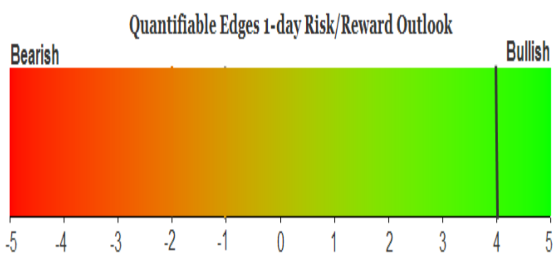
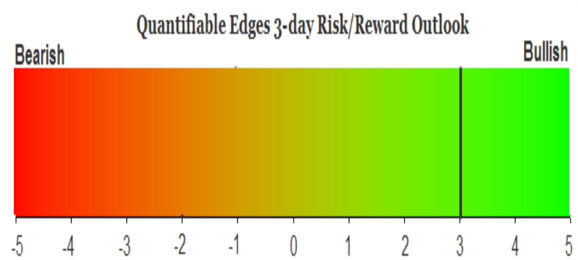
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 24, 2010 Volume 3 Issue 120

Market Overview





Tonight's Research Points

- 3 days down from a high with a deceleration in the selling has commonly been followed by a rebound.
- If the day before and the day of a Fed Day have both dropped, the next several days have performed strongly.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 6/24

The Bottom Line

Basically everything is pointing to a bounce. I'm partially long and looking to add more in the morning.

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				
June 24, 2010	Fed Day / slowing from 20-hi pullbacks	1-6 days	Bullish	2.00%
June 23, 2010	1% drop and bad breadth	1-8 days	Bullish	1.90%
June 22, 2010	SPX close lower after up 1% new 10-hi	1-2 days	Bullish	1.75%
June 16, 2010	2nd 90% up day	1-10 days	Bullish	5.40%
Active - Long Term				
June 21, 2010	Nas/SPX Relative Strength favors Nas	int. term	Bullish	
April 26, 2010	No breadth divergence at new high	int. term	Bullish	
Dropped Tonight				
June 18, 2010	***1.5% up days then 2 flat days***	***1-5 days***	***Bearish***	***-2.30%***
June 22, 2010	***SPY gap 1% close down > 15% btm r***	***1-2 days***	***Bearish***	***-6.50%***
June 23, 2010	Fed Day	1 day	Bullish	

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

Fed Day and other bullish edges failed to play out on Wednesday. Poor new home sales hit the newswire at 10am and the market dropped sharply. It may also have been due to the start of the US – Algeria soccer game since both things happened at the same time. The market then fought back some and actually poked back above breakeven with 10 minutes to go. But traders realized a resolution to the U.S. (Isner) vs. France (Mahut) dispute at Wimbledon would again have to wait another day. That seemed to sour the mood in the last 10 minutes of trading. When it was over the SPX, Nasdaq, and Russell 2000 all closed down about 0.3%. Breadth was mildly negative as the NYSE Up Issue % came in at 47% and the Up Volume % came in at 44%. Total volume rose slightly on the NYSE.

I may have overstated the importance of soccer and tennis. Anyway…

Being the 3rd down day in a row after coming off a 20-day high, one study that appeared was from the 9/28/09 Letter. I have updated the results below.

SPX has at least 3 lower closes. Today is the mildest drop of the decline. Just prior to the pullback the market closed at a 20-day high. Buy SPX on close. Sell X days later. $100k/trade. 1989 - 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	54,813.03	35	26	9	74.29	2,567.97	-1,328.25	1.93	5.59	1,566.09
9	52,291.02	35	26	9	74.29	2,520.61	-1,471.65	1.71	4.95	1,494.03
8	46,420.60	35	26	9	74.29	2,283.77	-1,439.73	1.59	4.58	1,326.30
7	41,372.93	36	24	12	66.67	2,356.48	-1,265.22	1.86	3.73	1,149.25
6	43,520.69	36	24	12	66.67	2,167.21	-707.69	3.06	6.12	1,208.91
5	37,976.20	36	26	10	72.22	1,953.86	-1,282.42	1.52	3.96	1,054.89
4	39,249.61	36	22	14	61.11	2,276.52	-773.84	2.94	4.62	1,090.27
3	35,870.46	36	26	10	72.22	1,748.09	-957.99	1.82	4.74	996.40
2	26,507.49	37	27	10	72.97	1,281.49	-809.28	1.58	4.28	716.42
1	14,568.95	41	28	12	68.29	778.88	-603.32	1.29	3.01	355.34

92% of instances closed above the entry price at some point in the next week.

This appears to suggest a pretty solid upside edge over the next two weeks. The fact that the drop today was milder than any other day of the decline infers the selling is abating. This has shown to be significant in a number of studies I have run in the past.

Last night I showed a fair amount of studies related to the fact that Wednesday was a Fed Day. They suggested a sizable bullish edge, but unfortunately didn't play out today. Still, the mild drop wasn't too damaging and it did bring about this study from the "Quantifiable Edges Guide to Fed Days" book.

Today is a Fed Day. SPX closes lower for the 2nd day in a row.
Buy on close. Sell X days later. $100k/trade. 1982 - 4/30/2010

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	42,674.80	40	28	12	70.00	2,528.60	-2,343.84	1.08	2.52	1,066.87
9	37,281.20	40	30	10	75.00	2,201.48	-2,876.32	0.77	2.30	932.03
8	35,382.65	40	31	9	77.50	1,945.91	-2,771.16	0.70	2.42	884.57
7	37,576.96	40	32	8	80.00	1,764.30	-2,360.09	0.75	2.99	939.42
6	38,134.79	40	31	9	77.50	1,787.31	-1,919.09	0.93	3.21	953.37
5	33,481.40	40	29	11	72.50	1,688.65	-1,408.12	1.20	3.16	837.04
4	20,588.33	40	24	16	60.00	1,597.09	-1,108.87	1.44	2.16	514.71
3	13,757.91	40	25	15	62.50	1,183.44	-1,055.21	1.12	1.87	343.95
2	20,705.29	40	28	12	70.00	1,152.78	-964.38	1.20	2.79	517.63
1	17,679.10	40	28	12	70.00	937.39	-713.98	1.31	3.06	441.98

34 of 40 instances (85%) closed above the Fed Day close at some point in the next week.

When Fed Days fail to rally, you normally see a rally shortly after. This is even truer when the day before the Fed Day was also down as it was on Tuesday.

Also notable tonight is that there are no more bearish studies on the active list. Both bearish studies hit their targets on Wednesday.

I have updated the Aggregator chart below.

With nothing but bullish studies the green Aggregator line is well above 0. This shows the net expectation from the Active Studies list is for higher prices over the next few days. Meanwhile the black Differential line illustrates the SPX has strongly underperformed expectations over the last few days. So we have positive expectations and a market that is a very oversold versus expectations. This is obviously a bullish configuration. The Aggregator configuration is considered bullish whenever both lines are above 0. Based on this the Aggregator System is again long.

Looking ahead the green Aggregator line is set up to remain positive tomorrow. Of course some strong bearish evidence could change that outlook. Meanwhile the Differential pivot will be 1,113.10 tomorrow. This means it would take an SPX close at or above this level in order for the black Differential line to turn negative. Without a decent move higher the Aggregator will likely remain bullish.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/14 - slightly bullish

There has been some notable action as of late that is suggesting the market should continue higher over the intermediate-term.

One positive indication is that the Nasdaq/S&P 500 Relative Strength indicator as tracked on the website flipped back to favoring the Nasdaq this past week. More information on this indicator can be found using the link below.

http://quantifiableedges.blogspot.com/2009/05/simple-powerful-timing-indicator.html

The break above the high point of the possible double-bottom pattern this week is also a potentially positive sign.

And as I've noted recently the recent strong breadth thrusts suggest positive implications over the intermediate-term.

The low volume, narrow range, and extremely low VIX are worth monitoring, but for now I favor the long-side when looking out over the next several weeks.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

LOW – 1/3 position @ $21.76

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(LOW)

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 @ $109.05 limit. – Based on short-term outlook I'm looking to add some to the current position.

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Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	6/22/2010	$109.57	$109.31	-0.24%		2pm pre-Fed exit
SPY	6/23/2010	$109.57	$109.05	-0.47%		Aggregator
LOW	6/23/2010	$21.71	$21.85	0.64%		bought Catapult on open