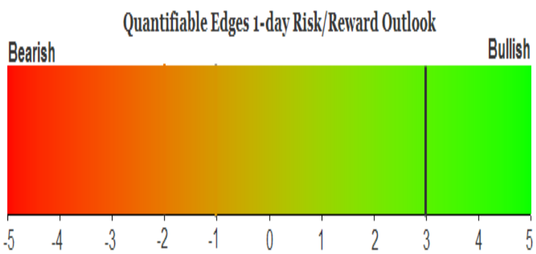
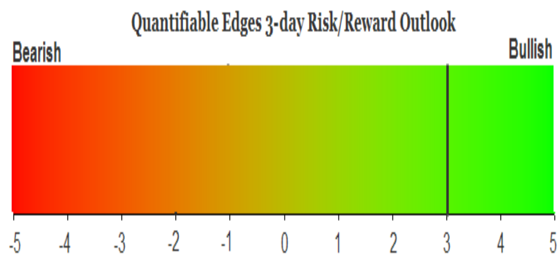
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 11, 2011 Volume 4 Issue 69

Market Overview





Tonight's Research Points

- A 10-day SPX high and 5-day closing low has typically been followed by more selling.
- The 1st 5-day closing low in at least 10 days is normally buyable.
- QQQ making 5 lower-lows and posting the worst day of the selloff has been a powerful buy signal.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

Thursday's pullback managed to swing the Aggregator positive and place the SPX in oversold territory. I am looking to take advantage of the pullback with a long trade. I'll be using a Nasdaq 100 position rather than my typical SPX trade.

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				
April 11, 2011	SPX 10-high and 5-low close	1-2 days	Bearish	-1.20%
April 11, 2011	SPY 5 low for 1st time in 2 weeks	1-4 days	Bullish	1.60%
April 11, 2011	April Op-Ex week	1-3 days	Bullish	1.90%
Active - Long Term				
April 11, 2011	QQQ 5 lower lows. Today worst day.	1-20 days	Bullish	13.00%
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				
April 7, 2011	10 day > 5ma & a 10-day high.	1-2 days	Bearish	-1.20%
April 6, 2011	SPX down. Up Issues % > 55%	1-3 days	Bullish	1.20%
April 5, 2011	SPY 10-high on 20-day low volume	1-4 days	Bearish	-1.70%
April 1, 2011	Low range 60. SPX down. Close >200	1-6 days	Bearish	-2.25%

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

The Evidence

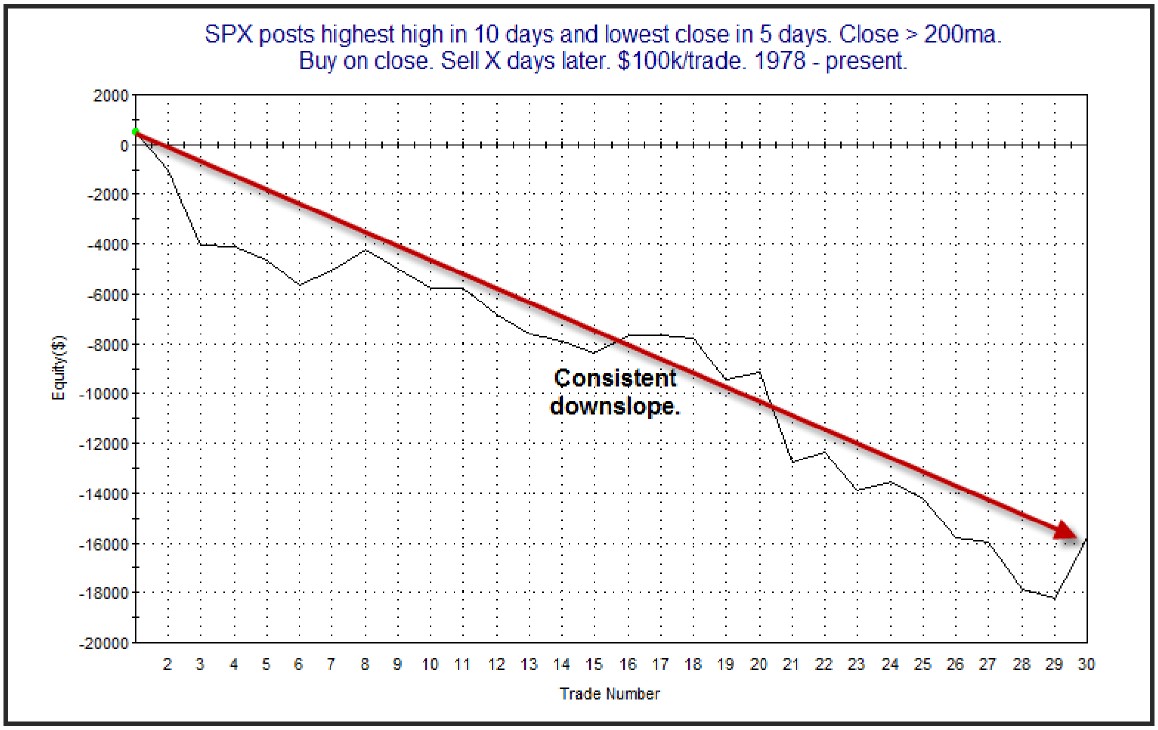
The market sold off a bit on Friday. Losses weren't terribly steep but they were larger than any move we've seen lately. The SPX dropped 0.4%, the Nasdaq fell 0.6%, and the Russell 2000 closed down 1.0%. Breadth was weak as the NYSE Up Issues % came in at 35% and the Up Volume % was 32%. Total volume was light.

The Quantifinder identified a mix of studies, most of which were bullish. There was one bearish one, though. It was from the 10/1/10 Subscriber Letter. I have updated the results below.

SPX posts highest high in 10 days and lowest close in 5 days. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1978 - 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	-4,756.50	30	14	16	46.67	2,014.20	-2,059.71	0.98	0.86	-158.55
9	-12,605.04	30	13	17	43.33	1,714.92	-2,052.88	0.84	0.64	-420.17
8	-17,568.44	30	11	19	36.67	1,810.56	-1,972.87	0.92	0.53	-585.61
7	-22,264.02	30	12	18	40.00	1,558.24	-2,275.72	0.68	0.46	-742.13
6	-18,363.66	30	12	18	40.00	1,433.48	-1,975.86	0.73	0.48	-612.12
5	-9,298.23	30	13	17	43.33	1,189.92	-1,456.89	0.82	0.62	-309.94
4	-15,031.48	30	9	21	30.00	1,294.91	-1,270.74	1.02	0.44	-501.05
3	-16,425.61	30	12	18	40.00	817.76	-1,457.71	0.56	0.37	-547.52
2	-15,770.91	30	9	21	30.00	685.36	-1,044.72	0.66	0.28	-525.70
1	-6,253.56	30	16	14	53.33	396.47	-899.79	0.44	0.50	-208.45

The stats here seem to suggest a downside edge. Most of that edge is exhausted in the first two days. I was a little torn about whether to include this study or not. My hesitation why had to do with the fact that the SPX barely made a 10-day high, and it was not confirmed by a new high in the SPY. Still, I decided it was worth considering. I also ran a two-day equity curve to see how the edge has played out over time.



While the last instance didn't work out, the setup has exhibited a consistent downside edge over the last several years. I did place it on the Active List.

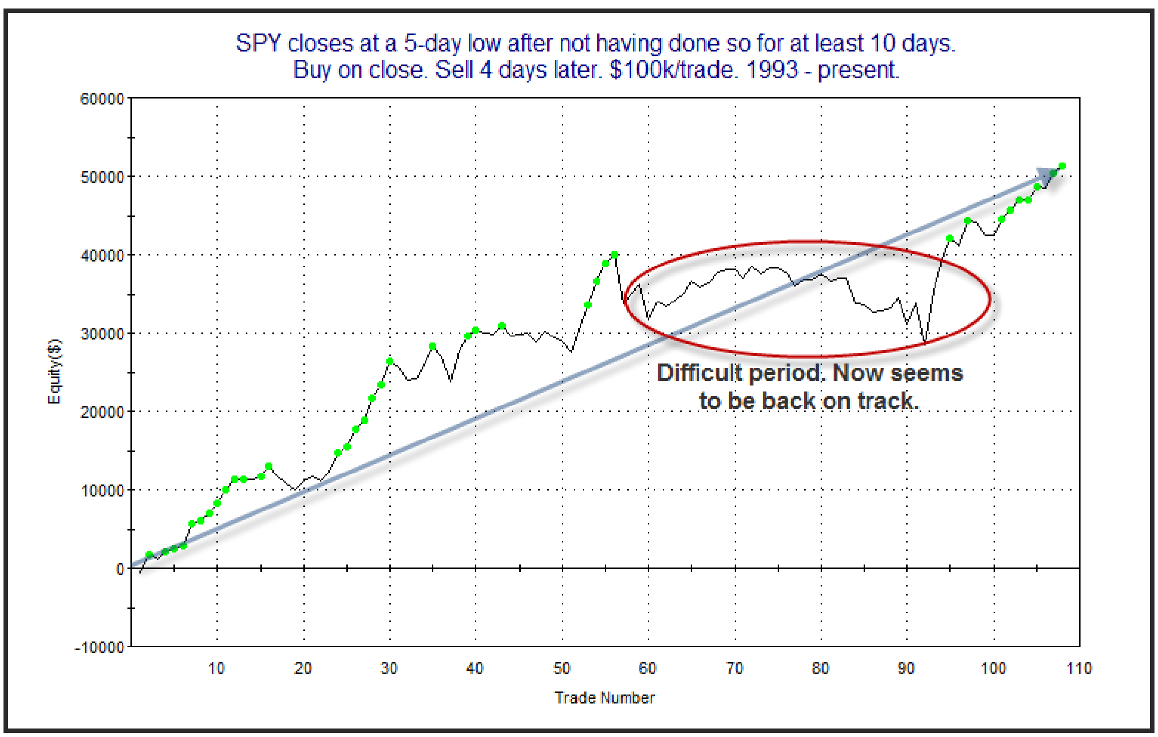
Another study examined the 5-day low from a different perspective. It noted that the 5-day low was the first such occurrence in at least two weeks. In the 11/15/10 Subscriber Letter I demonstrated how this type of action is typically followed by more upside.

SPY closes at a 5-day low after not having done so for at least 10 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
10	77,988.69	108	71	37	65.74	2,151.72	-2,021.18	1.06	2.04	722.12
9	66,915.00	108	70	38	64.81	1,975.28	-1,877.76	1.05	1.94	619.58
8	62,555.72	108	70	37	64.81	1,890.30	-1,885.55	1.00	1.90	579.22
7	52,036.57	108	70	38	64.81	1,832.69	-2,006.62	0.91	1.68	481.82
6	42,332.56	108	67	41	62.04	1,700.77	-1,746.80	0.97	1.59	391.97
5	41,122.26	108	68	39	62.96	1,581.21	-1,702.57	0.93	1.62	380.76
4	51,346.44	108	70	38	64.81	1,465.67	-1,348.69	1.09	2.00	475.43
3	34,193.57	108	67	41	62.04	1,317.89	-1,319.64	1.00	1.63	316.61
2	22,186.64	108	61	46	56.48	1,118.17	-1,000.47	1.12	1.48	205.43
1	13,236.58	108	62	46	57.41	845.55	-851.90	0.99	1.34	122.56

95 of 108 instances (88%) closed above the entry price at some point in the next week.

Results here seem to suggest an upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint, I ran an equity curve with it.



After showing a pretty consistent upside edge for almost 60 instances, it chopped a bit (mostly due to bear markets). Over the last 15 trades or so the edge seems to have reasserted itself.

Perhaps the most compelling study was one that was also last seen in that 11/15/10 Subscriber Letter. It looked at QQQ pullbacks that became overextended. I have updated the study below.

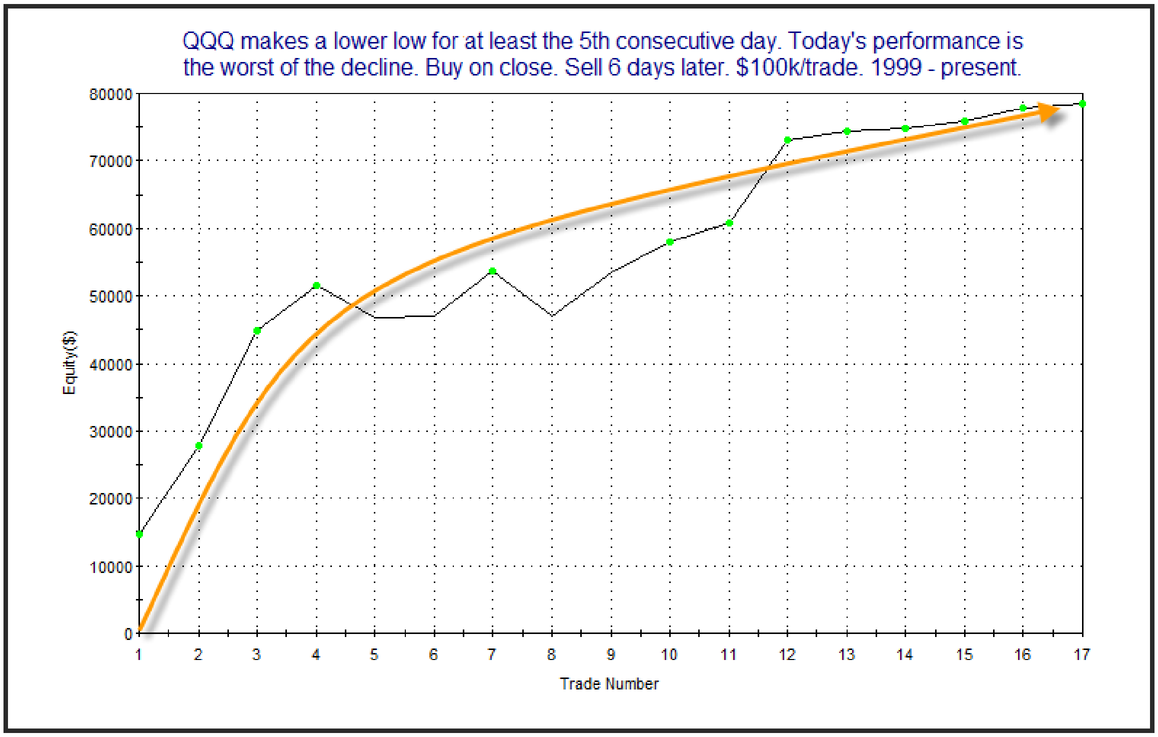
QQQ makes a lower low for at least the 5th consecutive day. Today's performance is the worst of the decline. Buy on close. Sell X days later. $100k/trade. 1999 - present.

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	All: Max Losing Trade	All: Max Winning Trade
20	163,859.65	17	16	1	94.12	10,547.37	-4,898.20	2.15	34.45	9,638.80	-4,898.20	32,613.12
19	160,625.00	17	16	1	94.12	10,333.92	-4,717.74	2.19	35.05	9,448.53	-4,717.74	30,936.87
18	157,043.36	17	16	1	94.12	10,209.97	-6,316.10	1.62	25.86	9,237.84	-6,316.10	31,433.04
17	129,090.77	17	15	2	88.24	8,996.40	-2,927.60	3.07	23.05	7,593.57	-5,542.70	26,404.29
16	119,291.67	17	15	2	88.24	8,424.85	-3,540.57	2.38	17.85	7,017.16	-6,728.58	25,733.79
15	99,256.95	17	15	2	88.24	7,458.81	-6,312.64	1.18	8.86	5,838.64	-9,255.02	22,716.54
14	120,397.59	17	15	2	88.24	8,649.94	-4,675.76	1.85	13.87	7,082.21	-7,012.16	26,404.29
13	104,748.41	17	15	2	88.24	7,513.47	-3,976.83	1.89	14.17	6,161.67	-6,367.66	21,710.79
12	101,778.21	17	14	3	82.35	7,984.36	-3,334.27	2.39	11.17	5,986.95	-4,795.08	25,733.79
11	88,402.41	17	12	5	70.59	8,624.32	-3,017.89	2.86	6.86	5,200.14	-7,627.90	25,063.29
10	87,919.86	17	13	4	76.47	8,106.95	-4,367.63	1.86	6.03	5,171.76	-7,916.35	25,653.33
9	90,112.39	17	12	5	70.59	8,858.73	-3,238.48	2.74	6.57	5,300.73	-7,115.10	22,381.29
8	86,185.55	17	12	5	70.59	8,300.13	-2,683.19	3.09	7.42	5,069.74	-8,717.60	25,881.30
7	79,958.78	17	14	3	82.35	6,888.74	-5,494.52	1.25	5.85	4,703.46	-8,108.65	25,572.87
6	78,526.05	17	15	2	88.24	6,000.07	-5,737.49	1.05	7.84	4,619.18	-6,667.47	17,191.62
5	48,892.40	17	12	5	70.59	5,024.18	-2,279.54	2.20	5.29	2,876.02	-5,095.95	12,677.42
4	45,229.87	17	10	7	58.82	6,089.12	-2,237.34	2.72	3.89	2,660.58	-9,647.05	14,844.87
3	28,933.02	17	11	5	64.71	4,162.24	-3,370.31	1.23	2.72	1,701.94	-7,147.15	11,487.50
2	40,966.10	17	12	5	70.59	4,156.98	-1,783.54	2.33	5.59	2,409.77	-3,942.15	15,625.00
1	33,890.49	17	13	4	76.47	2,993.12	-1,255.01	2.38	7.75	1,993.56	-2,243.50	12,187.50

These very simple requirements have led to some very strong results, both short and intermediate-term. Four weeks out the average trade has produced a gain in the QQQ of nearly 10%. Even if this apparent upside edge does play out, I don't expect to see gains this strong over the next month. Often the outsized gains were partially due to the volatile environment that was present when the study triggered. Many of these occurred during the wild 2000 – 2002 bear market in the Nasdaq. The current environment is carrying low volatility, so my expectations are dampened. Below I have listed all 17 past instances along with a 20-day exit.

QQQ makes a lower low for at least the 5th consecutive day. Today's performance is the worst of the decline. Buy on close. Sell 20 days later. $100k/trade. 1999 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up DrawDown**
01/28/00	Buy	$86.00	20.93%	$24,983.00
02/28/00	Sell	$104.00		($2,905.00)
04/14/00	Buy	$80.00	10.39%	$21,100.00
05/15/00	Sell	$88.31		($2,500.00)
05/23/00	Buy	$74.56	32.62%	$33,739.56
06/21/00	Sell	$98.88		($3,097.71)
07/28/00	Buy	$86.75	13.00%	$15,206.40
08/25/00	Sell	$98.03		($3,962.88)
09/17/01	Buy	$31.20	10.26%	$12,980.25
10/15/01	Sell	$34.40		($13,461.00)
01/16/02	Buy	$38.78	(4.90%)	$3,067.82
02/14/02	Sell	$36.88		($9,822.18)
02/21/02	Buy	$33.48	10.57%	$17,050.06
03/21/02	Sell	$37.02		($1,164.54)
04/26/02	Buy	$31.04	0.64%	$8,342.39
05/24/02	Sell	$31.24		($8,439.02)
07/23/02	Buy	$22.40	12.46%	$14,240.16
08/20/02	Sell	$25.19		($4,910.40)
09/23/02	Buy	$21.02	15.56%	$16,316.51
10/21/02	Sell	$24.29		($5,993.82)
12/09/02	Buy	$25.22	2.70%	$6,780.15
01/08/03	Sell	$25.90		($3,727.10)
03/10/03	Buy	$24.01	8.66%	$14,032.68
04/07/03	Sell	$26.09		($1,957.08)
12/09/03	Buy	$34.43	10.31%	$10,367.28
01/08/04	Sell	$37.98		($871.20)
08/06/04	Buy	$32.72	4.34%	$6,600.96
09/03/04	Sell	$34.14		($1,130.72)
01/14/09	Buy	$28.63	6.78%	$10,650.60
02/12/09	Sell	$30.57		($2,339.64)
06/29/10	Buy	$43.37	6.18%	$7,721.75
07/28/10	Sell	$46.05		($3,688.00)
11/12/10	Buy	$52.51	3.41%	$4,245.92
12/13/10	Sell	$54.30		($2,437.12)

The more recent instances have not been as powerful but have still shown impressive strength and consistency. This is not only the case with the 20-day exit, but also with the 6-day exit. Below is an equity curve using the 6-day exit.



As you can see the first four instances were exceptionally bullish. Since then the gains have been consistent, but have produced more moderate results.

There is also quite a bit to consider from a seasonality standpoint. April expirations week has historically been very bullish. I showed this in the 4/12/10 Subscriber Letter and have updated it below.

Buy SPX on Friday the week before April options expiration. (Thurs if Fri is holiday.)
Sell X days later. $100k/trade. 1984 - 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	25,094.74	27	17	10	62.96	2,361.00	-1,504.22	1.57	2.67	929.43
4	26,756.93	27	18	9	66.67	2,201.22	-1,429.44	1.54	3.08	991.00
3	29,290.48	27	19	8	70.37	1,984.48	-1,051.83	1.89	4.48	1,084.83
2	21,154.87	27	23	4	85.19	1,263.57	-1,976.83	0.64	3.68	783.51
1	9,661.85	27	20	7	74.07	720.49	-678.27	1.06	3.03	357.85

25 of 27 instances (93%) closed above the entry price on either day 1 or day 2.

The consistency that the Monday and Tuesday of options expiration week has had is very impressive. It suggests an upside edge the first few days of this week.

Part of the reason that April may perform so well is that April 15th tax day often occurs this week. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15th. Fund managers will often put this money to work immediately and it creates a positive bias for the market.

My research has found that some of the strongest influence occurs on tax day (normally April 15th) and the day immediately after. Below are some studies that demonstrate this.

SPX Tax Day Performance
$100k/trade. 1981 - 2010

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$11,747.45	Profit Factor	3.86
Gross Profit	$15,852.71	Gross Loss	($4,105.26)
Total Number of Trades	30	Percent Profitable	73.33%
Winning Trades	22	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	$391.58	Ratio Avg. Win:Avg. Loss	1.40
Avg. Winning Trade	$720.58	Avg. Losing Trade	($513.16)
Largest Winning Trade	$3,322.23	Largest Losing Trade	($1,601.32)

SPX Day After Tax Day Performance
$100k/trade. 1981 - 2010

TradeStation Performance Summary Collapse

All Trades

Total Net Profit	$16,758.11	Profit Factor	4.12
Gross Profit	$22,136.77	Gross Loss	($5,378.66)
Total Number of Trades	30	Percent Profitable	70.00%
Winning Trades	21	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$558.60	Ratio Avg. Win:Avg. Loss	1.76
Avg. Winning Trade	$1,054.13	Avg. Losing Trade	($597.63)
Largest Winning Trade	$2,842.84	Largest Losing Trade	($1,602.28)

Tax day doesn't arrive until Friday this week. So this would suggest some bullish seasonal influence on Friday and next Monday. Below are results of holding both days.

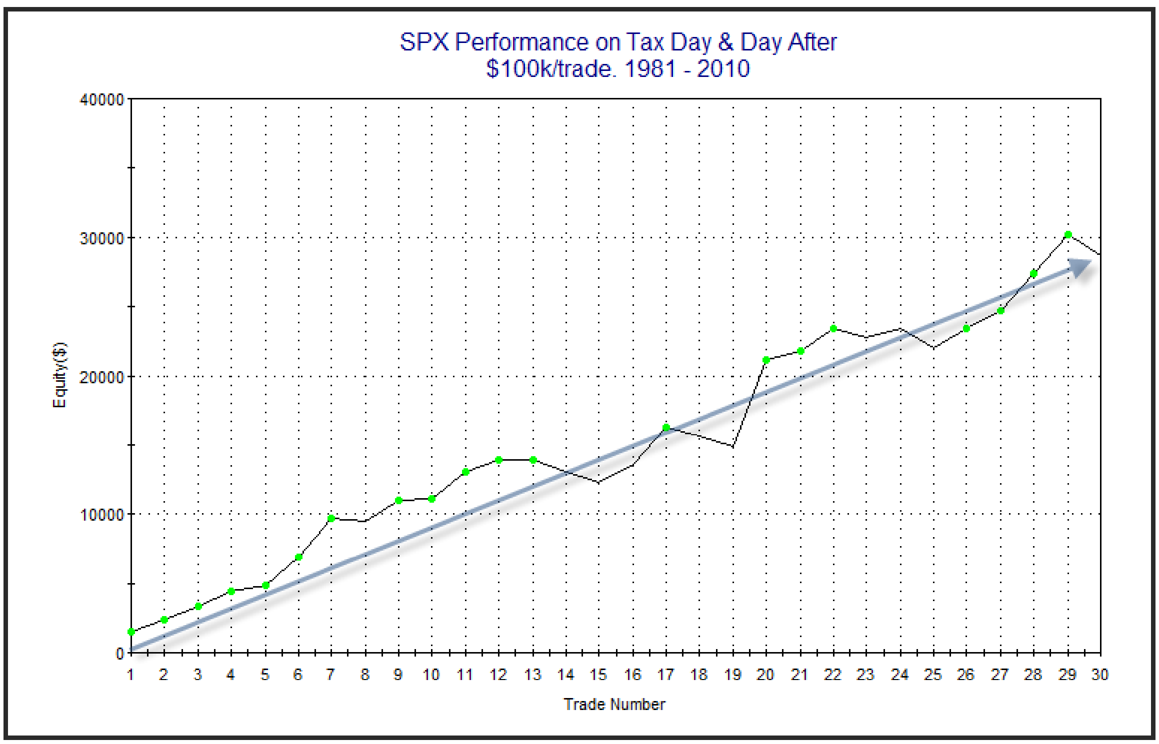
SPX Performance on Tax Day & Day After
$100k/trade. 1981 - 2010

TradeStation Performance Summary Collapse

All Trades

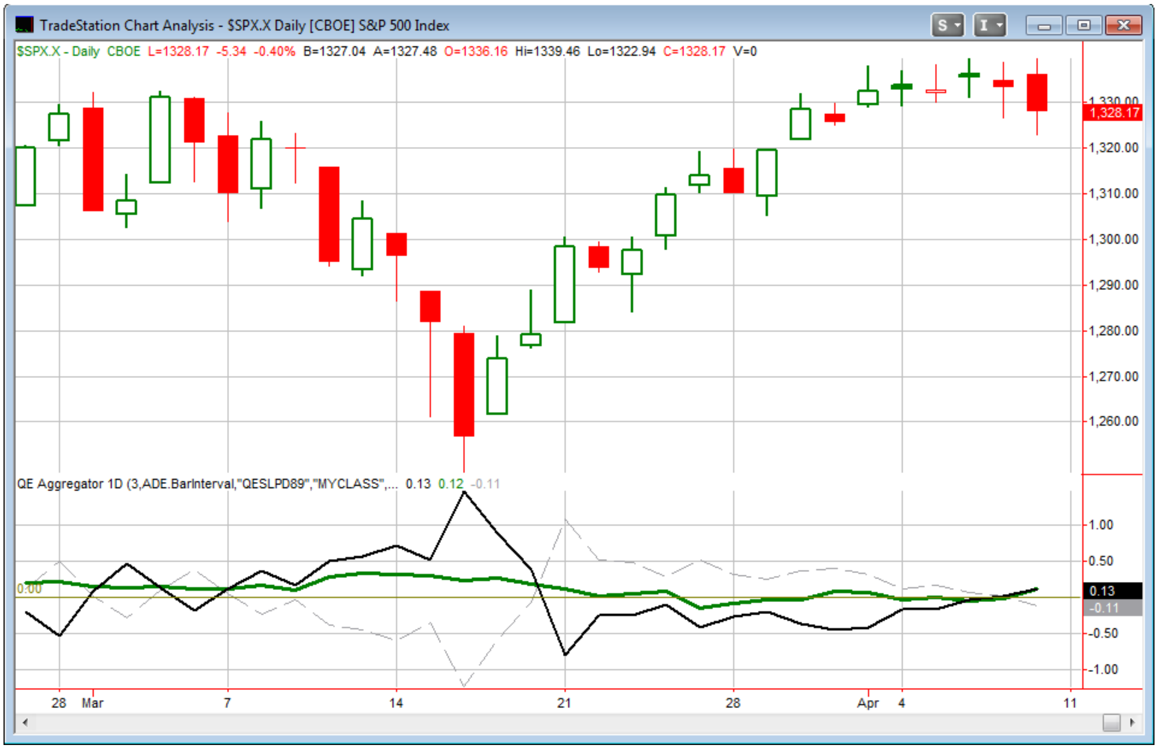
Total Net Profit	$28,682.70	Profit Factor	5.27
Gross Profit	$35,403.74	Gross Loss	($6,721.04)
Total Number of Trades	30	Percent Profitable	73.33%
Winning Trades	22	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	$956.09	Ratio Avg. Win:Avg. Loss	1.92
Avg. Winning Trade	$1,609.26	Avg. Losing Trade	($840.13)
Largest Winning Trade	$6,245.15	Largest Losing Trade	($1,518.64)

Here we see the SPX move over the two day period was a gain of nearly 1%. Over the 30 year period there were only 4 years where the market did not close above the entry price on either day 1 or day 2. Below is an equity curve showing the 2-day hold.



The upside edge has been steady over the years. In all, it appears there are some fairly significant positive seasonalities in place this week.

I have updated the Aggregator chart below.



Tonight's studies have moved the green Aggregator up into positive territory. The positive value means the net expectation from the Active Studies List is for upside over the next few days. Meanwhile the black Differential line is also above 0. Readings above 0 mean the SPX has underperformed expectations over the last few days. So net expectations are for upside and the SPX is relatively oversold. Historically, this configuration has provided a bullish edge. It can be seen on the chart whenever the green Aggregator and black Differential lines both close above zero. Due to this the Aggregator System changed to long at the close.

The green Aggregator line is currently set to remain above 0 on Tuesday. Of course this could change if bearish studies emerge. Meanwhile, the Differential Pivot will be 1,334.54. This is about 0.5% above Friday's close. This means it would take a rise of at least this much to turn the black Differential line negative.

I'm looking to add long exposure to take advantage of a possible rise. Typically, I trade the SPX. In this case, the Nasdaq 100 appears to be setting up better, and I will look to take my exposure there.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/11 – bullish

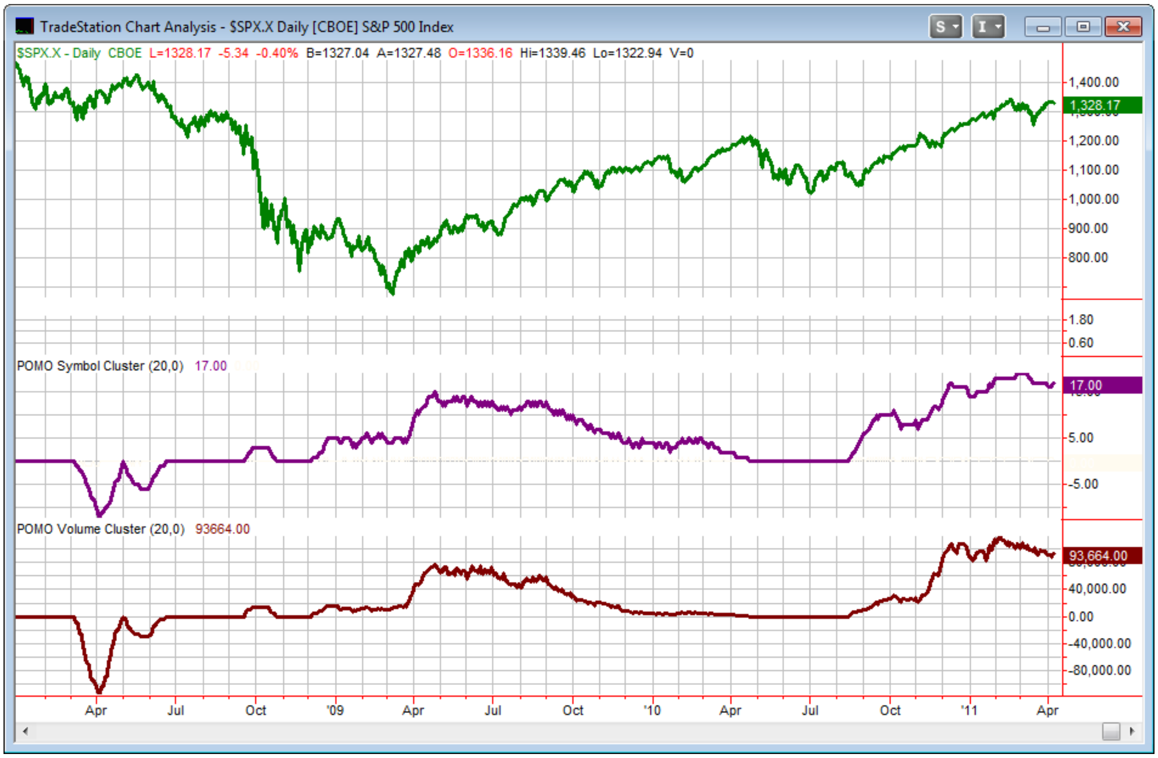
The market continues to bump against its February highs without breaking through. It has established a tight range over the last 8 days between the 3/30 gap higher and the Feb highs. A break in either direction could lead to a sharp move. Evidence at this point seems to suggest we should be seeing higher prices in the next few weeks.

The QQQ pullback study from the short-term section also has intermediate-term implications and I have added it to the intermediate-term Active List.

The Fed's current POMO activity 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 ticked back up to 17. Additional buying is scheduled for Monday. Tuesday is an off-day, and the Fed is also set to release the new schedule on Tuesday. With buying slated to continue into June, I expect to see another busy slate. It certainly bears watching though and should provide insight into the Fed's immediate-plans and whether POMO is likely to continue to act as a wind at the markets back over the next month. For those that would like to view the upcoming schedule I have provided a link below. Checking this link on or after Tuesday should show the new schedule.

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

There is still a decided lack of intermediate-term bearish studies. Meanwhile, momentum, POMO activity, breadth, and now QQQ price action are all pointing higher. I remain intermediate-term bullish. 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.

QQQ – buy ¼ index position @ $56.95 limit. Based on short-term outlook above, I will begin scaling in to a position.

Current Open Trade Ideas

None