

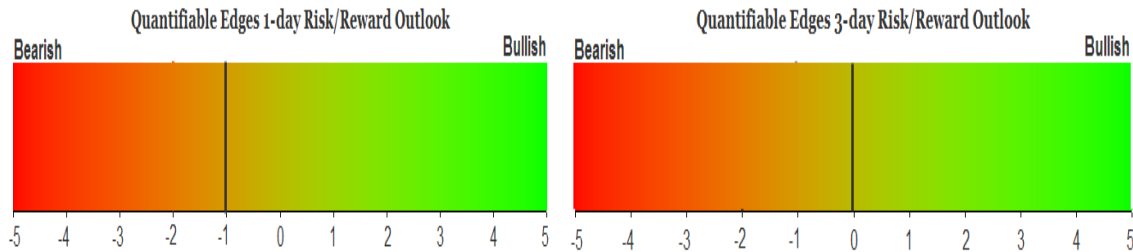
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 18, 2010

Volume 3 Issue 52

## Market Overview



## Tonight's Research Points

- Increasing volume a 2-day period during an upstreak turns the implications of an upstreak from negative to neutral.
- The Aggregator System changed to flat at the close.
- The NDX Aggressive Trend Timer remained flat at the close.

## Short-term Outlook – updated 3/17

### The Bottom Line

The market will have to pull back eventually. At this point, though the active studies are no longer suggesting a compelling downside edge. Back to the sidelines until risk/reward improves.

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 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%
<b>Active - Long Term</b>					
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		
<b>Dropped Tonight</b>					
<b>March 15, 2010</b>	<b>March op-ex week bullish</b>	<b>1-4 days</b>	<b>Bullish</b>	<b>1.40%</b>	<b>1.00%</b>
<b>March 12, 2010</b>	<b>50-day breakout low vol 3day run</b>	<b>1-5 days</b>	<b>Bullish</b>	<b>2.00%</b>	<b>1.60%</b>
March 12, 2010	10 days > 5ma and new 10-day high	1-4 days	Bearish	-1.40%	-1.00%

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***

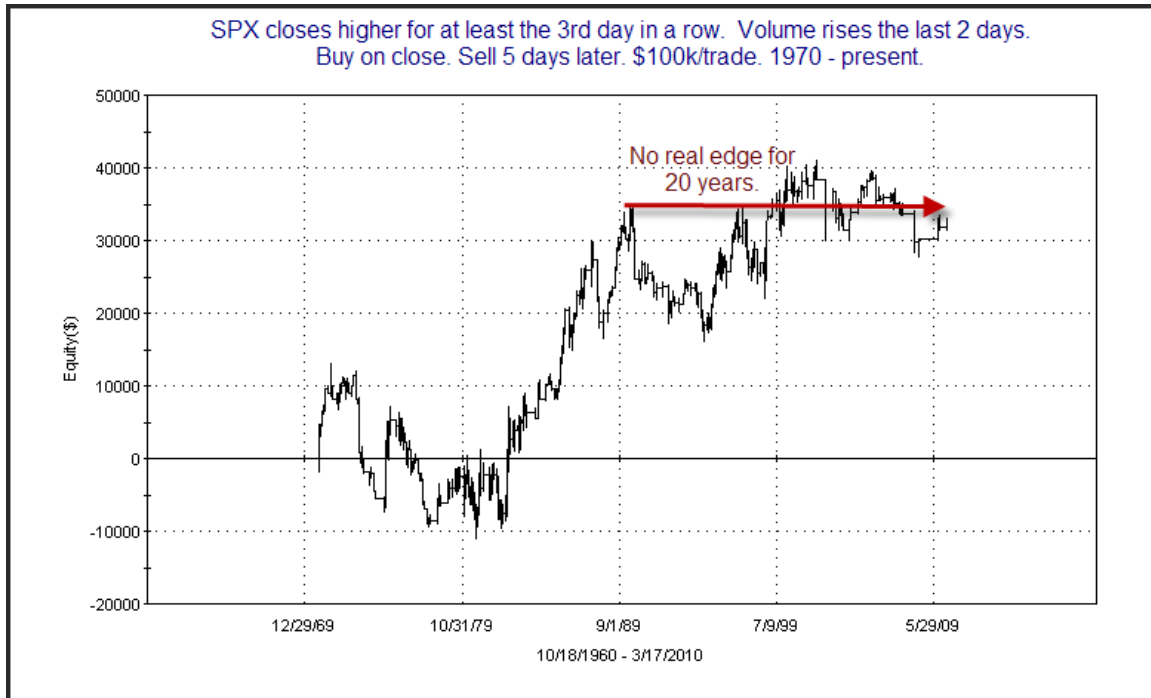
There doesn't appear to be anything that can slow this market down. A gap higher this morning never really pulled back very much and the major indices all put in solid gains gain today. The S&P 500 closed up 0.6%, the Nasdaq was up 0.5% and the Russell up 0.7%. Breadth was solidly positive as the NYSE Up Issues% came in at 69% and the Up Volume % at 67%. Total volume rose from Tuesday's levels.

There not a lot of compelling evidence appearing based on today's action. The one study that appeared in the Quantifinder was from 5/30/2008. It took a very long-term look at streaks of up days that occurred on rising volume versus similar streaks without rising volume. The study showed that streaks without rising volume had negative implications and streaks with rising volume were actually slightly bullish over the long haul. Tonight I looked deeper at the current scenario where the SPX has risen at least 3 days in a row and the last 2 days have seen increased volume. While I most often show stats tables, sometimes I feel pictures tell the story better.

Below are two equity curves. The first is an upstreak without rising volume. The second is an upstreak with rising volume.



As was shown in the study two years ago (and a few times since), the setup here seems to carry a downside edge. Now the streak with volume.

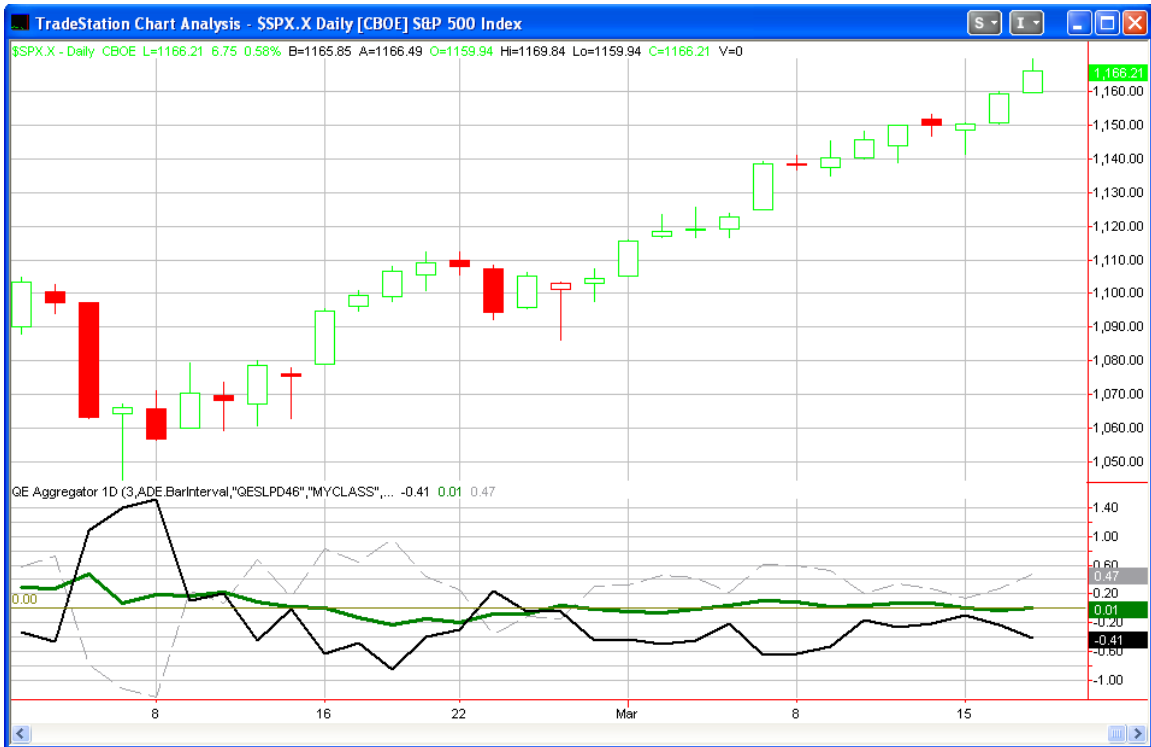


As you can see the entire upside edge (assuming a 5-day exit) occurred during the 80's. The 70's, 90's and 00's saw no edge at all. Based on this I've changed my perception of this setup from slightly bullish to neutral.

A few other notables from indicators include the fact that the market is hitting a massive number of new highs and the equity put/call ratio is hitting some relatively low readings at the moment. I played around with both tonight and didn't come up with anything substantial. The equity put/call ratio looks quite low being that it is under 0.5, but the 200-day moving average of the ratio has been steadily declining and it really isn't a massive stretch at this point. [Put/call ratios are a group of indicators that I always feel it is very important to normalize.](#)

Two bullish studies met their targets on Wednesday and were removed from the Active Studies list. Meanwhile one bearish study expired. The number of active studies is a little low right now, but that is not unusual in a slow motion melt-up. It can often be a difficult place to find a great edge.

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



With few studies active and the bearish ones set to expire over the next two days, the net expectation from the Active Studies list over the next 3 days is just barely positive. This has caused the Aggregator line to turn slightly above zero. The move higher in the S&P today helped the Differential line to move farther south. This shows that the S&P has handily outperformed expectations over the last few days. Positive expectations in an overbought market is considered a neutral bias. As is always the case when the green and black lines are on opposite sides of zero, the Aggregator System turned back to flat today.

Looking ahead over the next few days the green Aggregator line is set up to remain positive. In order for that to change tomorrow we'd need to see new bearish studies emerge or for the SPX to move above 1,179 and hit the target for the bullish study. The pivot level for the Differential value Thursday will be 1,152.10. In other words it would take a close at or below this level to turn the Differential line back to positive.

**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.*

*None tonight.*

**Active Trades Table**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY (1/4)(s)	3/17/2010	\$116.76	\$117.10	-0.29%		exit on close as per update
SPY (1/4)(s)	3/17/2010	\$116.76	\$117.10	-0.29%		exit on close as per update

Tough day as the Fed Day profits from the day before were given back on this open to close trade. With the SPY up now 14 days in a row, it has been a tough stretch for the Aggregator. I've been fortunate to be able to keep losses small as we've only been exposed to the market for a few days during the streak. I've also gotten some questions/suggestions about the Aggregator strategy.

The Differential line is a primary component of the strategy. It lets us know whether the SPX is overbought or oversold versus expectations. I only take positions when either 1) the market is oversold and expectations are positive or 2) the market is overbought and expectations are negative. This has been simple as effective. Still, over time I've looked at a number of different ways to improve the system.

One aspect of the system that could perhaps be improved is the use of the Differential line. At times like the present where the SPX has been perpetually overbought, it would have been nice to have ignored that line and not used it as a filter. In other words, stay long with the bullish outlook from the studies even though the market is overbought.

Now some readers may recall that I discuss an approach in the Aggregator Overview Document (available to download on the systems page) that completely ignores the Differential line and just goes long or short based on the Aggregator value. In doing so you not only are exposed to the market a lot more, but returns are actually quite lower. The Differential makes a big difference. But is there an effective filter that might "turn off" the Differential when continued upside (or continued downside) as suggested by the Aggregator value becomes more probable?

The answer to that is "not that I have yet found". An example of a filter I took another look at tonight is the 200ma. I thought perhaps there might be some edge to leaving the trade on if the expectations were positive in a long-term uptrend (regardless of the level of overbought/oversold as defined by the Differential value). And the same was checked for negative expectations in a downtrend. What I found is that profits were hurt on both sides of the moving average over the last 2 years (and you were exposed to the market for quite a bit longer).

I knew the results would come out this way in a downtrend because I'd looked at it back in September or so, but I thought staying long during the uptrend over the past several months would have proven out to generate better results. In fact it didn't. Even including this latest rally, more profits were generated standing aside when the Differential didn't agree than ignoring the Differential and going long any time there were positive expectations. And of course time exposed to the market increased quite a bit when the Differential was ignored.

So while the last couple of weeks have been a bit frustrating I'm actually quite pleased with the low drawdown and am completely comfortable with the approach of the Aggregator System over the long term. I'm confident that it won't be long before things get back on track the way they were last month. Of course that doesn't mean I won't continue to look for new ways to improve my approach.

And any subscribers who are inclined to test their own ideas on how to either improve the Aggregator System or incorporate the Aggregator readings into their own trading techniques are encouraged to do so. I have long kept the historical Aggregator and Differential readings available for download on the Historical Download page (accessible for Gold Subscribers from the charts page). Additionally I recently created a new

Aggregator spreadsheet that takes the SPX, the Aggregator and the Differential values and then calculates returns based on the standard technique I employ.

Traders wishing to test out additional filters or strategy combinations may find this pre-set spreadsheet helpful in testing. In the next few days I'll incorporate it as part of the standard Aggregator Performance Sheet which is downloadable on the systems page. In the meantime, if anyone wants a copy beforehand, just shoot me an email and I'll send it over. Of course I'd be delighted to hear about any improvements you make.

And for anyone wondering just how improbable this 14-day run up in the SPY has been, Jeff Pietsch gave an interesting take on the [Market Rewind site today](#).

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