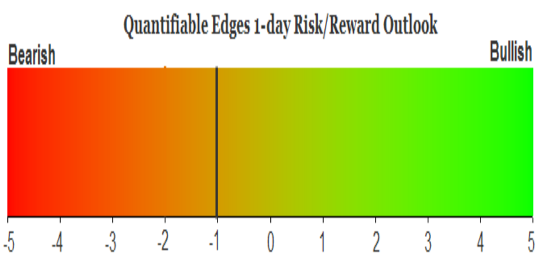
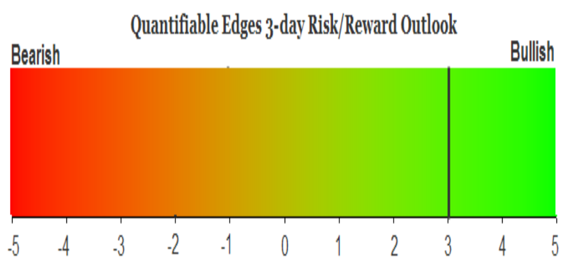
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 24, 2010 Volume 3 Issue 98

Market Overview





Tonight's Research Points

- 90% Up Volume Days often lead to a pullback when near or low or directly following a 90% down day.
- The VIX spike without a long-term SPX low suggests upside over the next week.
- The Aggregator System remained long at the close.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 5/24

The Bottom Line

The bounce has begun. The next day or two are showing mixed signals but even if we chop around a little here it appears there should be more upside to come shortly.

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
Active				
May 24, 2010	VIX new high SPX no new low	1-4 days	Bullish	2.60%
May 24, 2010	90% Up Vol after new low / 90%dn	1-2 days	Bearish	-2.80%
May 21, 2010	CBI spikes over 10	1-4 days	Bullish	
May 18, 2010	1% drop on 2:1 neg breadth	1-10 days	Bullish	
Active - Long Term				
April 26, 2010	No breadth divergence at new high	int. term	Bullish	
Dropped Tonight				
May 17, 2010	Nasdaq/SPX Relative Strength Indicator	int. term	Bullish	
May 13, 2010	***2 of 3 75% Up Issues. No 10-high.***	***1-2 weeks***	***Bearish***	

If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active.

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The Evidence

After a sizable gap down on Friday put a scare into many investors the market rebounded nicely. It did drift lower for much of the afternoon but then it rallied sharply in the last 20 minutes to close near the highs of the day. When it was over the SPX had gained 1.5%, the Nasdaq 1.1% and the Russell 2000 gained 1.4%. Breadth was extremely strong on the NYSE as the NYSE Up Issues % came in at 75% and the Up Vol % was 90%. Total volume rose to very high levels on both exchanges.

The market had been extremely oversold and it finally reached a point where bargain hunters stepped in – at least for the day. The bounce was substantial and it came with strong breadth and volume. There was substantial conflict among the studies, though. I decided tonight to keep things simple. I'm going to cut through everything that is either unimportant or unclear and simply show a couple of the more compelling studies. Anyone who would like to slog through all the studies in the Quantifinder on their own may certainly do so. I did, and I don't see the need to make everyone go through all of them in great detail. So I'll keep it relatively short and sweet tonight.

Especially striking about Friday's action was the extremely strong volume %. While that can sometimes be a good sign, when it immediately follows either a strong down Vol % day or an intermediate-term low, it has often pulled back. This was shown in separate studies in the past. Since both occurred on Friday I've combined them below.

Yesterday was either a 10% Up Volume day or a 50-day closing low in the SPX. Today the NYSE Up Vol % > 90%. Buy on close. Sell X days later. $100k/trade. 1970 -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	-16,870.09	11	4	7	36.36	4,696.30	-5,093.61	0.92	0.53	-1,533.64
4	-22,059.44	11	6	5	54.55	1,865.84	-6,650.89	0.28	0.34	-2,005.40
3	-7,381.59	11	5	6	45.45	2,463.81	-3,283.44	0.75	0.63	-671.05
2	-14,767.08	11	5	6	45.45	1,494.02	-3,706.20	0.40	0.34	-1,342.46
1	-11,670.19	11	1	10	9.09	242.88	-1,191.31	0.20	0.02	-1,060.93

The one instance that didn't pull back the next day marked the March 2009 bottom. I'd prefer a few more instances, but 10 out of 11 is fairly compelling.

As was seen through some studies in the Quantifinder, big gaps down that finish higher have shown a bit of a short-term bearish edge in the past. Results aren't as clear when they are coming off a 10-day low, though. Also, this tendency hasn't played out well since the fall of 2008.

Also noted by the Quantifinder was the fact that the VIX made a new 100-day high while the SPX failed to make a 100-day low. It was shown that this has provided a bit of an upside edge in the past. Interestingly Friday was the 2nd day in a row that this occurred. I decided to look at other times this occurred 2 days in a row.

VIX makes a 100-day high but SPX doesn't make a 100-day low for the 2nd day in a row.
Buy on close. Sell X-days later. $100k/trade. 1990 - 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	14,055.88	13	10	3	76.92	2,033.28	-2,092.32	0.97	3.24	1,081.22
9	9,320.64	14	10	4	71.43	1,831.39	-2,248.33	0.81	2.04	665.76
8	14,671.05	14	11	3	78.57	2,004.07	-2,457.92	0.82	2.99	1,047.93
7	12,584.37	15	10	5	66.67	2,469.56	-2,422.24	1.02	2.04	838.96
6	23,781.20	15	12	3	80.00	2,436.06	-1,817.17	1.34	5.36	1,585.41
5	16,983.37	15	9	6	60.00	2,725.29	-1,257.37	2.17	3.25	1,132.22
4	21,294.58	15	10	5	66.67	2,656.51	-1,054.10	2.52	5.04	1,419.64
3	18,286.55	15	10	5	66.67	2,348.56	-1,039.80	2.26	4.52	1,219.10
2	15,411.41	16	11	5	68.75	1,886.01	-1,066.95	1.77	3.89	963.21
1	11,575.75	19	10	8	52.63	1,446.22	-360.81	4.01	5.01	609.25

18 of 19 instances (95%) closed above the entry price at some point in the next week.

Stats here were even more favorable than times where it only occurred 1 day.

There's no doubt the market was strongly oversold as of Thursday's close. The level of oversold suggested a multi-day bounce of considerable size was likely. So far we are at 1 day and about 1.5%. This isn't on par with expectations yet and it's likely there is more to go. Still, there is some decent evidence that the market may struggle over the next day or two, so that needs to be considered.

I've updated the Aggregator chart below.

Again the green Aggregator line remains above zero as the net expectations from the active studies is for more upside over the next few days. It should be noted, though that while expectations over the next 3 days in total are for upside, the Monday expectation is lower. This is reflected in the 1-day vs. 3-day risk/reward graphics at the top of the Letter. Meanwhile the black Differential line illustrates the SPX has substantially underperformed expectations over the last few days. Oversold with positive 3-day expectations has historically provided a bullish edge. Based on this the Aggregator System remains long.

Looking ahead more bearish studies will need to emerge if the green Aggregator line is going to turn negative in the near future. The Differential pivot for Monday is 1,116.26. This means it would take an SPX close at or above this level in order for the Differential line to turn negative.

I'm quite long at this point and looking for a bit more of a bounce to sell into.

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/24 neutral

Bear markets don't ordinarily start with a furious selloff from a very high level in a market exhibiting broad strength. Instead they form a slow topping pattern while breadth will deteriorate ahead of price. There's no assurance that this time won't be different, but when you go from a strong, broad, persistent bull market like we had just 3 weeks ago, to a deeply oversold condition like we have now, it doesn't seem advisable to be positioning aggressively short for an intermediate-term trade.

One the other hand we've had 1 up day at this point and the studies associated with the bounce so far are mixed. Intermediate-term traders will no doubt be watching for a Follow Through Day in the coming days. I'd encourage you to review the Quantifiable Edges posts associated with follow-though days before one actually occurs.

So my outlook remains neutral. I'll continue to look more towards short-term analysis to aid my buy/sell decisions until the intermediate-term becomes a bit more clear.

<u>Catapult and Capitulative Breadth Statistics</u>

(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 (filled @ $60.74)
MON – 1/3 position @ $55.54 limit (filled @ $54.79)
EXC – 1/3 position @ $40.59 limit (filled @ $40.11)
EXC – 1/3 @ $39.31 limit
AAPL – 1/3 @ $237.76 limit
ABT – 1/3 @ $46.48 limit
ALL – 1/3 @ $30.07 limit
CSCO – 1/3 @ $23.31 limit
DIS – 1/3 @ $31.99 limit
F – 1/3 @ $10.80 limit
GOOG – 1/3 @ $475.01 limit
MMM – 1/3 @ $79.58 limit
MSFT – 1/3 @ $27.11 limit
ORCL – 1/3 @ $22.35 limit
QCOM – 1/3 @ $35.59 limit
XOM – 1/3 @ $60.33 limit
NEW
GOOG
DELL
MSFT
ORCL

Catapult for ETF's Trades

Several – see the 5/21 letter for

Broad Market Large Cap CBI – 21 (MON-3, EXC-2, AAPL, ABT, ALL, CSCO, DIS, F, GOOG-2, MMM, MSFT-2, ORCL-2, QCOM, XOM, DELL)

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.

From the Catapult section above:
GOOG – 1/3 position @ $472.05 limit
DELL – 1/3 position @ $13.35 limit
MSFT– 1/3 position @ $26.84 limit
ORCL– 1/3 position @ $22.16 limit

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Los	Stop	Notes
MON(1/3)	4/29/2010	$62.60	$54.95	-12.22%		Catapult
MON(1/3)	5/5/2010	$60.74	$54.95	-9.53%		Catapult
MON(1/3)	5/14/2010	$54.79	$54.95	0.29%		Catapult
SPY(1/4)	5/14/2010	$115.12	$109.11	-5.22%		Aggregator
SPY(1/4)	5/19/2010	$111.77	$109.11	-2.38%		Aggregator
SPY(1/4)	5/19/2010	$111.76	$109.11	-2.37%		Aggregator
SPY(1/4)	5/21/2010	$105.91	$109.11	3.02%		Aggregator
EXC(1/3)	5/20/2010	$40.11	$39.43	-1.70%		Catapult
EXC(1/3)	5/21/2010	$38.50	$39.43	2.42%		Catapult
AAPL(1/3)	5/21/2010	$232.82	$242.32	4.08%		Catapult
ABT(1/3)	5/21/2010	$45.48	$46.94	3.21%		Catapult
ALL(1/3)	5/21/2010	$29.51	$30.54	3.49%		Catapult
CSCO(1/3)	5/21/2010	$22.67	$23.46	3.48%		Catapult
DIS(1/3)	5/21/2010	$31.40	$32.87	4.68%		Catapult
F(1/3)	5/21/2010	$10.25	$11.26	9.85%		Catapult
GOOG(1/3)	5/21/2010	$469.06	$472.05	0.64%		Catapult
MMM(1/3)	5/21/2010	$78.42	$80.70	2.91%		Catapult
MSFT(1/3)	5/21/2010	$26.63	$26.84	0.79%		Catapult
ORCL(1/3)	5/21/2010	$21.62	$22.16	2.50%		Catapult
QCOM(1/3)	5/21/2010	$35.10	$35.89	2.25%		Catapult
XOM(1/3)	5/21/2010	$59.16	$60.88	2.91%		Catapult
QQQQ(1/3)	5/21/2010	$43.64	$44.84	2.75%		Catapult

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