35.35	$1,588.08	($1,872.57)	0.85	0.48	($611.28)
2	($51,616.67)	118	51	65	43.22	$973.59	($1,558.00)	0.62	0.49	($437.43)
1	($37,954.30)	169	74	95	43.79	$834.65	($1,049.67)	0.80	0.62	($224.58)

As you can see, there are some decent downside implications here, especially over the 1st 2-4 days. It doesn't truly represent what we saw on Friday, though. As I mentioned above the lower high and lower low as well as the low volume all contain bearish implications. I'll use the above study as a baseline and look at some combinations of the above.

First let's look at the low volume. Below is a study that also appeared in the August 7, 2008 blog post. Stats are now updated through Friday.

SPY closes at 20-day high but under its 200ma. Today's volume < yesterday's volume.										
Buy on close. Sell X days later. $100k/trade. 1994-present.										
Days In	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	($10,078.78)	25	11	14	44.00	$2,054.11	($2,333.85)	0.88	0.69	($403.15)
9	($26,042.36)	26	11	15	42.31	$1,142.49	($2,573.98)	0.44	0.33	($1,001.63)
8	($24,878.10)	26	8	18	30.77	$1,597.93	($2,092.31)	0.76	0.34	($956.85)
7	($20,179.72)	26	11	15	42.31	$1,256.65	($2,266.86)	0.55	0.41	($776.14)
6	($14,602.89)	28	13	15	46.43	$1,200.29	($2,013.77)	0.60	0.52	($521.53)
5	($20,534.17)	30	15	15	50.00	$1,261.17	($2,630.11)	0.48	0.48	($684.47)
4	($18,588.54)	35	18	17	51.43	$1,066.16	($2,222.32)	0.48	0.51	($531.10)
3	($11,775.13)	37	17	20	45.95	$1,171.54	($1,584.57)	0.74	0.63	($318.25)
2	($16,563.01)	41	18	23	43.90	$859.75	($1,392.98)	0.62	0.48	($403.98)
1	($16,325.77)	50	19	31	38.00	$587.58	($886.77)	0.66	0.41	($326.52)

This study isn't a whole lot more bearish than the 1st one, but the bearish implications do persist a bit longer.

What if we combine the lower high and lower low pattern with the baseline study? Those results are below:

SPY closes at 20-day high but under its 200ma. Today's high < yesterday's high and today's low < yesterday's low.										
Buy on close. Sell X days later. $100k/trade. 1994-present.										
Days In	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	($5,982.43)	9	4	5	44.44	$1,995.29	($2,792.72)	0.71	0.57	($664.71)
9	($9,236.34)	9	3	6	33.33	$2,283.44	($2,681.11)	0.85	0.43	($1,026.26)
8	($10,583.45)	9	4	5	44.44	$2,354.58	($4,000.36)	0.59	0.47	($1,175.94)
7	($14,398.45)	10	3	7	30.00	$1,672.92	($2,773.89)	0.60	0.26	($1,439.85)
6	($13,025.99)	10	4	6	40.00	$1,300.46	($3,037.97)	0.43	0.29	($1,302.60)
5	($8,870.17)	10	4	6	40.00	$1,494.71	($2,474.83)	0.60	0.40	($887.02)
4	($7,658.09)	10	2	8	20.00	$3,237.93	($1,766.74)	1.83	0.46	($765.81)
3	($4,091.96)	10	2	7	20.00	$2,279.69	($1,235.91)	1.84	0.53	($409.20)
2	($6,410.06)	11	3	8	27.27	$612.45	($1,030.93)	0.59	0.22	($582.73)
1	($3,022.07)	11	3	8	27.27	$943.63	($731.62)	1.29	0.48	($274.73)

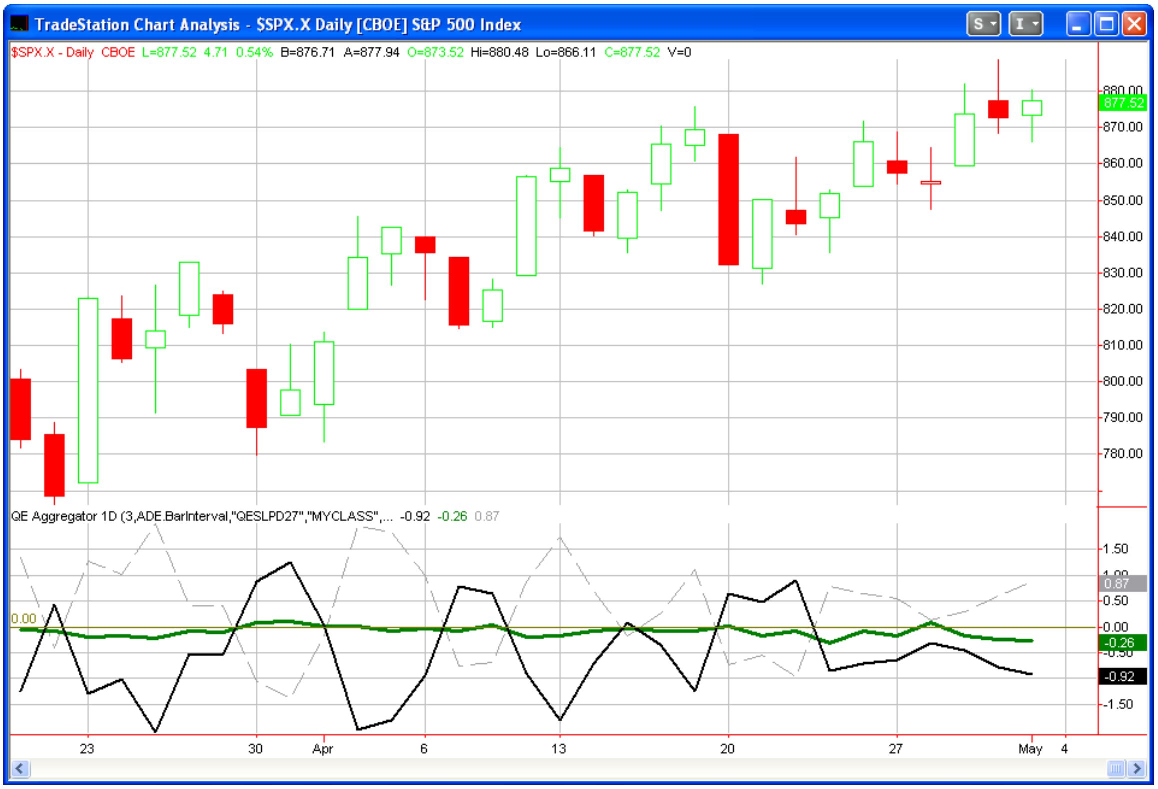
Instances are low here, so caution is advisable when drawing any conclusions. Notable and not shown above is that all 10 instances saw the market close below the trigger day low within the next 4 days.

I then combined the low volume and lower bar pattern to see how that played out. To get a half decent number of instances I eliminated the criteria of closing under the 200ma and I loosened the high criteria to a 10-day closing high instead of a 20-day closing high. Those results are below:

SPY closes at 10-day high on the lowest volume in 5 days. Today's high < yesterday's high and today's low < yesterday's low.										
Buy on close. Sell X days later. $100k/trade. 1994-present.										
Days In	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
5	($18,007.18)	18	6	12	33.33	$901.80	($1,951.50)	0.46	0.23	($1,000.40)
4	($15,503.38)	18	5	13	27.78	$870.97	($1,527.56)	0.57	0.22	($861.30)
3	($13,080.73)	18	7	10	38.89	$340.17	($1,546.19)	0.22	0.15	($726.71)
2	($4,600.52)	18	8	10	44.44	$480.18	($844.20)	0.57	0.46	($255.58)
1	($326.02)	18	7	11	38.89	$579.78	($398.59)	1.45	0.93	($18.11)

Even loosening the 20-high to a 10-high and eliminating the 200ma criteria, these are the most bearish results yet. Instances are still a little low, but suggestive nonetheless. In 17 of 18 instances the SPY had at least 1 close below its trigger day close within the next 4 days. The lone dissenter was 1/22/01 which took 9 days before it closed below its trigger-day low. If I had kept the criteria at 20-day high rather than 10-day high then the results would have shown instances 12 for 12 with regards to having a lower close within 4 days.

The Aggregator chart has been updated below.

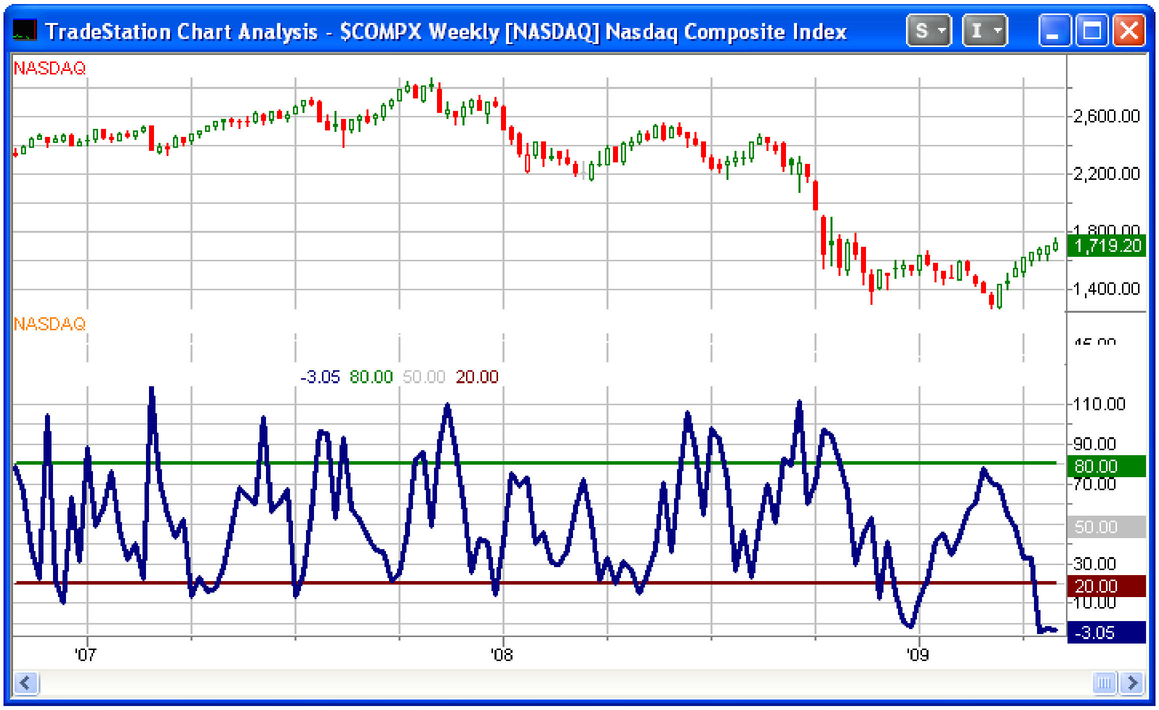


With no bullish studies currently active the green Aggregator line is stretched as far below 0 as it has been in a significant amount of time. Meanwhile, the strong runup of the last few days has caused the black Differential line to also drop to a substantially low level. As I've mentioned many times before, both lines below the zero level suggests a decent downside edge and is a setup I like to see when shorting.

Based on all I'm seeing, I will look to add additional short exposure on Monday in anticipation of a move lower during the week.

Intermediate-term Outlook (2 weeks – 2 months)–starting to lean bearish -updated 5/4

One indicator that I've discussed the last couple of weeks that has been suggesting an intermediate-term pullback may in order is the Nasdaq Weekly Volume Spyx. While the Nasdaq rose again this week, the Spyx remained quite low. Below is this week's chart form the chart page on the website:



No sense in beating a dead horse here. This indicator is still suggesting a selloff. Subscribers may reference research from either of the last 2 weeks for details.

One concern about the move higher last week was the leadership of the move. It appears the 2 strongest major sector ETF's last week were IYZ(telecom) and XLU (Utilities). Both of these rose over 4.5% on the week while the S&P closed less than 1.5% higher. Neither Utilities nor Telecom are among the sectors that you would prefer to see exerting leadership. Below are some studies that explain why this is.

First let's look at utilities. For this test I used the XLU and SPY ETF's. I looked for other times the SPY moved higher but lagged XLU by a substantial amount:

SPY closes up on the week. XLU (utilities) outperforms SPY by at least 1 percent.										
Buy on close. Sell X weeks later. $100k/trade. 11/2002-present.										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	($22,678.48)	16	9	7	56.25	$4,802.86	($9,414.89)	0.51	0.66	($1,417.41)
9	($26,900.35)	17	7	9	41.18	$4,646.20	($6,602.64)	0.70	0.55	($1,582.37)
8	($7,421.94)	18	8	10	44.44	$5,207.29	($4,908.02)	1.06	0.85	($412.33)
7	($6,506.53)	18	10	8	55.56	$3,806.87	($5,571.90)	0.68	0.85	($361.47)
6	($11,361.32)	21	10	11	47.62	$5,310.61	($5,860.67)	0.91	0.82	($541.02)
5	($22,555.94)	23	12	11	52.17	$3,665.47	($6,049.24)	0.61	0.66	($980.69)
4	($28,800.92)	27	14	13	51.85	$3,300.32	($5,769.65)	0.57	0.62	($1,066.70)
3	($9,685.25)	29	14	15	48.28	$2,829.20	($3,286.27)	0.86	0.80	($333.97)
2	$331.81	31	16	15	51.61	$2,531.31	($2,677.94)	0.95	1.01	$10.70
1	($1,217.69)	32	17	14	53.13	$1,528.59	($1,943.12)	0.79	0.96	($38.05)

This study was actually run back to 1/1/2000, but no instances occurred prior to 2002. I also looked to se how typical weeks over the time period had performed. The average week from 11/2002 to present gained about 0.03%. The negative results of the study above are therefore quite a bit worse than a typical week.

I also ran a similar study looking at telecom:

SPY closes up on the week. IYZ (telecom) outperforms SPY by at least 1 percent.										
Buy on close. Sell X weeks later. $100k/trade. 06/2004-present.										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	($31,889.45)	17	9	8	52.94	$4,213.25	($8,726.08)	0.48	0.54	($1,875.85)
9	($47,317.82)	18	9	9	50.00	$2,676.56	($7,934.10)	0.34	0.34	($2,628.77)
8	($59,963.94)	18	6	12	33.33	$2,666.42	($6,330.20)	0.42	0.21	($3,331.33)
7	($36,768.88)	20	8	12	40.00	$3,029.84	($5,083.96)	0.60	0.40	($1,838.44)
6	($13,044.45)	20	11	9	55.00	$2,617.74	($4,648.84)	0.56	0.69	($652.22)
5	($29,047.58)	23	12	11	52.17	$2,185.12	($5,024.46)	0.43	0.47	($1,262.94)
4	($27,583.29)	25	11	14	44.00	$2,380.07	($3,840.29)	0.62	0.49	($1,103.33)
3	($21,176.42)	27	14	13	51.85	$1,882.17	($3,655.91)	0.51	0.55	($784.31)
2	($15,856.63)	30	13	17	43.33	$1,716.56	($2,245.40)	0.76	0.58	($528.55)
1	($25,379.81)	33	12	21	36.36	$984.66	($1,771.22)	0.56	0.32	($769.09)

Here again I'm only showing results from the first instance forward. Over the time period above the average week experienced a loss of 0.06%, or -$56.20. So while negative results would be expected over the test period, results are still substantially more bearish than typical.

Of course both of these studies understate the percentage outperformance by the sectors over the broad S&P. Below is a breakdown of IYZ for a 4-week holding period based on the size of the outperformance.

SPY closes up on the week. IYZ (telecom) outperforms SPY by at least X percent.										
Buy on close. Sell 4 weeks later. $100k/trade. 06/2004-present.										
X Weeks	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
2.5	($10,168.22)	4	1	3	25.00	$1,429.23	($3,865.82)	0.37	0.12	($2,542.06)
2	($21,468.53)	8	3	5	37.50	$1,128.00	($4,970.51)	0.23	0.14	($2,683.57)
1.5	($26,821.52)	14	6	8	42.86	$1,968.71	($4,829.23)	0.41	0.31	($1,915.82)
1	($27,583.29)	25	11	14	44.00	$2,380.07	($3,840.29)	0.62	0.49	($1,103.33)
0.5	($15,213.51)	34	17	17	50.00	$2,783.61	($3,678.52)	0.76	0.76	($447.46)

The larger the outperformance the worse the market performed over the next month. When looking at XLU the results weren't as cut and dry since there were a few strong moves higher when the differential was greater than 2%. Still, the overall edge remained lower.

Lastly you'll note that the breadth thrust was removed from the active studies list tonight. It's been a month since it triggered and our previous tests found the bulk of the move often came within the 1st month. Therefore, with its bullish influence potentially waning, I've removed it from the list.

More and more evidence is suggesting the market is ripe for a pullback. I expect we may begin to see one fairly soon. Still, from a price standpoint the uptrend is obviously still in place. Before getting too aggressive on the short side I'll need to see these negative indications confirmed by price. I'm not excited about chasing intermediate-term long positions at this point.

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	0.38
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

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Still no signs of capitulative selling.

Additional New Trade Ideas

SPY short ¼ index position at $88.55 LIMIT ON OPEN. If the market gaps up to our original entry price it could offer a favorable opportunity to add some more short exposure. Thursday's entry took advantage of the "Gaps Up from 10-day Highs" setup which was discussed in detail in Thursday's blog. If this order is not filled on open, it will be cancelled.

If not filled on the open, I will look for an entry at the close. In this case any close of $88.00 or higher would trigger a ¼ index position short. Should the order on open get filled then this one will not activate.

More aggressive traders may notice that last week's big winner, XLU, has triggered system -81217, and could consider shorting that instead of (or in addition to) SPY.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	4/30/2009	$88.55	$87.89	0.75%		