QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 5, 2009 Volume 2 Issue 149

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				
August 4, 2009	3 mildly bearish studies	1-2 days	Bearish	
August 3, 2009	2 Days Up In Chop	1-4 days	Bearish	
July 31, 2009	5 low to 10-high	1-5 days	Bearish	
Active - Long Term				
August 4, 2009	75% Up Issues 2 of 3 Days	1-20 days	Bullish	4.80%
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 31, 2009	Close bottom 10% & > yest. High	1-3 days	Bullish	1.50%
August 3, 2009	Nas Spyx < -10	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 8/4 –slightly bearish

A mostly dull day Tuesday saw a sharp rally in the last 10 minutes that made the numbers look pretty good for several of the indices. The majors all closed higher. Breadth was positive but not in a big way. The NYSE Up Issues % closed at 61% and the Up Volume % was 67%. Total volume rose slightly from Monday.

One fairly remarkable streak I noticed is that Tuesday marked the 16th day in a row where the low of the SPY was above the 10-day moving average (of the close). This is a significant streak. Since the inception of the SPY in 1993 there have only been 9 other times this has occurred. The longest such streak was 21 days in November of 2005.

Below is a table showing how the market performed after the other 9 streaks hit 16 days.

Low of SPY is higher than the 10ma for at least 16 days in a row. Today SPY closes at a 10-day high. Buy on close. Sell on close < 10ma. $100k/trade. 1993-present.										
QE MA Hi Stretch: barsin	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	-5,334.11	9	4	5	44.44	1,017.36	-1,880.71	0.54	0.43	-592.68
9	-4,171.52	9	5	4	55.56	699.53	-1,917.29	0.36	0.46	-463.50
8	-3,447.56	9	5	4	55.56	710.49	-1,750.01	0.41	0.51	-383.06
7	-5,401.84	9	4	5	44.44	648.13	-1,598.87	0.41	0.32	-600.20
6	-7,334.69	9	3	6	33.33	780.04	-1,612.47	0.48	0.24	-814.97
5	-4,644.81	9	3	6	33.33	207.31	-877.79	0.24	0.12	-516.09
4	-1,839.63	9	4	5	44.44	529.84	-791.79	0.67	0.54	-204.40
3	1,147.46	9	4	5	44.44	848.98	-449.69	1.89	1.51	127.50
2	2,269.60	9	6	3	66.67	669.09	-581.64	1.15	2.30	252.18
1	2,544.64	9	7	1	77.78	412.29	-341.38	1.21	8.45	282.74

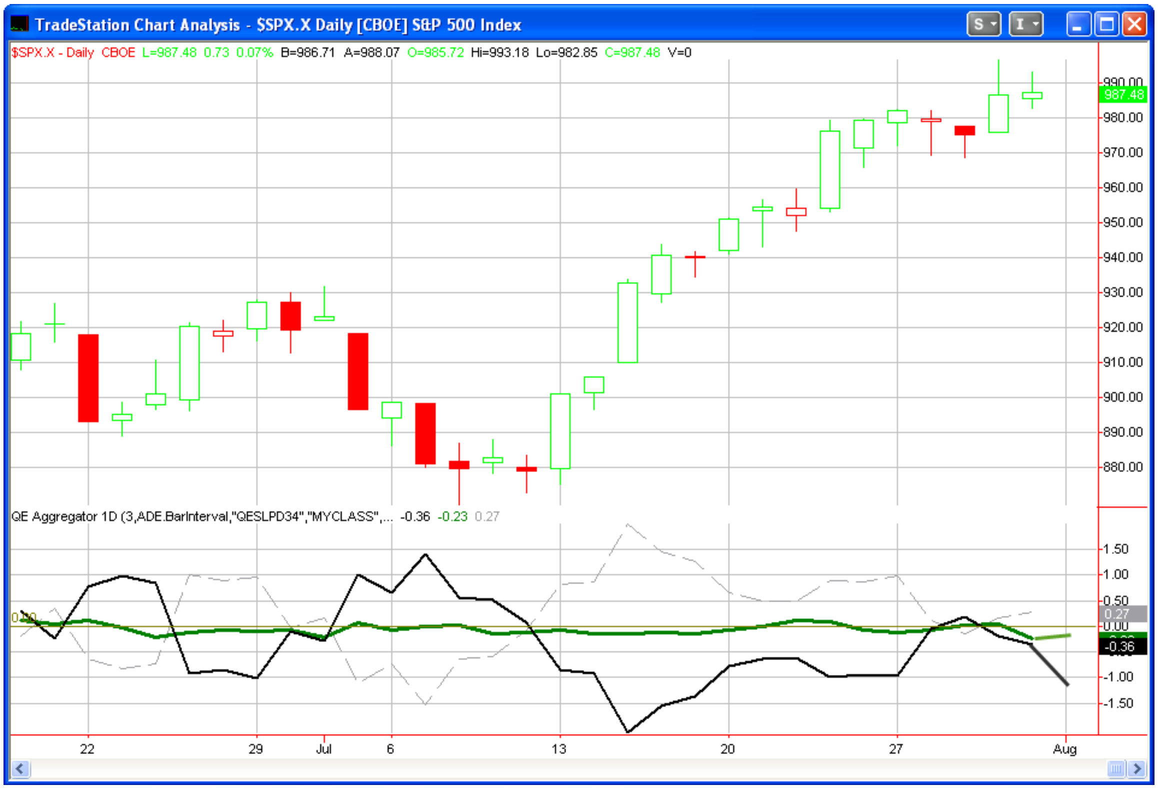
There appears to be a bit of a pullback tendency after you get out a few days.

I ran a test to see how you would have made out if SPY was shorted when the market is stretched completely above the 10ma for 16 days in a row and today is a new high. The trade is covered on a close below the 10ma.

Low of SPY is higher than the 10ma for at least 16 days in a row. Today SPY closes at a 10-day high. Buy on close. Sell on close < 10ma. $100k/trade. 1993-present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
05/15/95	Short	$53.00	1.09%	$1,753.98
05/18/95	Cover	$52.42		($320.62)
12/11/95	Short	$62.42	0.96%	$1,329.66
12/15/95	Cover	$61.82		($608.76)
02/09/96	Short	$65.84	0.96%	$1,077.78
02/15/96	Cover	$65.21		($1,305.48)
11/25/96	Short	$76.14	1.72%	$1,825.07
12/03/96	Cover	$74.83		($722.15)
07/16/98	Short	$118.53	1.60%	$1,896.75
07/21/98	Cover	$116.63		($590.10)
01/06/04	Short	$112.55	(0.73%)	$701.52
01/28/04	Cover	$113.37		($3,001.44)
11/21/05	Short	$125.76	0.28%	$373.65
11/30/05	Cover	$125.41		($1,311.75)
08/04/09	Short	$100.70	n/a	$0.00
open	n/a	$100.70		$0.00

We're working with a small number of trades here. Although there is only 1 loser out of 7 what strikes me as notable is the size of the average winner. It appears the pullbacks following such strong runs were generally mild in behavior. This suggests to me that a very sharp, sustained selloff is unlikely. More likely may be a brief pullback followed by a consolidation. It' will be important to see whether new studies emerge that are radically different than this.

The Aggregator chart magically worked tonight. It is below.



Not much has changed the last few days other then the drift higher for the market. The green Aggregator line shows a net negative expectation from the current studies. The black Differential line shows the market has handily beat expectations over the last few days. Overbought with a bearish expectation remains the status.

I'm not going to get excited about adding more exposure without compelling additional evidence. Should a possibly favorable entry arise then I may look to take advantage that way. See trade ideas section for more details.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/3 – neutral
The intermediate-term outlook remains muddled. On the one hand, momentum certainly favors the long side at the moment. The market has failed to pull back in any meaningful way in several weeks, while tacking on strong gains. On the other hand momentum appears to be slowing a bit, bearish signs remains, and there appears to be a lack of new catalysts.

On the bullish side of the ledger the Nasdaq/S&P 500 Lead/Lag system continues on its long signal. The Nasdaq's lead has shrunk a bit lately and some underperformance this week could see the indicator flip to bearish. It may be worth keeping an eye on this one. As has been demonstrated the last couple of weeks, momentum can be a difficult thing to fight. From a technical standpoint there is very little resistance in the S&P 500 for near 200 points (another 20% rise?) once 1000 is topped.

On the bearish side the VIX:VXV ratio is still suggesting a rise in volatility (and likely a tumble in stocks) is ahead. Also, the Nasdaq:NYSE volume ratio continues to suggest caution. We've already come a long way without much of a pause the last few months and at some point the market will correct – perhaps sharply.

It's a bit late to join the bullish parade and perhaps too early to start a bearish one. My focus will remain on the shorter time frames.

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 @ $101.5 LIMIT ON OPEN. IF not filled at open the order will be cancelled and I will look to fill it at $101.75 LIMIT ON CLOSE. I will only take ¼ position total tomorrow – not both entries. If we get another gap up like Monday I'd be surprised to see it follow through – hence the possible entry on the open. Otherwise I'll be looking for the market to be even more stretched at the close tomorrow to add more exposure.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	8/3/2009	$99.85	$100.70	-0.85%		