

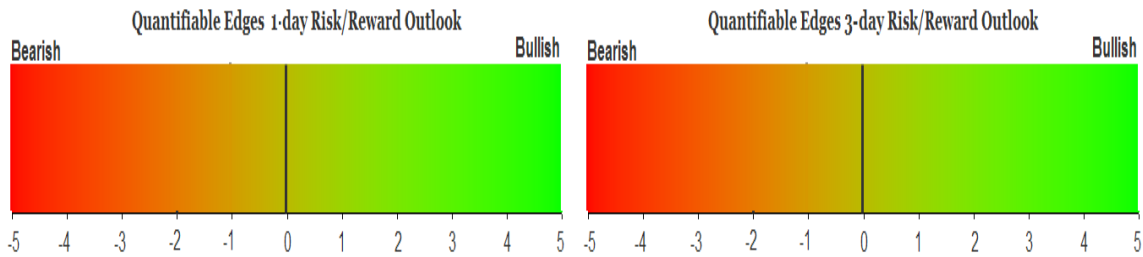
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 28, 2010

Volume 3 Issue 143

Market Overview



Tonight's Research Points

- Down close with higher high and higher low after a 3-day rise suggest bullish short-term tendencies.
- The Aggregator System turned flat.
- The NDX Aggressive Trend Timer switched to long.

Short-term Outlook

The Bottom Line

Another bullish study tonight suggesting a bounce. Market still overbought though so I'm neutral.

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				
July 28, 2010	Higher hi, higher low streak, dn close	1-4 days	Bullish	1.60%
July 27, 2010	3 70% Up Issues Days	1-2 days	Bullish	1.80%
July 27, 2010	3 up 2 lower vol SPX > 200ma	1-3 days	Bearish	-1.20%
July 26, 2010	2 70% Up Days under 200ma 20 hi	1-3 days	Bearish	1.40%
Active - Long Term				
July 26, 2010	Nasdaq/S&P RS favors Nasdaq	int term	Bullish	
July 20, 2010	Down 1 week after FTD	int term	Bearish	
July 14, 2010	75% Up Issue twice in 3 days	1-20 days	Bullish	
July 13, 2010	5 higher close from a 50-day low	int term	Bullish	
July 7, 2010	McClellan Oscillator Bottom Divergence	int term	Bullish	
July 5, 2010	5 down under 200 and 50 low	1-20 days	Bullish	
Dropped Tonight				
July 26, 2010	SPY 20-hi under 200ma. Volume lower.	1-2 days	Bearish	-1.70%
July 20, 2010	2% drop. Then Up Issue%>60, dn vol	1-6 days	Bearish	-5.50%

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

The Evidence

After gapping up to start the day the market ended gently lower this afternoon. The SPX was down 0.1%, the Nasdaq fell 0.4% and the Russell 2000 closed 0.5% lower. Breadth was mildly negative with the NYSE Up Issues % coming in at 43% and the Up Volume % at 44%. Total volume rose slightly from Monday's levels.

While the SPY closed lower today, it still managed to make another higher high and higher low. This triggered a study last shown in the 12/30/09 Subscriber Letter.

SPY makes at least 3 consecutive higher highs, lows, and closes. It then closes down on the day but still makes a higher high and a higher low. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	11,122.49	21	13	8	61.90	1,973.59	-1,816.77	1.09	1.77	529.64
4	9,786.11	21	15	6	71.43	1,276.22	-1,559.53	0.82	2.05	466.01
3	8,437.82	21	14	7	66.67	1,184.23	-1,163.05	1.02	2.04	401.80
2	7,615.04	21	16	5	76.19	927.07	-1,443.61	0.64	2.06	362.62
1	7,033.22	21	13	8	61.90	751.20	-341.56	2.20	3.57	334.92

19 of 21 instances (90.5%) closed above the entry price at some point in 4 days.

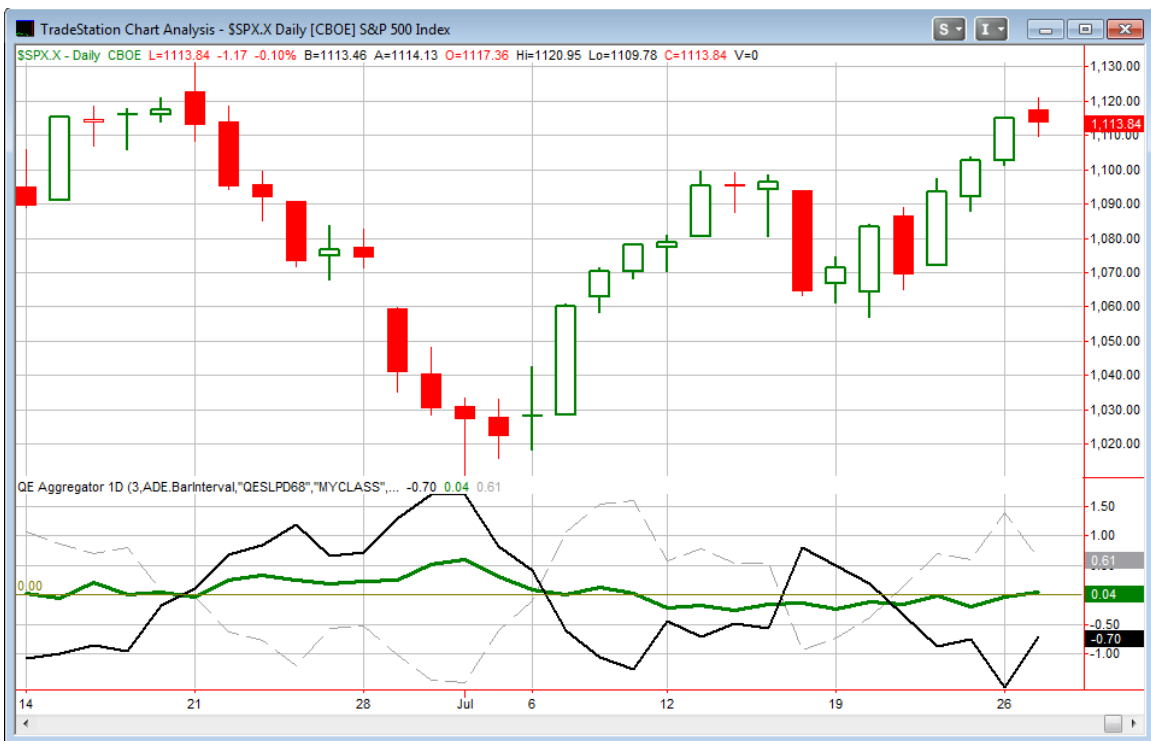
Despite the slightly lower close, the higher high and higher low suggest momentum may still favor the bulls.

One study with potential short-term bearish consequences that appeared tonight looked at the declining number of new highs while the SPX was hitting a new intraday high. Buy while my Tradestation data showed a contraction in new highs, my other data provider showed a slight expansion. I therefore did not include the study on tonight's active list. I did show it below (though stats are not updated).

Yesterday the # of NYSE new 52-week highs was the highest in 10 days.
 Today SPX makes a 10-day intraday high but new highs contract.
 Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-46,322.69	68	30	38	44.12	2,033.53	-2,824.44	0.72	0.57	-681.22
9	-41,666.66	69	34	35	49.28	1,744.12	-2,884.77	0.60	0.59	-603.86
8	-38,984.77	72	38	34	52.78	1,515.25	-2,840.12	0.53	0.60	-541.46
7	-22,025.87	72	41	31	56.94	1,550.45	-2,761.11	0.56	0.74	-305.91
6	-13,655.04	76	38	38	50.00	1,887.76	-2,247.10	0.84	0.84	-179.67
5	-14,204.33	80	43	37	53.75	1,337.75	-1,938.58	0.69	0.80	-177.55
4	-10,598.00	82	42	40	51.22	1,343.14	-1,675.25	0.80	0.84	-129.24
3	-16,784.07	85	42	43	49.41	1,005.42	-1,372.36	0.73	0.72	-197.46
2	-17,586.65	88	40	48	45.45	915.40	-1,129.22	0.81	0.68	-199.85
1	-24,879.66	88	36	52	40.91	422.23	-770.77	0.55	0.38	-282.72

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



Another bullish study tonight pushed the green Aggregator line back above 0. The positive Aggregator line value indicates the net expectation from the Active Studies over the next few days is for upside. Meanwhile the black Differential line shows the SPX has outperformed expectations over the last few days. So we have positive expectations but a market that is already overbought versus recent expectations. This is considered a neutral configuration. Therefore the Aggregator System turned flat at the close.

With the current studies the green Aggregator line is set up to remain positive tomorrow. Of course bearish evidence could change this. Meanwhile the Differential pivot will be 1,098.57 tomorrow. This means it would take an SPX close at or below this level in order for the black Differential line to turn back positive.

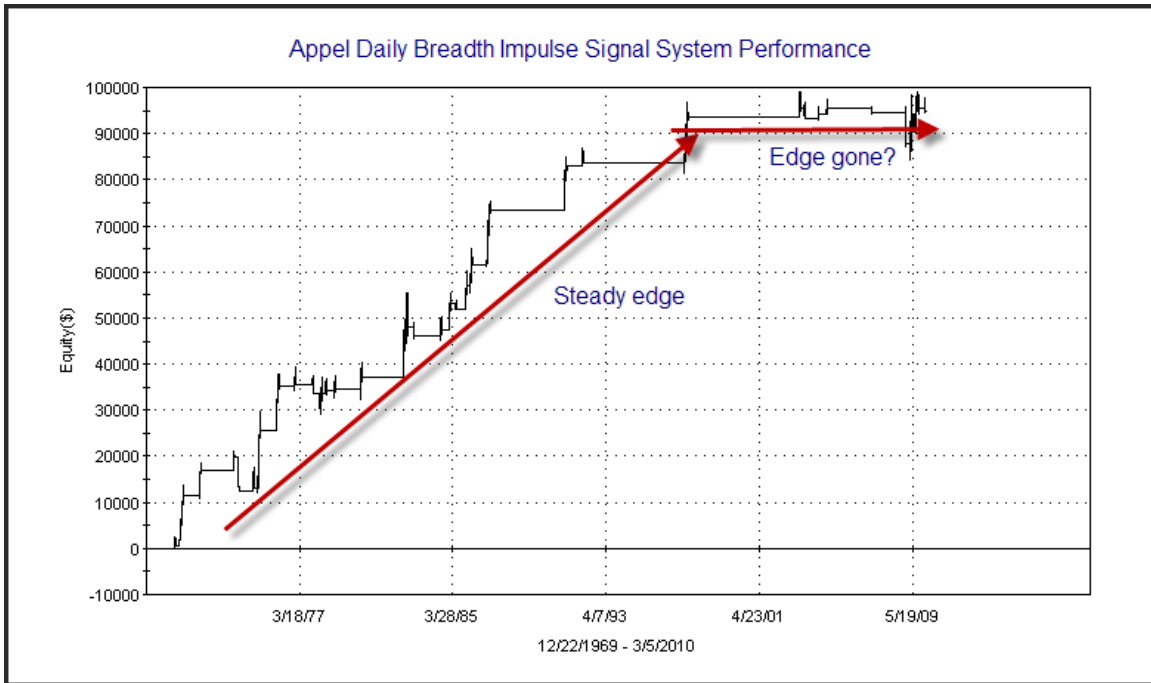
While a bounce seems more likely in the next day or two, I don't see a huge edge for the time being. I'll wait until I do before getting positioned aggressively. I am going to look to cover my current short – details in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/26 – somewhat bullish

Two new studies with possible positive intermediate-term implications triggered on Friday. One was an Appel Daily Breadth thrust signal and the other was a flip in the Nasdaq/S&P 500 Relative Strength Indicator.

I last discussed the Appel Daily Breadth Impulse Signal in the 3/8/10 Subscriber Letter. Here is an excerpt:

Another interesting breadth achievement from Friday that was identified by the Quantifinder was the triggering of Gerald Appel's Daily Breadth Impulse Signal from his book "Technical Analysis – Power Tools for Active Investors". The signal is activated when the 10ema of the Up Issue % hits a certain point and is removed when it drops below a certain point. I am not giving specifics because it is not my copyrighted work. You see can details on pages 142 – 145 of his book. From 1970 – 2003 this indicator was a pretty good buy signal as these breadth thrusts often led to significant rallies. In recent years it has faltered a bit. Below is a long-term performance graph.



This is the 9th signal since 2005. Below is a listing of how all the recent ones worked out.

Appel Daily Breadth Impulse Signal System Performance				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
03/21/07	Daily Breadth	\$1,435.04	(1.24%)	\$265.65
03/28/07	Sell	\$1,417.23		(\$1,446.93)
01/02/09	Daily Breadth	\$931.80	(6.60%)	\$1,289.35
01/12/09	Sell	\$870.26		(\$7,220.36)
03/18/09	Daily Breadth	\$794.35	(0.86%)	\$4,825.00
03/30/09	Sell	\$787.53		(\$3,518.75)
04/02/09	Daily Breadth	\$834.38	5.94%	\$11,399.01
05/13/09	Sell	\$883.92		(\$2,362.15)
06/01/09	Daily Breadth	\$942.87	(2.03%)	\$1,416.16
06/15/09	Sell	\$923.72		(\$2,461.32)
07/16/09	Daily Breadth	\$940.74	4.14%	\$8,189.56
08/17/09	Sell	\$979.73		(\$645.54)
09/10/09	Daily Breadth	\$1,044.14	0.64%	\$3,420.95
09/24/09	Sell	\$1,050.78		(\$868.30)
12/24/09	Daily Breadth	\$1,126.48	(0.89%)	\$2,109.36
01/21/10	Sell	\$1,116.48		(\$1,026.96)
03/05/10	Daily Breadth	\$1,138.70	n/a	\$0.00
open	n/a	\$1,138.70		\$0.00

Certainly this is not as strongly suggestive as it once was. The question now is whether it is providing any edge at all. Rather than put much faith in it I'll just continue to monitor it for the time being.

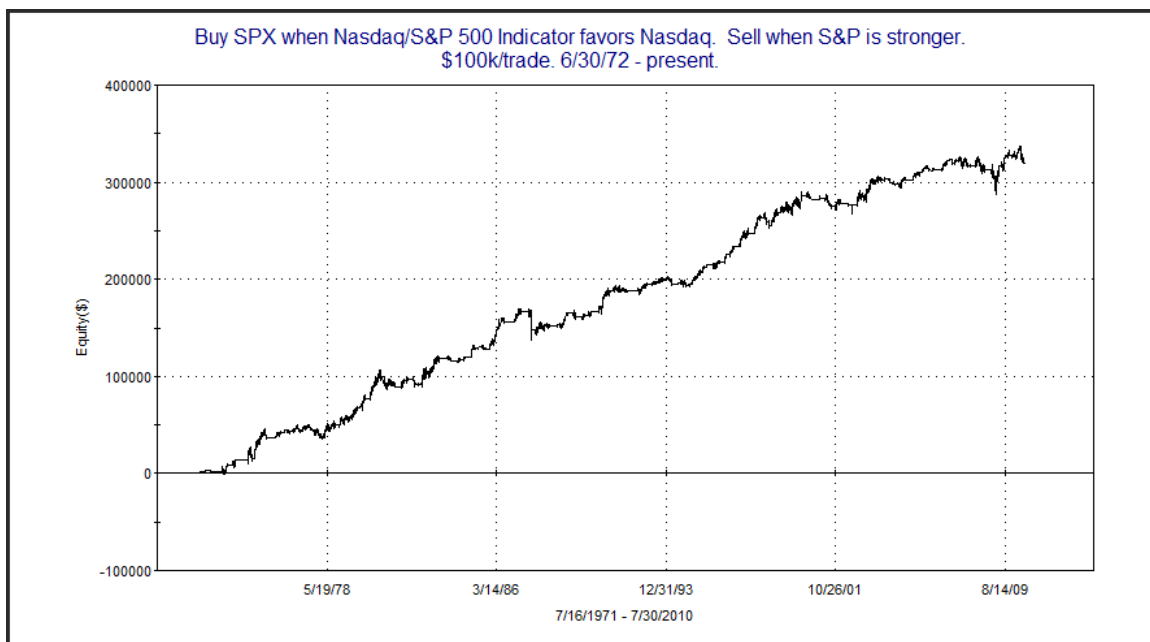
Since I wrote this there have been 2 signals. The 1st was from 3/5/10 to 4/19/10 and it posted a gain of 5.17%. The 2nd signal lasted from 6/15 – 6/22 and it posted a loss of 1.79%. As I did in March I'll just continue to monitor this signal rather than give it substantial weight in my intermediate-term bias.

The Nasdaq/S&P 500 Relative Strength indicator is found on the charts page. I wrote about that indicator in detail on the blog last year. Links are below:

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

<http://quantifiableedges.blogspot.com/2009/06/tweaking-nasdaqs-leadlag-model.html>

The bottom line with this indicator is that the market has historically performed substantially better when the Nasdaq has led the S&P 500. Below is an equity curve of a simple strategy that uses the indicator:



As you can see the indicator has provided a nice edge on a fairly consistent basis. But since last October the indicator has not worked so well. Below is a list of all signals over this recent time period.

Nasdaq / S&P 500 RS triggers. 10/16/2009 - present.				
Date/Time	Signal	Price	% Profit	Run-up DrawDown
10/23/09	Buy	\$1,079.60	(4.02%)	\$1,117.80
10/30/09	Sell	\$1,036.19		(\$4,238.44)
12/04/09	Buy	\$1,105.98	(2.90%)	\$4,002.30
01/29/10	Sell	\$1,073.87		(\$3,095.10)
02/12/10	Buy	\$1,075.51	3.29%	\$13,274.68
05/07/10	Sell	\$1,110.88		(\$894.24)
05/14/10	Buy	\$1,135.68	(4.23%)	\$1,142.24
05/21/10	Sell	\$1,087.69		(\$7,020.64)
05/28/10	Buy	\$1,089.41	0.20%	\$1,479.66
06/11/10	Sell	\$1,091.60		(\$4,298.84)
06/18/10	Buy	\$1,117.51	(3.65%)	\$1,221.08
06/25/10	Sell	\$1,076.76		(\$4,416.18)

While I don't think a relatively short period like this should raise big alarms, I do think it is worth noting that the indicator has been out of sync lately.

Part of what I believe has made the indicator effective over time is the fact that it has done a decent job of measuring risk appetite. Since the Nasdaq has traditionally been more risky than the SPX when the Nasdaq is leading then that means investors are more willing to accept risk. In recent times though, financials, which make up a large part of the SPX, have been viewed as one of the riskiest sectors. Over the last few months there has been a lot of focus on bank problems in Greece, Spain, and Portugal among others. So perhaps in recent times risk acceptance was occurring when the SPX was leading and not the Nasdaq.

So if technology is viewed as riskier than financials again this indicator may again become effective.

Friday's signal occurred the same day that stress tests of European banks came back with favorable results. Perhaps this could signal a return to normalcy for this indicator and an upside edge for the market.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

none

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 0

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 tonight. Our short-entry just missed filling at the open.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	7/23/2010	\$109.90	\$111.56	-1.51%		cover @ \$111.60 limit

I'll likely use a stop-market order if this goes more than ½ hour without filling.

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