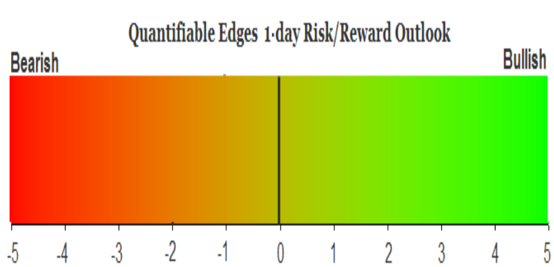
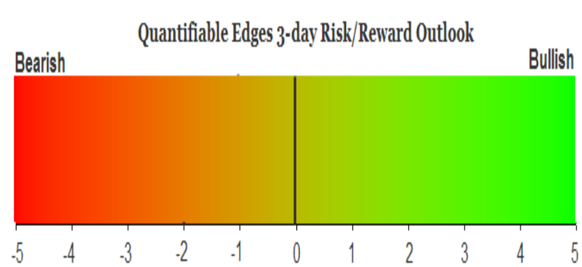
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 1, 2010 Volume 3 Issue 62

Market Overview





Tonight's Research Points

- The 1st trading day of April has been seasonally bullish.
- Very low equity put/call ratios have led to drops the next day – but not recently.
- The Aggregator System changed to flat at the close.
- The NDX Aggressive Trend Timer remained long at the close.

Short-term Outlook – updated 4/1

The Bottom Line

The pullback on Wednesday was just barely enough to satisfy the overbought condition and close out the short Aggregator signal. There isn't much to take from Wednesday's action but there is a beginning of month seasonal edge. Still the bearish studies appear more influential over the next few days. This leaves me with a neutral bias.

Summary of Recent Active Studies (seehttp://QuantifiableEdges.blogspot.com or Letters from listed dates for details)

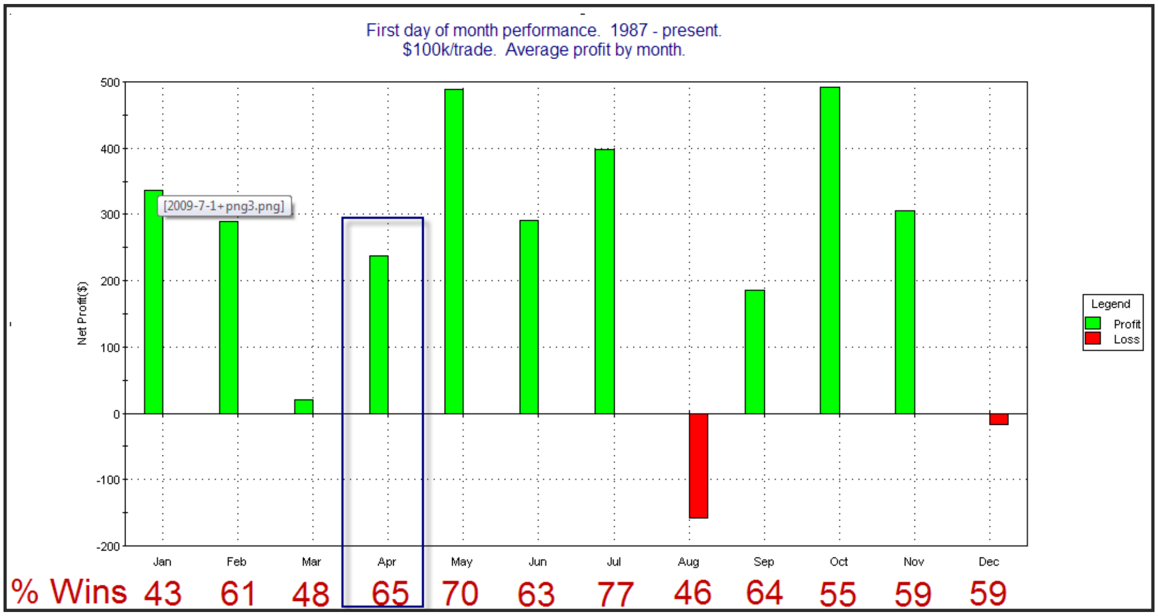
Study Date	Description	Time span	Bias	Avg Max Move	Avg MM - 1/3 Std Dev
Active					
April 1, 2010	1st Day of Month	1 day	Bullish		
March 31, 2010	Low vol 20. SPX > 10ma & 200ma	1-3 days	Bearish	-1.20%	-0.80%
March 31, 2010	SPX up 3. Vol lower. Pct gain low.	1-5 days	Bearish	-1.70%	-1.30%
Active - Long 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 25, 2010	Nasdaq NR4, Nas Up Issue % < 30%	1-4 days	Bullish	3.00%	2.30%

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

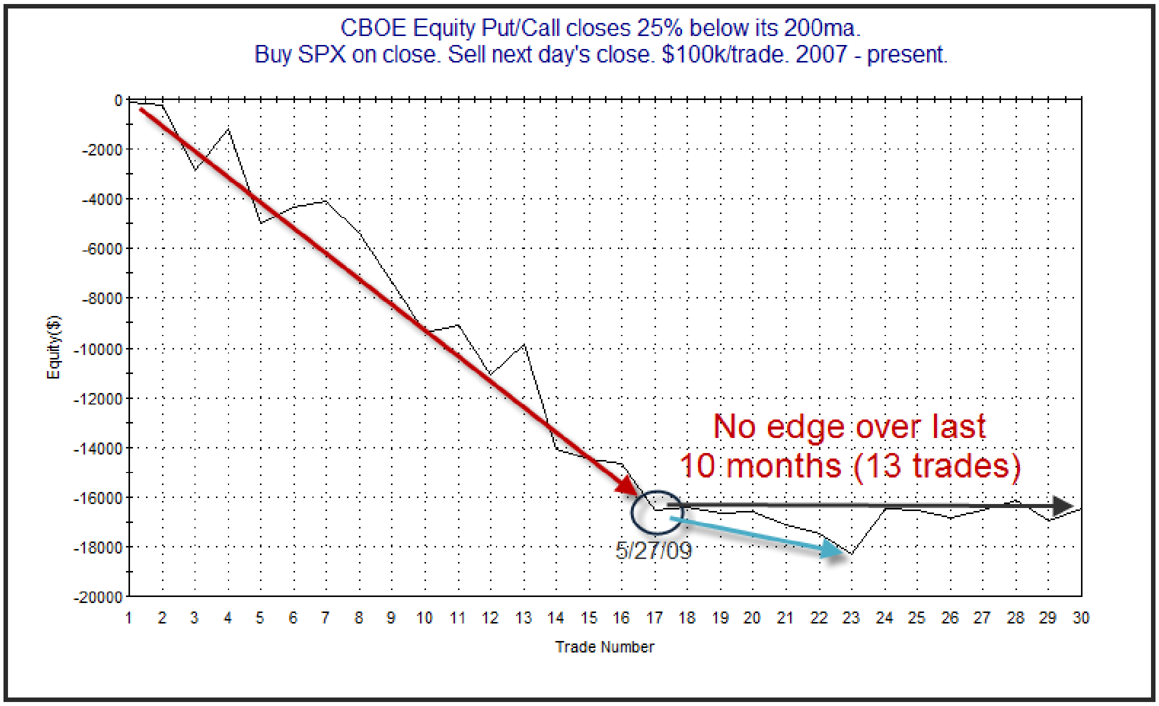
The Evidence

The market pulled back a bit on Wednesday. The SPX closed down 0.3%, the Nasdaq 0.5%, and the Russell 0.8%. Breadth was negative as the NYSE Up Issues % came in at 40% and the Up Volume % was 37%. Total volume rose from Tuesday's levels.

The 1st day of the month has provided a solid upside edge since the late 80's. As you can see in the table below from the 7/1/2009 blog post, April has generally fallen in line. Since 1987 it has finished up 65% of the time and has averaged a gain of about 0.25%.

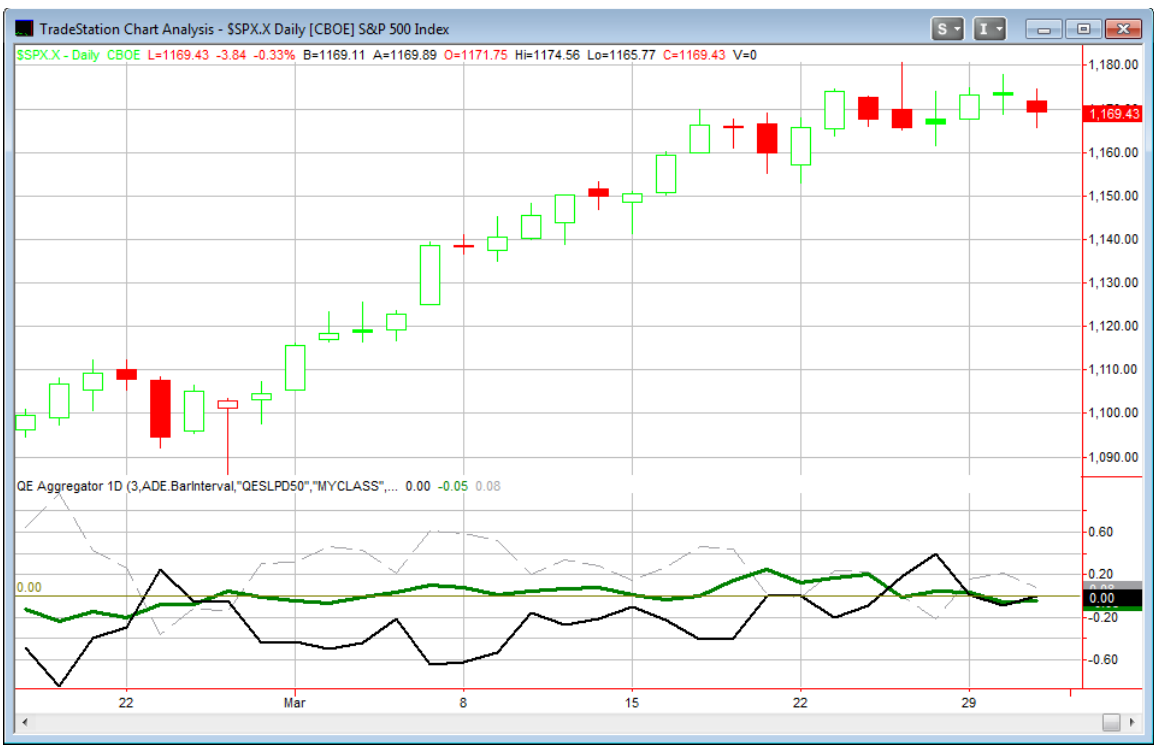


Another study that showed up in the Quantifinder this evening looked at days where the CBOE Equity Put/Call Ratio came in at least 25% below "normal". Normal is defined as the 200ma. The study was from the 6/12/2009 blog and suggested bearish implications. The bearish implications haven't played out lately. Below is an equity curve that illustrates this.



This could be the result of a raging bull market over the last year. I'll ignore the signal at this point but will continue to monitor its progress going forward.

I've updated the Aggregator chart below.



The Aggregator was not designed with the intention of predicting the next day's closing price, but it sure has been coming close a lot lately. The Differential pivot as discussed last night was 1,169.52 and the SPX closed just under this at 1,169.43. While this sounds impressive it does make it a little difficult for some people to execute their trades – especially if they're trading mutual funds. If you fall into that category – fear not – I have no doubt this "hot streak" will not last.

Even with tomorrow's positive seasonality the net expectation from the active studies remains bearish. This is shown by the green Aggregator line closing below 0. The reading is tough to see but it is at -0.05 tonight. The black Differential line is sitting at 0.00 since it was almost spot on again today. The actual value is 0.003, so it is above 0. With both lines on opposite sides of 0 the implication is that the SPX is just barely oversold versus recent expectations and that current expectations are for very mild downside. This is considered a neutral configuration. The Aggregator System closed out yesterday's short trigger for a mild gain and is now flat.

I will be traveling all day tomorrow. There is a small chance I will be able to post an update to the systems page or perhaps send a Tweet near the close but it is unlikely. Therefore I will try and lay out possible scenarios in a little more detail here tonight. Keep in mind this is not by any means set in stone. With 35 different indices/indicators and about 800 studies examined by the Quantifinder each day, it is impossible for me to anticipate all scenarios.

As the studies are currently laid out the two bearish studies are the only ones set to be short-term active tomorrow night. This obviously means the Aggregator value is set to close negative. Of course this could change with the emergence of 1 or more bullish studies. That is more likely to occur if the market closes down that if it closes up. One number to watch is 1,158. If this number is breached intraday then both bearish studies will have met their targets and will be removed from active status. So if we see the market drop below 1,158 intraday and close down on the day, then chances are pretty good a long signal will appear tomorrow evening.

The Differential pivot on Thursday will be 1,174.16. In other words it will take a close at or above this level to flip the Differential line back to negative. Coincidentally this is just 0.01 below the recent closing high of 1,174.17. So the market basically needs to close at a new high in order to move from "oversold" to "overbought" versus expectations. Odds right now would then favor us getting a short signal on a new closing high.

If the market fails to close at a new high, and it also fails to breach 1,158 intraday and close lower, then the chances favor a neutral configuration again tomorrow night.

Of course as I mentioned there are a lot of assumptions built in here and unusual action in any one of the 35 tracked indices/indicators could change the whole picture with a new study hitting the Active List.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/29 – somewhat bullish

In last week's intermediate-term update I showed a study that looked at other times the SPY went at least 25 days above its 10ma. With a low number of instances to examine I found that the 1st close below the 10ma never marked the beginning of a substantial selloff. In every case a new high was made in short order. Friday SPY did finally manage to close beneath its 10ma. This dip is not confirmed by SPX, as that is still a bit above its 10ma. Either way, that study remains in effect and suggests we should see at least a probe to new highs here before a substantial selloff might occur.

The Nasdaq/S&P Relative strength indicator remains bullish as well. The two outstanding intermediate-term studies with bearish implications are options related and not quite a reliable from a timing standpoint.

Looking at the big picture we've seen a little bit of a pause over the last few days, but the uptrend remains intact. To this point I'm not seeing convincing evidence that a sustained selloff is about to begin. I'll stick with the side of the current trend until I see more evidence to the contrary.

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.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	3/31/2010	$117.40	$117.00	0.34%		shorted on open

Those who were quick on the trigger may have covered near the close. For the rest I will look to cover at a $117.10 limit on Thursday. I will be out of the office all day and will not be able to adjust the exit price during the day. I am placing the order a little above Wednesday's close in case SPY gaps up.