# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 17, 2009 Volume 2 Issue 136

## 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 |
|---|---|---|---|---|---|
| Active | | | | | |
| July 17, 2009 | Adv:Decline 2 to 1 on lower volume | 1-2 days | Bearish | | |
| July 16, 2009 | SPY Gap n go to 10-high | 1-2 days | Bearish | | |
| July 16, 2009 | SPX strong without dollar weakness | 1-3 days | Bearish | -1.60% | -2.20% |
| July 15, 2009 | 2 Days Up in Chop | 1-4 days | Bearish | | |
| July 15, 2009 | WR10 NR10 | 1-5 days | Bearish | | |
| ***June 29, 2009*** | ***Low range and vol above 10ma*** | ***1-15 days*** | ***Bearish*** | ***-4.40%*** | ***-6.90%*** |
| Active - Long Term | | | | | |
| July 17, 2009 | Appel Daily Breadth | 1-20 days | Bullish | | |
| July 16, 2009 | 2 90% Up Days in 1 Week | 1-25 days | Bullish | | |
| July 14, 2009 | VIX:VXV hits 100-day low | 1-20 days | Bearish | -3.80% | -5.50% |
| July 13, 2009 | Nasdaq/NYSE Volume High | 1-20 days | Bearish | | |
| July 14, 2009 | VIX:VXV drops below 0.9 | 2-5 months | Bearish | | |
| June 1, 2009 | Nasdaq Relative Strength Leading | | Bullish | | |
| Dropped Tonight | | | | | |
| July 13, 2009 | 1% drop then flat | 1-4 days | Bearish | -1.35% | -2.00% |

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 7/17 – bearish***

There was no letup in the recent rally Thursday. While several studies based on price, volume and sentiment have all signaled the market is set o pull back short term, all such indications have been ignored. And in a big way as breadth has remained strong. We've seen such strong breadth numbers that in the past it has led to significant rallies. Thursday's breadth was again strong as the NYSE Up Issues % closed at 70% while the Up Volume % was 62%. Total volume declined from Wednesday's levels and was around average.

Wednesday night we saw the "2 90% Up Days withing 1 Week" strategy trigger. Thursday led to 2 more breadth related studies triggering signals. The 1st is the Appel Daily Breadth Impulse signal. Which was last discussed in the 4/6/09 Subscriber Letter. The 2nd was a breadth signal based on Nasdaq breadth from the 2/9/09 Subscriber Letter. I've provided links to both Letters below. In both cases the discussion is in the intermediate-term section.

2009-04-06 QE Subscriber Letter.pdf

2009-02-09 QE Subscriber Letter.pdf

The lower volume on Thursday did suggest possible trouble for the short-term. This can be seen in 2 separate studies in the Quantifinder tonight. Short-term the active studies all remain bearish. Longer-term we're now seeing breadth related studies strongly suggesting a further rally.

I'll go into the longer-term breadth signals in more detail in the intermediate-term outlook section this weekend. The breadth signals we're seeing have been very strong though they most often occur near a market bottom. The leadership from the Nasdaq and SOX remains solid as both broke out to new highs today. Sentiment indicators such as the VIX:VXV ratio and the Nasdaq / NYSE Volume Raito are suggesting a pullback.

I've updated the Aggregator chart below:


The Aggregator configuration remains much the same. The large number of bearish short-term studies are still suggesting a pullback. This is illustrated by the negative green Aggregator line above. The black differential line is still solidly below zero, indicating the S&P have strongly outperformed expectations over the last few days.

The makeup of the Aggregator is very short-term. In fact most of the short-term bearish studies are set to expire in the next 2 days. Based on the current outstanding studies this would flip the Aggregator to a positive reading on Monday night. Of course action between now and then will have a great influence on the Aggregator, but as currently constituted the window for bearish opportunity appears to be shrinking. This would suggest a move in our direction from here will lead to cover within a couple of days.

The S&P is now near resistance and I've got 1 more lot to put on. I'll be looking to do that tomorrow as described in the trade ideas section below.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 7/13 – slightly bearish***
We tested and dipped below the 878 – 888 support level that I indicated last week may be important. So far the market has NOT made a decisive move out of that area. Both the short and long-term studies are currently suggesting the short side has better odds.

The long-term and short-term active studies from the list on the 1st page are generally suggesting downside. The one intermediate-term positive from the list was the Nasdaq / S&P 500 Lead/lag model. The Nasdaq continues to lead based on that study, which has historically been a good sign.

The VIX:VXV Ratio has again fallen close to 0.9 as it now sits at 0.92. A move much lower could trigger new opportunities for either S&P 500 shorts or VXX longs.

Also on the intermediate-term list is the Nasdaq/NYSE volume ratio. This is an indicator I discussed in some detail in the June 10th Letter. Below is an excerpt from that Letter:

*The Nasdaq/NYSE Volume Ratio is an indicator I haven't discussed in a while. It is hitting extreme levels at this time. Levels will vary depending on data provider. So while the extremes may differ depending on whose data you use, results should be comparable at those extremes. I use Tradestation. On Tuesday the Nasdaq volume more than doubled the NYSE for the 1st time a long time. This brought the 20-day average over 1.65. Below is a table showing 1-month returns based on this ratio.*

***20-day returns on 100k from 1981-present. Nasdaq / NYSE 20-day volume ratio exceeds X.***

| Volume Ratio | 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 |
|---|---|---|---|---|---|---|---|---|---|---|
| 1.65 | -15,910.59 | 14 | 6 | 8 | 42.86 | 3,195.98 | -4,385.81 | 0.73 | 0.55 | -1,136.47 |
| 1.60 | -13,593.74 | 18 | 7 | 11 | 38.89 | 5,445.53 | -4,701.13 | 1.16 | 0.74 | -755.21 |
| 1.55 | -16,382.89 | 23 | 11 | 12 | 47.83 | 2,937.85 | -4,058.27 | 0.72 | 0.66 | -712.30 |
| 1.50 | -22,014.66 | 28 | 12 | 16 | 42.86 | 4,276.69 | -4,583.43 | 0.93 | 0.70 | -786.24 |
| 1.45 | -24,961.02 | 35 | 15 | 20 | 42.86 | 4,579.87 | -4,682.95 | 0.98 | 0.73 | -713.17 |
| 1.40 | -32,117.05 | 44 | 20 | 24 | 45.45 | 3,723.72 | -4,441.31 | 0.84 | 0.70 | -729.93 |
| 1.35 | -20,659.02 | 65 | 32 | 33 | 49.23 | 4,098.90 | -4,600.72 | 0.89 | 0.86 | -317.83 |
| 1.30 | -46,707.09 | 89 | 48 | 41 | 53.93 | 3,071.34 | -4,734.91 | 0.65 | 0.76 | -524.80 |
| 1.25 | -38,493.59 | 114 | 63 | 51 | 55.26 | 3,194.27 | -4,700.64 | 0.68 | 0.84 | -337.66 |
| 1.20 | 7,443.84 | 138 | 74 | 64 | 53.62 | 3,636.18 | -4,088.02 | 0.89 | 1.03 | 53.94 |

*High levels of Nasdaq trading as opposed to NYSE suggest excessive speculation by investors. Once this level exceeds 1.4 it has generally indicated a bearish bias.*

Since I published the above study, the S&P has lost over 6.5%. Surprisingly this has not caused the ratio to fall at all. In fact, it has gone from 1.65% in June to about 2.0% now. This would suggest we may see additional downside.

Overall the market has not yet become decisively bearish. It appears to be on the precipice, though.

**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***

**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 – short ¼ index position @ $94.25 LIMIT.* A little above the close but below Thursday's high I'll be looking to short the final piece.

*RTN – short @ $45.50 limit* – Based on system -81217. Also just below resistance of 200ma and June highs.

**Active Trades Table**

| Symbol | Entry Date | Entry Price | Current Pr | % Gain/Lo | Stop | Notes |
|---|---|---|---|---|---|---|
| SPY(s)(1/4) | 7/14/2009 | $90.61 | $94.16 | -3.92% | | |
| SPY(s)(1/4) | 7/15/2009 | $91.81 | $94.16 | -2.56% | | |
| SPY(s)(1/4) | 7/16/2009 | $93.15 | $94.16 | -1.08% | | |
| | | | | | | |
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