QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 7, 2009 Volume 2 Issue 151

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
Active			
August 7, 2009	2 Days Down In Chop	1-3 days	Bullish
Active - Long Term			
August 4, 2009	75% Up Issues 2 of 3 Days	1-20 days	Bullish
July 14, 2009	VIX:VXV hits 100-day low	1-20 days	Bearish
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			
August 6, 2009	Equity p/c 25% below norm	1 day	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

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 8/7 – neutral

For the first time in a long time the market actually underwent a bit of a broad selloff. The major indices were all lower. The Nasdaq led the way south with a 1% decline while the S&P dropped just over ½%. NYSE Up Issues % was 37% which is the lowest in a month though still not at all extreme. The Up Volume % was barely negative at 49%. Total volume declined from Wednesday but remained above recent levels.

The QQQQ closed at a 5-day low today. This is the 1st time it has closed at a 5 day low in 21 days. It seemed to me that the 1st decent pullback after a long run higher could provide a bullish edge. So I tested it. There were only 7 previous instances of runs of 20-days or longer. In a search for more meaningful results I lowered the requirement to 10-days. Those results are below:

QQQQ closes at a 5-day low after not doing so for at least 10 days.
Buy on close. Sell X days later. 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
10	50,730.89	54	32	21	59.26	3,872.73	-3,485.54	1.11	1.69	939.46
9	48,904.37	54	32	22	59.26	3,622.81	-3,046.61	1.19	1.73	905.64
8	44,827.57	54	31	22	57.41	3,680.42	-3,148.43	1.17	1.65	830.14
7	45,332.61	54	33	21	61.11	3,611.47	-3,516.47	1.03	1.61	839.49
6	51,884.38	54	30	24	55.56	3,883.68	-2,692.75	1.44	1.80	960.82
5	36,770.54	54	31	23	57.41	3,240.77	-2,769.27	1.17	1.58	680.94
4	12,181.50	54	30	23	55.56	2,611.94	-2,877.25	0.91	1.18	225.58
3	16,024.39	54	29	25	53.70	2,628.58	-2,408.17	1.09	1.27	296.75
2	22,492.87	54	34	20	62.96	1,621.58	-1,632.05	0.99	1.69	416.53
1	10,853.75	54	35	19	64.81	1,057.06	-1,375.97	0.77	1.42	201.00

78% of instances closed above the trigger day close within 2 days.

There does appear to be a small edge based on the size of the average trade. The winning percentage is a bit disappointing. It isn't much better than random. In all I'd say there's a mild edge that mostly plays out in the 1st 2 days.

While the SPY did not qualify under this scenario I decided to also run the stats on that as well.

SPY closes at a 5-day low after not doing so for at least 10 days.
Buy on close. Sell X days later. 1993 - 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	67,051.47	96	63	33	65.63	2,176.15	-2,122.61	1.03	1.96	698.45
9	58,708.96	96	62	34	64.58	2,010.68	-1,939.80	1.04	1.89	611.55
8	56,625.08	96	61	35	63.54	1,979.49	-1,832.11	1.08	1.88	589.84
7	49,193.74	96	62	34	64.58	1,862.45	-1,949.36	0.96	1.74	512.43
6	36,045.94	97	60	37	61.86	1,712.26	-1,802.43	0.95	1.54	371.61
5	34,067.84	97	60	36	61.86	1,595.08	-1,712.14	0.93	1.55	351.21
4	44,340.82	97	62	35	63.92	1,508.90	-1,406.03	1.07	1.90	457.12
3	28,643.69	97	58	39	59.79	1,377.33	-1,313.88	1.05	1.56	295.30
2	18,211.12	97	54	42	55.67	1,112.76	-997.10	1.12	1.43	187.74
1	8,566.33	97	54	43	55.67	849.96	-868.17	0.98	1.23	88.31

Average trade is a little weaker but winning % is a little stronger. In all results are not much different than for the QQQQ's. A somewhat mild edge.

With the market closing lower for the 2nd day in a row the "2 Days Down In Chop" strategy triggered a buy signal. Below is an updated strategy report for the simple system:

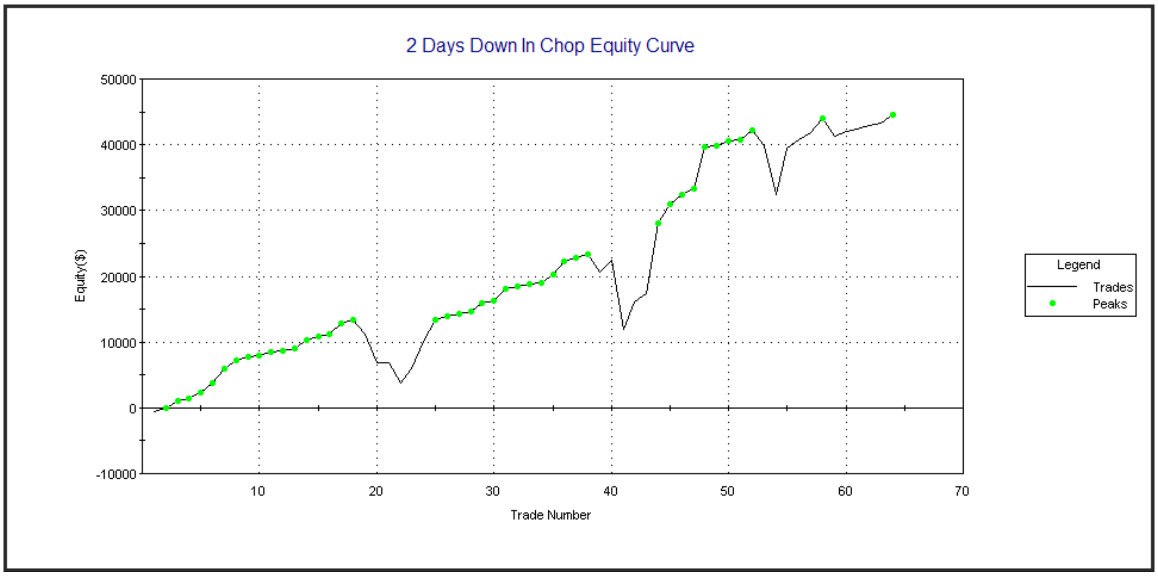
SPX closes lower 2 days in a row. Buy at close. Sell next profitable close up to 3 days later. At close of day 3 sell regardless of profitability. $100k/trade. 6/1/2007 - present.

TradeStation Performance Summary Collapse

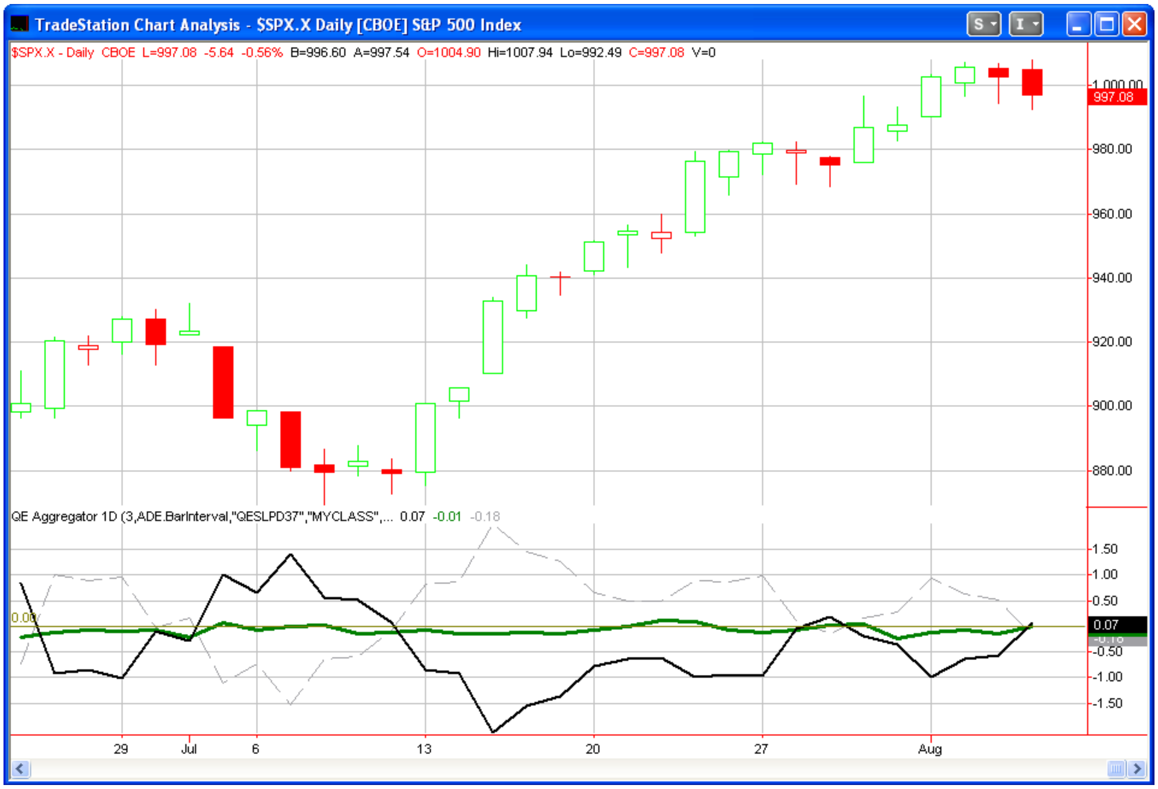
All Trades

Total Net Profit	$44,552.94	Profit Factor	2.23
Gross Profit	$80,654.50	Gross Loss	($36,101.56)
Total Number of Trades	64	Percent Profitable	85.94%
Winning Trades	55	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$696.14	Ratio Avg. Win:Avg. Loss	0.37
Avg. Winning Trade	$1,466.45	Avg. Losing Trade	($4,011.28)
Largest Winning Trade	$10,716.03	Largest Losing Trade	($10,506.45)

And here is an updated equity curve. Note it hit a new high with the last trade.



The Aggregator chart is updated below.



The green Aggregator line is just a small fraction below 0 while the black Differential line is just above it. In other words the outlook based on the Aggregator chart is almost perfectly neutral. There were 3 bearish short-term studies that all expired today. That means only the “2 days down in chop” is left along with a few longer-term studies.

From an index trading standpoint based on the active studies there isn’t much to do other than wait for the next edge to avail itself. Tomorrow may be heavily influenced by the employment report so it will be interesting to see the reaction to that.

There are a decent number of short-term triggers appearing on the triggers page. When so many stocks appear to have a bullish edge that can often have bullish consequences for the market as well.

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.

None tonight. *There are several triggers on the system page tonight. I'll watch the 2 entered today and then see how the market plays out over the next day or so before looking to initiate new ones.*

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	8/3/2009	$99.85	$99.89	-0.04%		covered on close
INTC	8/6/2009	$18.70	$18.70	0.00%		bought on close
TGT	8/6/2009	$41.71	$41.71	0.00%		bought on close