

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 9, 2008

Issue 58

Market Overview

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

| Study Date | Description | Time span | Bias |
|------------------|----------------------------------|-------------|---------|
| May 9, 2008 | 4 Lower Lows | 1-9 days | Bullish |
| 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 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 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 5/9/08

After making another lower low, the market continued its pattern of reversing direction each day. Thursday it resulted in a slight bounce back from yesterday's selloff. In [tonight's blog](#) I discuss the concept of consecutive lower lows providing an edge. We've know had four of them and this should provide a slight upside edge over the next several days.

The Aggregator is showing a very slightly bullish reading and the S&P has slightly underperformed expectation over the last 3 days. This can be seen in the chart below.



I'd still be more comfortable taking on long exposure if we were a bit more stretched or had a slightly more bullish reading from the Aggregator. The situation remains uncertain and the potential for choppiness elevated. I therefore am going to hold off on initiating any new index positions. A down day tomorrow could skew odds enough in our favor that I'd consider going long Monday morning. For tonight there is one system trade listed below.

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 | 1.41 |
| 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 | 2.70 | 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

KO (Coca-Cola) – buy @ \$56.29. Setup based on the following criteria: 1) Closes below 10ma at least 10 days in a row. 2) Today it hit a 10-day low. 3) Yesterday it closed stretched further below the 10ma on a percent basis than any day of the selloff. 4) Today it again closed stretched further than any day of the selloff. Over the last 10 years across all current S&P 100 stocks, buy this setup on the close and selling on a close above the 5-period moving average would have produced the following results:

| | |
|---------------|--------|
| Trades | 475 |
| Winners | 352 |
| Pct Winners | 74.1% |
| Avg Win | 3.70% |
| Avg Loss | -4.93% |
| Avg Trade | 1.55% |
| Profit Factor | 2.3 |

The fact that it has closed below the 10ma for 16 days in a row rather than just 10 didn't have much of an affect on winning percentage or profit factor. If you require 15 days below the 10ma, the number of trades is reduced to 135 and the avg win rises to over 5%, the avg loss rises to 6.3% and the avg trade produces nearly 2.0%.

Additional Trades Active Table

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Lo | Stop | Notes |
|--------|------------|-------------|---------------|-----------|----------|-----------------------------|
| MCD | 5/8/2008 | \$59.38 | \$59.77 | 0.66% | \$58.69 | exit if 2RSI closes > 14RSI |
| FXE | 5/8/2008 | \$154.13 | \$154.09 | -0.03% | \$153.50 | sell on close > 10ma |

Stocks and ETF's on my Radar

COP – Has closed above 10-ma for 29 days in a row. Keeping an eye out for a reversal signal.

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

Oversold

MYL – Pulling back hard and nearing support.

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.