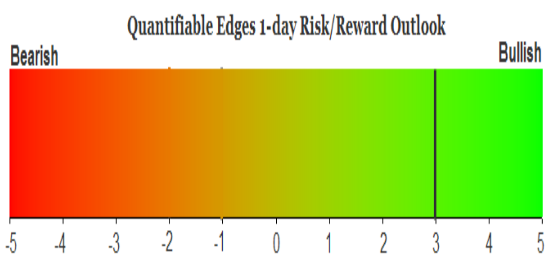
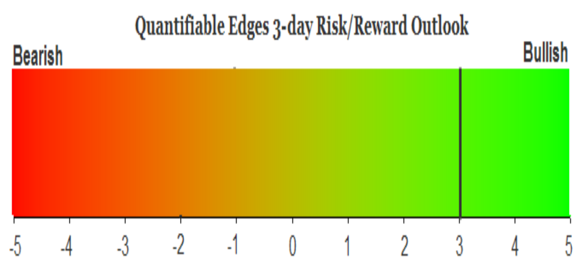
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 6, 2010 Volume 3 Issue 86

Market Overview





Tonight's Research Points

- A gap down and partial reversal up is a bullish reversal pattern when occurring after a down move.
- The Aggregator System remained long at the close.
- The NDX Aggressive Trend Timer stayed long at the close.

Short-term Outlook – updated 5/6

The Bottom Line

Evidence continues to favor the bounce scenario. Now with some exposure I'll continue to add on further declines. I expect to see at least a short-term rebound in the next few days.

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					
May 6, 2010	Gap & partial reverse from 5-day low	1-10 days	Bullish	3.30%	
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		
Dropped Tonight					
May 5, 2010	1.5% drop > 2nd time 10 low	1 day	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.

The Evidence

The market gapped down quite a bit on Wednesday after Tuesday's big drop. Though several indices rose from open to close, they also still closed down on the day. The finishing numbers showed the SPX down 0.7%, the Nasdaq down 0.9% and the Russell 2000 down 1.5%. Breadth was solidly negative as the NYSE Up Issues % came in at 20% and the Up Volume % at 21%. Total volume didn't change much from Tuesday.

What struck me most about Wednesday's action was the fact that the market closed above it's open but still down on the day. This little pattern can be bullish under the right circumstances. It will often signal a reversal after there has been a move down.

One way to define a "move down" would be to say that the market must have lost at least 1.5% the day before. I examine this below.

Yesterday SPY closed at least 1.5%. Today it gapped down then closed above the open but below yesterdays close. 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	25,980.10	7	6	1	85.71	5,485.54	-6,933.13	0.79	4.75	3,711.44
9	21,766.17	7	6	1	85.71	4,993.18	-8,192.92	0.61	3.66	3,109.45
8	22,869.53	7	6	1	85.71	4,561.46	-4,499.25	1.01	6.08	3,267.08
7	18,027.83	7	6	1	85.71	3,687.38	-4,096.46	0.90	5.40	2,575.40
6	19,562.20	8	6	2	75.00	3,705.30	-1,334.79	2.78	8.33	2,445.28
5	10,009.51	8	5	3	62.50	3,251.00	-2,081.84	1.56	2.60	1,251.19
4	5,565.91	8	4	4	50.00	3,393.24	-2,001.76	1.70	1.70	695.74
3	6,378.58	8	5	3	62.50	2,143.84	-1,446.88	1.48	2.47	797.32
2	5,265.55	8	5	3	62.50	2,244.35	-1,985.40	1.13	1.88	658.19
1	176.82	8	4	4	50.00	1,565.33	-1,521.13	1.03	1.03	22.10

Results here appear quite bullish but the number of instances is quite low.

Instead of requiring the previous day to be a big drop, what if I just required it to close at a low point?

Yesterday SPY closed at a 10-day low. Today it gapped down then closed above the open but below yesterdays close. 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
15	11,672.63	5	5	0	100.00	2,334.53	0.00	100.00	100.00	2,334.53
14	13,530.32	5	5	0	100.00	2,706.06	0.00	100.00	100.00	2,706.06
13	10,794.86	5	5	0	100.00	2,158.97	0.00	100.00	100.00	2,158.97
12	10,840.95	5	5	0	100.00	2,168.19	0.00	100.00	100.00	2,168.19
11	11,903.67	5	5	0	100.00	2,380.73	0.00	100.00	100.00	2,380.73
10	10,627.89	5	4	1	80.00	2,691.35	-137.52	19.57	78.28	2,125.58
9	11,347.17	6	4	2	66.67	3,196.60	-719.61	4.44	8.88	1,891.20
8	12,171.47	6	4	2	66.67	3,254.60	-423.47	7.69	15.37	2,028.58
7	10,974.56	6	5	1	83.33	2,430.50	-1,177.92	2.06	10.32	1,829.09
6	10,748.52	6	5	1	83.33	2,249.50	-498.98	4.51	22.54	1,791.42
5	9,037.00	6	5	1	83.33	1,979.18	-858.90	2.30	11.52	1,506.17
4	7,612.90	6	6	0	100.00	1,268.82	0.00	100.00	100.00	1,268.82
3	6,896.19	6	6	0	100.00	1,149.37	0.00	100.00	100.00	1,149.37
2	4,509.80	6	5	1	83.33	994.12	-460.79	2.16	10.79	751.63
1	3,247.73	7	6	1	85.71	542.65	-8.18	66.34	398.03	463.96

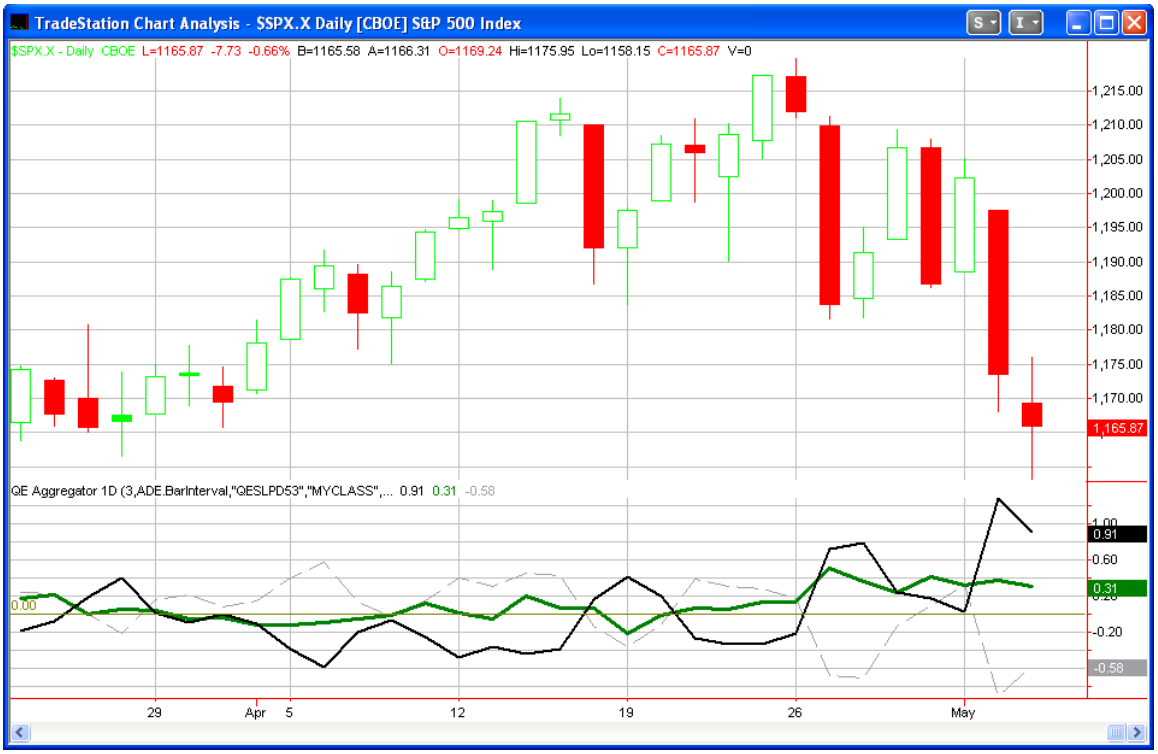
Results here are similar in that they are consistently bullish but the number of instances is very low. I therefore loosened the requirement so that only a 5-day low was required instead of a 10-day low. Those results are below.

Yesterday SPY closed at a 5-day low. Today it gapped down then closed above the open but below yesterdays close. 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	46,697.11	20	17	3	85.00	3,200.84	-2,572.41	1.24	7.05	2,334.86
9	41,318.31	21	18	3	85.71	2,830.58	-3,210.71	0.88	5.29	1,967.54
8	40,350.05	21	16	5	76.19	2,978.30	-1,460.53	2.04	6.53	1,921.43
7	31,221.62	21	16	5	76.19	2,523.98	-1,832.42	1.38	4.41	1,486.74
6	24,198.43	21	14	7	66.67	2,276.97	-1,097.02	2.08	4.15	1,152.31
5	16,834.82	21	15	6	71.43	1,704.15	-1,454.57	1.17	2.93	801.66
4	16,162.40	21	15	6	71.43	1,650.24	-1,431.88	1.15	2.88	769.64
3	16,130.71	21	18	3	85.71	1,177.63	-1,688.89	0.70	4.18	768.13
2	14,495.87	21	16	5	76.19	1,197.33	-932.27	1.28	4.11	690.28
1	7,192.88	23	16	7	69.57	879.63	-983.02	0.89	2.05	312.73

Loosening the requirements allowed the number of instances to increase substantially. Still the results remained strongly suggestive of a move up over the next several days.

I've updated the Aggregator chart below.



No real change to the Aggregator configuration tonight. The green Aggregator line remains squarely positive as net expectations from the studies is for upside over the next few days. Meanwhile the black Differential line is high above zero as the SPX has strongly underperformed expectations over the last few days. Both lines above 0 means expectations are positive and the SPX has recently underperformed expectations. This is considered a bullish configuration. The Aggregator System remained long at the close.

Looking ahead the green Aggregator line is currently scheduled to remain positive unless some bearish studies emerge. Meanwhile the Differential pivot level on Thursday will be 1,212.47. In other words it will take a close at or above this level in order to see the Differential line turn negative. The pivot level is expected to drop quite a bit over the next few days.

While we are seeing continued bullish evidence traders need to keep in mind a couple of things: 1) Several breadth-related indicators are still a good distance from reaching strongly oversold levels. 2) With recent bullish studies all being run over it can be assumed that risks are high at the moment. While it's only been a few days, the market is not conforming to norms and that should be considered when evaluating risk.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/3 somewhat bullish

Last week I looked at the lengthy amount of time the Nasdaq and Dow had spent above their 10ma's. Those streaks ended abruptly this week. History suggests we are likely to see additional highs in these indices rather than an immediate intermediate-term top.

I also looked at breadth indicators such as the A/D line and the number of new 52-week highs. The 52-week highs had lagged slightly but right on cue that made a new high early this past week as well. Breadth normally deteriorates well before the index price top and so this too suggests there is more upside to come.

Another indicator that has been supporting the bull case since February is the Nasdaq/ S&P Relative Strength. We are again seeing the Nasdaq leading this week. This is formation that has led to almost all of the market gains since 1971.

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.

I also noted the fact that the S&P posted its 2nd consecutive outside week this week. This is quite unusual but unfortunately doesn't appear to be very predictive. I looked at it a few different ways but did not come up with anything compelling enough for publication.

So the intermediate-term basically remains the same as last week. We will get a 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)
MON – 1/3 position @ $62.25 limit (not filled)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2 (MON-2)

The strong selling the last 2 days has not yet led to a spike in the CBI…

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 @ $116.81 LIMIT ON CLOSE. Should the market close down again I will continue to scale in.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
MON(1/3)	4/29/2010	$62.60	$60.98	-2.59%		Catapult
MON(1/3)	5/5/2010	$60.74	$60.98	0.40%		Catapult
SPY(1/4)	5/5/2010	$116.56	$116.82	0.22%		bought on open
SPY(1/4)	5/5/2010	$116.82	$116.82	0.00%		bought on close

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