

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 8, 2008

Issue 57

Market Overview

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

Study Date	Description	Time span	Bias
May 7, 2008	Equity Put/Call Stretch (Letter)	1-8 days	Bullish
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 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 5/8/08

So far the market has changed direction every day this week. Wednesday it dropped. Volume was relatively high and breadth was quite negative.

Since mid-March every pullback of more than 1 day has managed to find a bottom higher than the last. For the pattern of higher lows to remain in place the S&P 500 will need to remain above 1383. It's not certain doom if that number gets broken, but it may cause a short spurt of additional selling as traders take notice of the failed support level.

Today's action was somewhat unusual in that the market experienced a large selloff immediately following a 50-day closing high. I checked back in time to see how the market has performed following this type of action in the past. Testing back to 1960 I found 18 other instances. The first one didn't occur until 1975 and the most recent was in 2002. The results table is below:

Yesterday S&P closes at 50 day high. Today it falls at least 1.5%.						
Buy on close. Sell "X" days later. \$100,000 per trade.						
Days In	Net Profit	Trades	Wins	Avg Win	Avg Loss	Avg Trade
10	(\$560.43)	18	9	\$2,099.13	(\$2,161.40)	(\$31.14)
9	\$654.41	18	9	\$1,828.26	(\$1,755.55)	\$36.36
8	(\$4,240.39)	18	7	\$2,028.96	(\$1,676.65)	(\$235.58)
7	(\$3,263.17)	18	9	\$1,664.63	(\$2,027.21)	(\$181.29)
6	\$6,197.99	18	12	\$1,734.72	(\$2,436.45)	\$344.33
5	\$4,947.11	18	12	\$1,583.53	(\$2,342.53)	\$274.84
4	\$3,667.58	18	10	\$1,597.28	(\$1,538.15)	\$203.75
3	(\$329.96)	18	9	\$939.79	(\$976.45)	(\$18.33)
2	(\$45.77)	18	9	\$794.90	(\$799.98)	(\$2.54)
1	\$3,511.11	18	11	\$719.21	(\$628.60)	\$195.06

Looks like a lot of chop to me. No edge here. In fact the Aggregator is still in chop mode as well. I've posted an updated chart below. Should the selloff accelerate in the next couple of days and we manage to get some positive study results, it could make for a long opportunity.



There are a few trade ideas tonight.

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	1.16
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	1.25	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	1.72	DJ US Industrial Sector	IYJ	0.00
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.68
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
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	0.00
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	0.00

Not much showing up here.

Additional New Trade Ideas

MCD – buy @ \$59.38. RSI Differential. We've seen a few of these in the last couple of weeks. The situation is this: 1) The 14-period RSI is more than 50 points greater than the 2-period RSI (suggesting a pullback in an uptrend). Buy tomorrow at today's close. Sell on close with 2-period RSI above 14-period. Updated statistics below.

Trades	565
Winners	401
Losers	154
Pct Winners	71.0%
Avg Win	1.97%
Avg Loss	-2.52%
Avg Trade	0.70%
Profit Factor	2.0

FXE – Buy @ \$154.13. Setup: Has closed below its 10-day MA for at least 10 days in a row. 2) Made a 10-day low today. 3) Closed above its 200-day MA. Buying under these conditions and selling on a close above the 5-day MA across our list of 104 ETF’s over the last 10 years would have produced the following results:

Trades	381
Winners	308
Losers	73
Pct Winners	80.8%
Avg Win	1.47%
Avg Loss	-1.58%
Avg Trade	0.91%
Profit Factor	4.3

I’d probably tread a little lightly on the trade ideas tonight since the market outlook is unclear.

Additional Trades Active Table

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

Stocks and ETF’s on my Radar

None

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

Oversold

Overbought

None

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