

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 24, 2010

Volume 3 Issue 56

Market Overview



Tonight's Research Points

- The Aggregator System changed to flat at the close.
- The NDX Aggressive Trend Timer changed to flat at the close.

Short-term Outlook – updated 3/24

The Bottom Line

The market is again overbought but with bullish net expectations from the studies. It's back to the sidelines for me. I'll wait patiently for the next substantial edge to appear before taking any aggressive positions.

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%
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		

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

Another day of buying in the market led to new highs for the indices. The SPX closed up 0.7%, the Nasdaq 0.8% and the Russell 2000 put in a 1.1% gain. Breadth was strong as the NYSE Up Issues % came in at 72% and Up Volume was 78%. Total volume rose on this move to new highs.

There are two scenarios that often lead to a dearth of fresh studies. One is choppy action in the middle of a range and the other is a slow grind higher at new highs. Currently the market is experiencing the 2nd of the two. While the move up today worked out nicely for those who were long – perhaps based on the Aggregator or NDX Trend Timer strategies – it didn’t do much to provide compelling edges. With nearly 800 studies tracked by the Quantifinder there wasn’t a single suitable one to show today.

That’s not to say there weren’t some interesting market statistics. The Put/Call Ratio was a bit low, as was the new 52-week highs compared to last week. While they’re worth keeping an eye on the readings today weren’t strongly suggestive.

Another indicator that prompted me to look at several different things tonight was the TICK. Its behavior was unusual in a number of ways. First, it managed to close the day negative while the market closed near its highs and up strongly. Second, the high reading in the TICK today was the highest in over a month according to my data. This is unusual on a day when the market is also hitting a new high. Unfortunately, neither avenue led to convincing evidence.

When examining both the SPX and TICK hitting new highs at the same time I initially thought there might be a bullish edge. Using a 20-day high parameter for both gave some compelling numbers. Unfortunately when I varied then lengths the numbers were far less compelling. This suggests a possible data anomaly rather than a true edge. Below is an example of an optimization report I ran to illustrate this.

SPX and VIX both close at an X day high. SPX closes > 200ma. Buy on close. Sell 10 days later. \$100k/trade. 1998 - 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
30	4,956.59	10	7	3	70.00	1,916.67	-2,820.03	0.68	1.59	495.66
25	8,485.81	13	10	3	76.92	1,694.59	-2,820.03	0.60	2.00	652.75
20	20,108.93	16	13	3	81.25	2,197.62	-2,820.03	0.78	3.38	1,256.81
15	18,022.23	26	18	8	69.23	1,987.45	-2,218.98	0.90	2.02	693.16
10	18,162.03	41	25	16	60.98	1,926.35	-1,874.80	1.03	1.61	442.98
5	19,318.34	86	54	32	62.79	1,808.14	-2,447.54	0.74	1.25	224.63

The first test I ran used 20-day, which led me to say “wow”. The problem is that the edge seems to be focused in that one area. Even 15 and 25 days only perform about half as well. I’m going to keep it short tonight, but I may expand on this a bit more in the blog tomorrow if I get a chance. If so, I’ll make sure to link in tomorrow’s Letter.

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

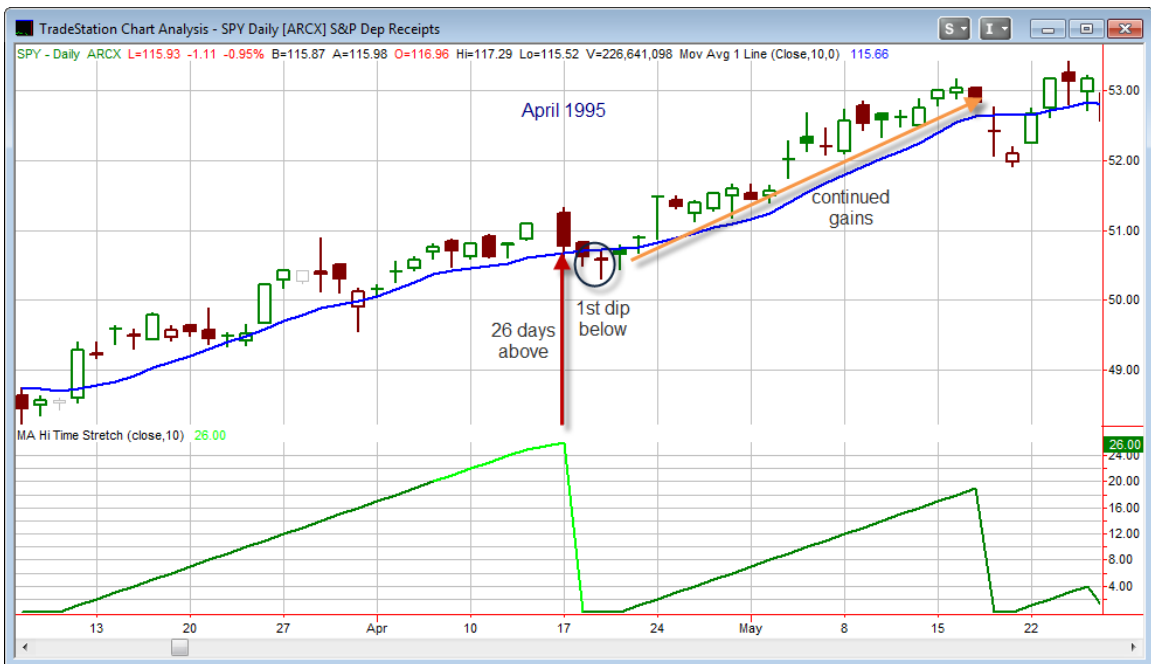
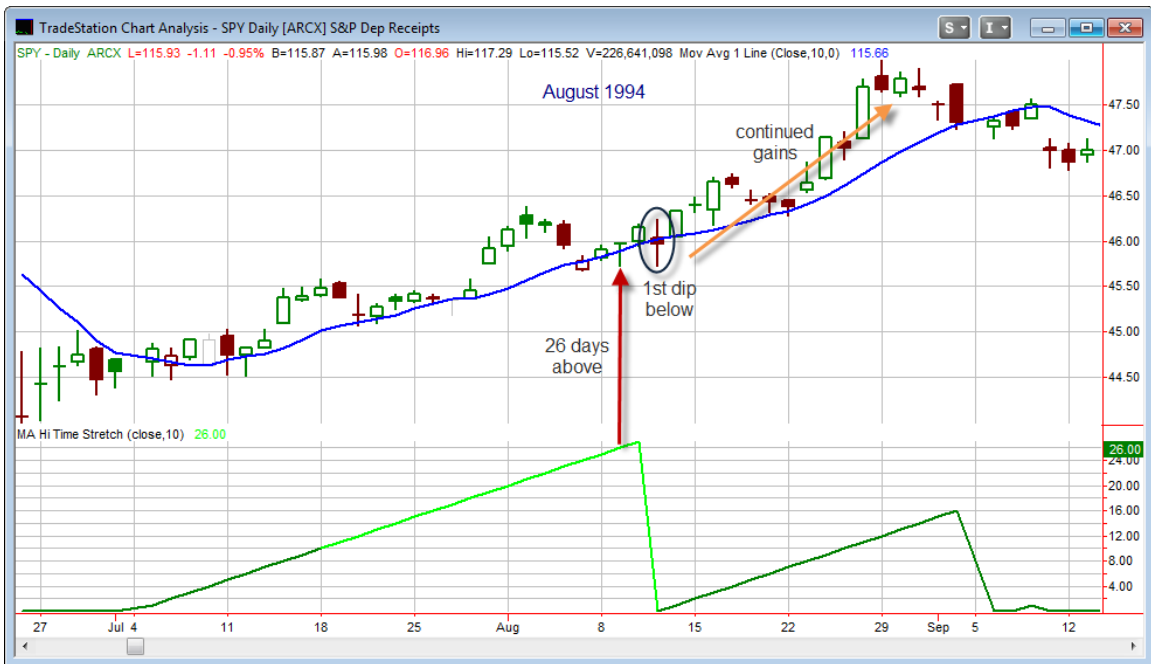


Tuesday's move higher caused the black Differential line to dip back below 0. This illustrated the fact that the SPX has been outperforming expectations over the last few days. Meanwhile the green Aggregator line remains above zero. Positive net expectations but an already overbought market make for a neutral bias. The Aggregator System went flat today, as it always does when the Aggregator and Differential values fall on opposite sides of 0.

Looking ahead there is still a bullish tilt to the Aggregator values, but that can change quickly should more studies emerge. The Differential pivot level on Wednesday will be 1164.59. In other words it will take a close at or below this level to flip the Differential reading back to positive and move the SPX from overbought to oversold versus expectations.

Intermediate-term Outlook (2 weeks – 2 months)– updated 3/22 – somewhat bullish

Friday marked the 26th day in a row that the SPY has closed above its 10-day moving average. This is fairly rare to see. Since its inception in 1993 there have only been 5 other instances where SPY had a run of 25 days or more. In examining these other instances I found 2 strong consistencies. First, a dip below the 10ma came pretty soon after. Second, the 1st pullback below the 10ma never marked the top. Below are charts of all the instances to illustrate this. The indicator in the bottom pane shows the number of days the SPY has closed above its 10ma.







Strong and persistent upside movement like we have seen lately hasn't just ended and lead to an immediate correction. The 1st dip has always been just that – a dip. New highs were always made in short order. After these new highs were made there may have been a loss of momentum that turned into a substantial top. It never came on the 1st dip, though – and the 1st dip is what we are waiting for at the moment. The caveat here is obviously the very low sample size, but I'm not seeing a whole lot that says a strong sustained selloff is likely.

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)	3/19/2010	\$115.96	\$117.09	0.97%		out 1/2 open & 1/2 close

As per instructions in last night's Letter the SPY trade idea exited half of the position at the open and the other half at the close for a nice gain. "Current price" shown above is actually the average exit price.

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