

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 6, 2008

Issue 55

Market Overview

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

Study Date	Description	Time span	Bias
May 6, 2008	Low Volume Pullback(3/27/08)	1-4 days	Bearish
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 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 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) – neutral – updated 5/6/08

The market pulled back today on light volume and mildly negative breadth. The textbooks say that light volume on a pullback is generally a good thing. I've found that a pullback that begins on light volume generally gains steam over the next few days. The [3/27/08 blog study](#) illustrated this and that study has become current once again.

The QE Aggregator hasn't budged much even with the new study. Tonight looks like a flat-line from yesterday. The S&P has still outperformed the basically neutral Aggregator over the last three days and the expectation for the next few days is currently about neutral as well.



The 1400 level for the S&P was noted resistance by many traders and we may get a retest of it quickly here. I'm looking for a pullback over the next few days to reach somewhere between 1400 and 1385. At this point I'm not seeing any significant short-term edges though. A pullback to support may change that.

There are also not any new trade ideas tonight. After looking for an inordinate amount of time I realized that anything I suggest would be at best a borderline trade. In a short-term environment without a market edge there is little point in taking borderline trades. Incidentally, this is the longest drought of Catapult trades I have endured since August-October of 2007. Prior to that you'd have to look at 2003, which was backtested since I began trading them in 2005. The GLD trade idea was exited at the close this afternoon for a nice profit.

Intermediate-term Outlook (2 weeks – 2 months) – slightly bullish – updated 5/5/2008

I am seeing a few troubling signs to go along with the positive studies of recent weeks. The first issue that troubles me is the continued light volume. As noted in the April 22nd study, buying interest has been drying up.

The market has seen some strong rotations over the past couple of weeks. Energy and commodities have suffered while Financial and Technology stocks have benefited. Normally sharp rotations lead to high volume environments. If money is rotating it means two transactions are taking place rather than just one. Sell energy, buy technology. Yet even with the rotational environment, volume has failed to materialize. I intend to look at some additional volume studies in the coming days but am not encouraged by the recent trend.

Another concern is recent put/call ratios. I mentioned Friday's Letter that the CBOE Equity Put/Call Ratio had hit its lowest level since Feb. 1st. Tonight I decided to look at recent put/call ratios relative to longer-term averages. Dr. Brett Steenbarger of the Traderfeed blog has done some excellent work over the years in looking at these ratios. One tool he uses compares the 10-day average of the equity put/call ratio to the 200-day average. [His findings](#) have revealed an edge exists when the 10-day becomes stretched above the 200-day. I decided to examine this indicator a bit further today.

I first looked at the CBOE Equity Put/Call Ratio. My data went back to 8/31/04. Since that time through 4/25/08 when the 10-day MA of the equity put/call crossed below the 200-day, the S&P 500 has gained 293.61 points. It has gained 342.30 points when the 10ma is above the 200 and lost 48.69 points when the CBOE equity p/c 10ma is below the 200.

I then looked at the CBOE Total Put/Call Ratio. In this case the data went back to 8/6/96. In between 8/6/96 and 4/18/2008 the S&P 500 gained 728.01 points. In that time the 10ma over 200ma p/c formation gained 709.25 points and the 200ma over 10ma p/c formation gained only 18.76 points.

Both of these studies strongly suggest difficult market conditions while the put/call ratios remain relatively low.

On the positive side, we still have several bullish studies in effect. Breadth remains solid. The Nasdaq has taken over a leadership role while the Nasdaq 100 has crossed its 200-day moving average in a fairly convincing manner.

Essentially it is now starting to look like the positive implications of recent price movement and breadth will be battling the negative implications of volume and sentiment. I suspect we may be in for some choppy trading in the coming weeks. I'm maintaining a slightly bullish intermediate-term posture as of now since the negative studies have so far been little more than subtle hints. The short-term outlook will now have a strong influence on trading decisions.

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	1.25	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	1.72	DJ US Industrial Sector	IYJ	0.38
DJ US Oil Equip & Svcs	IEZ	1.92	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

Not much showing up here.

Additional New Trade Ideas

none

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Loss	Stop	Notes
GLD	5/2/2008	\$83.96	\$86.27	2.8%		sold on close

Stocks and ETF's on my Radar

none

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

Oversold

CIEN – Has pulled back hard the last week and a half after bottoming in late Jan.

Overbought

None

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.