

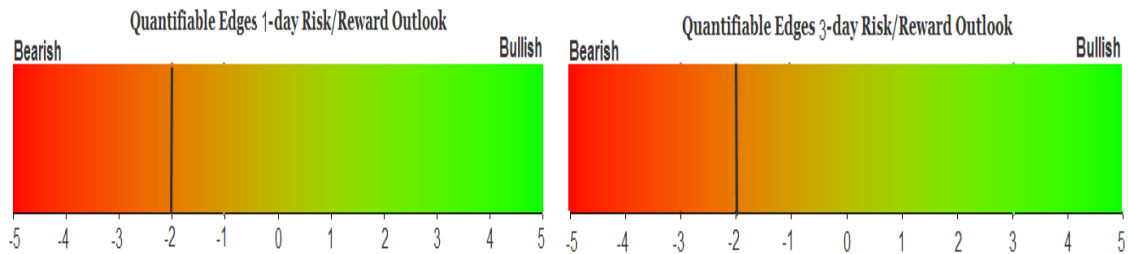
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 15, 2010

Volume 3 Issue 177

Market Overview



Tonight's Research Points

- The engulfing day near a high will often be followed by a brief pullback and then more new highs for the market.
- The Aggregator System remained short.
- The NDX Aggressive Trend Timer remained flat.

Short-term Outlook

The Bottom Line

Time is running out on the pullback scenario. The Aggregator is currently suggesting a downside edge but it no longer will in a day or two.

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				
September 13, 2010	AAII Spread Spike Up 40% in 2 weeks	1-9 days	Bullish	2.60%
September 13, 2010	RSI(3) > 70, 3/10 OffHV < 0.25 und 200	1-3 days	Bearish	-2.90%
September 13, 2010	SPX Up 3 < 200. No 50 low. Vol lower	1-3 days	Bearish	-2.65%
September 13, 2010	Low Vol 10. Low Range 10. > 10ma < 200	1-4 days	Bearish	-3.20%
September 10, 2010	SPY 20-hi close. < 200. Vol lower.	1-5 days	Bearish	-2.40%
September 10, 2010	SPY 2 Unfilled Up Gaps < 200ma	1-5 days	Bearish	-2.50%
September 9, 2010	NDX Up 1%. SOX down. Buy SPX	1-6 days	Bearish	-3.20%
September 8, 2010	SPX dn 1%. Decliners double advancers	1-9 days	Bullish	3.65%
September 7, 2010	SPX up 3 days, NYSE Up Vol % > 90%	1-7 days	Bullish	2.90%
Active - Long Term				
September 13, 2010	Low Vol 20. Low range 20. Close < 200	1-18 days	Bearish	
September 8, 2010	Tues after Labor Day lowest volume 5	1 month	Bearish	
September 2, 2010	2 90% Up Vol days in 1 week	1-20 days	Bullish	
September 1, 2010	August down > 4%	1 month	Bearish	
August 30, 2010	AAII Survery very bearish	1-30 days	Bullish	
August 16, 2010	1 (borderline) Hindenburg Omen Day	int term	Bearish	
July 20, 2010	Down 1 week after FTD	int term	Bearish	
July 7, 2010	McClellan Oscillator Bottom Divergence	int term	Bullish	
Dropped Tonight				
September 8, 2010	SPY vol 20-day low while close > 10ma	1-5 days	Bearish	-2.10%

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

The Evidence

A mixed day in the market today as neither bulls nor bears were able to put in a strong showing. The SPX closed down less than 0.1% while the Nasdaq rose 0.2% and the Russell 2000 fell 0.5%. Breadth was slightly negative as the NYSE Up Issues % came in at 45% and the Up Volume % was 44%. Total volume retreated from Monday's levels.

The few studies that appeared in the Quantifinder tonight were basically neutral. I did find it interesting that the SPY put in an outside day and closed down after closing at a short-term high yesterday. Engulfing reversal bars such as this are often viewed as bearish by many traders. I ran a study to examine the potential significance of this kind of bar.

After closing at a 10-day high SPY posts an outside day with a down close. Close > 200ma.
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
12	51,810.84	39	31	8	79.49	2,380.17	-2,746.79	0.87	3.36	1,328.48
11	43,177.90	39	31	8	79.49	2,037.16	-2,496.74	0.82	3.16	1,107.13
10	35,335.49	40	30	9	75.00	1,780.12	-2,007.56	0.89	2.96	883.39
9	29,816.78	41	28	13	68.29	1,857.83	-1,707.88	1.09	2.34	727.24
8	36,218.73	42	28	14	66.67	2,055.96	-1,524.87	1.35	2.70	862.35
7	30,019.83	43	27	16	62.79	2,004.60	-1,506.53	1.33	2.25	698.14
6	28,018.60	44	28	16	63.64	1,814.75	-1,424.65	1.27	2.23	636.79
5	21,364.12	47	30	17	63.83	1,392.93	-1,201.40	1.16	2.05	454.56
4	2,254.79	47	24	23	51.06	1,344.77	-1,305.20	1.03	1.08	47.97
3	-9,253.21	47	23	24	48.94	1,057.50	-1,398.98	0.76	0.72	-196.88
2	-13,041.74	48	19	29	39.58	841.86	-1,001.28	0.84	0.55	-271.70
1	-8,532.56	48	23	25	47.92	562.72	-859.01	0.66	0.60	-177.76

Results here are similar to other studies I've run on outside day or key reversal bars in the past. It is often followed by a few days of weakness but it rarely marks the kind of significant top it is renowned for.

I'm not including this particular study on the Active List tonight. It simply isn't consistent enough to base a trade off. Still, I thought the results were interesting enough to share.

There was one notable from the intraday as well. As frequently happens, an Opening Range Breakout (ORB) with the 3/10 Offset HV very low as I discussed last night would have worked out very well on Tuesday. Below is an intraday SPY chart showing the Opening Range Breakout and how it could have been played from an trade management standpoint.



Personally, I passed on this one since I generally don't take them if it is counter to my short-term market outlook. Still, I thought it made for a nice example. The reason I would have exited at the spot noted on the chart is it would have broken a 2nd level of support. I haven't mentioned my double-support trailing stop technique in a long time because it is one that I use for trend trades, and trend trades aren't typically a focus of Quantifiable Edges (or even a large part of my trading anymore). But for those interested in understanding the concept of the Double Support Trailing Stop you may find a write-up on it using the link below. (Note the write-up uses an example with daily bars though I originally designed the technique for intraday trading.)

<http://quantifiableedges.blogspot.com/2008/02/double-support-trailing-stop.html>

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



The Aggregator chart softened just a little tonight. The green Aggregator line remains below zero. The negative value indicates the net expectation from the Active Studies over the next few days is for downside. Meanwhile the black Differential line is also below 0. This means the SPX has outperformed expectations over the last few days. So we have negative expectations and a market that is overbought versus recent expectations. Historically, this has provided a downside edge. The condition is represented by both lines closing below 0. Due to this the Aggregator System remained short.

The green Aggregator line may flip to positive tomorrow depending on market action and studies. Meanwhile the Differential pivot will be 1,103.94 tomorrow. It would take an SPX close at or below this level to flip the black Differential line positive. That's about a 1.5% decline from Tuesday's closing level.

Most of the strongly bearish studies we saw on Thursday and Friday only had a 2-4 day window of influence. These will be expiring in the next few days while some of the bullish studies could remain. This will cause the Aggregator to flip to the bull side – and it could happen as early as tomorrow.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/13 – neutral

A couple of weeks ago I looked at the [AAII Investor Sentiment Survey](#). It had become extremely bearish. The study showed bullish intermediate-term inclinations following such extreme bearishness. These inclinations generally played out over the next 30 days.

Over the last 2 weeks though as the market has rallied there has been a large swing in sentiment from extremely bearish to slightly bullish. I wondered whether this swing might mean the anticipated rally was already nearing its end. So I devised a study that looked at other similar instances in the past.

The reading 2 weeks ago was 29% net bears. This week it came in at 12% net bulls. So I looked for other times there was a spike of 40% or more in the bull spread over a 10 (trading) day period.

AAll Sentiment Survey Bull-Bear Spread jumps more than 40 points in the last 10 days. Buy SPX on close. Sell X days later. \$100k/trade. 1987 - 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	-5,560.14	16	10	5	62.50	2,859.66	-6,831.35	0.42	0.84	-347.51
19	4,896.14	15	7	8	46.67	3,190.41	-2,179.59	1.46	1.28	326.41
18	8,222.21	15	8	7	53.33	2,663.42	-1,869.30	1.42	1.63	548.15
17	9,835.26	15	9	6	60.00	2,211.39	-1,677.88	1.32	1.98	655.68
16	15,684.17	15	8	7	53.33	3,433.25	-1,683.12	2.04	2.33	1,045.61
15	14,606.83	15	8	7	53.33	3,424.62	-1,827.16	1.87	2.14	973.79
14	9,311.34	15	8	7	53.33	2,373.14	-1,381.97	1.72	1.96	620.76
13	13,669.17	15	11	4	73.33	1,710.25	-1,285.90	1.33	3.66	911.28
12	18,115.21	15	9	6	60.00	2,267.62	-382.23	5.93	8.90	1,207.68
11	18,095.66	15	10	5	66.67	2,192.92	-766.70	2.86	5.72	1,206.38
10	24,095.45	15	13	2	86.67	1,916.84	-411.74	4.66	30.26	1,606.36
9	25,969.57	16	14	1	87.50	1,858.47	-49.00	37.93	530.99	1,623.10
8	24,696.64	18	14	2	77.78	1,890.22	-883.19	2.14	14.98	1,372.04
7	14,624.26	19	11	6	57.89	1,972.87	-1,179.56	1.67	3.07	769.70
6	14,880.88	19	12	6	63.16	1,808.03	-1,135.92	1.59	3.18	783.20
5	15,042.21	19	9	8	47.37	2,329.92	-740.88	3.14	3.54	791.70

I ran these results out much further as well. It appears the rush of people from bearish to bullish often kept the market momentum going for a couple of weeks, but beyond that there was no discernable edge. Looking out as far as 70 days the net “Avg Trade” never got much above the 1.6% gain realized in the first 2 weeks. So I don’t see any reason to take the AAll study from a few weeks ago off the board just because the bulls jumped. In fact, I’ve added this new one to the short-term list.

But while the AAll remains active, the long-term active list studies has slowly been looking more bearish. The August 3rd new high on strong breadth study has expired. And today’s low range, low volume study was the 2nd bearish one in a row to make the list. At this point factors such as breadth and sentiment are suggesting upside in the coming weeks while seasonality and the low volume are suggesting a pullback. Momentum certainly favors the bulls but we are now bumping up against resistance in the form of the 200ma and the August highs. With all this conflicting evidence I’m not strongly inclined to favor either side at this point. I’ll be looking equally at both long and short opportunities.

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. There were a couple of ETF's with short signals on the Triggers page. I elected against taking them but more aggressive traders certainly could.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	9/2/2010	\$109.47	\$112.65	-2.90%		Aggregator
SPY(1/4)(s)	9/3/2010	\$110.54	\$112.65	-1.91%		Aggregator
SPY(1/4)(s)	9/3/2010	\$110.54	\$112.65	-1.91%		Aggregator
SPY(1/4)(s)	9/13/2010	\$112.58	\$112.65	-0.06%		Aggregator

Unless I send out an intraday update to the contrary I'll look to cover the entire SPY position at the close tomorrow if the SPX finishes at 1,103.94 or lower.

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