

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 2, 2008

Issue 53

## Market Overview

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

Study Date	Description	Time span	Bias
May 2, 2008	NDX Crosses 200ma	1-20 days	Bullish
May 1, 2008	3 Lower Closes (Letter not Blog)	1-10 days	Bullish
April 29, 2008	Narrow Range New High < 200	1-20 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

### ***Short-term Outlook (1-5 days) – neutral – updated 5/2/08***

The market put in a strong day today and subscribers were able to participate with the SPY trade from last night. The S&P 500 rose about 1.7% while the Nasdaq 100 led the way with a gain of over 3%. Breadth was solid and there was even some volume behind the move for the first time in a long time.

In [tonight's blog](#) I show the significance of the Nasdaq 100's move above its 200-day moving average. Historically this has led to additional short-term gains. There are some signs that the market is due for a rest. One example is the CBOE Equity Put/Call Ratio. It closed at 0.58 today which is the lowest close since posting 0.56 on February 1<sup>st</sup>, which would not have been a good day to buy.

In the next few days I will share a new tool I've been working on which aggregates the studies and compares their projections with recent index performance. The aggregator is currently suggesting sub-par performance over the next few days – even with the bullish studies of the last few nights. Combined with the somewhat overbought market conditions and employment report due out tomorrow I decided to take my foot off the gas today and moved back to a short-term neutral stance.

**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	0.38
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	2.04	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**

*GLD* – buy @ \$84.00. *GLD* has dropped sharply over the last several days. I am looking to buy based on the following criteria: 1) It has closed below its 10-day moving average for at least 10 days. 2) It is above its 200-day moving average. 3) It made its lowest low of the recent selloff today. 4) It closed stretched further below its 10-day moving average than it has on any day of the recent selloff.

Buying the next day at the setup day's closing price and selling when it closed above the 5-period moving average would have produced the following results over the last 10 years in the list of 109 heavily traded ETF's I track (most of which have not been around for 10 years):

Trades	75
Winners	60
Losers	15
Pct Winners	80.0%
Avg Win	1.66%
Avg Loss	-0.99%
Avg Trade	1.13%
Profit Factor	6.7

The setup has only occurred once before in *GLD* – on June 14<sup>th</sup>, 2006. It was sold 2 days later for a 3.15% gain.

### **Additional Trades Active Table**

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY	5/1/2008	\$138.40	\$140.51	1.5%		1/2 @ \$130.90 & 1/2 @ \$141.12

SPY was sold today as per the intraday updates. Not bad for a day-trade.

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

*VZ* – 8 higher highs and 7 higher closes. Still trading below 200-ma. Could be getting overdone.

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

#### ***Oversold***

None

#### ***Overbought***

None

### Closed Trades Ideas In April

At the end of each month I post a review of the previous month's closed trade ideas. Below are April's trades along with an inception-to-date total. Not as good as March, but still not too bad. The SLB trade hurt quite a bit.

This is not a performance record. I do not make recommendations in the Subscriber Letter. This is simply a listing of trade ideas. Past performance is not necessarily indicative of future results. That said, I sincerely hope some of you were able to derive value from the trade ideas.

Security	Type	Strategy	Position	Entry Dt	Entry Prc	Exit Date	Exit Prc	Pct G/L
SPY	Index	QE Index	Long	3/28/2008	\$132.78	4/2/2008	\$137.06	3.2%
SPY	Index	QE Index	Long	3/31/2008	\$131.51	4/2/2008	\$137.06	4.2%
SLE	Stock	QE System	Short	4/3/2008	\$14.50	4/7/2008	\$14.46	0.3%
AMAT	Stock	QE System	Long	3/28/2008	\$19.98	4/2/2008	\$20.59	3.1%
SPY	Index	QE Index	Long	4/7/2008	\$136.89	4/9/2008	\$135.59	-0.9%
MSFT	Stock	QE System	Long	4/15/2008	\$28.06	4/17/2008	\$29.00	3.3%
GRMN	Stock	QE System	Long	4/11/2008	\$45.25	4/21/2008	\$45.48	0.5%
TLT	ETF	QE System	Long	4/21/2008	\$92.45	4/24/2008	\$92.87	0.4%
ABT	Stock	QE System	Long	4/18/2008	\$50.93	4/25/2008	\$51.28	0.7%
TYC	Stock	QE System	Long	4/24/2008	\$46.10	4/25/2008	\$46.83	1.6%
X	Stock	QE System	Long	4/25/2008	\$148.57	4/28/2008	\$153.00	3.0%
SLB	Stock	QE System	Short	4/8/2008	\$90.58	4/29/2008	\$99.26	-9.6%
XOM	Stock	QE System	Long	4/28/2008	\$92.46	4/30/2008	\$93.07	0.7%

<b>Summary - April</b>			
Winners	11	Avg Win	1.91%
Losers	2	Avg Loss	-5.27%
Pct Winners	84.62%	Avg Trd Idea	0.80%
		Profit Factor	1.99
<b>Summary - Since 2/19/08 Inception</b>			
Winners	32	Avg Win	3.08%
Losers	11	Avg Loss	-2.72%
Pct Winners	74.42%	Avg Trd Idea	1.59%
		Profit Factor	3.29

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