SPY Detector
Introduction

04/30/2014

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Signal Overview

These signals are based on 20 years of statistics; simulated with historic data. There is no guarantee of future performance of the underlying signal. Furthermore, there is no guarantee that execution of trades in any instrument such as equities, futures, or options will generate profits or avoid losses.

The signals and back testing information provided is believed to be accurate, but has limitations such as historic pricing, liquidity, commission rates, slippage, etc. Learn more about the specific risks of options here: http://www.optionsclearing.com/about/publications/character-risks.jsp

This information is intended for educational purposes only and is not to be considered as investment advice. Please consult with your financial adviser before making any investment decisions.

Confirmation

The signals are confirmed and delivered after market close; and applicable to the following market open.

Example: If the signal is 40% long at the close of trading on Thursday, April 3rd; then this signal is applicable for execution on Friday, April 4th. If the signal changes to 20% long at the close on Friday, April 4th; then the 20% long condition is applicable for Monday, April 7th.

If you do not receive a signal notification via email before 9PM Eastern, please call or text 239-839-1464 or email andrew@faldecapital.com to confirm whether or not there is a new signal.

Sizing

The SPY Detector system is actually five systems in one. Each is built using different signals, time frames, and parameters. This diversification helps to 1) get into turns early, and 2) hold trend positions longer. All systems exit if the shorter term momentum is not in favor with the longer term trend.

The interpretation of signals for trading index options is to reduce or remove risk in the direction of the signal. The sizing allows this to happen incrementally depending on the strength and confirmation of the market momentum.

Market Cycles

Bull markets trade very differently than bear markets. Here is how SPY Detector navigates these two larger market conditions.

Bull Markets – Catching Turns & Holding Momentum

Some of the underlying systems are looking for the first signs that counter trend movements have slowed and beginning to turn. If the sell off resumes, the signal will likely go flat again.

As bullish momentum becomes confirmed, other systems will join in. Then at the very first sign of declining strength, the signal will begin decrementing. The signals aim to be flat or very small once the market looses its momentum.

A flat signal in a bull market is not necessarily bearish. Only a handful of flat signals turn into a large correction; but the few that do make it a worth while reason to defend positions (i.e. 2008 and flash crash).

Bear Market – Short Rallies & Cover Dips

The nature of bear markets is to rapidly sell off and to rapidly correct. Measuring these corrections on a daily basis is very difficult.

In a bear market, SPY Detector will look to short rallies that are slowing then cover when the sell off resumes.

If the upside momentum accelerates after entering a short signal, then the signal will likely go flat very quickly.

Interpreting Signals in Market Cycles

100% Long – ***"Very Strong: Do not have upside risk".*** This does not mean load up on long calls! This also does not mean we are overbought. This simply means that we are in the sweet spot where the early signals and the confirmation signals overlap.

80% Long – ***"Strong: Do not have upside risk".*** Some of the systems that entered early may have sold out on the first sign of slowing momentum while the rest are holding until the momentum loses more steam.

60% Long – "***Do not have upside risk".*** More than half of the systems are long which means there is additional upside and momentum is strong. This is the most common signal in the 20 year history.

40% Long – ***"Reduced upside risk".*** Less than half of the signals are long. This is the second most common value in the 20 year history; representing a slow upward grind. It serves as good confirmation for legging into and holding positions.

20% Long – "***Reduced upside and downside risk".*** A very weak long signal that means only one underlying system is long. This is a good opportunity to either leg into small positions or begin reducing size in larger positions, especially if they are profitable.

Flat – *"**<u>Flat is Not Neutral</u>**"*<u>.</u> Flat does not mean the market is moving sideways. The June 2008, the flash crash, and August of 2011 happened in a "flat" signal. Flat is not a reason to buy long puts either. There are many times that flat can lead to very quick upside corrections as well.

20% to 100% Short – ***"Short the rally".*** All bear market signals are precarious and have similar probabilities, so trade these signals with care and certainly do not have any downside risk in the market.

Trade Ideas

<u>Simple Credit Spread</u>

At this time, this options strategy has the most back testing data behind it.

- Select Maximum Allowable Margin
- Match your used margin to the percentage of the signal
- Sell put spreads for long signals and call spreads for short signals
- .15 short strike
- 20 to 50 strikes wide (depending on account size)
- More than 30 DTE
- Roll to a new position if the short strike is worth .15 or less

<u>Semi-Discretionary Ratio Spread</u>

- Same rules as above, except
- Add debit spreads between the market and credit spread
- Do not spend more than the credit received on the debit spreads

<u>Applying to Other Systems</u>

- Modify delta adjustments to respects the signals. Example:
    - If Delta management is ±20 per tranche
    - Make it -10 for bullish signals and +10 for bearish signals
- BWB Put Spread on 40% or higher longs
    - 40% long is the second most common signal and holds for a long time
    - The position can be closed or managed if the signal becomes flat
    - All other management rules for targets and stops can be observed

Please check LessThanRandom.com for more strategy ideas and back testing information as it becomes available.