

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 28, 2008

Issue 49

Market Overview

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

Study Date	Description	Time span	Bias
April 28, 2008	3 Up 10 High Under 200	1-3 Days	Bearish
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 4/28/08

Friday saw the market rise for the third day in a row while it also made new rally-highs. In [tonight's blog](#) I review historical statistics for when these conditions exist and the market is also trading under its 200-day moving average. Over the next 1-12 days there is a negative expectancy, with the losses generally focused in the 1st three days. This study therefore suggests a bearish tone through Wednesday.

Tuesday and Wednesday is the Fed meeting though. At around 2:15 on Wednesday they will make the policy announcement. I ran some tests to see whether the market typically saw a positive or negative drift going into this announcement. Unfortunately there are some database issues for intraday data from 6/2003 – 5/2007. I will try and reconcile these tomorrow with my data provider. Excluding that time period and looking back to 1985, there were 149 scheduled Fed meetings. Of those, 99 saw a rise from the open the day *before* the announcement until 2:10 pm the day *of* the announcement. Of the last eight, beginning in May of 2007, seven of them have seen a rise over this time period. The lone loser was January 29th and 30th and that was only a slight decline of -0.26%.

While there are some indications that short-term weakness should be expected based on price (tonight's blog study) and volume (April 22 study) action, the Fed meeting is

throwing a bit of a wrench in the works. I believe any attempt at a short tomorrow would need to have a very close eye kept on it. For purposes of the Subscriber Letter, I typically like to give the ideas some time to work. In this case that wouldn't be possible. Therefore, I will likely wait until at least Wednesday before attempting any index swing trades. Should the market remain overbought and then rally after the announcement Wednesday, that could be a solid short setup. Below is a table copied from the 3/18 blog study which looked at how the market reacted following a Fed day where the market rose at least 1%. As you can see, over the next two, the gains have frequently been given back.

Days In Trade	Net Profit	Trades	% Profitable	Winners	Losers	Avg Win	Avg Loss	Avg Trade	ProfitFactor
10	(\$25,910.42)	42	45.24	19	23	\$1,636.54	(\$2,478.46)	(\$616.91)	0.55
9	(\$21,055.70)	42	45.24	19	23	\$1,837.92	(\$2,433.75)	(\$501.33)	0.62
8	(\$20,059.16)	42	47.62	20	22	\$1,606.63	(\$2,372.36)	(\$477.60)	0.62
7	(\$10,711.51)	42	42.86	18	24	\$1,999.78	(\$1,946.15)	(\$255.04)	0.77
6	(\$4,882.82)	42	52.38	22	20	\$1,405.98	(\$1,790.72)	(\$116.26)	0.86
5	(\$4,292.69)	42	50.00	21	21	\$1,301.74	(\$1,506.15)	(\$102.21)	0.86
4	(\$5,419.80)	42	50.00	21	21	\$1,154.75	(\$1,412.83)	(\$129.04)	0.82
3	(\$6,212.91)	42	57.14	24	18	\$1,017.05	(\$1,701.23)	(\$147.93)	0.80
2	\$6,516.25	42	59.52	25	17	\$778.86	(\$762.07)	\$155.15	1.50
1	\$3,813.32	42	54.76	23	19	\$632.67	(\$565.17)	\$90.79	1.36

Intermediate-term Outlook (2 weeks – 2 months) – slightly bullish – updated 4/28/2008

Other than volume indications and some very short-term studies, I have yet to see anything of substance suggesting an end to the recent rally. We currently still have price (3 Surge Days), volatility (Trend over volatility), sentiment (Relatively High Put/Call, and Consumer Sentiment Stretch), and breadth studies which are suggesting a bullish bias.

Unfortunately, the short-term isn't providing a huge edge either way and after this week, several of our currently listed studies are going to begin losing relevance. While I will continue each day to look at indicators with a historical perspective, I won't necessarily demand continued bullish evidence to remain slightly bullish. Instead, I will require evidence suggesting bearish consequences before changing my stance.

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	0.00
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
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	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	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	0.00

No signs of capitulative selling at the present time.

Additional New Trade Ideas

XOM – buy @ \$92.46 – Looking at another 14-2 RSI differential trade here similar to X and TYC the last few days. This actually triggered Thursday night, but I preferred the looks of X and XLE to XOM. Now it has closed with a 14-2 RSI differential > 50 for 2 days in a row. This has increased risk/reward in the past.

Looking at all S&P 100 stocks over the last 10 years I looked for the following conditions: The 14-period RSI was greater than the 2-period RSI for two days in a row.

A limit order was placed to buy the next day at today’s closing price. The exit was at the close of the day the 2-period RSI closed above the 14-period RSI. Results below:

Trades	227
Winners	167
Losers	58
Pct Winners	73.6%
Avg Win	1.96%
Avg Loss	-2.47%
Avg Trade	0.81%
Profit Factor	2.3

Similar to the last few nights. The stats are good but not great. Short-term market bias is neutral. I am not instituting a stop until it begins to bounce. Conservative position sizing may be appropriate.

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/L	Stop	Notes
SLB	4/8/2008	\$90.58	\$102.74	-13.4%	\$104.00	cover on close < 10ma
ABT	4/18/2008	\$50.93	\$51.28	0.7%		sold on close
TYC	4/24/2008	\$46.10	\$46.83	1.6%		sold on close
X	4/25/2008	\$148.57	\$152.48	2.6%	\$144.94	set stop

Stocks and ETF's on my Radar

ILF – has pulled back sharply from all-time highs over the last three days. Could be buyable soon. I'll give it another day before testing a trade idea on it.

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

Oversold

None

Overbought

None

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