

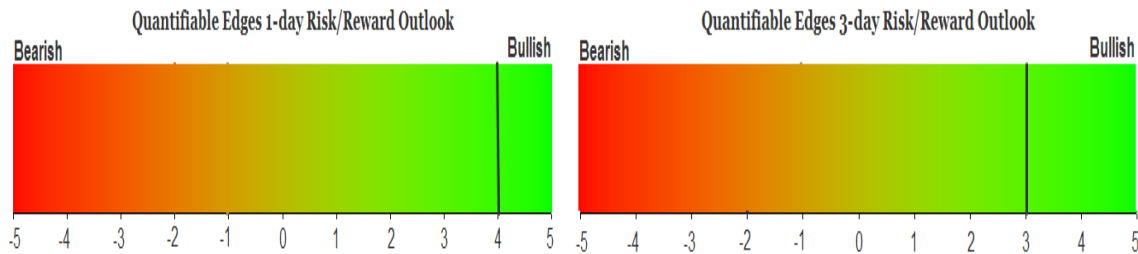
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 24, 2010

Volume 3 Issue 162

## Market Overview



## Tonight's Research Points

- 3 Down Days heading into a Turnaround Tuesday has historically provided a solid upside edge.
- The low HV with no new highs being hit is a bad sign.
- The Aggregator System turned long.
- The NDX Aggressive Trend Timer remained long.

## Short-term Outlook

### The Bottom Line

More bullish evidence tonight has me looking to add long exposure. I'm looking to take advantage of a bounce in the next few days.

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
<b>Active</b>				
August 20, 2010	3 lower closes into Turnaround Tuesday	1-9 days	Bullish	3.70%
August 20, 2010	SPY gap dn no fill sell 1% more < 200	1-8 days	Bearish	-3.20%
August 20, 2010	SPX down 1%. Decliners 2x advancers	1-9 days	Bullish	3.00%
August 20, 2010	SPY gap dn no fill sell 1% more < 200	1-3 days	Bearish	-3.00%
<b>Active - Long Term</b>				
August 16, 2010	1 (borderline) Hindenburg Omen Day	int term	Bearish	
August 3, 2010	50 high 90% volume	1-25 days	Bullish	
July 20, 2010	Down 1 week after FTD	int term	Bearish	
July 7, 2010	McClellan Oscillator Bottom Divergence	int term	Bullish	
<b>Dropped Tonight</b>				
August 19, 2010	3 up SPX < 200ma. No 50-low. Wk vol	1-3 days	Bearish	-2.70%
August 17, 2010	SPY 5th lower gap down	1-5 days	Bullish	4.70%
August 23, 2010	Down Friday	1 Day	Bullish	
August 16, 2010	SPX 3 lower closes & decline slowing	1-5 days	Bullish	2.20%

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

## The Evidence

The market started Monday off strongly but the good feeling didn't last. As the day came to a close the market gave away the last of its gains and the selling accelerated a bit, leaving the indices squarely negative. The SPX held up the best with a 0.4% drop. The Nasdaq fell 0.9% and the Russell lost a sizable 1.3%. Breadth finished negative as the NYSE Up Issue % came in at 38% and the Up Volume % was just 32%. Total volume declined to the lowest level in a week.

A few conflicting studies appeared in the Quantifinder tonight. I'll discuss some of the more significant ones below.

This first study was last seen in the 7/7/10 Subscriber Letter. It look at other times that historical volatility had been hitting new lows while the price had been failing to reach new highs for the SPX. Declining historical volatility will often suggest some complacency among market participants. Complacency was also seen in the very low CBOE Equity Put/Call Ratio today. I chose to use the HV study instead since the results were more compelling than the p/c studies I looked at.

20-day historical volatility makes a new 20-day low for at least the 3rd time in the last 10 days. SPX has 0 20-day highs in the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-27,554.84	21	10	11	47.62	3,883.41	-6,035.36	0.64	0.58	-1,312.14
19	-20,626.89	21	11	10	52.38	3,571.17	-5,990.97	0.60	0.66	-982.23
18	-32,491.19	21	10	11	47.62	3,271.74	-5,928.05	0.55	0.50	-1,547.20
17	-30,601.82	21	8	13	38.10	3,817.91	-4,703.47	0.81	0.50	-1,457.23
16	-42,081.81	21	8	13	38.10	2,952.64	-5,054.07	0.58	0.36	-2,003.90
15	-37,109.51	21	8	13	38.10	2,960.98	-4,676.72	0.63	0.39	-1,767.12
14	-20,419.84	21	8	13	38.10	3,402.07	-3,664.34	0.93	0.57	-972.37
13	-12,871.93	21	10	11	47.62	2,646.77	-3,576.33	0.74	0.67	-612.95
12	-15,259.98	22	10	12	45.45	2,429.97	-3,296.64	0.74	0.61	-693.64
11	-21,324.38	22	10	12	45.45	2,277.95	-3,675.33	0.62	0.52	-969.29
10	-28,648.44	22	10	12	45.45	2,122.25	-4,155.91	0.51	0.43	-1,302.20
9	-27,110.61	22	8	14	36.36	2,354.06	-3,281.65	0.72	0.41	-1,232.30
8	-35,471.10	24	8	16	33.33	1,947.68	-3,190.78	0.61	0.31	-1,477.96
7	-17,825.37	24	9	15	37.50	2,029.35	-2,405.97	0.84	0.51	-742.72
6	-13,826.97	25	10	15	40.00	1,751.76	-2,089.64	0.84	0.56	-553.08
5	-18,609.13	27	11	16	40.74	1,787.84	-2,392.21	0.75	0.51	-689.23
4	-8,199.38	30	12	18	40.00	2,197.04	-1,920.22	1.14	0.76	-273.31
3	-13,112.03	34	15	19	44.12	1,770.37	-2,087.76	0.85	0.67	-385.65
2	-8,182.31	41	19	22	46.34	1,373.93	-1,558.50	0.88	0.76	-199.57
1	-3,821.25	55	27	28	49.09	1,129.22	-1,225.37	0.92	0.89	-69.48

This indifference to a market that can't manage to rally has often ended badly.

In the January 13, 2009 blog study I looked at the concept of Turnaround Tuesdays. I found the old market adage really seemed to provide an edge. And while that edge had been prevalent since at least the 60's, it had become even stronger over the last decade. Below I've rerun one of the tests from that post. In this case I looked for exactly 3 down days in a row and today being Monday.

SPX closes down for exactly the 3rd day in a row. Today is Monday. 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	53,326.14	25	20	5	80.00	3,118.92	-1,810.44	1.72	6.89	2,133.05
9	56,928.22	25	20	5	80.00	3,052.75	-825.34	3.70	14.80	2,277.13
8	54,511.07	25	20	4	80.00	2,980.67	-1,275.58	2.34	11.68	2,180.44
7	50,096.00	25	20	5	80.00	2,809.95	-1,220.59	2.30	9.21	2,003.84
6	44,493.55	25	20	5	80.00	2,376.15	-605.91	3.92	15.69	1,779.74
5	48,566.93	26	19	7	73.08	2,763.71	-563.36	4.91	13.32	1,867.96
4	36,597.43	26	22	4	84.62	1,933.55	-1,485.16	1.30	7.16	1,407.59
3	35,178.69	26	20	6	76.92	1,954.26	-651.09	3.00	10.01	1,353.03
2	28,624.67	26	22	4	84.62	1,402.79	-559.19	2.51	13.80	1,100.95
1	17,725.44	26	19	7	73.08	1,169.98	-643.45	1.82	4.94	681.75

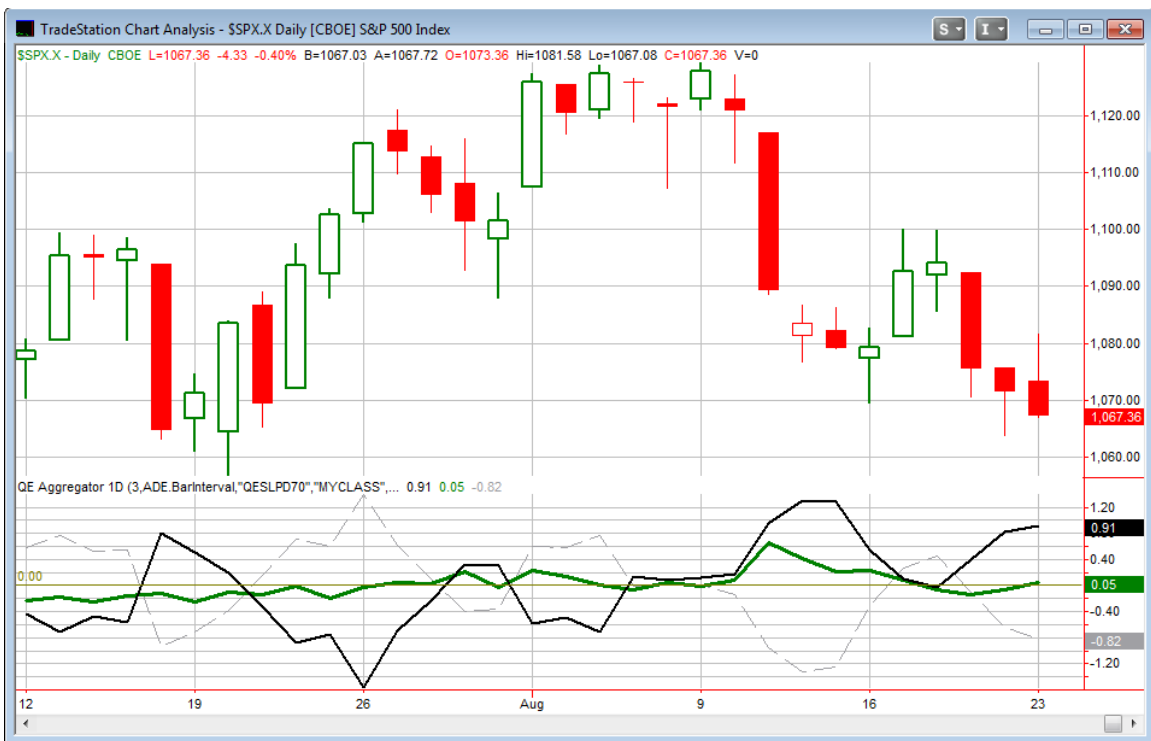
**25 of 26 instances (96%) closed above the entry price at some point in the next week. All 26 did within 6 days.**

These results are quite compelling and suggest a substantial upside edge. I broke this down several different ways tonight, but with results so consistent it really didn't matter much how it was broken down. I found it has actually been a bit more powerful below the 200ma. This is probably due to the heightened volatility below vs. above the 200ma. Instances are low and I prefer to use the above test for estimations, but I decided I may as well show the results below the 200ma also.

SPX closes down for exactly the 3rd day in a row. Today is Monday. Close < 200ma.  
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	37,255.16	11	9	2	81.82	4,690.51	-2,479.74	1.89	8.51	3,386.83
9	40,109.70	11	9	2	81.82	4,662.74	-927.50	5.03	22.62	3,646.34
8	41,650.68	11	9	1	81.82	4,853.55	-2,031.30	2.39	21.50	3,786.43
7	36,629.28	11	9	2	81.82	4,435.05	-1,643.09	2.70	12.15	3,329.93
6	31,997.50	11	9	2	81.82	3,693.99	-624.19	5.92	26.63	2,908.86
5	33,774.47	11	8	3	72.73	4,390.14	-448.89	9.78	26.08	3,070.41
4	28,049.83	11	10	1	90.91	2,951.67	-1,466.82	2.01	20.12	2,549.98
3	23,784.33	11	9	2	81.82	2,848.42	-925.75	3.08	13.85	2,162.21
2	18,851.06	11	9	2	81.82	2,288.87	-874.40	2.62	11.78	1,713.73
1	10,403.24	11	8	3	72.73	1,707.26	-1,084.95	1.57	4.20	945.75

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



The Turnaround Tuesday study has helped propel the green Aggregator line back above 0. The positive value indicates the net expectation from the Active Studies over the next few days is for upside. Meanwhile the black Differential line is strongly above 0. This means the SPX has underperformed expectations over the last few days. So we have positive expectations and a market that is oversold versus recent expectations. This has historically suggested a bullish edge and can be seen on the chart whenever both lines are above zero. Due to this the Aggregator System changed from flat to long at the close.

Currently the green Aggregator line is again set up to remain positive tomorrow. This could change depending on what studies emerge. Meanwhile the Differential pivot will be 1,074.48 tomorrow. This means the SPX would only need to close about 7 points higher in order to flip the black Differential line back to negative.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 8/23 – neutral to bullish***

It turned out to be mostly a week of churning in the market. The SPX finished down slightly and the Nasdaq and Russell were up slightly. No compelling studies emerged with intermediate-term significance. Intermediate-term studies are now split. If I had to bet, I would bet that the market will continue its move up from the early July lows rather than continue down and make another substantial leg lower. I don't have to bet for or against that though. At this point the market is in a position where I'm comfortable taking short-term trades on either the long or the short side. And until I have stronger intermediate-term conviction, that's just what I intend to do.

**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.*

*CMCSA – buy @ \$17.45 limit – Several stocks triggered system 80402 tonight. CMCSA was one of them. It has been a solid system with especially strong results when the Aggregator was also signaling a buy. CMCSA is sitting just barely above its 200ma.*

*SPY – buy ¼ index position @ \$107.11 ON CLOSE – Based on the Aggregator and the short-term outlook above. If I didn't already have a partial position here I wouldn't be waiting for the close. So I'll play this entry a little conservative.*

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IJR	8/9/2010	\$57.50	\$53.38	-7.17%		System 90609
SPY(1/4)	8/12/2010	\$107.65	\$107.12	-0.49%		

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