

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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April 22, 2008

Issue 45

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## Market Overview

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

Study Date	Description	Time span	Bias
April 22, 2008	Low Vol in Short-Term Uptrend	1-10 Days	Bearish
April 20, 2008	Double-Strong Breath	1-30 Days	Bullish
April 20, 2008	Sharp Rise-Weak Volume	1-10 Days	Bullish
April 20, 2008	Gap Up To High And Reverse	1-5 Days	Bearish
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 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 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

### ***Short-term Outlook (1-5 days) –neutral – updated 4/22/08***

The markets struggled to make headway today as volume came in extremely light. Volume for the QQQQ and SPY was the lowest of the year. In tonight's blog I looked at the possible significance of extremely light volume when the market is in a short-term uptrend. The indications were quite bearish.

Last night I discussed the short-term overbought nature of the market and showed some studies as well. The studies were somewhat mixed over the short-term. There were positive indications looking out more than a week.

Tonight's study was negative and conflicts with what we saw last night in the "Double-Strong Breadth" study. The Gap Up To New High and Reverse study from last night did suggest short-term bearish conditions.

While the intermediate-term still looks good to me (even considering tonight's volume study) the market appears to be in a dangerous place. It is short-term overbought as discussed last night. The S&P 500 is near resistance around 1400. It remains in a long-term downtrend.

Overbought, near resistance, in a long term downtrend, with negative volume patterns to boot makes this appear to be a decent shorting opportunity. The possible resistance near 1400 for the SPX can provide a reasonable stop level. Potential rewards appear substantially greater than risk. Even a 50% retracement of the Tuesday-Friday move from last week would put SPY around \$136. That would mean about a \$2.50 reward and possible \$1.50 risk. A decent ratio which could improve significantly if the market decides to test either last Wednesday's gap or last Tuesday's low.

***Intermediate-term Outlook (2 weeks – 2 months) – bullish – updated 4/20/2008***

From an intermediate-term perspective, most of the evidence I am seeing still points to a continuation of the move up. The April 14<sup>th</sup> “Sharp Selloff In Consolidation” study is the only recent one that has multi-week bearish implications. Since then we've now seen more evidence that favors the bullish case. The most recent of these studies is the Double-Strong Breath Study discussed above.

What I particularly like about the current intermediate-term studies is that they are mostly saying the same thing from very different perspectives. Bullish implications are being made from studies that look at price ([3 Surge Days](#)), volatility ([Trend over volatility](#)), sentiment ([Relatively High Put/Call](#), and [Consumer Sentiment Stretch](#)), and now breadth. This kind of plurality makes a much stronger case than if we were only looking at price or only looking at sentiment for example. From an intermediate-term standpoint I believe this rally has further to go. I will be favoring long-side trades for the time-being.

**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	2.50	DJ US Financial Services	IYG	1.40
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	0.00
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	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
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**

*SPY* – short @ \$138.55 limit – stop at \$140.05. The logic for this trade was discussed in the Short-term Market Outlook section.

### **Additional Trades Active Table**

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SLB	4/8/2008	\$90.58	\$106.91	-18.0%		cover on close < 10ma
GRMN	4/11/2008	\$45.25	\$45.48	0.5%		sold remaining @ \$45.25
ABT	4/18/2008	\$50.93	\$50.53	-0.8%	\$44.94	
TLT	4/21/2008	\$92.45	\$93.14	0.7%		bought @ open

SLB is looking like a horrendous trade idea at this point. I've managed the idea quite poorly as I certainly should have instituted a stop or taken an early exit rather than let the system play out. Once this one is closed I will review the mistakes in detail as it could serve as a solid learning experience.

GRMN was stopped out on the 2<sup>nd</sup> half of the position today. This idea made 0.5% the hard way.

ABT held above the support I am using as a stop. Today's bar could signal the anticipated reversal. I am still optimistic on this one.

TLT gapped lower to give a nice fill on the open and then spent much of the day working its way higher. I am currently looking to exit half of this position on a %b close above 25 and the other half on a close above the 20-period moving average.

### **Stocks and ETF's on my Radar**

*MON* – Has now had 3 inside days in a row. Near 52-week high. A break either way could lead to a fast move in this one.

*BHI* – 8 higher highs in a row. 2 closes above Bollinger Band. 3-period RSI above 97. On the lookout for a reversal pattern in this overbought stock.

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

#### ***Oversold***

None

#### ***Overbought***

None

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