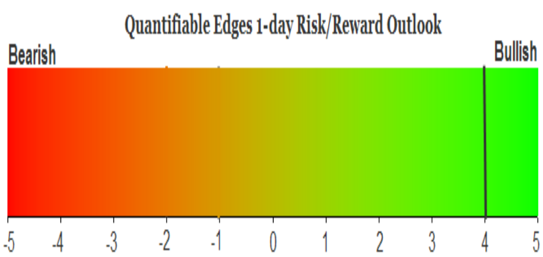
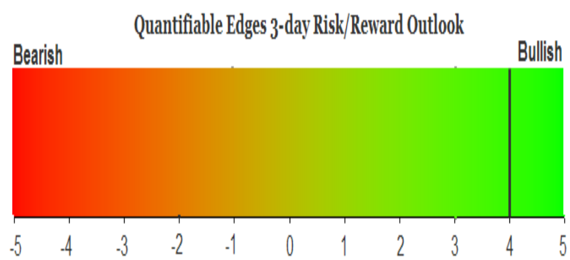
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 18, 2010 Volume 3 Issue 223

Market Overview





Tonight's Research Points

- Despite the weak bounce bearish evidence is lacking and the bullish stance remains in place.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

A weak bounce on Wednesday should just be the start of a short-term move up. I'm holding long.

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 17, 2010	Down 4 and worst day of downmove	1-5 days	Bullish	
November 17, 2010	Down 4. Breadth Rank % < 5	1-2 days	Bullish	
November 17, 2010	Down 4 on Wednesday	1-8 days	Bullish	
November 16, 2010	SPX down 3 on a Monday	1-5 days	Bullish	2.70%
November 15, 2010	SPX down 1% Decliners 2x Advancers	1-9 days	Bullish	3.00%
November 15, 2010	SPY 2 unfilled down gaps & 5-day low	1-5 days	Bullish	1.90%
November 15, 2010	SPX down 1% SOX Up	1-6 days	Bullish	2.90%
November 9, 2010	SPX 5+ up days then 1 down	1-6 days	Bullish	2.10%
Active - Long Term				
November 15, 2010	QQQQ 5 lower lows and large drop	1-20 days	Bullish	
November 15, 2010	SPX down 1% SOX Up	1-20 days	Bullish	
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	
Dropped Tonight				
November 16, 2010	SPX down 3. Mildest drop. Vol 5 low.	1-2 days	Bullish	1.70%

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

The Evidence

After a few scary down days, the market spent Wednesday consolidating in a narrow range. The SPX ended higher just a fraction while the Nasdaq and Russell 2000 both rose 0.3%. Breadth was mildly positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 52%. Total volume declined quite a bit.

Often when the market puts in a fairly weak bounce after having sold off for a few days, that can be a sign of trouble. I mention this not because studies such as this triggered tonight. I mention this rather because despite the weak bounce on Wednesday, I did not find any compelling bearish evidence.

The Quantifinder showed a mix of studies. They ranged only from mildly bearish to mildly bullish, though.

The study below is from the 9/8/08 Letter. It looks at weak bounces after oversold decline such as was seen last night.

After 4 lower closes with the last one being the largest, SPX rises today but bounce is less than 1%. Buy on close. Sell X days later. $100k/trade. 1971 - 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	36,719.96	52	35	17	67.31	1,697.29	-1,334.42	1.27	2.62	706.15
4	31,649.33	52	36	16	69.23	1,507.84	-1,414.55	1.07	2.40	608.64
3	13,778.34	52	32	20	61.54	1,232.83	-1,283.61	0.96	1.54	264.97
2	10,888.42	52	29	23	55.77	1,238.19	-1,087.78	1.14	1.44	209.39
1	9,188.08	52	30	22	57.69	758.99	-617.35	1.23	1.68	176.69

As you can see the suggestion is for a small upside edge. But the size of the bounce used in this study is fairly wide – between 0% and 1%. So I narrowed it down to 0% - 0.25% to see if the weakest of bounces suggested bullish or bearish implications.

After 4 lower closes with the last one being the largest, SPX rises today but bounce is less than 0.25%. Buy on close. Sell X days later. $100k/trade. 1971 - 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	5,364.11	11	7	4	63.64	1,265.90	-874.31	1.45	2.53	487.65
4	9,368.30	11	9	2	81.82	1,196.80	-701.47	1.71	7.68	851.66
3	4,039.33	11	8	3	72.73	1,146.66	-1,711.31	0.67	1.79	367.21
2	4,562.43	11	6	5	54.55	1,540.12	-935.66	1.65	1.98	414.77
1	4,394.03	11	8	3	72.73	634.86	-228.29	2.78	7.42	399.46

The results held up fine here and actually came out a little better. But as I usually do, I took a deeper look. Below is the list of instances using a 4-day exit strategy.

After 4 lower closes with the last one being the largest, SPX rises today but bounce is less than 0.25%. Buy on close. Sell X days later. $100k/trade. 1971 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up DrawDown**
03/23/73	Buy	$108.88	3.52%	$3,515.94
03/29/73	Sell	$112.71		$0.00
08/06/75	Buy	$86.25	1.01%	$1,008.33
08/12/75	Sell	$87.12		($266.57)
02/28/79	Buy	$96.27	1.65%	$2,449.68
03/06/79	Sell	$97.86		($311.40)
08/29/80	Buy	$122.38	2.04%	$4,338.27
09/05/80	Sell	$124.88		($490.20)
06/03/81	Buy	$130.71	0.96%	$2,264.40
06/09/81	Sell	$131.97		($757.35)
02/18/82	Buy	$113.82	(0.31%)	$939.46
02/24/82	Sell	$113.47		($3,336.40)
11/14/84	Buy	$165.99	(1.10%)	$301.00
11/20/84	Sell	$164.17		($1,787.94)
08/07/90	Buy	$334.83	1.20%	$1,707.54
08/13/90	Sell	$338.84		($837.38)
09/11/91	Buy	$385.09	0.11%	$738.15
09/17/91	Sell	$385.50		($600.88)
06/09/93	Buy	$445.78	0.11%	$640.64
06/15/93	Sell	$446.27		($378.56)
07/24/98	Buy	$1,140.80	0.18%	$562.02
07/30/98	Sell	$1,142.86		($1,858.32)

I find it concerning that most of the gains occurred before 1981. I also don't like the fact that this is the 1st instance in over 12 years. Overall, this line of studies doesn't provide a solid enough edge that I'm comfortable including it in the Aggregator. It did quell some of my fears that the weak bounce could be an issue.

Additionally, I ran several other studies along the lines of examining weak bounces from 10-day lows during a long-term uptrend. I took a bit of a different approach to the research tonight. Normally I approach it with an open mind. I become a blank slate. Then I try and look at things a few different ways. I never try and seek out evidence to support my bullish position or bearish position. I just listen.

After seeing the initial studies that came up I was quite sure there wasn't any chance the Aggregator would flip to the negative. Still, I needed to prove to myself that I wasn't missing something that would suggest bearish implications. If that evidence appeared I could consider lightening up on my position a little. But no matter how I looked at it, there just wasn't compelling bearish evidence. Satisfied, I stopped looking and calculated the Aggregator.

I have updated the Aggregator chart below.

The green Aggregator line remained well above zero again today. 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 is also still stretched 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 strongly oversold. Historically this combination has provided and 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. This is unlikely to change without substantial bearish evidence. Meanwhile, the Differential Pivot will be 1,203.00. 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 2.1% in order to be considered overbought versus expectations.

The bounce on Wednesday was less than I had hoped for. Still, the market remains oversold, it remains in a long-term uptrend, and there is still a substantial amount of short-term bullish evidence from the last few days. Other than looking for a fill on one of the Catapults trades that didn't get filled Wednesday I am not looking to take on any more exposure this evening. My index position is maxed out anyway.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/15 – bullish

Despite the pullback this week there appears to be more bullish intermediate-term evidence emerging and a complete lack of new bearish intermediate-term studies. Both the overdone QQQQ study and the SPX down / SOX up study show a strong propensity for intermediate-term gains.

One possible fly in the ointment is that the recent market high saw a lower number of new highs than the April market high. While not a great timing device, these types of divergences typically exist prior to extended market declines. There have been times in the past though where these divergences have lasted for well over a year before the final top was reached. And of course the divergence still has a chance to right itself. If the market is able to rally to new highs again in the near future and the number of new highs expands beyond April levels then the divergence would no longer exist.

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. Perhaps it's beginning to falter now but it isn't generating substantial bearish evidence so far. For my own trading a bullish bias means I tend to trade the long side with more aggressiveness and I will be extra selective with short trades.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

GOOG – 1/3 @ $603.29
GOOG –@ $595.47
GOOG – buy 1/3 @ $583.72
MA – buy 1/3 @ $233.06
MSFT – buy 1/3 @ $25.81
ABT – buy 1/3 @ $47.66

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 6 (GOOG-3, MSFT, MA, ABT)**

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.

ABT – buy 1/3 @ $47.66 – Catapult not filled Wednesday and still open. Those unfamiliar or who would like a review may watch the Catapult & CBI presentation using the link below.

http://www.quantifiableedges.com/videos/QE20100621.html

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/10/2010	$121.58	$118.22	-2.76%		Aggregator
SPY(1/4)	11/12/2010	$120.20	$118.22	-1.65%		Aggregator
GD	11/12/2010	$66.50	$65.39	-1.67%		System 11111
SPY(1/4)	11/15/2010	$120.20	$118.22	-1.65%		Aggregator
GOOG(1/3)	11/15/2010	$603.00	$583.55	-3.23%		Catapult
SPY(1/4)	11/16/2010	$118.16	$118.22	0.05%		Aggregator
GOOG(1/3)	11/16/2010	$593.39	$583.55	-1.66%		Catapult
GOOG(1/3)	11/17/2010	$583.72	$583.55	-0.03%		Catapult
MA	11/17/2010	$233.06	$234.57	0.65%		Catapult
MSFT	11/17/2010	$25.81	$25.57	-0.93%		Aggregator