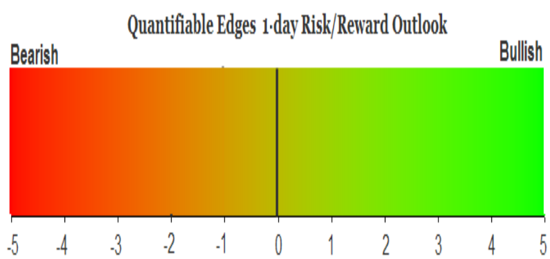
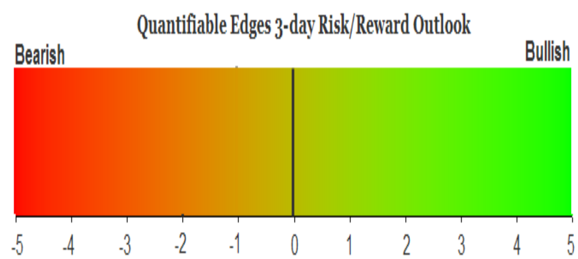
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 15, 2010 Volume 3 Issue 49

Market Overview





Tonight's Research Points

- The consistently positive breadth has been a positive in the past – but mostly the distant past.
- The persistent upward price action is at a point that is producing mostly neutral studies.
- Seasonality is suggesting an upward bias this week. This is thanks both to March options expiration and the Fed Day on Tuesday.
- The Aggregator System remains flat.
- The NDX Aggressive Trend Timer remains flat.

Short-term Outlook – updated 3/15

The Bottom Line

Still neutral but it won't take much of a move to get the Aggregator flashing a signal in the opposite direction. Seasonality studies tonight are adding to the long-side evidence.

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	Avg MM - 1/3 Std Dev
Active					
March 15, 2010	March op-ex week bullish	1-4 days	Bullish	1.40%	1.00%
March 12, 2010	10 days > 5ma and new 10-day high	1-4 days	Bearish	-1.40%	-1.00%
March 12, 2010	50-day breakout low vol 3day run	1-5 days	Bullish	2.00%	1.60%
March 11, 2010	SPX up VIX up > 200ma twice	1-3 days	Bearish	-1.20%	-0.80%
March 9, 2010	After 5 up, down today but > 200ma	1-10 days	Bullish	2.10%	1.60%
March 8, 2010	90% Up Vol on at least 3rd day up	1-7 days	Bullish	3.10%	2.20%
Active - Long Term					
March 10, 2010	Ttl Put/Call 40-low. SPX no 0.5% up.	1-5 weeks	Bearish	-4.90%	-3.30%
February 22, 2010	VIX:VXV Ratio falls below 0.9	int. term	Bearish		
February 16, 2010	Nasdaq/S&P RS Indicator Positive	int. term	Bullish		
Dropped Tonight					
February 8, 2010	***Worden %>200ma - %>40ma > 40***	***3 - 7 weeks***	***Bullish***		
January 13, 2010	***No bearish divergence at high***	***int. term***	***Bullish***		
March 9, 2010	SPY 10-high low vol 20 > 200ma	1-4 days	Bearish	-1.70%	-1.30%

If the avg max move – 1/3 Std Dev is achieved the study will appear in ***bold italic blue*** and no longer be active.

The Evidence
Friday was a very dull day in the market. A gap up in the morning quickly pulled back to fill and then the market meandered sideways for the rest of the day. When it was over most indices were down slightly. The S&P, Nasdaq, and Russell 2000 all dropped less than 0.1%. Breadth was mixed. The NYSE Up Issues % came in at 53% but the Up Volume % was 42%. Total volume was up slightly on the NYSE but down a little on the Nasdaq.

So we finally saw a marginal decline in most of the indices. Still, the SPY did manage to close up $0.01, making for the 11th day in a row. Also marking its 11th positive day in a row was the NYSE Up Issues %. Recently we've seen several studies that have suggested the type of strength we've been seeing often begets more strength. This is why the Aggregator value has been positive for the last 7 days. Many times it will swing opposite the market and show a downside edge when you get a small upswing. This upswing hasn't been small and fortunately the Aggregator recognized that. Unfortunately the market has been too overbought to provide an entry with suitable risk/reward for the swing trading style I employ for index trading.

As the upswing persists it is important to keep checking to see whether a downside edge may be emerging. One test I ran this weekend looked at other times the NYSE Up Issues % closed above 50% for 11 days in a row. Below are the results of entering the SPX after such an occurrence:

NYSE Up Issue % > 50% for 11 days in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1967 - 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
12	20,183.48	20	16	4	80.00	1,560.65	-1,196.73	1.30	5.22	1,009.17
11	21,540.63	20	17	3	85.00	1,568.43	-1,707.54	0.92	5.21	1,077.03
10	21,150.02	20	16	3	80.00	1,620.22	-1,591.14	1.02	5.43	1,057.50
9	17,363.08	20	14	6	70.00	1,548.22	-718.66	2.15	5.03	868.15
8	16,909.48	20	15	5	75.00	1,466.02	-1,016.16	1.44	4.33	845.47
7	12,621.50	20	15	5	75.00	999.73	-474.89	2.11	6.32	631.08
6	12,476.42	20	14	6	70.00	1,080.06	-440.73	2.45	5.72	623.82
5	11,088.76	20	13	7	65.00	1,032.12	-332.69	3.10	5.76	554.44
4	10,218.14	20	11	9	55.00	1,402.54	-578.86	2.42	2.96	510.91
3	2,877.35	20	10	10	50.00	1,058.35	-770.62	1.37	1.37	143.87
2	197.99	20	9	11	45.00	810.91	-645.47	1.26	1.03	9.90
1	-645.59	20	8	12	40.00	552.47	-422.11	1.31	0.87	-32.28

At first glance these results appear to be very strong. When looking under the hood, I had a bit of a concern in using and relying upon this test. The issue is that the results are very lopsided as to when they occurred. Over the last 15 years there have been very few instances and no real edge. It was from 1967 – 1994 that we saw such consistent strength lead to further strength. To illustrate this I've listed below all 20 instances and assumed a 10-day exit.

NYSE Up Issue % > 50% for 11 days in a row.
Buy on close. Sell 10 days later. $100k/trade. 1967 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
01/17/67	Buy	$85.24	0.90%	$1,489.71
01/31/67	Sell	$86.01		$0.00
04/25/67	Buy	$93.11	0.53%	$1,577.31
05/09/67	Sell	$93.60		($96.57)
10/01/68	Buy	$102.86	1.91%	$1,905.12
10/18/68	Sell	$104.82		$0.00
12/07/70	Buy	$89.94	0.00%	$388.85
12/21/70	Sell	$89.94		($522.17)
01/19/71	Buy	$93.76	2.85%	$2,846.22
02/02/71	Sell	$96.43		$0.00
11/24/72	Buy	$117.27	1.36%	$1,354.68
12/08/72	Sell	$118.86		($681.60)
09/07/73	Buy	$104.76	2.33%	$2,327.76
09/21/73	Sell	$107.20		($1,621.80)
09/27/73	Buy	$109.08	1.84%	$1,841.16
10/11/73	Sell	$111.09		($796.92)
12/15/76	Buy	$105.14	1.65%	$1,654.74
12/30/76	Sell	$106.88		($1,416.99)
06/21/77	Buy	$100.74	(1.15%)	$446.40
07/06/77	Sell	$99.58		($1,150.72)
08/08/78	Buy	$104.00	0.29%	$2,181.47
08/22/78	Sell	$104.30		($1,105.15)
01/21/85	Buy	$175.22	2.93%	$2,924.10
02/04/85	Sell	$180.35		($51.30)
02/05/91	Buy	$351.26	3.95%	$5,475.52
02/20/91	Sell	$365.13		($477.12)
03/04/93	Buy	$447.34	1.01%	$2,100.66
03/18/93	Sell	$451.87		($396.94)
05/16/95	Buy	$528.19	0.99%	$986.58
05/31/95	Sell	$533.41		($2,101.68)
09/14/95	Buy	$583.61	0.39%	$543.78
09/28/95	Sell	$585.88		($1,527.03)
12/06/95	Buy	$620.19	(2.30%)	$433.09
12/20/95	Sell	$605.93		($2,437.54)
03/08/02	Buy	$1,164.31	(1.34%)	$818.55
03/22/02	Sell	$1,148.70		($2,110.55)
06/04/03	Buy	$986.24	2.42%	$2,938.09
06/18/03	Sell	$1,010.09		($1,378.65)
06/02/04	Buy	$1,124.99	0.63%	$1,512.72
06/17/04	Sell	$1,132.03		($741.84)
03/12/10	Buy	$1,149.99	n/a	$0.00
open	n/a	$1,149.99		$0.00

In the 1960’s and 70’s this would have been a very good sign. With net profits flat over the last 15 years it just isn’t a study I’m comfortable incorporating into my thinking.

I also ran several price-based studies. As I noted above we've had a fair amount of studies lately suggesting the strength we've been seeing has been so strong that it was likely to persist for a while. Of course at some point the market is going to pull back. The price-based studies I looked at this weekend weren't quite suggesting a pullback yet but they're turning from bullish to neutral as the melt-up has dragged on. Below is one example that looks at range %. There are several indicators that use this approach including Williams %R and the Stochastic fast %K. In Tradestation the function "%R" does the same thing. What I noted about the current rally is that we've remained right near the upper end of the range for several days now. The study below uses the 10-day range, but results were similar using different lengths.

SPY closes in top 15% of its 10-day range for 7 days in a row.
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	-585.13	27	15	12	55.56	1,020.81	-1,324.77	0.77	0.96	-21.67
4	-5,082.32	27	13	13	48.15	711.62	-1,102.57	0.65	0.65	-188.23
3	-3,332.00	27	13	13	48.15	606.02	-862.33	0.70	0.70	-123.41
2	-1,702.92	27	14	13	51.85	668.62	-851.05	0.79	0.85	-63.07
1	28.33	27	14	13	51.85	497.69	-533.79	0.93	1.00	1.05

It generally doesn't get much more evenly split than that.

One area of study that could provide an edge this week is seasonality. March op-ex week has historically been a very strong week for the stock market. Op-ex week in general is normally pretty good, but March and April have done the best over the last 50 years. Below is a table that actually breaks down op-ex week performance by month. It assumes buying the close on the Friday prior to op-ex and selling the close of op-ex Friday. If there was a holiday on that Friday, then the Thursday before the weekend was bought. I excluded op-ex week of September 2001 due to the extreme (and horrific) circumstances that occurred.

Op-ex week performance by month. 1961 - present. (Excludes September of 2001.)										
Month	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
12	22,424.75	49	30	19	61.22	1,311.92	-891.20	1.47	2.32	457.65
11	3,268.42	49	27	22	55.10	1,419.58	-1,593.65	0.89	1.09	66.70
10	12,765.22	49	29	20	59.18	2,155.46	-2,487.15	0.87	1.26	260.51
9	24,307.71	48	31	17	64.58	1,675.80	-1,626.00	1.03	1.88	506.41
8	20,197.70	49	29	20	59.18	1,822.28	-1,632.42	1.12	1.62	412.20
7	2,128.66	49	22	26	44.90	1,693.94	-1,351.46	1.25	1.06	43.44
6	-11,027.84	49	24	24	48.98	1,495.49	-1,954.98	0.76	0.76	-225.06
5	-1,163.97	49	24	25	48.98	1,654.06	-1,634.46	1.01	0.97	-23.75
4	37,086.65	49	32	17	65.31	1,939.36	-1,468.99	1.32	2.49	756.87
3	32,233.76	49	30	19	61.22	1,820.82	-1,178.46	1.55	2.44	657.83
2	-3,659.39	50	29	21	58.00	1,116.70	-1,716.36	0.65	0.90	-73.19
1	1,231.88	50	26	24	52.00	1,644.02	-1,729.69	0.95	1.03	24.64

So as you can see the best months have been April, March, September, and December. Now some astute readers may recall that I've previously labeled December op-ex week "The Most Wonderful Time of the Year". That was thanks to its incredible performance since 1984. To compare I decided to run the entire table above back to 1984 rather than 1961. Those results are below.

Op-ex week performance by month. 1984 - present. (Excludes September of 2001.)										
Month	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
12	24,139.10	26	21	5	80.77	1,419.40	-1,133.66	1.25	5.26	928.43
11	4,373.94	26	16	10	61.54	1,437.97	-1,863.36	0.77	1.23	168.23
10	20,372.02	26	18	8	69.23	2,593.34	-3,288.50	0.79	1.77	783.54
9	4,340.25	25	15	10	60.00	1,375.10	-1,628.62	0.84	1.27	173.61
8	9,724.48	26	16	10	61.54	1,481.73	-1,398.31	1.06	1.70	374.02
7	-1,288.69	26	12	13	46.15	1,623.03	-1,597.31	1.02	0.94	-49.57
6	-4,566.75	26	13	13	50.00	1,264.23	-1,615.52	0.78	0.78	-175.64
5	8,987.54	26	14	12	53.85	2,029.22	-1,618.46	1.25	1.46	345.67
4	25,280.66	26	17	9	65.38	2,361.00	-1,650.70	1.43	2.70	972.33
3	24,505.86	26	17	9	65.38	2,267.48	-1,560.14	1.45	2.75	942.53
2	3,989.13	27	14	13	51.85	1,705.32	-1,529.65	1.11	1.20	147.75
1	2,831.59	27	13	14	48.15	2,286.94	-1,921.33	1.19	1.11	104.87

And as you can see over this time period December really is the champion. But again we see that March and April have been exceptionally good as well.

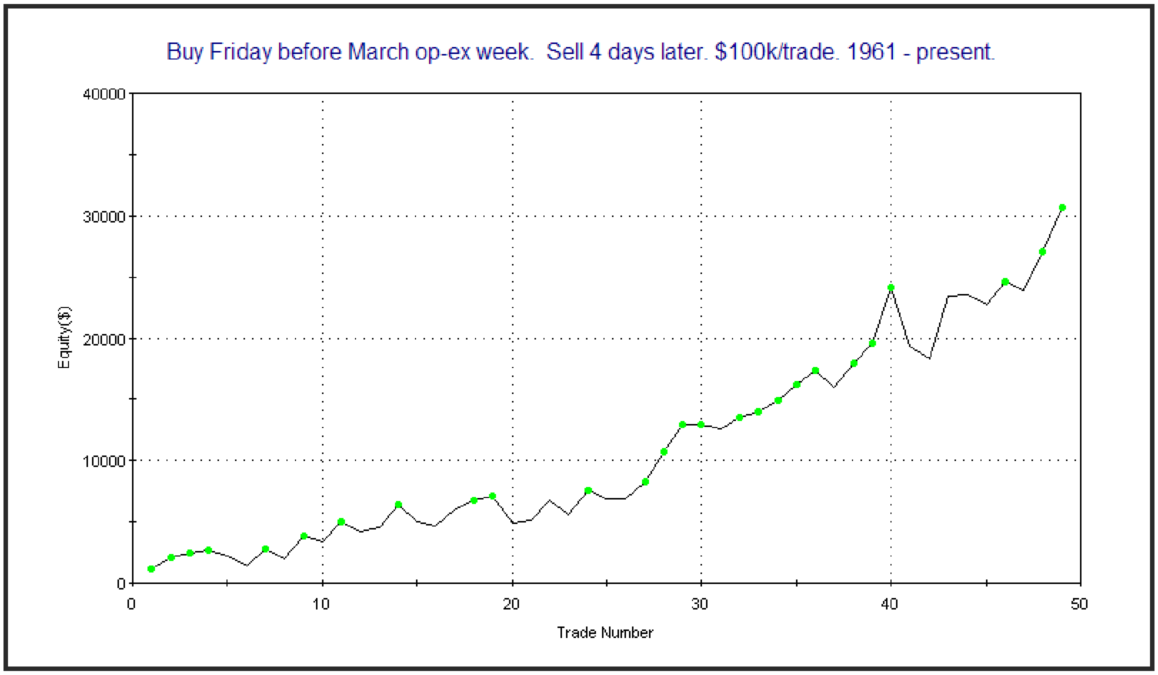
So let's zoom in a bit more on March since that's all we really care about this week. Below I've broken out the performance showing how it would have performed if you held X number of days before selling.

Buy Friday before March op-ex week. Sell X days later. $100k/trade. 1961 - 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	32,233.76	49	30	19	61.22	1,820.82	-1,178.46	1.55	2.44	657.83
4	30,699.06	49	32	17	65.31	1,527.34	-1,069.16	1.43	2.69	626.51
3	19,026.21	49	30	19	61.22	1,165.21	-838.42	1.39	2.19	388.29
2	14,430.47	49	33	16	67.35	924.44	-1,004.75	0.92	1.90	294.50
1	2,754.24	49	31	17	63.27	666.55	-1,053.46	0.63	1.15	56.21

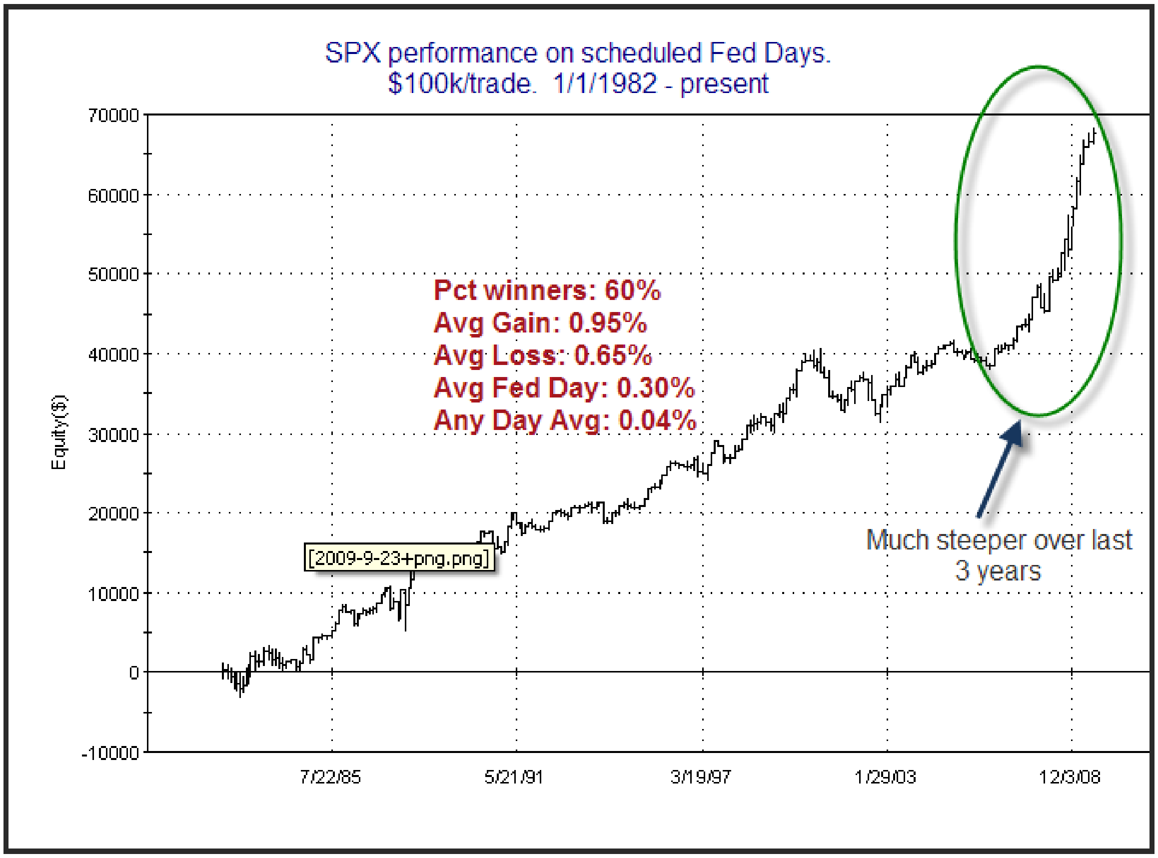
SPX has closed above Friday before op-ex close at least once during op-ex week 86% of the time, including 17 of the last 18 years. The lone exception was 2001.

Some of the most substantial results appear to be had up through Thursday. Op-ex Friday doesn't appear to lend anything to the performance. So below I created a chart showing March op-ex week performance through Thursday.



As you can see, while there has been a bit of an upside edge for at least the 50 years tested, it has accelerated some in the last 25 years as compared to the first 25.

March op-ex isn't the only seasonal factor with potential bullish implications this week. Traders also need to keep in mind that Tuesday is a Fed Day and that Fed Days have historically had a bullish tilt. Below is a copy of the chart from the September 23, 2009 letter and blog post that illustrate this. (I have not updated this chart this evening.)

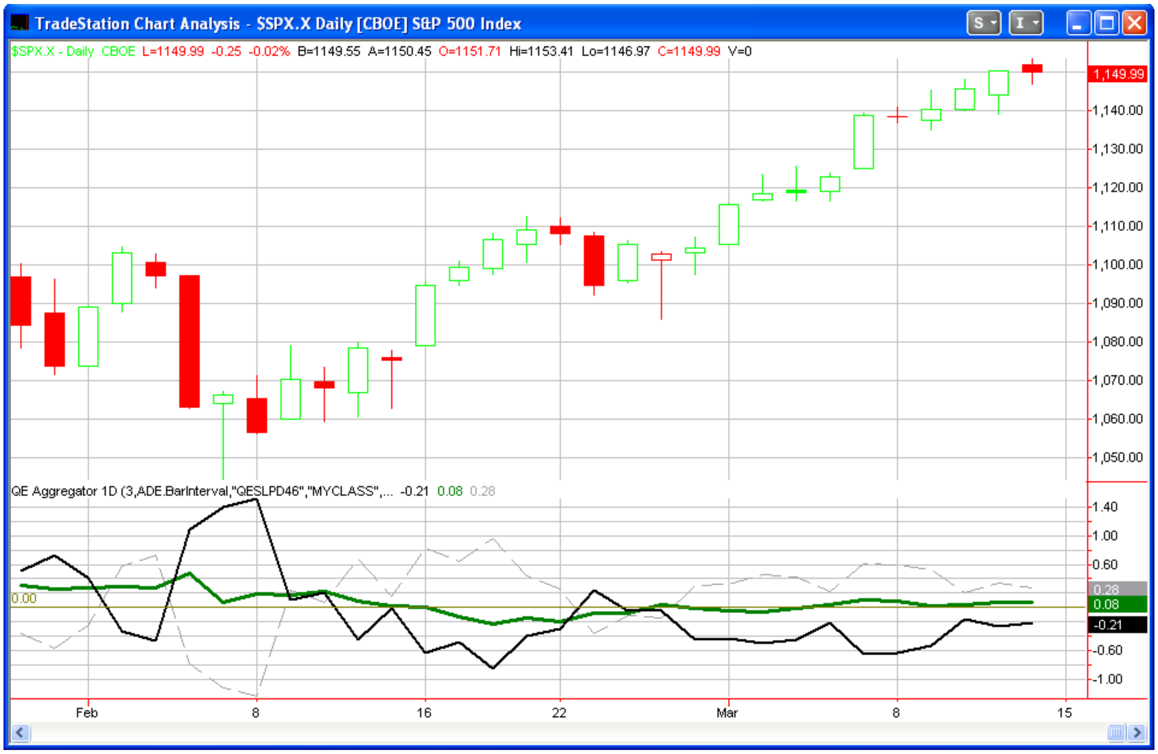


This past Friday Tom McClellan reproduced this chart for his "Chart In Focus" and added his own observations and commentary. Tom's chart actually went back a bit further than mine and he breaks it down by fed chairman, which I found interesting. You can see Tom's take on it here:

http://www.mcoscillator.com/learning_center/weekly_chart/fomc_announcement_days_tend_to_close_up/

If Monday turns out to be a slow trading day as it often is ahead of big news, then traders may want to take some time and review some of my past Fed studies from the blog.

I've updated the Aggregator chart below.



The Aggregator chart configuration is nearly unchanged again tonight. The green Aggregator line remains positive as net expectations from the Active Studies list are for upside over the next few days. Meanwhile the black Differential line is in negative territory, signifying the SPX outperformance versus expectations over the last few days. Overbought with positive expectations remains the outlook. The way I trade the Aggregator this is considered a neutral configuration. The Aggregator System is again flat as was posted on the systems page shortly before the bell on Friday.

Looking ahead the current studies are set to project further upside over the next several days. For the green Aggregator line to turn negative either some bullish studies will need to meet their targets or some new bearish studies will need to emerge. On Monday the pivot level for the black Differential line will be 1,147.21. In other words, a close at or below this level will flip the Differential line positive. A close above this level would keep it negative.

What we've seen over the last few days is the market has been moving up almost in line with expectations. It's done a little better than projected, which is why the black Differential line is below 0, but not substantially. This has now created a situation where the Aggregator is going to be a bit extra sensitive over the next few days. Even a mild move down at this point is going to push the black Differential line into positive territory and likely signal a long trade. Meanwhile, even a move up of as little as 1% at this point would likely see the bullish studies all hitting their targets and being removed from the Active list. With only bearish studies left, this would probably trigger a short entry. So the next few days should be interesting. The Aggregator has had a flat signal for a while but that isn't likely to persist much longer and we should see some action here soon.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/15 – somewhat bullish
From an intermediate-term standpoint this past week was marked more by intermediate-term bullish studies achieving their objectives than by a large number of new intermediate-term studies emerging. The Fed-day studies were taken off the Active list earlier this week as the market approached new highs. And now with a new intraday high being achieved on Friday, I've removed a few other intermediate-term studies that have suggested we should get this far.

There was one bearish intermediate-term study added this week that looked at Tuesday's very low CBOE Equity Put/Call reading. If you missed it you can see it here.

My conviction isn't as strong as it was a few weeks ago when I felt we were destined to reach these new highs. Still, I'm not seeing a compelling amount of evidence suggesting the market is about to roll over and begin a significant down leg at this point in time either. Until a substantial amount of bearish evidence emerges, I'll side with the trend for my intermediate-term outlook.

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

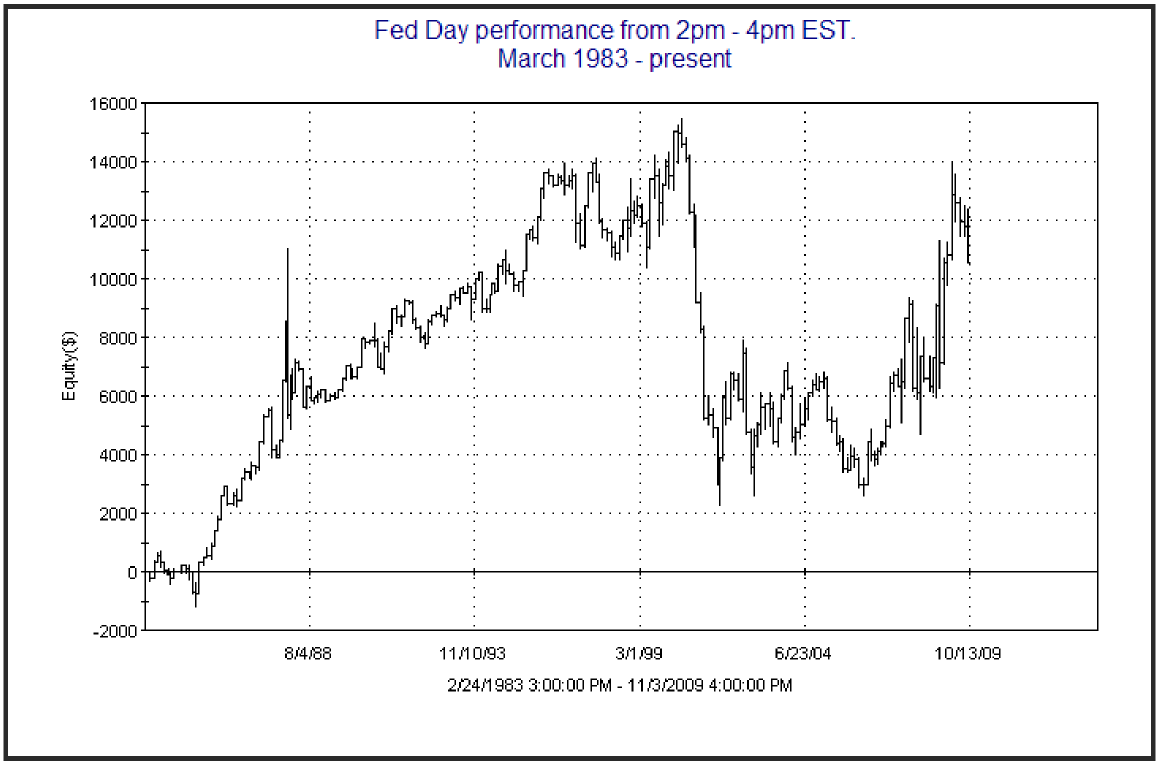
Additional New Trade Ideas

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 on SPX close of 1,147.21 or lower (unless SPX spikes over 1156 intraday). – A down move without first an upward spike would likely trigger a long signal for the Aggregator. I'll look to anticipate this with a small starter position in the Letter.

SPY buy ¼ index position at close. Look to sell Tuesday at 2pm. – I've taken this trade several times and it has worked out relatively well so far. It looks to take advantage of the positive bias on Fed Days that exists up to the time of the announcement. Most of the Fed-day bias exists during this time. Below is an excerpt from the 11/04/09 Subscriber Letter that discusses this (stats not updated).

Many people assume the reason Fed Days have done so well over the years is that the Fed comes often comes out and says or does something to placate the market. So it would stand to reason that much of the gains would occur after assurances from the Fed have been delivered shortly after 2pm EST. Let's first look at the 2pm -4pm EST period to see how the announcement may have affected the market over time.



From this chart it appears the edge has been mild and inconsistent with regards to trading after the announcement. Below are some stats to go along with the chart.

Fed Day performance from 2pm - 4pm EST.
March 1983 - present

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$10,558.68	Profit Factor	1.18
Gross Profit	$69,930.18	Gross Loss	($59,371.50)
Total Number of Trades	213	Percent Profitable	51.17%
Winning Trades	109	Losing Trades	104
Even Trades	0		
Avg. Trade Net Profit	$49.57	Ratio Avg. Win:Avg. Loss	1.12
Avg. Winning Trade	$641.56	Avg. Losing Trade	($570.88)
Largest Winning Trade	$3,451.02	Largest Losing Trade	($3,039.12)

These stats show that only a small portion of the gains have come after the announcement. So let's look at pre-announcement trading instead. I'll first show the stats this time.

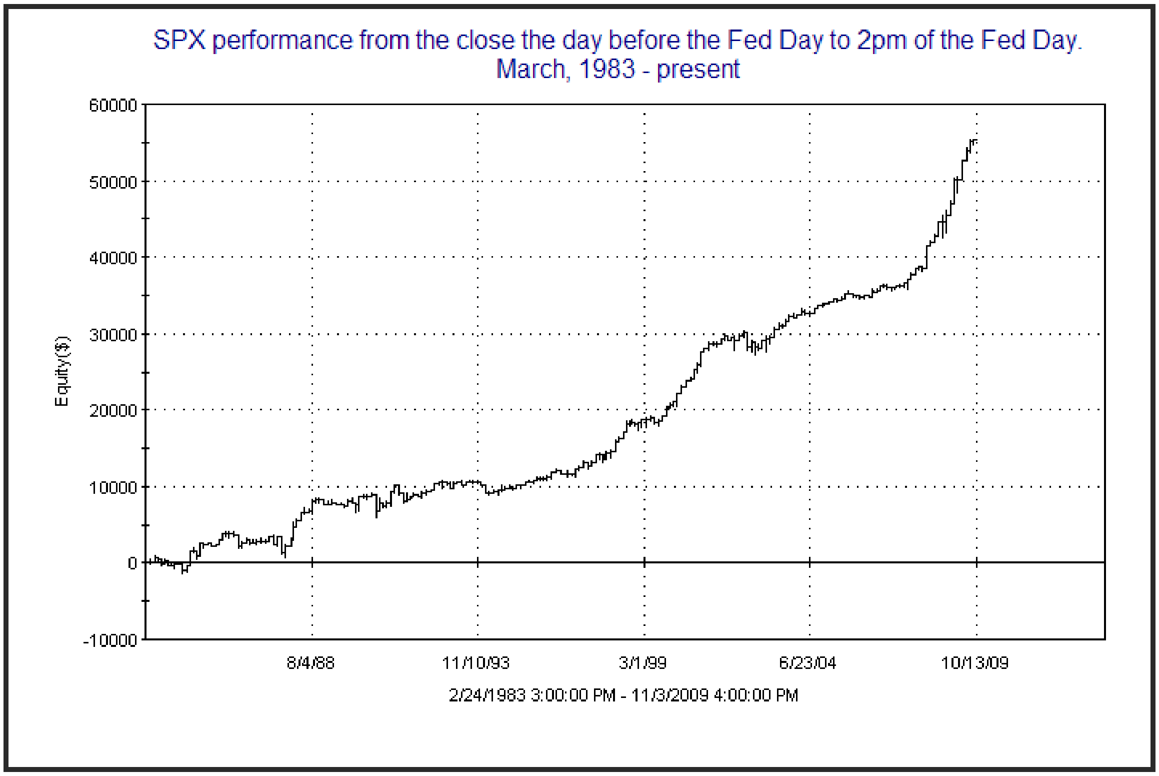
SPX performance from the close the day before the Fed Day to 2pm of the Fed Day.
March, 1983 - present

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$55,415.11	Profit Factor	3.14
Gross Profit	$81,370.53	Gross Loss	($25,955.42)
Total Number of Trades	212	Percent Profitable	68.87%
Winning Trades	146	Losing Trades	65
Even Trades	1		
Avg. Trade Net Profit	$261.39	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	$557.33	Avg. Losing Trade	($399.31)
Largest Winning Trade	$3,065.64	Largest Losing Trade	($2,009.28)

Profits during this time period are about 5 times the size of the 2-4pm period. The profit factor is very healthy and the % wins goes from 51% to 69%. But has the edge been consistent? Very much so. Here's the graph.



This all suggests a decent edge between the close and the 2pm announcement.