

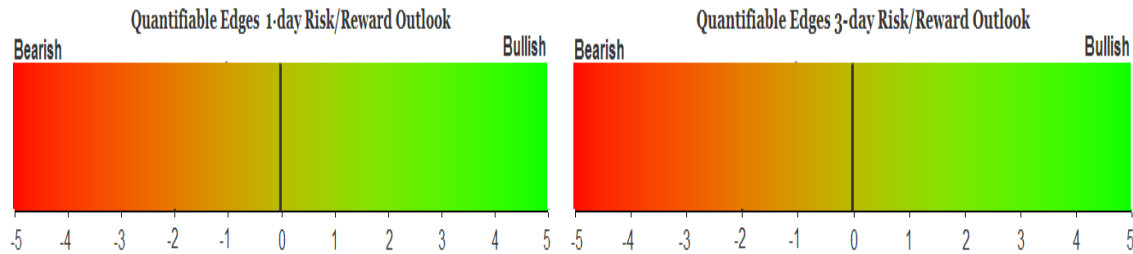
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 12, 2010

Volume 3 Issue 48

Market Overview



Tonight's Research Points

- The amount of time the SPY has spent moving higher is getting to a point where there is often a pullback.
- Breakouts to new 50-day highs often lead to more buying in the short-term. This is especially true when there has been a run-up into the breakout and the breakout occurs on lower volume. Both conditions were present Thursday.
- 3/10 Offset HV indicator suggests volatility expansion likely.
- The Aggregator System remains flat.
- The NDX Aggressive Trend Timer remains flat.

Short-term Outlook – updated 3/12

The Bottom Line

Still too overbought to buy. Still not enough compelling downside evidence to short.

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
Active					
March 11, 2010	10 days > 5ma and new 10-day high	1-4 days	Bearish	-1.40%	-1.00%
March 12, 2010	50-day breakout low vol 3day run	1-5 days	Bullish	2.00%	1.60%
March 11, 2010	SPX up VIX up > 200ma twice	1-3 days	Bearish	-1.20%	-0.80%
March 9, 2010	After 5 up, down today but > 200ma	1-10 days	Bullish	2.10%	1.60%
March 9, 2010	SPY 10-high low vol 20 > 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%
Active - Long Term					
March 10, 2010	Ttl Put/Call 40-low. SPX no 0.5% up.	1-5 weeks	Bearish	-4.90%	-3.30%
February 22, 2010	VIX:VXV Ratio falls below 0.9	int. term	Bearish		
February 16, 2010	Nasdaq/S&P RS Indicator Positive	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		

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

The Evidence

After spending most of the day in mildly negative territory the market made a strong push in the last hour to close squarely positive on the day. The SPX and Nasdaq finished up 0.4% while the Russell gained 0.3%. Breadth was somewhat positive as the NYSE Up Issues % came in at 54% and the Up Volume % was 71%. Total volume decreased from the last couple of days.

While SPX closed down just slightly on Monday, SPY has now closed higher for 10 days in a row. Looking back to the inception of the SPY in 1993, there has been only 1 other time where it has close higher 10 days in a row. That was on September 12, 1995. Rather than require every close to be up, I loosened the parameters to look for instances where every close was above the 5-day ma and today was the highest close of the last 10 days. Results below.

SPY closes above 5ma for at least 10 days in a row and today is the highest close of the last 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
5	-11,425.43	41	20	21	48.78	1,137.69	-1,627.58	0.70	0.67	-278.67
4	-20,209.92	42	17	25	40.48	881.98	-1,408.14	0.63	0.43	-481.19
3	-18,099.56	48	17	31	35.42	807.24	-1,026.54	0.79	0.43	-377.07
2	-16,896.21	56	22	33	39.29	612.62	-920.42	0.67	0.44	-301.72
1	-15,516.99	80	32	48	40.00	457.02	-627.95	0.73	0.49	-193.96

83% of instances closed below the entry price at some point in the next 4 days.

With price stretched for an extended period of time, this study would seem to contain a bit of a downside edge.

Of further note the SPX managed to close at a new 52-week closing high Thursday (although it didn't quite make a new intraday high). Based on several studies I've maintained a bullish intermediate-term outlook for many weeks and continually suggested that the January highs were not "the" high for this rally. The market certainly has gained back the late Jan / early Feb losses very quickly, though.

In the December 15, 2009 subscriber letter I showed a study that looked at breakouts to new 50-day highs. I've updated those results below:

SPX closes at a 50-day high after not having done so for at least 10 days.
Buy on close. Sell X days later. \$100k/trade. 1970 - 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	30,682.92	158	80	78	50.63	3,345.12	-3,037.52	1.10	1.13	194.20
19	54,648.69	161	88	73	54.66	3,164.63	-3,066.28	1.03	1.24	339.43
18	67,687.12	161	89	72	55.28	3,163.24	-2,970.02	1.07	1.32	420.42
17	51,767.77	161	89	72	55.28	3,015.58	-3,008.60	1.00	1.24	321.54
16	59,253.06	163	93	70	57.06	2,869.91	-2,966.41	0.97	1.29	363.52
15	61,472.58	165	92	73	55.76	2,849.98	-2,749.66	1.04	1.31	372.56
14	55,513.16	167	99	68	59.28	2,548.40	-2,893.79	0.88	1.28	332.41
13	60,128.87	168	95	73	56.55	2,556.44	-2,503.20	1.02	1.33	357.91
12	34,733.80	169	91	78	53.85	2,418.13	-2,375.84	1.02	1.19	205.53
11	34,166.27	172	90	82	52.33	2,450.28	-2,272.67	1.08	1.18	198.64
10	34,672.88	172	86	86	50.00	2,364.20	-1,961.03	1.21	1.21	201.59
9	46,654.86	172	92	79	53.49	2,132.80	-1,893.20	1.13	1.31	271.25
8	52,330.56	172	100	72	58.14	1,857.76	-1,853.41	1.00	1.39	304.25
7	67,901.26	172	97	75	56.40	1,824.42	-1,454.23	1.25	1.62	394.77
6	73,775.84	172	105	67	61.05	1,634.03	-1,459.66	1.12	1.75	428.93
5	72,287.60	172	100	72	58.14	1,673.57	-1,320.40	1.27	1.76	420.28
4	46,243.21	172	103	69	59.88	1,322.76	-1,304.37	1.01	1.51	268.86
3	56,820.55	172	106	66	61.63	1,215.87	-1,091.84	1.11	1.79	330.35
2	46,078.75	172	107	64	62.21	937.70	-847.74	1.11	1.85	267.90
1	33,649.70	172	109	62	63.37	570.72	-460.62	1.24	2.18	195.64

The results suggest a mild short-term upside edge. All the gains are basically made in the first week, though.

As someone that used to primarily trade breakouts, I always preferred breakouts that came after a brief consolidation just below the breakout level. The primary reason was that it made for an easy way to place a stop. But I also felt at the time that breakouts without a brief pause were a little more prone to failure. We haven't seen a pause here in the S&P. I decided one way to test this would be to look at how other 50-day high breakouts had performed that occurred on at least the 3rd day up.

SPX closes at a 50-day high after not having done so for at least 10 days. Today is at least the 3rd higher close in a row. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	41,159.53	84	46	38	54.76	3,364.78	-2,990.00	1.13	1.36	489.99
15	51,967.52	85	48	37	56.47	3,018.03	-2,510.76	1.20	1.56	611.38
10	30,144.72	86	45	41	52.33	2,263.51	-1,749.10	1.29	1.42	350.52
9	35,953.51	86	47	38	54.65	2,144.96	-1,706.83	1.26	1.55	418.06
8	37,479.63	86	52	34	60.47	1,816.48	-1,675.81	1.08	1.66	435.81
7	55,682.32	86	57	29	66.28	1,683.77	-1,389.39	1.21	2.38	647.47
6	55,409.33	86	58	28	67.44	1,617.16	-1,370.94	1.18	2.44	644.29
5	54,580.87	86	55	31	63.95	1,702.30	-1,259.54	1.35	2.40	634.66
4	38,785.61	86	59	27	68.60	1,243.52	-1,280.81	0.97	2.12	451.00
3	36,171.91	86	58	28	67.44	1,123.12	-1,034.60	1.09	2.25	420.60
2	30,375.48	86	59	27	68.60	921.87	-889.44	1.04	2.26	353.20
1	24,366.52	86	59	26	68.60	605.65	-437.18	1.39	3.14	283.33

Across the board the stats here are BETTER than the breakouts that came without at least a 2-day lead-up. So it appears my concern is unfounded.

Another concern that many people may have is that the breakout came on lower volume. Everyone knows that a high-volume breakout is preferable. (Warning: everyone is often wrong.) Below I took the original 50-day breakout test from above and added a volume filter.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	17,383.75	43	24	19	55.81	2,503.21	-2,247.01	1.11	1.41	404.27
15	23,330.22	44	28	16	63.64	2,347.57	-2,650.10	0.89	1.55	530.23
10	16,090.93	46	23	23	50.00	2,069.09	-1,369.49	1.51	1.51	349.80
9	24,717.16	46	30	16	65.22	1,614.15	-1,481.71	1.09	2.04	537.33
8	34,685.03	46	33	13	71.74	1,557.97	-1,286.77	1.21	3.07	754.02
7	33,866.55	46	31	15	67.39	1,504.66	-851.85	1.77	3.65	736.23
6	40,664.26	46	33	13	71.74	1,557.61	-825.92	1.89	4.79	884.01
5	44,776.81	46	35	11	76.09	1,650.60	-1,181.30	1.40	4.45	973.41
4	32,300.58	46	34	12	73.91	1,318.83	-1,044.98	1.26	3.58	702.19
3	33,009.75	46	32	14	69.57	1,306.02	-627.36	2.08	4.76	717.60
2	18,857.14	46	31	15	67.39	938.27	-681.95	1.38	2.84	409.94
1	9,614.95	46	31	14	67.39	500.31	-421.05	1.19	2.63	209.02

These results aren't just a little better than the first test without the volume filter, they are substantially better. To illustrate just how much better below is the same test with the volume filter spun the opposite way.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday. Buy on close. Sell X days later. \$100k/trade. 1970 - 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	8,074.31	116	56	60	48.28	3,666.53	-3,287.52	1.12	1.04	69.61
15	31,981.81	121	63	58	52.07	3,052.05	-2,763.75	1.10	1.20	264.31
10	11,625.32	124	61	63	49.19	2,438.95	-2,176.99	1.12	1.08	93.75
9	14,794.67	124	60	63	48.39	2,344.16	-1,997.70	1.17	1.12	119.31
8	11,975.07	124	65	59	52.42	1,979.89	-1,978.27	1.00	1.10	96.57
7	28,829.44	124	64	60	51.61	1,954.98	-1,604.82	1.22	1.30	232.50
6	28,747.75	124	70	54	56.45	1,654.40	-1,612.23	1.03	1.33	231.84
5	23,718.66	124	63	61	50.81	1,679.26	-1,345.49	1.25	1.29	191.28
4	11,265.09	124	67	57	54.03	1,324.28	-1,358.97	0.97	1.15	90.85
3	20,862.14	124	72	52	58.06	1,168.62	-1,216.89	0.96	1.33	168.24
2	24,910.48	124	75	48	60.48	918.36	-915.97	1.00	1.57	200.89
1	21,756.54	124	76	48	61.29	584.48	-472.16	1.24	1.96	175.46

What was a decent edge over the first week is now essentially edgeless.

So low volume is apparently good, and a rally up to the breakout is apparently good – what about instances like now when both conditions are present?

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday and today is at least the 3rd higher close in a row.
Buy on close. Sell X days later. \$100k/trade. 1970 - 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: WinLoss Ratio	All: ProfitFactor	All: Avg Trade
20	27,892.36	27	18	9	66.67	2,593.76	-2,088.37	1.24	2.48	1,033.05
15	18,820.23	27	18	9	66.67	2,411.44	-2,731.75	0.88	1.77	697.05
10	16,961.32	27	14	13	51.85	2,287.55	-1,158.79	1.97	2.13	628.20
9	22,857.33	27	18	9	66.67	1,830.97	-1,122.23	1.63	3.26	846.57
8	26,300.71	27	21	6	77.78	1,564.64	-1,092.79	1.43	5.01	974.10
7	27,390.51	27	22	5	81.48	1,461.64	-953.11	1.53	6.75	1,014.46
6	30,129.07	27	21	6	77.78	1,685.38	-877.33	1.92	6.72	1,115.89
5	32,275.16	27	22	5	81.48	1,761.71	-1,296.49	1.36	5.98	1,195.38
4	23,484.54	27	22	5	81.48	1,257.82	-837.48	1.50	6.61	869.80
3	20,834.42	27	19	8	70.37	1,313.62	-515.54	2.55	6.05	771.65
2	12,869.89	27	19	8	70.37	1,003.02	-773.43	1.30	3.08	476.66
1	8,129.44	27	19	7	70.37	591.16	-443.23	1.33	3.62	301.09

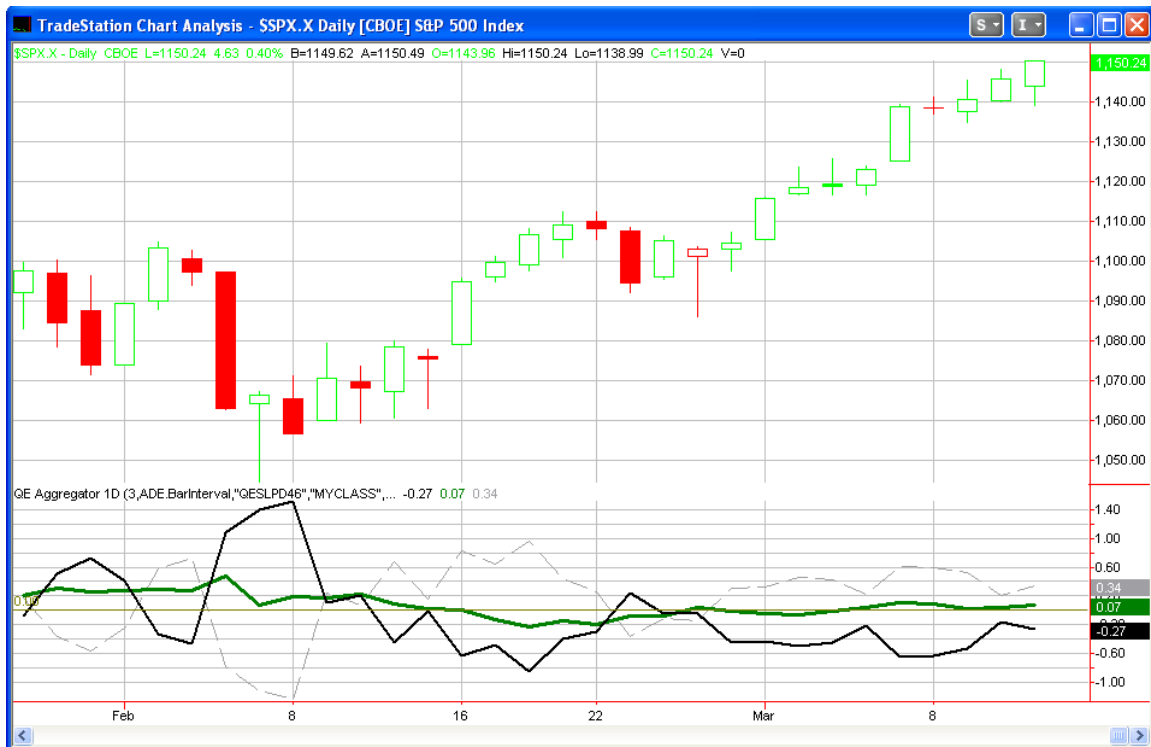
25 of 27 instances (93%) closed higher than the entry price at some point in the next 4 days.

As you may have guessed these are the best results of all. The consistency with which upside follow-through was seen over the next 5 days is significant and suggests a nice upside edge.

Other than the breakout study the Quantifinder was basically filled with marginal studies tonight. Several suggested a downside edge when trading below the 200ma but no edge when locked in a long-term uptrend. Several were also related to the 3/10 Offset Historical Volatility Indicator which I track on the website. When the indicator drops below 0.25 as it is now I will often look to play an Opening Range Breakout (ORB) the next day if there is a consolidation early on. I only ever look to trade the breakouts that occur in the direction of my short-term bias. In situations like now where the Aggregator is neutral, I'm willing to trade a break in either direction. For those who haven't read the ORB's study and would like to I've pasted a link below.

[ORBs Study.pdf](#)

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



No real structural change to the Aggregator chart again tonight. The green Aggregator line remains above zero, illustrating the net expectation for the active studies is for upside over the next few days. The black Differential line remains below zero, illustrating the fact that the SPX has soundly beaten expectations over the last few days. Both lines on opposite sides of zero is considered a neutral configuration. In this case it means the expectations are positive but the market is already overbought versus expectations, so risk/reward isn't great. It also means the Aggregator System remains flat for yet another day.

Looking ahead the Aggregator line is still set to remain positive for the next several days unless new bearish studies are added or bullish are removed after hitting their targets. The pivot level for the Differential line on Friday will be 1,142.76. In other words, a close at or below this number would flip the Differential line positive.

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 – Sitting on the sidelines is a difficult thing, both as a newsletter publisher and as a trader. The Aggregator continues to suggest the environment is risky and that patience is advised. I'll continue to look for solid setups but will have to wait at least another day before establishing any new trade ideas to track.

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