Trade Ideas 'Ticker Tape' Indicator

Methods:

There are two components to the timed measurements; the first component is termed the "Top-8" pick list and reflects the distance in time, from the close of business (4 PM ET), to select 8 stocks; the second component, termed the "20-appearance" list, is the time required to select 8 stocks which make more than 20 repeated hits on the scan over the course of the day. The development of each was to gauge the rate of overall buying ("Top 8") and focus of that buying ("20-appearance" list) with respect to the NASDAQ

Outputs were tabulated in Excel and processed by hand using Excel. The test period is from January 2006 to July 2007.

The scan parameters were selected for stocks which were trading close to key intermediate term moving averages, inside the upper range of their yearly trend, and making a new high. The parameters were as follows:

⬆$ ☑ New high (filtered)	Days, i.e. 52 week high = 365
Min Current Volume `1.2` Ratio	Min Position in Year Range ↓Y1 `70` %
Min Up from 50 Day SMA `1` %	Max Position in Year Range ↓Y1 `90` %
Max Up from 50 Day SMA `10` %	Max Up from 20 Day SMA `5` %
Min Up from 20 Day SMA `1` %	

Caveats
During the course of the analysis I had noticed NASDAQ stocks were excluded because I had not completed the disclosure agreement necessary to release the data. For the first half 2007 data, the NASDAQ data is excluded.

Where possible, the sampling period for the "top-8 picks" and "20-appearance list" was based on a 4 PM ET close. There were instances, particularly for the early part of the data when the sampling period was 3 PM ET.

The quality of the data was very high with only two noticeable days when the scan may not have displayed all the stocks it could have otherwise (based on prior behavior that day relative to what the market was doing). For one day the analysis was derived from 2 PM ET. For the second day the data was omitted from the sample.

Results

"Top-8" pick list

The broadest data set covered the "Top 8" pick list. The scan was characterized by periods of high buying, interspaced with spikes of low buying. The most erratic period was early 2006, represented in the market by an end phase rally derived from the lows in October 2005. The scan for this period included NYSE, AMEX and NASDAQ stocks and was characterized by spikes which covered the entire day of the scan (i.e. 390 minutes) to select 8 or fewer stocks (Fig 1).
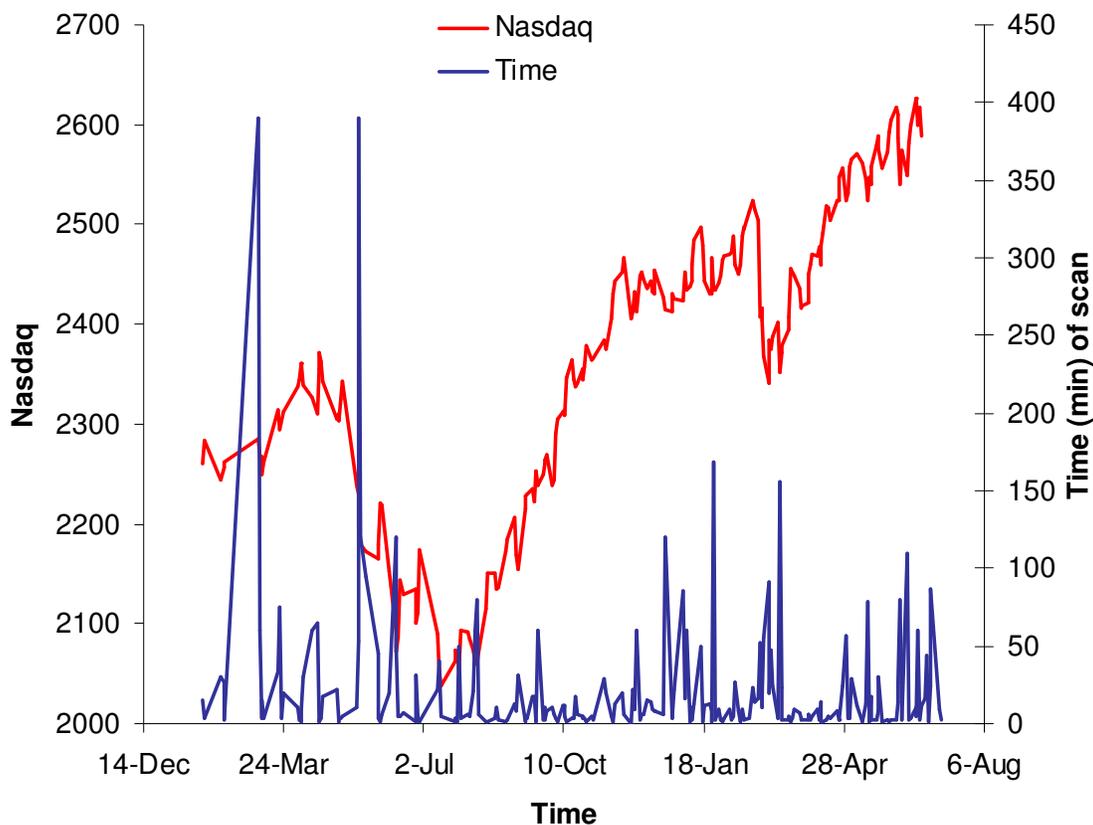

Fig 1: The performance of the NASDAQ (Red) and the time required to select 8 stocks estimated from the close of business (Blue).

As of July 2007, no such all-day spikes (390 minutes) have emerged for the rally started in July 2006, although there is a trend toward a greater frequency of 'slow days' i.e. days where the "Top-8" pick list was selected outside of 60 minutes, *prior to* a market correction of 5% or more (based on available data). It is still too early to say if larger spikes precede larger corrections, but future NASDAQ performance does differ based on the rate of buying of the "Top-8" stocks (Table 1). When stocks are selected quickly by the scan there tends to be a stronger performance from the NASDAQ over the following

three months than when the scan takes an hour or more. But, the 1-week performance of the Nasdaq taken from when the scan took 60 minutes or more to select stocks is greater than returns associated with the more rapid buying of a minute or less. This behavior may be explained by the "greed buying" during the end phase of a rally which produces a more parabolic advance and therefore greater short term returns in the market.

Unfortunately, the robustness of the data is restricted by the underlying cyclical bull trend in the NASDAQ and it is therefore uncertain as to what performance could be expected had the data included a cyclical bear market.

Table 1: One-week, one-month and three-month return for NASDAQ based on the time required to select 8 stocks as of from a 4PM ET close.

Top 8 pick time	n	1 week-post	1 month-post	3 month-post
1 minute or less	29	+0.27%	+1.00%	+4.34%
60 minutes or more	24	+0.81%	+0.80%	+0.73%

"20 appearance" list

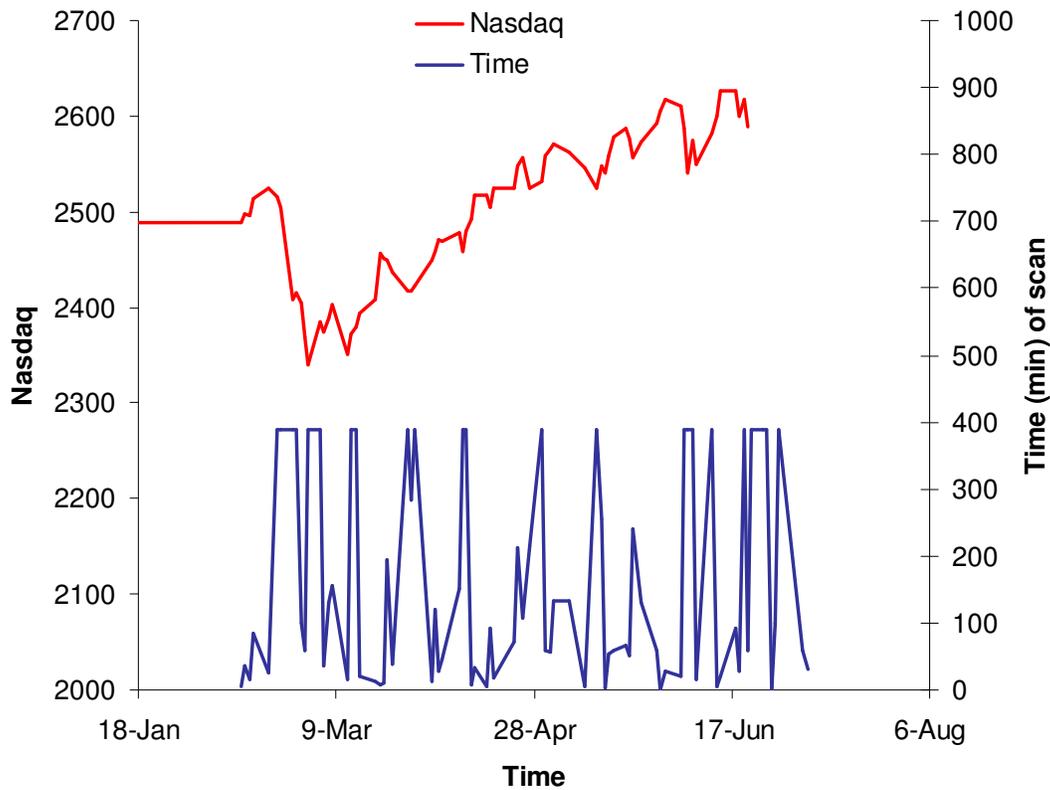The data set for this selection method is considerably smaller and more volatile (Fig 2):

Fig 2: The performance of the NASDAQ (Red) and the time required to select 8 stocks estimated from the close of business (Blue).

The "20-appearance" data shows no pattern to future NASDAQ behavior. The NASDAQ performed similarly when the scan picks maxed at 390 minutes, or were selected inside 20 minutes (Table 2). Presumably as more data is added a better picture as to the potential use (if any) of this data as an indicator of buying strength will become apparent.

Table 2: One-week, one-month and three-month return for NASDAQ based on the time required to select 8 stocks which featured 20 times or more during the course of the day.

"20-appearance" list	n	1 week-post	1 month-post	3 month-post
20 minutes or less	16	+0.76%	+1.90%	+6.15%
390 minutes maximum	23	+0.41%	+2.53%	+6.93%

The best avenue for this data set will be to compare the performance return of the "20-appearance" stocks against those of the top-8 picks to investigate whether stocks experiencing strong buying over the course of the day outperform those which featured fewer than 20 times (limited to fewer than 10 appearances in order standardize a threshold) and experienced buying into the close of business.

Conclusion:

There does appear to be a workable real-time system to provide a measure of market health based on readings on the rate of stock buying into the close of trading. This information may be used to time entry, and/or be a conditional term for holding a stock, although it is by no means infallible (see my blog post on using this as a trading system: http://blog.fallondpicks.com/2007/06/trade-ideas-data-analysis.html). Spikes marking weakening buying momentum do tend to foreshadow an upcoming fall – the question is whether there is a definable threshold to mark the fall – be it in the frequency of spikes, or the length of time for individual spikes.