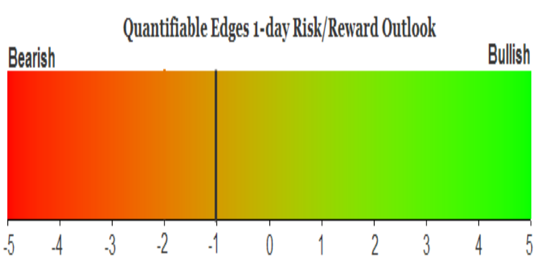
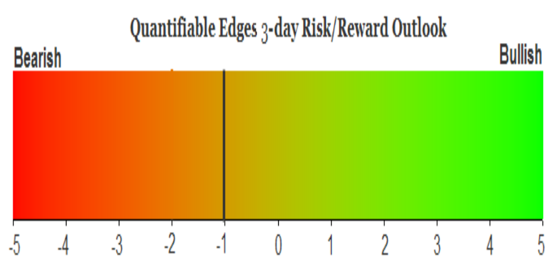
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 3, 2010 Volume 3 Issue 233

Market Overview





Tonight's Research Points

- Thursday's action was strong but did not help provide clues for the next few days.
- The Aggregator System is short.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook
The Bottom Line

The Aggregator is suggesting a short-term bearish edge, but it isn't enough for me to want to try and short yet in this bullish intermediate-term environment.

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				
December 2, 2010	10-day price & up vol% high. Low vol	1-3 days	Bearish	-1.10%
December 2, 2010	5-day low to 10-day high	1-2 days	Bearish	-1.30%
Active - Long Term				
December 2, 2010	2 90% Up Volume % days in 5 days	1-16 days	Bullish	
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				
December 1, 2010	***Pullback in uptrend at end of mon***	***1-5 days***	***Bullish***	***2.30%***
November 24, 2010	***SPX down 1% Decliners 2x Advance***	***1-9 days***	***Bullish***	***3.00%***

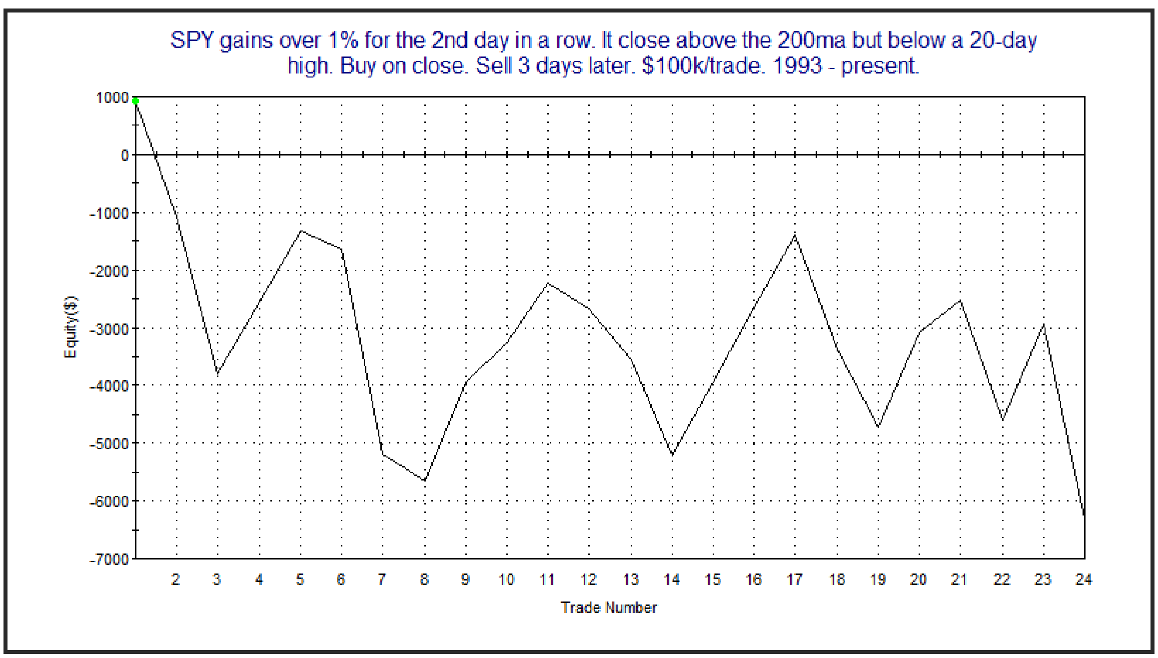
If the avg max move is achieved the study will appear in ***bold italic blue*** and no longer be active

The Evidence

Wednesday's strong move higher saw some nice follow through on Thursday. The market opened slightly higher and again marked the low of the day almost immediately. It rose all throughout the day and finished near its highs. The SPX, Nasdaq and Russell 2000 all rose between 1.1% and 1.3%. Breadth was again strong as the NYSE Up Issues % came in at 70% and the Up Volume % was 85%. Total volume came in just under Wednesday's levels on both the NYSE and the Nasdaq.

Despite some fairly unusual activity there was nothing among my studies suggesting a significant edge. You don't often see back to back days where the SPX gains more than 1% while it is trading above its 200ma. Two unfilled gaps up is also a rarity. I explored many different ideas this evening in search of something that would suggest a bullish or bearish disposition. Nothing stuck out.

Below is an example. I examined back to back 1% gains in an uptrend that was below a new high. The results spreadsheet suggested a possible downside edge over the 1st 3 days. Upon closer examination below is the equity curve I was presented with.



Sure doesn't look like a steady edge to me.

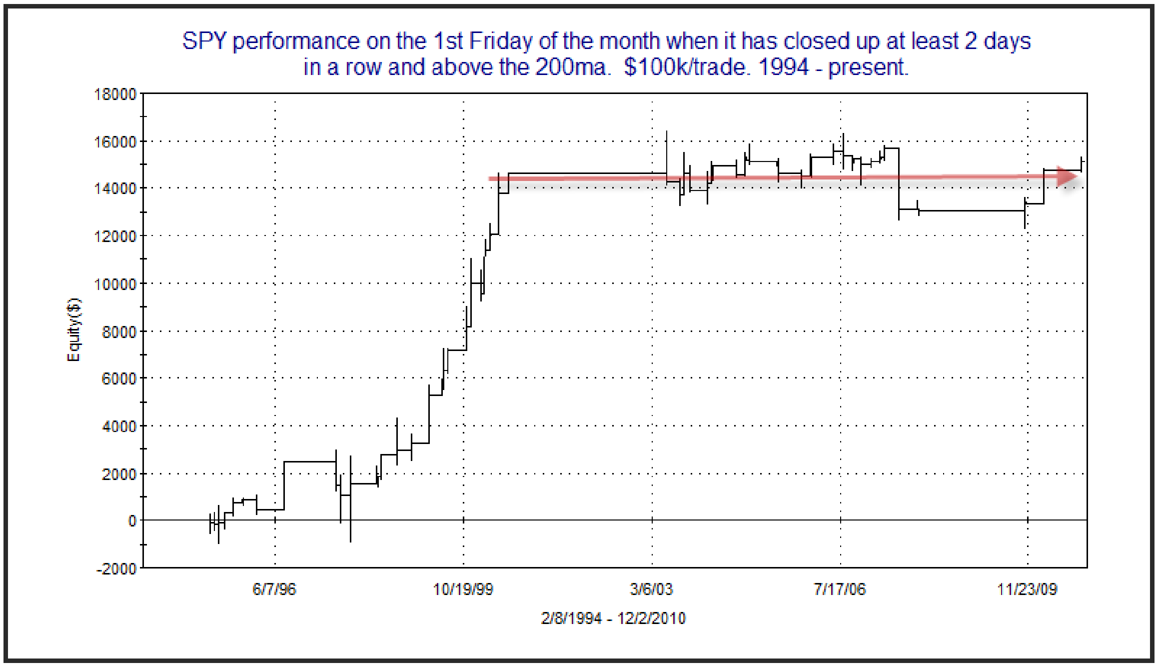
The Russell 2000 broke out above its spring highs on Thursday. Another idea I examined was that the breakout in the Russell may lead the way higher for the SPX. So I looked at other times the Russell broke out to new 200-day highs while the SPX was still in a basing formation.

Russell 2000 makes a new 200-day intraday high for the 1st time in at least 12 days. The SPX closes up on the day but does not make a new 200-day intraday high and hasn't for at least 12 days. Buy SPX on close. Sell X days later. $100k/trade. 1988 - 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
10	-4,998.01	11	4	7	36.36	2,807.56	-2,318.32	1.21	0.69	-454.36
9	-1,943.96	11	5	6	45.45	1,854.70	-1,869.58	0.99	0.83	-176.72
8	4,739.95	11	7	4	63.64	1,560.34	-1,545.62	1.01	1.77	430.90
7	3,504.97	11	7	4	63.64	1,437.97	-1,640.21	0.88	1.53	318.63
6	1,664.86	11	4	7	36.36	1,713.75	-741.45	2.31	1.32	151.35
5	7,389.91	11	7	4	63.64	1,341.06	-499.39	2.69	4.70	671.81
4	6,843.35	11	6	5	54.55	1,467.87	-392.77	3.74	4.48	622.12
3	3,904.00	11	4	7	36.36	1,751.97	-443.41	3.95	2.26	354.91
2	2,521.20	11	8	3	72.73	747.61	-1,153.22	0.65	1.73	229.20
1	1,055.61	11	6	5	54.55	600.74	-509.76	1.18	1.41	95.96

Nothing here suggests to me a strong edge. I also ran the test using 50-day highs instead of 200. There were a few more instances but the results were just as choppy if not more.

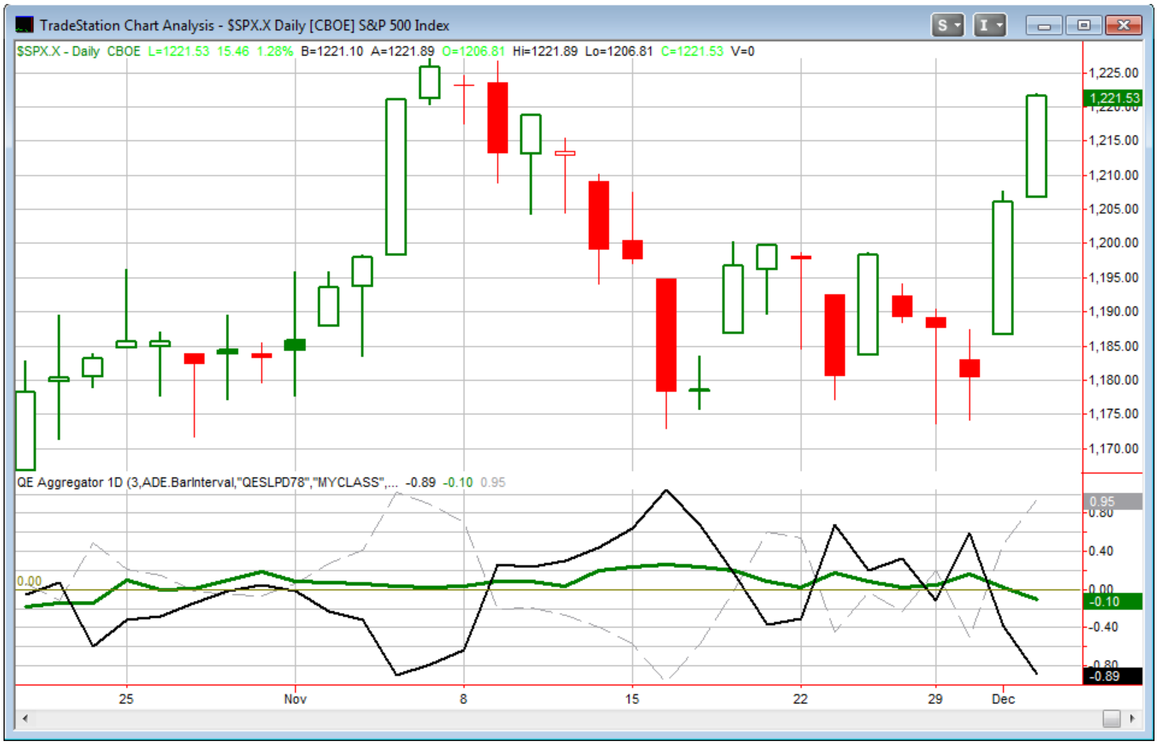
The employment report is Friday and that always has the capability to be a market mover. I looked at other times the SPY was in an uptrend and had run up over the last couple of days prior to the report to see if any edge was suggested.



This one looked great in the 90's but hasn't done a thing in over 10 years. I'm not inclined to bet on the report based on this.

Really the most substantial occurrence today from the Aggregator's perspective was that the two bullish short-term studies on the Active List both reached their target prices and were dropped from active status. This left us with just 2 active short-term studies, both of which were bearish.

I have updated the Aggregator chart below.



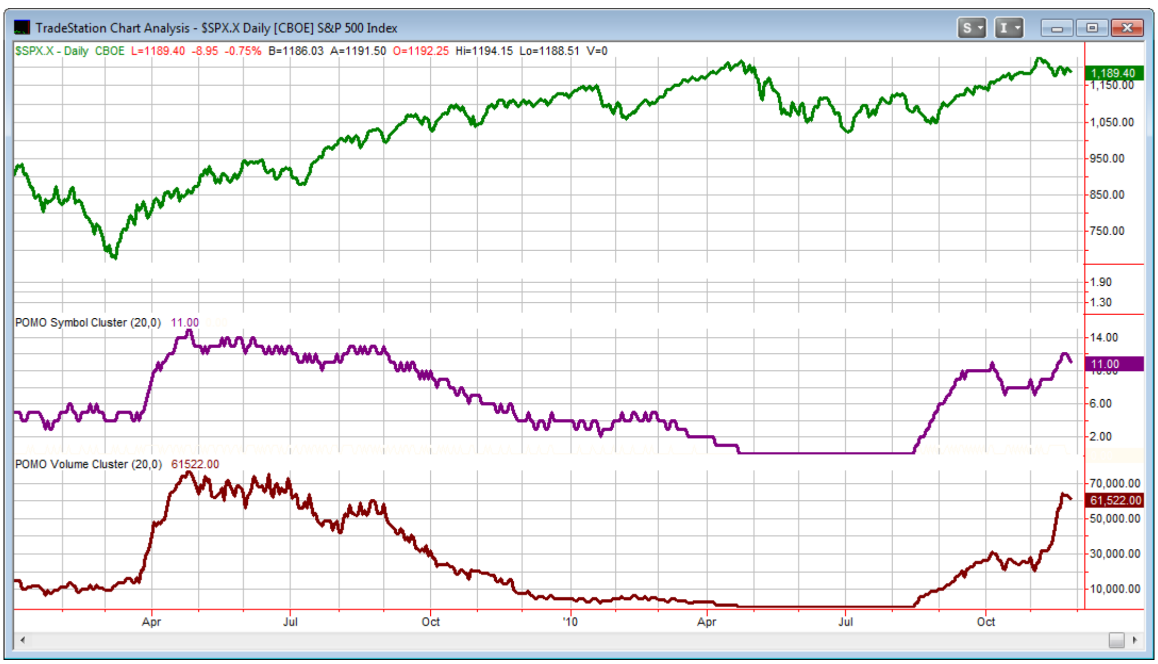
With the short-term all bearish the green Aggregator line fell below 0. A negative value indicates the net expectation from the Active Studies over the next few days is still for a move lower. Meanwhile the 2-day rally has caused the black Differential line to drop farther below 0 than it has been for some time. The negative value means the SPX has outperformed expectations over the last few days. So we have negative expectations and a market that is overbought. Historically this configuration has provided a downside edge. It can be seen on the chart whenever the Aggregator and Differential lines are both below 0. Due to this the Aggregator System turned short at the close.

The green Aggregator line is set up to remain negative tomorrow, but with so few studies active it will really be dependent on Friday's action Meanwhile the Differential Pivot will be 1,182.35. This means the SPX would need to drop over 3.2% in order for the Differential line to cross back above 0. This makes a new long signal unlikely.

While the short-term evidence is bearish, it isn't the most compelling evidence. Also with so much intermediate-term evidence in support of the bulls I'm hesitant to aggressively play this signal. Since the Aggregator was likely to turn bearish I sent out an intraday update this afternoon to gold subscribers alerting them that I would be exiting the last SPY lot at the close. So I am now flat the indices. (I still hold the GOOG catapult trade long.) Under normal circumstances I would at least look to short a gap up or a close higher. The issue with trying to do that at this point is that the SPX is very close to making new highs. Should it manage to do so it could trigger some bullish breakout studies which might flip the Aggregator. So between the somewhat weak short-term bearish signal, the bullish intermediate-term outlook, and the potential for a breakout I've decided to see how action unfolds tomorrow and what studies emerge before considering a short position.

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

Catapult for ETF's Trades

None

***Broad Market Large Cap CBI* – 3 (GOOG-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.

No new trade ideas tonight. As usual there were a few triggers listed on the spreadsheet.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GOOG(1/3)	11/15/2010	$603.00	$571.82	-5.17%		Catapult
SPY(1/4)	11/16/2010	$118.16	$122.57	3.73%		sold on close
GOOG(1/3)	11/16/2010	$593.39	$571.82	-3.64%		Catapult
GOOG(1/3)	11/17/2010	$583.72	$571.82	-2.04%		Catapult

The SPY trade was exited at the close as per the intraday update sent to gold subscribers.