

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 14, 2011

Volume 4 Issue 49

Market Overview



Tonight's Research Points

- Friday's bounce was right in the "sweet spot" based on past rebounds.
- The outside day pattern coming off a 10-day low in an uptrend suggests bullish implications.
- March op-ex week has historically been one of the strongest weeks of the year.
- The Aggregator System is long.
- The NDX Aggressive Trend Timer is flat.

Short-term Outlook

The Bottom Line

The bounce came as expected and so far all signs are suggesting it will likely continue. I am long and looking to take advantage of a move higher early this week.

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 14, 2011	Sweet spot bounce	1-5 days	Bullish	3.10%
March 14, 2011	Outside day frm sh-term low in uptrend	1-6 days	Bullish	2.00%
March 14, 2011	March Op-ex Week	1-4 days	Bullish	1.70%
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 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	
November 22, 2010	High number of POMO Days recently	int term	Bullish	
October 25, 2010	SPX Golden Cross	int term	Bullish	
Dropped Tonight				
March 9, 2011	5 days inside 1% SPX drop day. Uptrend	1-3 days	Bullish	1.40%

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

The Evidence

After opening weakly the market put in solid move higher on Friday. There was some late-day give back, but as I'll discuss below, gains still appeared constructive. The final numbers saw the SPX rise 0.7%, the NASDAQ finish up 0.5%, and the Russell 2000 gain 0.4%. Breadth was positive as the NYSE Up Issues % came in at 58% and the Up Volume % was 78%. Total NYSE volume dipped on the rally, finishing well below Thursday's level.

The Quantifinder identified a few studies Friday afternoon that suggested short-term bullish implications.

For one, the bounce was the “right size”. After a sizable drop, if the market puts in a very weak bounce that makes up for less than ¼ of the previous day’s large loss, then that is often a bad sign. Stronger initial bounces like we saw Friday tend to fare much better. In the 2/1/11 Subscriber Letter I broke down the following days’ performance based on the relative size of the day one bounce. Let’s review those findings.

This first table below shows results for very weak bounces. It has NOT been updated.

SPX falls at least 1.75% yesterday. Today it rises but makes up less than 25% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	1,800.79	24	11	13	45.83	2,883.27	-2,301.17	1.25	1.06	75.03
9	-3,946.84	26	13	13	50.00	2,251.84	-2,555.44	0.88	0.88	-151.80
8	-5,645.46	27	13	14	48.15	2,184.67	-2,431.87	0.90	0.83	-209.09
7	-972.90	27	13	14	48.15	2,338.91	-2,241.34	1.04	0.97	-36.03
6	-9,542.91	27	12	15	44.44	1,767.03	-2,049.82	0.86	0.69	-353.44
5	-10,892.96	27	11	16	40.74	1,619.47	-1,794.19	0.90	0.62	-403.44
4	-15,916.43	27	10	17	37.04	1,650.54	-1,907.16	0.87	0.51	-589.50
3	-18,790.71	27	8	19	29.63	1,561.43	-1,646.43	0.95	0.40	-695.95
2	-16,454.70	28	13	15	46.43	662.39	-1,671.05	0.40	0.34	-587.67
1	-12,372.49	28	10	18	35.71	614.25	-1,028.61	0.60	0.33	-441.87

As you can see these weak bounces don't often get very far before a new leg down ensues.

This next table examines very strong bounces after big drops. I also did not bother to update this one.

SPX falls at least 1.75% yesterday. Today it makes up more than 75% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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	10,065.10	11	6	5	54.55	2,695.45	-1,221.52	2.21	2.65	915.01
9	18,347.76	12	7	5	58.33	3,222.39	-841.79	3.83	5.36	1,528.98
8	13,458.35	12	8	4	66.67	2,717.76	-2,070.94	1.31	2.62	1,121.53
7	20,267.80	13	7	6	53.85	3,881.73	-1,150.72	3.37	3.94	1,559.06
6	21,024.09	13	9	4	69.23	3,062.40	-1,634.39	1.87	4.22	1,617.24
5	20,983.30	13	9	4	69.23	2,686.85	-799.58	3.36	7.56	1,614.10
4	15,131.28	13	8	5	61.54	2,696.96	-1,288.88	2.09	3.35	1,163.94
3	11,326.45	13	7	6	53.85	2,398.77	-910.83	2.63	3.07	871.27
2	8,507.74	13	8	5	61.54	1,872.31	-1,294.15	1.45	2.31	654.44
1	993.58	13	6	7	46.15	1,473.27	-1,120.87	1.31	1.13	76.43

12 of 13 instances closed above the entry price at some point in the next week. All of them did so within 6 days.

Instances are a bit low here but the results are a sharp contrast to the results from the "weak-bounce" test.

Previous findings revealed the real sweet spot for the day 1 bounce is right between these two. That is where we fell Friday and that study I DID update below. Though rather than just go back to 1988 as those others did, I went all the way back to 1961.

SPX falls at least 1.75% yesterday. Today it makes up between 25% and 75% of yesterday's loss. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1961 - 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	64,943.03	31	30	1	96.77	2,235.29	-2,115.67	1.06	31.70	2,094.94
4	53,314.61	31	28	3	90.32	1,983.56	-741.66	2.67	24.96	1,719.83
3	50,787.14	31	30	1	96.77	1,718.97	-781.92	2.20	65.95	1,638.29
2	33,911.53	31	22	9	70.97	1,842.13	-735.04	2.51	6.13	1,093.92
1	28,066.19	31	24	7	77.42	1,252.00	-283.13	4.42	15.16	905.36

All 31 instances posted a close above the entry price at some point in the next 4 days.

Study results don't often get more lopsided than this. Implications over the next week appear to be strongly bullish. Below I have listed all of the instances using a 3-day and a 5-day exit trigger. First I'll show the 3-day:

SPX falls at least 1.75% yesterday. Today it makes up between 25% and 75% of yesterday's loss. Close > 200ma.
Buy on close. Sell 3 days later. \$100k/trade. 1961 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
04/25/61	Buy	\$65.30	0.02%	\$382.75
04/28/61	Sell	\$65.31		\$0.00
02/26/75	Buy	\$80.37	3.31%	\$3,309.04
03/03/75	Sell	\$83.03		\$0.00
03/25/75	Buy	\$82.06	1.58%	\$2,180.22
03/31/75	Sell	\$83.36		\$0.00
09/30/80	Buy	\$125.46	3.08%	\$3,969.06
10/03/80	Sell	\$129.33		(\$900.61)
02/03/81	Buy	\$128.46	1.67%	\$2,598.52
02/06/81	Sell	\$130.60		(\$918.04)
01/25/83	Buy	\$141.75	1.94%	\$3,405.15
01/28/83	Sell	\$144.50		(\$1,163.25)
07/16/86	Buy	\$235.00	0.53%	\$1,368.50
07/21/86	Sell	\$236.24		(\$450.50)
09/15/86	Buy	\$231.94	0.16%	\$801.66
09/18/86	Sell	\$232.30		(\$1,560.22)
03/31/87	Buy	\$291.69	2.99%	\$3,286.62
04/03/87	Sell	\$300.40		(\$1,145.70)
10/16/89	Buy	\$342.85	1.25%	\$1,737.27
10/19/89	Sell	\$347.12		(\$2,086.47)
08/20/91	Buy	\$379.42	3.88%	\$4,186.96
08/23/91	Sell	\$394.16		\$0.00
01/11/96	Buy	\$602.71	0.95%	\$945.45
01/16/96	Sell	\$608.44		(\$866.25)
03/11/96	Buy	\$640.02	0.13%	\$647.40
03/14/96	Sell	\$640.85		(\$1,747.20)
04/14/97	Buy	\$743.73	2.43%	\$3,325.88
04/17/97	Sell	\$761.77		\$0.00
08/18/97	Buy	\$912.49	1.38%	\$2,940.82
08/21/97	Sell	\$925.05		\$0.00
10/28/97	Buy	\$921.86	(0.79%)	\$1,445.04
10/31/97	Sell	\$914.62		(\$1,963.44)
11/13/97	Buy	\$916.65	2.35%	\$3,598.09
11/18/97	Sell	\$938.23		(\$142.79)
01/12/98	Buy	\$939.21	1.23%	\$2,004.46
01/15/98	Sell	\$950.74		\$0.00
06/16/98	Buy	\$1,087.58	1.20%	\$2,301.39
06/19/98	Sell	\$1,100.64		\$0.00
12/01/98	Buy	\$1,175.28	0.12%	\$147.90
12/04/98	Sell	\$1,176.74		(\$2,182.80)
02/10/99	Buy	\$1,223.55	2.02%	\$2,470.50
02/16/99	Sell	\$1,248.27		(\$15.39)
02/18/99	Buy	\$1,237.28	2.74%	\$3,452.00
02/23/99	Sell	\$1,271.18		(\$420.00)
04/20/99	Buy	\$1,306.17	3.88%	\$4,370.00
04/23/99	Sell	\$1,356.85		(\$309.32)
03/08/00	Buy	\$1,366.72	1.24%	\$3,412.02
03/13/00	Sell	\$1,383.62		(\$666.49)
04/17/00	Buy	\$1,401.53	2.36%	\$3,277.36
04/20/00	Sell	\$1,434.54		(\$264.12)
07/31/00	Buy	\$1,430.84	1.52%	\$1,611.15
08/03/00	Sell	\$1,452.56		(\$373.29)
03/14/07	Buy	\$1,387.17	1.07%	\$1,154.16
03/19/07	Sell	\$1,402.06		(\$254.88)
06/08/07	Buy	\$1,507.67	0.53%	\$529.98
06/13/07	Sell	\$1,515.67		(\$970.20)
08/18/09	Buy	\$989.67	3.68%	\$3,829.92
08/21/09	Sell	\$1,026.13		(\$914.05)
04/28/10	Buy	\$1,191.36	0.91%	\$1,494.00
05/03/10	Sell	\$1,202.26		(\$418.32)
01/31/11	Buy	\$1,286.12	1.63%	\$1,750.98
02/03/11	Sell	\$1,307.10		\$0.00
Avg Runup: 2.3%		Avg Drawdown: -0.6%		
		Max Drawdown: -2.2%		

The stats at the bottom say a lot. Not only have the results been extremely consistent, but risk/reward has strongly favored the bulls as well. Now here are results using a 5-day exit.

SPX falls at least 1.75% yesterday. Today it makes up between 25% and 75% of yesterday's loss. Close > 200ma. Buy on close. Sell 5 days later. \$100k/trade. 1961 - present.

Date/Time	Signal	Price	% Profit	Run-up DrawDown
04/25/61	Buy	\$65.30	0.52%	\$520.54
05/02/61	Sell	\$65.64		(\$199.03)
02/26/75	Buy	\$80.37	3.15%	\$3,968.36
03/05/75	Sell	\$82.90		\$0.00
03/25/75	Buy	\$82.06	0.45%	\$2,180.22
04/02/75	Sell	\$82.43		\$0.00
09/30/80	Buy	\$125.46	4.42%	\$5,913.74
10/07/80	Sell	\$131.00		(\$900.61)
02/03/81	Buy	\$128.46	0.61%	\$2,598.52
02/10/81	Sell	\$129.24		(\$918.04)
01/25/83	Buy	\$141.75	0.85%	\$3,405.15
02/01/83	Sell	\$142.96		(\$1,163.25)
07/16/86	Buy	\$235.00	1.56%	\$1,806.25
07/23/86	Sell	\$238.66		(\$450.50)
09/15/86	Buy	\$231.94	1.28%	\$1,284.38
09/22/86	Sell	\$234.92		(\$1,560.22)
03/31/87	Buy	\$291.69	1.71%	\$4,086.90
04/07/87	Sell	\$296.68		(\$1,145.70)
10/16/89	Buy	\$342.85	0.58%	\$1,737.27
10/23/89	Sell	\$344.83		(\$2,086.47)
08/20/91	Buy	\$379.42	3.59%	\$4,186.96
08/27/91	Sell	\$393.06		\$0.00
01/11/96	Buy	\$602.71	0.92%	\$1,191.30
01/18/96	Sell	\$608.24		(\$866.25)
03/11/96	Buy	\$640.02	1.97%	\$1,970.28
03/18/96	Sell	\$652.65		(\$1,747.20)
04/14/97	Buy	\$743.73	2.24%	\$3,325.88
04/21/97	Sell	\$760.37		\$0.00
08/18/97	Buy	\$912.49	0.84%	\$2,940.82
08/25/97	Sell	\$920.16		(\$770.63)
10/28/97	Buy	\$921.86	2.05%	\$2,110.32
11/04/97	Sell	\$940.76		(\$1,963.44)
11/13/97	Buy	\$916.65	4.62%	\$4,924.62
11/20/97	Sell	\$958.99		(\$142.79)
01/12/98	Buy	\$939.21	4.19%	\$4,174.28
01/20/98	Sell	\$978.59		\$0.00
06/16/98	Buy	\$1,087.58	2.93%	\$2,903.81
06/23/98	Sell	\$1,119.49		\$0.00
12/01/98	Buy	\$1,175.28	0.52%	\$1,550.40
12/08/98	Sell	\$1,181.38		(\$2,182.80)
02/10/99	Buy	\$1,223.55	1.12%	\$2,470.50
02/18/99	Sell	\$1,237.28		(\$244.62)
02/18/99	Buy	\$1,237.28	0.63%	\$3,730.40
02/25/99	Sell	\$1,245.02		(\$981.60)
04/20/99	Buy	\$1,306.17	4.34%	\$4,978.00
04/27/99	Sell	\$1,362.80		(\$309.32)
03/08/00	Buy	\$1,366.72	1.86%	\$3,412.02
03/15/00	Sell	\$1,392.16		(\$710.29)
04/17/00	Buy	\$1,401.53	5.42%	\$5,405.94
04/25/00	Sell	\$1,477.54		(\$264.12)
07/31/00	Buy	\$1,430.84	3.39%	\$3,447.24
08/07/00	Sell	\$1,479.32		(\$373.29)
03/14/07	Buy	\$1,387.17	3.45%	\$3,643.20
03/21/07	Sell	\$1,435.04		(\$254.88)
06/08/07	Buy	\$1,507.67	1.67%	\$2,048.64
06/15/07	Sell	\$1,532.91		(\$970.20)
08/18/09	Buy	\$989.67	3.87%	\$4,856.08
08/25/09	Sell	\$1,028.00		(\$914.05)
04/28/10	Buy	\$1,191.36	(2.14%)	\$1,494.00
05/05/10	Sell	\$1,165.87		(\$2,756.43)
01/31/11	Buy	\$1,286.12	2.56%	\$2,828.21
02/07/11	Sell	\$1,319.05		\$0.00
Avg Runup: 3.1%		Avg Drawdown: -0.8%		
		Max Drawdown: -2.8%		

Here again we see risk/reward heavily favoring the bulls.

In Thursday night's letter I showed some studies that demonstrated 20-day lows in a long-term uptrend often marked favorable buying opportunities. Friday's action created an outside day in the SPY. These factors combined with the higher close on Friday has been a bullish combination in the past. This is demonstrated in the study below.

Yesterday SPY closed at a 20-day low. Today it posted an outside day and closed up on the day. Close > 200ma. 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
6	9,631.74	6	6	0	100.00	1,605.29	0.00	100.00	100.00	1,605.29
5	8,109.28	6	6	0	100.00	1,351.55	0.00	100.00	100.00	1,351.55
4	5,603.00	6	5	1	83.33	1,163.42	-214.10	5.43	27.17	933.83
3	5,348.12	6	6	0	100.00	891.35	0.00	100.00	100.00	891.35
2	3,841.99	6	6	0	100.00	640.33	0.00	100.00	100.00	640.33
1	785.37	6	2	4	33.33	1,189.63	-398.47	2.99	1.49	130.90

Instances are quite low, but the perfect record and the strong returns makes it worth considering. To get a bit larger sample size I loosened the requirement and only demanded a 10-day low the previous day. Those expended results are below.

Yesterday SPY closed at a 10-day low. Today it posted an outside day and closed up on the day. Close > 200ma. 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	17,638.99	12	11	1	91.67	2,667.20	-11,700.18	0.23	2.51	1,469.92
9	20,855.15	12	10	2	83.33	2,623.63	-2,690.56	0.98	4.88	1,737.93
8	23,452.23	12	10	2	83.33	2,779.89	-2,173.31	1.28	6.40	1,954.35
7	25,249.29	12	11	1	91.67	2,332.50	-408.24	5.71	62.85	2,104.11
6	23,966.06	12	11	1	91.67	2,320.70	-1,561.68	1.49	16.35	1,997.17
5	21,967.95	12	11	1	91.67	2,160.26	-1,794.96	1.20	13.24	1,830.66
4	18,082.18	12	10	2	83.33	1,990.98	-913.81	2.18	10.89	1,506.85
3	12,411.38	12	10	2	83.33	1,492.96	-1,259.13	1.19	5.93	1,034.28
2	8,954.15	12	10	2	83.33	1,240.15	-1,723.66	0.72	3.60	746.18
1	4,933.72	12	4	8	33.33	1,986.65	-376.61	5.28	2.64	411.14

Still not a huge number of instances but these results seem to confirm those we saw in the previous test. I have listed below all of the instances using a 6-day exit. The ones that are circled are those that made a 20-day low rather than just a 10-day low.

Yesterday SPY closed at a 10-day low. Today it posted an outside day and closed up on the day. Close > 200ma. Buy on close. Sell 6 days later. \$100k/trade. 1994 - present. (Circled instances also closed at a 20-day low yesterday.)

Date/Time	Signal	Price	% Profit	Run-up DrawDown
03/04/94	Buy	\$46.69	0.47%	\$727.94
03/14/94	Sell	\$46.91		(\$535.25)
12/19/95	Buy	\$61.28	0.23%	\$636.09
12/28/95	Sell	\$61.42		(\$978.60)
05/08/96	Buy	\$64.79	3.15%	\$3,888.36
05/16/96	Sell	\$66.83		(\$447.47)
01/28/97	Buy	\$76.75	1.16%	\$3,541.44
02/05/97	Sell	\$77.64		(\$208.32)
08/17/98	Buy	\$108.38	1.03%	\$2,646.14
08/25/98	Sell	\$109.50		(\$2,655.36)
03/15/00	Buy	\$139.81	9.19%	\$9,766.90
03/23/00	Sell	\$152.66		\$0.00
09/29/03	Buy	\$100.93	3.30%	\$3,346.20
10/07/03	Sell	\$104.26		(\$1,663.20)
08/29/05	Buy	\$121.69	1.82%	\$2,003.24
09/07/05	Sell	\$123.91		(\$1,067.30)
03/08/06	Buy	\$128.24	2.18%	\$2,516.17
03/16/06	Sell	\$131.03		(\$669.94)
01/08/07	Buy	\$141.19	1.30%	\$1,607.16
01/17/07	Sell	\$143.02		(\$630.12)
06/27/07	Buy	\$150.40	1.72%	\$1,839.28
07/06/07	Sell	\$152.98		(\$830.00)
10/17/07	Buy	\$154.25	(1.56%)	\$0.00
10/25/07	Sell	\$151.84		(\$3,622.32)

It's interesting that we haven't seen the setup since 2007. That doesn't concern me very much, though. I have included this study on the Active Studies List.

There is also a possible seasonal influence that could have a bullish impact on the market this week. Op-ex week in general is normally pretty bullish. March, April, and December it has been especially so. S&P 500 options began trading in mid-1983. The table below is one I showed in the 3/15/10 Subscriber Letter. It goes back to 1984 and shows op-ex week performance broken down by month. All statistics are updated.

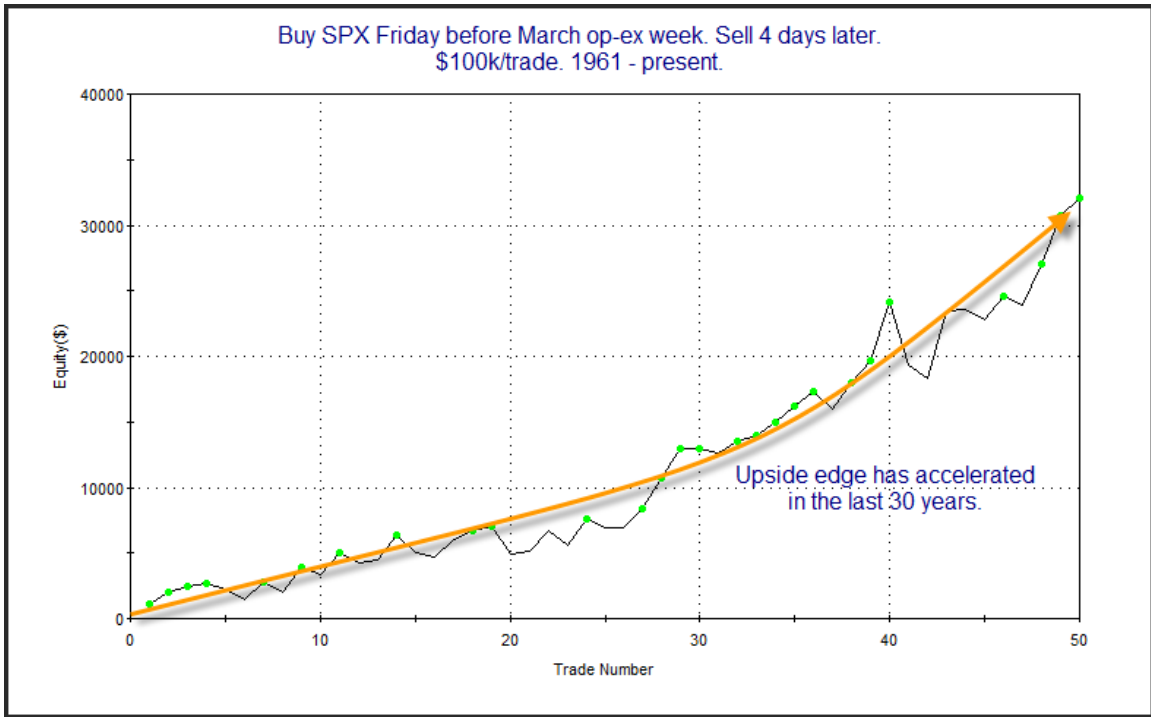
Op-ex week performance by month. 1984 - present. (Excludes September of 2001.)										
Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	24,419.90	27	22	5	81.48	1,367.65	-1,133.66	1.21	5.31	904.44
11	4,417.10	27	17	10	62.96	1,355.92	-1,863.36	0.73	1.24	163.60
10	21,310.42	27	19	8	70.37	2,506.23	-3,288.50	0.76	1.81	789.27
9	5,783.85	26	16	10	61.54	1,379.38	-1,628.62	0.85	1.36	222.46
8	9,028.96	27	16	11	59.26	1,481.73	-1,334.42	1.11	1.62	334.41
7	-2,491.13	27	12	14	44.44	1,623.03	-1,569.11	1.03	0.89	-92.26
6	-2,208.94	27	14	13	51.85	1,342.34	-1,615.52	0.83	0.89	-81.81
5	4,764.42	27	14	13	51.85	2,029.22	-1,818.81	1.12	1.20	176.46
4	25,094.74	27	17	10	62.96	2,361.00	-1,504.22	1.57	2.67	929.43
3	25,358.12	27	18	9	66.67	2,188.86	-1,560.14	1.40	2.81	939.19
2	5,028.63	28	15	13	53.57	1,660.94	-1,529.65	1.09	1.25	179.59
1	2,646.79	28	13	15	46.43	2,286.94	-1,805.56	1.27	1.10	94.53

While December has been more reliable, total gains have been the largest during March op-ex. As I did in that 3/15/10 Subscriber Letter, I also broke down March performance in more detail below. While options began trading in 1973 (and SPX options in mid-83), the week leading up to the third Friday in March has had a positive bias until at least as far back as 1961. The table below goes back that far.

Buy SPX Friday before March op-ex week. Sell X days later. \$100k/trade. 1961 - 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	33,086.02	50	31	19	62.00	1,789.57	-1,178.46	1.52	2.48	661.72
4	32,061.30	50	33	17	66.00	1,522.33	-1,069.16	1.42	2.76	641.23
3	20,421.13	50	31	19	62.00	1,172.62	-838.42	1.40	2.28	408.42
2	15,244.89	50	34	16	68.00	921.20	-1,004.75	0.92	1.95	304.90
1	2,798.96	50	32	17	64.00	647.12	-1,053.46	0.61	1.16	55.98

43 of 50 instances (86%) posted at least 1 close above the entry price at some point in the next 5 days. This includes 18 of the last 19 years - with 2001 being the lone exception.

The upside edge seems to pretty much play out by Thursday. Below is a visual representation of the Monday-Thursday returns.



So between Friday's price action and this upcoming week's positive seasonality there seemed to be some short-term bullish influences at play.

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



The green Aggregator line is very 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 quite high. 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 Monday. This could change should strong bearish evidence emerge. Meanwhile, the Differential Pivot will be 1,324.75. This is about 1.6% above Friday's close. For the Differential Line to flip negative the SPX would need to gain at least this much. So without a strong gain on Monday it appears likely the Aggregator will continue to suggest an upside bias.

This will change on Tuesday, though since Thursday's big drop will fall out of the Differential calculation. Due to this the Differential Pivot for Tuesday is likely to drop to just under 1,302. So in anticipation of this, traders could consider taking full or partial profits should the SPX rally on Monday but not quite reach the Differential Pivot.

I have a decent-sized index position that is currently in the black. I won't be looking to add to it right away, though I might find a sizable gap down to be an enticing entry should that happen. Being that the studies do appear so strong and there are no new Catapults, I did decide to take a trade idea from the Systems Triggers spreadsheet to track. Details are in the trade ideas section lower down.

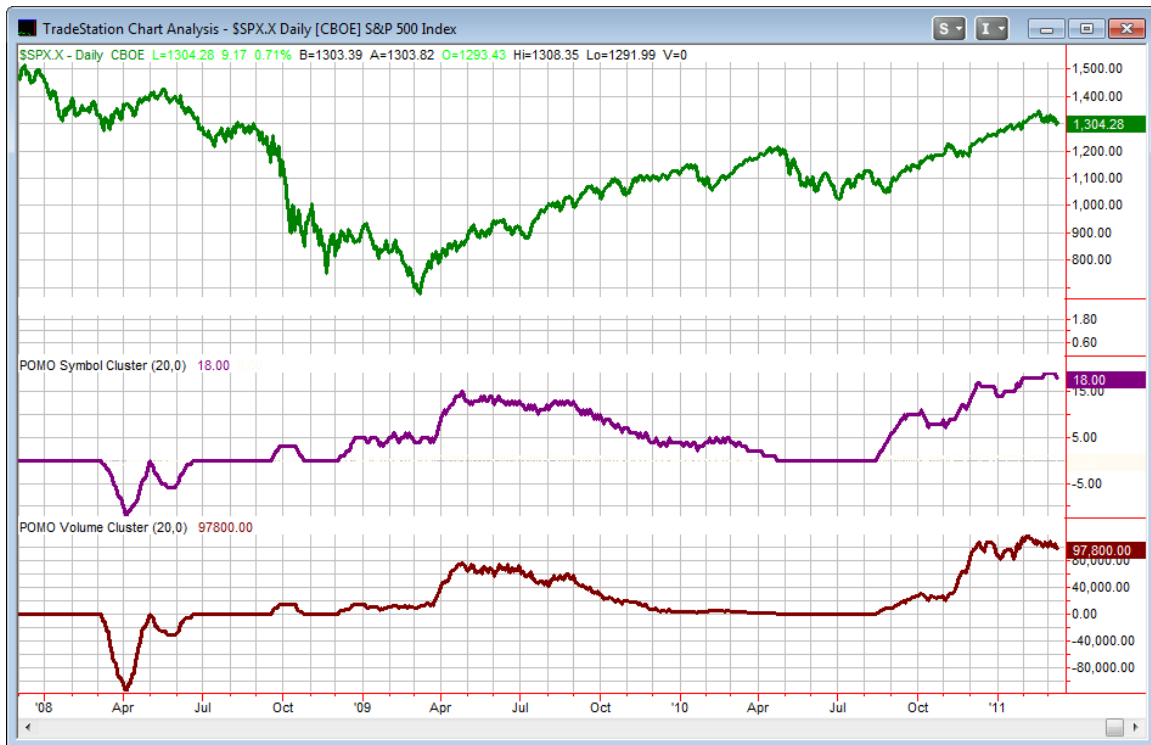
Intermediate-term Outlook (2 weeks – 2 months)– updated 3/14 - bullish

It was a difficult week for the market. From a technical standpoint the big news was the triangle breakdown on Thursday. This was seen by many as a potential topping event indicating further selling. This is not what my research showed though. The triangle breakdown study I published Thursday night suggested a strong intermediate-term upside bias. All (non-trial) subscribers can find the triangle studies, as well some additional performance reports and Tradestation code in the [downloads section of the website](#).

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 is still extremely elevated at 18. The Fed released the new tentative operations schedule on Thursday. It doesn't appear quite as busy as the last couple of months but there is still buying scheduled for around 4 days per week. This upcoming week Tuesday is the only non-POMO day. The POMO Volume indicator has dipped a little bit but is still at a very elevated level, with plenty of money having gone in to the system over the last month. I expect POMO to continue to provide a steady wind at the market's back. For those that would like to view the upcoming schedule I have provided a link below.

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

I still feel odds favor a continued rise over the next several weeks. POMO, trend, momentum, and price patterns (including the new triangle breakdown study) all suggest the rally is not over. There also continues to be a complete lack of intermediate-term bearish evidence. 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

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.

TAN – buy @ \$7.37 limit. Based on system 80509. This has been a very strong but volatile system – and TAN is a very volatile etf. Traders should keep this in mind when considering these trades and possible position size. While 80509 doesn't use a stop, TAN is near an area where it has found support in the past, and traders could consider using one.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
HPQ (1/3)	2/24/2011	\$43.16	\$41.73	-3.31%		Catapult
SPY(1/4)	3/8/2011	\$131.43	\$130.84	-0.45%		Aggregator
SPY(1/4)	3/11/2011	\$129.52	\$130.84	1.02%		Aggregator
HPQ (1/3)	3/11/2011	\$41.42	\$41.73	0.75%		Catapult
XOM(1/3)	3/11/2011	\$81.02	\$82.12	1.36%		Catapult

I will exit both SPY lots if the SPX closes at or above the Differential Pivot of 1,324.75.

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