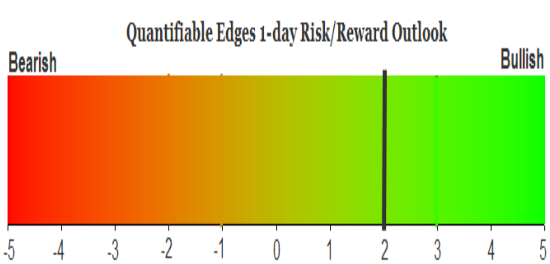
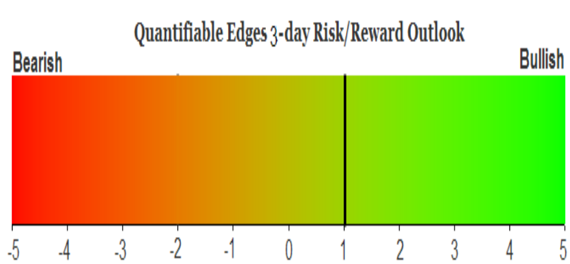
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 30, 2010 Volume 3 Issue 82

Market Overview





Tonight's Research Points

- 2-day bounces under conditions similar to the present have had a tendency to keep moving higher.
- The Aggregator System remained long at the close.
- The NDX Aggressive Trend Timer stayed long at the close.

Short-term Outlook – updated 4/30

The Bottom Line

While the bounce so far has been substantial, odds appear to favor a continuation rather than a stalling. I've taken some profits on my SPY position but I'm still looking for more with the remaining lot.

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					
April 30, 2010	2 Up Don't Overcome Dn. Unfill gap tday	1-3 days	Bullish	1.40%	1.20%
April 29, 2010	1.75% drop then bounce of 1/4 - 3/4 up.	1-6 days	Bullish	3.50%	3.00%
April 28, 2010	2% drop to bottom 10% of range in uptrd	1-7 days	Bullish	4.00%	3.20%
Active - Long Term					
April 26, 2010	No breadth divergence at new high	int. term	Bullish		
April 19, 2010	1st drop below 10ma in long time	int. term	Bullish		
April 13, 2010	Ttl Put/Call 40-low. SPX no 0.5% up.	1-5 weeks	Bearish	-4.90%	-3.30%
April 6, 2010	SPX and TNX hit 50-day closing highs	int. term	Bearish		
February 16, 2010	Nasdaq/S&P RS Indicator Positive	int. term	Bullish		

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

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The Evidence

The short-term bullish tendencies we identified over the last two nights continued to exert themselves Thursday. The market gapped up at the open, never filled the gap, and spent most of the day trending higher. It then closed in the upper end of its range. The SPX ended with a 1.3% gain while the Nasdaq rose 1.6% and the Russell 2000 gained 2.1%. Breadth was strongly positive as the NYSE Up Issues % was 75% and the Up Volume % was 79%. Total NYSE volume came in lower than Wednesday's levels.

There was nothing among the individual statistics that stood out in Thursday's trading. As a short-term trader sometimes when a trade goes in my direction for a few days I begin to get antsy about taking profits and getting out. So tonight I wanted to test and see if two up closes following a strong down day might serve as a "jumping off" point. I ran a few tests with this concept in mind – all within the confines of the current setup.

I first started with a very specific description of the current action.

SPY rises today and yesterday by at least 0.5%. Today's gain is bigger. It closes above the 200ma but below the close of 3 days ago. 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
10	7,203.90	8	5	3	62.50	2,178.10	-1,228.87	1.77	2.95	900.49
9	5,166.70	8	5	3	62.50	1,796.10	-1,271.26	1.41	2.35	645.84
8	8,254.52	8	6	2	75.00	2,022.45	-1,940.08	1.04	3.13	1,031.82
7	8,490.02	9	6	3	66.67	2,456.87	-2,083.73	1.18	2.36	943.34
6	7,252.02	9	7	2	77.78	2,050.99	-3,552.44	0.58	2.02	805.78
5	1,648.14	9	5	4	55.56	1,744.46	-1,768.54	0.99	1.23	183.13
4	1,663.54	9	5	4	55.56	1,701.24	-1,710.67	0.99	1.24	184.84
3	1,650.30	9	7	2	77.78	1,357.28	-3,925.32	0.35	1.21	183.37
2	4,579.48	9	7	2	77.78	1,159.15	-1,767.30	0.66	2.30	508.83
1	1,377.52	9	5	4	55.56	903.77	-785.33	1.15	1.44	153.06

Instances were low but were somewhat suggestive of an upside edge. At the very least you could say that no downside edge was apparent.

To try and include more instances I then eliminated the requirement that today be the stronger of the 2 days.

SPY rises today and yesterday by at least 0.5%. It closes above the 200ma but below the close of 3 days ago. 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
10	6,134.11	11	7	4	63.64	2,035.66	-2,028.87	1.00	1.76	557.65
9	2,602.80	11	7	4	63.64	1,613.85	-2,173.55	0.74	1.30	236.62
8	8,295.82	12	9	3	75.00	1,814.74	-2,678.93	0.68	2.03	691.32
7	5,380.66	13	9	4	69.23	2,010.29	-3,177.98	0.63	1.42	413.90
6	1,468.21	13	10	3	76.92	1,851.98	-5,683.87	0.33	1.09	112.94
5	1,664.79	13	8	5	61.54	1,609.46	-2,242.18	0.72	1.15	128.06
4	5,168.33	13	8	5	61.54	1,849.98	-1,926.30	0.96	1.54	397.56
3	2,110.30	13	9	4	69.23	1,263.63	-2,315.58	0.55	1.23	162.33
2	4,365.45	13	9	4	69.23	964.13	-1,077.94	0.89	2.01	335.80
1	2,710.04	13	8	5	61.54	825.84	-779.34	1.06	1.70	208.46

The instances didn't jump dramatically but they also again failed to suggest any bearish indications.

I then decided to look at it a different way. Using last night's requirement that the down day must be at least a 1.75% drop I looked to see what happened when such drops were followed by 2 up days.

After closing down at least 1.75% 2 days ago, the SPY closes up yesterday and today. Close > 200ma. 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
10	17,330.03	31	19	12	61.29	1,838.18	-1,466.29	1.25	1.98	559.03
9	13,076.28	31	20	11	64.52	1,703.23	-1,908.04	0.89	1.62	421.82
8	12,454.92	33	21	12	63.64	1,827.85	-2,160.82	0.85	1.48	377.42
7	13,625.20	34	22	12	64.71	1,910.51	-2,367.16	0.81	1.48	400.74
6	13,529.80	34	23	11	67.65	1,968.65	-2,886.29	0.68	1.43	397.94
5	16,386.31	35	22	13	62.86	1,909.46	-1,970.90	0.97	1.64	468.18
4	18,460.40	35	21	14	60.00	1,814.32	-1,402.87	1.29	1.94	527.44
3	7,326.00	35	20	15	57.14	1,438.43	-1,429.50	1.01	1.34	209.31
2	10,480.06	35	22	13	62.86	1,077.84	-1,017.89	1.06	1.79	299.43
1	8,341.20	35	21	14	60.00	845.46	-672.39	1.26	1.89	238.32

Again we are looking at what appears to be moderately bullish results.

After this I decided to go back again and look at 2 up days not making up the losses of the previous day. This time I decided to eliminate all % move requirements and instead I noted that today there was an unfilled gap up.

SPY closes up for the 2nd day in a row but below the close of 3 days ago. Today it leaves an unfilled gap up. Close > 200ma. 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
10	12,137.33	14	11	3	78.57	1,833.24	-2,676.11	0.69	2.51	866.95
9	11,498.67	14	11	3	78.57	1,608.01	-2,063.13	0.78	2.86	821.33
8	8,553.94	14	9	5	64.29	1,542.38	-1,065.49	1.45	2.61	611.00
7	10,193.71	16	11	5	68.75	1,168.40	-531.73	2.20	4.83	637.11
6	5,916.91	16	9	7	56.25	1,448.05	-1,016.51	1.42	1.83	369.81
5	5,655.34	16	8	8	50.00	1,615.20	-908.29	1.78	1.78	353.46
4	7,494.36	16	12	4	75.00	1,023.66	-1,197.38	0.85	2.56	468.40
3	9,966.34	16	11	5	68.75	1,189.81	-624.32	1.91	4.19	622.90
2	8,532.25	16	12	4	75.00	910.55	-598.59	1.52	4.56	533.27
1	5,342.82	16	11	5	68.75	656.77	-376.32	1.75	3.84	333.93

15 of 16 instances (94%) closed above the entry price on either day 1 or day 2.

These results were the strongest of all. Apparently the market showed no inclination to quickly fill that unfilled gap. Instead it seemed to represent a sign of strength that was almost always followed by more upside. I find the fact that 94% of occurrences closed above the entry within the 1st 2 days to be very compelling.

I even broadened these requirements by eliminating the need for the down day prior to the 2 up days. That too failed to suggest any bearish inclinations.

At this point it seems the current bounce is alive and well and still likely to go a bit higher.

I've updated the Aggregator chart below.

Even with the bounce the last 2 days we see that the Aggregator formation remains bullish. The green Aggregator line is still squarely above zero as net expectations from the Active Studies List are for upside over the next few days. Meanwhile the black Differential line is also above zero as the SPX has underperformed expectations over the last few days. So we remain oversold with positive expectations. Historically this has provided a short-term bullish edge. The Aggregator System remained long at Thursday's close.

Looking ahead the green Aggregator line is in no immediate danger of turning negative since the studies are dominated by bullish results. The Differential line is another story, though. On Friday evening Tuesday's big down day will fall out of the calculation. Because of this the Differential pivot level will drop dramatically. It will be 1,192.72. In other words, as long as the SPX closes above this number the Differential will flip to negative. In order to see a positive Differential reading again tomorrow night we are going to need to see a large selloff.

The expected drop in the Differential line on Friday into negative territory means there is a good chance the Aggregator System will be looking to take profits tomorrow afternoon. I got ahead of that a little bit today and took some at the close as discussed in the intraday email alert. I'm anticipating the market holds up tomorrow so I may exit the rest of the position.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/26 somewhat bullish

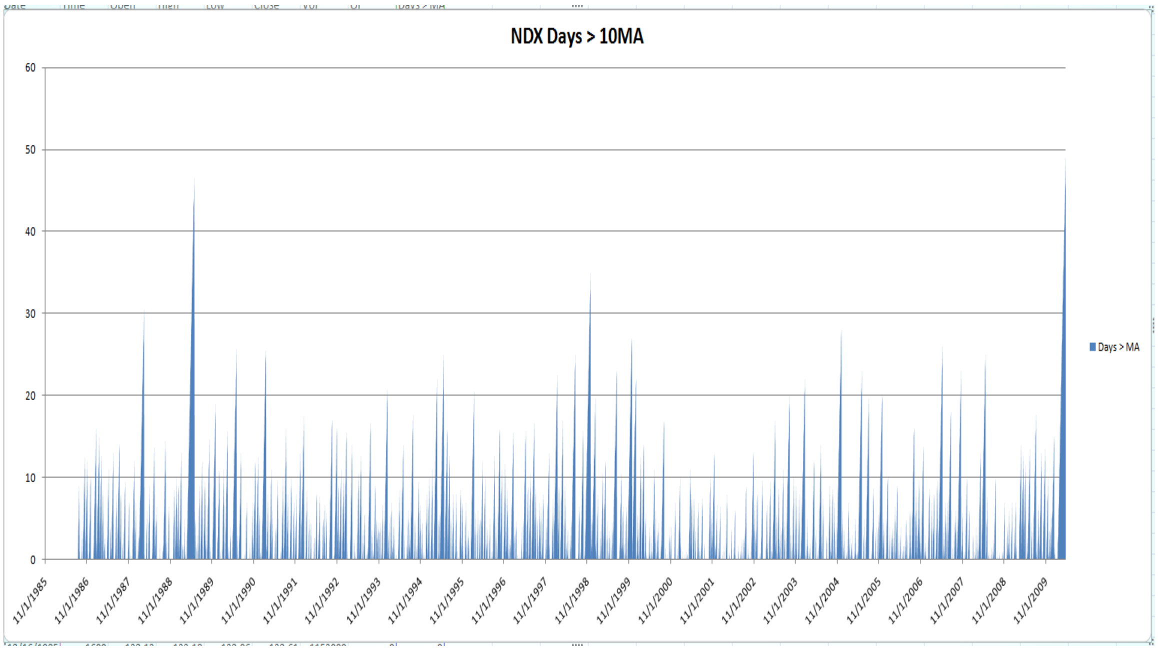
A few times recently I discussed the incredible string of days the SPX went without closing below its 200ma. Today I will show the NDX and the Dow streaks. First I'll review my comments from last week.

Another notable about Friday's selloff that demonstrates how persistent the uptrend has been is the fact that it caused the SPX to close below the 10ma for the 1st time since February 12th. That streak consisted of 42 trading days above the 10ma before Friday. In the 3/22/10 Letter I discussed the fact that the SPY had gone more than 25 days above its 10ma. (The SPY streak was broken on 3/26 after going 30 days.) In that Letter I showed the 5 other times since 1993 that SPY had gone at least 25 days above the 10ma. My conclusion after viewing the charts was the following…" Strong and persistent upside movement like we have seen lately hasn't just ended and lead to an immediate correction. The 1st dip has always been just that – a dip. New highs were always made in short order." With this Letter already quite long I decided not to reproduce those charts again. Instead, if you would like to view them you may find the in the intermediate-term section of the 3/22 Letter which I have provided a download link to below:

2010-03-22 QE Weekly Research Letter.pdf

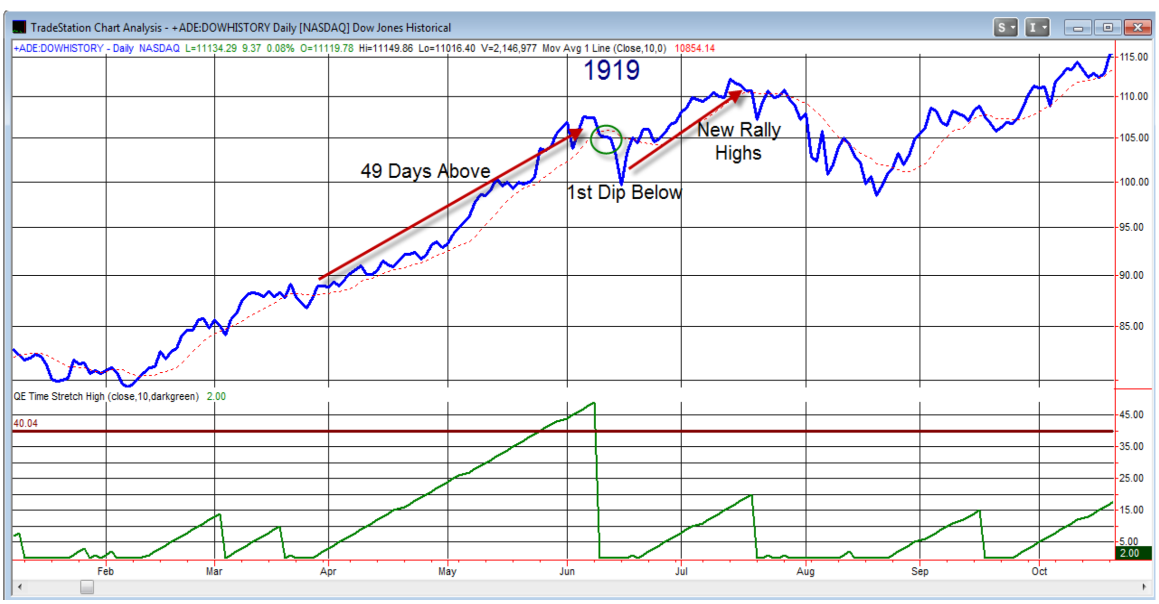
Along these lines this weekend I looked for other times the SPX closed above the 10ma for at least 40 days in a row. Looking back to 1960 there were only 4 other instances – the most recent occurring in 1972. The dates when the other 4 instances finally dipped below the 10ma were Feb 1961, Oct 1968, Feb 1971, and Jan 1972. In looking at those instances I am drawn to the same conclusion as the 3/22 study referenced above. Persistent strength never just ended on that 1st pullback. The market went on to make new highs each time and the rally continued.

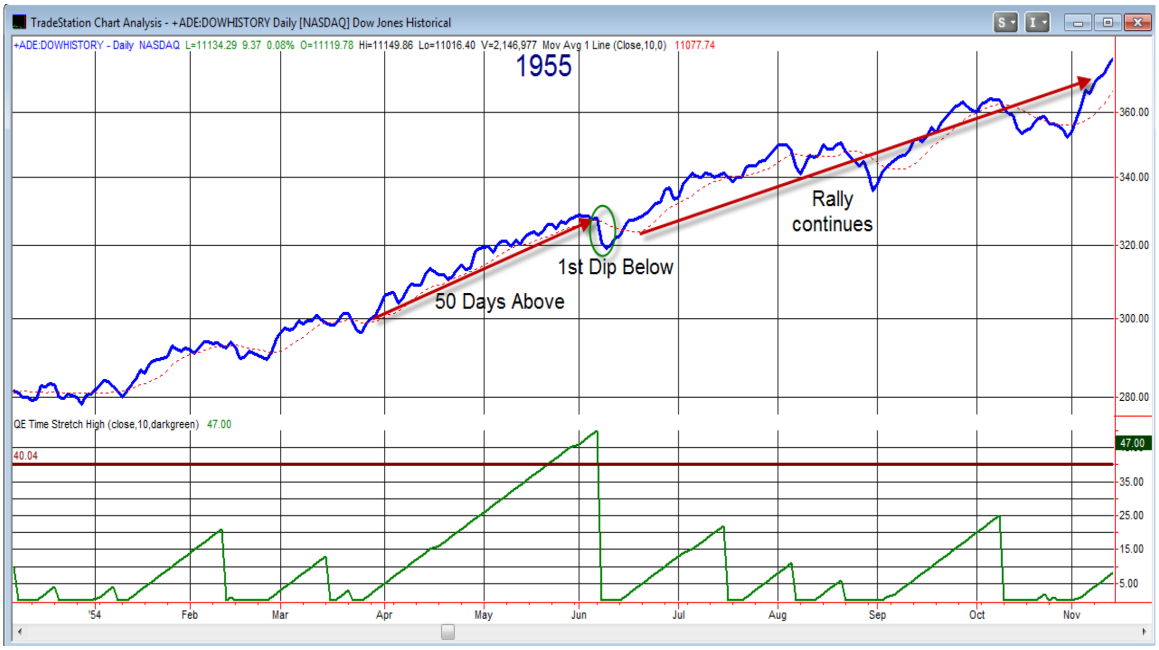
The NDX and the Dow STILL haven't dropped below their 10-day ma's. For the NDX the streak is now 50 days. The DIA is also 50, but the cash Dow is "just" 48 days. For the NDX this is the longest streak since its inception in 1986. Below is a chart that shows the number of days the NDX has spent above it 10ma at any point in time.

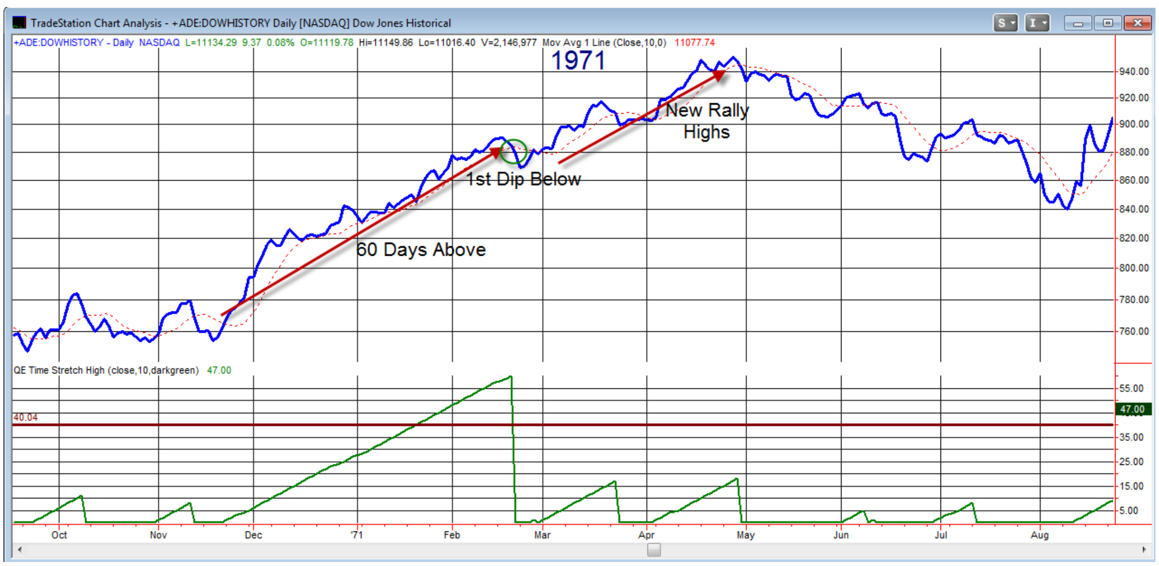


It's a little difficult to read when try to jam so much history into a small area, but the spike on the right is the current count and it is up to 50. The previous high lasted 47 days in 1989.

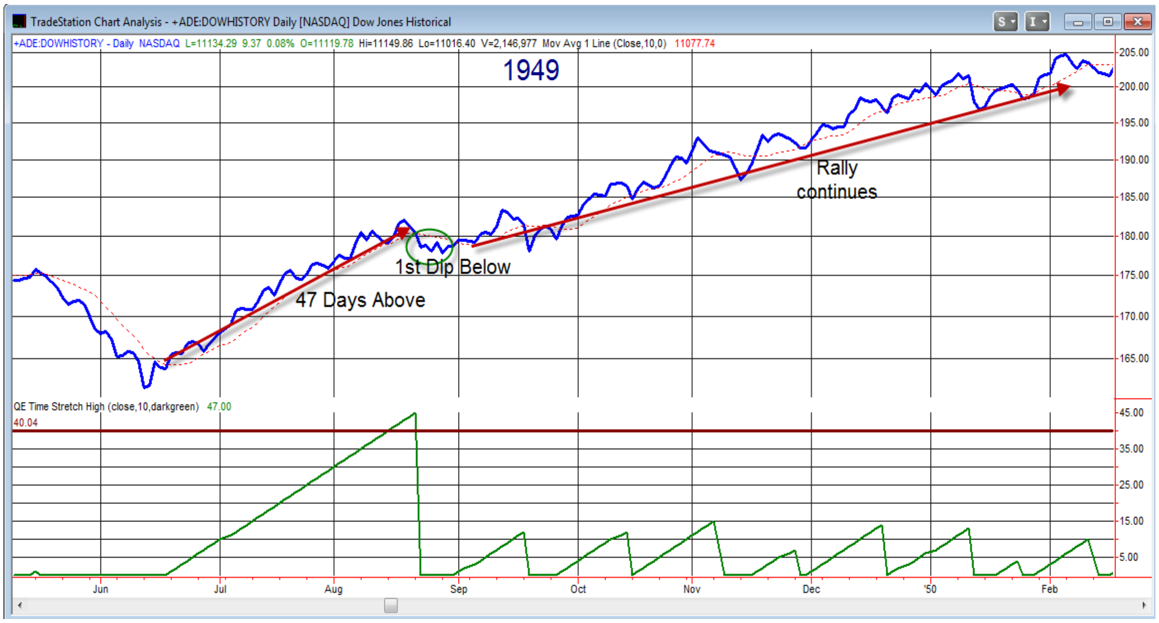
The Dow streak of 48 days is also remarkable. For the Dow Index I was able to look back to 1915 in search of similar streaks. I produced a graphic like the NDX one above, but as you can imagine with history going back that far it was imperceptible. I therefore produced some charts to show the action around similar streaks. There have only been 3 that have lasted as long as the current one. They were in 1919, 1955, and 1971. Their charts are below. The indicator on the bottom is simply a count of the number of days the Dow spent above the 10ma.

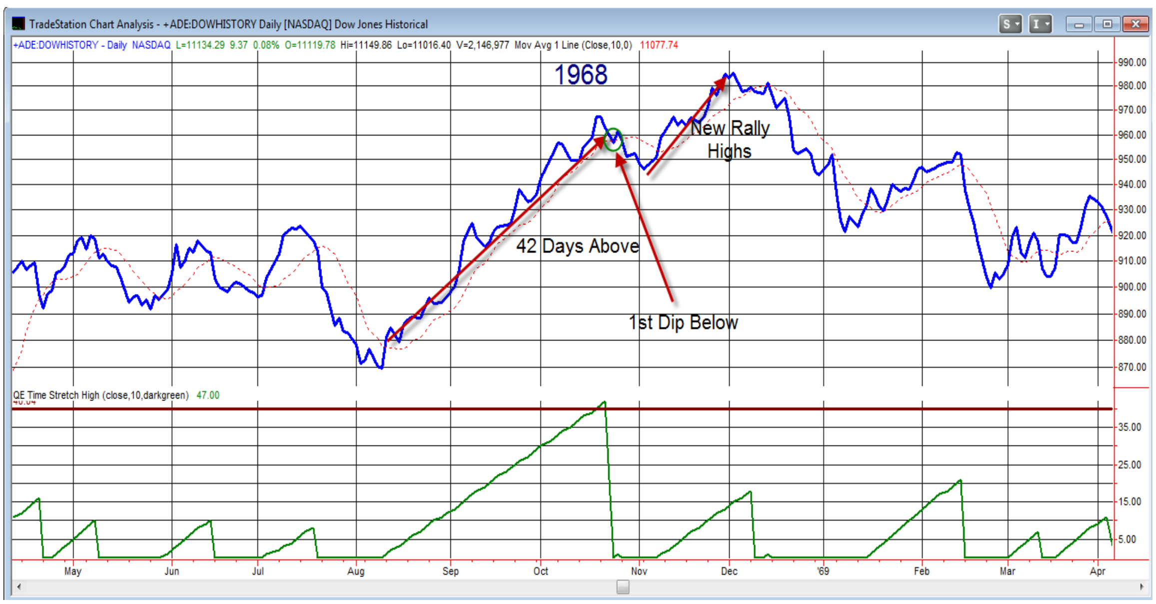




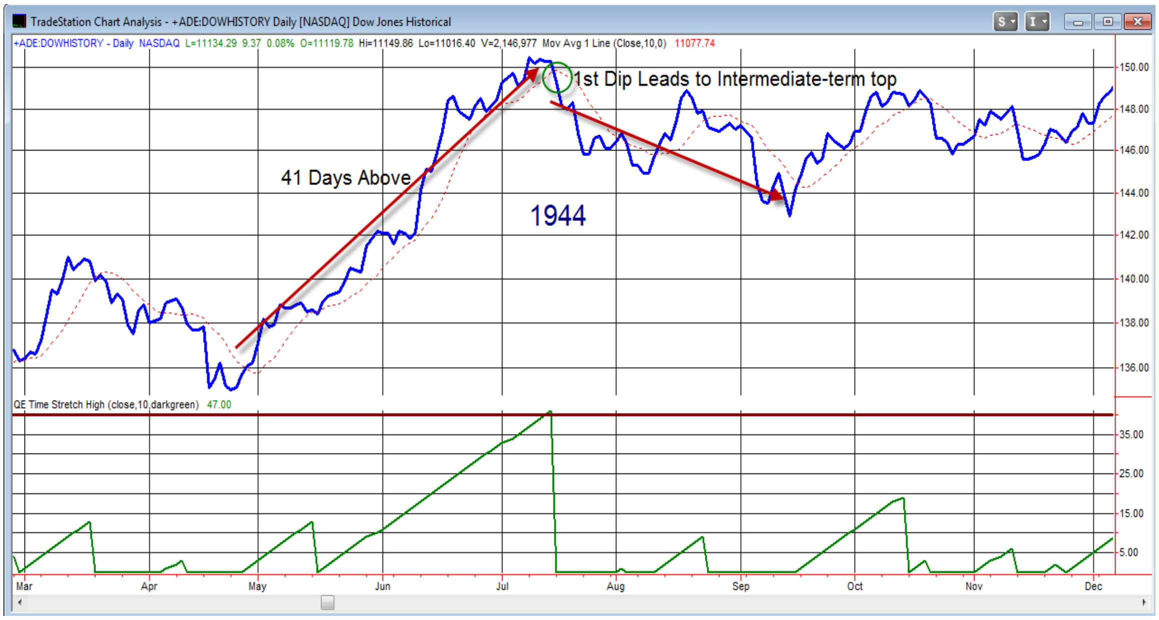


As with the SPX observations we see here that the rally continued in each case after that 1st dip. Rallies this strong and persistent seem unlikely to end on the 1st pullback. In 1949 and 1968 there were rallies that almost reached the current length. I've posted those below.



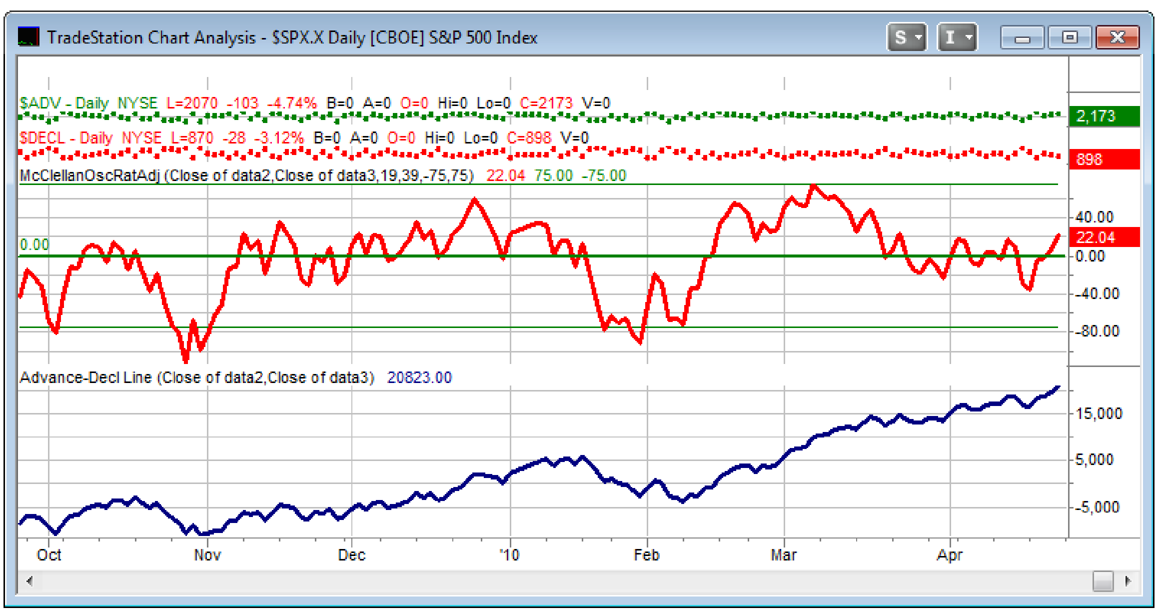


I did look to find the longest streak that ended with the first dip marking an intermediate-term top. 1944 was the winner with a streak of 41 days. That chart is below.



So 1944 could be considered our lone exception as a long streak ended abruptly. Of course it wasn't as long as the current rally or any of those others that went on to further gains.

Another bit of evidence to keep an eye on is the % of 52-week highs on the NYSE. As I've discussed a number of times over the last six months, all SPX tops since 1970 have seen a divergence lasting at least 2 months in either the A/D line or the % of stocks hitting new 52-week highs prior to the ultimate price high. A move higher early this week has the potential to see the 52-week NH % hit a new high. Below is a chart with the NYSE A/D line shown in blue in the bottom panel.



There are a few intermediate-term studies active with bearish implications. They are related to bond action and option ratios. To this point they haven't made a difference. We will get an intermediate-term decline at some point here but for now evidence appears to favor continued upside. It's been a tough trend to fight and I wouldn't suggest it at this point.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Triggers

MON 1/3 position @ $64.73 limit (filled @ $62.60)
QCOM – buy 1/3 position @ $37.92 limit (not filled)

New

MON buy 1/3 @ $62.25 limit (2nd entry)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3 (MON-2, QCOM)

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.

MON – buy 1/3 position at $62.25 limit. Based on the 2nd Catapult trigger listed above.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pri	% Gain/Los	Stop	Notes
SPY(1/4)	4/27/2010	$118.48	$120.86	2.01%		sold on close
SPY(1/4)	4/28/2010	$118.48	$120.86	2.01%		Aggregator
MON(1/3)	4/29/2010	$62.60	$62.25	-0.56%		bought @ limit