

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 7, 2009

Volume 2 Issue 128

## 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 + 1/2 Std Dev
<b>Active</b>					
July 2, 2009	Weak breadth on up day	1-4 days	Bearish		
July 2, 2009	Weak bounce after 1.75% drop	1-3 days	Bearish		
July 6, 2009	SPY 1% gap. Open top/close bottom 12%	1-3 days	Bullish	5.30%	6.50%
July 6, 2009	SPX 1% drop. Advance twice decliners	1-9 days	Bullish	2.80%	4.00%
<b>July 2, 2009</b>	<b>Strong breadth weakest vol 10</b>	<b>1-3 days</b>	<b>Bearish</b>	<b>-3.10%</b>	<b>-4.50%</b>
<b>July 2, 2009</b>	<b>Low HV cluster - no 20 high</b>	<b>1-8 days</b>	<b>Bearish</b>	<b>-3.40%</b>	<b>-4.60%</b>
June 29, 2009	Low range and vol above 10ma	1-15 days	Bearish	-4.40%	-6.90%
June 26, 2009	2 Days 7:3 up issues - no 10 high	1-8 days	Bearish	-4.30%	-5.90%
<b>Active - Long Term</b>					
June 26, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish		
June 22, 2009	VIX:VXV hits 100-day low	1-20 days	Bearish	-3.80%	-5.50%
June 11, 2009	4-day tight range above 10ma	1-20 days	Bullish	4.00%	4.80%
June 10, 2009	Nasdaq/NYSE Volume High	1-20 days	Bearish		
June 1, 2009	Nasdaq Relative Strength Leading		Bullish		
<b>Dropped Tonight</b>					

If the avg max move is achieved the study will appear in **bold and brown**. If the avg + 1/2 std deviation is achieved, it will appear in **bold italic blue** and no longer be active.

### **Short-term Outlook (1-5 days) – updated 7/7 – neutral to slightly bearish**

After gapping down today the market staged a reversal. The major indices closed mixed. The Nasdaq was down and the S&P was up slightly. Breadth was solidly negative despite the rise in the S&P. The NYSE Up Issues came in at just under 40% and the Up Volume was also 40%. Total volume rose from pre-holiday levels but was still fairly light.

The gap down and crap out study from last night indicated a strong upside edge. After a weak open, that edge played out somewhat. The SPX did manage to close positive on the day. The SPY, which was actually used for the study, did not. It lost \$0.01. This is the weakest 1-day move following these setups. This is concerning. For one it suggests the market is not acting as it should according to last night's strongly bullish study. It also leads to a large number of studies that were based on the concept of "weak bounces".

The June 23<sup>rd</sup> trading session had several similar characteristics. Below I've cut an excerpt from the June 24<sup>th</sup> Subscriber Letter.

The weakness of the rebound was quite troubling. I've looked at this a number of different ways over time. One example is the [Weekly 3/9/09 #3&4](#) which was a price-based study looking at times the bounce day couldn't even gain back a 1/4 of the damage done the day before. Results of that study are below:

Study updated as of 7/6/09

SPX drops at least 1.75% yesterday. Today it closes higher but makes up less than 25% of yesterday's loss. Buy on close. Sell X days later. \$100k/trade. 1988 - present.										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-55,693.38	48	16	32	33.33	2,962.61	-3,221.72	0.92	0.46	-1,160.28
9	-47,614.85	49	18	31	36.73	2,770.62	-3,144.71	0.88	0.51	-971.73
8	-25,207.03	53	21	32	39.62	3,195.92	-2,885.04	1.11	0.73	-475.60
7	-36,032.50	55	22	33	40.00	3,137.47	-3,183.54	0.99	0.66	-655.14
6	-27,882.24	55	22	33	40.00	2,613.99	-2,587.58	1.01	0.67	-506.95
5	-23,548.98	59	27	32	45.76	2,162.02	-2,560.11	0.84	0.71	-399.14
4	-22,571.41	59	25	34	42.37	2,147.99	-2,243.27	0.96	0.70	-382.57
3	-26,092.91	60	22	38	36.67	2,109.98	-1,908.22	1.11	0.64	-434.88
2	-16,679.17	62	29	33	46.77	1,496.84	-1,820.84	0.82	0.72	-269.02
1	-20,425.53	62	27	35	43.55	782.27	-1,187.05	0.66	0.51	-329.44

One study I decided to take a new look at tonight was the one that looked at the strength of the rebound based on breadth. Originally published in the [Blog 9/11/08](#) I re-ran the study. Description and results below.

Yesterday SPX drops at least 2% and the NYSE Up Volume % is < 15%. Today it closes higher but the Up Volume % < 60%. Buy on close. Sell X days later. \$100k/trade. 2001-present										
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
6	-22,211.79	15	2	13	13.33	8,482.43	-3,013.59	2.81	0.43	-1,480.79
5	-28,805.04	17	4	13	23.53	3,986.55	-3,442.40	1.16	0.36	-1,694.41
4	-19,658.00	17	4	13	23.53	3,534.91	-2,599.82	1.36	0.42	-1,156.35
3	-15,455.00	17	4	13	23.53	2,872.90	-2,072.81	1.39	0.43	-909.12
2	-15,825.56	19	7	12	36.84	1,620.83	-2,264.28	0.72	0.42	-832.92
1	-10,661.70	19	7	12	36.84	1,200.78	-1,588.93	0.76	0.44	-561.14

**All 19 instances posted a close below the trigger day's close at some point in the next 3 days.**

The fact that there was a pullback within three days every time is a fairly compelling stat. There have been 2 upmoves occur in the 6-day holding period since I published the first set of results last September. They both had pullbacks first though, allowing either opportunity for profit or at least a chance to move your stop to breakeven. Below I've listed all the trades along with their 6-day exit:

Yesterday SPX drops at least 2% and the NYSE Up Volume % is < 15%. Today it closes higher but the Up Volume % < 60%. Buy on close. Sell 6 days later. \$100k/trade. 2001-present

Date/Time	Signal	Price	% Profit	Run-up DrawDown
03/13/01	Buy	\$1,197.68	(6.31%)	\$0.00
03/21/01	Sell	\$1,122.08		(\$6,552.02)
01/30/02	Buy	\$1,113.57	(3.00%)	\$1,480.96
02/07/02	Sell	\$1,080.17		(\$3,185.31)
06/04/02	Buy	\$1,040.69	(1.96%)	\$904.32
06/12/02	Sell	\$1,020.26		(\$3,658.56)
07/03/02	Buy	\$953.99	(3.42%)	\$4,115.28
07/12/02	Sell	\$921.39		(\$5,517.20)
09/13/02	Buy	\$889.81	(6.31%)	\$1,435.84
09/23/02	Sell	\$833.70		(\$7,168.00)
11/02/07	Buy	\$1,509.66	(4.67%)	\$733.26
11/12/07	Sell	\$1,439.18		(\$4,694.58)
12/12/07	Buy	\$1,486.60	(1.78%)	\$187.60
12/20/07	Sell	\$1,460.12		(\$3,413.65)
01/07/08	Buy	\$1,416.18	(2.49%)	\$987.00
01/15/08	Sell	\$1,380.95		(\$2,623.60)
03/03/08	Buy	\$1,331.34	(0.80%)	\$963.75
03/11/08	Sell	\$1,320.65		(\$4,401.00)
06/09/08	Buy	\$1,361.77	(0.80%)	\$370.11
06/17/08	Sell	\$1,350.93		(\$2,225.04)
07/25/08	Buy	\$1,257.77	(0.70%)	\$2,145.64
08/04/08	Sell	\$1,249.02		(\$1,847.81)
09/10/08	Buy	\$1,232.04	(2.07%)	\$1,867.05
09/18/08	Sell	\$1,206.51		(\$7,981.74)
10/23/08	Buy	\$908.11	6.68%	\$8,389.70
10/31/08	Sell	\$968.75		(\$6,912.40)
01/13/09	Buy	\$871.79	(5.08%)	\$0.00
01/22/09	Sell	\$827.50		(\$7,693.86)
03/06/09	Buy	\$683.38	10.32%	\$13,307.90
03/16/09	Sell	\$753.89		(\$1,533.00)

Note even the 2 most recent losers saw some sizable pullbacks. The 3/6/09 which came very close to the bottom was the worst of the bunch from a short perspective but still moved south by over 1.5% before launching higher.

The above was taken from the June 24<sup>th</sup> Letter. Following the June 23<sup>rd</sup> setup date the market broke its streak of “19 lower closes within 3 days”.

Monday’s breadth wasn’t just mildly weak though. I was very weak. The weak breadth included issues and volume across the NYSE and Nasdaq. Below are some additional studies that capture a little of the importance of this weak breadth.

The 6<sup>th</sup> study in the 9/29/08 Weekly Letter looked at up days with both weak issues and weak volume. Below I have updated that study.

SPX rises while NYSE Up Issue % < 45% and Up Volume % < 45%.  
Buy on close. Sell X days later. \$100k/trade. 2000-present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	All: Max Winning Trade	All: Max Losing Trade
10	-43,268.63	21	8	13	38.10	2,017.03	-4,569.60	0.44	0.27	-2,060.41	3,246.60	-25,773.42
9	-35,361.73	21	8	13	38.10	2,541.40	-4,284.07	0.59	0.37	-1,683.89	4,912.60	-24,896.02
8	-26,593.36	23	10	13	43.48	2,335.20	-3,841.95	0.61	0.47	-1,156.23	10,740.40	-18,744.38
7	-26,724.32	24	12	12	50.00	2,150.53	-4,377.55	0.49	0.49	-1,113.51	6,400.90	-17,818.60
6	-19,926.48	24	9	15	37.50	2,634.08	-2,908.88	0.91	0.54	-830.27	6,670.40	-12,844.48
5	-20,933.52	24	7	17	29.17	2,357.12	-2,201.96	1.07	0.44	-872.23	5,057.80	-9,372.60
4	-28,977.77	24	7	17	29.17	1,504.71	-2,324.16	0.65	0.27	-1,207.41	3,696.70	-8,138.50
3	-34,341.60	25	6	19	24.00	1,389.53	-2,246.25	0.62	0.20	-1,373.66	3,564.00	-6,854.44
2	-33,643.63	25	9	16	36.00	953.76	-2,639.22	0.36	0.20	-1,345.75	2,400.30	-12,374.88
1	-21,107.61	25	8	17	32.00	893.72	-1,662.20	0.54	0.25	-844.30	2,427.60	-8,783.02

22 of 25 (88%) closed lower than the trigger day close at some point in the next week.

Note the average trades are skewed a bit by the huge max losing trades shown in the last column. Even without that the edge over the 1<sup>st</sup> 3 days is quite substantial.

Bu Monday didn't just see breadth numbers below 45% - they were both below 40%. I narrowed the focus to look at those results as well:

SPX rises while Up Issue % < 40% and Up Volume % < 40%.  
Buy on close. Sell X days later. \$100k/trade. 2000-present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	All: Max Winning Trade	All: Max Losing Trade
10	-35,021.55	6	1	5	16.67	1,581.85	-7,320.68	0.22	0.04	-5,836.93	1,581.85	-25,773.42
9	-35,183.75	6	1	5	16.67	980.05	-7,232.76	0.14	0.03	-5,863.96	980.05	-24,896.02
8	-24,543.56	6	2	4	33.33	686.09	-6,478.94	0.11	0.05	-4,090.59	753.10	-18,744.38
7	-24,793.91	6	2	4	33.33	421.58	-6,409.27	0.07	0.03	-4,132.32	538.01	-17,818.60
6	-18,352.27	6	1	5	16.67	33.15	-3,677.08	0.01	0.00	-3,058.71	33.15	-12,844.48
5	-16,458.11	6	1	5	16.67	683.40	-3,428.30	0.20	0.04	-2,743.02	683.40	-9,372.60
4	-15,174.65	6	1	5	16.67	754.80	-3,185.89	0.24	0.05	-2,529.11	754.80	-8,138.50
3	-12,944.37	6	0	6	0.00	0.00	-2,157.40	0.00	0.00	-2,157.40	0.00	-4,302.54
2	-8,405.31	6	2	4	33.33	222.50	-2,212.58	0.10	0.05	-1,400.89	296.25	-3,867.94
1	-11,215.40	6	0	6	0.00	0.00	-1,869.23	0.00	0.00	-1,869.23	0.00	-8,783.02

All 6 closed lower the next 1 and 3 days.

Like last night's bullish study, this one is undefeated over the next 1 and 3 days – except this time it's to the downside.

In the 4/24/09 Subscriber Letter I looked at the effect of weak Nasdaq breadth during such a session. Like the previous weak breadth tests, this one also had negative implications. I decided to also look at times the Nasdaq and S&P both posted such low volume.

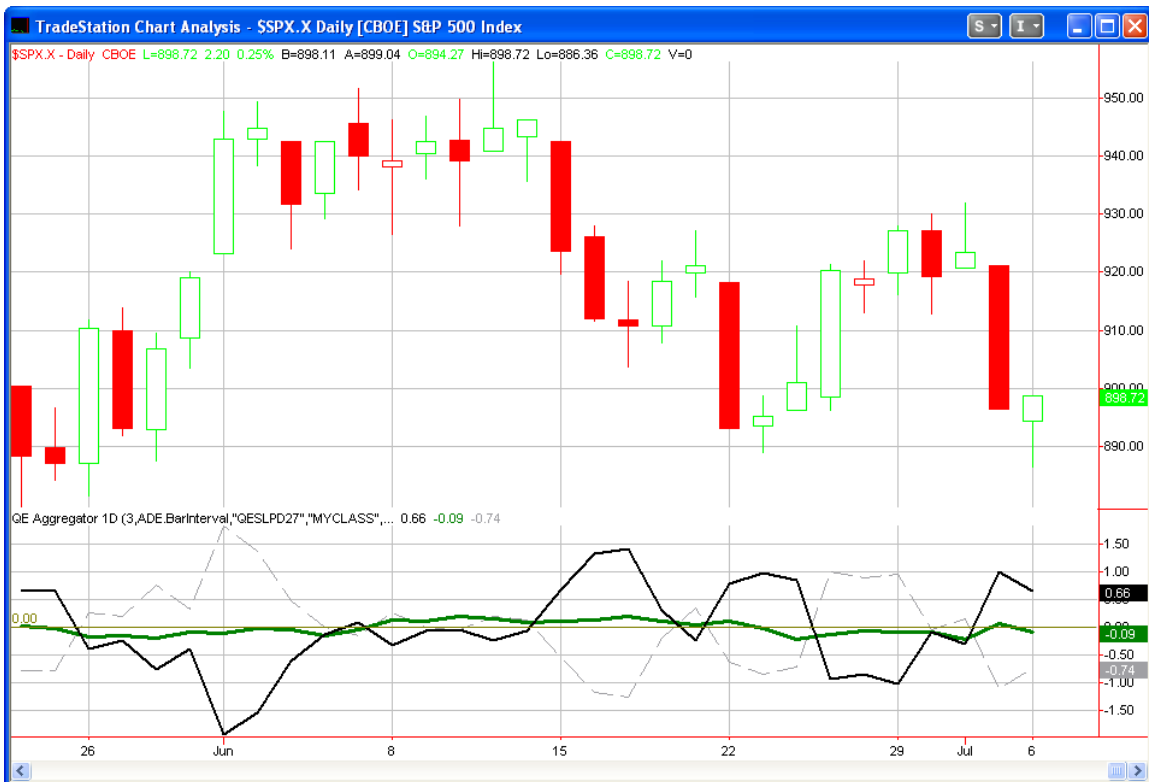
SPX rises while NYSE Up Issue % < 40% and Nasdaq Up Issue % < 40%.  
Buy on close. Sell X days later. \$100k/trade. 2000-present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,640.48	8	2	6	25.00	2,870.60	-3,396.95	0.85	0.28	-1,830.06
4	-14,858.63	8	2	6	25.00	1,586.30	-3,005.21	0.53	0.18	-1,857.33
3	-13,642.42	9	2	7	22.22	1,866.48	-2,482.20	0.75	0.21	-1,515.82
2	-14,923.27	9	4	5	44.44	349.65	-3,264.38	0.11	0.09	-1,658.14
1	-10,315.07	9	1	8	11.11	383.76	-1,337.35	0.29	0.04	-1,146.12

All 9 closed lower than the trigger day close within the next 2 days.

Here again we see strongly negative indications over the short-term.

I've updated the [Aggregator](#) chart below:



The green Aggregator line has now dropped back below 0. This illustrates the net negative expectancy of the studies over the next few days. The black differential line shows that the market is still more oversold than overbought. There COULD be more in this bounce.

At this point it appears odds favor additional downside after this weak bounce plays out. If that downside leads to a break of the support area outlined in the intermediate-term section, it could lead to a quick acceleration of the drop as well. That possibility is skewing the reward side of a potential short trade. Because of the potential for outsized gains I will look to begin scaling in tomorrow if the market moves higher. This is despite the fact that the black Differential line will likely not flip to negative until at least Wednesday. Details in the trade ideas section below.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 7/6 – neutral (near turning bearish)***

I don't often get into pure chart analysis in the Letter, but I thought I'd point out some things I'm watching closely on the chart below.



We're looking at the S&P 500 and an important area on the chart is the one I've circled in green above. As you'll note, we're only a few points above this area at the moment. What is striking me about this area is that there are several levels of potential support. Many of these will be fairly obvious to most technical traders. The thin pink rising line near the top of the green circle represents the neckline of a potential head and shoulders topping pattern. Just below that around 888 is where you'll find the 200ma and the June 23<sup>rd</sup> swing low, both of which could act as support. The 2<sup>nd</sup> blue line around 879 coincides with the May lows which also would mark the low of the left shoulder.

I'm not pointing out anything here that isn't fairly obvious to many technical traders. In fact, I would venture to guess that most traders that use charts would be considering at least one of the above points on their chart as important. It may be the Head and

Shoulders pattern, it may be the price support, or it may be the 200ma. Whatever they're looking at, there is sure to be a lot of people focusing on this one relatively small area on the chart. The more levels of potential support or resistance that exist in a small area the more important that area becomes. With so many traders focusing on a particular area, moves around that area can be especially sharp, especially if the potential support breaks.

The intermediate-term studies are somewhat mixed at this point. I'm seeing bearish indications from sentiment indicators such as the Nasdaq/NYSE volume ratio and the VIX:VXV ratio. Meanwhile the Nasdaq/S&P lead/lag model still shows the Nasdaq as the current leader, which favors the bullish case. Also, while close to breaking down and possibly carving out a bearish Head and Shoulders pattern, the market has not yet violated any major support levels. I tend to give the primary trend the benefit of the doubt until it actually does change on a price chart.

With all this in mind I intend to tread a bit lightly until the market either bounces off this potential support level or slices through it. I'd rather not get caught on the wrong side of this action and I don't see a clear edge at this point. If I had to venture a guess, I'd guess the market is likely to retrace a bit more of the March – June rally. I think this support level will give way in the next few weeks. Whether this inclination turns out to be right or wrong will have little effect on my trading profits. I'll continue to re-evaluate on a daily basis. When the picture becomes more clear from an intermediate-term standpoint then I'll feel better about trading more aggressively on at least one side of the market.

### **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.)***

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
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	0.74
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.76
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.86	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	2.56	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.94	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	1.00

### **Additional New Trade Ideas**

*A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.*

*SPY – sell short ¼ index position at \$89.85 **limit on close**. Based on short-term market outlook. I'll only take this on a close higher.*

### **Active Trades Table**

None

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