

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 1, 2008

Issue 52

## 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 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

*Does not include tonight's studies.*

### ***Short-term Outlook (1-5 days) –bullish – updated 5/1/08***

After drifting upwards most of the day, the market spiked higher after the Fed announcement at 2:15. It couldn't hold its gains though and ended up reversing and closing near its lows. Volume was higher but not huge. Breadth was mixed. Advancers led decliners but down volume was a little higher than up volume.

In [tonight's blog](#) I presented some market history stats following a reversal like today - both in the context of Fed days and as a stand alone. Any way I looked at it the results were positive going forward. In addition to reversing and closing near its lows, today was the third day in a row that the S&P closed lower. I ran a study to show how the S&P has performed after 3 consecutive lower closes.

**SPX closes lower 3 days in a row. Buy at close. Sell "X" days later. \$100,000 per trade. Last 30 years.**

Days In	Net Profit	Gross Profit	Gross Loss	Trades	% Profitable	Avg Win	Avg Loss	Avg Trade	Profit Factor
10	\$283,161.12	\$558,208.97	(\$275,047.85)	328	62.80	\$2,709.75	(\$2,254.49)	\$863.30	2.03
9	\$270,962.48	\$564,358.27	(\$293,395.79)	344	63.37	\$2,588.80	(\$2,328.54)	\$787.68	1.92
8	\$282,430.14	\$580,576.33	(\$298,146.19)	360	62.22	\$2,591.86	(\$2,208.49)	\$784.53	1.95
7	\$221,201.05	\$531,487.05	(\$310,286.00)	372	56.45	\$2,530.89	(\$1,915.35)	\$594.63	1.71
6	\$180,031.22	\$502,251.29	(\$322,220.07)	394	57.36	\$2,222.35	(\$1,929.46)	\$456.93	1.56
5	\$214,637.13	\$493,786.35	(\$279,149.22)	422	57.82	\$2,023.71	(\$1,568.25)	\$508.62	1.77
4	\$162,632.68	\$435,238.95	(\$272,606.27)	441	58.96	\$1,674.00	(\$1,522.94)	\$368.78	1.60
3	\$148,039.11	\$391,317.52	(\$243,278.41)	463	59.18	\$1,428.17	(\$1,287.19)	\$319.74	1.61
2	\$118,972.53	\$366,384.80	(\$247,412.27)	522	57.66	\$1,217.23	(\$1,124.60)	\$227.92	1.48
1	\$76,373.80	\$353,758.91	(\$277,385.11)	737	57.94	\$828.48	(\$909.46)	\$103.63	1.28

For those that may be concerned that this study's performance would suffer if looking at instances during a long-term downtrend I ran one more test:

**SPX closes lower 3 days in a row and today closes below its 200-day moving average. Buy at close. Sell "X" days later. \$100,000 per trade. Last 30 years.**

Days In	Net Profit	Gross Profit	Gross Loss	Trades	% Profitable	Avg Win	Avg Loss	Avg Trade	Profit Factor
10	\$107,842.81	\$246,742.24	(\$138,899.43)	126	64.29	\$3,046.20	(\$3,086.65)	\$855.90	1.78
9	\$118,525.16	\$268,205.60	(\$149,680.44)	136	59.56	\$3,311.18	(\$2,721.46)	\$871.51	1.79
8	\$103,306.07	\$255,274.06	(\$151,967.99)	137	59.12	\$3,151.53	(\$2,763.05)	\$754.06	1.68
7	\$90,293.66	\$230,847.09	(\$140,553.43)	141	55.32	\$2,959.58	(\$2,231.01)	\$640.38	1.64
6	\$87,531.98	\$235,726.39	(\$148,194.41)	148	57.43	\$2,773.25	(\$2,352.29)	\$591.43	1.59
5	\$82,096.98	\$223,719.93	(\$141,622.95)	157	56.69	\$2,513.71	(\$2,082.69)	\$522.91	1.58
4	\$57,827.52	\$200,048.21	(\$142,220.69)	165	55.15	\$2,198.33	(\$1,948.23)	\$350.47	1.41
3	\$52,879.30	\$179,866.35	(\$126,987.05)	175	55.43	\$1,854.29	(\$1,628.04)	\$302.17	1.42
2	\$42,161.03	\$171,653.34	(\$129,492.31)	203	55.17	\$1,532.62	(\$1,422.99)	\$207.69	1.33
1	\$27,595.51	\$173,536.36	(\$145,940.85)	292	54.79	\$1,084.60	(\$1,114.05)	\$94.51	1.19

Almost identical to the first results. The 200-day moving average seems to have little effect this study. Between the blog studies and the above Subscriber-letter only studies there seems to be a decent case for upside.

I'm going to post the 1<sup>st</sup> leg of a SPY trade to the trade ideas below. I normally like to leg into these kind of index trades in 3 or 4 parts. Therefore I may be adding to the SPY trade in the next few days depending on market action.

**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.)***

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
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	5.77	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

Oil equip starting to pull back hard.

**Additional New Trade Ideas**

*SPY – buy @ \$138.40.* I will likely be adding to this position if there is continued weakness over the next few days.

### Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
XOM	4/28/2008	\$92.46	\$93.07	0.7%		sold on close

XOM – Exit signal triggered. Idea closed.

### Stocks and ETF's on my Radar

CL – Broke down today. I don't normally try and trade against a breakout or breakdown. I'll keep an eye on this one over the next few days to see if it provides a long entry with solid risk/reward.

VZ – 7 higher highs and 6 higher closes. Still trading below 200-ma. Could be getting overdone soon.

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

#### ***Oversold***

None

#### ***Overbought***

None

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