

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 11, 2010

Volume 3 Issue 218

Market Overview



Tonight's Research Points

- Two day reversal pattern would have been bullish at low end of recent range but up here it appears neutral to slightly bearish.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

The market bounced Wednesday on cue, but the studies all suggest there should be more. I'm partially long. I won't be adding more SPX today but see some opportunities in individual names.

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				
November 9, 2010	Low volume drop from 50-day high	1-6 days	Bearish	-1.80%
November 9, 2010	SPX 5+ up days then 1 down	1-6 days	Bullish	2.10%
November 8, 2010	%b > 1.15 2 days in row. 20-day high	1-6 days	Bullish	2.20%
November 5, 2010	Strong breadth and vol at a 10-day high	1-5 days	Bullish	1.30%
November 5, 2010	Very strong breadth & 50-day high	1-5 days	Bullish	2.00%
Active - Long Term				
November 5, 2010	Very strong breadth & 50-day high	1-30 days	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
October 18, 2010	SPX up. Issue% and Vol% very low	1-25 days	Bearish	
September 20, 2010	Nas/SPX RS favors Nasdaq	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 a dip to start the day the market gained its footing about 40 minutes in. It then worked its way slowly higher and finished near the high of the day. Solid gains were seen in most indices. The SPX rose 0.4%, the Nasdaq added 0.6% and the Russell 2000 tacked on 1.2%. Breadth was positive as the NYSE Up Issues % came in at 59% and the Up Volume % was 69%. Total volume came in a little lower than Tuesday.

On Tuesday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Wednesday the opposite happened. The bears failed in their attempt at a move lower. In the 10/23/09 Subscriber Letter I looked two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range.

When the pattern occurs in the lower end of the short-term range it has been consistently bullish over the next 4-5 days. This can be seen in the below test.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and close < 10ma . 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
5	22,311.86	16	12	4	75.00	1,878.92	-58.78	31.97	95.90	1,394.49
4	17,625.41	16	14	2	87.50	1,398.90	-979.62	1.43	10.00	1,101.59
3	7,534.21	16	11	5	68.75	1,211.07	-1,157.51	1.05	2.30	470.89
2	4,686.46	16	10	6	62.50	1,194.39	-1,209.57	0.99	1.65	292.90
1	1,630.01	16	8	8	50.00	762.62	-558.87	1.36	1.36	101.88

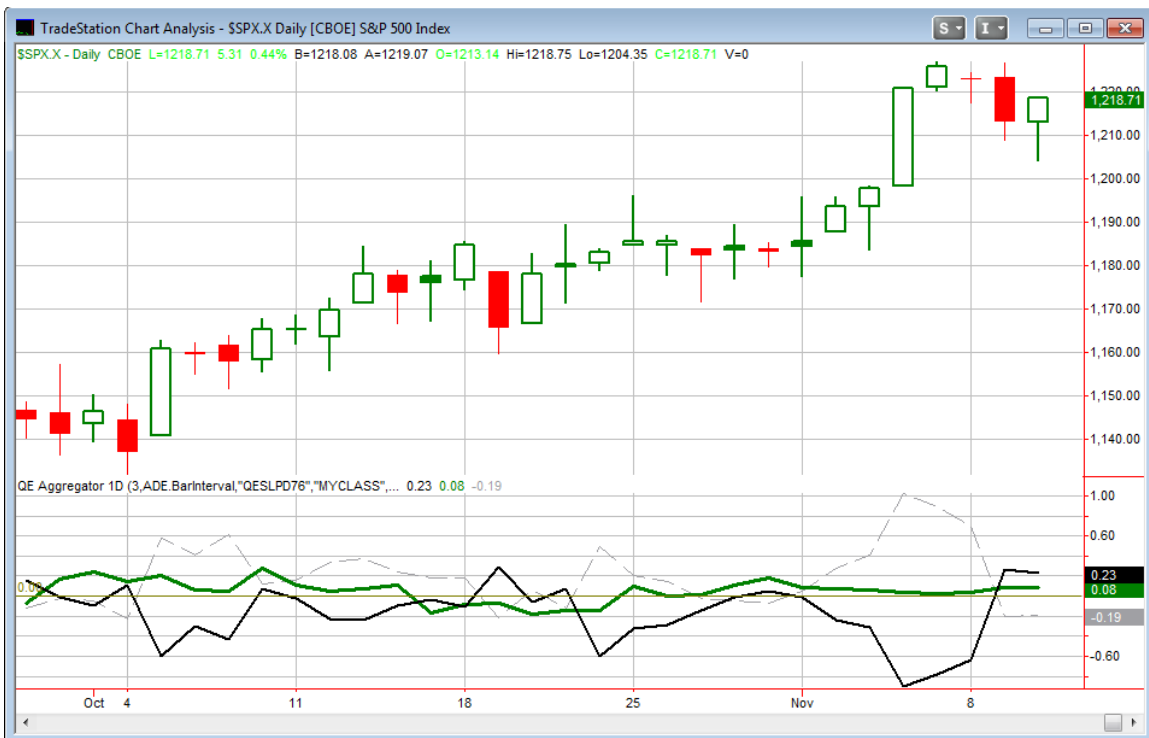
Instances are a little low but the stats are heavily lopsided in favor of the bulls. Unfortunately this is NOT the position the market is currently in. It is currently in the upper end of its range. Below is the same setup, except that the close is above the 10ma.

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and **close > 10ma**.
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
5	-6,292.70	30	17	13	56.67	845.56	-1,589.79	0.53	0.70	-209.76
4	-10,035.81	32	16	16	50.00	860.42	-1,487.66	0.58	0.58	-313.62
3	-6,997.35	32	16	16	50.00	900.83	-1,338.16	0.67	0.67	-218.67
2	-1,667.30	32	18	14	56.25	533.59	-805.13	0.66	0.85	-52.10
1	761.94	32	17	15	53.13	453.12	-462.74	0.98	1.11	23.81

We see here that the winning % is a tossup and the downside risk has outsized the upside reward. In this case implications are not bullish. With the 50% winning % and the fairly mild average decline I don't find it quite compelling enough to include among the active studies as bearish.

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



The Aggregator chart barely budged tonight. The green Aggregator line remains above zero. The positive value indicates the net expectation from the Active Studies over the

next few days is for a move up. Meanwhile the black Differential line also remains above 0. The positive value means the SPX has underperformed expectations over the last few days. So we have positive expectations and a market that is oversold. Historically this combination has provided an upside edge. This can be seen on the Aggregator chart whenever both lines are above 0. Due to this the Aggregator System stayed long at the close.

The green Aggregator line is set up to remain positive tomorrow. Of course that could change if enough bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,224.33. Any close at or above this level would move the black Differential line back into negative territory. This means the SPX would need to gain about 0.5% in order to be considered overbought versus expectations.

We probed the gap zone Thursday without filling it. Hopefully that will be enough and we will get more upside as expected in the next few days. At this point, though we are a lot closer to the Differential Pivot, which would trigger an exit on a closing basis, than we are to the \$120 gap fill area in SPY. Because of this I don't love risk/reward here. I'll hold on to the current ¼ index share in SPY but will not be looking to add to it tonight. There were some possibilities on the system triggers worksheet and I will track one of those below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/8 – bullish

The acceleration to new highs on strong breadth produced some strong intermediate-term studies in Thursday night's letter. I won't repeat that whole discussion here, but it seems to provide another bit of evidence that the move up may have further to go. We also went another week without any bearish studies of intermediate-term significance emerging.

The Nasdaq/SPX relative strength indicator continues to favor the Nasdaq. A leading Nasdaq has historically been a good sign. The Advance/Decline line hit another new high and the number of NYSE new 52-week highs is approaching its spring peak. Momentum is certainly favoring the upside and the market is trading above important moving averages. As I've been saying, until the market begins to falter and more bearish evidence emerges I'll continue to trade with a bullish bias. For my own trading a bullish bias means I tend to trade the long side with a little more aggressiveness and I will be extra selective with short trades.

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.

AMGN – buy @ \$54.70 limit. This is based on System 80509, which has been one of the better performers when the signals have coincided with Aggregator long signals. Two other stocks I considered were JNJ and NWSA, both of which triggered the trend continuation strategy numbered 90609.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Pri	% Gain/Los	Stop	Notes
SPY(1/4)	11/10/2010	\$121.58	\$122.10	0.43%		Aggregator

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