

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 9, 2010

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## Market Overview



## Tonight's Research Points

- The SPY closing on a new high while SPY volume makes a new low is typically a losing combination.
- 5 SPX days up followed by a down day often leads to continuation of the upmove.
- The Aggregator System remains flat.
- The NDX Aggressive Trend Timer remains flat.

## Short-term Outlook – updated 3/9

### The Bottom Line

Conflicting studies tonight are keeping the market in a position where it is short-term overbought but with positive expectations. I'm still waiting for a better entry point.

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 - 1/3 Std Dev
<b>Active</b>					
March 9, 2010	After 5 up, down today but > 200ma	1-10 days	Bullish	2.10%	1.60%
March 9, 2010	No up vol pattern 3 up days > 200ma	1-4 days	Bearish	-1.70%	-1.30%
March 8, 2010	90% Up Vol on at least 3rd day up	1-7 days	Bullish	3.10%	2.20%
March 5, 2010	5 up close > 200ma & no 50-day high	1-10 days	Bullish	2.00%	
March 4, 2010	2-days gap up close pos but under open	1-5 days	Bullish	2.20%	
March 3, 2010	No up vol pattern 3 up days > 200ma	1-4 days	Bearish	-1.40%	
<b>Active - Long Term</b>					
February 22, 2010	VIX:VXV Ratio falls below 0.9	int. term	Bearish		
February 22, 2010	Good 5 days after FTD	int. term	Bullish		
February 16, 2010	Nasdaq/S&P RS Indicator Positive	int. term	Bullish		
February 12, 2010	IBD Follow Through Day	int. term	Bullish		
February 8, 2010	Worden %>200ma - %>40ma > 40	3 - 7 weeks	Bullish		
January 13, 2010	No bearish divergence at high	int. term	Bullish		
<b>Dropped Tonight</b>					
March 2, 2010	75% Up Issue % on 1st day then up	1-5 days	Bearish	-1.70%	

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

### The Evidence

The market essentially opened flat, did nothing, and closed flat. The numbers amounted to a fractional loss for the S&P while the Nasdaq and Russell gained about 0.2%. Breadth was mildly positive as the NYSE Up Issues % closed at 57% and Up Volume % at 56%. Total volume was the lowest in about a month.

Tonight brought about a couple of conflicting studies. On 11/10/09 I examined other times the SPY posted the highest close in 10 days on the lowest volume in 20 days. Tonight I again ran this study but this time I added a long-term trend filter.

SPY closes at a 10 day high on the lowest volume in 20 days. Close > 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	-22,156.93	56	24	32	42.86	999.37	-1,441.93	0.69	0.52	-395.66
4	-35,658.63	57	22	35	38.60	803.11	-1,523.63	0.53	0.33	-625.59
3	-27,661.94	57	21	36	36.84	796.40	-1,232.95	0.65	0.38	-485.30
2	-28,931.64	60	21	38	35.00	563.94	-1,073.01	0.53	0.29	-482.19
1	-13,260.91	62	19	43	30.65	536.64	-545.51	0.98	0.43	-213.89

This would seem to suggest a bit of a downside edge over the next few days.

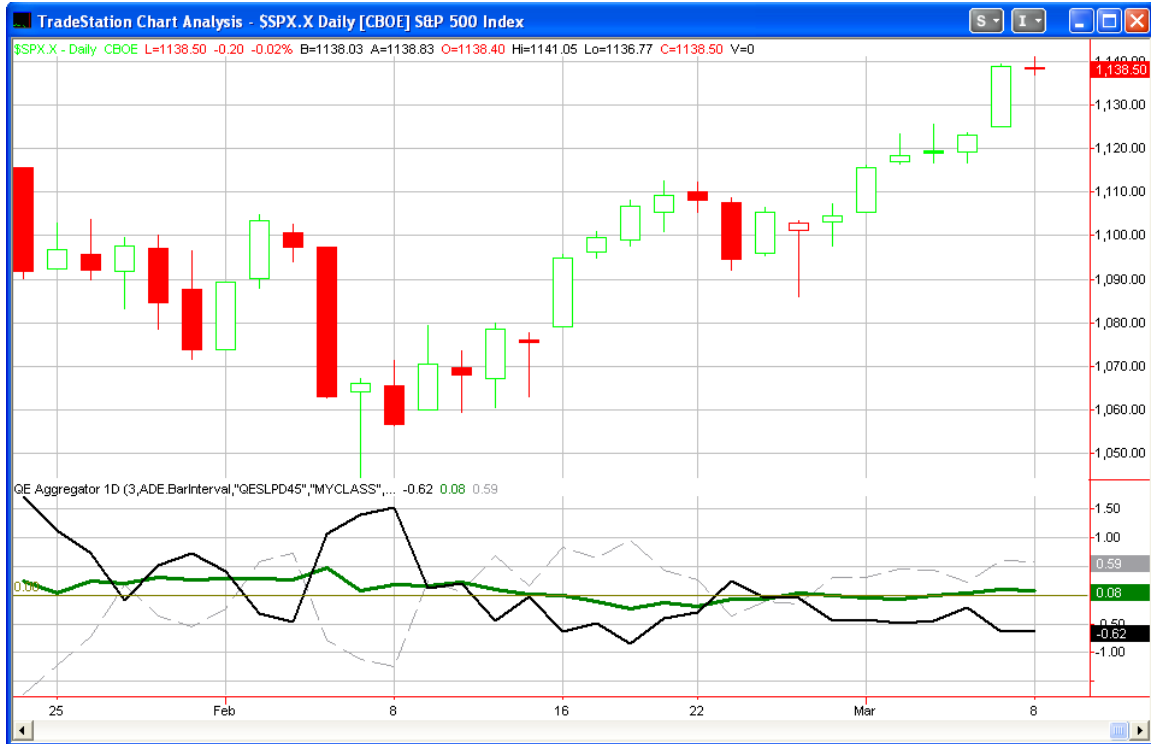
On the positive side, Monday was the 1<sup>st</sup> lower close in the S&P 500 in over a week. I've updated a study from the 10/14/09 Letter that examines other such occurrences.

After closing higher for at least 5 days in a row, the SPX closes lower but above its 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	53,177.29	49	40	9	81.63	1,659.30	-1,466.06	1.13	5.03	1,085.25
9	53,210.04	54	44	10	81.48	1,605.52	-1,743.29	0.92	4.05	985.37
8	47,363.89	54	38	16	70.37	1,812.02	-1,343.30	1.35	3.20	877.11
7	37,891.14	55	38	17	69.09	1,544.86	-1,224.33	1.26	2.82	688.93
6	34,976.78	57	38	19	66.67	1,482.22	-1,123.56	1.32	2.64	613.63
5	27,574.90	57	37	20	64.91	1,252.69	-938.74	1.33	2.47	483.77
4	26,421.52	57	35	22	61.40	1,257.71	-799.93	1.57	2.50	463.54
3	11,280.03	57	33	24	57.89	1,035.78	-954.20	1.09	1.49	197.90
2	5,695.87	57	33	24	57.89	865.42	-952.62	0.91	1.25	99.93
1	3,683.33	57	33	23	57.89	556.52	-638.33	0.87	1.25	64.62

**88% of instances closed above the entry price at some point in the next 5 days.**

Here we see a muted reaction at first that turns into a decent edge once you get out a few days.

I've incorporated both of these studies and updated the [Aggregator](#) chart below.



A nothing day with conflicting studies had little effect on the Aggregator chart tonight. The green Aggregator line remains squarely above zero and only slightly changed while the black Differential line remains below zero and only slightly changed. The Aggregator line above 0 illustrates the net expectation from the active studies over the next few days is for upside while the negative black Differential line shows the S&P has strongly outperformed expectations over the last few days. Overbought with positive expectations is considered a neutral configuration. This leaves the Aggregator System flat once again.

Looking ahead the green Aggregator line is expected to remain positive. There is a chance a strong upside move could both satisfy the bullish expectations causing the removal of several bullish studies from the Active List, and trigger new bearish studies. In order to see the Aggregator flip to negative in the next couple of days this type of scenario would likely need to play out. Meanwhile the pivot level for the Differential value will be 1,122.37 on Tuesday. In other words it will take a close at or below this level to turn the Differential line positive.

Monday's action lacked any real conviction. We'll need to see more compelling evidence in order to take an index position. Additionally the Systems Triggers spreadsheet has been very low on trade ideas as well over the last couple of days. Patience is important at times like this. Rather than try and use a marginal edge to scrape out a gain it's often better to wait for an opportunity with solid risk/reward.

***Intermediate-term Outlook (2 weeks – 2 months)– updated 3/8 – bullish***

With some intermediate-term breadth studies being incorporated into the short-term section this week I don't have much additional to discuss here. I do find it noteworthy that the follow through day study is very close to reaching its S&P target for a "successful" FTD. Meanwhile the Russell 2000 is already hitting new highs.

In the last few years IBD has changed their rules and stated that a 1.7% rally on higher volume should be required instead of a 1% rally. Ironically the first index to actually put in a 1.7% rally on higher volume since the February bottom is the Russell 2000, which did it on Friday as it was hitting new highs. Not a great bottom call when you're already at new highs. Over the last few years I've suggested ignoring the new rule. In a study I did a little over 2 years ago [I showed how waiting for a 1.7% FTD would have missed several rallies](#). The current instance now serves as yet another example. Not that I see a huge value in the 1% FTD rule, but it has been at least marginally effective and can be used to set up a positive risk/reward scenario. Additionally, requiring a 1.7% FTD not only puts you at risk of missing the rally but it [also hasn't proven to be any more predictive than the original 1% requirement](#).

So short-term the market is overbought without convincing evidence suggesting an immediate decline, and the long-term is also not showing any compelling signs of a decline. I'll continue to stick with my bullish outlook in anticipation of more indices following the Russell 2000's lead and heading to new highs.

**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***

**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.*

*None tonight*

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