

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 21, 2011

Volume 4 Issue 77

## Market Overview



## Tonight's Research Points

- Holy Thursday has a bullish track record over the last 30 years.
- Unfilled gaps higher after a gain the previous that fail to reach a new 10-day high will often follow through further short-term.
- The Aggregator System is flat.
- The NDX Aggressive Trend Timer is flat.

## *Short-term Outlook*

### *The Bottom Line*

Evidence remains bullish but Wednesday's strong move has turned the SPX short-term overbought. I'm mostly sidelined and won't be looking to take on additional exposure until next week.

## *Summary of Recent Active Studies (see Letters from listed dates for details)*

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
April 20, 2011	Holy Thursday	1 day	Bullish	
April 19, 2011	Unfilled gap up. 2nd day up. No 10 high	1-3 days	Bullish	
April 20, 2011	WR7 Down High Vol then NR7	1-5 days	Bullish	2.10%
April 19, 2011	1% drop & decliners double advancers	1-9 days	Bullish	3.00%
<b>Active - Long Term</b>				
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	

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

## The Evidence

The market got a big boost from earnings new Wednesday morning, gapping up large to start the day. Though it didn't add too much to the morning gains, it did hold firm all day. In the end the SPX rose 1.4%, the Nasdaq was up 2.1% and the Russell 2000 gained 2.0%. Breadth was strong as the NYSE Up Issues % came in at 81% and the Up Volume % was 76%. Total NYSE volume rose from Tuesday's level and was a little above normal.

Action over the last 2 days triggered a study last seen on 3/4/11. I have updated that study below.

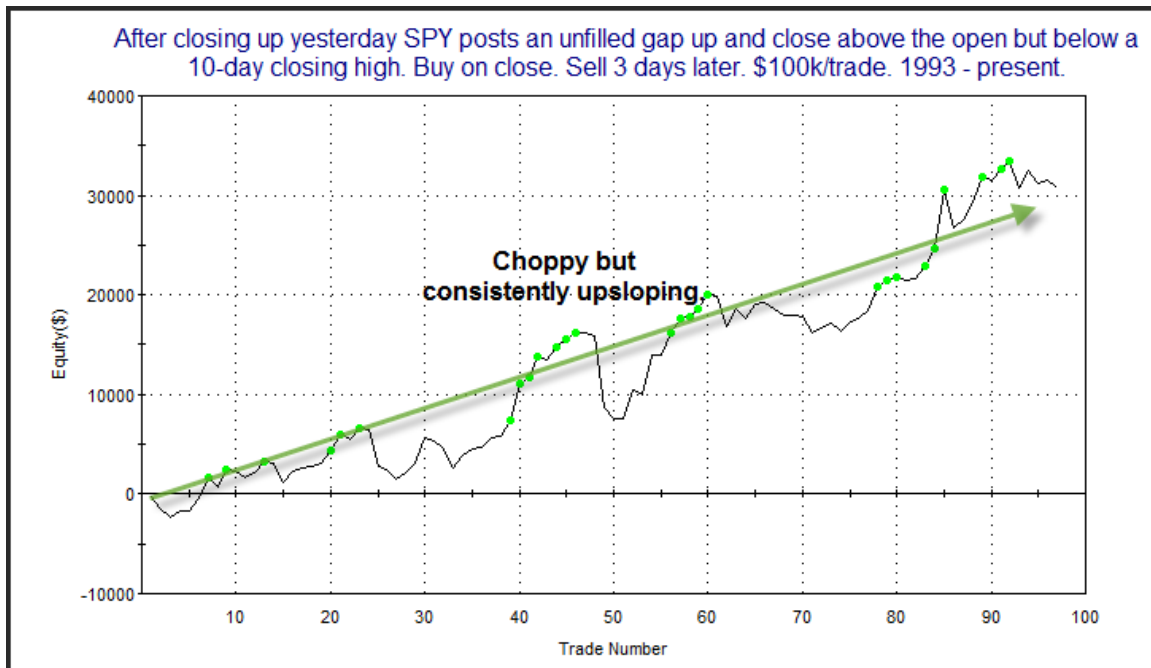
After closing up yesterday SPY posts an unfilled gap up and close above the open but below a 10-day closing high. Buy on close. Sell X days later. \$100k/trade. 1993 - present.

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	52,820.30	87	61	26	70.11	2,302.71	-3,370.96	0.68	1.60	607.13
9	57,591.21	89	61	28	68.54	2,164.95	-2,659.66	0.81	1.77	647.09
8	50,189.13	92	61	30	66.30	2,055.08	-2,505.70	0.82	1.67	545.53
7	23,260.05	93	55	37	59.14	2,041.34	-2,405.78	0.85	1.26	250.11
6	30,595.12	93	55	38	59.14	2,019.63	-2,118.01	0.95	1.38	328.98
5	15,838.69	94	53	41	56.38	1,693.05	-1,802.26	0.94	1.21	168.50
4	22,299.96	95	59	36	62.11	1,369.88	-1,625.63	0.84	1.38	234.74
3	30,807.73	97	59	38	60.82	1,227.85	-1,095.67	1.12	1.74	317.61
2	17,042.05	98	57	40	58.16	1,055.39	-1,077.88	0.98	1.40	173.90
1	6,680.02	104	59	43	56.73	605.23	-675.08	0.90	1.23	64.23

85% of instances posted a close above the entry price at some point in the next week.

Gains here are a little modest, but the consistency is very good. The stat noted in the bottom of the table is especially impressive considering the setup requires the SPY to have already risen the last 2 days. I did peek at performance above and below the 200ma and found little difference between the 2. Therefore I decided it wasn't worthwhile to distinguish for this study.

Below is an equity curve using a 3-day exit strategy.



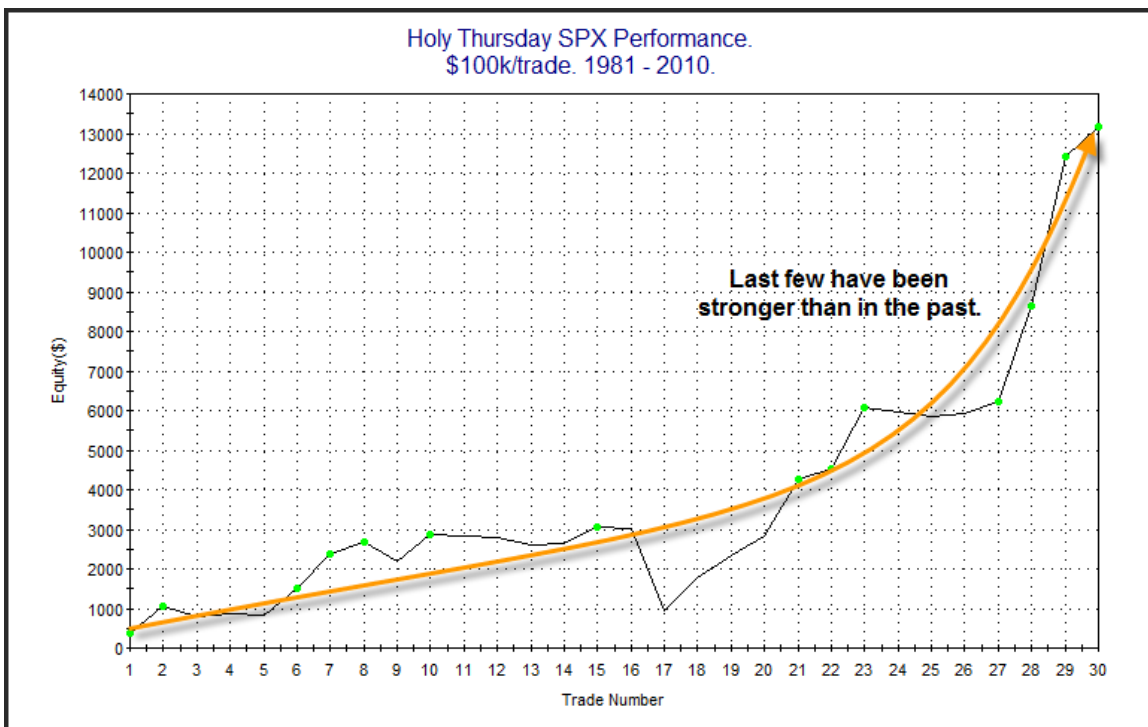
The equity curve confirms the bullish edge suggested by the stats table.

I mentioned Sunday night that Holy Thursday has typically shown bullish inclinations. An excerpt from that night is below.

*The Thursday before Easter, known as Holy Thursday has had a bit of a bullish bias over the years. This isn't unusual with holidays. Most of them see a rise heading in to a long weekend (except for Presidents' Day). Below is the SPX performance on Holy Thursday over the last 30 years.*

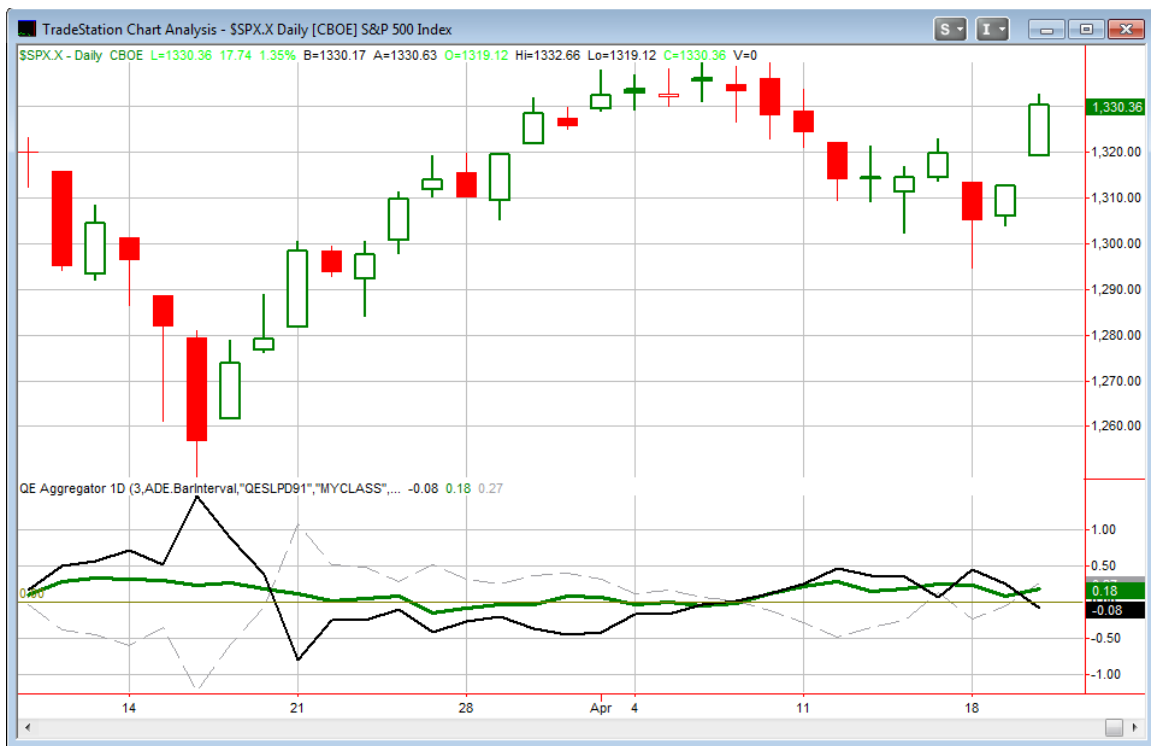
Holy Thursday SPX Performance. \$100k/trade. 1981 - 2010.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$13,166.33	Profit Factor	4.84
Gross Profit	\$16,598.96	Gross Loss	(\$3,432.63)
Total Number of Trades	30	Percent Profitable	66.67%
Winning Trades	20	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$438.88	Ratio Avg. Win:Avg. Loss	2.42
Avg. Winning Trade	\$829.95	Avg. Losing Trade	(\$343.26)
Largest Winning Trade	\$3,799.40	Largest Losing Trade	(\$2,097.90)

The numbers are fairly compelling – especially the ones I’ve circled showing that the winners have greatly outsize the losers. Below is an equity curve showing how Holy Thursday has played out over the years.



It seems the upward bias has been in effect the entire time.

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



The green Aggregator line is again well above 0. The positive value means the net expectation from the Active Studies List is for upside over the next few days. This is not a surprise since all short-term studies are bullish. Meanwhile, Wednesday's sharp rally caused the black Differential line to cross below 0. Readings below 0 mean the SPX has outperformed expectations over the last few days. So net expectations are for upside but the SPX is already overbought. This is considered a neutral configuration. It can be visible on the chart whenever the green Aggregator and black Differential lines finish on opposite sides of zero. Due to this the Aggregator System changed from long to flat.

With no bearish studies on the Active List the green Aggregator line is again set to close above 0 on Thursday. This could change if bearish evidence emerges. Meanwhile, the Differential Pivot will be 1,313.76. This is about 1.25% below Wednesday's close. This means it would take a drop of at least this much to turn the black Differential line positive.

The market is looking healthy short-term and evidence suggests more upside is likely. The sharp move on Wednesday did move it into overbought territory, though. I typically step aside with my Aggregator trades when the market is overbought and I did that at the close today. Those trades took a little longer than usual this time, but patience finally

paid off. I do still hold the position in EPP, which is based on System 90609. That system looks to ride a trend rather than a swing. These trades will often take quite a bit longer than some of the other swing-trading systems (especially winning trades).

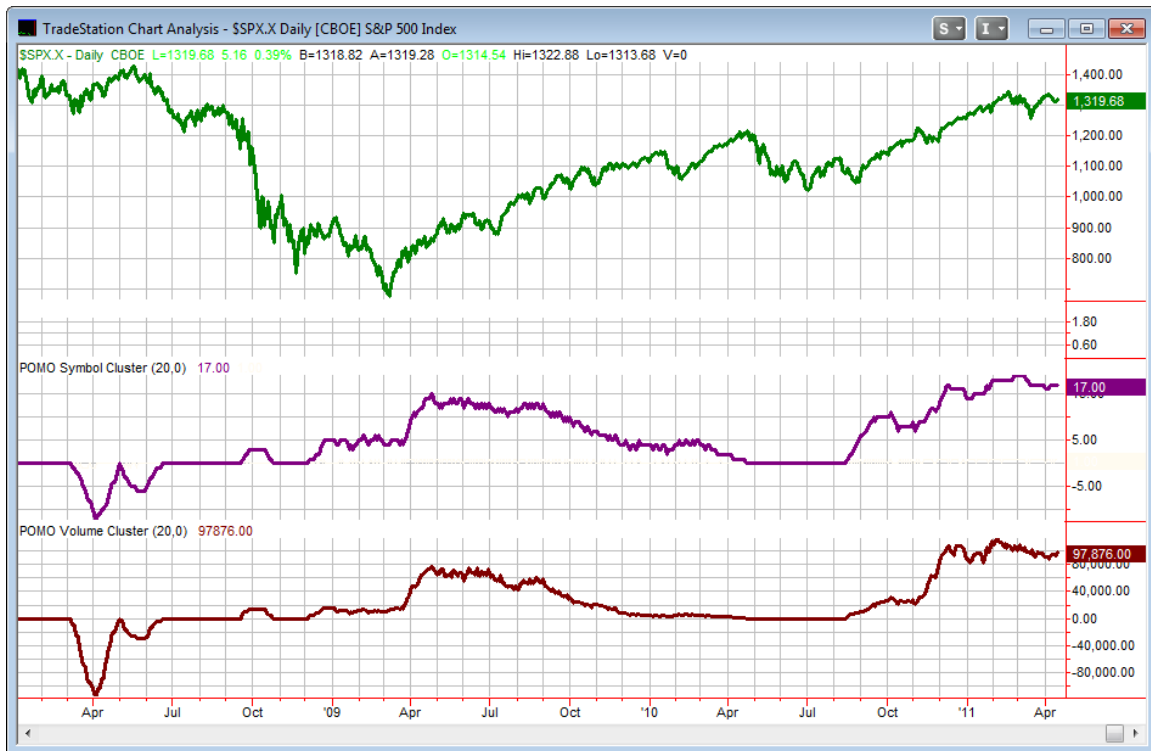
***Intermediate-term Outlook (2 weeks – 2 months)– updated 4/18 – bullish***

The market gave up a little ground this week but remains within a couple of percent of new highs. The mild action over the last few days failed to trigger any new intermediate-term studies. Intermediate—term studies from past weeks that still remain in effect are all bullish, with one primary driver being Fed POMO buying.

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 3<sup>rd</sup> POMO presentation linked below. (Not available for trial users.)*

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



The POMO Days indicator is at 17 again this week. The schedule calls for more buying on Monday through Wednesday of this holiday-shortened week. No buying is scheduled on Thursday. The schedule released last Tuesday is very busy. There are 18 trading days schedule for buying between April 13 and May 11. The POMO Volume indicator on the bottom of the chart is also holding firm at a high level. QE2 and the current round of POMO buying are supposed to end sometime in June. As we get closer to that date it will be interesting to see whether the market anticipates the end of the liquidity pumping and sells off or whether the pump continues to work as well as it has. Over the last several years the market has NOT performed well without Fed stimulus in place. For now I still expect it is acting as 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](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 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.

No new trade ideas tonight.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
QQQ(1/4)	4/11/2011	\$56.95	\$57.88	1.63%		sold on close
QQQ(1/4)	4/12/2011	\$56.52	\$57.88	2.41%		sold on close
SPY(1/4)	4/13/2011	\$131.47	\$133.10	1.24%		sold on close
EPP	4/19/2011	\$48.85	\$50.21	2.78%		System 90609

QQQ and SPY were all sold at the close.

EPP is not near an exit at this point based on system 90609.

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