

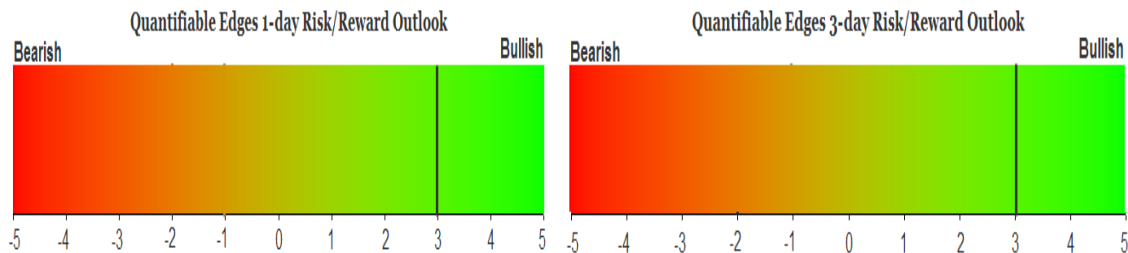
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 29, 2010

Volume 3 Issue 123

Market Overview



Tonight's Research Points

- Narrow range inside days below the 200ma are typically bearish. But situations with low volume and down closes have been exceptions in the past.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer remained long.

Short-term Outlook – updated 6/29

The Bottom Line

I'm a little worried that we've been in "supposed to bounce" mode for a while here and still haven't seen a good one. That said, the Aggregator is still pointing higher and I'm not seeing any solid bearish evidence based on the studies. Still long.

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 28, 2010	5 Lower Lows	1-3 days	Bullish	2.00%
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.

The Evidence

Monday was dull. Dull. Dull. When it was finally over the SPX was down 0.2%, the Nasdaq lost 0.1% and the Russell dropped 0.6%. Breadth was mildly negative as the NYSE Up Issues % came in at 45% and the Up Volume % was 40%. Total volume was the lightest this month.

The Quantifinder setups that triggered tonight all looked at the fact that today was an inside day with a low range. The study below is from the 12/11/08 Subscriber Letter. I have updated the stats tonight.

SPY posts an inside day under the 200ma. Range is the lowest in 5 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-51,662.08	43	22	21	51.16	2,695.00	-5,283.43	0.51	0.53	-1,201.44
14	-20,440.79	44	25	19	56.82	2,417.58	-4,256.86	0.57	0.75	-464.56
13	-24,787.81	45	23	22	51.11	2,516.80	-3,757.91	0.67	0.70	-550.84
12	-37,467.06	45	25	20	55.56	2,445.66	-4,930.43	0.50	0.62	-832.60
11	-14,173.93	46	26	20	56.52	2,739.20	-4,269.65	0.64	0.83	-308.13
10	4,940.12	48	27	21	56.25	2,901.59	-3,495.37	0.83	1.07	102.92
9	-9,939.56	49	28	20	57.14	2,526.60	-4,034.22	0.63	0.88	-202.85
8	-12,966.19	53	29	24	54.72	2,224.27	-3,227.92	0.69	0.83	-244.65
7	-32,363.53	55	27	27	49.09	2,124.03	-3,322.68	0.64	0.64	-588.43
6	-36,326.69	58	26	32	44.83	1,903.83	-2,682.07	0.71	0.58	-626.32
5	-30,493.93	59	28	30	47.46	1,685.15	-2,589.27	0.65	0.61	-516.85
4	-23,024.30	62	31	31	50.00	1,697.90	-2,440.61	0.70	0.70	-371.36
3	-29,233.14	66	30	36	45.45	1,795.73	-2,308.47	0.78	0.65	-442.93
2	-17,607.45	72	36	35	50.00	1,121.78	-1,656.90	0.68	0.70	-244.55
1	-18,289.58	73	35	38	47.95	874.14	-1,286.43	0.68	0.63	-250.54

This study would suggest that similar setups have struggled in the past. I decided to examine a few more attributes of today's action though. One that stood out was the low volume. For the SPY it was the lowest volume in over 20 days. I therefore re-ran the above test and segregated it by times it was accompanied by the lowest volume in a month and times it wasn't.

First let's look at times where SPY did NOT post the lowest volume in a month.

SPY posts an inside day under the 200ma. Range is the lowest in 5 days. SPY volume is NOT the lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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
20	-47,859.58	30	12	18	40.00	3,537.83	-5,017.42	0.71	0.47	-1,595.32
15	-46,481.49	33	19	14	57.58	2,041.70	-6,090.99	0.34	0.45	-1,408.53
14	-30,297.69	33	18	15	54.55	1,865.57	-4,258.53	0.44	0.53	-918.11
13	-29,122.35	33	17	16	51.52	1,936.49	-3,877.67	0.50	0.53	-882.50
12	-40,409.09	33	16	17	48.48	2,184.10	-4,432.63	0.49	0.46	-1,224.52
11	-29,500.05	34	16	18	47.06	2,374.30	-3,749.38	0.63	0.56	-867.65
10	-19,546.57	35	17	18	48.57	2,507.38	-3,454.00	0.73	0.69	-558.47
9	-22,783.89	35	17	17	48.57	1,971.32	-3,311.55	0.60	0.60	-650.97
8	-28,741.57	37	17	20	45.95	1,628.89	-2,821.63	0.58	0.49	-776.80
7	-41,933.78	38	15	22	39.47	1,567.03	-2,974.51	0.53	0.36	-1,103.52
6	-41,330.06	39	15	24	38.46	1,145.48	-2,438.01	0.47	0.29	-1,059.75
5	-22,126.17	40	19	21	47.50	1,394.36	-2,315.19	0.60	0.54	-553.15
4	-21,769.26	41	22	19	53.66	1,371.40	-2,733.69	0.50	0.58	-530.96
3	-22,556.04	43	22	21	51.16	1,384.07	-2,524.08	0.55	0.57	-524.56
2	-11,804.09	44	23	20	52.27	927.91	-1,657.30	0.56	0.64	-268.27
1	-17,947.70	44	21	23	47.73	587.11	-1,316.39	0.45	0.41	-407.90

These stats are even more compelling - both short and long term. So what does that mean for times like Monday when the volume did come in very low?

SPY posts an inside day under the 200ma. Range is the lowest in 5 days. SPY volume is lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	12,249.57	14	10	4	71.43	3,439.55	-5,536.48	0.62	1.55	874.97
9	12,855.21	14	10	4	71.43	3,331.57	-5,115.13	0.65	1.63	918.23
8	17,445.08	14	10	4	71.43	3,412.47	-4,169.91	0.82	2.05	1,246.08
7	14,587.68	14	10	4	71.43	3,528.50	-5,174.33	0.68	1.70	1,041.98
6	13,734.45	14	9	5	64.29	3,555.93	-3,653.78	0.97	1.75	981.03
5	12,174.32	14	9	5	64.29	3,255.18	-3,424.46	0.95	1.71	869.59
4	12,890.96	14	9	5	64.29	2,771.84	-2,411.12	1.15	2.07	920.78
3	9,586.42	14	8	6	57.14	3,141.67	-2,591.16	1.21	1.62	684.74
2	5,669.14	14	8	6	57.14	1,837.19	-1,504.73	1.22	1.63	404.94
1	435.75	14	6	8	42.86	1,697.18	-1,218.41	1.39	1.04	31.13

Instances are a bit low here, but there certainly doesn't appear to be a downside edge. In fact these statistics look fairly bullish. I didn't stop there, though. I also filtered on just those times that the close was down from the day before.

SPY closes down and posts an inside day under the 200ma. Range is the lowest in 5 days. SPY volume is lowest in 20 days. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	26,443.52	8	7	1	87.50	4,133.00	-2,487.45	1.66	11.63	3,305.44
9	23,890.91	8	7	1	87.50	3,672.89	-1,819.30	2.02	14.13	2,986.36
8	22,410.38	8	7	1	87.50	3,591.33	-2,728.95	1.32	9.21	2,801.30
7	21,053.76	8	7	1	87.50	3,221.58	-1,497.30	2.15	15.06	2,631.72
6	16,798.25	8	6	2	75.00	3,255.14	-1,366.30	2.38	7.15	2,099.78
5	11,244.28	8	6	2	75.00	2,667.88	-2,381.50	1.12	3.36	1,405.54
4	9,302.72	8	5	3	62.50	2,999.24	-1,897.83	1.58	2.63	1,162.84
3	12,422.16	8	5	3	62.50	3,361.59	-1,461.94	2.30	3.83	1,552.77
2	6,636.68	8	6	2	75.00	1,804.78	-2,095.99	0.86	2.58	829.59
1	-3,488.73	8	3	5	37.50	899.46	-1,237.42	0.73	0.44	-436.09

So now we are really getting a bit low on instances but the stats keep getting more and more bullish the more I compare action to Monday's. For those who might want to dig further, I've listed all the instances below assuming a 10-day exit.

SPY closes down and posts an inside day under the 200ma. Range is the lowest in 5 days. SPY volume is lowest in 20 days. Buy on close. Sell 10 days later. \$100k/trade. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
10/23/98	Buy	\$106.84	6.82%	\$7,218.20
11/06/98	Sell	\$114.13		(\$757.35)
04/16/01	Buy	\$117.60	6.22%	\$8,551.00
04/30/01	Sell	\$124.91		(\$493.00)
05/08/01	Buy	\$126.18	4.20%	\$4,680.72
05/22/01	Sell	\$131.48		(\$1,409.76)
07/03/01	Buy	\$124.10	(2.49%)	\$0.00
07/18/01	Sell	\$121.01		(\$5,643.05)
10/08/01	Buy	\$106.53	2.76%	\$4,333.56
10/22/01	Sell	\$109.47		(\$947.38)
12/24/01	Buy	\$114.73	0.73%	\$2,839.46
01/09/02	Sell	\$115.57		(\$801.32)
08/12/02	Buy	\$90.62	5.12%	\$7,202.59
08/26/02	Sell	\$95.26		(\$2,867.80)
07/25/08	Buy	\$125.48	3.10%	\$3,542.20
08/08/08	Sell	\$129.37		(\$1,639.76)

As with any series of tests, these are open to interpretation. The general pattern of low range, inside day below the 200ma appears to have bearish connotations. Days like Monday, though appear to be the kind that are the exception to the rule. And while the

stats are very positive in the last test, with the larger pattern being negative and the instances low, I'm more inclined to treat it as the exception than as a separate rule. So I won't be adding results from this series of tests to the Active Studies list. Instead I'll wait to see what tomorrow's action suggests and then take it from there.

I have updated the [Aggregator](#) chart below.



With nothing but bullish studies still, the green Aggregator line again remains well above 0. This represents higher net expectations from the Active Studies over the next few days. Meanwhile the black Differential line illustrates the SPX has substantially underperformed expectations over the last few days. So we have positive expectations and a market that is oversold versus recent expectations. This setup has historically provided a bullish edge. 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 strong bearish evidence could change that outlook. Meanwhile the Differential pivot will be 1,082.77 tomorrow. This means it would take an SPX close at or above this level in order for the black Differential line to turn negative. From today's close that's a little over an 8 point move.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/28 - slightly bullish

After attempting to break out of a double bottom formation 2 weeks ago, the SPX got smacked right back down into the middle of that double bottom pattern this past week. On the week it lost over 3.5% and likely has put a quite a scare into traders that bought the breakout. We did see overall fear spike a bit this week with sentiment measures like the VIX and the CBOE Equity put/call ratios rising from complacent to mildly overdone levels.

I also got some notes about the fact that some intermediate and long term moving averages were starting to cross downward and that this was a potential bad sign. For instance on Friday the 40ma crossed and closed beneath the 200ma. Since 1960 when the 40ma has been below the 200ma the market has done slightly worse than breakeven. The performance has been pretty typical of what you see on the “short” side of a long-term moving average crossover system. For the 40/200 since 1961 there have been 25 down crosses. If you shorted every one and then covered or went long when the averages crossed again you would have made a profit 8 times and lost money 17 times. Obviously slightly better than breakeven short-side results were primarily due to a few sizable bear markets. During these times the winning short trades made up for all the instances where the market chopped lower and then rose again. The last signal which lasted from 12/13/07 to 6/18/09 was good for over a 38% gain on the short side. This actually accounts for nearly 30% of all short-side gains over the last 50 years.

I’m not a big fan of trading a moving average crossover system like this. I do think it could do a decent job of keeping someone out of the market if a massive bear market is about to begin. But bear markets create their own kind of opportunities – many of which occur in a short or swing-style time frame. So if a bear market does occur after this cross it should be viewed opportunistically rather than with great trepidation.

Personally, I still think the market is unlikely to fall into a protracted bear market at this point. We’ve seen fear and volatility levels hit areas that are capable of launching bull markets several times over the last month and a half. A number of breadth studies have also suggested the intermediate-term outlook favors the upside. I believe the market still has an attempt at new highs in it. And with the short-term outlook so full of bullish studies the move back up could begin at any moment.

Some upside confirmation would be helpful. A move higher in the next few days could mark a higher low on the SPX chart. Additional confirmation could come in the form of the SPX sticking above its 200ma and 50ma and making a few higher highs. So I don’t want to get carried away just yet, but I’m leaning slightly towards the long side.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

LOW – 1/3 position @ \$21.76

AMZN – 1/3 position @\$118.33

RTN – 1/3 position @\$50.38 limit

MSFT – 1/3 position @ \$24.53 limit

MON – 1/3 position @ \$48.27 limit

NEW

F – 1/3 position @\$10.43 limit

MSFT – 1/3 position @ \$24.31 limit

MON – 1/3 position @ \$47.80 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 8 (LOW, AMZN, RTN, MSFT-2, MON-2, F)

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.

F – 1/3 position @\$10.43 limit

MSFT – 1/3 position @ \$24.31 limit

MON – 1/3 position @ \$47.80 limit

All 3 of these are based on the Catapult System. For a 30-minute presentation on the system, use the [Catapult & CBI Presentation Link](#). Note that Catapult system code is NOT fully revealed.

Since Monday's action was a bit unclear in my eyes I will hold off for now on entering the 4th and final lot of the SPY trade. Perhaps tomorrow depending on action and studies. Plenty of Catapults happening, though.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	6/23/2010	\$109.57	\$107.53	-1.86%		Aggregator
LOW	6/23/2010	\$21.71	\$21.23	-2.21%		Catapult
SPY	6/24/2010	\$108.69	\$107.53	-1.07%		Aggregator
SPY	6/25/2010	\$107.42	\$107.53	0.10%		Aggregator
AMZN	6/25/2010	\$118.14	\$117.80	-0.29%		Catapult
RTN	6/28/2010	\$50.38	\$50.59	0.42%		Catapult
MSFT	6/28/2010	\$24.51	\$24.31	-0.82%		Catapult
MON	6/28/2010	\$48.27	\$47.80	-0.97%		Catapult

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