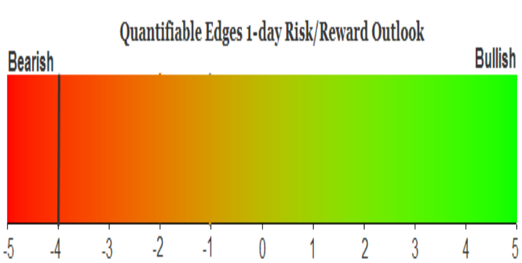
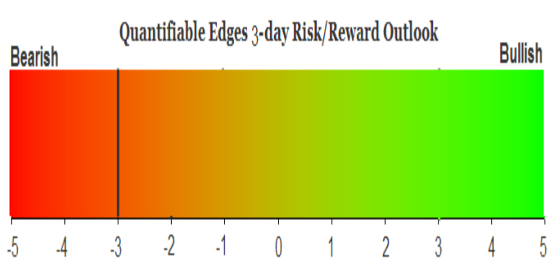
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 15, 2009 Volume 2 Issue 176

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				
September 15, 2009	Gap down close up & top 10% range	1-2 days	Bearish	-1.90%
September 14, 2009	SPY close lower w/ higher hi/low streak	1-2 days	Bullish	1.20%
September 9, 2009	Low range & vol 20 close > 10ma	1-5 days	Bearish	
September 8, 2009	Strong Breadth No 10-high	1-8 days	Bearish	-4.20%
Active - Long Term				
September 14, 2009	Nasdaq/S&P Lead/Lag Model		Bullish	
September 11, 2009	Appel Daily Breadth Impulse Signal	1-20 days	Bullish	5.00%
July 14, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish	
Dropped Tonight				
September 8, 2009	Rise into Labor Day	1-4 days	Bearish	-1.35%
September 9, 2009	SPY rising on falling volume	1-3 days	Bearish	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

Short-term Outlook – updated 9/15

The Bottom Line

Upside momentum ruled the day again Monday as the newer studies over the weekend prevailed over the bearish ones from last week. The gap down and strong close brought out another bearish study tonight. The outlook appears to favor the downside –more so now than the last few days. I expect we'll see a pullback soon and am looking to take advantage of it. Caution is still warranted, though as the upside momentum of this market has made mincemeat of shorts.

The Evidence

After gapping down to open the day, the market put in a strong trend day on Monday. Breadth was solidly positive. The NYSE Up Issues % came in at 66% and the Up Volume % came in at 68%. Interestingly, even with the Nasdaq and S&P hitting new highs, the number of stocks hitting new highs declined from Friday. Volume came in a bit lighter on both exchanges.

Many traders view days like today as a positive. The fact that the market overcame a gap down and was able to close positive and near its highs is interpreted as a sign of strength. I've looked at days similar to this in the past and found that most often they are actually followed by short-term market weakness. Below is a study from the 5/27/09 Subscriber Letter that looks at situations like Monday's. I have updated the stats so they are current.

SPY gaps lower by at least 0.5%. It then closes above the open and in the top 10% of its daily range. Buy on close. Sell X days later. $100k/trade. 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
5	-13,166.09	43	21	22	48.84	1,965.60	-2,474.71	0.79	0.76	-306.19
4	-5,184.18	44	24	20	54.55	1,710.85	-2,312.23	0.74	0.89	-117.82
3	-14,589.13	45	23	22	51.11	1,408.36	-2,135.52	0.66	0.69	-324.20
2	-28,644.11	45	18	26	40.00	1,128.22	-1,882.77	0.60	0.41	-636.54
1	-24,616.41	46	15	30	32.61	829.36	-1,235.23	0.67	0.34	-535.14

80% of instances closed below the entry price on either day 1 or day 2.

This study suggests a solid downside edge over the next 1-2 days. Another notable from today was not only that the market put in a reversal off the gap down, but that it closed at a 10-day high. I decided to use that as a filter to see if it had a substantial impact on the results.

SPY gaps lower by at least 0.5%. It then closes in the top 10% of its range and at a 10-day high. Buy on close. Sell X days later. $100k/trade. 1993-present.

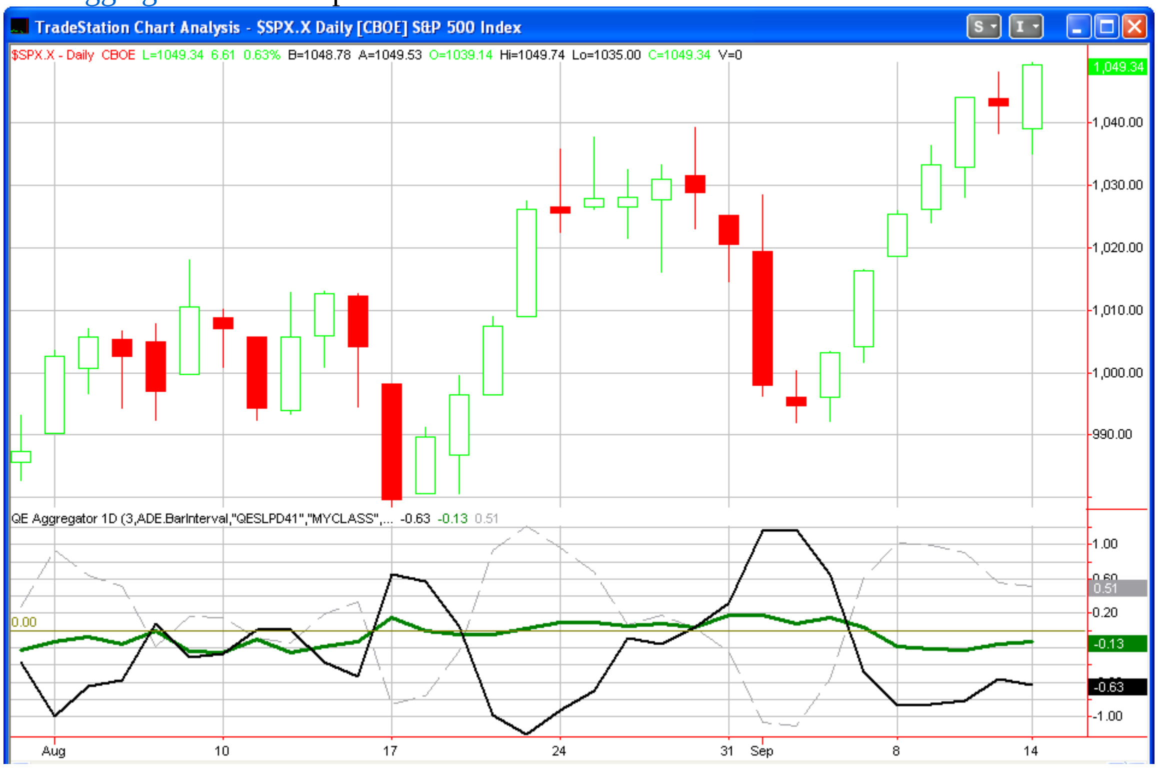
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-5,401.37	15	6	9	40.00	1,427.59	-1,551.88	0.92	0.61	-360.09
4	-2,497.11	15	8	7	53.33	1,467.80	-2,034.21	0.72	0.82	-166.47
3	-7,371.12	15	6	9	40.00	1,095.33	-1,549.23	0.71	0.47	-491.41
2	-7,452.99	15	6	8	40.00	536.22	-1,333.79	0.40	0.30	-496.87
1	-6,420.85	15	4	11	26.67	492.20	-762.69	0.65	0.23	-428.06

13 of 15 instances closed below the entry price at some point in the next 3 days - and 14 of 15 in the next week.

Results were much the same as the original test. Instances were low, but the negative tendency was even a little more consistent under these circumstances.

A quick side note here: For those that checked out the Quantifinder tonight and noticed a series of studies from the 2/6/08 Subscriber Letter – those studies were errors. It appears Tradestation has a bad tick or some other issue which is causing the low in SPY on Monday to look artificially low. Without that bad tick, none of the 2/6 studies qualify.

The Aggregator chart is updated below.



The Aggregator configuration didn't change much with today's action. The green Aggregator line remains firmly in negative territory, indicating a net negative expectation from the studies over the next few days. Meanwhile the black Differential line is showing the market remains strongly overbought versus expectations over the last few days. Overbought with negative expectations suggests a downside edge. Of course the configuration has been like this for the last few days and it hasn't really mattered much to the market. Momentum has continued to carry it higher and has some positive intermediate-term studies with regards to breadth and leadership have emerged.

Still, I find tonight's study fairly compelling, and combined with the Aggregator chart configuration will now look to scale in a bit more on the short side. Details in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/14 – somewhat bullish

The intermediate-term outlook has been removed to reduce the length of this Letter. Those who would like to review it may do so by checking out the 9/14/09 Subscriber Letter via the link below:

2009-09-14 QE Subscriber Letter.pdf

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 @ $105.28 limit. Based on short-term market outlook and Aggregator chart I will look to add a bit more short exposure tomorrow and increase to ½ the normal index sized position.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	9/9/2009	$103.12	$105.28	-2.09%		

This trade will be taken off fairly quickly should the market pull back for a day or two. I'm not looking to generate a long-term position here. It is clearly a counter-trend trade. This is why I have been conservative in scaling in to it and why I will be quick to exit should it go my way.