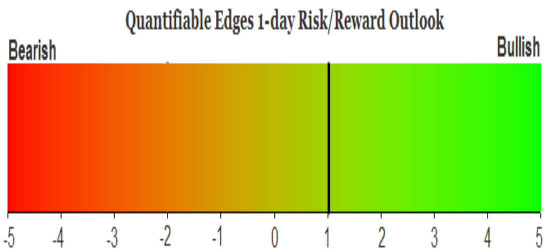
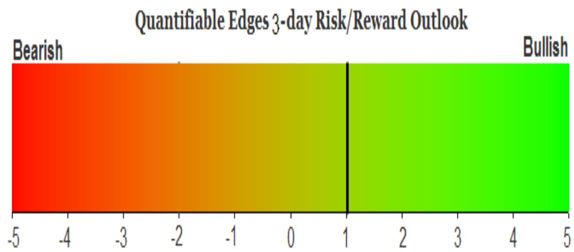
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 13, 2009 Volume 2 Issue 196

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 13, 2009	SOX Up 1% Nasdaq Comp down	1 day	Bullish	
October 12, 2009	SPX 5 higher closes over 200ma.	1-5 days	Bullish	1.15%
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				
October 12, 2009	***Columbus Day after up week***	***1 day***	***Bullish***	
October 7, 2009	2 75% Up Issue Days while SPX>200ma	1-4 days	Bullish	2.50%

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

Short-term Outlook – updated 10/13

The Bottom Line

The market remains overbought but it is still failing to suggest a substantial downside edge. If Monday were a non-holiday the low volume would have been a concern. A possible encouraging sign was the strong performance of the SOX. Overall the studies remain mildly bullish. This mild bullishness is offset by the overbought nature of the market.

The Evidence

It was an odd day for the market. After gapping higher by about 0.5% to start the day, the S&P did nothing until 2pm. At that point it sold off hard for ½ hour, nearly closing the morning gap. It then rallied up into the close, finishing up almost 0.5% and just below the opening gap level. Breadth was somewhat positive as the NYSE Up Issues % came in at 54% and the Up Volume % at 67%. Volume came in at the lowest level in over a month.

There was a long list of bearish studies that triggered in the Quantifinder this afternoon. Almost all of them were related to volume. Of course today was Columbus Day, and volume was expected to be light today. The question I was set to ponder tonight was whether I should pay attention to the low volume studies or not.

To answer this I decided to see just how often volume comes in at very low levels on Columbus Day. If it is common then I'd be inclined to ignore the bearish volume-related studies. If it is occasional then I'd be inclined to pay them attention. I ran a test back to 1971 to look at the volume.

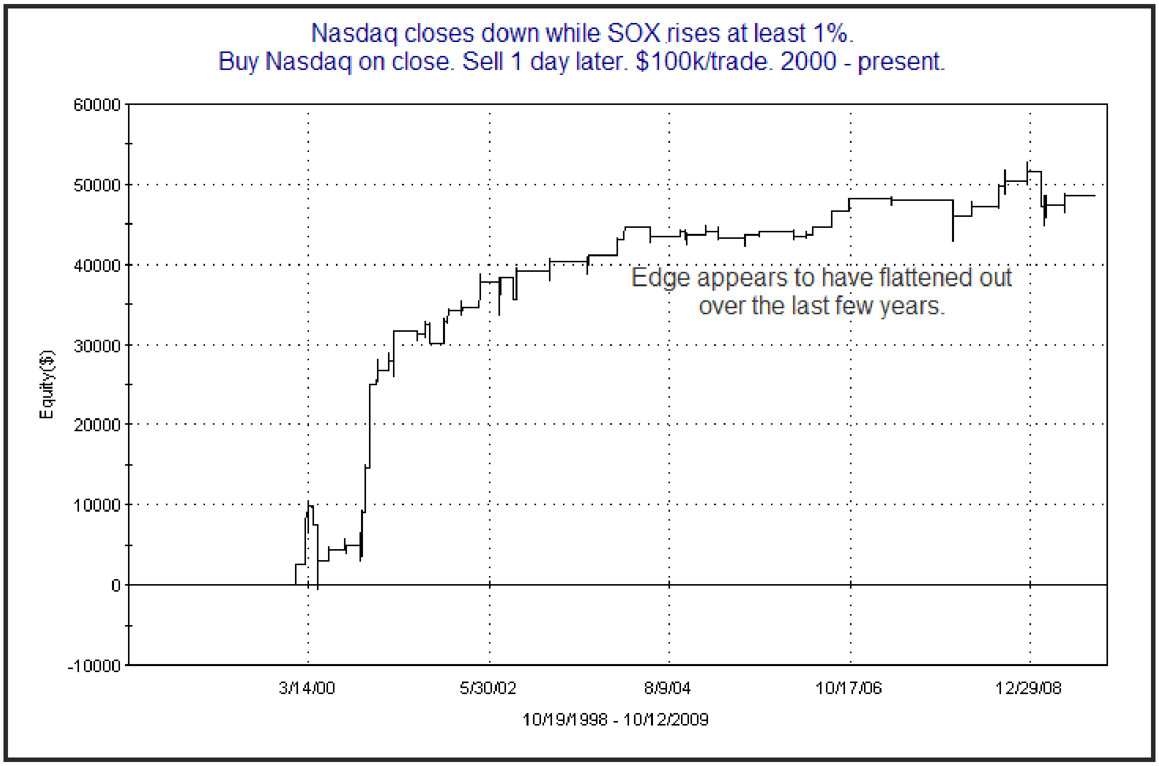
I found that of the last 39 years, Columbus Day has now posted a 10-day volume low 28 times. This equates to about 72% of the time. In other words, if price action conformed, the market stood about a 72% chance of triggering a bearish low-volume study. For my taste this is simply much too high of a number. It dilutes the significance of today's volume to much. I don't consider volume-related studies relevant today.

With volume studies crossed off the list tonight there wasn't a whole lot to go on. One relationship I do watch is that of the SOX versus both the NDX and the Nasdaq Composite. I did note an interesting divergence there today. The SOX closed higher by 1.4% while the Nasdaq closed down. Typically they move in the same direction, with the SOX often leading the way. I looked at other times the SOX put in a strong day while the Nasdaq closed lower.

Nasdaq closes down while SOX rises at least 1%.
Buy Nasdaq on close. Sell X days later. $100k/trade. 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
5	9,004.04	50	28	22	56.00	3,478.75	-4,018.22	0.87	1.10	180.08
4	33,269.16	53	30	23	56.60	3,314.21	-2,876.40	1.15	1.50	627.72
3	36,363.22	53	33	20	62.26	2,933.64	-3,022.35	0.97	1.60	686.10
2	45,181.18	54	33	21	61.11	2,821.11	-2,281.68	1.24	1.94	836.69
1	48,573.83	54	38	16	70.37	1,977.95	-1,661.76	1.19	2.83	899.52

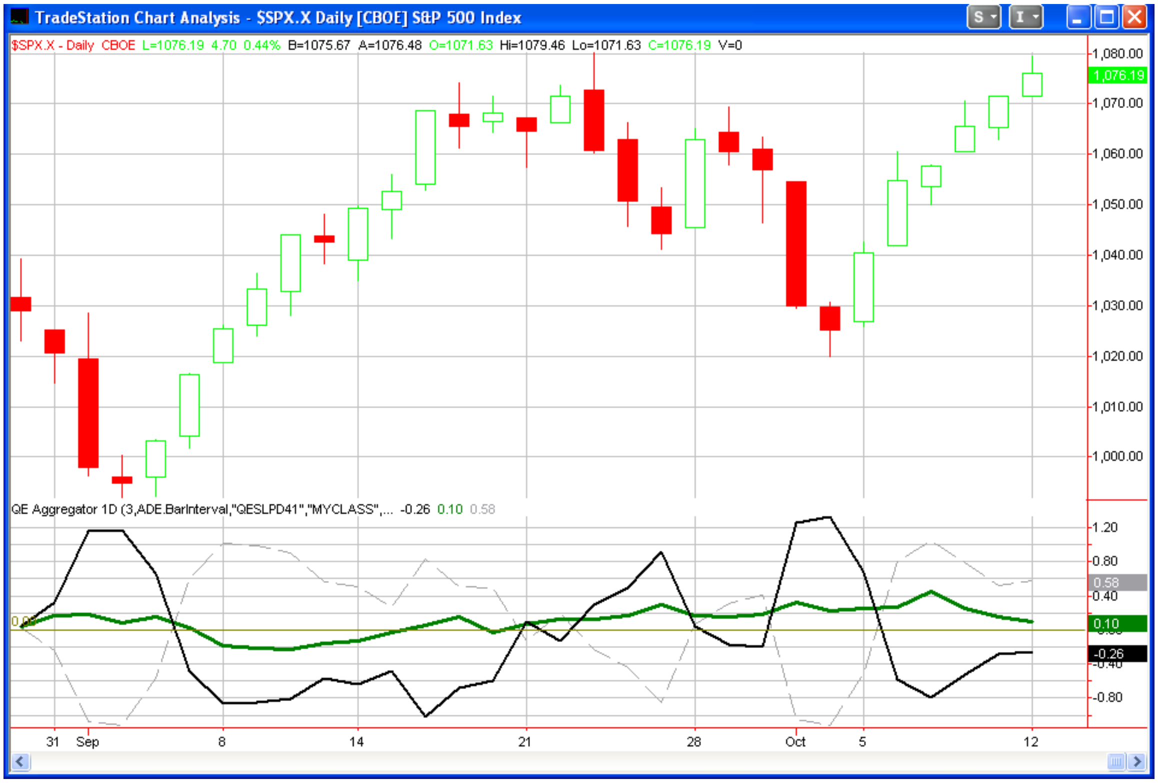
There's an apparent upside edge, though it only lasts 1 day. I also looked at the profit curve to see how the edge has played out over time.



The curve has continued to creep higher, but certainly is has not produced gains like in 2000-2002. Still, it's a small hint of higher prices for tomorrow. With Columbus Day volume making most of the other studies moot, it gives a little something to go on.

It's also notable today that the 3/10 Offset Historical Volatility came in at an extremely low 0.10. This suggests a big move could occur over the next few days.

The Aggregator chart is updated below.



The bullish inclinations of the active studies continue to weaken as can be seen by the green Aggregator line. After some mild up days the market is not as stretched as it was few days ago. This is illustrated by the black Differential line. Still the basic configuration remains the same. The studies are suggesting more upside and the Differential line showing the SPX is already overbought versus expectations. As I've been stating every day lately, overbought with positive expectations is basically a neutral configuration. I'll wait for a better edge before taking an index position.

Intermediate-term Outlook (2 weeks – 2 months)– updated 10/12 – somewhat bullish

The intermediate-term outlook is unchanged since the 10/12 Letter. That Letter may be accessed using the link below:

2009-10-12 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.

None – No strong conviction for the index trades. Additionally, the system triggers page showed very little.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
IBB	10/1/2009	$81.21	$79.74	-1.81%		sold on close

The exit triggered for IBB and it was sold for a loss at the close.

Final note on today's VIX

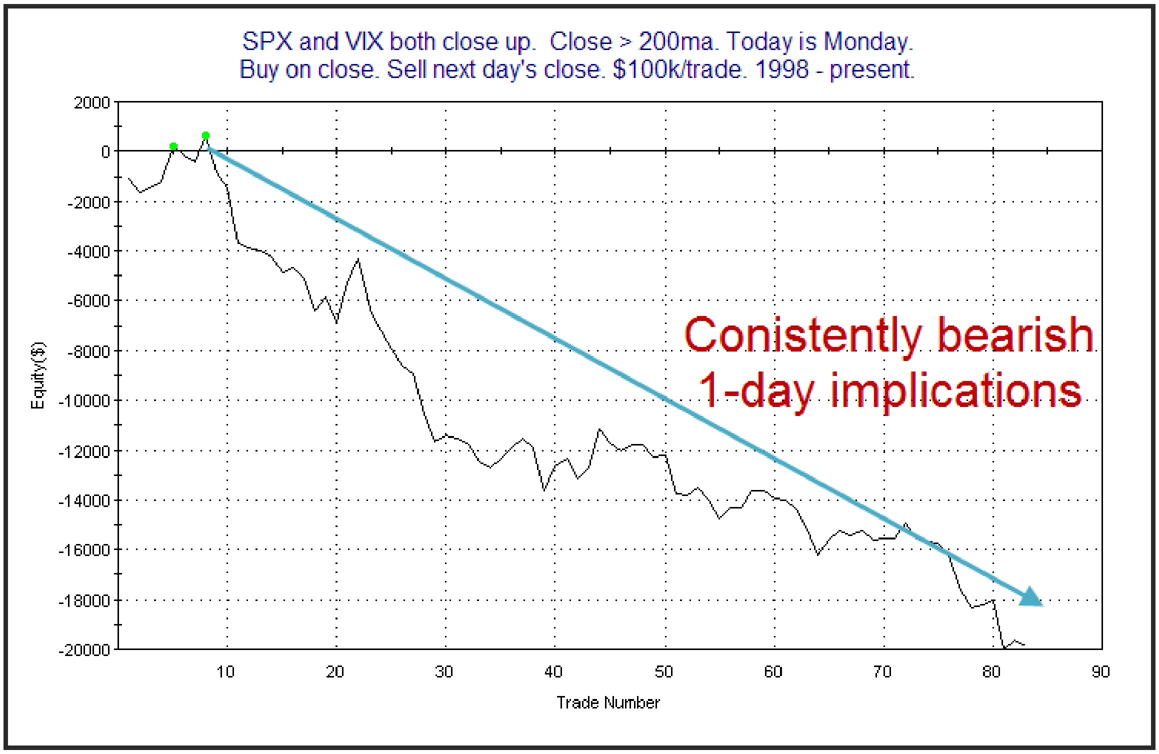
It appeared for a while that both the SPX and VIX were going to close higher. As it turned out a late drop in the VIX kept this from occurring. I looked at this setup in some detail on August 3rd. I found that when both close higher it tends to have bearish implications over the next few days. When it occurs on a Monday the inclination is not as strong but still exists.

This afternoon I added an additional filter to the Monday study to see whether the downside edge held firm in a long-term uptrend. Those results are below.

SPX and VIX both close up. Close > 200ma. Today is Monday.
Buy on close. Sell X Days later. $100k/trade. 1998 - 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	-257.92	81	41	40	50.62	1,487.74	-1,531.38	0.97	1.00	-3.18
4	-8,192.27	83	39	44	46.99	1,295.44	-1,334.42	0.97	0.86	-98.70
3	-13,115.92	83	39	44	46.99	1,015.99	-1,198.62	0.85	0.75	-158.02
2	-16,123.57	83	36	47	43.37	733.24	-904.68	0.81	0.62	-194.26
1	-19,882.42	83	32	51	38.55	474.68	-687.69	0.69	0.43	-239.55

While the edge is apparently reduced to only 1-day, it appears to still exist. I ran a 1-day exit profit curve to see if it held steady over time.



I would deem this worthy of monitoring and will continue to watch for these setups in the future.