

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 24, 2008

Issue 47

## 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 4/24/08***

Wednesday saw some choppy market action. The Nasdaq led the way on the upside, gaining over 1%, while the S&P 500 and Dow each rose about 0.3%. Volume came in slightly higher than yesterday and close to its 10-day average. Breadth was split pretty evenly. For the most part it was a consolidation day. I am still not seeing anything new that would indicate a strong short-term edge.

With little interesting to discuss in the daily timeframe, I thought I'd talk about intraday concepts tonight. As I write this late at night the NDX futures are down more than 10 points. If the futures opened here tomorrow it would gap the QQQQ's about ½% lower.

In Wednesday's blog I discussed how the SPY has performed after gaps of 0.25% to 0.75%. With the Nasdaq down ½% tonight, I thought I'd share the QQQQ performance after mid-sized (0.25% to 0.75%) gaps lower while the market is trading under its 200-day moving average. Since January 1999 there have been 153 mid-sized gaps lower under these conditions in the QQQQ. Buying the gap down and selling at the close would have resulted in a relatively mild loss of 10.82% for these trades – about 0.07% per trade. Only 70 (45.75%) closed higher than they opened. Interestingly, though, 124 (81%) managed to close the gap at some point during the day.

This would seem to indicate a few possibilities for trading gaps like these. With more than 4 out of 5 filling the gap at some point during the day, fading the gap could work nicely. Since less than 46% manage to close above the open, another possibility would be to sell short some time after the gap has been filled.

Just something to keep in mind should we gap down by a mid-sized amount in the QQQQ tomorrow.

***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	0.00	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	1.41
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	1.35
DJ US Healthcare Providers	IHF	2.04	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	0.50
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**

*TYC – buy @ \$46.12 limit.* One way I like to use RSI is by comparing RSI's of different lengths. When a shorter-term RSI is highly divergent from a longer-term RSI it can indicate that there has been a sharp move against the greater trend. Many times this divergence will resolve itself through a resumption of the greater trend. I look at several different groupings of RSI's. Tonight's trade is based on a 14-period vs. a 2-period RSI. TYC's 14-period is 58. It's 2-period is 12 for a net differential of about 46. Looking at all S&P 100 stocks over the last 10 years I ran a test that bought when the RSI differential was greater than 45 and sold when it returned to 0 or negative. Results below:

Trades	2292
Winners	1567
Losers	707
Pct Winners	68%
Avg Win	1.90%
Avg Loss	-2.80%
Avg Trade	0.44%
Profit Factor	1.5

The stats on this one are good but not great. Short-term market bias is neutral. I am not instituting a stop until it begins to bounce. With all that in mind I would suggest conservative position sizing. Also note that Tyco is scheduled to report earnings before the bell on May 1<sup>st</sup>.

### **Additional Trades Active Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Pr</b>	<b>% Gain/Lo</b>	<b>Stop</b>	<b>Notes</b>
SLB	4/8/2008	\$90.58	\$104.87	-15.8%	\$107.25	cover on close < 10ma
ABT	4/18/2008	\$50.93	\$50.56	-0.7%	\$44.94	sell on close of %b>25
TLT	4/21/2008	\$92.45	\$93.15	0.8%	\$92.45	sold 1/2 @ \$93.47

SLB is pulling back a little. I put a stop above Monday's high. No sense sitting through another leg up.

ABT held above the support I am using as a stop. It hasn't been able to catch a bid yet, though. The way it has been moving it won't take much at this point for the %b to reach 25 or higher.

TLT moved higher and ½ was sold at the first profit target. There is a break-even stop on the remaining and the exit target is a close above the 20ma.

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

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

##### ***Oversold***

None

##### ***Overbought***

None

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