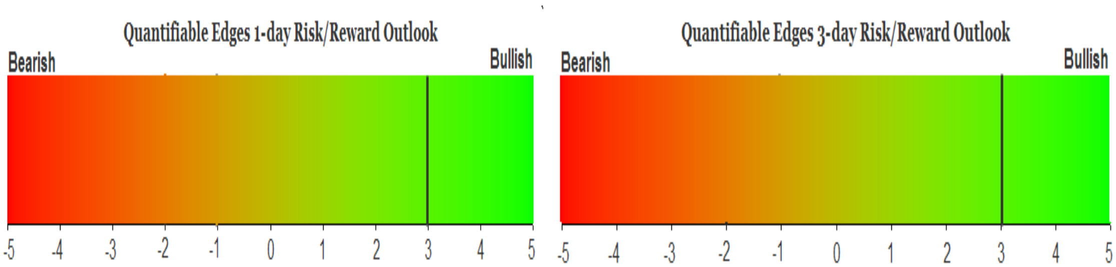
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 13, 2010 Volume 3 Issue 155

Market Overview



Tonight's Research Points

- Market drop decelerated today – a sign a bounce may be near.
- The large gap and partial reversal suggests more upside over the next couple of days.
- The Aggregator System remained long.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

The Active Studies list below is showing nothing but bullish studies for the short-term. I'm anticipating a bounce an am positioned to take advantage of it.

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				
August 13, 2010	SPX 3 lower closes - today is mild	1-3 days	Bullish	1.60%
August 13, 2010	1% Gap down, 10-low, partial fill	1-2 days	Bullish	3.50%
August 12, 2010	1% gap. Open top 12% Close bottom 12%	1-3 days	Bullish	4.70%
August 12, 2010	Less than 3% Up Volume	1-2 days	Bullish	2.75%
August 12, 2010	2 Unfilled Down Gaps	1-5 days	Bullish	2.46%
Active - Long Term				
August 3, 2010	50 high 90% volume	1-25 days	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	

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

The Evidence

After 2 days of selling the market opened very poorly again on Thursday. Prices were bid up right from the start as the low was establish in the first minute or so of trading. The rally died out before noon though and for the 3rd day in a row the down gap went unfilled in the SPY. The end numbers were much better than the start, but still down quite a bit. The SPX lost 0.5%, the Nasdaq lost 0.8% and the Russell 2000 lost 0.6%. Breadth was tilted negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 38%. Total volume fell from Wednesday's level.

The Quantifinder had nothing but green tonight. I'll discuss the most compelling studies below. This first one was from the 6/24/10 Subscriber Letter. It looked at other times the market had endured a 3-day pullback from a high and the strength of the pullback seemed to be waning. In this case I required the size of the day's decline to be the smallest of the downmove in order to suggest waning strength.

SPX has at least 3 lower closes. Today is the mildest drop of the decline. Just prior to the pullback, SPX closed at a 20-day high. Buy 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	52,830.14	36	26	10	72.22	2,567.97	-1,393.72	1.84	4.79	1,467.50
9	49,399.95	36	26	10	72.22	2,520.61	-1,613.59	1.56	4.06	1,372.22
8	40,598.42	36	26	10	72.22	2,283.77	-1,877.97	1.22	3.16	1,127.73
7	35,052.07	37	24	13	64.86	2,356.48	-1,654.12	1.42	2.63	947.35
6	37,635.72	37	24	13	64.86	2,167.21	-1,105.94	1.96	3.62	1,017.18
5	32,395.17	37	26	11	70.27	1,953.86	-1,673.20	1.17	2.76	875.55
4	34,626.81	37	22	15	59.46	2,276.52	-1,030.44	2.21	3.24	935.86
3	34,280.69	37	26	11	70.27	1,748.09	-1,015.42	1.72	4.07	926.51
2	25,117.01	38	27	11	71.05	1,281.49	-862.12	1.49	3.65	660.97
1	12,899.10	42	28	13	66.67	778.88	-685.36	1.14	2.45	307.12

89% of instances posted a close above the entry price at some point in the next week.

Solid consistent results suggestive of a bounce. Much of the edge is exhausted here within the 1st 3 days though.

Also notable about today's action was the partial recovery from the large gap down. Below is a study last shown in the 2/16/10 Subscriber Letter that look at just this scenario.

SPY gaps down over 1%, closes down on the day but more than 0.5% above the open.
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
10	39,813.87	31	21	10	67.74	4,045.64	-4,514.46	0.90	1.88	1,284.32
9	48,428.55	32	24	8	75.00	3,304.18	-3,858.97	0.86	2.57	1,513.39
8	58,061.97	34	21	13	61.76	4,176.37	-2,280.14	1.83	2.96	1,707.71
7	53,623.39	34	23	11	67.65	3,891.31	-3,261.53	1.19	2.49	1,577.16
6	60,315.73	35	26	9	74.29	3,691.68	-3,963.12	0.93	2.69	1,723.31
5	49,159.34	37	23	14	62.16	3,845.68	-2,806.53	1.37	2.25	1,328.63
4	42,146.96	39	24	15	61.54	3,386.21	-2,608.14	1.30	2.08	1,080.69
3	28,295.91	41	26	15	63.41	2,576.92	-2,580.27	1.00	1.73	690.14
2	58,833.27	41	30	11	73.17	2,656.05	-1,895.29	1.40	3.82	1,434.96
1	38,119.39	41	26	15	63.41	2,386.14	-1,594.68	1.50	2.59	929.74

33 of 41 instances (80%) closed above the entry price on either day 1 or day 2.

Here we see a high probability, high octane thrust appear in the 1st two days. Beyond that there is some minor upside.

One aspect of the current setup that I thought was worth examining more was that the SPY also made a new 10-day low today. This has occurred in nearly half the instances above. I ran the numbers to see how performance might be affected by using this filter as well.

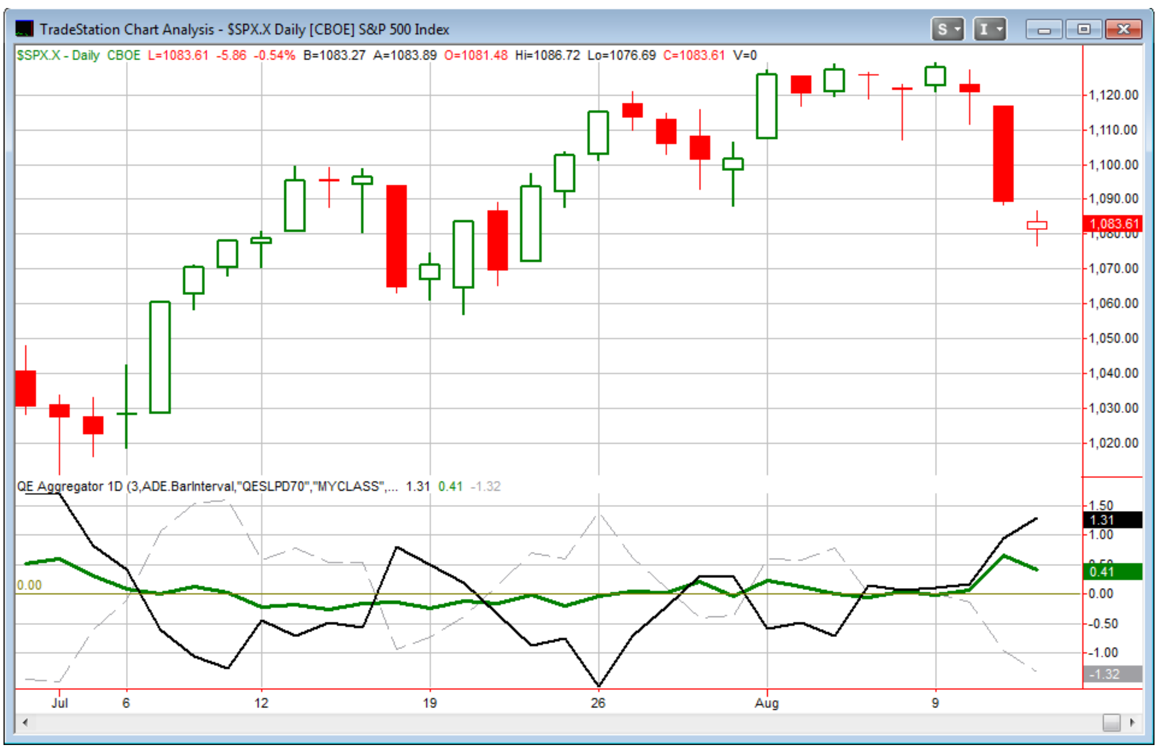
SPY gaps down over 1%, makes a 10-day intraday low then closes down on the day but more than 0.5% above the open. Buy on close. Sell X days later. $100k/trade. 1993 - present.

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	23,641.03	18	10	8	55.56	4,213.77	-2,312.08	1.82	2.28	1,313.39
4	26,934.11	19	11	8	57.89	4,010.72	-2,147.98	1.87	2.57	1,417.58
3	23,626.04	19	13	6	68.42	2,578.79	-1,649.70	1.56	3.39	1,243.48
2	37,561.89	19	14	5	73.68	3,413.89	-2,046.51	1.67	4.67	1,976.94
1	26,918.13	19	13	6	68.42	2,902.09	-1,801.50	1.61	3.49	1,416.74

16 of 19 instances (84%) closed above the entry price on either day 1 or day two.

The numbers here aren't greatly different than without the filter. The average trade does spike up quite a bit though. This is likely because more volatility is present during periods where the SPY is coming off a low.

I have updated the Aggregator chart below.



More bullish studies added to the list and not a short-term bearish one in site mean the green Aggregator line is comfortably above zero. The strongly positive value indicates the net expectation from the Active Studies over the next few days is for upside. The black Differential line also remains high as the SPX has soundly underperformed expectations over the last few days. So we have strongly positive expectations and a market that is very oversold versus recent expectations. This is considered a bullish configuration and is shown when both lines are above 0. Due to this the Aggregator System remained long at the close.

Currently the green Aggregator line is set up to remain positive tomorrow. It would take some very bearish studies to change this. Meanwhile the Differential pivot will be 1,121.09 tomorrow. This means it would take a close at or above this level in order to turn the black Differential line negative. That would be over a 3.5% gain from Thursday's close.

It appears probabilities favor a multi-day bounce coming in here in the next day or two.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/9 – bullish

Monday's SPX breakout on strong breadth led to a few studies with intermediate-term implications that appear in the August 3rd Letter Monday night. They both looked at times the market hit new 50-day highs on extremely strong breadth. The first one simply looked at any 50-day high on a 90% or greater NYSE Up Volume %.

SPX closes at a 50-day high while the NYSE Up Volume % close > 90%. Buy on close. Sell X days later. $100k/trade. 1970 - 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
21	66,250.56	16	13	3	81.25	5,314.80	-947.29	5.61	24.31	4,140.66
20	59,416.79	17	13	4	76.47	5,105.66	-1,739.19	2.94	9.54	3,495.11
19	56,188.99	17	14	3	82.35	4,568.72	-2,591.04	1.76	8.23	3,305.23
18	52,597.01	17	13	4	76.47	4,768.23	-2,347.49	2.03	6.60	3,093.94
17	45,628.34	17	13	4	76.47	4,442.24	-3,030.20	1.47	4.76	2,684.02
16	43,642.00	17	12	5	70.59	4,744.13	-2,657.51	1.79	4.28	2,567.18
15	45,653.48	17	13	4	76.47	4,391.20	-2,858.02	1.54	4.99	2,685.50
14	35,151.48	18	13	5	72.22	4,142.55	-3,740.34	1.11	2.88	1,952.86
13	30,920.05	18	13	5	72.22	3,773.18	-3,626.26	1.04	2.71	1,717.78
12	33,165.24	18	11	7	61.11	4,500.07	-2,333.65	1.93	3.03	1,842.51
11	37,504.81	18	11	7	61.11	4,264.55	-1,343.60	3.17	4.99	2,083.60
10	35,501.76	18	12	6	66.67	3,824.66	-1,732.36	2.21	4.42	1,972.32
9	25,265.04	18	11	6	61.11	3,476.45	-2,162.66	1.61	2.95	1,403.61
8	24,873.22	18	12	6	66.67	3,305.37	-2,465.20	1.34	2.68	1,381.85
7	24,220.47	18	12	6	66.67	3,197.44	-2,358.14	1.36	2.71	1,345.58
6	25,043.14	18	12	6	66.67	2,797.62	-1,421.39	1.97	3.94	1,391.29
5	29,139.19	19	15	4	78.95	2,331.05	-1,456.62	1.60	6.00	1,533.64
4	23,823.24	19	16	3	84.21	1,935.10	-2,379.47	0.81	4.34	1,253.85
3	20,616.55	19	14	5	73.68	1,778.35	-856.06	2.08	5.82	1,085.08
2	20,893.52	19	17	2	89.47	1,261.72	-277.87	4.54	38.60	1,099.66
1	13,553.71	20	14	6	70.00	1,119.17	-352.45	3.18	7.41	677.69

These results suggested bullish tendencies both in the short-term and the intermediate-term.

I also examined the implications of fresh breakouts to new highs versus a repeated new high. Fresh breakouts typically provide a better edge and I found that was true in this case as well. This 2nd study from the August 3rd letter demonstrated this.

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
25	50,143.03	10	9	1	90.00	5,867.85	-2,667.60	2.20	19.80	5,014.30
20	45,876.72	10	7	3	70.00	7,144.22	-1,377.60	5.19	12.10	4,587.67
15	38,685.53	10	7	3	70.00	6,262.94	-1,718.35	3.64	8.50	3,868.55
10	35,095.45	10	8	2	80.00	4,657.74	-1,083.25	4.30	17.20	3,509.55
9	29,807.00	10	7	2	70.00	4,616.82	-1,255.38	3.68	12.87	2,980.70
8	26,436.14	10	8	2	80.00	3,968.24	-2,654.88	1.49	5.98	2,643.61
7	26,064.35	10	8	2	80.00	3,950.95	-2,771.63	1.43	5.70	2,606.44
6	21,595.12	10	8	2	80.00	3,382.30	-2,731.65	1.24	4.95	2,159.51
5	24,817.77	10	8	2	80.00	3,549.12	-1,787.58	1.99	7.94	2,481.78
4	17,452.07	10	8	2	80.00	2,867.70	-2,744.75	1.04	4.18	1,745.21
3	21,710.82	10	9	1	90.00	2,432.15	-178.50	13.63	122.63	2,171.08
2	17,810.14	10	10	0	100.00	1,781.01	0.00	100.00	100.00	1,781.01
1	12,193.10	10	9	1	90.00	1,362.43	-68.80	19.80	178.23	1,219.31

SPX closes at a 50-day high after not having done so for at least 10 days.
NYSE Up Volume % > 90%. Buy SPX on close. Sell X days later. $100k/trade. 1970 - present.

Follow through so far has been weak. Wednesday (day 2) is the only day that the market closed above Monday at this point. But down days have been muted and with the short-term outlook now appearing positive we could get another leg up here soon.

Overall there are still a good number of intermediate-term studies in effect suggesting upside. Meanwhile, very little is appearing that would favor the bears. I'm still feeling more comfortable buying the dips than I am shorting the rallies.

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.

KO – buy @ $55.69 limit. This is from the triggers spreadsheet on the Systems page. System 11111 is the setup here. It hasn't been the best of the numbered systems but it has done fairly well over the last few years. Trades that have triggered in conjunction with an Aggregator buy signal have done well and I currently like both the KO setup and the broad market's chance of bouncing.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IJR	8/9/2010	$57.50	$54.71	-4.85%		System 90609
SPY(1/4)	8/11/2010	$109.30	$108.63	-0.61%		Aggregator
SPY(1/4)	8/12/2010	$107.65	$108.63	0.91%		bought on open

Note on numbered systems

The long neglected numbered system pages are finally almost done being updated. I should get them finished by Monday. I will host a webinar next week exclusively for gold subscribers to go over them and answer any questions. (Yes it has been a few weeks since the last webinar – sorry.) In the meantime you'll note the individual system pages are being updated with new stats and observations about those stats.