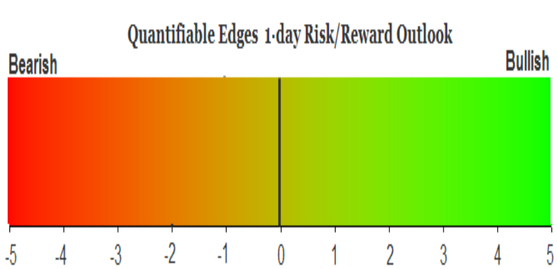
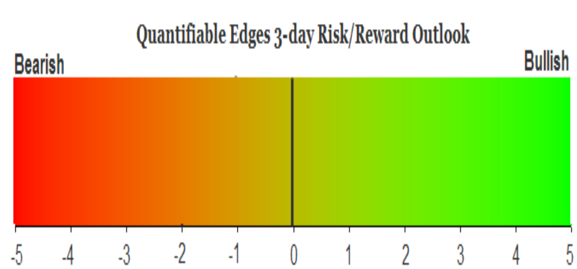
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 30, 2010 Volume 3 Issue 230

Market Overview





Tonight's Research Points

- Monday's SPY pattern of gap down, sell off further, and then reverse strongly would contain bearish implications in a downtrending environment, but not in an uptrend like the market is now.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook
The Bottom Line

I've lightened up a little as the Aggregator has gone neutral. I'm still leaning bullish though and looking to get back in should the market pull back tomorrow.

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 29, 2010	Unfilled Gap Up then unfilled gap down	1-3 days	Bearish	-1.80%
November 26, 2010	Up Vol % Rank increases > 85%	1-3 days	Bullish	1.30%
November 24, 2010	2 Unfilled Gaps Down in SPY	1-5 days	Bullish	2.10%
November 24, 2010	SPX down 1% Decliners 2x Advancers	1-9 days	Bullish	3.00%
Active - Long Term				
November 22, 2010	High number of POMO Days recently	int term	Bullish	
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	
September 20, 2010	Nas/SPX RS favors Nasdaq	int term	Bullish	
Dropped Tonight				
November 29, 2010	***Monday after Thanksgiving Seaso***	***1 day***	***Bearish***	
November 26, 2010	***Lowest vol 20. SPX up 1% in uptrer***	***1-2 days***	***Bearish***	***-1.60%***
November 17, 2010	Down 4 on Wednesday	1-8 days	Bullish	

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

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The Evidence

After putting a little scare into the bulls in the morning the market finished down only slightly on Monday. The SPX and Russell 2000 were both 0.1% lower at the end of the day and the Nasdaq fell 0.4%. Breadth was somewhat negative as the NYSE Up Issues % came in at 41% and the Up Volume % was 48%. Total volume came in a little above Wednesday's level and obviously above Friday's shortened day.

There were several studies in the Quantifinder tonight that looked at gaps down in the SPY that dropped well below the open and then reversed to close positive and strongly above the open. A few of these studies suggested bearish consequences, but those failed to look at the long-term trend. In the 4/23/10 Subscriber Letter I filtered the pattern using the 200ma. I've updated the results from that letter below for both uptrends and downtrends.

First I'll show the downtrend results which had strongly bearish inclinations.

SPY gaps down at least 0.25%. It then trades 0.5% below the open but does not make a 10-day low before reversing to close positive on the day and at least 0.5% above the open. **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
6	-28,862.17	22	9	13	40.91	3,235.86	-4,460.38	0.73	0.50	-1,311.92
5	-34,218.80	22	9	13	40.91	1,660.30	-3,781.66	0.44	0.30	-1,555.40
4	-54,817.26	23	7	16	30.43	1,193.37	-3,948.18	0.30	0.13	-2,383.36
3	-40,046.02	24	9	15	37.50	1,589.14	-3,623.22	0.44	0.26	-1,668.58
2	-47,198.57	24	6	17	25.00	2,141.51	-3,532.21	0.61	0.21	-1,966.61
1	-18,605.08	26	11	15	42.31	1,359.38	-2,237.21	0.61	0.45	-715.58

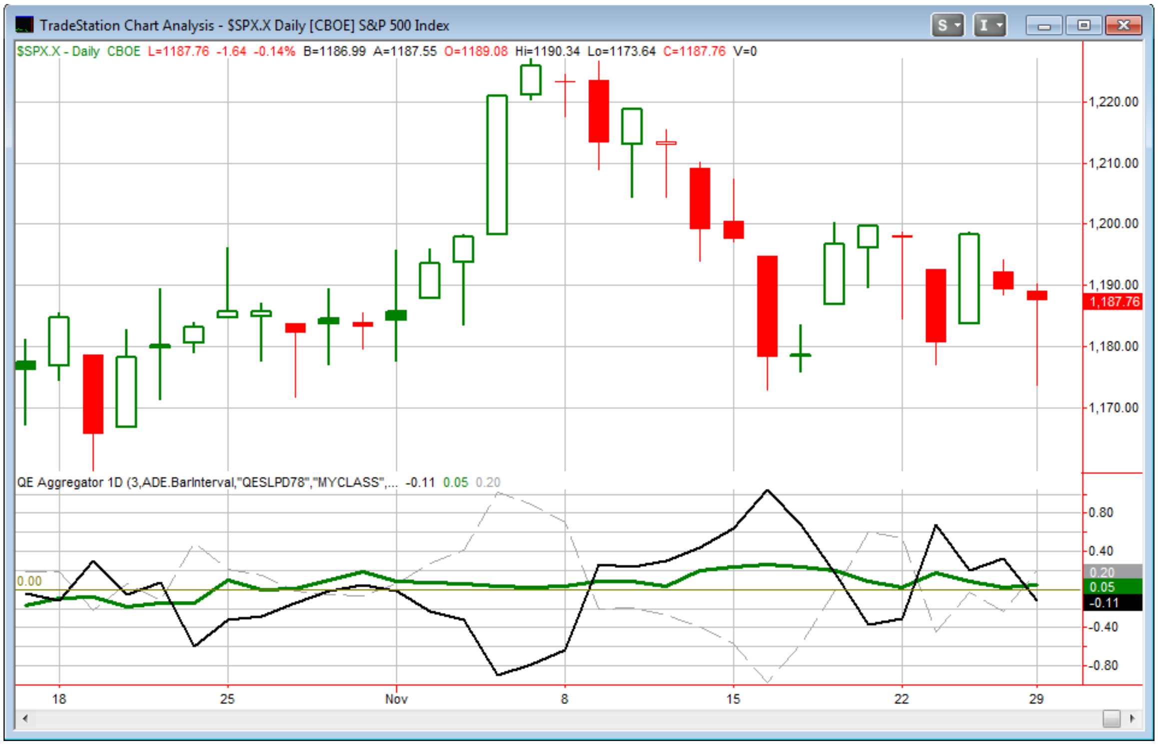
Especially over the first 2-4 days this study suggests a downside edge. But I showed in the 4/23/10 letter that that edge was no longer apparent above the 200ma. Those stats are updated below.

SPY gaps down at least 0.25%. It then trades 0.5% below the open but does not make a 10-day low before reversing to close positive on the day and at least 0.5% above the open. **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
6	9,925.67	11	9	2	81.82	1,591.99	-2,201.12	0.72	3.25	902.33
5	7,331.77	11	7	4	63.64	1,377.21	-577.17	2.39	4.18	666.52
4	7,911.89	11	8	3	72.73	1,324.25	-894.04	1.48	3.95	719.26
3	90.56	11	6	5	54.55	1,150.16	-1,362.08	0.84	1.01	8.23
2	5,175.50	11	6	5	54.55	1,156.73	-352.98	3.28	3.93	470.50
1	-23.43	11	7	4	63.64	577.49	-1,016.47	0.57	0.99	-2.13

If there were more instances or a consistently higher winning percentage I might even consider these results bullish. As is I'm not inclined to include them among the active studies.

Speaking of the active studies there were two bearish studies that reached their targets as they expired today. There was also one bullish study that expired. As you'd expect this has a slight bullish impact on expectations.

I have updated the Aggregator chart below.



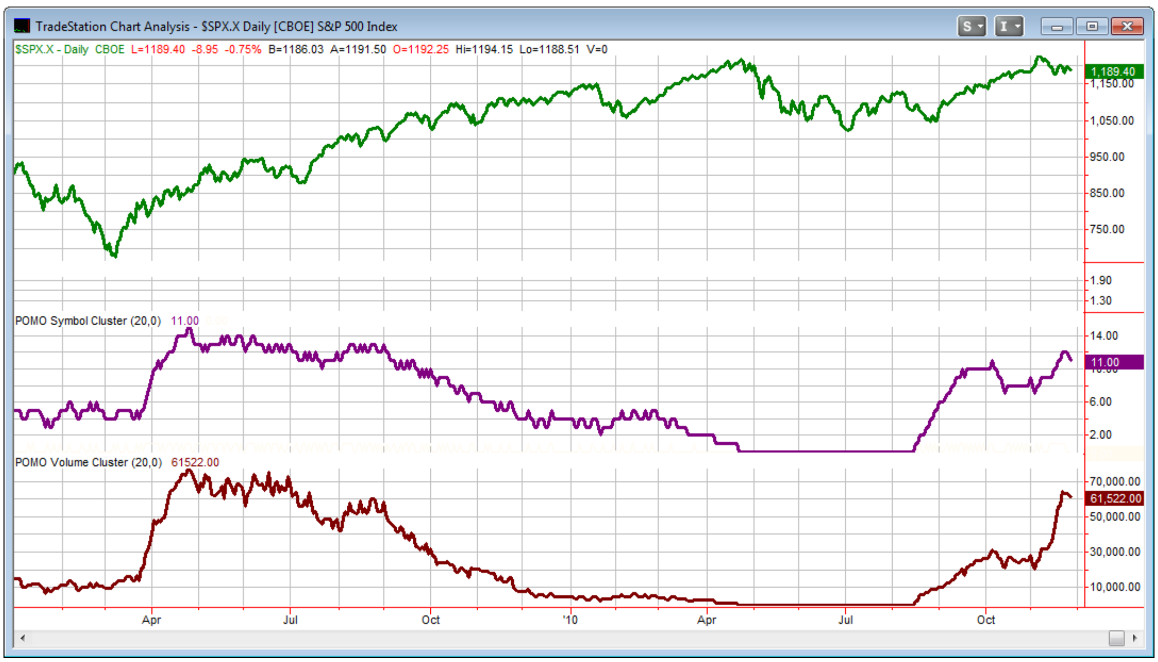
The mildly higher expectations can be seen in the green Aggregator line reading. It is now a little farther above 0. A positive value indicates the net expectation from the Active Studies over the next few days is for a move up. Meanwhile, as expected with last Tuesday's big drop exiting the calculation the black Differential line nosedived below 0. The negative value means the SPX has outperformed expectations over the last few days. So we have positive expectations but a market that is slightly overbought. This is considered a neutral configuration. A neutral configuration can be seen on the Aggregator chart whenever both lines are on opposite sides of 0. Due to this the Aggregator System turned flat at the close.

The green Aggregator line is set up to remain positive tomorrow. This could change if strong bearish evidence emerges. With the big rally last Wednesday exiting the Differential calculation the Differential Pivot is set to reverse and to rise to 1,200.83. For the Differential to remain negative the SPX would need to close above this number. That would require a rise of over 1.1% tomorrow. Without such a rise we could easily get another long signal from the Aggregator.

I took partial profits today and I'm comfortable with that decision. I had given the trade ample time to run. It didn't do as well as I'd hoped, but it did post a 0.6% gain over the 3 days. I'm also still comfortable holding a partial long position. With the Differential likely to flip again tomorrow I will look to re-enter should the market close lower. You'll also notice another Catapult trigger below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 11/29 – bullish

Last week I discussed the possible effect of POMO Days in some detail. POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. Looking at the tentative schedule posted on the Fed's website it appears the next 9 trading days are ALL scheduled POMO days. It also appears the amount of buying will be quite large on most of these days. The chart below is updated from Tuesday night's letter. The top pane is the S&P 500. The middle pane is the rolling number of days in the last 20 that have been POMO days. The bottom pane is the total amount of money infused into the system over the previous 20 days.



As you can see both measures are already approaching levels as high as were reached during the summer of 2009, which contained the most amount of stimulus ever. Over the next 2 weeks the stimulus provided by both measures (days and $$) should exceed those 2009 levels. This should provide a substantially bullish influence over the next several weeks and possibly longer.

From a studies standpoint, there are now 6 intermediate-term studies on the active list. They cover POMO Days, breadth, price patterns, leadership (relative strength), and momentum. All of them are bullish. In fact the only potential issue I've noted over the past few weeks is that the number of new highs was lower at the recent peak than at the

April peak. As of now that is a small complaint compared to the large amount of bullish evidence. European debt and Korean military action could provide additional shocks. These are difficult to quantify though and not something that factors into my decision making. I'll continue to favor the long side and trade extra selectively from the short side.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

GOOG – @ $603.29
GOOG –@ $595.47
GOOG –@ $583.72
MSFT –@ $25.81
ABT –@ $47.66
ABT –@ $46.95
ABT –@ $46.49 (NEW)

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 7 (GOOG-3, MSFT, ABT-3)**

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 position at $46.49 limit. This would be the final entry into ABT. It is based on the Catapult system. Traders unfamiliar with the Catapult system are encouraged to use the link in the Catapult section above to view the presentation.

SPY – buy ¼ index position @ $119.15 LIMIT ON CLOSE. In anticipation of the Aggregator system triggering another long tomorrow if SPY closes down.

There were also several triggers listed on the system triggers spreadsheet tonight. A number of them were based on system 80402. This system has done very well when confirmed with an Aggregator signal. I considered looking to add one of these to the trade ideas list if the SPX did close lower. I decided it might me too complicated to lay out all the conditions, therefore I'll sit aside and wait 1 more day before looking to enter any of these.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GOOG(1/3)	11/15/2010	$603.00	$582.11	-3.46%		Catapult
SPY(1/4)	11/16/2010	$118.16	$119.16	0.85%		Aggregator
GOOG(1/3)	11/16/2010	$593.39	$582.11	-1.90%		Catapult
GOOG(1/3)	11/17/2010	$583.72	$582.11	-0.28%		Catapult
MSFT(1/3)	11/17/2010	$25.81	$25.31	-1.94%		Catapult
ABT(1/3)	11/17/2010	$47.66	$46.49	-2.45%		Catapult
SPY(1/4)	11/23/2010	$118.45	$119.16	0.60%		sold on close
ABT(1/3)	11/24/2010	$46.95	$46.49	-0.98%		Catapult

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