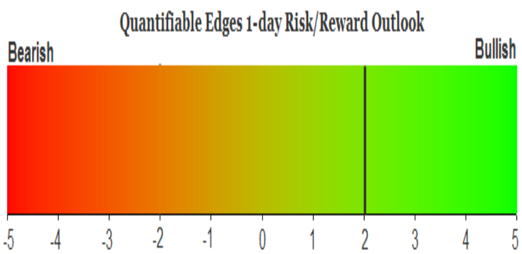
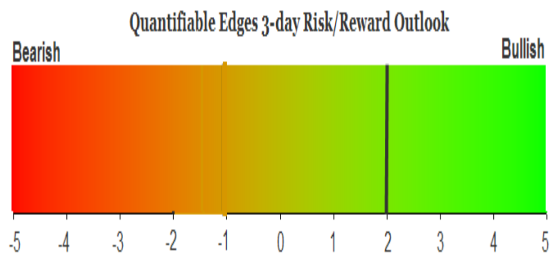
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 22, 2009 Volume 2 Issue 181

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 21, 2009	Op-ex week up 2%-3%	1-5 days	Bearish	-1.20%
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 21, 2009	***5ma of Equity P/C 20% below 200ma***	***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 9/22

The Bottom Line

With very little on the active studies list we are left with a slight bullish bias tonight. .

The Evidence

A gap down to open the day never gained any traction. The market couldn't manage to put in a rally either. It spent most of the day oscillating between Friday's close and Monday's open price. Late in the day it attempted a breakout but got turned back just above Friday's close. When it was all done the SPX closed down about 1/3% on the day. Most of the other major indices closed lower as well. The Nasdaq showed strength though and managed a ¼% gain on the day. NYSE breadth was negative. The NYSE Up Issues % was 34% - the lowest reading since September 1st. The Up Volume % was 39%. Total volume was the lowest since Sep. 4th.

I'm seeing very little of substance tonight. There was one study that appeared in the Quantifinder which suggested low-volume selloffs from overbought conditions like we had today show a bit of a tendency to follow through to the downside. The original test was run without filtering the long-term trend. If we take the long term trend into account the results are substantially different. I've broken it out below.

First let's look at instances below the 200ma:

Yesterday's SPX 3-day RSI was > 70. Today SPX closed lower on the lightest NYSE volume in 10 days. SPX closed < 200ma. Buy on close. Sell X days later. $100k/trade. 1983 - 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	-9,907.15	43	20	23	46.51	2,375.89	-2,496.74	0.95	0.83	-230.40
4	-11,876.30	44	19	25	43.18	2,124.11	-2,089.37	1.02	0.77	-269.92
3	-16,613.23	44	20	24	45.45	1,666.27	-2,080.78	0.80	0.67	-377.57
2	-20,502.16	45	23	22	51.11	1,054.34	-2,034.19	0.52	0.54	-455.60
1	-14,606.68	46	21	25	45.65	813.65	-1,267.74	0.64	0.54	-317.54

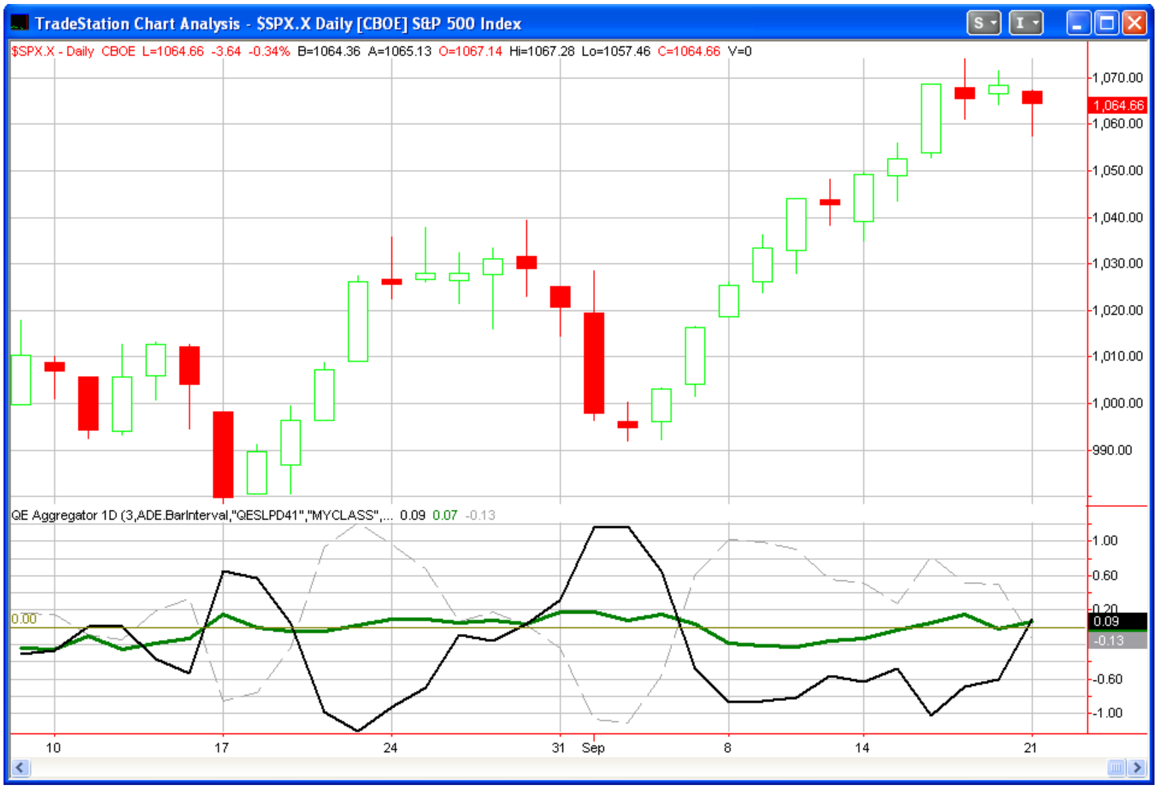
A bit of a downside edge is apparent here. Now let's look at times the SPX was trading above its 200ma.

Yesterday's SPX 3-day RSI was > 70. Today SPX closed lower on the lightest NYSE volume in 10 days. SPX closed > 200ma. Buy on close. Sell X days later. $100k/trade. 1983 - 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	-6,680.70	90	49	41	54.44	1,308.85	-1,727.18	0.76	0.91	-74.23
4	-12,231.12	95	57	38	60.00	962.91	-1,766.23	0.55	0.82	-128.75
3	3,013.15	97	55	42	56.70	986.12	-1,219.61	0.81	1.06	31.06
2	17,150.81	97	56	40	57.73	991.33	-959.09	1.03	1.45	176.81
1	7,943.76	102	59	43	57.84	708.03	-786.74	0.90	1.23	77.88

Based on the average trade it appears the market has often struggled to make gains. These results appear fairly neutral to me though. No discernable edge.

The Aggregator chart is updated below.



Both the green Aggregator line and the black Differential line flipped from negative to positive on Monday. There are very few active studies at the present as the market simply hasn't been providing as many clues as usual. The equity p/c study was deactivated tonight as the 5ma is no longer stretched 20% below the 200ma. Basically we are left with a bullish intermediate-term breadth thrust vs. a bearish post op-ex week rally. The breadth thrust is the more powerful of the two signals and therefore has taken control. As discussed often, both lines positioned north of 0 is a bullish configuration. It would trigger a buy in the Deluxe Aggregator System, which was shown this past weekend to subscribers. (Note: I miscalculated the black Differential line when sending out this afternoon's update to subscribers. It was a good lesson for me and I'm glad I did it now before going live with any new functionality. It shouldn't happen again.)

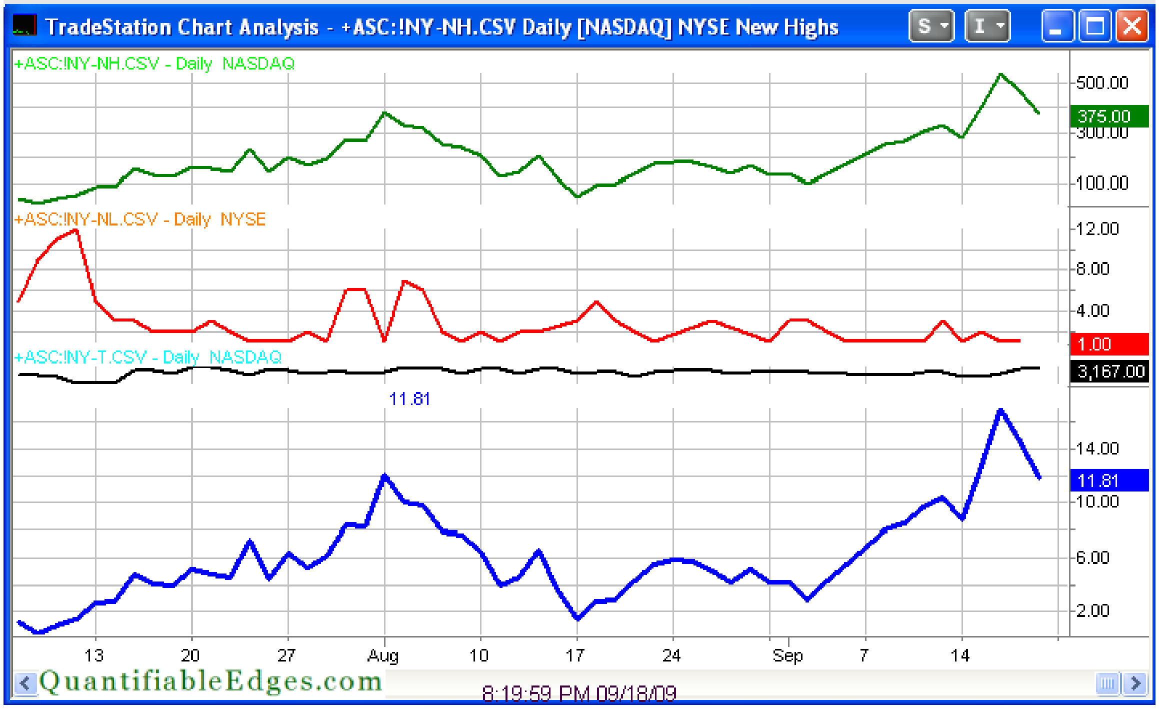
Though the configuration has flipped to bullish it is only barely so. We remain in one of those precarious states where the Aggregator could easily flip back to the negative tomorrow. Overall I'd say there's a small edge to the upside for the time being.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/21 – somewhat bullish

Nothing really has changed since last week from an intermediate-term standpoint. In last week's Letter we reviewed 2 bullish indications and one bearish. The bullish indications came from 1) the Nasdaq/S&P 500 Relative strength chart, which is tracked on the website and 2) The Appel Daily Breadth Thrust signal which is triggered by a high reading in the Up Issues % 10-day ema. This can also be seen on the charts page. Both of these indicators remain bullish. We'll need to see continued outperformance by the Nasdaq and solid breadth readings this week for both indicators to remain bullish.

I also noted last week that it was worth keeping an eye on the NYSE Net New Highs %. It had failed to register a new high since August 1st, even while the indices had all been hitting new highs. My research showed that this was not a death sentence for the rally but that if the new highs could expand that would serve as confirmation for the rally. Under such circumstances the market has historically outperformed the times new highs weren't confirming. This week saw a large expansion of new highs and the August levels were easily taken out. Below is a copy of the chart kept on the website that illustrates this.

NYSE Net New Highs



The current lone dissenter among the intermediate-term studies was the low VIX:VXV ratio study. This ratio remains stretched to the downside and is still suggesting an uptick in volatility, which would likely be accompanied by a market selloff. Interestingly, while this ratio remains stretched the VIX and the VXO are both right around their 10-day moving averages.

My conclusion remains the same as last week:

As long as I see the Nasdaq lead, breadth remain strong, and the new highs continue to expand, I'll look for a continuation of the current rally. All of these indications can flip in a fairly short period so they will need to be monitored. At some point the market will likely undergo a sharp correction.

The basic premise I'm working under remains that we are in a 1930's – style environment in which both rallies and selloffs will be much more exaggerated than most market participants are used to. Just as the bear market up to March 2009 was *incredibly extreme, so has been the rally since then. I believe there is going to be a lot of back and forth over the next few years and the swings will continue to feel extreme. It may be important to keep this in mind when considering market action.*

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 – buy @ $106.25 LIMIT ON CLOSE. Based on the short-term market outlook and Aggregator. Another down close tomorrow would likely strengthen the bullish Aggregator configuration. I'll be looking to buy in if this occurs.

There were also several individual triggers tonight. FDX seemed to be the most interesting to me. I'll wait one more day to see if a more substantial edge appears.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY(s)(1/4)	9/9/2009	$104.85	$106.45	-1.53%		entry adj to reflect div

The short SPY position was covered at the close..