QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 4, 2008 Issue 75

Market Overview

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

Study Date	Description	Time span	Bias
June 3, 2008	Big drop bad breadth	1-9 days	Bullish
June 2, 2008	Inside NR7 in and uptrend	1-3 days	Bearish
May 30, 2008	3 Up Days - Volume On Rise	1-10 days	Bullish
May 26, 2008	Put/Call 4ma spike (Letter)	1-10 days	Bullish
April 15 / May 23	WR7/NR7	1-15 days	Bullish
May 22, 2008	Sharp Drop from High	1-13 days	Bearish
February 1, 2008	FTD's Short-Term Implications	long-term	Bearish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

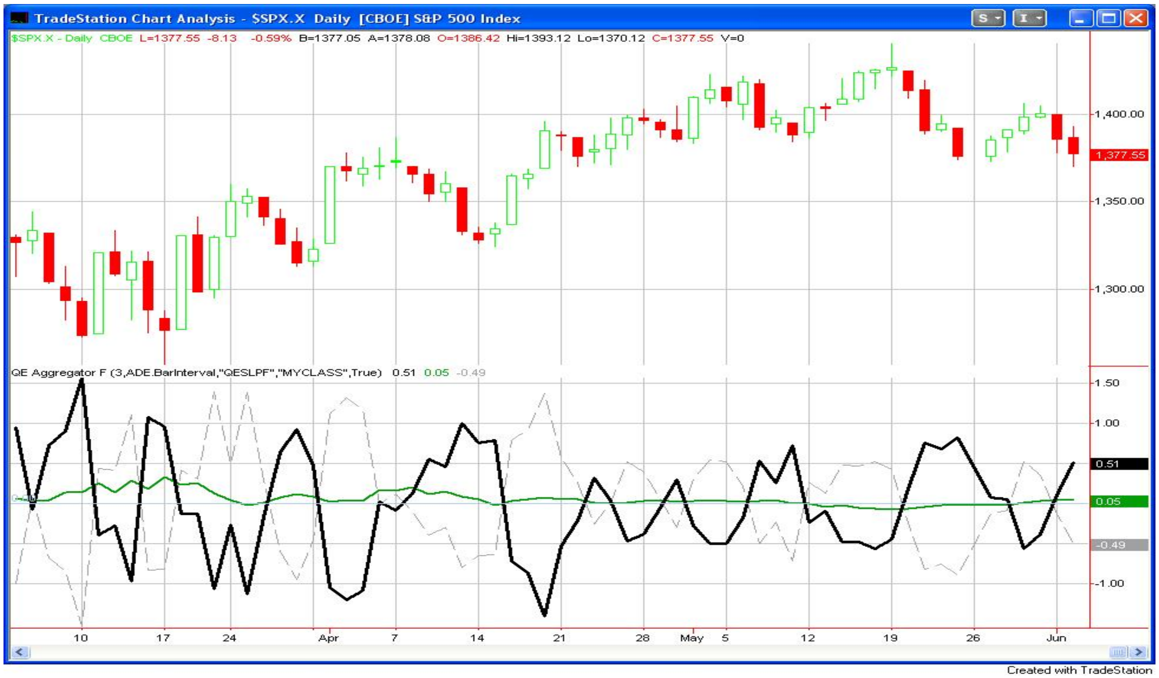
Short-term Outlook (1-5 days) – bullish – updated 6/4/08

After drifting higher in the morning, Bernanke and Lehman combined to put a scare into the market today. The S&P bounced off its early afternoon lows but still closed down over 0.5% and in the bottom third of its trading range. Volume was fairly heavy. There was also a bit of a pickup in the put/call ratio. Breadth was negative but not to an extreme.

In tonight's blog I showed a study which looked at the performance of the SPY after it open the month with tow downs days that total a loss of greater than 1.5%. There were 14 instances sine the beginning of 1993 – all of which closed higher at some point in the next week. Below are all the instances along with the number of days before they each closed above the trigger date.

Date	Days Until Higher Close
4/2/1993	5
10/4/1994	1
11/2/1994	1
8/4/1998	1
11/2/1999	1
1/4/2000	1
4/3/2001	1
2/4/2002	4
7/2/2002	1
8/2/2002	3
3/4/2003	1
1/4/2005	4
3/2/2007	2
12/4/2007	1

Tonight's Aggregator chart is below:



The green Aggregator line is reading 0.05 while the black line is creating some spacing above center. In other words, the S&P has underperformed expectations by a decent amount as of late and expectations remain slightly positive over the next few days. This suggests the S&P will likely try and play catch-up soon. I am therefore going to scaling into a long SPY position. Details in the "Trade Ideas" section below.

Intermediate-term Outlook (1 week – 2 months) – neutral – updated 6/2/2008

In Thursday's blog I showed a study that looked at how the market performed during times when the banking sector was either leading or lagging. This weekend I decided to perform similar analysis across all 9 S&P sector groups.

To do this I looked at the current ratio of each sectors ETF price and compared that to the closing price of the S&P 500. Using weekly data, I then compared that ratio to a 10-week average. If the current ratio was above it's 10ma that indicated the sector was leading, if it was below it's 10ma that indicated the sector was lagging. I ran the test back to 12/31/99 since 2000 was the first full year that my sector data went back to. While I would prefer to look back further this 7 ½ year snapshot may help to provide some clues as to what sector action can tell us about the health of the overall market. Below are the results of the test. The data is listed in order of most positive leading influence to most negative leading influence.

S&P 500 Performance from 12/31/99 through 5/31/08. Total points LOST by S&P 500 over that time - 68.9							
Sector lead/lag breakdown based on 10-week relative strength.							
ETF	**Sector**	**S&P Pnts When Leading**	**S&P Pnts When Lagging**	**Lead - Lag Differential**	**Current**	**Since**	**Implication**
XLK	Technology	194.10	(263.00)	457.10	Lead	3/28/2008	Bullish
XLP	Cons. Staples	64.12	(133.02)	197.14	Lag	5/30/2008	Bearish
XLU	Utilities	-113.69	44.79	(158.48)	Lead	5/23/2008	Bearish
XLV	Health Care	-175.16	106.26	(281.42)	Lag	2/15/2008	Bullish
XLI	Industrial	-224.49	155.59	(380.08)	Lead	5/30/2008	Bearish
XLF	Financial	-236.76	167.86	(404.62)	Lag	5/9/2008	Bullish
XLE	Energy	-463.37	394.47	(857.84)	Lead	3/28/2008	Bearish
XLY	Cons. Discretionary	-492.37	423.47	(915.84)	Lag	5/23/2008	Bullish
XLB	Materials	-665.64	596.74	(1262.38)	Lead	5/9/2008	Bearish

Not a lot of surprises here. Technology has long been considered a leading sector. Upcoming technology companies may experience rapid earnings growth. In a speculative and bullish market environment, investors are often willing to allocate more capital to this potentially high risk / high reward sector.

On the other hand sectors like Energy and Materials tend to do well when commodity prices rise. Rise commodity prices impact inflation. They can lead to difficulty for both the economy and the stock market. We'd prefer to see these lagging.

The position of the sectors as seen in the "Implication" column is extremely mixed. The market doesn't seem to be set up in a way that would suggest a high likelihood of either a rally or a selloff. Technology is leading, but so are Materials and Energy. The other sectors also remain mixed. While the sector analysis isn't providing an obvious edge at the current time, I will continue to monitor it for clues going forward.

The current mix of studies listed at the top doesn't seem to be providing any strong clues for the intermediate-term. As we near the end of the week a few of the bearish studies will begin to drop off the list. There does seem to be some potential for a continued rally after a brief pullback.

I do remain wary of the implications of a few sentiment-based indicators though. For example, the CBOE Put/Call 10ma/200ma ratio remains low and the VIX:VXV ratio does as well. This leaves open the possibility of a strong selloff beginning in the next several weeks.

Overall, I'm not seeing a whole lot that would cause me to develop a strong conviction either way at this point. Therefore, I will keep the intermediate-term market bias at neutral for the 2nd week in a row. A neutral intermediate-term bias means I'm willing to look for both long and short-trades and will defer most decision making to the short-term bias.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Trades

F (Ford) – Bought @ $7.49 (1/3 position).
F (Ford) – Bought @ $6.99 (1/3 position).
F (Ford) – Bought @ $6.79 (1/3 position).

The CBI is now back to a neutral state at “3/1”.

Open Big 50 Trades

None

Open Catapult for ETF’s Trades

None

Broad Market Large Cap CBI – 3/1 (F-3)

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	2.05
DJ US Regional Banks	IAT	8.75		DJ US Financial Services	IYG	4.20
DJ US Utilities	IDU	1.35		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	0.00		DJ US Consumer Goods	IYK	2.72
DJ US Pharmaceuticals	IHE	0.00		DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00		DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	2.44		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	1.00

Regional banks are nearing an extreme level. They will bear watching in the next few days.

Additional New Trade Ideas

SPY – buy 1/4 position at $138.00 limit. I am going to begin allocating to a long position in SPY here in anticipation of a bounce. Should the market continue to fall *and expectations remain positive* over the next few days, then I will likely continue to scale in.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F	5/22/2008	$7.49	$6.68	-10.81%		
F	5/23/2008	$6.99	$6.68	-4.43%		
F	5/27/2008	$6.79	$6.68	-1.62%		
EZA	6/3/2008	$126.01	$124.35	-1.32%		exit RSI4 closes > RSI15

The average price in F (Ford) is $7.09.   EZA was filled near the open.

Stocks and ETF's on my Radar

1) IFN triggered a system buy today based on criteria laid out in the 5/9 subscriber letter:

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

When playing reversal trades like this one I prefer to see them coming off a peak or already extended down rather than in a possible "breakdown" mode. I'm going to pass on this one for now, but will keep an eye on it and may look to initiate a position in the next day or two.

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

None