QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 11, 2009 Volume 2 Issue 111

Market Overview

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	Avg MM + 1/2 Std Dev
Active					
June 10, 2009	20 low vol rally	1-2 days	Bearish		
June 9, 2009	Low volume near high	1-5 days	Bearish	-2.10%	-3.30%
June 8, 2009	Gap up & reverse from 20-day high	1-6 days	Bullish	2.60%	3.70%
June 4, 2009	Low vol selloff cluster	1-5 days	Bullish	4.10%	6.00%
June 2, 2009	2 strong breadth days & 10-day high	1-10 days	Bullish	2.10%	3.00%
Active - Long Term					
June 11, 2009	4-day tight range above 10-ma	1-20 days	Bullish	4.00%	4.80%
June 10, 2009	Nasdaq/NYSE Volume High	1-20 days	Bearish		
June 8, 2009	Treasury Spread Rapidly Accelerating		Bullish		
May 28, 2009	SOX up 1% while SPX down 1%	1-20 days	Bullish	13.10%	16.10%
June 1, 2009	Nasdaq Relative Strength Leading		Bullish		
April 20, 2009	Low Nasdaq Weekly Vol Spyx	1-10 weeks	Bearish		
Dropped Tonight					
June 8, 2009	NDX components overbought	1-3 days	Bearish	-2.30%	-3.10%

If the avg max move is achieved it will appear in **bold and brown**. If the avg + 1/2 std deviation is achieved, the study will in ***bold italic blue***.

Short-term Outlook (1-5 days) – updated 6/11 slightly bullish

While there has been some intraday volatility, the market has basically gone nowhere for over a week. Wednesday was much the same. After a gap up, selloff and then a rally into the close the S&P closed down 3 points. Breadth was fairly negative as the NYSE Up Issues % came in at 46% and the Up Volume % at 43%. Total volume rose for the 1st time in 8 days.

The incredibly tight closes are notable over the last several days. The Quantifinder spotted a blog post from last year that examined such flatline situations. I decided to examine the situation a little bit differently tonight.

Over the last 4 days, the biggest daily change on a closing basis has been 3.29 points. With a 20-day average true range of around 19, this equates to a close to close move of less than 20% of the ATR. I looked at other times the market had undergone such a series of tight closes. In doing the research I found it helpful to segregate the instances by whether they occurred above or below their 10ma.

Below are the results for instance similar to the current one where the S&P is trading above it 10ma:

SPX closes within 1/5 of its 20-day ATR from yesterday's close. It does this 4 days in a row. All 4 days close ABOVE the 10-day ma.										
Buy on close. Sell X days later. $100k/trade. 1978 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	$40,208.91	16	14	2	87.50	$2,936.11	($448.32)	6.55	45.84	$2,513.06
19	$37,954.84	16	13	3	81.25	$3,086.64	($723.82)	4.26	18.48	$2,372.18
18	$38,770.14	16	14	2	87.50	$2,929.45	($1,121.09)	2.61	18.29	$2,423.13
17	$37,461.71	16	14	2	87.50	$2,847.95	($1,204.78)	2.36	16.55	$2,341.36
16	$37,265.05	16	14	2	87.50	$2,792.45	($914.65)	3.05	21.37	$2,329.07
15	$30,425.81	16	13	3	81.25	$2,628.42	($1,247.89)	2.11	9.13	$1,901.61
14	$24,176.06	16	13	3	81.25	$2,260.98	($1,738.88)	1.30	5.63	$1,511.00
13	$18,790.91	16	13	3	81.25	$2,021.32	($2,495.43)	0.81	3.51	$1,174.43
12	$18,163.63	16	13	3	81.25	$1,945.13	($2,374.35)	0.82	3.55	$1,135.23
11	$19,519.21	16	14	2	87.50	$1,617.81	($1,565.05)	1.03	7.24	$1,219.95
10	$20,001.32	16	13	3	81.25	$1,791.27	($1,095.07)	1.64	7.09	$1,250.08
9	$20,208.26	16	13	3	81.25	$1,718.62	($711.27)	2.42	10.47	$1,263.02
8	$14,102.02	16	13	3	81.25	$1,317.06	($1,006.60)	1.31	5.67	$881.38
7	$13,272.38	16	10	5	62.50	$1,563.37	($472.27)	3.31	6.62	$829.52
6	$12,541.68	16	11	5	68.75	$1,564.70	($934.01)	1.68	3.69	$783.86
5	$7,591.34	16	10	6	62.50	$1,460.60	($1,169.12)	1.25	2.08	$474.46
4	$7,394.64	16	10	6	62.50	$1,490.73	($1,252.11)	1.19	1.98	$462.17
3	$6,629.61	16	10	5	62.50	$1,334.23	($1,342.54)	0.99	1.99	$414.35
2	$4,137.25	17	12	4	70.59	$883.23	($1,615.37)	0.55	1.64	$243.37
1	$4,329.91	22	15	7	68.18	$677.75	($833.76)	0.81	1.74	$196.81

This suggests a strong inclination for the market to trade higher after a runup and tight consolidation. Instances are a little low but the winning percentage is impressive. About 90% of all instances saw the market close above its trigger-day close within the next week. Give it 9 days and they ALL had a profitable close at some point.

If instead the tight consolidation occurs below the 10ma then the results looked like this.

SPX closes within 1/5 of its 20-day ATR from yesterday's close. It does this 4 days in a row. All 4 days close BELOW the 10-day ma.										
Buy on close. Sell X days later. $100k/trade. 1978 - present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
20	$4,384.99	9	4	5	44.44	$5,202.89	($3,285.31)	1.58	1.27	$487.22
19	$2,506.23	9	4	5	44.44	$4,738.51	($3,289.56)	1.44	1.15	$278.47
18	$1,568.05	9	4	5	44.44	$4,536.81	($3,315.83)	1.37	1.09	$174.23
17	($1,933.01)	9	4	5	44.44	$4,233.02	($3,773.01)	1.12	0.90	($214.78)
16	($6,170.91)	9	4	5	44.44	$3,358.12	($3,920.67)	0.86	0.69	($685.66)
15	($6,069.68)	9	4	5	44.44	$3,051.75	($3,655.34)	0.83	0.67	($674.41)
14	($8,777.79)	9	4	5	44.44	$2,545.20	($3,791.71)	0.67	0.54	($975.31)
13	($11,048.77)	9	4	5	44.44	$2,454.24	($4,173.14)	0.59	0.47	($1,227.64)
12	($6,935.08)	9	4	5	44.44	$2,430.32	($3,331.27)	0.73	0.58	($770.56)
11	($9,942.70)	9	3	6	33.33	$2,718.31	($3,016.27)	0.90	0.45	($1,104.74)
10	($13,540.28)	9	3	6	33.33	$1,895.11	($3,204.27)	0.59	0.30	($1,504.48)
9	($9,168.16)	9	4	5	44.44	$1,446.31	($2,990.68)	0.48	0.39	($1,018.68)
8	($7,812.78)	9	4	5	44.44	$1,326.33	($2,623.62)	0.51	0.40	($868.09)
7	($7,317.59)	9	3	6	33.33	$1,869.32	($2,154.26)	0.87	0.43	($813.07)
6	($6,446.20)	9	3	6	33.33	$1,903.19	($2,025.96)	0.94	0.47	($716.24)
5	($4,653.12)	9	3	6	33.33	$1,264.17	($1,407.60)	0.90	0.45	($517.01)
4	($5,770.11)	9	2	7	22.22	$1,788.88	($1,335.41)	1.34	0.38	($641.12)
3	($2,855.76)	9	5	4	55.56	$1,012.41	($1,979.45)	0.51	0.64	($317.31)
2	($1,584.54)	9	4	5	44.44	$1,227.46	($1,298.87)	0.95	0.76	($176.06)
1	($2,247.88)	12	7	5	58.33	$485.37	($1,129.09)	0.43	0.60	($187.32)

Too few instances to draw solid conclusions from, but you're certainly not seeing the upward tendency exhibited in the 1st test. In fact, over the next 4 days 8 out of 9 instances (89%) closed lower than their trigger day entry at some point.

Bond action was again notable today. The 100-day Spread Ascension Value hit new highs today and the 50-day is close. For an explanation of Spread Ascension Values please see the intermediate-term outlook section below. The 100-day SAV has remained above 9 all week. The 50-day dipped just below 7 last night before rebounding back above it today.

Historically such high SAV's have led to upside in the S&P. I hope to have more on SAV's in the next week or so and will be adding it to the charts page in the next few days as well.

Tonight's Aggregator chart is below:

With bearish studies falling off the last few days and more bullish ones being added we are seeing the green Aggregator line continue to creep higher. A value above zero indicates net positive expectations from the studies over the next few days. Unfortunately the black Differential line remains slightly below 0. This means that S&P has outperformed expectations over the last few days. While an index position could be entered without the black differential line above zero, I typically prefer the proper configuration.

I'd rather bet the long side if we're a bit oversold. Mid-range is not my entry preference. I'll continue to sit and wait for a better edge for an index trade. There is one stock trade in the trade ideas section below.

Intermediate-term Outlook (2 weeks – 2 months)– updated 6/8 – very slightly bullish

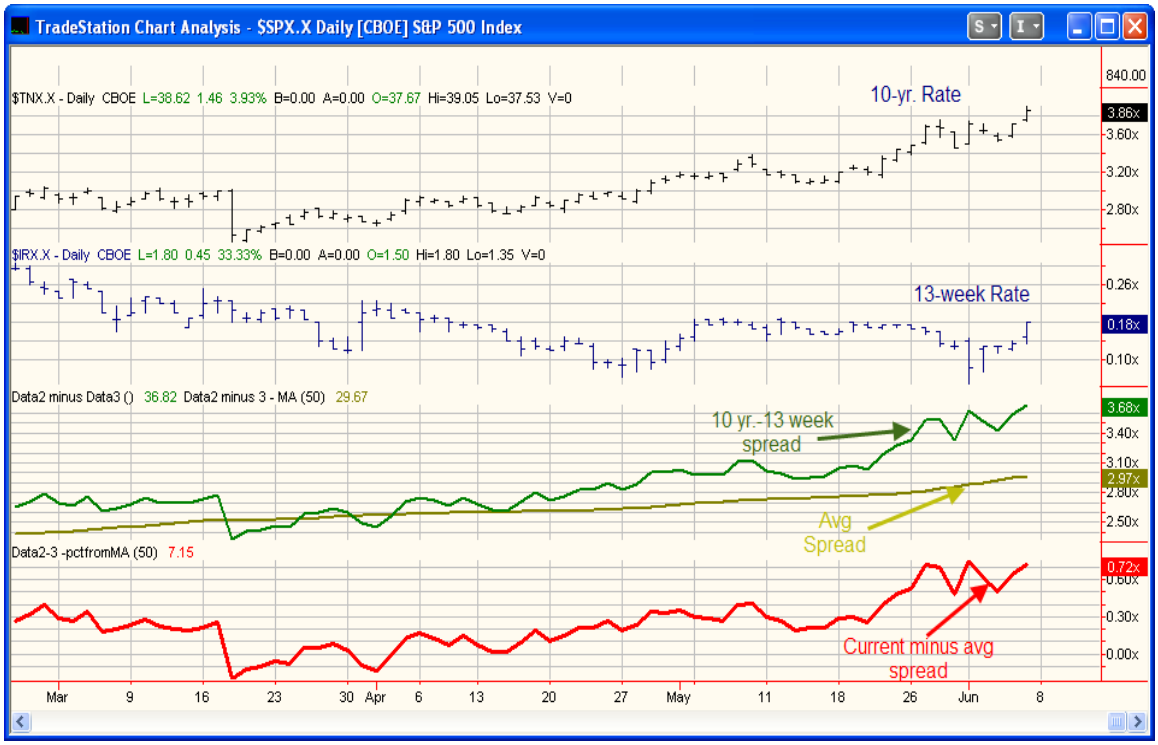
Some of the most interesting action lately has not been in the stock market, but rather in the bond market. Long-term rates have begun to soar while short-term rates have remained stagnant. This has lead to a rapid steepening of the yield curve. There's been a fair amount of debate about the effect this may have on the stock market. Bulls say a steep yield curve helps banks make money. It will help the banks balance sheets and will therefore help the economic recovery. Bears say high long-term rates will hurt an already bad housing market, driving prices lower, prompting more "walk away" foreclosures and hurting both the banks and the economy. As subscribers know, I rarely take it upon myself to ponder the fundamentals. So I ran some studies to help get a better feel for how the stock market has reacted in the past to sharp drops in bond prices.

Both the S&P and the 10-year treasury rate (TNX) closed at new 50-day highs on Monday. It nearly happened again on Friday before the S&P slipped to slightly negative on the day. Below are the results following other times the S&P and TNX both closed at 50-day highs.

SPX and TNX (10-yr bond rates) both close at 50-day highs.										
Buy SPX on close. Sell X days later. $100k/trade. 1963-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
50	($41,925.73)	32	13	19	40.63	$3,506.76	($4,605.98)	0.76	0.52	($1,310.18)
45	($31,255.44)	33	14	19	42.42	$3,872.64	($4,498.55)	0.86	0.63	($947.13)
40	($20,592.19)	34	16	18	47.06	$3,650.93	($4,389.28)	0.83	0.74	($605.65)
35	($22,158.93)	36	16	20	44.44	$3,206.75	($3,673.35)	0.87	0.70	($615.53)
30	($19,453.78)	37	15	22	40.54	$3,221.40	($3,080.67)	1.05	0.71	($525.78)
25	($1,396.59)	39	18	21	46.15	$2,884.59	($2,539.01)	1.14	0.97	($35.81)
20	($28,125.61)	40	21	19	52.50	$1,716.55	($3,377.54)	0.51	0.56	($703.14)
15	($26,996.27)	40	20	20	50.00	$1,596.33	($2,946.14)	0.54	0.54	($674.91)
10	($11,218.76)	45	26	19	57.78	$1,227.63	($2,270.38)	0.54	0.74	($249.31)
5	($6,866.07)	61	32	29	52.46	$1,060.31	($1,406.76)	0.75	0.83	($112.56)

Note the number of days I'm looking at is 5-50 rather than short-term. As you can see, the market has more often struggled than prospered under such circumstances.

But what's most intriguing about the current bond picture is not the fact that 10-year rates are hitting new intermediate-term highs, but rather the rapid ascension in the spread between 10yr and short-rates. Below is a chart to help illustrate what I'm looking at.



Please review the labels on the chart to understand what I'm looking at. The red line at the bottom is the one I am going to focus on. It is what I'll refer to as the Spread Ascension Value (SAV). Basically what it is looking at is how much higher or lower the current spread is vs. the 50-day average spread. (I also looked at the 100-day average with success.) This way we are not measuring the absolute spread, but rather how stretched the current spread is versus typical recent spreads. A rapid widening would cause this number to spike and that is just what we're currently seeing.

On the above chart you can see that the Spread Ascension Value moved back over 0.7 on Friday. The Spread Ascension Value (SAV) using a 100-day moving average spiked over 0.9 on Friday. I looked back at other times the SAV had reached these kinds of extremes to see how the S&P had performed during such periods. The first test used a 100-day Spread Ascension Value of 0.9. Going back to 1960 I looked see how the S&P performed on those days where the SAV was above this number. What I found is that 0.9 was exceeded about 5% of the time. This amounts to a total of about 2 years and 5 months over the last almost 49 years.

During this 2year and 5 month period of time the S&P gained 94.8%.

One issue I noted when looking through the results is that there was a decent amount of time where the SAV was high because the market was in the process of unwinding an inverted yield curve. In other words, the 10 yr. – 13 week spread was either below 0 today or the average was below 0. I decided to eliminate those instances since we're far from an inverted yield curve.

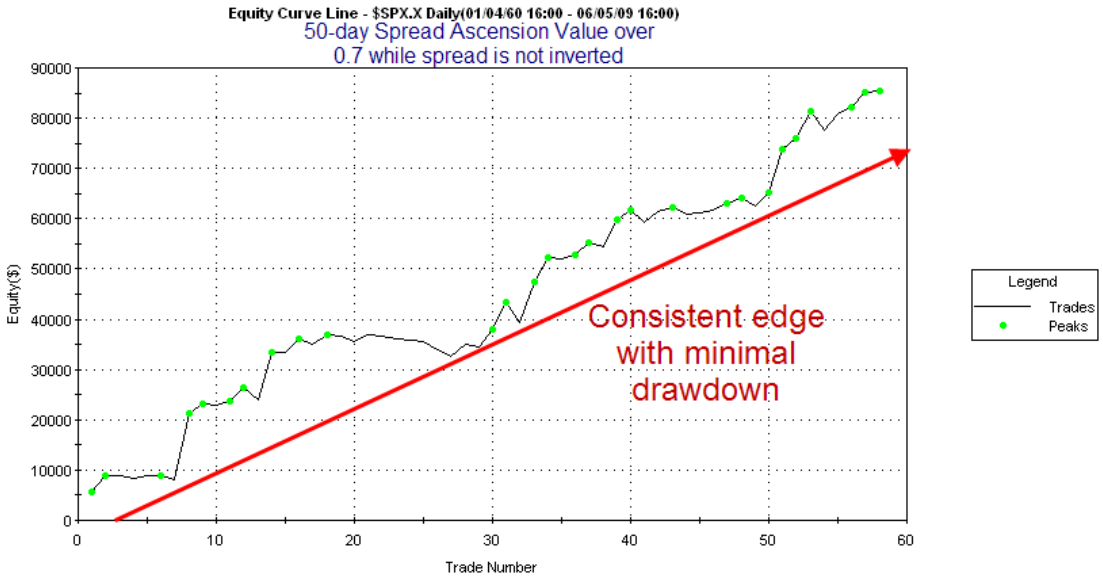
I was surprised to see the results here were even better. In this case the market spent between 3.5% and 4.0% of its time with a 100-day SAV above 9 without a current or 100-day average inversion. That equates to about 20 months. Over the course of those 20 months the S&P gained an outstanding 85.7%. (These gains are additive and not compounded.)

As noted above and shown in the chart I also looked at a 50-day SAV. Like the 100-day test, here I looked at any time the 50-day SAV was 0.7 or above. The basic test without the inversion check showed the bond spread to be in this state a little over 3.5% of the time or just a few days beyond 19 months. Over this time the S&P gained a non-compounded 101.2%. If I perform the inversion exclusion as in the 100-day test then you're looking at a little less than 14 months, or a bit under 2.5% of the time. During these 14 months the market gained a non-compounded 85.2%.

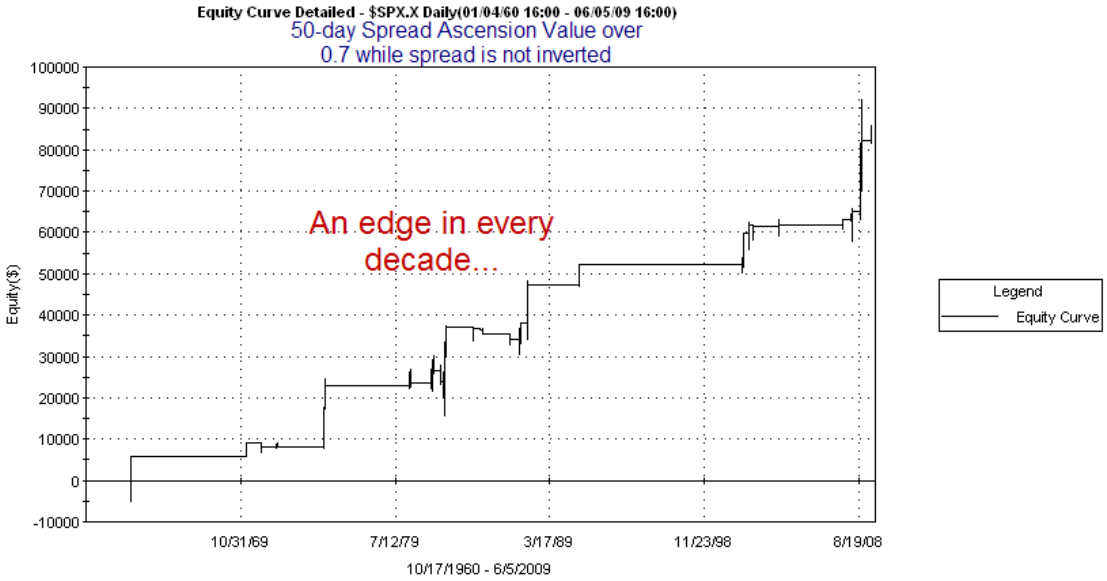
A check of more recent performance shows that in 2008 the S&P gained 19.2% while the 50-day SAV was above 0.7. So far in 2009 the previous day's SAV has been above 0.7 only 3 days – 5/28, 5/29, and 6/2. Over those 3 days the S&P has gained over 3%.

Just as impressive is that the gains have been consistent over time and have not been subject to large whipsaws. Below are the equity graphs from the last test (though they all look basically the same).

This first graph is trade-based.



Next is a time-based look.



No matter how I break it down, it appears a rapidly growing spread suggests a strong edge for the stock market for as long as the SAV stays elevated.

These models seem to be in a bit of conflict with the first bond/stock test I ran above. My interpretation is the following. When stocks and bond rates hit new intermediate-term highs at the same time it often means that stocks may be extended upwards while bonds are extended downwards. This often leads to a reversion. The combination of the stock market being overbought and the bond market being oversold suggests the stock market is likely to struggle over the next several weeks. The 2nd set of studies essentially shows what happens when the oversold bond market remains oversold and the spread between long and short rates continues to widen. Recall the exit parameter in the 2nd set of studies was a reversion of the rapid widening of the long-short spread. With so much money rapidly leaving bonds, stocks often get a nice boost. (The money has to go somewhere.) It's when the bond market begins to stabilize and the flow into stocks slows that the stock market then begins to struggle.

I will look at this concept in a bit more detail this week. In all likelihood I'll add an SAV chart to the charts pages. I'll also include the model in the Quantifinder so that subscribers are alerted to high SAV's.

In addition to monitoring the bond action this week I'll also be carefully watching the VIX:VXV ratio. It is currently down near 0.94 and dropping. A close below 0.9 would suggest a short bias.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Triggers

none

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 0

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %		Index	ETF	CBI %
DJ US Broker Dealers	IAI	0.00		DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	0.00		DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00		DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	0.00		DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	0.00		DJ US Industrial Sector	IYJ	0.00
DJ US Oil Equip & Svcs	IEZ	0.00		DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	0.00		DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00		DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00		DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00		DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00		DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.00		Nasdaq 100	QQQQ	0.00

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 along with other trade ideas to track below.

AAPL – buy @ $140.25. I've been watching this one for a few days now. Its 3-day pullback now has it triggering system 11111. I'll look to go long at a limit equal to Wednesday's closing price.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
GDX	6/9/2009	$41.30	$40.80	-1.21%		sell 1/2 on close > 10ma

Update/finalization of system 90609 (GDX trade idea from Monday night)

I worked with system 90609 quite a bit over the last 2 days and have made two minor adjustments. To explain the reasoning and thought process behind the adjustment I'm going to show some test results below. I also thought some subscribers may find it helpful when looking to tweak some of their own methods. First, let's review the criteria and results as published in Monday night's Letter.

Original Setup criteria:

1) MA's aligned in uptrending fashion (10 > 20 > 50 > 200).
2) Today the price dips below the 20ma but closes above it.
3) Today's close is in the top 90% of the day's range.
4) The close is further below the 10ma than it is above the 20ma.

Buying at the close under the above conditions and selling when the ETF closed above its 10ma would have produced the following results over the last 10 years among my list of 120 highly liquid ETF's:

Trades	263
Wins	212
Losses	51
Win %	80.60%
Avg Win	1.17%
Avg Loss	-2.46%
Profit Factor	2.0
Avg Trade	0.47%

So the above is now the base case. Before looking to adjust the exit criteria, which I felt would give me my biggest bang for the buck, I looked at setup rule #3. We're looking for a dip below the 20ma and a move back above it with a strong finish suggesting the 20ma could act as support and the uptrend may now resume. The question is – how strong of a finish is necessary? I ran it a few different ways to see if rule #3 was helpful. What I found was that while you did want to see the security finish well, it didn't necessarily have to be at the very top of the day's range. Past the halfway mark seemed to provide the same edge while including a lot more trades. Below are the results with requirement #3 now reading "*Today's close must be in the top 50% of the day's range*."

90609 with 50% range required	
Trades	884
Wins	712
Losses	167
Win %	80.50%
Avg Win	1.20%
Avg Loss	-2.00%
Profit Factor	2.5
Avg Trade	0.59%

Results actually improved slightly when looking at average loss, profit factor, and avg. trade. Deciding to keep this change I then looked at making some adjustments to the exit strategy as I mentioned Monday night.

The 1st thing I looked at was using a protective stop. Results here were not terribly surprising based on past systems I designed, but I thought it'd be worth running and showing. I think many people may find it interesting.

The obvious place to put a protective stop would be at or near the low of the entry bar. The premise for the entry is that the pullback appears over and the security should bounce from here. If the price goes on to make a new low, then that might seem to suggest the trade premise was incorrect. Below are the results using such a protective stop.

90609 with protective stop	
Trades	960
Wins	459
Losses	501
Win %	47.80%
Avg Win	1.27%
Avg Loss	-1.10%
Profit Factor	1.1
Avg Trade	0.04%

You'll note when I enter many of the trade ideas in the Subscriber Letter I do so without placing a protective stop. I will often wait a day or so before instituting a stop if I use one. This is a great example of why. While the average loss was nearly cut in half thanks to the stop, the winning percentage fell off a cliff. A good number of winning trades from the previous test revisited the lows at some point. By placing a stop there, they weren't given ample opportunity to become winners. The stop basically killed the system and the average trade was reduced to breakeven. Remember, you're buying into an established uptrend. It makes sense to give it some time to reassert itself.

Another way to possibly improve the system that I mentioned the other night would be to perhaps look for longer-term gains. Criteria #1 for entry establishes the fact that the security is in an uptrend. The other entry rules basically just look for a favorable entry point to jump aboard this uptrend. So if we successfully do that then it may be a better idea to let profits run for a while rather than exiting upon the initial reversion. (Close > 10ma). This means we would wait for some signal that the trend may be ending before exiting the trade. One way to do this would be to use a moving average crossover.

Recall that to enter the trade we required all the averages to be in proper order, meaning 10ma > 20ma > 50ma > 200ma. If they fall out of order that could be a sign that the trend is ending. The most likely way for them to initially fall out of order would be for the 10ma to cross below the 20ma. Rather than using a cross above the 10ma as the exit signal, I looked to see how the strategy would perform if the exit signal occurred when the 10ma crossed below the 20ma. I placed these results side by side below with the results seen above that used the 10ma exit:

90609 w/ 10ma cross < 20ma exit	
Trades	774
Wins	402
Losses	364
Win %	52.00%
Avg Win	2.81%
Avg Loss	-1.76%
Profit Factor	1.8
Avg Trade	0.63%

90609 with close > 10ma exit	
Trades	884
Wins	712
Losses	167
Win %	80.50%
Avg Win	1.20%
Avg Loss	-2.00%
Profit Factor	2.5
Avg Trade	0.59%

The average trade does improve slightly using the 10/20 ma cross. This is thanks to the win size more than doubling while the average loss also dropped. There was a big drop

in winning %, though. Based on the huge improvement in avg win, there's definitely a case to be made for jumping aboard the trend and riding it a while. Part of the drop in the winning % occurred thanks to those times when the security continued to tumble after purchase and the cross happened before there was a bounce. This is similar to what happened when a protective stop was looked at.

It seemed to me that perhaps a combination of exit strategies might work best. If the trade goes our way, then we want to let it run. If it goes against us, then we want to wait for a bounce to exit. The selling rules below are one way to accomplish this:

1) Sell if the close is above our entry price and the 10ma crosses below the 20ma.
2) Sell if the close is below our entry price but above the 10ma.

The 1st rule lets the profits run. The 2nd rule offers the exit that worked well when the trade went against us. By combining them the following results were achieved.

90609 with 10/20 cross and close > 10ma alternate exits	
Trades	774
Wins	520
Losses	248
Win %	67.20%
Avg Win	2.33%
Avg Loss	-2.33%
Profit Factor	2.1
Avg Trade	0.82%

The winning % is now between the two independent exit strategies. The average trade has now moved up from 0.59% with the close > 10ma exit to 0.82% - a substantial improvement.

One caveat with the above trades is that they are entered on the close. Often this won't be possible as you may not realize the system has triggered until checking the triggers page at night. I therefore ran the results to see how they would look if a limit order was used the next day that was equal to the trigger day's closing price.

90609 with next day entry and combo exit criteria	
Trades	659
Wins	466
Losses	192
Win %	70.10%
Avg Win	2.29%
Avg Loss	-2.35%
Profit Factor	2.4
Avg Trade	0.93%

The number of trades is reduced some thanks to gaps up that don't fill intraday. The overall results are the best we've seen, though.

One final issue is that the above results do not include commissions. Assuming 1 penny/share commissions would yield the following results:

90609 with next day entry	
and combo exit + $0.01 comish	
Trades	659
Wins	457
Losses	202
Win %	69.30%
Avg Win	2.28%
Avg Loss	-2.29%
Profit Factor	2.3
Avg Trade	0.88%

This isn't much of a difference, with the average trade dropping from 0.93% to 0.88%.

From a personal standpoint, I often like to take partial profits when a trade goes in my direction. While not "ideal" under this scenario, I find letting a trade run a much easier thing to do if I've already locked in some profits. One way to do this is to sell half when you get the "close > 10ma" trigger scenario while above your entry price. Another way would be to wait for it to signal overbought in some manner and then sell half. In any case we know that the "close > 10ma" exit works fairly well. Therefore I don't see anything wrong with taking partial profits when the position is above the 10ma. How patient you want to be is a personal decision and could also depend largely on your market outlook. By basing the decision of when to take the first piece off on your market outlook you may even be able to outperform the "ideal" 10/20 profit taking cross over the long term.

In summary, I like this system and will add it to the list. I like it for a few reasons. 1) It should provide a good amount of opportunities in a nicely trending market. Unlike many of the other systems tracked on the site, only a mild pullback is needed for entry, rather than an extreme one. 2) Also unlike most of the other systems, it provides a chance for some longer-term gains.

Hopefully you found this detailed explanation helpful in some way.