

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 7, 2008

Issue 34

Market Overview

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> for details)

Study Date	Description	Time span	Bias
April 7, 2008	Flat-lined	3 days	Bullish
April 4, 2008	Trend Over Volatility (TOV)	20 days	Bullish
April 1, 2008	3 Surge Days	2-6 weeks	Bullish
February 1, 2008	FTD's Short-Term Implications	long-term	Bearish
March 25, 2008	VXO Stretch	1-10 days	Bearish
March 24, 2008	Nasdaq Leadership Bullish	1-10 weeks	Bullish
March 19, 2008	Bottom Explosion 2	1-20 days	Bullish
March 19, 2008	3.5% Up Cluster	10-20 days	Bullish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish
March 12, 2008	Bottom Explosion - Now What?	1-20 days	Bullish

Intermediate-term Outlook (2 weeks – 2 months) – bullish – updated 3/31/2008

On March 20th the market put in an IBD Follow Through Day, rising strongly on high volume. On March 24th another Follow Through Day was posted. Over the last three days (26th, 27th, 28th) the market has steadily pulled back. The S&P 500 is now trading over 1% below its March 20th closing level. In the February 1st, 2008 study on Short-term Implication of Follow Through Days, I determined that success or failure of a Follow Through Day was many times predicted by the action in the first week. If the market was able to add on to its gains over the 1st week, then there was about a 2/3 chance that the Follow Through Day would succeed. On the other hand, a failure to add to the gains over the first week led to a failure of the rally about 2/3 of the time. This study is therefore predicting a failure of the recent rally.

While it is the most current in terms of its price action, it is still the only study with bearish intermediate-term implications. All of the studies listed above from March 12th to March 24th with intermediate-term influence suggest the market has made a low which should hold for at least several more weeks and that we should see rising prices over the next month or so.

Those studies are what still have me favoring the bullish camp. We have the first warning sign, though. Over the next several days and weeks it will be important to continually monitor price, sentiment, breadth, and volume and look for further hints with bearish or bullish implications. The bullish outlook remains in tact...for now.

Short-term Outlook (1-5 days) – neutral – updated 4/7/08

Unlike recent one-day surges, the move last Tuesday has given back almost nothing. I mentioned last week that I would view a failure to sell off as a change in character and a possible bullish sign. I still feel that way. The market has not only failed to sell off, it has failed to go anywhere.

Over the last 30 years I could only find one other time where the market rallied 3% one day and then closed within 0.25% of the rally day's close for 3 consecutive days. In tonight's blog I examined other less explosive occurrences where the market surged higher and then flat-lined for at least 3 days. The results over the last 30 years have been fairly bullish and suggest an upside breakout is a bit more likely than a breakdown.

With our intermediate-term outlook still in tact I feel the edge is strong enough on the long side to take a small SPY position here. I'd look to scale in as usual, but I will use a stop on this one.

I'm seeing very little else of much interest – which is typical when the market drifts. I suspect we'll get some movement here in the next few days which will allow for some opportunities. Earnings season kicks off tomorrow and that always makes for some extreme over-reactions. We'll be looking to play those over-reactions for short-term profits.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Trades

none

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	3.45	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.00
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	0.00

No signs of capitulative selling at the present time.

Additional New Trade Ideas

Longs

SPY – buy @ \$136.89. SPY closed pretty much right in the middle of its range for the last few days. Therefore, using the low Thursday as a stop and looking at the top of the range as a target, risk and reward would be just about equal. Since our long-term studies as well as tonight’s short-term study suggest up is more likely this would give the trade a positive expectancy. I also believe the upside potential is quite a bit greater than the top of the 3-day range. Therefore I believe it’s time to take some exposure on the long side. If filled, stop will be set @ \$135.59.

Shorts

none

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLE	4/3/2008	\$14.50	\$14.39	0.8%	\$14.46	short @ \$14.50

Positive market expectations and a stock that won’t sell off is making my trigger finger itchy. This action is reminding me of the GE trade a couple of weeks ago. The decision to bail a little early there was actually a good one, and I’m going to treat this one the same way.

Stocks and ETF's on my Radar

Ticker *Notes*

none

Notable S&P 500 stocks outside my “tradable” radar

Oversold

None

Overbought

None

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