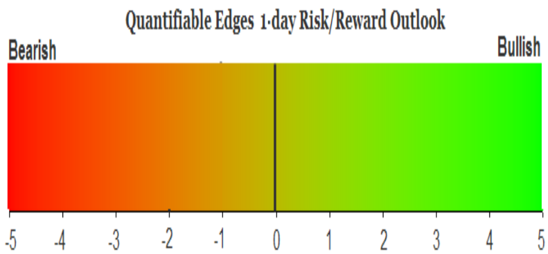
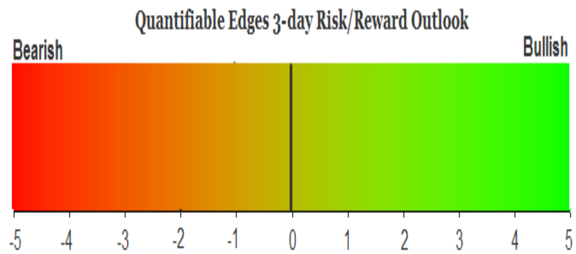
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 16, 2010 Volume 3 Issue 50

Market Overview





Tonight's Research Points

- Both Up Issue % and Up Volume % < 45% on a day the SPX closes higher suggests a downside edge over the next few days.
- Low volume, a 10-day closing high, and a lower high and lower low in the SPY also suggest downside.
- An all price-based study shows slight rises that finish in the top 10% of the daily range have a tendency to close down the next day.
- Tuesday is a Fed Day and that has historically carried bullish 1-day implications.
- The Aggregator System remains flat.
- The NDX Aggressive Trend Timer triggered long at the close.

Short-term Outlook – updated 3/16

The Bottom Line

Despite a fair amount of bearish evidence Monday the Aggregator is still neutral. It won't take much of a move to get the Aggregator flashing a signal in the opposite direction. I expect some choppiness to occur over the next few days.

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 16, 2010	SPY up less than 0.25% but in top 10%	1 day	Bearish		
March 16, 2010	SPY 10 high Vol 5 low, Lower hi & low	1-4 days	Bearish	-1.80%	-1.30%
March 16, 2010	Fed Day	1 day	Bullish		
March 16, 2010	Up Vol & Up Issue % < 45% SPX Up>200	1-3 days	Bearish	-1.70%	-1.40%
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 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					
March 11, 2010	SPX up VIX up > 200ma twice	1-3 days	Bearish	-1.20%	-0.80%

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

After gapping down, selling off further, and spending most of the day in negative territory, the market put in a strong rally over the last hour and a half. When it was over the indices finished mixed. The S&P rose 0.1% while the Nasdaq was down 0.2% and the Russell lost 0.3%. Breadth was negative as the NYSE Up Issues % finished at 41% and the Up Volume % was just 40%. Total volume declined on both exchanges.

While to some it might appear as if the SPX rallying back to close positive on the day was a good thing, several bearish studies appeared in the Quantifinder tonight suggesting otherwise.

There were a number of studies that looked at other times the SPX manage to close positive on days with weak breadth. Probably the most relevant and most compelling was the one below, which last appeared in the 12/31/09 Subscriber Letter. It looks at other times where both the Up Issues % and the Up Volume % came in weak while the SPX closed up. Stats are updated.

SPX rises while NYSE Up Issues % < 45% and Up Volume % < 45%.
Buy 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	-19,331.13	26	9	17	34.62	2,011.36	-2,201.96	0.91	0.48	-743.51
4	-30,208.90	26	8	18	30.77	1,434.54	-2,315.85	0.62	0.28	-1,161.88
3	-35,233.24	27	7	20	25.93	1,317.99	-2,222.96	0.59	0.21	-1,304.93
2	-35,192.23	27	10	17	37.04	916.20	-2,609.07	0.35	0.21	-1,303.42
1	-24,067.36	27	8	19	29.63	893.72	-1,643.01	0.54	0.23	-891.38

When I first showed this study a while back I didn't break it out by uptrend and downtrend since the sample size was quite small. I did decide to check that out tonight to see if there was a substantial difference.

Below are results that 1st show instances when the SPX closed below its 200ma and then instances like now when the SPX closed above the 200ma.

SPX rises while NYSE Up Issues % < 45% and Up Volume % < 45%. SPX close < 200ma.
Buy 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	-14,548.76	12	3	9	25.00	3,331.70	-2,727.10	1.22	0.41	-1,212.40
4	-18,323.30	12	3	9	25.00	2,177.60	-2,761.79	0.79	0.26	-1,526.94
3	-22,941.86	13	2	11	15.38	3,037.10	-2,637.82	1.15	0.21	-1,764.76
2	-28,004.83	13	4	9	30.77	1,333.67	-3,704.39	0.36	0.16	-2,154.22
1	-17,564.40	13	4	9	30.77	1,266.35	-2,514.42	0.50	0.22	-1,351.11

SPX rises while NYSE Up Issues % < 45% and Up Volume % < 45%. SPX close > 200ma.
Buy 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	-4,782.37	14	6	8	42.86	1,351.19	-1,611.19	0.84	0.63	-341.60
4	-11,885.60	14	5	9	35.71	988.70	-1,869.90	0.53	0.29	-848.97
3	-12,291.38	14	5	9	35.71	630.35	-1,715.90	0.37	0.20	-877.96
2	-7,187.40	14	6	8	42.86	637.89	-1,376.85	0.46	0.35	-513.39
1	-6,502.96	14	4	10	28.57	521.09	-858.73	0.61	0.24	-464.50

12 of 14 instances (86%) closed below the entry price at some point in the next week.

The number if instances is almost dead even above and below the 200ma. There is not much of a difference in winning % or profit factor. Where the big differences can be seen is in the average trade columns. Numbers below the 200ma are much more volatile regardless of whether you are looking at winners, losers, or combined. This is worth considering when setting expectations. The bottom line with this study is that it provides quite compelling evidence of a downside tendency following weak breadth up days like Monday.

The low volume could also be concerning. While I'm sure some of the low volume was due to traders not wanting to get aggressive ahead of the Fed meeting, I still feel it is worth considering. Below I have updated a study from the 5/4/09 Letter that examines SPY volume and price action.

SPY closes at 10-day high on lowest volume in 5 days. Today's high < yesterday's high and today's low < yesterday's low. 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

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	-15,414.89	20	7	13	35.00	1,599.73	-2,047.16	0.78	0.42	-770.74
4	-15,132.35	20	6	14	30.00	1,288.63	-1,633.15	0.79	0.34	-756.62
3	-11,958.51	20	8	11	40.00	901.68	-1,742.91	0.52	0.38	-597.93
2	-5,168.80	20	9	11	45.00	765.40	-1,096.13	0.70	0.57	-258.44
1	782.43	20	8	12	40.00	932.26	-556.30	1.68	1.12	39.12

18 of 20 instances (90%) closed below the entry price at some point in the next week.

So here again we see compelling evidence of probable downside over the next few days.

One other study from the 12/31/09 caught my eye tonight as well. It looked at times where the market rallied back to close barely positive. I've reproduced it below but this time used SPY instead of SPX. I prefer SPY when examining daily range because it tends to be more accurate than SPX.

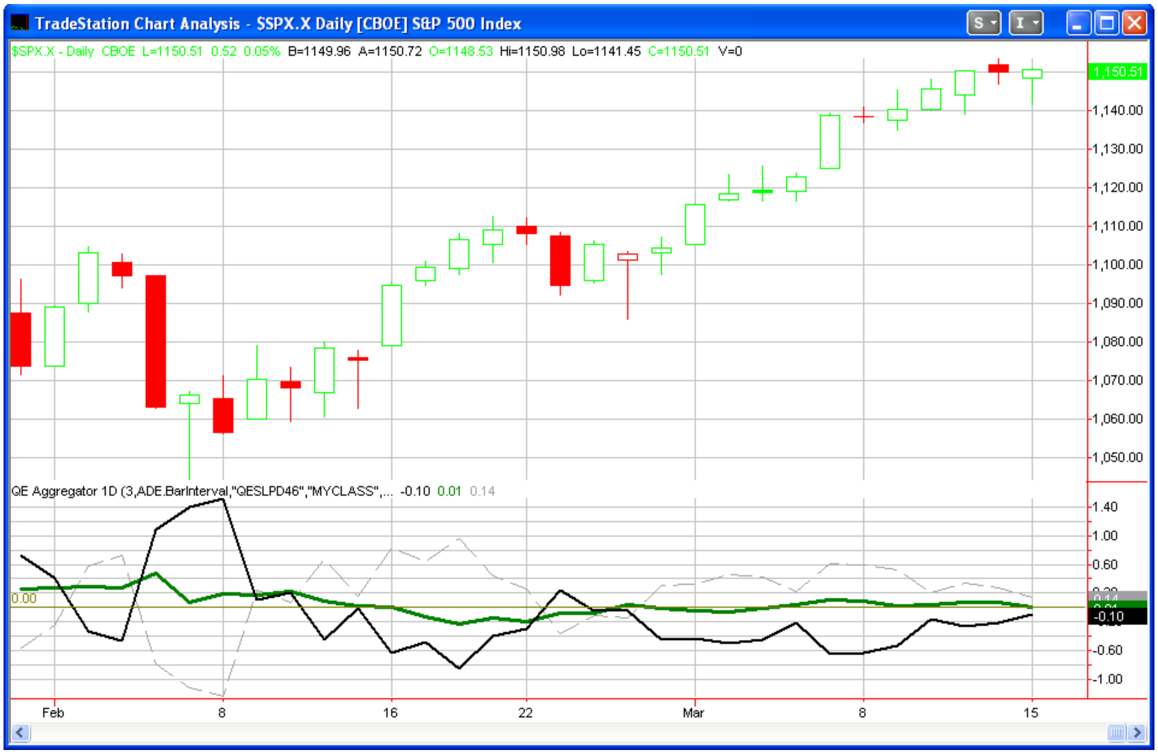
SPY closes up less than 0.25% but in the top 10% of its daily range.
Buy on close. Sell X days later. $100k/trade. 1994 - present.

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	-7,439.16	29	14	15	48.28	1,790.36	-2,166.95	0.83	0.77	-256.52
4	-3,848.04	29	15	14	51.72	1,355.39	-1,727.06	0.78	0.84	-132.69
3	-7,287.81	29	17	12	58.62	888.47	-1,865.99	0.48	0.67	-251.30
2	-5,798.42	30	13	15	43.33	703.19	-995.99	0.71	0.61	-193.28
1	-7,357.57	31	11	20	35.48	324.46	-546.33	0.59	0.33	-237.34

Results were similar to those shown in December. There appears to be a bit of a downside edge but it really only lasts for 1 day.

Of course Tuesday is a Fed Day. I discussed the bullish implications of this in last night's Letter, and have listed the Fed Day among the Active Studies tonight as well. Thanks to tonight's studies there is now quite a bit more included in the Aggregator. There was one bullish study added and three bearish while one bearish study expired.

I've updated the Aggregator chart below.



It's tough to see in the chart above but the green Aggregator line finished just barely positive today. This means slight upside is expected over the next few days based on the active studies. Meanwhile the black Differential line is just barely below 0, illustrating the mild outperformance the SPX has had over the last few days versus expectations. Both lines on opposite side of 0 is considered a neutral configuration and it doesn't get much more neutral than both lines being so close to 0 while on opposite sides. The Aggregator System which has been dormant for perhaps a record amount of time during this slow grind higher, is again flat tonight.

Things should get interesting in the next few days. As the studies are currently comprised the green Aggregator line is set to flip negative on Tuesday evening and then back to positive on Wednesday. This could easily change based on 1) studies that may emerge based on Tuesday's action and 2) studies that could easily hit their targets and be removed from the active list based on Tuesday's action. And while the Aggregator is set to drop below 0, the Differential is set to move back above it. The pivot level for Tuesday evening is 1,151.69. In other words, to see the Aggregator flip to positive the SPX will need to close at 1,151.69 or lower. This could be accomplished by just breaking even. A close above this level would keep the Differential line negative.

It appears the most likely scenario for the Aggregator System on Tuesday will be a trade in the opposite direction of the market move. Should the move be a sharp one that is perhaps Fed-induced then some old studies suggest a decent chance of a reflex move in the opposite direction over the following days. In any case we're at a point where the Aggregator System could break either way. If I had to predict based on the Aggregator I'd say the more likely scenario would be a bit of a pop up Tuesday followed by a pullback over the next few days. It really could go either way, though, the way things are lining up. The one thing that appears most certain is that the Aggregator System will trigger something in the next day or so. I'll wait for the market to tip its hand before taking on more exposure.

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.

None tonight. The Aggregator is in flux and I'll wait to see how things play out rather than trying to anticipate too much. Those itchy to trade can check the Aggregator page shortly before the bell to see if a trade is anticipated at the close.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY (1/4)	3/15/2010	$115.49	$115.49	0.00%		sell @ 2pm Tuesday

The SPY trade was based on the research shown in last night's Letter suggesting an edge between Monday's close and Tuesday's announcement. I'll exit the position just prior to the announcement. Should the market move higher in the morning I may also consider taking partial profits or trailing a stop.