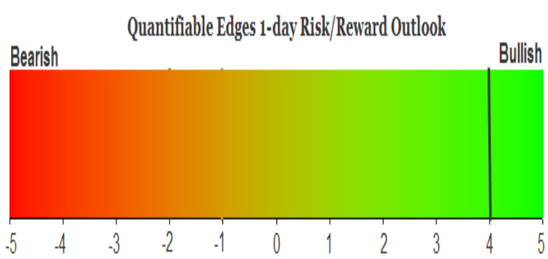
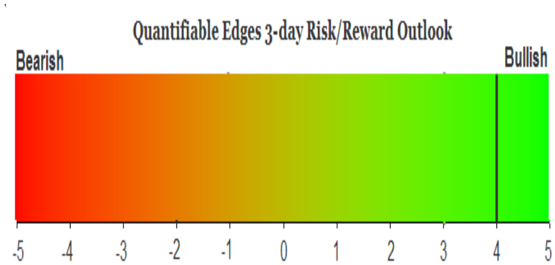
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 25, 2009 Volume 2 Issue 184

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 25, 2009	50-high to 8-low in 2 days	1-6 days	Bullish	2.10%
September 24, 2009	SPX down 1% SOX up	1-6 days	Bullish	
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	***Op-ex week up 2%-3%***	***1-5 days***	***Bearish***	***-1.20%***
September 24, 2009	Fed Day Reversal to close poorly	1 day	Bullish	

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

Short-term Outlook – updated 9/25

The Bottom Line

Some fairly strong selling put the market in an even more oversold state. Meanwhile, some new studies are confirming bullish inclinations already in place. Tops aren't normally shaped like an upside down "V". Sharp drops like we've seen the last 2 days are most often followed by some kind of bounce. I'm expecting one soon.

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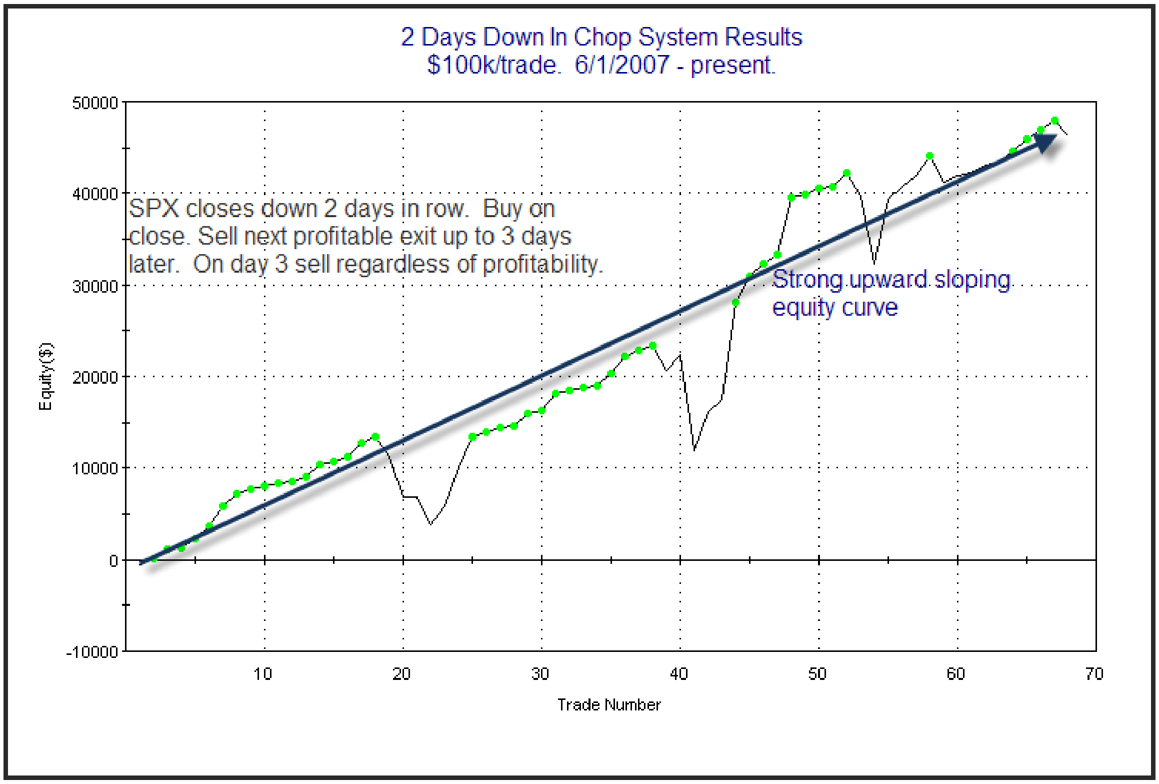
The Evidence

A disappointing housing number led to some sharp selling between 10 and 11am. Once 11am hit the market began to move sideways and never put in a substantial move up or down the rest of the day. Breadth was negative as the NYSE Up Issues % came in at 22% and the Up Volume % at 14%. Total volume again rose slightly but still remained below average.

With the 2nd down day in a row the “2 Days Down In Chop” system triggered a buy. Below I’ve updated the equity curve for the system:



As you can see “2 Days Down In Chop” continues to perform well.

Below are the updated stats since 6/1/2007.

2 Days Down In Chop System Results $100k/trade. 6/1/2007 - present.			
TradeStation Performance Summary			Collapse
All Trades			
Total Net Profit	$46,366.96	Profit Factor	2.23
Gross Profit	$84,154.38	Gross Loss	($37,787.42)
Total Number of Trades	68	Percent Profitable	85.29%
Winning Trades	58	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	$681.87	Ratio Avg. Win:Avg. Loss	0.38
Avg. Winning Trade	$1,450.94	Avg. Losing Trade	($3,778.74)
Largest Winning Trade	$10,716.03	Largest Losing Trade	($10,506.45)

Not only have we had two down days though. Those two down days followed a 50-day high and the SPX is now sitting at an 8-day low. The Quntifinder picked up a study that looked at similar situations from the 5/22/08 blog. I've updated that study below but shortened the lookback period to 1987. Further back than this the edge was not as pronounced.

SPX closes at 50-day high and then 2 days later closes at the lowest level in 8 days. Buy on close. Sell X days later. $100k/trade. 1987 - present

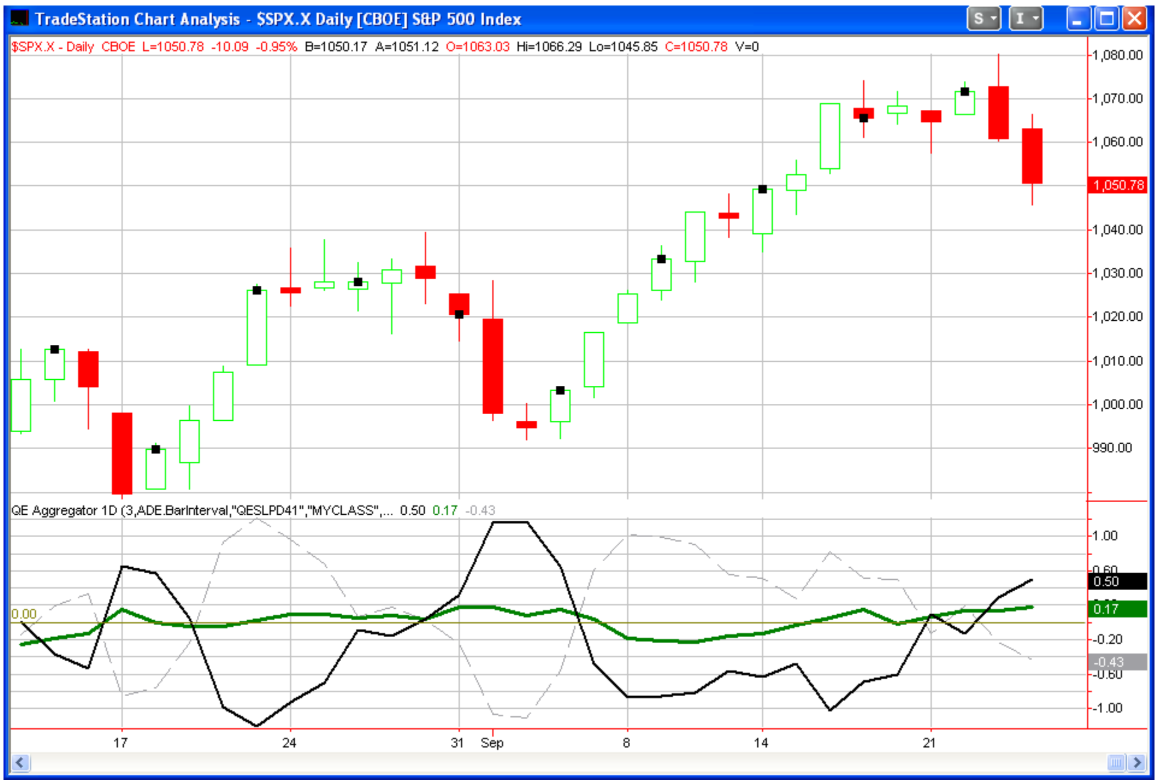
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	34,322.37	28	17	11	60.71	2,947.01	-1,434.25	2.05	3.18	1,225.80
19	30,026.23	28	19	9	67.86	2,530.96	-2,006.89	1.26	2.66	1,072.37
18	22,196.07	28	17	11	60.71	2,530.30	-1,892.64	1.34	2.07	792.72
17	16,585.22	28	15	13	53.57	2,953.64	-2,132.26	1.39	1.60	592.33
16	17,156.53	28	13	15	46.43	3,271.43	-1,691.47	1.93	1.68	612.73
15	10,997.20	28	15	13	53.57	2,985.79	-2,599.20	1.15	1.33	392.76
14	12,618.06	28	16	12	57.14	2,686.69	-2,530.75	1.06	1.42	450.65
13	10,819.15	28	16	12	57.14	2,330.50	-2,205.74	1.06	1.41	386.40
12	14,775.50	28	16	12	57.14	2,109.19	-1,580.97	1.33	1.78	527.70
11	17,230.59	29	16	12	55.17	2,222.72	-1,527.75	1.45	1.94	594.16
10	28,797.10	30	21	9	70.00	1,874.30	-1,173.70	1.60	3.73	959.90
9	28,193.63	30	19	11	63.33	2,237.06	-1,300.95	1.72	2.97	939.79
8	32,602.33	30	20	10	66.67	2,300.69	-1,341.14	1.72	3.43	1,086.74
7	32,374.63	30	21	9	70.00	2,121.27	-1,352.44	1.57	3.66	1,079.15
6	32,206.93	30	23	7	76.67	1,929.49	-1,738.78	1.11	3.65	1,073.56
5	29,610.98	30	22	8	73.33	1,903.21	-1,532.47	1.24	3.42	987.03
4	27,792.48	30	22	8	73.33	1,551.25	-791.89	1.96	5.39	926.42
3	14,655.54	30	20	10	66.67	1,121.39	-777.23	1.44	2.89	488.52
2	4,706.88	30	19	11	63.33	747.62	-863.44	0.87	1.50	156.90
1	7,493.84	31	20	11	64.52	681.70	-558.19	1.22	2.22	241.74

90% of instances closed above the entry price at some point in the next 4 days.

The 90% bounce rate within 4 days is an impressive number. I added this study to the Aggregator but I did not add in the "2 Down In Chop" system. The reason being is that the tests are so similar. We don't need more than 1 system when both their triggers are basically "2 down days".

Of note from the active studies list is that our 1 bearish study reached its average max move today and has been removed.

The Aggregator chart is updated below.

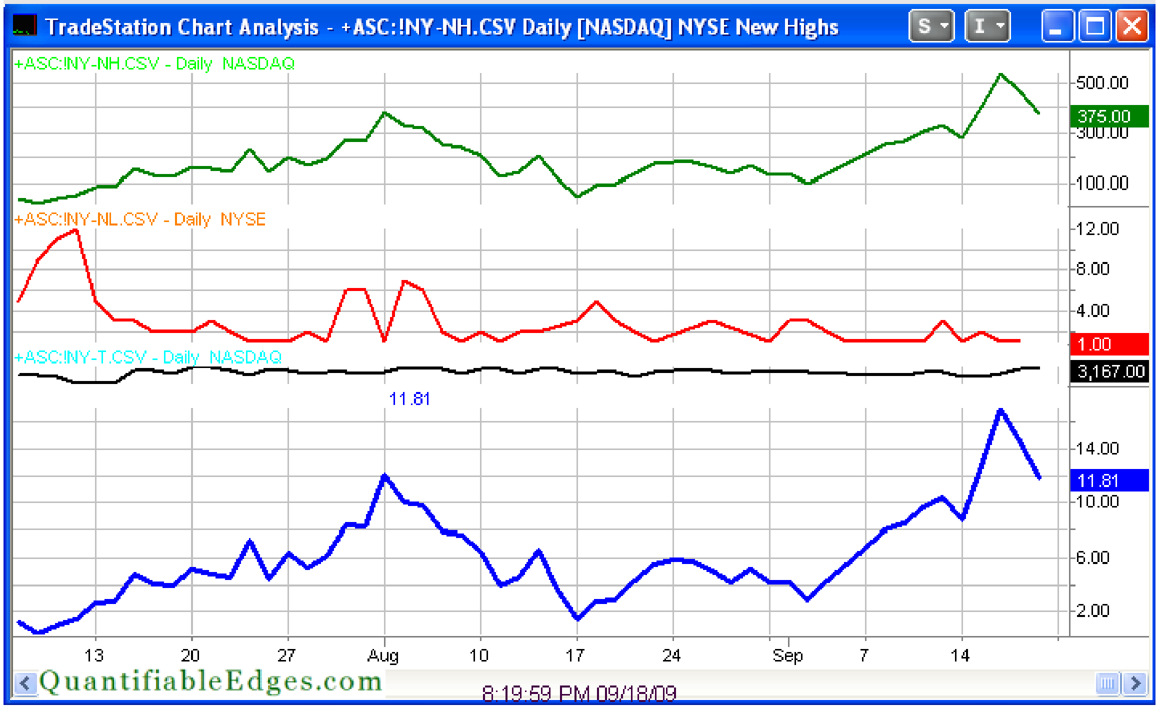


Today's selloff saw both the green Aggregator line and the black differential line move farther above 0. The Aggregator line was lifted by our new bullish study as well as the removal of the bearish one. With both lines well into positive territory the Aggregator chart is suggesting a positive risk/reward for the next few days. I will look to add to my long position as described in the trade ideas section below.

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 ¼ index position @ $105.01 limit. Based on short-term market outlook. I'll look to scale in another ¼ tomorrow.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
TGT	9/24/2009	$47.56	$47.65	0.19%	$46.75	system 11111
SPY(1/4)	9/24/2009	$106.18	$105.01	-1.10%		