

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 29, 2008

Issue 50

Market Overview

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

Study Date	Description	Time span	Bias
April 29, 2008	Narrow Range New High < 200	1-20 days	Bearish
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 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 4/29/08

The market traded in a narrow range today on light volume. The S&P did manage to poke above the widely watched 1400 level but closed poorly. In [tonight's blog](#) I showed a study about how SPY has reacted under such conditions over the last 15 years. There have only been 5 instances where the SPY has posted a 20-day high on the lowest volume in 20 days on a narrow range bar below the 200-day moving average. The results following were quite poor with all 5 losers 12-days out.

The index volume was not as extremely low as the SPY's was. Therefore I decided to run a test on the S&P 500 Index that just looked at narrow range days that posted new 20-day highs below the 200-day moving average. Results below:

S&P 500 posts new 20-day high on narrow range (NR4) below 200-day moving average.

Buy on close. Sell "X" days later. \$100,000 per trade.

Days In	Net Profit	Gross Profit	Gross Loss	Trades	% Profitabl	Max Win	Max Loss	Avg Win	Avg Loss	Win/Loss R	Avg Trade
20	(\$21,767.55)	\$35,163.83	(\$56,931.38)	22	50.00	\$5,816.16	(\$10,385.42)	\$3,196.71	(\$5,175.58)	0.617653	(\$989.43)
19	(\$25,451.50)	\$30,331.50	(\$55,783.00)	22	50.00	\$5,542.32	(\$9,661.03)	\$2,757.41	(\$5,071.18)	0.543741	(\$1,156.89)
18	(\$27,918.20)	\$23,770.96	(\$51,689.16)	23	56.52	\$6,343.68	(\$10,332.99)	\$1,828.54	(\$5,168.92)	0.353756	(\$1,213.83)
17	(\$25,706.51)	\$21,895.68	(\$47,602.19)	23	56.52	\$6,362.16	(\$9,427.77)	\$1,684.28	(\$4,760.22)	0.353825	(\$1,117.67)
16	(\$22,601.47)	\$19,664.88	(\$42,266.35)	23	43.48	\$6,841.80	(\$8,845.69)	\$1,966.49	(\$3,251.26)	0.604839	(\$982.67)
15	(\$20,111.53)	\$19,682.62	(\$39,794.15)	23	52.17	\$7,040.04	(\$8,352.42)	\$1,640.22	(\$3,617.65)	0.453393	(\$874.41)
14	(\$22,468.44)	\$19,425.10	(\$41,893.54)	23	47.83	\$7,302.12	(\$7,055.58)	\$1,765.92	(\$3,491.13)	0.50583	(\$976.89)
13	(\$14,539.44)	\$21,498.41	(\$36,037.85)	23	52.17	\$5,788.44	(\$7,549.92)	\$1,791.53	(\$3,276.17)	0.546838	(\$632.15)
12	(\$18,064.22)	\$23,475.43	(\$41,539.65)	23	47.83	\$7,371.00	(\$8,736.55)	\$2,134.13	(\$3,461.64)	0.616509	(\$785.40)
11	(\$9,725.23)	\$24,082.48	(\$33,807.71)	23	43.48	\$7,290.36	(\$6,623.30)	\$2,408.25	(\$2,600.59)	0.926038	(\$422.84)
10	(\$14,460.82)	\$20,464.43	(\$34,925.25)	23	43.48	\$5,864.04	(\$7,246.04)	\$2,046.44	(\$2,686.56)	0.761734	(\$628.73)
9	(\$10,242.38)	\$17,957.97	(\$28,200.35)	24	45.83	\$6,165.60	(\$8,429.46)	\$1,632.54	(\$2,169.26)	0.752581	(\$426.77)
8	(\$7,410.14)	\$17,292.62	(\$24,702.76)	24	50.00	\$4,607.40	(\$6,940.02)	\$1,441.05	(\$2,245.71)	0.641692	(\$308.76)
7	(\$3,995.29)	\$14,613.10	(\$18,608.39)	24	45.83	\$4,117.68	(\$4,164.44)	\$1,328.46	(\$1,550.70)	0.856687	(\$166.47)
6	(\$6,240.21)	\$12,837.24	(\$19,077.45)	24	54.17	\$2,502.36	(\$5,125.30)	\$987.48	(\$1,734.31)	0.569378	(\$260.01)
5	(\$8,095.06)	\$18,576.24	(\$26,671.30)	25	52.00	\$3,753.96	(\$5,584.17)	\$1,428.94	(\$2,222.61)	0.642912	(\$323.80)
4	(\$7,486.50)	\$16,427.30	(\$23,913.80)	27	44.44	\$5,313.84	(\$4,617.49)	\$1,368.94	(\$1,594.25)	0.858673	(\$277.28)
3	\$6,458.49	\$22,166.92	(\$15,708.43)	28	64.29	\$6,217.68	(\$2,871.64)	\$1,231.50	(\$1,570.84)	0.783971	\$230.66
2	\$2,910.54	\$17,076.15	(\$14,165.61)	28	57.14	\$4,915.68	(\$1,844.68)	\$1,067.26	(\$1,180.47)	0.904099	\$103.95
1	\$2,762.53	\$10,549.00	(\$7,786.47)	28	60.71	\$1,732.29	(\$2,249.52)	\$620.53	(\$707.86)	0.876626	\$98.66

A decent sample size and poor statistics here indicate some possible intermediate-term difficulty. The intermediate-term outlook may need adjusting sooner than I thought.

Last night I mentioned a pre-Fed meeting study I was doing, but had some data issues. I worked them out today. Looking back to 1985 if you bought near the open on the day BEFORE a scheduled Fed announcement and held to 2:10 the day OF the announcement, you would have made money 67% of the time. That's 120 winners out of 179 trades. The average winner gained 0.9% and the average loser lost 0.8%. I've plotted an equity curve below so you can see how this approach has worked over time.



As you can see a good portion of the gains came between 1997 and 2001. There was some fairly flat periods before and after that. Since mid-2006 it has once again provided an upside edge.

The last few nights have produced some bearish studies. If not for the upcoming Fed meeting I'd be looking hard for some short trades. In our universe of stocks and ETF's I didn't find anything especially compelling tonight. I don't want to take on new borderline advantageous positions before Wednesday. Therefore there are no new "official" trade ideas tonight. I did post several possible setups or emerging setups in the "radar" section.

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	1.35
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	0.44	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 Pr	% Gain/Loss	Stop	Notes
SLB	4/8/2008	\$90.58	\$102.36	-13.0%	\$104.00	cover on close < 10ma
XOM	4/28/2008	\$92.46	\$92.45	0.0%	\$91.49	bought @ \$92.46
X	4/25/2008	\$148.57	\$153.00	3.0%		sold on close

X made its target with a late surge. Those that may not have exited te trade may do so tomorrow. A nice quick gain for this one.

SLB – The close stop and rising 10ma mean the squeeze is on here. Should be out of this nightmare soon.

XOM – bought @ \$92.46. Stop set under Friday’s swing low.

Stocks and ETF’s on my Radar

ILF – has pulled back sharply from all-time highs. Could be buyable soon.

TLT – Has traded below its 10-day moving average for 10 days in a row. Nearly touched 200-day moving average today before finishing strongly. A bounce may be near.

WMB – Hasn’t traded below 10-day moving average for 21 days. New high with reversal bar today. Potential short.

FSLR – Volatile high-flyer has coiled with 2 consecutive inside days.

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

Oversold

None

Overbought

None

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