QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 30, 2009 Volume 2 Issue 145

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
Active				
July 30, 2009	2 Days Down In Chop	1-3 days	Bullish	
July 28, 2009	3/10 HV low. RSI(3)>70.	1-3 days	Bearish	
July 28, 2009	1 day down from RSI(2)>98	1-2 days	Bearish	
July 27, 2009	2 Days Up In Chop	1-4 days	Bearish	
July 24, 2009	SPX much stronger than $$	1-4 days	Bearish	-1.60%
Active - Long Term				
July 17, 2009	Appel Daily Breadth	1-20 days	Bullish	5.80%
July 14, 2009	VIX:VXV hits 100-day low	1-20 days	Bearish	-3.80%
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 27, 2009	Gap Down and Reverse to New High	1-2 days	Bearish	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active. With the reduced market volatility I am no longer requiring a move of Avg max + ½ Std Dev. To reach the target.

Short-term Outlook (1-5 days) – updated 7/30 –neutral

The market pulled back Wednesday but found support quickly each time it looked like we might have a route. And as has been the case recently, the last hour of trading made up for much of the morning weakness. In the end the major indices closed lower, but not by a great amount, and not near the lows of the day. Breadth was somewhat negative as the NYSE Up Issues % came in at 38% and the Up Volume % was 41%. Total volume dropped a bit from Tuesday but was not at an extreme.

The last hour rally has been common lately. The last hour is often viewed as the “smart money” hour, when institutions place many of their trades. Some indicators track either just last-hour movement or 1st and last. While the market has consolidated the SPY has moved up in the last hour for 4 days in a row now. I looked at other situations like this.

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	-29,101.48	85	39	46	45.88	1,693.75	-2,068.64	0.82	0.69	-342.37
4	-5,274.60	90	44	46	48.89	1,517.41	-1,566.10	0.97	0.93	-58.61
3	4,443.42	97	48	48	49.48	1,415.88	-1,323.31	1.07	1.07	45.81
2	-15,077.16	113	58	53	51.33	980.12	-1,357.06	0.72	0.79	-133.43
1	-15,154.81	167	87	80	52.10	725.66	-978.60	0.74	0.81	-90.75

SPY moves higher in the last hour of trading 4 days in a row.
Buy on close. Sell X days later. $100k/trade. 1998-present.

While many might refer to such action as bullish, it doesn't appear to be so. No huge bearish edge here, though the 1st 2 days is a bit negative.

What if the market drifted sideways of lower over the 4 day period?

SPY moves higher in the last hour of trading 4 days in a row. Today's close is below the close 4 days ago. Buy on close. Sell X days later. $100k/trade. 1998-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	267.21	22	11	11	50.00	1,783.38	-1,759.09	1.01	1.01	12.15
4	-4,075.74	22	9	13	40.91	1,867.00	-1,606.06	1.16	0.80	-185.26
3	2,016.78	22	8	14	36.36	2,196.84	-1,111.28	1.98	1.13	91.67
2	-5,638.02	23	11	12	47.83	953.35	-1,343.74	0.71	0.65	-245.13
1	-1,116.26	33	21	12	63.64	559.18	-1,071.59	0.52	0.91	-33.83

Again here and edge might be a very slight bearish one over the 1st two days. In any case, there certainly isn't a bullish edge to the setup.

A bullish edge many subscribers may have noticed today was the "2 Days Down In Chop" system triggered. Below are updated results.

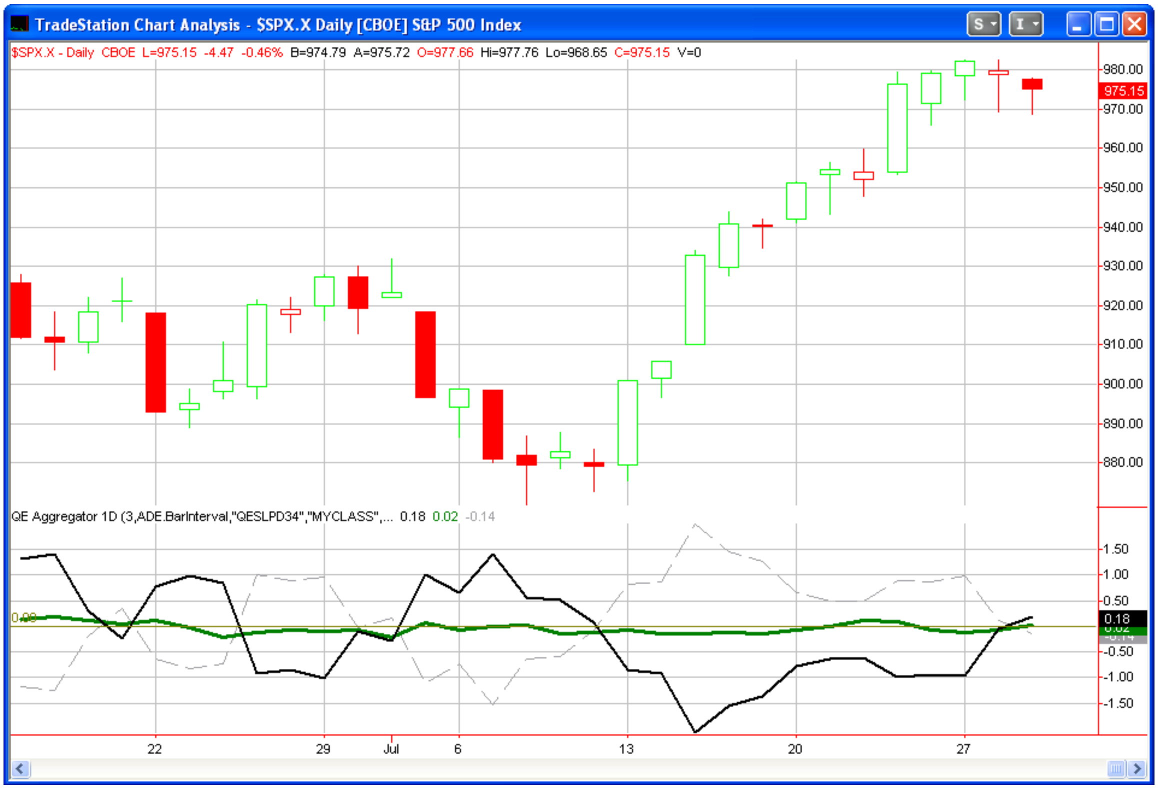
SPX closes lower 2 days in a row. Buy at close. Sell next profitable exit up to 3 days later. At close of day 3 sell regardless of profitability. $100k/trade. 6/1/2007 - present.

TradeStation Performance Summary — Collapse

All Trades

Total Net Profit	$43,369.74	Profit Factor	2.20
Gross Profit	$79,471.30	Gross Loss	($36,101.56)
Total Number of Trades	63	Percent Profitable	85.71%
Winning Trades	54	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$688.41	Ratio Avg. Win:Avg. Loss	0.37
Avg. Winning Trade	$1,471.69	Avg. Losing Trade	($4,011.28)
Largest Winning Trade	$10,716.03	Largest Losing Trade	($10,506.45)

The Aggregator chart is updated below..



Both the green Aggregator and the black Differential line curled up a bit today and are now slightly above 0. The green Aggregator is now in what I refer to as neutral territory – close to the long-term drift of the market. The more sensitive Differential line is also close to 0.

This doesn't suggest a strong bullish edge at this point. Further selling and additional bullish studies would be needed for that. What it does suggest is that the short-term bearish edge has dissipated. I'll be looking to exit at least part of the current short position tomorrow as long as we don't gap up and run higher. The market is set to gap up a bit as of late-night futures readings. Much may depend on the jobless claims at 8:30 though. As long as the market doesn't gap up above the recent highs, I'll likely place a stop just above them. I'm wary of a breakout here due in part to the 3/10 HV study from last night which suggested we could get an explosive move. Should the market gap lower I'll likely give it a chance to collapse in case the explosive move is downward. In that case I'll look to trail a stop lower throughout the day.

It's difficult to lay out the entire plan prior to seeing the likely opening levels. I'll look to send out stop and/or limit prices near or just after the open tomorrow morning as an intraday update.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/27 – neutral

Almost nothing has changed from an intermediate-term standpoint from last week. Therefore I will not spend too much time discussing it. From a bullish perspective the Nasdaq/S&P Relative strength indicator has been bullish and generally right for several weeks now. The breadth thrusts we saw off the failed head & shoulders pattern have also proven correct. I noted in the last couple of days that we are already close to the average maximum gains that are generated by the two breadth thrust studies listed in the intermediate-term section above. (See last week's intermediate-term section for details on these.) This doesn't mean that just because the average max move has been achieved the market will roll over. But from my perspective it means that further gains are likely due to influences other than the breadth thrust patterns. This is why I look to remove studies from the active list after they achieve their targets.

Bearish and so far wrong have been sentiment indicators such as the VIX:VXV ratio and the Nasdaq/NYSE Volume ratio. Neither of these has budged at all and it seems while their timing was off, at some point their bearish influence may take hold.

As I've demonstrated with some short-term trades lately this is a tough market to fight. While bearish indications remain, a neutral to slightly bullish intermediate-term outlook seems appropriate.

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.

None tonight – although stocks like ITW, FCX and OMC from the 500 list look tempting. I normally just track ideas from the S&P 100 and ETF lists and so will pass on these others for now.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	7/16/2009	$93.15	$97.65	-4.83%		
SPY(s)(1/4)	7/17/2009	$94.25	$97.65	-3.61%		
SPY(s)(1/4)	7/27/2009	$98.30	$97.65	0.66%		