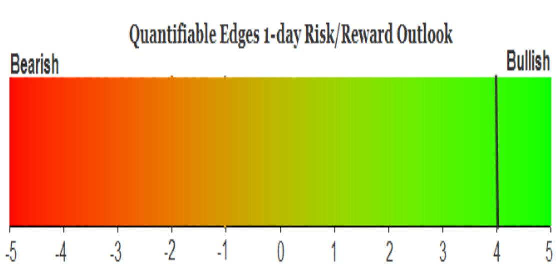
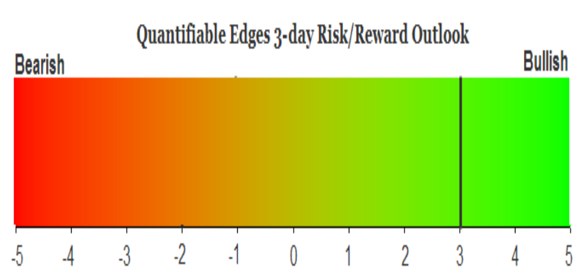
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 25, 2010 Volume 3 Issue 121

Market Overview





Tonight's Research Points

- 2 90% down days in 1 week is bullish short-term.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 6/25
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 25, 2010	2 90% Down Days in 1 week	1-5 days	Bullish	4.70%
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 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	

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

Thursday was another tough day for the market. It gapped down and never filled. Action was basically lower lows and lower highs most of the day and it closed near it low. In the end the SPX, Nasdaq, and Russell 2k were all in the 1.6% - 1.75% loss range. Breadth was extremely negative. The NYSE Up Issue % came in at 22% and the Up Volume % was 9%. Total volume was the highest so far this week.

It was just a little over a week ago that I was examining what occurs after the market posts 2 90% Up Days in a 1-week period. The results appeared quite bullish. Thursday we saw the 2nd 90% down day in the last 3 days. I stretched the requirement out to 1 week and took a look.

NYSE Up Vol % is < 10% for at least the 2nd time in 5 days.
Buy on close. Sell X days later. $100k/trade. 1988 - 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	63,441.53	23	16	7	69.57	4,331.56	-837.64	5.17	11.82	2,758.33
4	45,430.10	24	18	6	75.00	3,414.33	-2,671.31	1.28	3.83	1,892.92
3	29,086.21	24	15	9	62.50	3,305.13	-2,276.75	1.45	2.42	1,211.93
2	43,675.46	27	18	9	66.67	3,553.31	-2,253.79	1.58	3.15	1,617.61
1	35,902.83	27	17	10	62.96	2,654.78	-922.84	2.88	4.89	1,329.73

92% of instances closed above the entry price at some point in the next 4 days.

For the short-term at least, such negative breadth appears to suggest a bounce.

A few other studies appeared in the Quantifinder tonight. All with basically the same message: the selloff is overdone based on measures of price stretch and breadth. None were more compelling than the one I'm showing above.

I have updated the Aggregator chart below.

With nothing but bullish studies the green Aggregator line is still 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 1,097.94 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 System will likely remain bullish.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/21 - 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

NEW

AMZN – 1/3 position @$118.33

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 2 (LOW, AMZN)

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 @ $107.42 limit. – Based on short-term outlook I'm looking to add a 3rd lot...only one more to go.

AMZN – buy 1/3 position @ $118.33 limit. Based on Catapult system.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	6/23/2010	$109.57	$107.42	-1.96%		Aggregator
LOW	6/23/2010	$21.71	$21.24	-2.16%		Catapult
SPY	6/24/2010	$108.69	$107.42	-1.17%		Aggregator