

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 17, 2010

Volume 3 Issue 51

Market Overview



Tonight's Research Points

- 100-day closing highs on Fed Days have consistently led to more upside.
- The Aggregator System changed to short at the close.
- The NDX Aggressive Trend Timer changed to flat at the close.

Short-term Outlook – updated 3/17

The Bottom Line

The bearish influence from last night's studies is set to take hold. Meanwhile the SPX is now quite overbought again. The Aggregator System turned short and I'm going to take a quick stab at the short side myself. This bias appears unlikely to last for more than 1 day.

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 17, 2010	100-day closing high on a Fed Day	1-8 days	Bullish	2.00%	1.70%
March 16, 2010	SPY 10 high Vol 5 low, Lower hi & low	1-4 days	Bearish	-1.80%	-1.30%
March 16, 2010	Up Vol & Up Issue % < 45% SPX Up>200	1-3 days	Bearish	-1.70%	-1.40%
March 15, 2010	March op-ex week bullish	1-4 days	Bullish	1.40%	1.00%
March 12, 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%
Active - Long Term					
March 10, 2010	Til 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		
Dropped Tonight					
March 16, 2010	Fed Day	1 day	Bullish		
March 16, 2010	SPY up less than 0.25% but in top 10%	1 day	Bearish		
March 9, 2010	After 5 up, down today but > 200ma	1-10 days	Bullish	2.10%	1.60%
March 8, 2010	90% Up Vol on at least 3rd day up	1-7 days	Bullish	3.10%	2.20%

If the avg max move – 1/3 Std Dev is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

The Fed Day on Tuesday didn't disappoint as the major indices all moved nicely higher. The SPX and Russell 2000 gained 0.8% while the Nasdaq tacked on 0.7%. Breadth was strongly positive as the NYSE UP Issues % closed at 73% and the Up Volume % was 83%. Total volume rose on both the NYSE and the Nasdaq.

I've shown studies in the past that suggested a Fed Day rally that took the SPX to a new short-term high often led to a pullback in the ensuing days. Interesting about tonight was that it was not just a short-term high we're looking at. It's a new 1-year-plus high. To get a decent amount of instances I lowered the requirement to just a 100-day high. You may find the results surprising.

SPX closes at 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	18,251.15	17	13	4	76.47	1,817.20	-1,343.10	1.35	4.40	1,073.60
9	19,677.92	17	13	4	76.47	2,014.69	-1,628.26	1.24	4.02	1,157.52
8	22,295.68	17	15	2	88.24	1,555.02	-514.84	3.02	22.65	1,311.51
7	17,743.54	17	14	3	82.35	1,404.28	-638.79	2.20	10.26	1,043.74
6	17,635.73	17	15	2	88.24	1,260.91	-638.93	1.97	14.80	1,037.40
5	13,541.09	17	14	3	82.35	1,125.96	-740.77	1.52	7.09	796.53
4	11,479.25	17	11	6	64.71	1,381.11	-618.82	2.23	4.09	675.25
3	6,746.10	17	10	7	58.82	1,039.18	-520.82	2.00	2.85	396.83
2	7,453.90	17	10	7	58.82	1,053.18	-439.70	2.40	3.42	438.46
1	3,757.37	17	12	5	70.59	566.63	-608.43	0.93	2.24	221.02

ALL 17 instances posted at least 1 close above the Fed Day close within the next 5 days.

We see here that the next couple of weeks have consistently led to some follow-through on the rally. For those interested in digging deeper I've also listed below all 17 instances using the 8-day exit criteria.

SPX closes at 100-day high on a Fed Day.
Buy on close. Sell 8 days later. \$100k/trade. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
08/16/94	Buy	\$465.01	1.89%	\$2,072.60
08/26/94	Sell	\$473.81		(\$763.25)
03/28/95	Buy	\$503.90	0.50%	\$841.50
04/07/95	Sell	\$506.42		\$1,623.60
05/23/95	Buy	\$528.58	1.33%	\$1,729.35
06/05/95	Sell	\$535.62		(\$1,360.80)
07/06/95	Buy	\$553.99	0.81%	\$1,611.00
07/18/95	Sell	\$558.46		(\$169.20)
11/15/95	Buy	\$593.96	2.10%	\$2,098.32
11/28/95	Sell	\$606.45		(\$73.92)
01/31/96	Buy	\$636.01	4.00%	\$4,229.58
02/12/96	Sell	\$661.46		(\$361.10)
07/02/97	Buy	\$904.05	2.40%	\$2,431.00
07/15/97	Sell	\$925.78		(\$172.70)
02/04/98	Buy	\$1,006.90	1.58%	\$2,090.88
02/17/98	Sell	\$1,022.77		(\$656.37)
12/22/98	Buy	\$1,203.56	3.42%	\$3,755.75
01/05/99	Sell	\$1,244.78		\$0.00
06/30/99	Buy	\$1,372.86	1.51%	\$2,460.96
07/13/99	Sell	\$1,393.56		(\$871.20)
11/16/99	Buy	\$1,420.03	(0.86%)	\$366.80
11/29/99	Sell	\$1,407.83		(\$1,460.20)
12/21/99	Buy	\$1,433.43	1.52%	\$3,075.33
01/03/00	Sell	\$1,455.22		(\$302.22)
03/21/00	Buy	\$1,493.82	0.32%	\$3,897.30
03/31/00	Sell	\$1,498.58		(\$1,266.54)
05/06/03	Buy	\$934.39	1.06%	\$1,525.82
05/16/03	Sell	\$944.30		(\$1,569.69)
12/14/04	Buy	\$1,203.38	0.13%	\$895.57
12/27/04	Sell	\$1,204.92		(\$831.66)
10/25/06	Buy	\$1,382.22	(0.18%)	\$520.56
11/06/06	Sell	\$1,379.78		(\$1,529.28)
05/09/07	Buy	\$1,512.58	0.83%	\$1,141.14
05/21/07	Sell	\$1,525.10		(\$1,396.56)
03/16/10	Buy	\$1,159.46	n/a	\$0.00
open	n/a	\$1,159.46		\$0.00

These are some very consistent results. The biggest loser was less than a 1% loss as of day 8. Even more amazing is that the worst drawdown of any of the instances over the next 8 days is a mere 1.6%. This took place in 1995 and I've circled it above.

Now if you're wondering why I only went back to 1994, it's because prior to that this edge was not apparent.

As I mentioned earlier, past tests had shown that spikes up to short-term highs on Fed days were often reversed. So below I decided to look at all instances that closed at a 10-day high but NOT a 100-day high.

SPX closes at 10-day high BUT NOT a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-22,428.25	23	10	13	43.48	1,621.06	-2,972.22	0.55	0.42	-975.14
9	-26,627.76	23	10	13	43.48	1,582.23	-3,265.39	0.48	0.37	-1,157.73
8	-21,076.00	23	10	13	43.48	1,323.16	-2,639.05	0.50	0.39	-916.35
7	-10,459.04	23	12	11	52.17	1,725.71	-2,833.42	0.61	0.66	-454.74
6	-11,454.63	23	11	12	47.83	1,556.71	-2,381.54	0.65	0.60	-498.03
5	-22,916.76	23	9	14	39.13	1,524.38	-2,616.87	0.58	0.37	-996.38
4	-20,034.37	23	9	14	39.13	1,146.14	-2,167.83	0.53	0.34	-871.06
3	-13,125.70	23	11	12	47.83	1,372.39	-2,351.83	0.58	0.53	-570.68
2	-21,554.72	23	8	15	34.78	626.38	-1,771.05	0.35	0.19	-937.16
1	-12,017.71	23	6	17	26.09	924.91	-1,033.36	0.90	0.32	-522.51

22 of 23 instances (96%) closed below the Fed Day close at some point in the next 4 days.

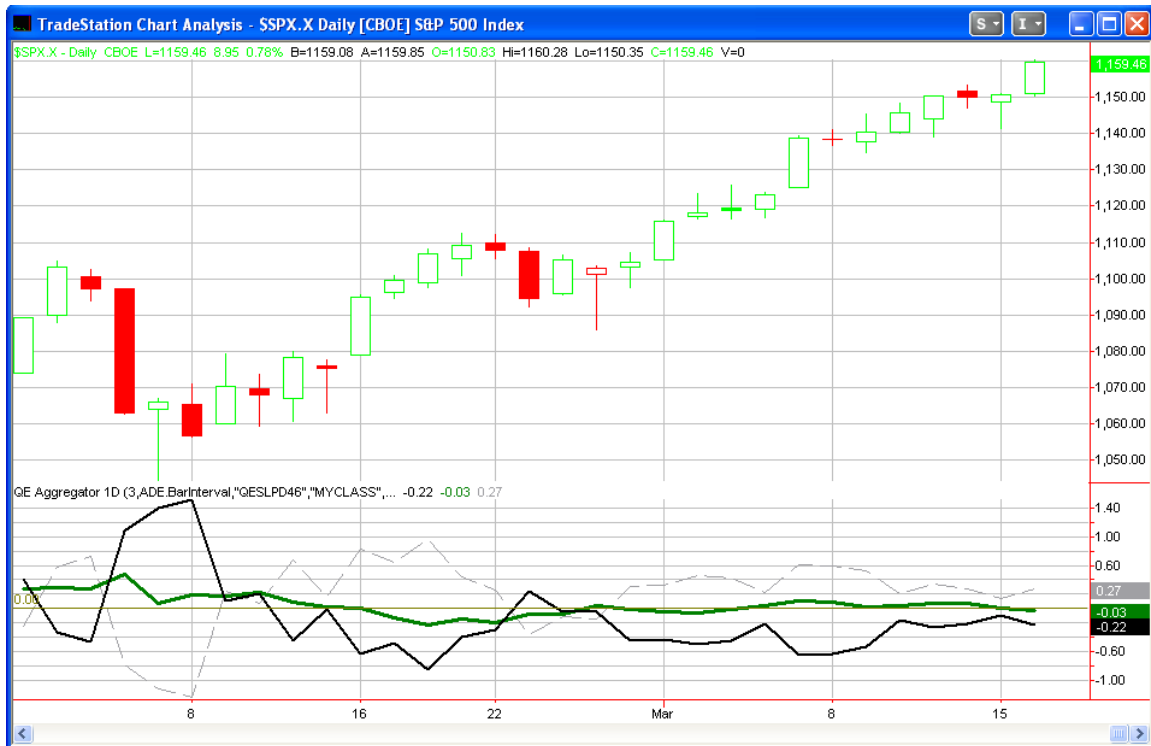
Amazingly, these results are nearly as strong to the downside as the previous ones were to the upside. And this edge did go back further. Below I ran it all the way back to 1982, which is as far back as I track Fed Days. (Fed Day edges prior to 1982 are not apparent.)

SPX closes at 10-day high BUT NOT a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1982 - 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	-35,862.58	34	12	22	35.29	1,814.76	-2,619.99	0.69	0.38	-1,054.78
9	-37,459.46	34	12	22	35.29	1,754.13	-2,659.50	0.66	0.36	-1,101.75
8	-25,798.79	34	13	21	38.24	1,420.85	-2,108.09	0.67	0.42	-758.79
7	-15,244.55	34	14	20	41.18	1,851.65	-2,058.38	0.90	0.63	-448.37
6	-13,654.40	34	17	17	50.00	1,446.81	-2,250.01	0.64	0.64	-401.60
5	-24,430.98	34	15	19	44.12	1,454.70	-2,434.29	0.60	0.47	-718.56
4	-23,817.34	34	15	19	44.12	1,065.58	-2,094.79	0.51	0.40	-700.51
3	-21,775.55	34	15	19	44.12	1,200.82	-2,094.10	0.57	0.45	-640.46
2	-21,479.09	34	13	21	38.24	574.92	-1,378.72	0.42	0.26	-631.74
1	-13,938.02	34	11	23	32.35	677.12	-929.84	0.73	0.35	-409.94

A positive response to a Fed announcement isn't likely to cause an abrupt end to a long-term trend. When a substantial uptrend is extended with a new 100-day high then there is a strong chance of further upside over the next week or two. But when there is not a strong uptrend in place then you are very likely to see a pullback during the next week or two. This pullback would effectively extend the choppy or downtrending conditions that already exist on a longer-term basis. So it appears the long-term trend, whether up or not, rarely sees an abrupt change thanks to a Fed-Day posting a new high.

Also notable tonight is that four studies either expired or met their target and were removed from the Active Studies List.

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



I mentioned last night that the Aggregator was getting ready to turn down, and even tonight's bullish study couldn't save it. The green Aggregator line fell below zero this evening, which shows the net expectation for the active studies is for downside over the next few days. Meanwhile the market has outperformed expectations over the last few days as illustrated by the negative value for the black Differential line. Both lines below zero means the market is overbought with negative expectations. Historically this has provided a downside edge. It has therefore triggered a short signal in the Aggregator System tonight.

Looking ahead to tomorrow the setup is much as I described it last night. Without further bearish studies emerging the Aggregator is likely to flip back to positive at tomorrow's close. Meanwhile the pivot level for the Differential is 1,152.05. So if a decent-sized drop does occur on Wednesday then there is a solid chance of the Aggregator System actually flipping from short to long.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/15 – somewhat bullish

From an intermediate-term standpoint this past week was marked more by intermediate-term bullish studies achieving their objectives than by a large number of new intermediate-term studies emerging. The Fed-day studies were taken off the Active list earlier this week as the market approached new highs. And now with a new intraday

high being achieved on Friday, I've removed a few other intermediate-term studies that have suggested we should get this far.

There was one bearish intermediate-term study added this week that looked at Tuesday's very low CBOE Equity Put/Call reading. If you missed it you can [see it here](#).

My conviction isn't as strong as it was a few weeks ago when I felt we were destined to reach these new highs. Still, I'm not seeing a compelling amount of evidence suggesting the market is about to roll over and begin a significant down leg at this point in time either. Until a substantial amount of bearish evidence emerges, I'll side with the trend for my intermediate-term outlook.

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.

SPY – short ¼ index position @ \$116.41 limit. If not filled by 10am then cancel order. In all likelihood this will be a day-trade. The Aggregator will probably finish either neutral or bullish on Wednesday. So if I'm not filled in the morning I don't want to try and fade an afternoon rally knowing that I'm going to likely be covering at the close.

SPY – short ¼ index position @ \$116.56 LIMIT ON OPEN. If not filled on open, cancel order. Risks are a bit lower since it appears the short trade will only likely last 1 day. If I can get a better fill thanks to a gap up then I'm willing to take a larger position. (Note: After typing this I checked and noticed that Scott Andrews "Gap Guides" on MasterTheGap.com are showing a good chance of a gap higher filling tomorrow. This makes the idea of shorting a little bigger size on a gap up even more appealing.)

For those subscribers looking to take a more Aggressive short trade, there were a few ETFs tonight that triggered system -80514. By taking one of these you'd effectively be going short one of the most overbought groups. If I expected the Aggregator signal to last more than 1 day then I likely would have taken one of these as a Trade Idea. As it is I'll just monitor the SPY trades.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY (1/4)	3/15/2010	\$115.49	\$115.97	0.42%		sold @ 2pm EST

I'll be monitoring the market closely tomorrow and will alert subscribers if I decide to exit the SPY positions at the close. Currently it does appear probable.

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