QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 7, 2009 Volume 2 Issue 87

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 7, 2009	Gap-n-go	1-3 days	Bearish	-3.00%	-5.60%
May 7, 2009	Banks Up 10%	1-2 days	Bearish		
May 6, 2009	WR10 Up then NR10	1-5 days	Bearish	-2.20%	-3.60%
May 5, 2009	3% up on strong volume	1-7 days	Bullish	3.20%	6.60%
May 4, 2009	10-high low volume low bar pattern	1-5 days	Bearish	-2.00%	-3.50%
Active - Long Term					
April 20, 2009	Low Nasdaq Weekly Vol Spyx	1-10 weeks	Bearish		
Dropped Tonight					
April 24, 2009	Poor Nasdaq Breadth on Up Day	1-9 days	Bearish	-4.10%	-8.20%
March 26, 2009	***Rise after follow through day***		***Bullish***	***920 before 666***	

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 5/7 – bearish

The market continues to defy many of our bearish studies. Wednesday morning's ADP jobs report provided a spark and the futures went from down 1% to up 1% prior to the market open. After gapping higher, it pulled back, with some indices filling their gaps and other holding above it. The afternoon saw the market rise on strong buying. Breadth was solidly positive as advancers led decliners by over 2 to 1 and advancing volume led declining volume by nearly 3 to 1. Total volume came in at the highest level since April 17th.

I'm not seeing a whole lot tonight. The "Banks Up 10%" study from 2 night's ago amazingly triggered again today. Below is an updated results table:

BKX closes up10%.										
Buy S&P 500 on close. Sell X days later. $100k/trade. 1992 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	($20,548.43)	11	4	7	36.36	$5,129.52	($5,866.64)	0.87	0.50	($1,868.04)
9	($23,062.14)	12	4	8	33.33	$6,207.12	($5,986.33)	1.04	0.52	($1,921.85)
8	($58,961.65)	13	3	10	23.08	$3,659.60	($6,994.05)	0.52	0.16	($4,535.51)
7	($62,856.86)	13	2	11	15.38	$4,943.56	($6,613.09)	0.75	0.14	($4,835.14)
6	($29,784.21)	13	7	6	53.85	$2,911.54	($8,360.83)	0.35	0.41	($2,291.09)
5	($17,902.80)	14	7	7	50.00	$3,734.34	($6,291.88)	0.59	0.59	($1,278.77)
4	($25,004.95)	14	6	8	42.86	$2,193.81	($4,770.98)	0.46	0.34	($1,786.07)
3	($11,896.85)	15	6	9	40.00	$3,206.27	($3,459.39)	0.93	0.62	($793.12)
2	($19,583.39)	17	7	10	41.18	$1,853.94	($3,256.10)	0.57	0.40	($1,151.96)
1	($17,626.64)	18	7	11	38.89	$1,034.87	($2,260.97)	0.46	0.29	($979.26)

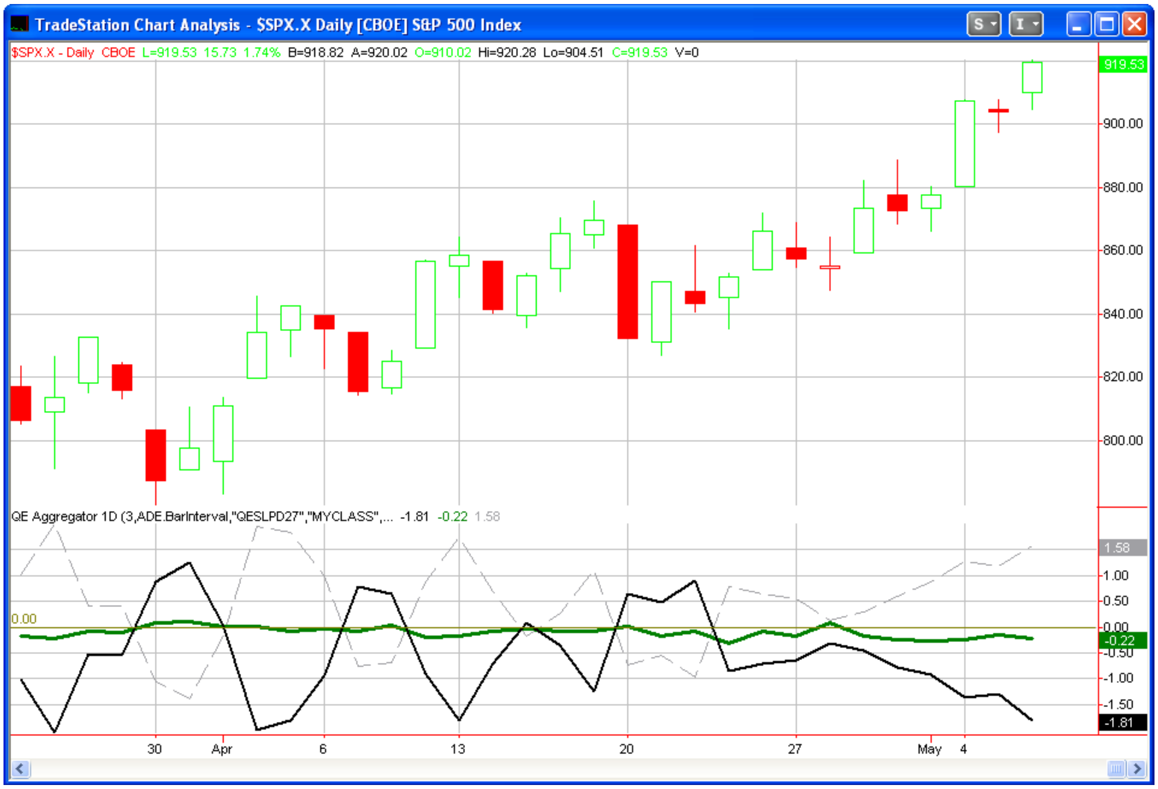
Another recent study that triggered again was the "Gap-N-Go" setup from the April 30th Letter. Below is one study from that Letter which triggered again tonight:

SPY gaps at least 1% above yesterday's close. It never trades <= yesterday's close, makes a 10-day intraday high										
and closes > open. Close < 200ma. Buy on close. Sell X days later. $100k/trade. 1993-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
7	($7,450.18)	12	4	8	33.33	$1,740.29	($1,801.42)	0.97	0.48	($620.85)
6	($19,592.01)	12	3	9	25.00	$1,843.98	($2,791.55)	0.66	0.22	($1,632.67)
5	($15,094.79)	14	7	7	50.00	$1,612.24	($3,768.64)	0.43	0.43	($1,078.20)
4	($17,113.60)	15	6	9	40.00	$1,346.53	($2,799.20)	0.48	0.32	($1,140.91)
3	($21,076.11)	15	4	11	26.67	$1,474.13	($2,452.06)	0.60	0.22	($1,405.07)
2	($20,161.60)	15	7	8	46.67	$486.63	($2,946.00)	0.17	0.14	($1,344.11)
1	($12,779.58)	15	7	8	46.67	$448.94	($1,990.27)	0.23	0.20	($851.97)

A possible plus for the market today was the fact that the volume came in strong. I looked at a few different tests involving the volume tonight. Using the solid volume generally led to mildly better results than not. There was nothing that stood out in a big way, though.

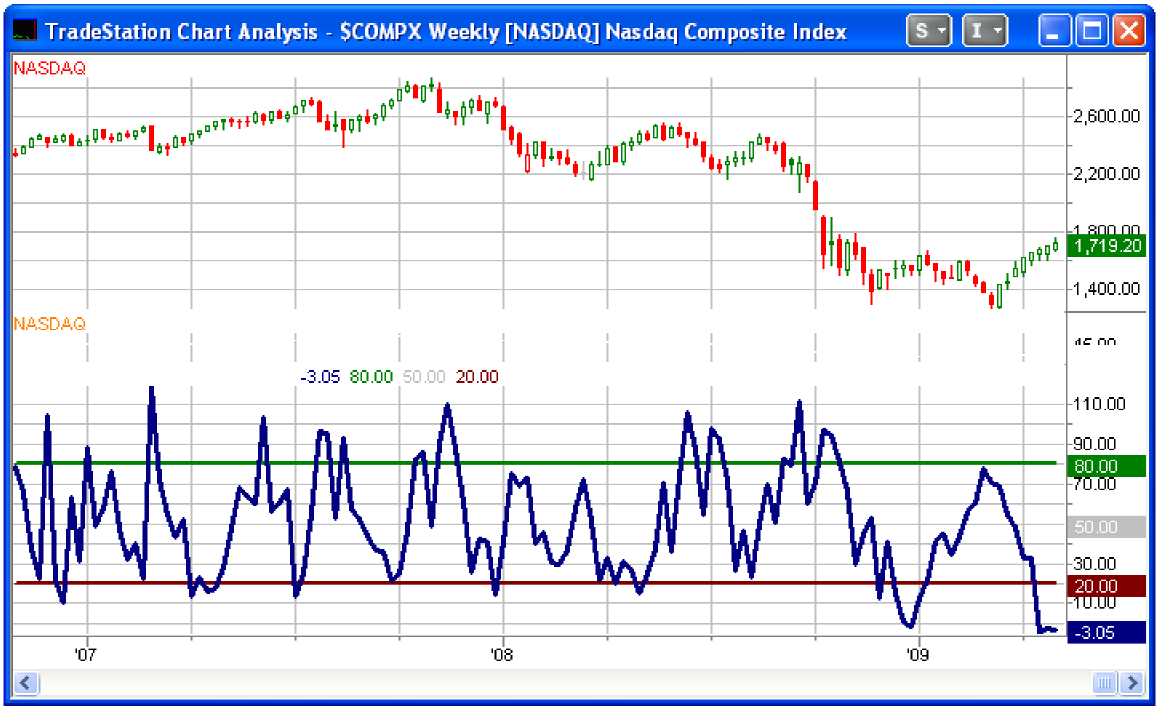
Of intermediate-term consequence, I have removed the "Rise after follow through day" study as it has now hit its target and can be deemed a success.

The Aggregator chart has been updated below.



With all but one study in our active table now bearish the green Aggregator line is squarely below zero, suggesting bearish implications over the next few days. Meanwhile the market has defied expectations over the last few days and surged higher. It's now about as overbought as it's been in a month. Based on the above there still appears to be a sizable downside edge over the next few days. I'll be looking to take advantage of it by completing the SPY short position on further strength tomorrow. Details in the trade ideas section below.

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	0.00
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

Still no signs of capitulative selling.

Additional New Trade Ideas

SPY – short last ¼ position on open @ $92.90 limit. If not filled on open, wait until close and short at $92.25 limit on close. Looking for a favorable entry into additional strength tomorrow. Based on short-term market outlook section above.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(1/4)(s)	4/30/2009	$88.55	$92.14	-4.05%		
SPY(1/4)(s)	5/4/2009	$88.55	$92.14	-4.05%		
SPY(1/4)(s)	5/5/2009	$90.75	$92.14	-1.53%		
IYT(s)	5/5/2009	$60.15	$60.06	0.15%		exit on close < 5ma
CPB(s)	5/6/2009	$26.53	$26.39	0.53%	$26.85	exit on close < 5ma