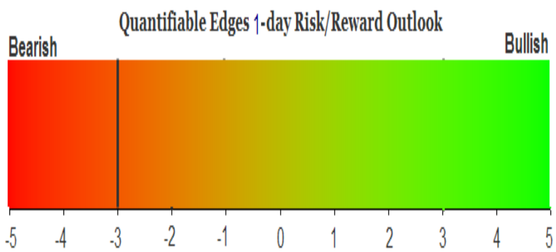
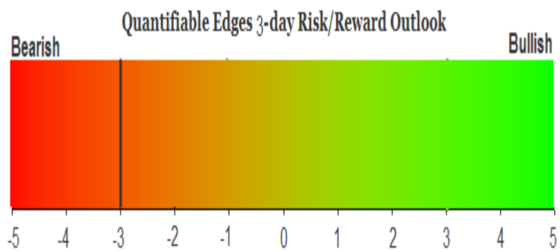
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 30, 2011 Volume 4 Issue 61

Market Overview





Tonight's Research Points

- A gap up and reversal down followed by a gap down and reversal up suggests a bearish short-term edge when SPY is uptrending.
- The Aggregator System is short.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

The Aggregator is again suggesting a bearish edge. I'm looking to take another stab at the short-side.

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				
March 30, 2011	Opposite 2-day gap and reverse in uptrd	1-3 days	Bearish	-1.20%
March 29, 2011	2nd 20-day low. SPX > ma's.	1-2 days	Bearish	-1.35%
March 28, 2011	SPX 10-day high. Vol 20-day low.	1-3 days	Bearish	-1.50%
March 23, 2011	VIX from 10% above to 10% below 10ma	1-8 days	Bullish	2.10%
Active - Long Term				
March 22, 2011	3 Days Up Issues % > 70%	int term	Bullish	19.00%
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
March 28, 2011	VIX 15% below 10ma 3rd day	1-2 days	Bearish	-2.00%

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

The Evidence

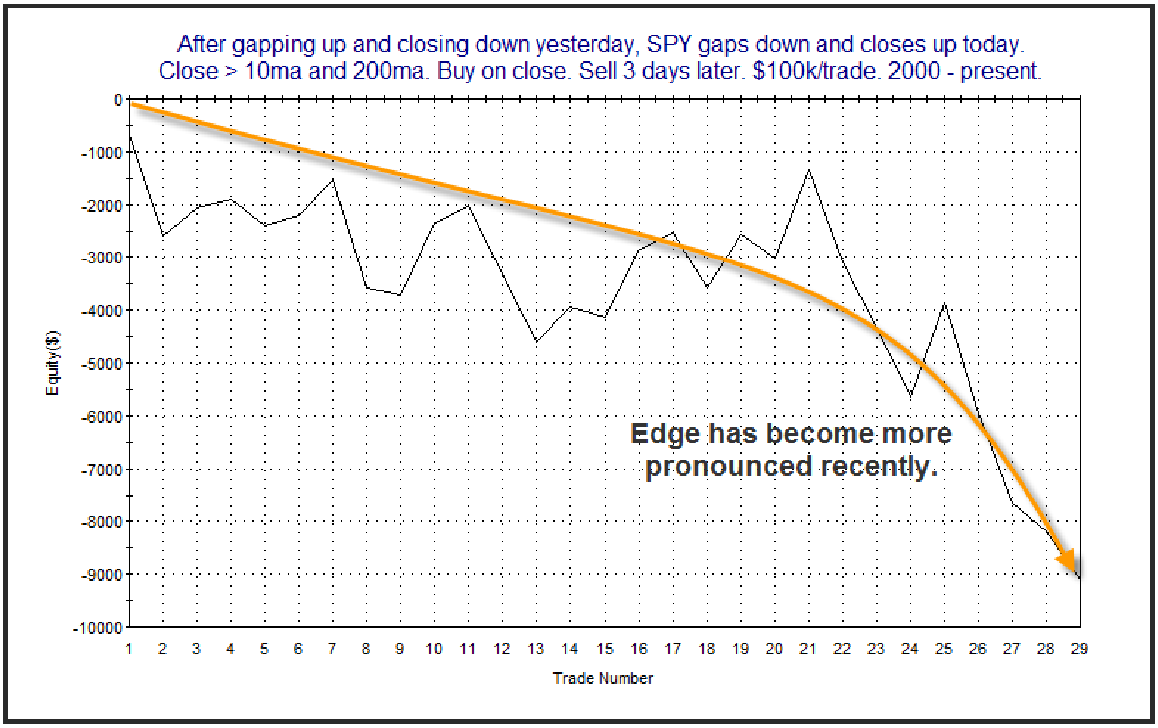
Like a triathalete with a full-time job the market took a quick morning dip and then went to work. It climbed higher throughout the day and closed near its highs. Gains were fairly strong across the board. The SPX rose 0.7%, the Nasdaq was up 1.0% and the Russell 2000 gained 0.9%. Breadth was squarely positive as the NYSE Up Issues % came in at 67% and the Up Volume % was 66%. Total NYSE volume picked up a little from Monday's levels.

I mentioned in the comments section of the intraday Quantifinder that the SPY pattern over the last 2 days seemed to suggest downside over the next few days. The study below is one I ran during the day. It is the study I was referring to in those comments.

After gapping up and closing down yesterday, SPY gaps down and closes up today.
Close > 10ma and 200ma. 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	-6,476.79	27	15	12	55.56	804.08	-1,544.83	0.52	0.65	-239.88
4	-10,547.70	28	12	16	42.86	900.11	-1,334.31	0.67	0.51	-376.70
3	-9,117.94	29	12	17	41.38	832.78	-1,124.19	0.74	0.52	-314.41
2	-5,455.50	31	15	15	48.39	644.86	-1,008.56	0.64	0.64	-175.98
1	-4,952.03	31	15	16	48.39	352.45	-639.92	0.55	0.52	-159.74

The edge isn't huge but risk/reward has seemed to favor the bears under these circumstances. Below is an equity curve which illustrates how the 3-day exit would have performed over time.



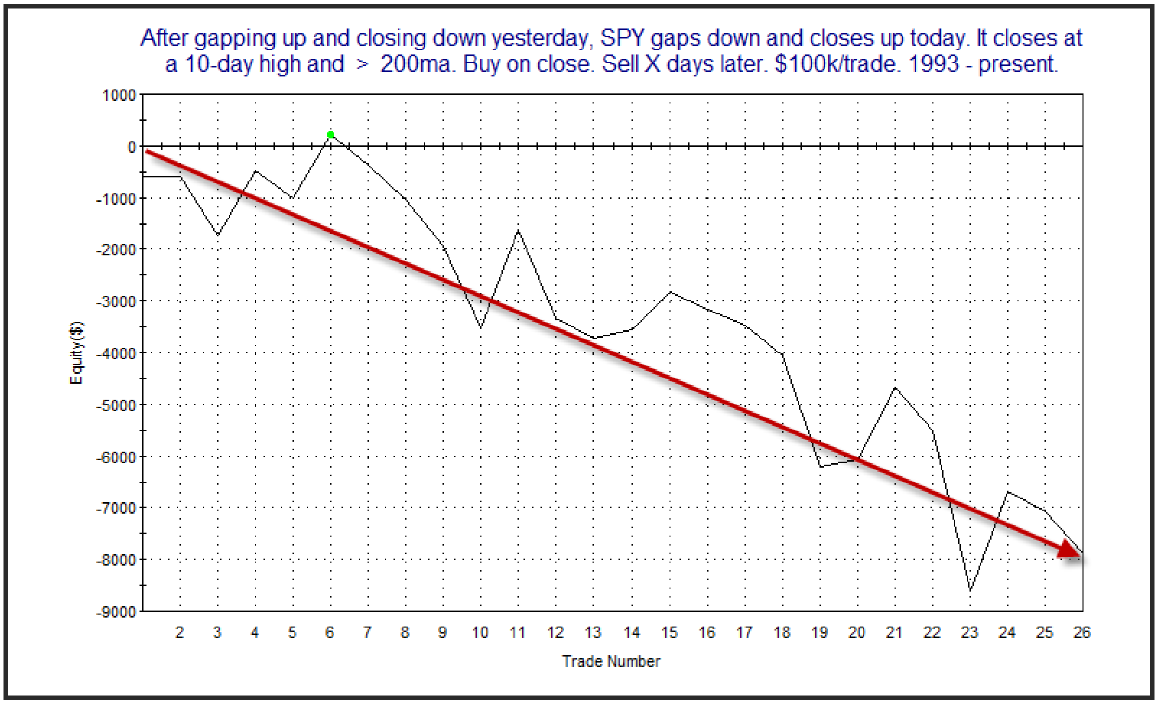
While the numbers don't suggest a huge edge, the steepening of the equity curve shows the bearish edge has become more pronounced.

But Tuesday wasn't just a close above the 10ma. It actually closed at a 10-day high. I decided to use this as a filter. I also needed to look back further in order to get a decent number of instances.

After gapping up and closing down yesterday, SPY gaps down and closes up today. It closes at a 10-day high and > 200ma. 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	-12,860.82	25	11	14	44.00	1,097.88	-1,781.25	0.62	0.48	-514.43
4	-11,698.09	25	11	14	44.00	1,046.46	-1,657.80	0.63	0.50	-467.92
3	-8,844.58	26	11	15	42.31	1,091.51	-1,390.08	0.79	0.58	-340.18
2	-7,874.41	26	8	17	30.77	1,100.00	-980.85	1.12	0.53	-302.86
1	-4,852.85	26	10	16	38.46	516.66	-626.22	0.83	0.52	-186.65

Results here appear even a bit more short-term bearish. In any case, they confirm the previous findings. Below is the equity curve using a 2-day exit.



The edge here appears to be somewhat steady and has persisted for a long time.

I have updated the Aggregator chart below.

The green Aggregator remained just below 0 today. The negative value means the net expectation from the Active Studies List is for downside over the next few days. Meanwhile the black Differential line also remains below 0. Readings below 0 mean the SPX has outperformed expectations over the last few days. So net expectations are for downside and the SPX is relatively overbought. Historically this configuration has suggested a downside edge. It can be seen on the Aggregator chart whenever the both lines are below 0. Due to this the Aggregator System remained short at the close.

Based on the current active studies the green Aggregator line is set to rise back above 0 on Wednesday. This could change should bearish evidence emerge. It could also change if the SPX hits 1321 intraday and the "VIX 10% above to 10% below" study hits it target and is removed from the short-term Active List. Meanwhile, the Differential Pivot will be 1,313.70. This is about 0.4% below Tuesday's close. So for the Differential line to move back above 0 the SPX will need to drop at least this much.

The Aggregator configuration is up in the air. It will only take a small move up intraday to retire the lone bullish short-term study. And with very few active, Wednesday's action will have a strong influence on the Aggregator configuration. The bearish studies are not long-lasting. The market environment appears generally bullish. And we will see some strong seasonal inputs starting Friday with the 1st day of the month. So the Aggregator short signal that is currently active appears to have a very limited shelf life. I will carefully examine action with an open mind over the next few days in order to best interpret the market's message.

Early in the day on Tuesday I was not seeing convincing bearish evidence. This led me to believe that the short signal would likely expire and I responded by instituting a trailing stop order on the open SPY position. Gold subscribers received notification around 10:45 of my intention (which I mentioned briefly in last night's letter). So I am flat overnight but will look to reenter in the morning. (I also mentioned this possibility in the intraday update.) I tend to have substantially less patience with counter-trend trades and that was displayed with today's actions.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/28 – bullish

We've seen some very choppy action in the market over the last month-plus. The rebound this past week has now put us a little above the midpoint of the five-week range. So the question for intermediate-term traders is whether this five-week range is going to break to the upside, allowing the rally to continue, or whether a downside break will create a new leg down.

There was one study that appeared this past week that would seem to strongly suggest a continuation of the uptrend. The 3-day upthrust from 3/17 - 3/21 that came off the 3/16 bottom was especially strong. Each of the three days saw the NYSE Up Issues % close at least 70%. A 3-day upthrust of this magnitude has been quite rare. The study below appeared in Monday night's subscriber letter and examines past instances.

NYSE Up Issues % > 70% for the 3rd day in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1967 - 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
200	165,783.08	10	8	2	80.00	20,992.50	-1,078.46	19.47	77.86	16,578.31
190	179,921.56	10	10	0	100.00	17,992.16	0.00	100.00	100.00	17,992.16
180	189,510.43	10	10	0	100.00	18,951.04	0.00	100.00	100.00	18,951.04
170	193,444.26	12	12	0	100.00	16,120.36	0.00	100.00	100.00	16,120.36
160	190,654.61	12	12	0	100.00	15,887.88	0.00	100.00	100.00	15,887.88
150	189,374.16	12	12	0	100.00	15,781.18	0.00	100.00	100.00	15,781.18
140	174,839.17	12	12	0	100.00	14,569.93	0.00	100.00	100.00	14,569.93
130	155,443.52	13	12	1	92.31	13,423.27	-5,635.69	2.38	28.58	11,957.19
120	124,165.35	13	11	2	84.62	11,457.94	-936.02	12.24	67.33	9,551.18
110	114,709.32	13	13	0	100.00	8,823.79	0.00	100.00	100.00	8,823.79
100	108,917.44	13	11	2	84.62	10,146.31	-1,345.98	7.54	41.46	8,378.26
90	112,591.69	13	11	2	84.62	10,792.99	-3,065.58	3.52	19.36	8,660.90
80	106,199.39	13	12	1	92.31	9,368.54	-6,223.12	1.51	18.07	8,169.18
70	80,683.41	13	12	1	92.31	7,434.63	-8,532.18	0.87	10.46	6,206.42
60	82,174.40	14	12	2	85.71	8,170.87	-7,938.01	1.03	6.18	5,869.60
50	81,600.52	15	12	3	80.00	8,814.94	-8,059.59	1.09	4.37	5,440.03
40	56,862.16	15	12	3	80.00	7,577.48	-11,355.88	0.67	2.67	3,790.81
30	46,902.20	16	11	5	68.75	6,278.54	-4,432.34	1.42	3.12	2,931.39
20	55,292.65	16	13	3	81.25	5,463.75	-5,245.36	1.04	4.51	3,455.79
10	26,652.70	17	13	4	76.47	3,262.61	-3,940.32	0.83	2.69	1,567.81

The long-term consistency is quite amazing. The average trade appears quite large as well. I've listed below all 12 instances with a 170-day exit.

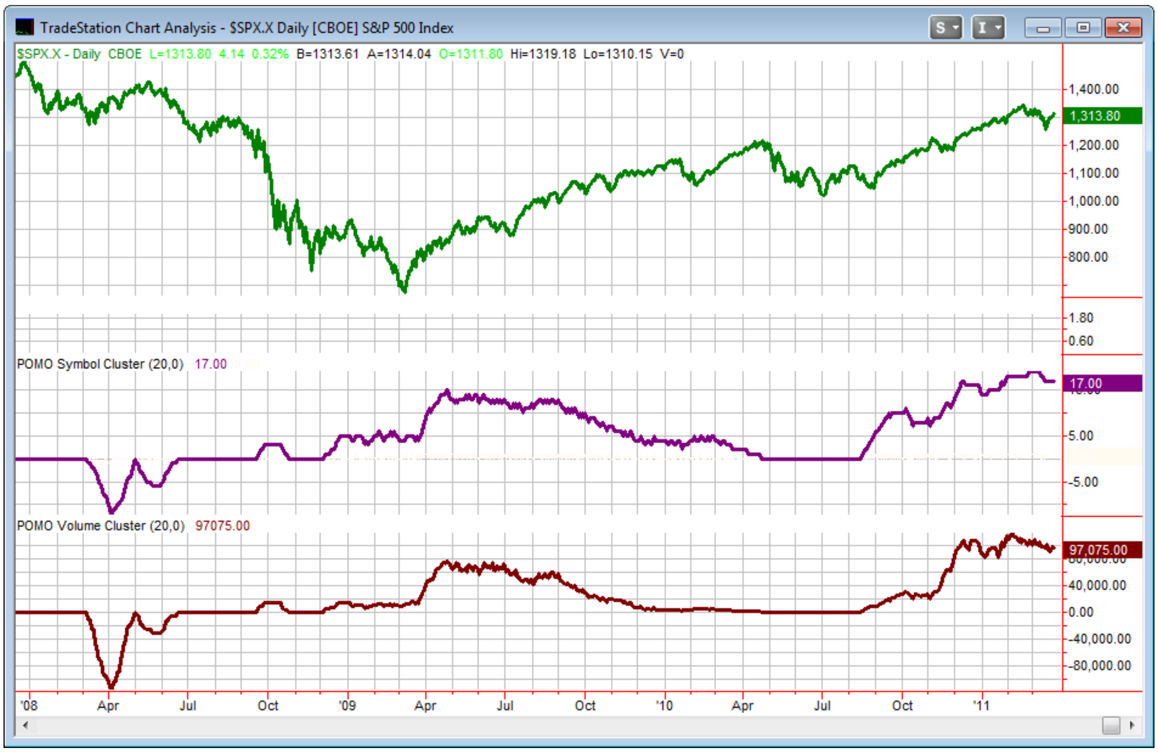
NYSE Up Issues % > 70% for the 3rd day in a row. Buy SPX on close. Sell 170 days later. $100k/trade. 1967 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up DrawDown**
01/09/67	Buy	$82.81	14.16%	$15,715.14
09/11/67	Sell	$94.54		$0.00
05/29/70	Buy	$76.55	25.25%	$25,244.98
01/29/71	Sell	$95.88		($6,947.92)
10/11/74	Buy	$71.14	28.56%	$30,558.75
06/16/75	Sell	$91.46		($8,612.65)
01/05/76	Buy	$92.58	12.66%	$14,439.60
09/03/76	Sell	$104.30		$0.00
01/05/79	Buy	$99.13	8.60%	$10,785.60
09/07/79	Sell	$107.66		($3,780.00)
08/18/82	Buy	$108.52	48.09%	$48,997.20
04/20/83	Sell	$160.71		($1,077.57)
08/03/84	Buy	$162.35	9.65%	$13,277.85
04/08/85	Sell	$178.02		($1,432.95)
12/26/91	Buy	$404.84	2.15%	$5,011.63
08/27/92	Sell	$413.53		($3,072.68)
03/21/07	Buy	$1,435.04	0.32%	$9,732.45
11/20/07	Sell	$1,439.70		($4,446.36)
01/02/09	Buy	$931.80	9.08%	$11,500.36
09/04/09	Sell	$1,016.40		($28,356.07)
09/08/09	Buy	$1,025.39	14.27%	$18,857.77
05/12/10	Sell	$1,171.67		($527.68)
07/09/10	Buy	$1,077.95	21.00%	$24,483.04
03/11/11	Sell	$1,304.28		($3,519.00)
The average runup was 19% and the average drawdown was 5%.				

As you can see, 7 of the 12 made double–digit returns over the 170 days. The lowest runup of 5% is equal to the average drawdown, and 10 of 12 instances saw double digit runups during the 170-day periods. I have added this study to the intermediate-term active list.

The Fed's current POMO activity also remains a potential positive. I've been updating the POMO chart most weekends in the letter. For those who may not recall below is a brief refresher on POMO. Beneath that I have updated our POMO indicator chart.

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… The chart below (shows a couple of POMO indicators). 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. Information on acquiring the data and constructing the chart can be found in the January 3rd POMO presentation linked below. (Not available for trial users.)*

http://www.quantifiableedges.com/members/pomo.php



The POMO Days indicator is still extremely elevated at 17. According to the tentative operations schedule we should see additional POMO buying Monday-Thursday of this upcoming week before an off-day on Friday. Both the POMO Days and POMO Volume indicators appear likely to remain bullish. I expect POMO to continue to provide a steady wind at the market's back. For those that would like to view the upcoming schedule I have provided a link below.

http://www.newyorkfed.org/markets/tot_operation_schedule.html

The market may still have some chopping around left to do, and the short-term outlook suggests a pullback here is likely. From a longer-term standpoint I'm still favoring the long side. The short-term pullback may be shallow or it may test the recent lows, but ultimately I'm optimistic that the long-term uptrend still has a ways to go. For my own trading this means I will be more inclined to take bullish setups more aggressively and bearish setups more conservatively.

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.

SPY – short ¼ index position at $131.75 LIMIT. Based on short-term trading outlook above. This is a little below the closing price. I'm taking a bit more aggressive approach than demanding a close limit. Instead I put the limit price below there in case of a gap down and a failure to fill the gap all the way**. If filled, I will cover the trade at the end of the day if SPX closes at or below the Differential Pivot of 1,313.70.**

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)(s)	3/28/2011	$131.58	$131.35	0.17%		stopped out intraday