

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 16, 2008

Issue 41

Market Overview

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

Study Date	Description	Time span	Bias
April 15, 2008	WR7 Down NR7	1-15 Days	Bullish
April 14, 2008	Sharp Selloff in Consolidation	20 days	Bearish
April 10, 2008	Relatively High Put/Call	20 days	Bullish
April 8, 2008	Negative Reversal Bars	3-5 days	Bearish
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 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

Short-term Outlook (1-5 days) –bullish – updated 4/16/08

After gapping up Tuesday morning the market sold off and then recovered. At the end of the day the major indices all finished about 0.5% above Monday's close – but down slightly from their openings. Volume was higher than the last couple of days, but still not high.

After the close Intel gave a good report. The Nasdaq immediately reacted favorably and the S&P is also along for the ride – although to a lesser degree. There are several economic reports due out in the morning so things will undoubtedly change, but as of now it looks like the market will likely gap higher. I'm still not seeing a whole lot from an individual stock standpoint and anything I put out there tonight is likely to open at a different price in the morning. I'm not excited about paying up and buying into a gap failure doesn't excite me either, so I am going to abstain from any official trade ideas tonight.

In the blog I discussed mid-sized gaps in the SPY and how the market has performed on the day of such gaps. As I mentioned, Wednesday's anticipated gap is largely due to Intel. The action isn't going to be in the SPY. It's going to be in the QQQQ and SMH. Therefore, I thought tonight I'd provide subscribers with some bonus research instead of trade ideas that likely won't get a fill.

As in the blog, I looked at gaps in QQQQ and SMH. I broke these out by above the 200-day moving average and below it. I also broke them out by gap size. The results are listed in the table below.

	Up or Downtrend	Gap Size	Trades	Avg. Open To Close Return	Gaps Filled
SMH	Downtrend	>1%	156	-0.16%	47%
SMH	Downtrend	1%<>0.25%	211	-0.50%	77%
SMH	Uptrend	>1%	88	0.19%	35%
SMH	Uptrend	1%<>0.25%	241	-0.03%	70%
QQQQ	Downtrend	>1%	141	-0.18%	53%
QQQQ	Downtrend	1%<>0.25%	198	-0.30%	83%
QQQQ	Uptrend	>1%	85	-0.11%	58%
QQQQ	Uptrend	1%<>0.25%	330	0.03%	69%

When the market is trading below its 200-day average a fade play tends to work better if the market gaps up less than 1%. Gaps of greater than 1% have only a slight downside bias the rest of the day.

You may want to keep these stats in mind when evaluating the market tomorrow morning.

Intermediate-term Outlook (2 weeks – 2 months) – neutral – updated 4/14/2008

On Friday April 11th the market took a bit of a dive. The catalyst for the selloff was GE's poor earnings announcement. In a healthier market environment the large gap down at the open would have been viewed by market participants as a buying opportunity and the market would have spent the day clawing back from its losses rather than extending them. By the end of the day Friday, the S&P 500 had lost over 2% and the Nasdaq 100 had lost nearly 3%. This action is concerning.

In [tonight's blog](#), I looked at large selloff's in the past that occurred in non-trending markets and were not breakdowns. For this test I used ADX to define trend and a violation of a 10-day closing low to determine a possible break of support. The results were quite negative over every exit point from 1-day to 4-weeks out. This is the first study with bearish intermediate-term implications I've produced for several weeks.

As I mentioned in my last intermediate-term outlook a few days ago we are also seeing some of the more bullish studies from a few weeks back begin to age and expire. The first one occurred last Thursday. This Thursday the 17th both of the bullish studies from March 19th will fall off the list as their influence wanes.

Another concern is the action in the Nasdaq this week, and especially Friday. As I mentioned above, GE was the catalyst, and the prime culprit for their earnings miss was the disruption in the financial markets. You would expect financials to take this news poorly and sell off in sympathy. The Nasdaq, which had taken a leadership role over the NYSE Composite a few weeks ago, should have held up a bit better. GE is largely unrelated to technology. Yet it fell even harder than the broad market – nearly 3% versus the S&P 500's 2%. This has moved the weekly relative strength of the Nasdaq below the

NYSE's. As I've discussed in the past, the general market has typically struggled to advance when the Nasdaq has failed to take leadership from the NYSE.

It will be important to monitor the market's ability to hold above recent support levels. As noted, it has failed to break down in any way so far. Friday did move the S&P 500 and Nasdaq below their 50-day moving averages. While these are lines that many analysts looked at to possibly provide support, I find it neither surprising nor concerning that they were broken. Moving averages many times will provide support or resistance based on their slope. A moving average which has a nice up-slope serves a decent chance of providing at least temporary support. When a moving average is flat, many times it will act more as a pendulum than a support/resistance level. The recent move up in the market served to flatten out the 50-day moving averages. It may cross back and forth above and below it several times before the direction is fully determined and the moving average will begin to act as a support/resistance level again.

The late March lows are more significant in my eyes. These were around 1313 for the S&P 500. If the market can remain above these then the series of higher lows remains intact and the baby rally has a chance of growing up. If these are broken then the last line of defense is the mid-March lows around 1257. If they're broken then it's a bit late to begin to notice the failure.

For now there still are many positives to look at. Even outside of the March 19th explosion studies that will be falling off the board, there are several more that make the bullish case. These include Trend Over Volatility, the High Put/Call, the 3 Surge Days and sharp drop in Consumer Sentiment. There is no need to overreact to the negative inferences of the April 11th market action. It is simply the first intermediate-term caution flag we've seen in the last month. It should be respected and we'll need to keep a close watch on further action. For now, I am moving the overall bias to neutral. I will therefore be willing to take both longs and shorts equally.

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	0.00	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	1.35	DJ US Financial	IYF	0.68
DJ US Regional Banks	IAT	1.25	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.00
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	0.00	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	1.22
DJ US Medical Devices	IHI	2.44	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	0.50
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

none

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLB	4/8/2008	\$90.58	\$91.13	-0.6%		cover on close < 10ma
GRMN	4/11/2008	\$45.25	\$43.01	-5.0%		
MSFT	4/15/2008	\$28.06	\$28.25	0.7%	\$27.74	sell @ \$29.00 limit

Stocks and ETF's on my Radar

Strong Selloffs In Congestion -

AXP, WFR, WM, RIMM, AMZN, TYC, ATI, UTX.

SLV – could be forming triangle. Has also had 2 consecutive inside days.

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

Oversold

None

Overbought

None

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