

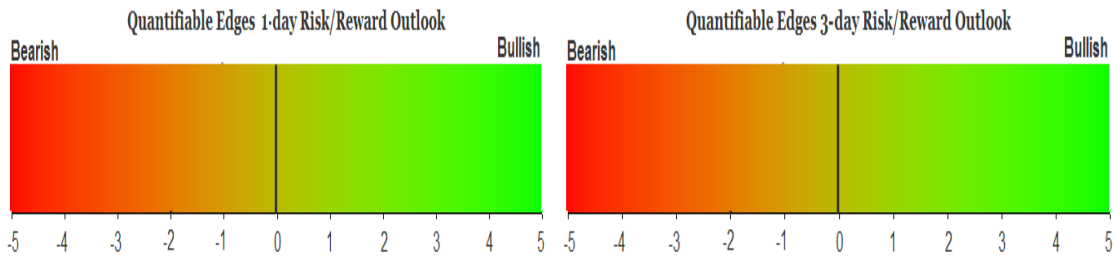
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 22, 2010

Volume 3 Issue 204

## Market Overview



## Tonight's Research Points

- The Aggregator System changed to flat.
- The NDX Aggressive Trend Timer remained long.

## Short-term Outlook

### The Bottom Line

I'm not seeing anything compelling from a short-term standpoint. I sidelined and awaiting a better opportunity.

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> or Letters from listed dates for details)

Study Date	Description	Time span	Bias
<b>Active</b>			
October 21, 2010	Unfilled gap up after unfill gap dn	1-2 days	Bearish
<b>Active - Long Term</b>			
October 20, 2010	20-high to 5 -low after persistent rise	1-12 days	Bullish
October 18, 2010	SPX up. Issue% and Vol% very low	int term	Bearish
September 21, 2010	50-high breakout on 90% Up Vol	1-25 days	Bullish
September 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish
July 20, 2010	Down 1 week after FTD	int term	Bearish
<b>Dropped Tonight</b>			
<b>October 20, 2010</b>	<b>Unfilled gap down from 50-day high</b>	<b>1-2 days</b>	<b>Bearish</b>

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 and posting a strong morning Thursday, the market sold off and finished mixed. The SPX posted a 0.2% gain while the Nasdaq was up 0.1%. The Russell 2000 lost 0.6%. Breadth was mildly negative as the NYSE Up Issues % came in just under 50% and the Up Volume % was just under 45%. Total volume declined for the 2<sup>nd</sup> day in a row.

Studies that showed up in the Quantifinder tonight were all neutral. The weak breadth on the up day is only a concern if a) the breadth quite a bit weaker or b) the market is in a long-term downtrend. As sometimes happen on days with little change, I'm not seeing any compelling edges. Rather than try and data mine a remote edge, I'll just see what appears tomorrow.

It does look like Friday we could see the 50ma cross above the 200ma in the SPX. This is known as a Golden Cross. Long-term it has shown to be a favorable market condition. While there has been much written about it by others, I haven't spent much time on it myself. I'll try and look at it a little deeper this weekend or Monday.

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



With tonight's studies factored in 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 a move down. Meanwhile the black Differential line moved back above 0. This means the SPX has underperformed expectations over the last few days. So we have negative expectations but a market that is relatively oversold. This is considered a neutral configuration. This occurs whenever both lines are on opposite sides of 0. Due to this the Aggregator System changed from short to flat.

The green Aggregator line is set up to flip positive tomorrow. Of course that could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,161.91. Any close at or above this level would move the black Differential line back into negative territory. So in order for the Differential to remain positive the SPX would need to fall about 1.5%.

Due to family matters, I will not be in the office tomorrow. I may check the market briefly in the afternoon. If I am able to run the Quantifinder I may just tweet the Aggregator signal instead of posting the web page. A long Aggregator signal won't occur without the SPX falling below the Differential pivot, which is a sizable drop. If the market does drop that far, it would most likely trigger some short-term bullish studies, so a close below 1161.91 is a likely long. A short signal is unlikely without a rise in the market. Even then we could easily see more bullish evidence. The most likely scenario appears to be a neutral signal again on Friday.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 10/18 – bullish***

Not much to say this week with regards to the intermediate-term. The breadth studies above were the only studies that appeared this week with potential intermediate-term implications. They don't provide overwhelming evidence but it's the first intermediate-term study in a while suggesting downside. So for now I'll just list it and keep an eye out for any further bearish evidence.

On the plus side the breakout from a few weeks ago continues to look good. The September 21<sup>st</sup> study suggested it had a good chance to continue higher and so far it has. The Nasdaq continues to lead the charge and this is a good sign as well. Momentum is strong and the market continues to make new highs. I don't anticipate changing my positive bias until I see more compelling evidence for the bears.

## **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.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Pri	% Gain/Los	Stop	Notes
HD(1/3)	10/18/2010	\$30.66	\$31.65	3.23%		stopped out intraday
HD(1/3)	10/19/2010	\$30.30	\$31.65	4.46%		stopped out intraday
SPY(1/4)(s)	10/21/2010	\$118.40	\$118.11	0.24%		short open cover close

The intraday alert sent to gold subscribers set the intraday stop for HD and also indicated that the SPY trade would be covered at the close.

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