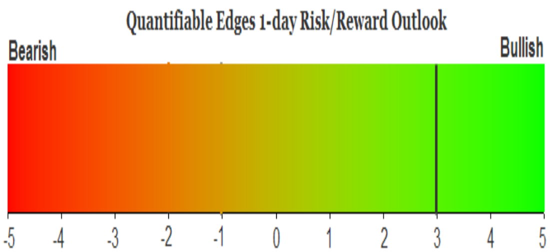
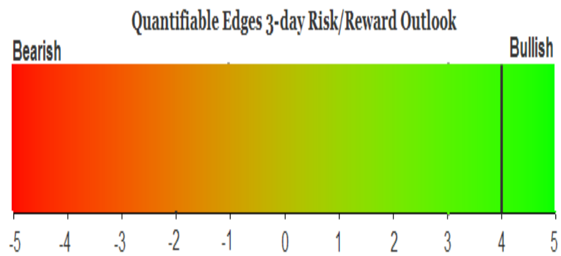
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 8, 2011 Volume 4 Issue 151

Market Overview





Signals Overview

Aggregator	Aggressive VIX	Conservative VIX	NDX Trend Timer
Long	100% Long XIV	100% Long XIV	Long

Tonight's Research Points

- Extremely high volume at a long-term low is suggesting a bounce.
- The persistency and strength of the selloff at this point suggest an intermediate-term bullish edge.

Short-term Outlook

The Bottom Line

The market is deeply oversold and flashing numerous signs that a bounce is imminent. Weekend news has been bad. Without historical precedent the full reaction over the next couple of days is difficult to anticipate. I'm long and holding for a bounce, but we are in somewhat uncharted territory.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 8, 2011	High Volume 100-day lows	1-3 days	Bullish	
August 5, 2011	5 lower lows. Today is larges.	1-2 days	Bullish	
August 5, 2011	VIX crosses > 35% over 10ma.	1-2 days	Bullish	
August 4, 2011	50 low yest. High volume rally 2day	1-4 days	Bullish	2.70%
August 4, 2011	1.75% drop.Next day big intraday bounc	1-5 days	Bullish	3.50%
July 29, 2011	4 lower lows. 20-day low. Close >200	1-8 days	Bullish	2.40%
Active - Long Term				
August 8, 2011	SPX Down 9 of 10 days and > 7.5%	1-20 days	Bullish	13.30%
July 22, 2011	Up Issue% > 75% 2 of 3. Close 10 high.	1-20 days	Bullish	5.50%
July 5, 2011	QE2 Over	int term	Bearish	
March 22, 2011	3 Days Up Issues % > 70%	8 months	Bullish	19.00%
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
July 5, 2011	3 days higher. Up vol % > 90% today.	1-20 days	Bullish	5.00%
May 31, 2011	4 Weeks Down. Close > 40ma.	1-10 weeks	Bullish	9.00%
August 1, 2011	Down last 3 days of month	1-5 days	Bullish	2.60%

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

The Evidence

Despite a positive reaction to the jobs number the market immediately dropped from its big gap up Friday morning. The SPX traded down as much as 2.5% intraday but by the end of the day it was back near breakeven. The SPX finished down 0.1%, the Nasdaq lost 0.9%, and the Russell 2000 gave up 1.7%. Other indices of note saw the SOX down 2% but the Dow 30 up 0.5%. Breadth was weak as the NYSE Up Issues % came in at 26% and the Up Volume % was 37%. Total NYSE volume reached the highest level since the flash crash in May 2010.

The SPX has dropped over 13% from its recent 7/22 high to its low on Friday. Just dropping a large amount over a short time period is not necessarily indicative that a bounce is about to occur. The study below is run off a weekly chart and it representative of the type of result I got when looking at the simple combination of time period and price drop.

SPX closes down for at least the 2nd week in a row and is down over 10% from 2 weeks ago. Buy on close. Sell 1 week later. $100k/trade. 1960 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
08/23/74	Buy	$71.55	0.84%	$852.17
08/30/74	Sell	$72.15		($2,179.32)
10/04/74	Buy	$62.34	14.12%	$14,115.20
10/11/74	Sell	$71.14		$0.00
10/16/87	Buy	$282.69	(12.19%)	$0.00
10/23/87	Sell	$248.22		($23,379.19)
10/23/87	Buy	$248.22	1.43%	$2,335.62
10/30/87	Sell	$251.78		($8,819.88)
07/19/02	Buy	$847.75	0.60%	$746.46
07/26/02	Sell	$852.84		($8,432.19)
10/03/08	Buy	$1,099.23	(18.20%)	$0.00
10/10/08	Sell	$899.22		($23,348.70)
10/10/08	Buy	$899.22	4.60%	$16,104.99
10/17/08	Sell	$940.55		($3,706.29)
11/21/08	Buy	$800.03	12.03%	$11,931.28
11/28/08	Sell	$896.24		$0.00
02/20/09	Buy	$770.05	(4.54%)	$1,299.03
02/27/09	Sell	$735.09		($4,583.37)
02/27/09	Buy	$735.09	(7.03%)	$0.00
03/06/09	Sell	$683.38		($9,288.80)
03/06/09	Buy	$683.38	10.71%	$10,895.98
03/13/09	Sell	$756.55		($1,533.00)

As you can see a 10% drop over a 2-week period is quite rare. On its own it doesn't help much in predicting the next week, though.

There are 2 aspects of the recent plunge that do appear to suggest an edge: its persistency and the volume. Let's first consider volume since I thought it was the indication that stood out the most. Both Thursday and Friday saw the NYSE post its highest volume in over a year. Extreme volume at extreme lows can be one sign of capitulation. Rather than looking back an entire year, the study below uses a 100-day lookback.

SPX posts the highest volume in 100 days for the 2nd day in a row. It also makes a 100-day low today. Buy on close. Sell X days later. $100k/trade. 1960 - 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	21,584.50	5	5	0	100.00	4,316.90	0.00	100.00	100.00	4,316.90
9	21,237.50	5	5	0	100.00	4,247.50	0.00	100.00	100.00	4,247.50
8	16,106.99	5	4	1	80.00	5,101.75	-4,300.00	1.19	4.75	3,221.40
7	18,078.57	5	5	0	100.00	3,615.71	0.00	100.00	100.00	3,615.71
6	17,924.77	5	5	0	100.00	3,584.95	0.00	100.00	100.00	3,584.95
5	11,057.52	5	5	0	100.00	2,211.50	0.00	100.00	100.00	2,211.50
4	15,169.36	5	5	0	100.00	3,033.87	0.00	100.00	100.00	3,033.87
3	18,738.68	5	5	0	100.00	3,747.74	0.00	100.00	100.00	3,747.74
2	28,213.25	5	5	0	100.00	5,642.65	0.00	100.00	100.00	5,642.65
1	14,556.81	6	5	1	83.33	3,131.71	-1,101.75	2.84	14.21	2,426.14

The 5 instances all posted gains over the next couple of weeks. Below I have listed all 5 instances and their 10-day exits stats.

SPX posts the highest volume in 100 days for the 2nd day in a row. It also makes a 100-day low today. Buy on close. Sell X days later. $100k/trade. 1960 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/12/86	Buy	$230.66	0.68%	$2,766.87
09/26/86	Sell	$232.22		($1,013.22)
10/19/87	Buy	$224.83	13.75%	$15,286.92
11/02/87	Sell	$255.75		($3,716.28)
10/12/00	Buy	$1,329.64	2.62%	$6,450.00
10/26/00	Sell	$1,364.44		($1,788.75)
01/18/08	Buy	$1,325.20	4.20%	$5,311.50
02/04/08	Sell	$1,380.82		($4,136.25)
09/17/08	Buy	$1,156.42	0.40%	$9,348.20
10/01/08	Sell	$1,161.06		($4,300.00)

The 3 boxed instances showed 100-day lows both days and not just the 2nd day.

It's unfortunate that there aren't more instances in which to base an estimate on. Early indications here do certainly seem to suggest an upside edge.

The persistency of the selling lately has been exceptional. Over the last 2 weeks there has only been 1 day where the SPX managed to close higher. During the 60's and 70's persistency on a day to day basis was common. Since then bouts of such persistency have become much less common. Therefore, I ran the test below back to 1980. It looks for drops of at least 5% and 9 lower closes in the last 10 days.

SPX closes down for at least the 9th day in the last 10. It closes more than 5% below its close 10 days ago. Buy on close. Sell X days later. $100k/trade. 1980 - 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
20	57,471.53	10	9	1	90.00	6,707.89	-2,899.52	2.31	20.82	5,747.15
19	55,828.45	10	9	1	90.00	6,495.86	-2,634.32	2.47	22.19	5,582.84
18	58,825.39	10	9	1	90.00	7,008.60	-4,252.04	1.65	14.83	5,882.54
17	61,664.27	10	9	1	90.00	7,433.06	-5,233.28	1.42	12.78	6,166.43
16	57,691.96	10	9	1	90.00	6,983.84	-5,162.56	1.35	12.18	5,769.20
15	50,395.63	10	8	2	80.00	7,090.08	-3,162.52	2.24	8.97	5,039.56
14	54,655.27	10	8	2	80.00	7,370.94	-2,156.12	3.42	13.67	5,465.53
13	52,653.64	10	8	2	80.00	6,992.08	-1,641.49	4.26	17.04	5,265.36
12	46,041.73	10	8	2	80.00	6,132.80	-1,510.35	4.06	16.24	4,604.17
11	38,649.49	10	8	2	80.00	5,735.73	-3,618.19	1.59	6.34	3,864.95
10	44,873.06	10	8	2	80.00	6,307.38	-2,792.98	2.26	9.03	4,487.31
9	43,853.56	10	9	1	90.00	5,277.29	-3,642.08	1.45	13.04	4,385.36
8	38,504.44	10	7	3	70.00	6,245.55	-1,738.15	3.59	8.38	3,850.44
7	36,141.31	10	8	2	80.00	5,112.49	-2,379.32	2.15	8.59	3,614.13
6	32,007.36	10	8	2	80.00	5,331.25	-5,321.34	1.00	4.01	3,200.74
5	24,353.18	10	8	2	80.00	4,061.34	-4,068.78	1.00	3.99	2,435.32
4	28,948.65	10	7	3	70.00	5,355.95	-2,847.68	1.88	4.39	2,894.86
3	31,585.10	11	8	3	72.73	4,556.88	-1,623.32	2.81	7.49	2,871.37
2	26,080.89	13	8	5	61.54	5,023.68	-2,821.71	1.78	2.85	2,006.22
1	18,379.67	15	10	5	66.67	3,328.03	-2,980.13	1.12	2.23	1,225.31

Based on this there appears to have been a consistent tendency for the SPX to rise over the next 1-4 weeks. Below I have listed all 10 instances along with their "% Profit" and "Run-up / Drawdown" stats for the 5, 10, and 20-day holding period.

SPX closes down for at least the 9th day in the last 10. It closes over 5% below its close 10 days ago. Buy on close. Sell X days later. $100k/trade. 1980 - present.

Date/Time	Signal	5-day % Profit	5-day Run-up Drawdown	10-day % Profit	10-day Run-up Drawdown	20-day % Profit	20-day Run-up Drawdown
12/11/80	Buy	4.43%	$6,696.05	7.23%	$7,936.35	4.84%	$10,173.60
	Sell		($172.70)		($172.70)		($172.70)
02/02/81	Buy	1.86%	$3,848.43	0.70%	$3,848.43	2.87%	$4,761.35
	Sell		($810.61)		($810.61)		($1,770.75)
09/25/81	Buy	5.84%	$6,547.54	7.69%	$9,303.00	5.17%	$9,303.00
	Sell		($2,285.88)		($2,285.88)		($2,285.88)
05/26/82	Buy	(1.11%)	$512.72	(3.09%)	$512.72	(2.90%)	$512.72
	Sell		($1,918.28)		($4,455.36)		($5,993.52)
05/24/84	Buy	1.34%	$1,335.22	2.61%	$2,756.37	2.14%	$2,915.01
	Sell		($1,685.55)		($1,685.55)		($1,784.70)
10/19/87	Buy	1.26%	$15,286.92	13.75%	$15,286.92	9.75%	$15,286.92
	Sell		($3,716.28)		($3,716.28)		($3,716.28)
09/21/01	Buy	7.78%	$7,739.42	10.93%	$12,186.96	11.15%	$14,555.96
	Sell		$0.00		$0.00		$0.00
10/10/08	Buy	4.60%	$16,104.99	(2.50%)	$16,104.99	3.53%	$16,104.99
	Sell		($3,706.29)		($5,147.07)		($5,988.45)
02/27/09	Buy	(7.03%)	$0.00	2.92%	$3,117.12	11.00%	$13,308.96
	Sell		($9,288.80)		($9,288.80)		($9,288.80)
07/02/10	Buy	5.49%	$5,645.40	4.76%	$7,457.36	10.10%	$10,157.84
	Sell		($410.31)		($410.31)		($410.31)

Other than the 5/26/82 instance the returns are all quite positive. Of course several of the trades showed some fairly steep volatility. The biggest drawdown was seen after the 2/27/09 trigger. Of course a 5% pullback over a 10-day period is pretty mild compared to the 10.8% pullback over the last 2 weeks. If I tighten the requirement to look at 7.5% drops instead of 5% drops then we are left with 6 instances. They are all listed below along with their 20-day stats.

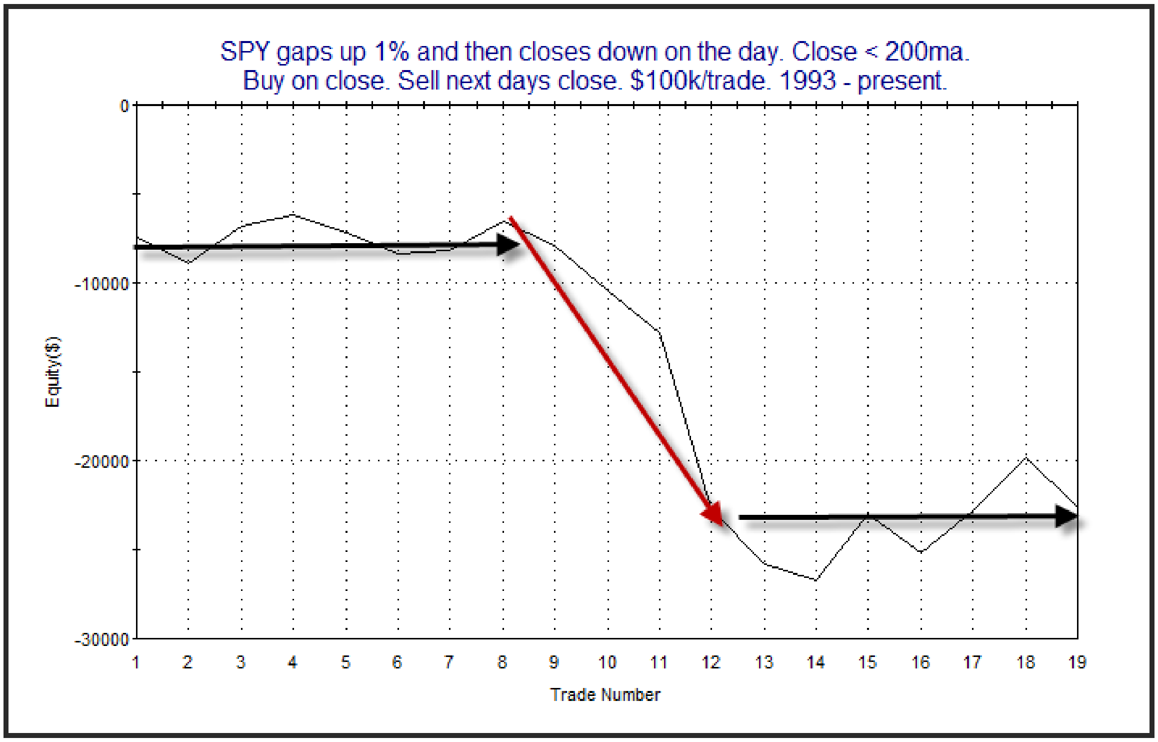
SPX closes down for at least the 9th day in the last 10. It closes over 7.5% below its close 10 days ago. Buy on close. Sell 20 days later. $100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/11/80	Buy	$127.36	4.84%	$10,173.60
01/12/81	Sell	$133.52		($172.70)
10/19/87	Buy	$224.83	9.75%	$15,286.92
11/16/87	Sell	$246.75		($3,716.28)
09/21/01	Buy	$965.80	11.15%	$14,555.96
10/19/01	Sell	$1,073.48		$0.00
10/10/08	Buy	$899.22	3.53%	$16,104.99
11/07/08	Sell	$930.99		($5,988.45)
02/27/09	Buy	$735.09	11.00%	$13,308.96
03/27/09	Sell	$815.94		($9,288.80)
07/02/10	Buy	$1,022.58	10.10%	$10,157.84
08/02/10	Sell	$1,125.86		($410.31)

Avg run-up: 13.3%. Avg Drawdown: -3.3%

Instances are low when considering selling as extreme as we have witnessed lately, but indications certainly suggest an upside edge.

There was one short-term bearish study that appeared in the Quantifinder on Friday, and I thought I should address it. It looked at instances where the SPY gapped up at least 1% and then closed down on the day and below the 200ma. The numbers for the next day appeared to suggest a downside edge, but I took a closer look tonight and have included an equity curve below.



This is not a curve that I find compelling and I am not including this study on the Active List. I did look at this a number of ways, including large gaps up that closed at intermediate and long-term lows. I did not find any evidence that appealed to me.

So evidence continues to suggest the market is overdone to a point where a rally is highly likely. But between Friday's close and now there has been an awful lot that has occurred which will affect the market on Monday and going forward. The S&P downgrade of U.S. debt is going to be a shock to the markets. I am writing this just after 6pm and the market futures are down about 2.5%. I will run some tests late tonight or early Monday morning and send out results examining the potential gap down situation if anything interesting appears.

The one indicator that has so far failed to register a strong oversold reading is the CBI. Friday it ticked up from 1 to 3. This is still considered a neutral reading. The big reason we have not seen a spike in the CBI is that Catapults contain a few price-based requirements. Being oversold is important, but they also need to be in an extended move, or at least trending to some degree. Most stocks that are oversold are in a newly initiated down move – not an extended one. Should the market bounce and then suffer another strong leg down, I would suspect the CBI would spike much quicker on the 2nd leg. The

CBI is really a short-term tool. I don't believe a spike is required to reach an intermediate-term low. I am normally much more comfortable taking on large long positions if the CBI is spiking. Unfortunately, with so much else suggesting a bounce this time, I was a bit too eager. Anyway, there still isn't much chance of a massive spike in the CBI occurring on the next few days. But if we bounce and then drop again, there should be plenty of Catapults triggers and the CBI may quickly climb.

I have updated the Aggregator chart below.

Extreme readings continue to suggest a reversal and the green Aggregator line is about as stretched as I can recall tonight. Levels above 0 mean net expectations from the Active List are for upside over the next few days. Meanwhile, the Differential Line is also extraordinarily high. A positive Differential reading means the SPX has underperformed expectations over the last few days. So net expectations are strongly positive and the SPX is extremely oversold versus recent expectations. Historically this combination has provided a bullish edge. It can be seen on the Aggregator chart whenever both lines are above 0. Due to this the Aggregator System remained long at the close.

With the current studies in place the green Aggregator line is again set to close above 0 on Monday. This is again highly unlikely to change. Meanwhile, the Differential Pivot will be 1,267.99. This is a whopping 5.7% above Friday's close. Obviously it is unlikely that the Aggregator will signal an exit on Monday. It will almost certainly take a multi-day bounce.

I'm "all in" on my index trades. The U.S. debt downgrade is without historical precedent, so it is possible things could get worse before they get better. I still expect a bounce though and will lighten up once it occurs. Most indicators are screaming "bounce" at this point and so I am holding on. . At this point the only exposure I'll be adding is via Catapult trades.

It appears Monday should start off rough, and I will put out some more later on or Monday morning examining the gap scenario

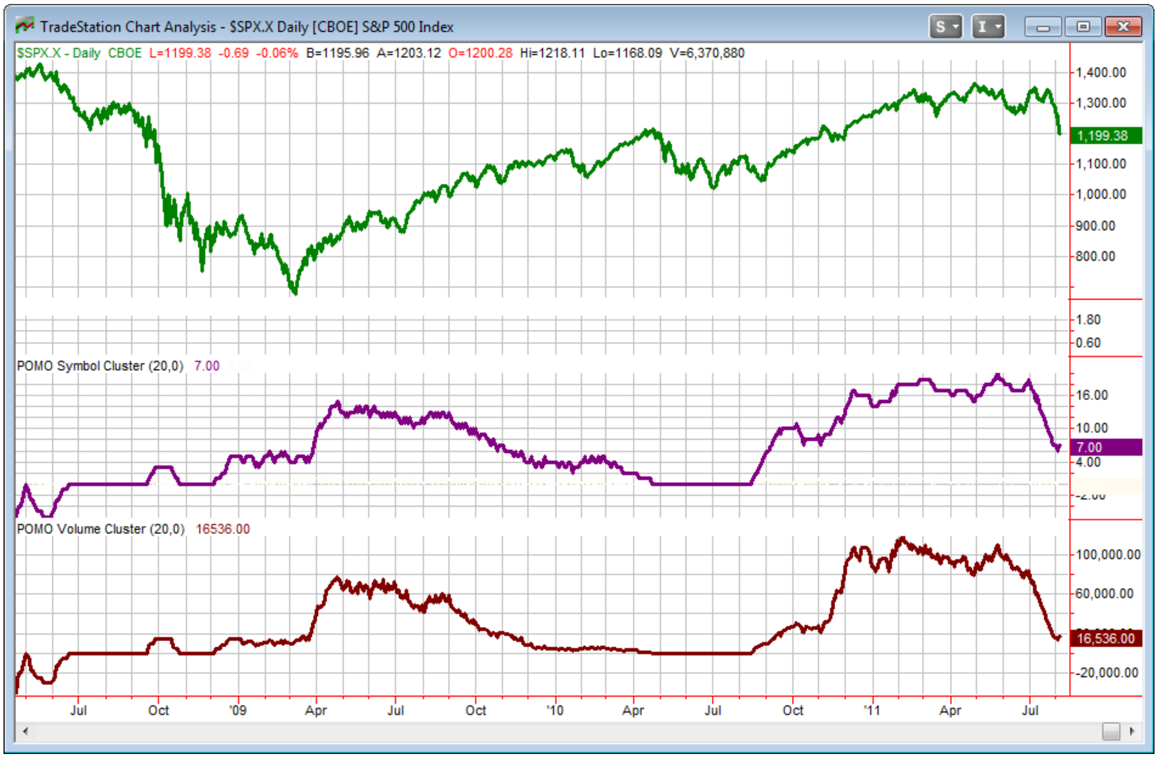
Intermediate-term Outlook (2 weeks – 2 months)– updated 8/8 – neutral

The market got hammered this week. From high to low it dropped over 13% in the last 2 weeks. We've seen a few intermediate-term studies either expire or be turned off. It also appears the "9/10 down days and 7.5% drop" study from the short-term outlook suggests bullish implication over the next month.

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



POMO indicators barely budged this past week as they now seem to be settling in at their new (and ineffective?) levels. We should hear quite a bit from the Fed this week with the Fed meeting taking place and the next POMO schedule to be released on the 10th. The link below shows the current schedule but it will also work if you want to view the new schedule after 2pm on Wednesday.

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

So we are short-term oversold, and there is still some evidence suggesting bullish implications. The trend is clearly down now and this will increase risk for long-side trades. Also, the light amount of POMO buying that has been occurring doesn't seem to be providing much help to the market. I've changed my outlook to intermediate-term neutral. This means I will approach both long and short trades with some caution.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

WAG – 1/3 @ $37.05

New

WAG – 1/3 @ $37.03

BAC – 1/3 @ $8.17

Catapult for ETF's Trades

None.

***Broad Market Large Cap CBI* – 3 (WAG-2, BAC)**

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.

WAG – buy 1/3 position @ $37.03 limit. 2nd entry based on Catapult trigger listed above.

BAC – buy 1/3 position @ $8.17 limit. 1st entry based on Catapult trigger listed above.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/26/2011	$133.33	$120.08	-9.94%		Aggregator
SPY(1/4)	7/28/2011	$130.60	$120.08	-8.06%		Aggregator
SPY(1/4)	7/28/2011	$130.22	$120.08	-7.79%		Aggregator
PG	8/1/2011	$61.43	$60.59	-1.37%		system 80509
SPY(1/4)	8/3/2011	$125.49	$120.08	-4.31%		Aggregator
WAG(1/3)	8/5/2011	$37.05	$37.03	-0.05%		bought at limit
XIV	8/5/2011	$12.50	$11.71	-6.32%		bought at limit

Tip of the Day

Subscribers who wish to purchase the Quantifiable Edges Guide to Fed Days can receive 20% off by ordering through the Subscriber Discount page.
http://www.quantifiableedges.com/members/fedguidemem.php