

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 11, 2011

Volume 4 Issue 48

Market Overview



Tonight's Research Points

- Triangle breaks have a tendency to reverse rather than to follow through. This is especially true when dealing with a breakdown in a long-term uptrend.
- 20-day lows above the 200ma have provided favorable buying opportunities over the last 20 years. The large percent drop and high-volume decline on Thursday make the setup even more appealing.
- A huge volume Spyx reading Thursday suggests an upside edge Friday.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is long.

Short-term Outlook

The Bottom Line

Signs are all pointing to a bounce. The fact that we are breaking down from a consolidation could add some extra risk. I'm long and looking to scale longer.

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
Active				
March 11, 2011	Triangle Breakdown > 200ma	1-3 days	Bullish	
March 11, 2011	20-day low. High vol. Lrg drop. >200.	1-7 days	Bullish	2.65%
March 9, 2011	5 days inside 1% SPX drop day. Uptrend.	1-3 days	Bullish	1.40%
March 2, 2011	1% drop and decliners 2x advancers	1-9 days	Bullish	3.00%
Active - Long Term				
March 11, 2011	Triangle Breakdown > 200ma	3-4 weeks	Bullish	
March 2, 2011	Outside 2 days and 3-day low close	4-10 days	Bullish	
February 23, 2011	From 20 hi to 1st 5low in 10 days.	1-11 days	Bullish	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	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

Overseas news hit the markets hard. SPY, QQQQ, and IWM all gapped down over 1% Thursday. Their opening prices were all very close to the highs for the day, and they all finished down in the lower end of their ranges. When it was over the SPX had lost 1.9% the NASDAQ was down 1.8% and the Russell 2000 dropped 2.6%. Breadth was extremely negative with the NYSE Up Issues % coming in at 15% and the Up Volume % at 8%. Total NYSE volume spiked to the highest level in over a week.

Last night I discussed the triangle formation we were seeing in the SPX and other indices. I referred to some old research that suggested triangle breaks have had a propensity to reverse in the days following the break. I didn't show detailed results last night because I wasn't completely satisfied that the code was working as well as I wanted. I spent a good bit of time with it today and found that those preliminary inclinations appeared fairly accurate.

For coding purposes I simply defined a triangle as a pattern where the most recent swing high was lower than the previous swing high, and the most recent swing low was higher than the previous swing low, and the market was currently between those two points. This admittedly isn't the most sophisticated description, and some market technicians might suggest additional nuances should be included. Still, it seemed to be enough to identify the basic pattern of a tightening range.

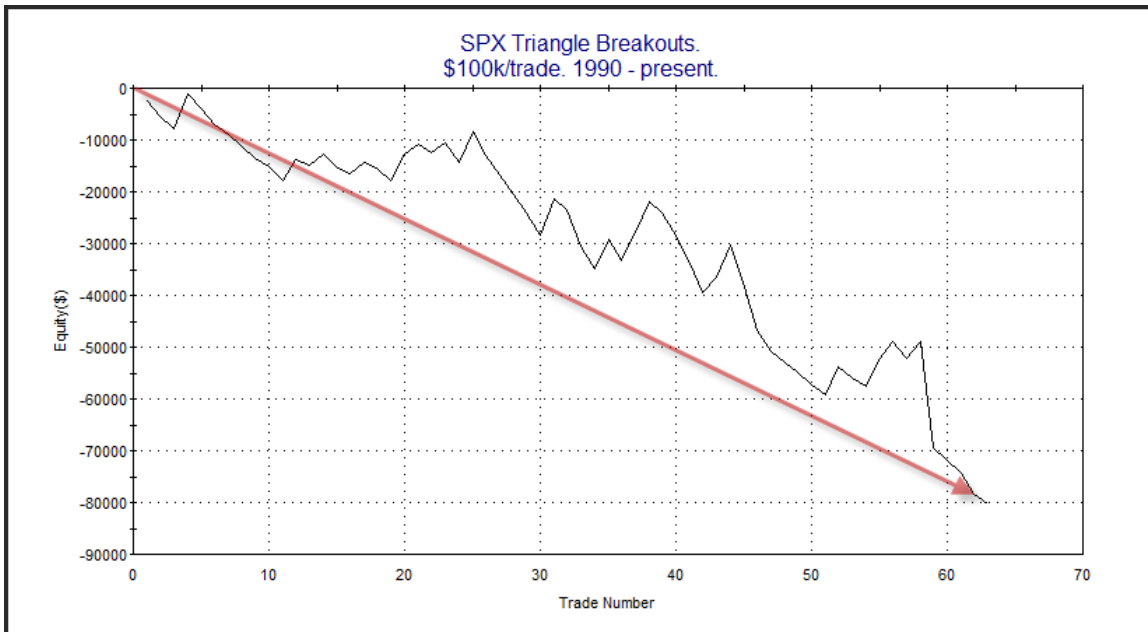
I set the entry parameter to be a break above the most recent swing high or below the most recent swing low. Here it could certainly be argued that a trend line break might be more effective. I personally don't believe it would make a whole lot of difference.

Once entered the strategy was designed to exit when price either reached its target or its stop area. To calculate the target price I simply took the height of the triangle and extended that past the entry point. The stop was set at the opposing swing high or swing low that would have triggered an entry in the opposite direction had the triangle broken the other way. No trailing stops or other trade management techniques were incorporated.

So without further delay, below are the results of trading triangle breakouts as laid out above for the period of 1990 – present.

SPX Triangle Breakouts. \$100k/trade. 1990 - present.			
TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	(\$80,237.06)	Profit Factor	0.50
Gross Profit	\$80,496.16	Gross Loss	(\$160,733.22)
Total Number of Trades	63	Percent Profitable	28.57%
Winning Trades	18	Losing Trades	45
Even Trades	0		
Avg. Trade Net Profit	(\$1,273.60)	Ratio Avg. Win:Avg. Loss	1.25
Avg. Winning Trade	\$4,472.01	Avg. Losing Trade	(\$3,571.85)
Largest Winning Trade	\$7,119.60	Largest Losing Trade	(\$20,525.20)
Max. Consecutive Winning Trades	2	Max. Consecutive Losing Trades	7
Avg. Bars in Winning Trades	23.33	Avg. Bars in Losing Trades	26.24
Avg. Bars in Total Trades	25.41		

These results suggest that trying to trade breakout moves from triangle formations in the SPX since 1990 has been a very difficult strategy. Below is an equity curve of the strategy.



It appears that such an approach would have struggled on a consistent basis over the years. I also looked at other indices and equities as well. Below are some results computed by taking the same approach with the Dow.

DJI Triangle Breakouts \$100k/trade. 1990 - present.			
TradeStation Performance Summary			Collapse
All Trades			
Total Net Profit	(\$71,394.78)	Profit Factor	0.60
Gross Profit	\$105,137.95	Gross Loss	(\$176,532.73)
Total Number of Trades	74	Percent Profitable	31.08%
Winning Trades	23	Losing Trades	51
Even Trades	0		
Avg. Trade Net Profit	(\$964.79)	Ratio Avg. Win:Avg. Loss	1.32
Avg. Winning Trade	\$4,571.22	Avg. Losing Trade	(\$3,461.43)
Largest Winning Trade	\$7,510.23	Largest Losing Trade	(\$13,042.56)

These results are quite comparable to those for the SPX. But not all indices produced a negative net return. The NASDAQ win/loss ratio was large enough that it easily overcame the weak winning percentage and resulted in positive returns.

Nasdaq Triangle Breakouts. \$100k/trade. 1990 - present.			
TradeStation Performance Summary			Collapse
All Trades			
Total Net Profit	\$66,574.46	Profit Factor	1.36
Gross Profit	\$253,482.68	Gross Loss	(\$186,908.22)
Total Number of Trades	70	Percent Profitable	44.29%
Winning Trades	31	Losing Trades	39
Even Trades	0		
Avg. Trade Net Profit	\$951.06	Ratio Avg. Win:Avg. Loss	1.71
Avg. Winning Trade	\$8,176.86	Avg. Losing Trade	(\$4,792.52)
Largest Winning Trade	\$29,378.05	Largest Losing Trade	(\$13,662.18)
Max. Consecutive Winning Trades	5	Max. Consecutive Losing Trades	5
Avg. Bars in Winning Trades	24.10	Avg. Bars in Losing Trades	14.10
Avg. Bars in Total Trades	18.53		

Positive returns like this were the exception rather than the norm, but the difficulty in trading triangle breakouts and breakdowns has typically not been as pronounced as SPX

results might suggest. I ran this same strategy across the entire list of S&P 100 components. The percent profitable was quite low as only about 1/3 of instances would have hit their target before hitting their stop. But since the target price is farther away than the stop price, net losses were relatively small. The profit factor for the entire set of trades was 0.94. This means that it was a money losing strategy, but gross losses weren't greatly higher than gross gains.

Of course all of these tests were conducted without considering either 1) the underlying trend of the market, or 2) the direction of the break. I ran a few tests that took into account the current situation, and examined performance following a triangle breakdown during a long-term uptrend. Below are the results of taking these breakdowns as a short signal in the SPX.

SPX Triangle Breakdowns Above the 200ma. \$100k/trade. 1990 - present.			
TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	(\$37,153.21)	Profit Factor	0.17
Gross Profit	\$7,647.50	Gross Loss	(\$44,800.71)
Total Number of Trades	18	Percent Profitable	11.11%
Winning Trades	2	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	(\$2,064.07)	Ratio Avg. Win:Avg. Loss	1.37
Avg. Winning Trade	\$3,823.75	Avg. Losing Trade	(\$2,800.04)
Largest Winning Trade	\$5,768.30	Largest Losing Trade	(\$4,619.64)
Max. Consecutive Winning Trades	1	Max. Consecutive Losing Trades	6
Avg. Bars in Winning Trades	13.50	Avg. Bars in Losing Trades	21.75
Avg. Bars in Total Trades	20.83		

Instances are just a little bit low here, but the stats are overwhelmingly negative. They suggest a strong propensity for the market to reverse rather than to follow through on its breakdown. As a side note, while not as pronounced, the Nasdaq was also a loser under this scenario.

For those traders who would like to investigate a bit further I have listed all 18 of trades below.

SPX Triangle Breakdowns Above the 200ma.
\$100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
06/18/90	Short	\$356.87	(2.93%)	\$1,576.35
07/13/90	Cover#2	\$367.31		(\$2,912.76)
05/14/91	Short	\$371.62	(3.01%)	\$1,551.72
05/29/91	Cover#2	\$382.79		(\$2,993.56)
06/24/91	Short	\$370.93	(3.09%)	\$790.32
07/15/91	Cover#2	\$382.38		(\$3,057.15)
08/21/92	Short	\$414.85	(2.51%)	\$1,572.00
09/14/92	Cover#2	\$425.27		(\$2,500.80)
03/24/93	Short	\$447.98	(1.19%)	\$419.24
03/31/93	Cover#2	\$453.32		(\$1,190.82)
09/20/93	Short	\$455.05	(2.59%)	\$1,186.98
10/14/93	Cover#2	\$466.83		(\$2,579.82)
11/18/94	Short	\$461.45	1.89%	\$1,879.20
11/22/94	Cover	\$452.75		(\$423.36)
03/01/96	Short	\$638.79	(3.79%)	\$2,285.40
05/14/96	Cover#2	\$663.00		(\$3,776.76)
12/06/96	Short	\$728.03	(4.63%)	\$1,553.58
01/13/97	Cover#2	\$761.75		(\$4,619.64)
08/27/97	Short	\$905.42	(3.76%)	\$946.00
09/05/97	Cover#2	\$939.47		(\$3,745.50)
11/12/97	Short	\$915.39	(3.74%)	\$1,611.02
11/17/97	Cover#2	\$949.62		(\$3,731.07)
05/26/98	Short	\$1,097.99	(2.37%)	\$2,147.60
06/10/98	Cover#2	\$1,124.03		(\$2,369.64)
09/14/99	Short	\$1,333.91	5.84%	\$5,768.30
10/15/99	Cover	\$1,255.96		(\$805.12)
08/04/03	Short	\$977.42	(2.38%)	\$1,691.16
08/19/03	Cover#2	\$1,000.68		(\$2,372.52)
04/20/04	Short	\$1,120.75	(2.52%)	\$5,342.67
11/04/04	Cover#2	\$1,148.97		(\$2,511.58)
01/25/06	Short	\$1,260.92	(2.13%)	\$118.50
01/30/06	Cover#2	\$1,287.79		(\$2,122.73)
11/27/09	Short	\$1,086.81	(2.35%)	\$282.44
12/02/09	Cover#2	\$1,112.38		(\$2,352.44)
11/29/10	Short	\$1,176.91	(1.99%)	\$274.68
12/01/10	Cover#2	\$1,200.29		(\$1,963.92)

This would seem to confirm the summary results table shown earlier. It appears that not only does shorting a breakdown in an uptrend carry a negative expectation, but that expectation may actually be so negative that traders could consider fading the breakdown rather than going with it. I examined this possibility in the test below. To generate the results I simply looked at entering the market on the close of each of the 18 days listed above.

Buy SPX at close on day of triangle breakdown above the 200ma.
Sell X days later. \$100k/trade. 1990 - 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	31,921.45	18	14	4	77.78	2,763.91	-1,693.33	1.63	5.71	1,773.41
19	36,373.83	18	14	4	77.78	2,931.96	-1,168.41	2.51	8.78	2,020.77
18	34,378.27	18	14	4	77.78	2,741.34	-1,000.12	2.74	9.59	1,909.90
17	32,805.14	18	13	5	72.22	2,923.22	-1,039.33	2.81	7.31	1,822.51
16	30,630.06	18	15	3	83.33	2,382.33	-1,701.62	1.40	7.00	1,701.67
15	24,692.00	18	13	5	72.22	2,505.86	-1,576.84	1.59	4.13	1,371.78
14	21,879.50	18	14	4	77.78	2,261.49	-2,445.33	0.92	3.24	1,215.53
13	22,970.33	18	14	4	77.78	2,304.18	-2,322.06	0.99	3.47	1,276.13
12	19,711.82	18	14	4	77.78	1,899.50	-1,720.31	1.10	3.86	1,095.10
11	18,637.44	18	13	5	72.22	2,079.30	-1,678.69	1.24	3.22	1,035.41
10	15,728.41	18	13	5	72.22	1,788.87	-1,505.37	1.19	3.09	873.80
9	13,025.49	18	12	6	66.67	1,802.08	-1,433.25	1.26	2.51	723.64
8	6,383.69	18	12	6	66.67	1,475.27	-1,886.59	0.78	1.56	354.65
7	3,630.08	18	10	8	55.56	1,477.94	-1,393.66	1.06	1.33	201.67
6	9,104.41	18	11	7	61.11	1,648.49	-1,289.86	1.28	2.01	505.80
5	10,302.00	18	10	8	55.56	1,876.14	-1,057.42	1.77	2.22	572.33
4	9,885.59	18	11	7	61.11	1,349.35	-708.18	1.91	2.99	549.20
3	14,480.31	18	13	5	72.22	1,437.69	-841.94	1.71	4.44	804.46
2	5,154.29	18	11	7	61.11	1,189.24	-1,132.48	1.05	1.65	286.35
1	-1,764.56	18	8	10	44.44	781.43	-801.60	0.97	0.78	-98.03

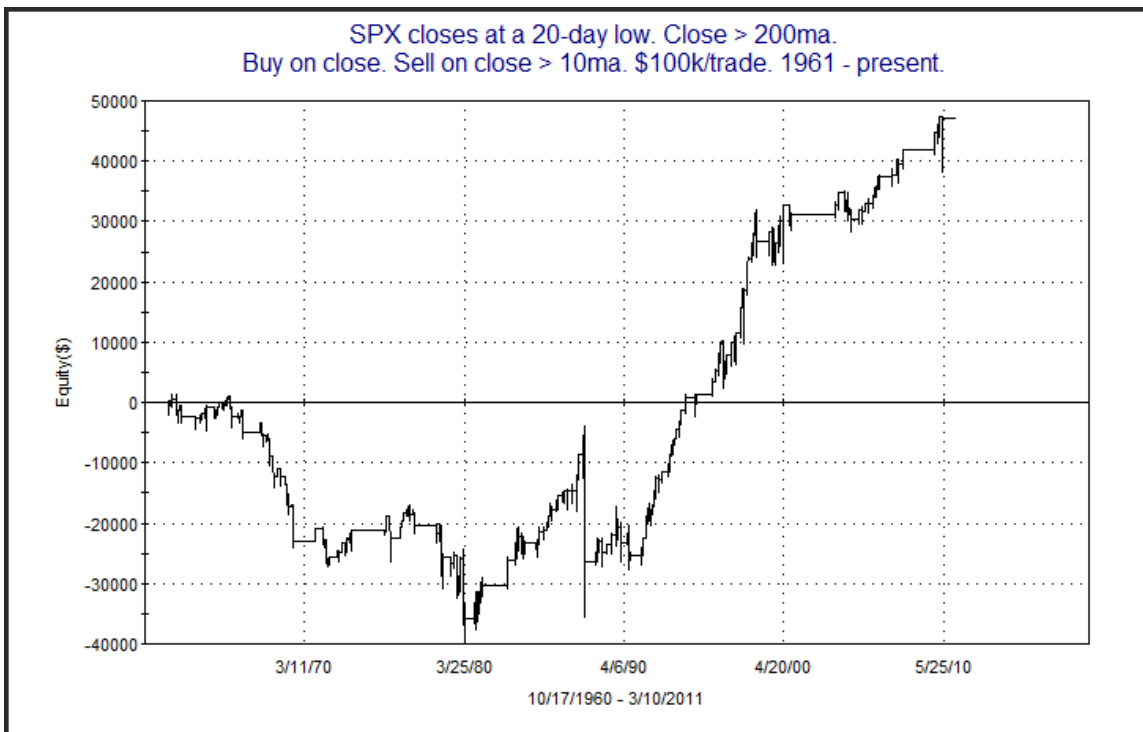
What I notice here is the apparent propensity for the market to bounce over the short-term. There also seems to be strongly bullish inclinations 3-4 weeks out. I have added this study to both the short-term and intermediate-term Active Studies List. I have also created files with the Tradestation code for subscribers that would like to explore triangles a bit further themselves. I had hoped to post it up to the website on Thursday, but did not get a chance. I will get it done this weekend.

Beyond the fact that the market broke down out of a consolidation pattern on Thursday, I also noted that it closed at the lowest level in a month. Over the last 20 years or so 1-month lows have provided favorable entry points during long-term uptrends. This can be seen in the table below.

SPX closes at a 20-day low. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1991 - 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	70,613.09	75	50	25	66.67	2,342.38	-1,860.23	1.26	2.52	941.51
9	79,943.04	75	53	22	70.67	2,210.69	-1,691.98	1.31	3.15	1,065.91
8	83,577.94	79	56	23	70.89	2,222.68	-1,777.92	1.25	3.04	1,057.95
7	86,682.05	81	58	23	71.60	2,103.31	-1,535.21	1.37	3.45	1,070.15
6	74,648.84	83	55	28	66.27	2,036.33	-1,333.90	1.53	3.00	899.38
5	64,742.41	89	53	36	59.55	1,875.62	-962.92	1.95	2.87	727.44
4	39,247.62	95	57	38	60.00	1,457.71	-1,153.74	1.26	1.90	413.13
3	44,075.25	108	70	38	64.81	1,261.41	-1,163.78	1.08	2.00	408.10
2	41,459.95	125	79	46	63.20	1,056.82	-913.67	1.16	1.99	331.68
1	22,259.98	171	106	64	61.99	786.66	-955.10	0.82	1.36	130.18

The stats here all seem to suggest an upside edge over the next 1-2 weeks. While this has held true over the last 20 years, it has not always been true. Below is an equity curve of a strategy that would buy these 1-month lows and then exit on a close above the 10-day moving average.



This appears to be a great strategy over the last 20 years, but a lousy one prior to that. Below are some of the performance stats if we just concern ourselves with the last 20

years. (I'm inclined to do just that since there does not appear to be any indication of the edge deteriorating.)

SPX closes at a 20-day low. Close > 200ma.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$72,562.24	Profit Factor	5.03
Gross Profit	\$90,549.68	Gross Loss	(\$17,987.44)
Total Number of Trades	75	Percent Profitable	80.00%
Winning Trades	60	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	\$967.50	Ratio Avg. Win:Avg. Loss	1.26
Avg. Winning Trade	\$1,509.16	Avg. Losing Trade	(\$1,199.16)
Largest Winning Trade	\$4,277.94	Largest Losing Trade	(\$4,099.04)
Max. Consecutive Winning Trades	19	Max. Consecutive Losing Trades	3
Avg. Bars in Winning Trades	6.05	Avg. Bars in Losing Trades	11.93
Avg. Bars in Total Trades	7.23		

The winning percentage and profit factor are both very impressive and the average trade nets nearly 1%. Of course there were some characteristics of today's selling that I thought were also worth examining. The market didn't just close at a 20 day low. It did so while undergoing a strong selloff today. Strong selloffs can be defined a number of ways. One way to do so would be to simply compare the price drop to other recent days. Below I reran the strategy and added the requirement that today's percent drop must be the largest in the last 10 days.

SPX closes at a 20-day low. Close > 200ma. Today's loss in the largest in 10 days.
Buy on close. Sell on close > 10ma. \$100k/trade. 1991 - present.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$69,940.77	Profit Factor	9.78
Gross Profit	\$77,903.37	Gross Loss	(\$7,962.60)
Total Number of Trades	52	Percent Profitable	84.62%
Winning Trades	44	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$1,345.01	Ratio Avg. Win:Avg. Loss	1.78
Avg. Winning Trade	\$1,770.53	Avg. Losing Trade	(\$995.32)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$3,275.60)
Max. Consecutive Winning Trades	19	Max. Consecutive Losing Trades	1
Avg. Bars in Winning Trades	6.30	Avg. Bars in Losing Trades	10.88
Avg. Bars in Total Trades	7.00		

Results here are even stronger than the first test. The profit factor nearly doubles to almost 10, the percent profitable reaches nearly 85%, and the average trade gains over 1.3%. With an ample number of trades I decided to add one last filter based on Thursday's action to see what effect that had. The strategy below requires NYSE volume to be the highest in the last five days.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$47,469.74	Profit Factor	19.84
Gross Profit	\$49,988.90	Gross Loss	(\$2,519.16)
Total Number of Trades	29	Percent Profitable	86.21%
Winning Trades	25	Losing Trades	4
Even Trades	0		
Avg. Trade Net Profit	\$1,636.89	Ratio Avg. Win:Avg. Loss	3.17
Avg. Winning Trade	\$1,999.56	Avg. Losing Trade	(\$629.79)
Largest Winning Trade	\$7,070.28	Largest Losing Trade	(\$1,287.44)
Max. Consecutive Winning Trades	17	Max. Consecutive Losing Trades	2
Avg. Bars in Winning Trades	6.16	Avg. Bars in Losing Trades	10.50
Avg. Bars in Total Trades	6.76		

Results here are pretty phenomenal. Gross profits outsize gross losses by nearly 20 to 1, 86% of the trades are profitable, and the average trade returns over 1.6%. In order to

better generate estimates I also ran the strategy using a fixed-time exit. Those results are below.

SPX closes at a 20-day low. Close > 200ma. Today's loss in the largest in 10 days. NYSE Volume is the highest in 5 days. Buy on close. Sell X days later. \$100k/trade. 1991 - 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	35,504.66	29	20	9	68.97	2,572.16	-1,770.96	1.45	3.23	1,224.30
9	41,602.78	29	23	6	79.31	2,192.63	-1,471.29	1.49	5.71	1,434.58
8	44,819.63	29	22	7	75.86	2,468.57	-1,355.54	1.82	5.72	1,545.50
7	51,839.98	29	25	4	86.21	2,316.96	-1,521.02	1.52	9.52	1,787.59
6	47,470.91	29	24	5	82.76	2,298.43	-1,538.30	1.49	7.17	1,636.93
5	42,640.78	29	20	9	68.97	2,410.49	-618.77	3.90	8.66	1,470.37
4	30,925.76	29	21	8	72.41	1,869.52	-1,041.78	1.79	4.71	1,066.41
3	21,175.68	29	19	10	65.52	1,565.42	-856.74	1.83	3.47	730.20
2	22,842.48	29	19	10	65.52	1,451.11	-472.87	3.07	5.83	787.67
1	10,567.15	30	21	9	70.00	938.99	-1,016.86	0.92	2.15	352.24

All indications here seem to suggest an upside edge. As a side note I found some of these results to be so compelling that I decided to run the strategy across the S&P 100 component list as well as the list of ETFs I track on the triggers page. I did so using the close > 10ma exit technique. Over the last 10 years for the ETFs, the strategy would've produced a winning percentage of 73%, a profit factor of 2.5, and an average trade of 1.1%. Across the S&P 100 components there was a 67% winning percentage, a profit factor of 1.6, and a 0.7% average trade. I am considering adding this setup to the systems page as the next "numbered system". I will research it a bit more in the next several days before making a final decision.

One last thing to note about today's action is that we saw a huge reading in the Quantifiable Edges Volume Spyx Indicator. It hit 159 today. This is only the third time in its history going back to 1995 that there has been a reading of over 150. In fact there have only been five readings over 130. While not a significant number I thought subscribers would find it interesting to see the other instances below.

Quantifiable Edges Volume Spyx closes > 130.
Buy SPX on close. Sell next day's close. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
01/18/00	Spyx > 150 SPYX B	\$1,455.14	0.05%	\$425.00
01/19/00		Sell	\$1,455.90	(\$439.28)
03/16/05	SPYX B	\$1,188.07	0.18%	\$437.64
03/17/05	Sell	\$1,190.21		(\$145.32)
01/20/06	SPYX B	\$1,261.48	0.19%	\$530.09
01/23/06	Sell	\$1,263.83		\$0.00
02/27/07	SPYX B	\$1,399.14	0.55%	\$1,189.25
02/28/07	Sell	\$1,406.82		(\$176.79)
09/15/08	Spyx > 150 SPYX B	\$1,193.75	1.66%	\$1,686.56
09/16/08		Sell	\$1,213.57	

Overall there seems to be a decent amount of evidence suggesting an upside edge. Still it is important to keep in mind the fact that we are breaking down out of a consolidation, and breakdowns do typically carry extra risk. If the market was already extended down for several days in a row then the big drop and high volume would most likely be signs of capitulation. You'll note below that the CBI still stands at just 3. While there may be some very strong selloffs occurring, there aren't a lot of individual stocks that appear to be capitulating. The capitulation could possibly occur within just a few days time if it is going to occur. In any case, while there appears to be an upside edge, there is also a fair amount of risk that the selling could continue for a few more days before the bounce ensues. Therefore, rather than jumping in with both feet, I will look to scale into a larger position over the next few days.

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



The green Aggregator line is now strongly above 0. The positive value means the net expectation from the Active Studies List is for upside over the next few days. This is no surprise since all the active short-term studies remain bullish once again. Meanwhile the black Differential line is also greater than 0 and rising. Readings above 0 mean the SPX has underperformed expectations over the last few days. So net expectations are for upside and the SPX has underperformed recent expectations. Historically this has provided an upside edge. It can be seen on the chart whenever both lines are above zero. Due to this the Aggregator System remained long at the close.

Based on the current active studies the green Aggregator line is set to stay above 0 on Friday. This could change should strong bearish evidence emerge. Meanwhile, the Differential Pivot will be 1,326.64. This is about 2.4% above Thursday's close. For the Differential Line to flip negative the SPX would need to gain at least this much. So without a massive gain on Friday it appears likely the Aggregator will continue to suggest an upside bias.

As I mentioned earlier, while this breakdown seems more likely to reverse than to follow through in a strong manner, we could still see more downside before the reversal occurs. I'm looking to continue to scale in to an index position. I also look for entry into Catapult setups in the trade ideas section below.

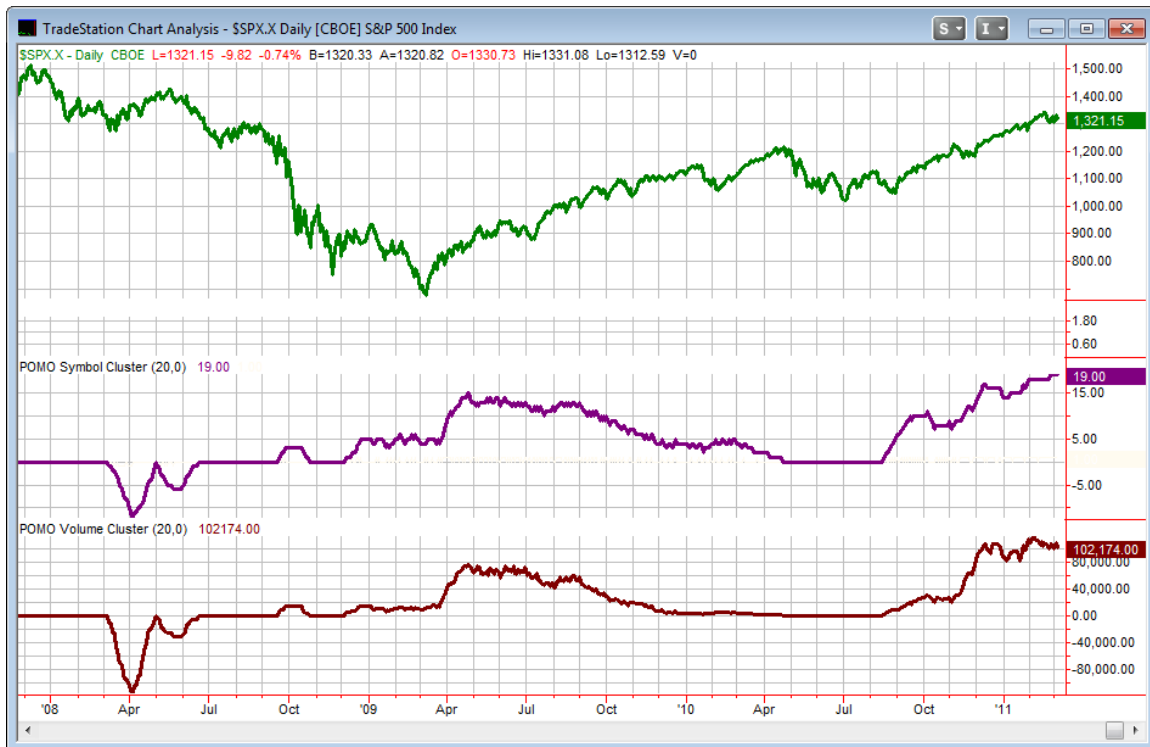
Intermediate-term Outlook (2 weeks – 2 months)– updated 3/7 - bullish

Very little was accomplished this week price-wise. Both the NASDAQ and the S&P finished up just a smidge. Both also formed inside weeks, and it's possible they are beginning triangle formations. At this point the consolidation doesn't appear so tight that it is notable. And though it is tough to predict, it will be interesting to see which way it eventually breaks. I'm still leaning long.

I've been updating the POMO chart most weekends in the letter. For those who may not recall below is a brief refresher on POMO. Beneath that I have updated our POMO indicator chart.

POMO stands for Permanent Open Market Operations and it is how the Fed goes into the open market to buy securities. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place... The chart below (shows a couple of POMO indicators). The top pane is the S&P 500. The middle pane is the rolling number of days in the last 20 that have been POMO days. The bottom pane is the total amount of money infused into the system over the previous 20 days. Information on acquiring the data and constructing the chart can be found in the January 3rd POMO presentation linked below. (Not available for trial users.)

<http://www.quantifiableedges.com/members/pomo.php>



The POMO Days indicator remained at 19 this entire week. In fact February 10th is the only day since the end of January when there hasn't been POMO activity. February 10th was the day the last tentative operations schedule was released. The next day where no POMO activity is currently scheduled is this Thursday, March 10. March 10 is also the day the next tentative operations schedule is set to be released. So Thursday should be an interesting day since we'll get a glimpse of the scheduled buying activity for the next month. The POMO Volume indicator is also still hovering near all-time highs. Barring a notable reduction in scheduled buying activity appearing on Thursday, I expect POMO to continue to provide a steady wind at the market's back. The link below is to the tentative operations page. Does the page that will be updated on Thursday when the new schedule comes out.

http://www.newyorkfed.org/markets/tot_operation_schedule.html

Intermediate-term evidence continues to point higher. POMO, trend, momentum, and price patterns all suggest the rally is not over. And frankly I'm not seeing anything suggesting an intermediate-term selloff is about to start. Due to this, I still favor a bullish outlook. From my standpoint this means I'll trade the long side more aggressively and the short side more conservatively.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

HPQ -1/3 @ \$43.59

HPQ -1/3 @ \$42.17 (not filled)

New

XOM - 1/3 @ \$81.31

Catapult for ETF's Trades

None

Broad Market Large Cap CBI - 3 (HPQ-2, XOM)

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.

XOM - buy 1/3 position @ \$81.31 limit.

HPQ - buy 1/3 position @ \$41.48 limit.

Both of the above are based on the Catapult system. They tend to be quite volatile. Those unfamiliar should review the Catapult & CBI presentation on the Videos page of the website.

SPY - buy 1/4 index position @ \$129.94 limit. Based on the short-term market outlook above.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
HPQ (1/3)	2/24/2011	\$43.16	\$41.48	-3.89%		Catapult
SPY(1/4)	3/8/2011	\$131.43	\$129.94	-1.13%		Aggregator

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