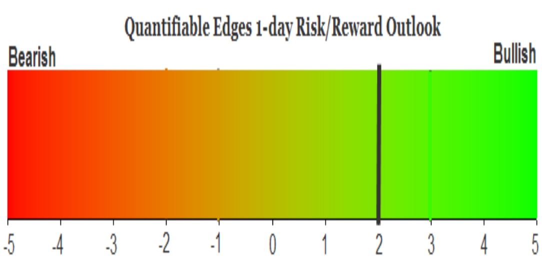
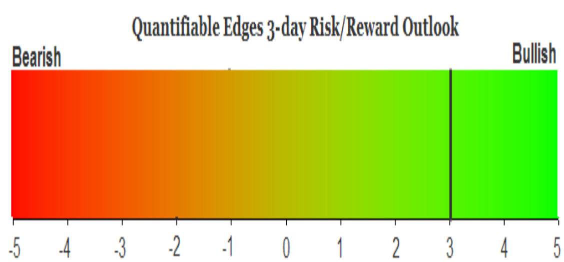
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 26, 2010 Volume 3 Issue 100

Market Overview





Tonight's Research Points

- Retest of lows leading to late day rally short-term bullish.
- Weak breadth on the move higher suggests trouble over the next couple of days.
- The Aggregator System remained long at the close.
- The NDX Aggressive Trend Timer remained long.

***Short-term Outlook** – updated 5/26*

The Bottom Line

Another bounce attempt is underway. The market remains at a point where a decent bounce should ensue soon. The CBI is still very elevated and it will likely take a few days of rallying to bring it lower.

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 26, 2010	NYSE Up Issues < 40% on up day	1-2 days	Bearish	
May 26, 2010	Bounce off test of lows	1-3 days	Bullish	2.30%
May 24, 2010	VIX new high SPX no new low	1-4 days	Bullish	2.60%
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				
May 25, 2010	Rat Adj McClellan < -60 for 6 in row	1-20 days	Bearish	-5.80%
April 26, 2010	No breadth divergence at new high	int. term	Bullish	
Dropped Tonight				
May 24, 2010	***90% Up Vol after new low / 90%dn***	***1-2 days***	***Bearish***	***-2.80%***

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

The Evidence

A massive gap down led quickly to new lows below the February lows. The market found it's footing fairly early though and rallied much of the day – showing especially impressive strength in the last 2 hours. The SPX made it all the way back above breakeven, finishing up 0.38 points after being down over 2.5% in the morning. The Nasdaq and Russell came up a little short with the Nasdaq losing 0.1% and the Russell losing 0.2%. Breadth was a bit mixed. The NYSE Up Issues % came in at just 36% while the Up Volume % was 55%. Total volume rose well above Monday's levels.

The gap down and reversal to close positive was reminiscent of Friday's action. Several of the same gap reversal studies appeared in the Quantifinder tonight. My comments from the Sunday night Letter still hold true:

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.

So as I did then I will again ignore these studies.

One study that did show some interesting results was from the 10/24/08 blog. I updated that study below.

NYSE Up Issues % < 40% while SPX closes up.
Buy SPX on close. Sell X days later. $100k/trade. 1999 - 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	-22,079.00	27	10	17	37.04	2,601.68	-2,829.16	0.92	0.54	-817.74
4	-22,249.06	28	9	19	32.14	2,767.86	-2,482.10	1.12	0.53	-794.61
3	-28,694.33	29	7	22	24.14	2,351.50	-2,052.49	1.15	0.36	-989.46
2	-30,501.37	29	13	16	44.83	1,369.04	-3,018.68	0.45	0.37	-1,051.77
1	-26,110.93	29	8	21	27.59	1,528.38	-1,825.62	0.84	0.32	-900.38

25 of 29 instances (86%) closed below the entry price at some point in the next 3 days.

There appears to be a bearish edge here but it has typically played out in the first few days.

Intraday breaks of intermediate-term lows that rebound that day often lead to additional buying over the next week or so. This was evidenced in the Letter on 7/7/08. I've updated that study below.

SPX makes a 100-day low and closes higher. It has not made a 100-day low for at least 10 days. Buy on close. Sell X days later. $100k/trade. 1978 - 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	18,551.52	15	9	6	60.00	2,943.99	-1,324.06	2.22	3.34	1,236.77
9	18,755.25	15	8	7	53.33	3,381.86	-1,185.67	2.85	3.26	1,250.35
8	7,925.16	15	10	5	66.67	2,293.75	-3,002.47	0.76	1.53	528.34
7	3,526.75	15	8	7	53.33	2,803.67	-2,700.37	1.04	1.19	235.12
6	1,135.63	15	8	7	53.33	3,006.33	-3,273.57	0.92	1.05	75.71
5	2,006.30	15	11	4	73.33	2,224.01	-5,614.44	0.40	1.09	133.75
4	5,517.32	15	10	5	66.67	2,131.83	-3,160.20	0.67	1.35	367.82
3	11,034.26	15	11	4	73.33	1,831.04	-2,276.80	0.80	2.21	735.62
2	8,559.58	15	10	5	66.67	1,855.54	-1,999.16	0.93	1.86	570.64
1	2,482.58	15	9	6	60.00	1,133.91	-1,287.10	0.88	1.32	165.51

13 of 15 instances (87%) closed above the entry price at some point in the next 4 days.

This appears to provide a bit of a bullish edge.

I've updated the Aggregator chart below.

Tonight the green Aggregator line remained barely above zero as the net expectations from the active studies is still for more upside over the next few days. Meanwhile the black Differential line illustrates the SPX has slightly underperformed expectations over the last few days. While the last few days has been rough, oversold with positive 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 tomorrow. The Differential pivot for Wednesday is 1,091.79. This means it would take an SPX close at or above this level in order for the Differential line to turn negative.

Looks like another attempt to bounce here. The Aggregator is barely positive and could turn flat or negative with a strong rally on Wednesday. Even if it does, I will likely continue to hold a portion of the index trade until the CBI drops substantially. The market remains very oversold and a multi-day bounce still appears likely.

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.

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 (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
MSFT– 1/3 position @ $26.84 limit
ORCL– 1/3 position @ $22.16 limit
GOOG – 1/3 position @ $472.05 limit (not yet filled)
DELL – 1/3 position @ $13.35 limit (not yet filled)
MSFT – final 1/3 @ $26.27
UTX – 1/3 position @ $$66.13

Catapult for ETF's Trades

Several – see the 5/21 letter for ETF triggers.

Broad Market Large Cap CBI – 23 (MON-3, EXC-2, AAPL, ABT, ALL, CSCO, DIS, F, GOOG-2, MMM, MSFT-3, ORCL-2, QCOM, XOM, DELL, UTX)

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 today. Plenty to manage already.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	4/29/2010	$62.60	$54.56	-12.84%		Catapult
MON(1/3)	5/5/2010	$60.74	$54.56	-10.17%		Catapult
MON(1/3)	5/14/2010	$54.79	$54.56	-0.42%		Catapult
SPY(1/4)	5/14/2010	$115.12	$107.82	-6.34%		Aggregator
SPY(1/4)	5/19/2010	$111.77	$107.82	-3.53%		Aggregator
SPY(1/4)	5/19/2010	$111.76	$107.82	-3.53%		Aggregator
SPY(1/4)	5/21/2010	$105.91	$107.82	1.80%		Aggregator
EXC(1/3)	5/20/2010	$40.11	$38.38	-4.31%		Catapult
EXC(1/3)	5/21/2010	$38.50	$38.38	-0.31%		Catapult
AAPL(1/3)	5/21/2010	$232.82	$245.22	5.33%		Catapult
ABT(1/3)	5/21/2010	$45.48	$47.23	3.85%		Catapult
ALL(1/3)	5/21/2010	$29.51	$30.04	1.80%		Catapult
CSCO(1/3)	5/21/2010	$22.67	$23.31	2.82%		Catapult
DIS(1/3)	5/21/2010	$31.40	$32.32	2.93%		Catapult
F(1/3)	5/21/2010	$10.25	$11.02	7.51%		Catapult
GOOG(1/3)	5/21/2010	$469.06	$477.07	1.71%		Catapult
MMM(1/3)	5/21/2010	$78.42	$79.47	1.34%		Catapult
MSFT(1/3)	5/21/2010	$26.63	$26.07	-2.10%		Catapult
ORCL(1/3)	5/21/2010	$21.62	$22.20	2.68%		Catapult
QCOM(1/3)	5/21/2010	$35.10	$35.61	1.45%		Catapult
XOM(1/3)	5/21/2010	$59.16	$59.71	0.93%		Catapult
QQQQ(1/3)	5/21/2010	$43.64	$44.70	2.43%		Catapult
MSFT(1/3)	5/24/2010	$26.84	$26.07	-2.87%		Catapult
ORCL(1/3)	5/24/2010	$22.04	$22.20	0.73%		Catapult
GOOG(1/3)	5/25/2010	$468.15	$477.07	1.91%		Catapult
DELL(1/3)	5/25/2010	$13.05	$13.33	2.15%		Catapult
MSFT(1/3)	5/25/2010	$25.65	$26.07	1.64%		Catapult
UTX(1/3)	5/25/2010	$64.34	$66.16	2.83%		Catapult