

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 28, 2011

Volume 4 Issue 19

## Market Overview



## Tonight's Research Points

- Two 50-day highs on declining volume for SPY have typically been followed by mild pullbacks over the next few days.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

## Short-term Outlook

### The Bottom Line

With expectations still positive and the SPX still overbought I remain neutral. I will continue to exercise patience and await a more pronounced opportunity before taking on new positions.

*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
<b>Active</b>				
January 28, 2011	SPY 50-high and vol lower 2 days	1-2 days	Bearish	-0.90%
January 27, 2011	100-day high on a Fed Day	1-6 days	Bullish	1.70%
January 27, 2011	Unfilled gap up & close > open Fed Day	1-5 days	Bearish	-2.60%
January 24, 2011	Nas/Rus down 3. SPX 3-day high.	1-5 days	Bullish	
January 21, 2011	1st close < 10ma in over 25 days	1-11 days	Bullish	3.60%
January 21, 2011	SPY gap down & partial revers fr 5-low	1-10 days	Bullish	3.20%
January 19, 2011	SPX 20-day high. Vol 20-day high.	1-9 days	Bullish	2.40%
<b>Active - Long Term</b>				
January 21, 2011	SPY 1st close < 10ma in over 25 days	1-20 days	Bullish	
January 19, 2011	SPX 20-day high. Vol 20-day high.	int term	Bullish	
December 30, 2010	SPX closes > 10ma every day of month	1 month	Bullish	
December 16, 2010	2 Hindenburg Signals	1-50 days	Bearish	
December 9, 2010	SPX & TNX 50-day highs	1-50 days	Bearish	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	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***

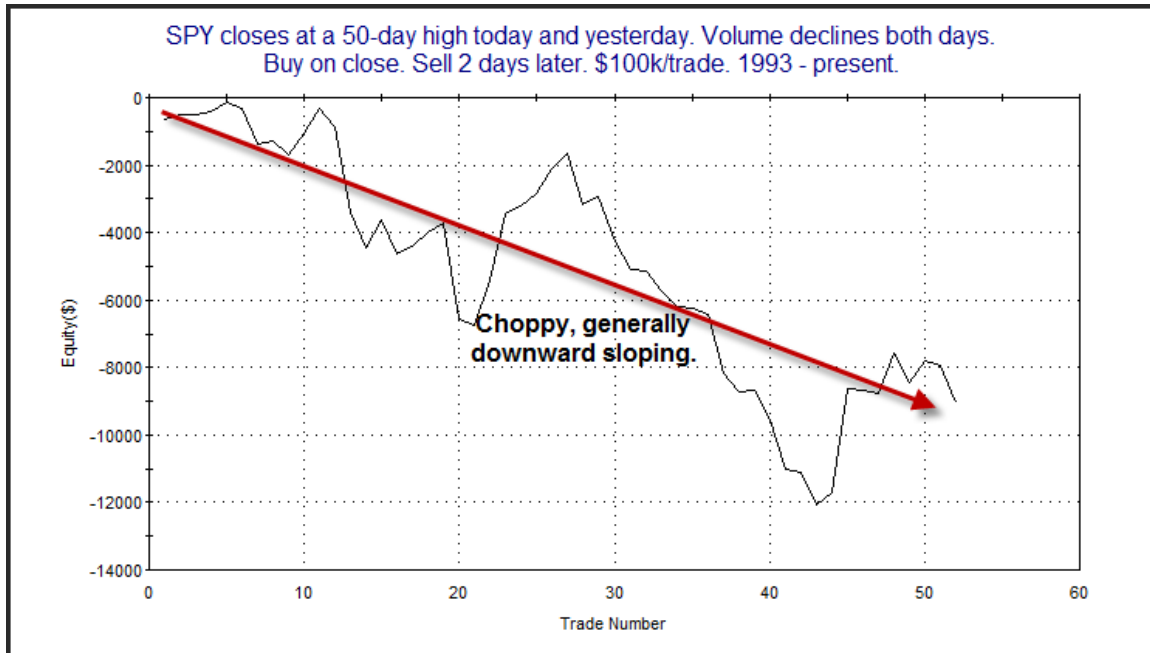
Bullish influences prevailed on Thursday as the market edged higher. The SPX and Russell 2000 both rose 0.2% while the NASDAQ was up 0.6%. Breadth was moderately positive as the NYSE Up Issues % came in at 54% and the Up Volume % was 60%. Action was somewhat muted and volume retreated from Wednesday's levels.

In the 11/8/10 Subscriber Letter I showed a study that examined times the SPY closed at a 50-day high for at least the second day in a row while volume declined for at least the second day in a row. The last two days action has triggered that study once again. I have updated the results below.

SPY closes at a 50-day high today and yesterday. Volume declines both days. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	-9,758.32	51	23	27	45.10	997.63	-1,211.26	0.82	0.70	-191.34
4	-10,344.65	52	23	29	44.23	853.03	-1,033.25	0.83	0.65	-198.94
3	-10,218.31	52	23	29	44.23	845.90	-1,023.24	0.83	0.66	-196.51
2	-9,031.26	52	22	30	42.31	653.24	-780.08	0.84	0.61	-173.68
1	-3,919.94	56	17	38	30.36	661.18	-398.95	1.66	0.74	-70.00

46 of 52 instances (88.5%) posted a close below the entry price at some point in the next week.

The stats table appears to suggest a relatively mild, but consistent, downside edge. The bearish influence is primarily exhausted within the first two days, though. Below is the equity curve using a 2-day exit strategy.



This isn't the most appealing equity curve we've ever seen. There have been some brief bullish-inclined periods. Those haven't lasted long, though. It appears the downside edge may be reasserting itself after this most recent bullish-inclined period.

Another interesting facet of Thursday's action was that the CBOE put/call ratio closed at its highest level in over two months. High put/call ratios are generally associated with fear on the part of traders. It is very unusual to see high put/call ratios when the market is also making a new high. This was only the fourth time in history that the SPX and the CBOE total put/call ratio both closed at a 40-day high. I wouldn't try and draw any conclusions from only three instances, but for those who are curious the SPX closed higher in all three instances from 2 to 5 days out. When I loosened the requirements and only required a 20-day high of each, the number of instances increased to 12 but the stats came out looking extremely neutral.

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



Not much change tonight to the Aggregator configuration. The green Aggregator line remains above 0. The positive value means the net expectation from the Active Studies List is for upside over the next few days. But the black Differential is below 0. The negative value means the SPX has outperformed expectations over the last few days. So net expectations are for upside but the SPX has outperformed recent expectations. This is considered a neutral configuration. A neutral configuration is evident on the chart whenever both lines are on opposite sides of zero. Due to this the Aggregator System remained flat at the close.

The green Aggregator line is tentatively set up to remain above 0 on Friday. Of course this could change if strong bearish evidence emerges. Meanwhile the Differential Pivot will be 1,297.26. This is only 0.2% below Thursday's close. So for the Differential Line to rise above zero would only take a small selloff on Friday. This would also likely trigger a long signal from the Aggregator.

Expectations from the active studies continue to favor more upside, but the SPX is still too overbought for a low risk entry. I will continue to wait for either a pullback to get long, or more substantial bearish evidence to get short.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 1/24 - mildly bullish***

The intermediate-term outlook may be found in the 1/24/11 Subscriber Letter. There is a link below.

[2011-01-24 QE Subscriber Letter.pdf](#)

**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.*

**Current Open Trade Ideas**

*None.*

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