

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 7, 2008

Issue 56

## Market Overview

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

<b>Study Date</b>	<b>Description</b>	<b>Time span</b>	<b>Bias</b>
May 6, 2008	Low Volume Pullback(3/27/08)	1-4 days	<b>Bearish</b>
May 2, 2008	NDX Crosses 200ma	1-20 days	<b>Bullish</b>
May 1, 2008	3 Lower Closes (Letter not Blog)	1-10 days	<b>Bullish</b>
April 29, 2008	Narrow Range New High < 200	1-20 days	<b>Bearish</b>
April 22, 2008	Low Vol in Short-Term Uptrend	1-10 Days	<b>Bearish</b>
April 20, 2008	Double-Strong Breath	1-30 Days	<b>Bullish</b>
April 14, 2008	Sharp Selloff in Consolidation	20 days	<b>Bearish</b>
April 10, 2008	Relatively High Put/Call	20 days	<b>Bullish</b>
April 1, 2008	3 Surge Days	2-6 weeks	<b>Bullish</b>
February 1, 2008	FTD's Short-Term Implications	long-term	<b>Bearish</b>
March 17, 2008	Consumer Sentiment Stretch	1-12 months	<b>Bullish</b>

### ***Short-term Outlook (1-5 days) – neutral – updated 5/7/08***

After gapping down and dropping below 1400 this morning, the S&P 500 and other indices finished the day well. Volume was higher and breadth was strong. Combined with yesterday's down day, we seem to be getting the choppy action the Aggregator suggested a couple of nights ago.

In addition to tonight's blog study I also looked at times where the 5-day moving average of the CBOE Equity Put/Call Ratio hit at least a 50-day low. Results there were generally bullish as well:

**Buy S&P 500 Index when 5-day ma of CBOE Equity put/call ratio hits a 50-day low. Sell "X" days later. \$100,000 per trade.**

Days In	Net Profit	Trades	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	Avg Trade
10	13,406.41	18	77.78	4,051.52	(3,646.72)	1,343.83	(1,351.80)	744.80
9	13,286.89	18	72.22	3,121.36	(1,482.78)	1,298.71	(719.28)	738.16
8	15,156.90	19	78.95	3,224.32	(1,046.40)	1,219.12	(782.47)	797.73
7	10,342.08	19	68.42	3,295.60	(1,504.64)	1,168.91	(808.95)	544.32
6	6,651.69	19	68.42	3,408.24	(2,955.52)	963.59	(979.16)	350.09
5	9,014.18	19	68.42	3,012.24	(1,923.84)	1,066.89	(809.23)	474.43
4	9,867.32	21	66.67	1,654.23	(2,016.64)	950.84	(492.06)	469.87
3	1,891.53	23	69.57	1,576.80	(3,101.44)	496.24	(864.04)	82.24
2	2,281.70	28	57.14	1,807.10	(1,395.20)	575.80	(577.59)	81.49
1	2,238.08	46	56.52	933.66	(1,412.45)	410.03	(421.13)	48.65

At first blush tonight's studies would seem to fly in the face of the studies I showed in Sunday night's Subscriber Letter. Those studies demonstrated that low put/call ratios were generally bearish. It would seem to me that sharp spikes down typically occur during times of buying enthusiasm (a good thing), whereas a more gradual drift lower could signal growing complacency (a bad thing).

Overall the market remains in a difficult position for picking a short-term direction. A little choppy, a little overbought and the Aggregator remains generally neutral. I'd prefer to wait for a better setup before trading aggressively.

***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 22<sup>nd</sup> 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. 1<sup>st</sup>. 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**

I did notice one trade idea tonight based on a pattern we'd used on April 11<sup>th</sup>. It looked for a reversal bar after a 50-day low. With the market somewhat overbought and the Aggregator in neutral territory, I'm hesitant to put on what I would call a "borderline trade". Therefore, I've listed the trade in the "Radar" section rather than listing it as an official trade idea.

### **Additional Trades Active Table**

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Loss	Stop	Notes

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

IP - Looking at IP's setup I note the following conditions: 1) Made a 50-day low today. 2) Closed at least 1% higher. Buying the close and selling on a cross of the 10-sma over the last 10 years in all S&P 100 stocks would have produced the following results:

Trades – 1807

Winners – 1259 (70%)

Avg gain – 3.5%

Avg Loss – 5.4%

Avg Trade – 0.8%

Profit Factor – 1.5

**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

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