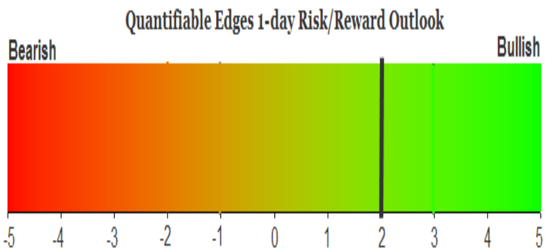
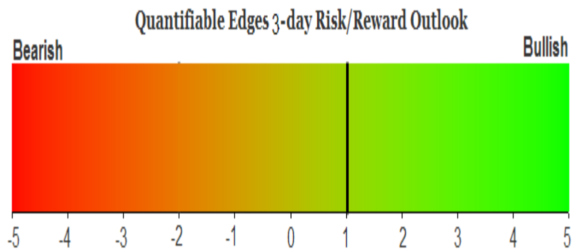
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 1, 2009 Volume 2 Issue 188

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				
October 1, 2009	2 Down Days End the Quarter	1-2 days	Bullish	
September 29, 2009	SPX up 1% on lowest vol in 20	1-3 days	Bearish	-1.80%
September 28, 2009	Pullback from 20-high drying up	1-5 days	Bullish	2.60%
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	
July 14, 2009	VIX:VXV drops below 0.9	2-5 months	Bearish	
Dropped Tonight				

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

Short-term Outlook – updated 10/1

The Bottom Line

There are indications of upside for tomorrow. Unfortunately the market hasn't moved much from the middle of it range. It's not terribly oversold so risk/reward isn't high. If I had to pick a direction for tomorrow, I'd pick up. I wouldn't be betting big, though.

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The Evidence

The quarter finished on a generally down note. The Nasdaq 100 closed up slightly but the S&P 500, Nasdaq Composite, and Dow were all down on the day, though losses were all less than 1/3%. Smallcaps were hit harder as the Russell 2000 lost 1%. SPY gapped slightly higher at the open and then sold off hard for the 1st half hour, trading down over 1.25% at one point. That established the range for the rest of the day. It fought back into positive territory for a while but never made new highs. Some last hour selling caused the mild down day. Breadth was negative as the Up Issues % was 41% and the Up Volume % was 35%. Total volume came in substantially higher than the last few days.

Notable from today, and identified by the Quantifinder, is that 1) the market has closed lower for 2 days in a row and 2) tomorrow is the beginning of the month.

Quantifiable Edges incredibly simple "2 Days Down In Chop" strategy triggered at the close. Below I have updated the results back to 6/1/2007.

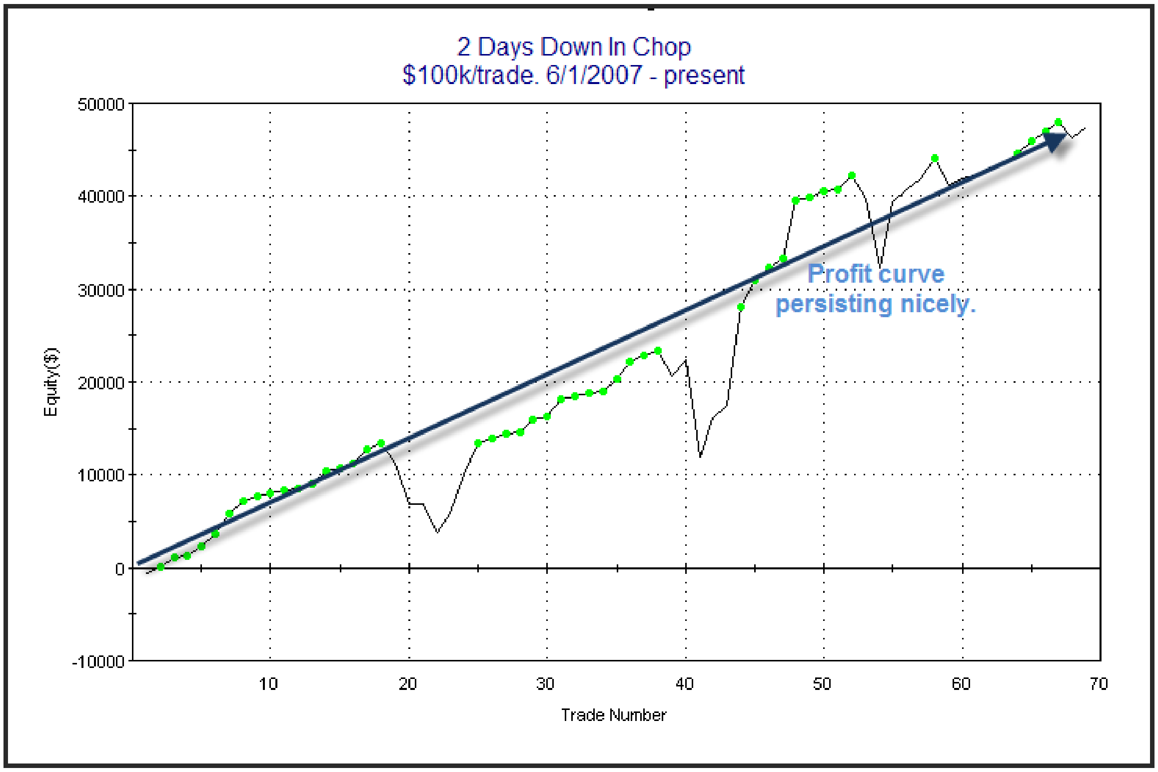
SPX closes down 2 days in a row.
Buy on close. Sell next profitable close up to 3 days later. After 3 days sell regardless of profitability. $100k/trade. 6/1/2007 - present

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$47,525.96	Profit Factor	2.26
Gross Profit	$85,313.38	Gross Loss	($37,787.42)
Total Number of Trades	69	Percent Profitable	85.51%
Winning Trades	59	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	$688.78	Ratio Avg. Win:Avg. Loss	0.38
Avg. Winning Trade	$1,445.99	Avg. Losing Trade	($3,778.74)
Largest Winning Trade	$10,716.03	Largest Losing Trade	($10,506.45)

This strategy has provided a solid edge over the last couple of years. And while "2 Days Up In Chop" has been hurt a bit by the strength of the current rally and the fact that there have been several extended runs, "2 Days Down In Chop" has performed quite well. Below is an updated profit curve for the system.



It appears this simple system is continuing to provide an edge.

I looked at 1st days of the month back in July. One observation that can be made from that study is that October and May have provided the highest day-1 profits over the last 22 years. You can see the entire study here.

An intraday update was sent out today that looked at the combination of 2 days down and beginning of the month. Below is an excerpt from that report for those who made not have had a chance to review it.

Two down days in a row to finish off a month or a quarter often suggests and upside edge over the next few days. Below I have broken it down a few different ways. All tests go back to the end of 1986.

First, let's look at instances where the SPX closed down 2 days in a row to finish the month.

SPX closes down last 2 days of month. Buy on close. Sell X days later. $100k/trade. 12/31/86 - 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	50,747.11	51	36	15	70.59	2,152.68	-1,783.29	1.21	2.90	995.04
4	37,337.52	51	35	16	68.63	1,848.84	-1,710.74	1.08	2.36	732.11
3	31,797.59	51	34	17	66.67	1,644.38	-1,418.31	1.16	2.32	623.48
2	34,594.69	51	37	14	72.55	1,389.11	-1,200.16	1.16	3.06	678.33
1	19,760.11	51	34	17	66.67	1,031.36	-900.37	1.15	2.29	387.45

The % wins, the profit factor and the average trade columns all suggest a nice upside edge.

Next I'll just include those months that closed positive. (For purposes of this test I just looked back 21 trading days and estimated that to be 1 month.)

SPX closes down last 2 days of month. Close > 21 days ago (est. month). Buy on close. Sell X days later. $100k/trade. 12/31/86 - 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	27,771.55	27	20	7	74.07	1,778.35	-1,113.63	1.60	4.56	1,028.58
4	27,213.77	27	18	9	66.67	2,000.48	-977.20	2.05	4.09	1,007.92
3	20,035.97	27	17	10	62.96	1,858.27	-1,155.47	1.61	2.73	742.07
2	19,260.51	27	22	5	81.48	1,201.41	-1,434.09	0.84	3.69	713.35
1	4,433.30	27	17	10	62.96	818.79	-948.62	0.86	1.47	164.20

As you'd expect the upside edge here is even stronger. You've got a pullback in an uptrend happening just before the seasonally strong beginning of month period.

What if we looked at quarter-end's instead of month-end's?

First below is all quarter ends.

SPX closes down last 2 days of quarter. Buy on close. Sell X days later. $100k/trade. 12/31/86 - 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	29,059.20	21	17	4	80.95	2,061.24	-1,495.49	1.38	5.86	1,383.77
4	25,934.28	21	17	4	80.95	1,874.96	-1,485.03	1.26	5.37	1,234.97
3	20,000.12	21	17	4	80.95	1,489.55	-1,330.56	1.12	4.76	952.39
2	24,400.44	21	18	3	85.71	1,466.25	-664.02	2.21	13.25	1,161.93
1	10,247.49	21	13	8	61.90	996.91	-339.05	2.94	4.78	487.98

86% of instances were trading higher 2 days later and up an average of 1.2%. In fact, basically all of the stats here are improved over just looking at month-end.

Now again let's filter so that we are only looking at those instances locked in an uptrend. This time, since we are looking at end-of-quarter, I'll use that as my benchmark.

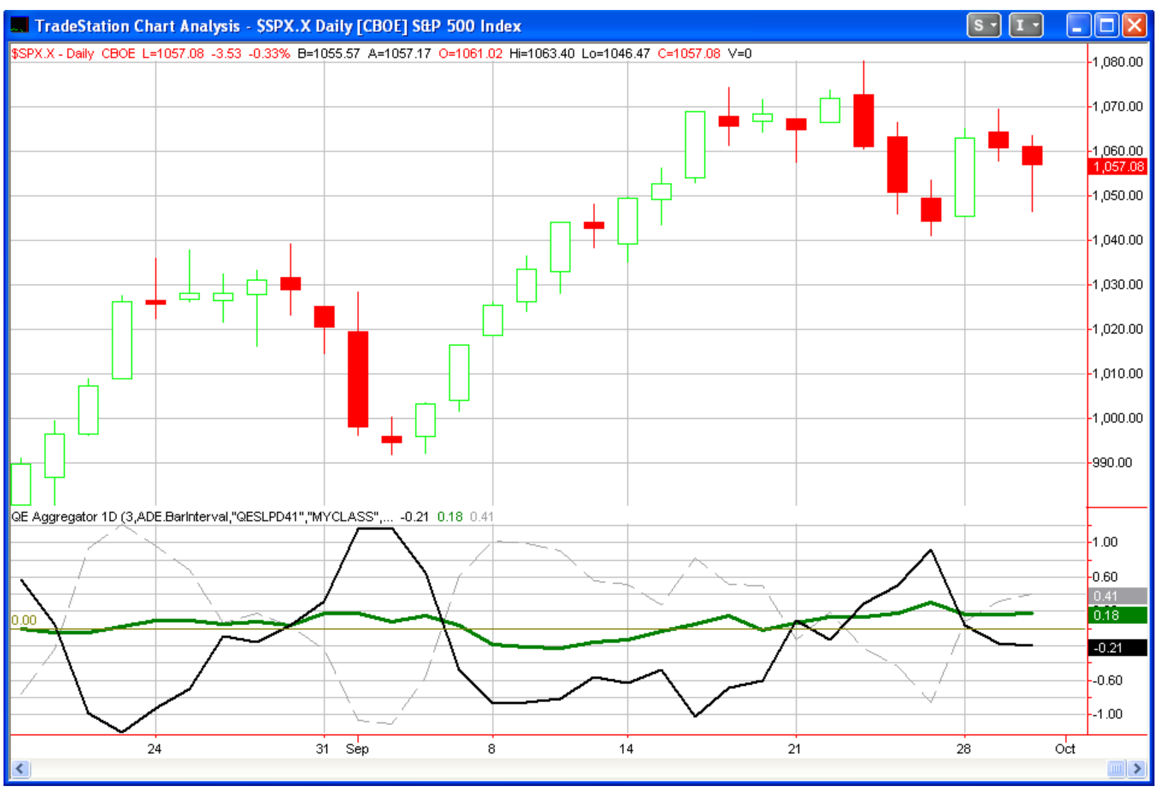
SPX closes down last 2 days of quarter. SPX closes > than 63 trading days ago (est. quarter). Buy on close. Sell X days later. $100k/trade. 12/31/86 - present.

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	29,378.04	17	15	2	88.24	2,085.49	-952.13	2.19	16.43	1,728.12
4	25,608.73	17	15	2	88.24	1,870.25	-1,222.50	1.53	11.47	1,506.40
3	17,914.85	17	14	3	82.35	1,516.14	-1,103.71	1.37	6.41	1,053.81
2	18,980.03	17	15	2	88.24	1,329.04	-477.78	2.78	20.86	1,116.47
1	5,764.22	17	11	6	64.71	706.72	-334.95	2.11	3.87	339.07

These are the strongest results of all. Note the obscenely high profit factors as gross gains swamped gross losses.

So there appear to be some strong indications of probable upside over the next couple of days.

The Aggregator chart is updated below.



Today's configuration is little changed from yesterday. Net expectations remain positive as illustrated by the green Aggregator line. Yet the market has outperformed expectations over the last few days as shown by the black Differential line. This is a neutral configuration. For entries I typically prefer both lines to be on the same side of 0.

So while we've pulled back for two days here and there are some bullish indications, the pullback hasn't been sharp. It would be difficult to call the market oversold by most measures. The SPX still isn't far from the middle of its range and risk/reward doesn't appear all that great.

The current makeup of the Aggregator is interesting. Monday's sharp rally will fall out of the Differential calculation tomorrow night. This will affect some strongly positive pull on the black Differential line. Even with a mild up close tomorrow the Differential could rise above 0. Also interesting about the Aggregator's current makeup is the fact that all of the studies are set to expire in the next 2 days. I can't think of another time when all of the Aggregator studies were set to expire in such short order. What this means is that studies triggered over the next 2 days will be paramount in determining next week's edge. The current bias will be completely erased and replaced with the new studies based on Thursday and Friday's market action.

So while there appears to be a bit of an upside edge tomorrow, I'd rather show a little more patience before committing capital. I will look to enter the market long should we see further selling. Details in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/28 – slightly bullish

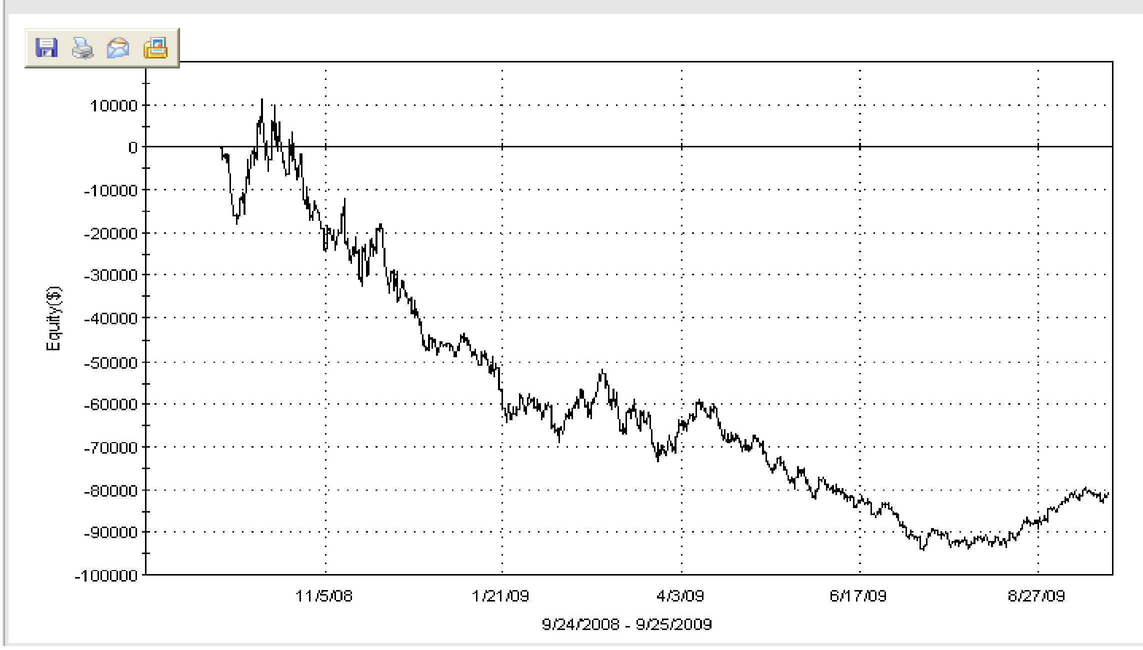
While the short-term outlook is about as bullish as it gets after the 3-day pullback, the intermediate-term outlook has taken a little bit of a hit. The Appel Daily Breadth Impulse Signal was turned off as the market sold off hard on Thursday. While the signal was good for a small 2 week gain, it did not lead to the kind of upside follow-though that it looks t capture. In any case, breadth is no longer signaling an intermediate-term rise.

The Nasdaq/S&P 500 Relative Strength remains precariously bullish. This is now the 3rd weeks in a row the Nasdaq has been in a leading position. The lead is extremely small, though and will again depend on more outperformance this week to remain bullish. I've copied the chart from the website below.

S&P 500/Nasdaq Relative Strength Weekly

Another notable chart is the Trend vs. Chop from the website. As you can see below the past 3 months we've seen more follow-through on a daily basis in the S&P 500 index than we have choppy behavior. This has made for a difficult time for mean reverting strategies. Runs have persisted substantially more than we've become accustomed to over the last few years. The last time the market spent this long without exhibiting choppy behavior was 2006.

Trend vs. Chop Daily



I am not yet convinced that it is time to break out strategies that rely on trendy day-to-day behavior. The chart does warrant watching, though. And traders should keep in mind we are no longer seeing consistent chop. You're swimming upstream a little bit at the present with short-term mean reversion strategies.

For more information on "trend vs. chop" and a longer-term chart, you can check out the Trend vs. Chop detail page on the website.

Bottom line is we've seen a slight weakening of the bullish case this week. With the short-term bias strongly bullish it will be important to monitor intermediate-term indications if we do get the anticipated short-term bounce. A weak bounce could suggest another leg down and perhaps worse. A strong bounce could lead to another leg higher. So far the outlook is slightly favoring upside, but that could change easily and wuickly depending on the next few days.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

XRX @ 7.68 – (entry not filled)

Catapult for ETF's Trades

none

Broad Market Large Cap CBI –1(XRX)

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 @ $105.25 limit ON CLOSE. Based on the short-term market outlook above. A down day should flip the Differential and and would have a decent chance of triggering some additional bullish studies.

IBB – buy @ 81.36 limit – Based on system 90609. There are several etf's set up in this manner on the triggers page tonight. IBB is the one I chose to track as an example trade.