QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 10, 2008 Issue 79

Market Overview

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

Study Date	Description	Time span	Bias
June 10, 2008	CBI = 6	1-6 days	Bullish
June 10, 2008	Bad Breadth - S&P 500 Rises	1-10 days	Bearish
June 9, 2008	VXO stretch	1-6 days	Bullish
June 5, 2008	SPX down NDX up 1%	1-4 days	Bullish
June 5, 2008	Put/Call 3ma spike (Letter)	1-10 days	Bullish
June 3, 2008	Big drop bad breadth	1-9 days	Bullish
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
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) – neutral – updated 6/10/08

A bit of an odd day today. The S&P and Dow both finished up while NYSE down volume outpaced up volume by nearly 2:1. In tonight's blog I looked at the possible implications of such poor breadth when the S&P finished higher. Generally, the bad breadth was a harbinger of lower prices ahead with the broad market eventually pulling the indices down.

While the results of the blog study were notable it is also notable that there have been only 4 other occurrences since 1970 when volume breadth was as bad as today and the S&P 500 finished up. As I discussed yesterday, we are seeing some action that has almost never been seen before with regards to price movement. You can now add breadth to that. Aspects of this selloff are unprecedented and it has me wary of being too aggressive.

On a somewhat positive note, the CBI did hit "6" today. As I've discussed in the past, moves to "5" or higher have generally been pretty good indications of a looming market bounce. I normally use "5" to cover or tighten short trades and at "7" and "10" I put money to work into long index trades.

Tonight’s Aggregator chart is below:

As you can see, the Aggregator (green line) is posting a 0.06 while the S&P has underperformed expectations over the last 3 days. These readings are good enough that I would normally begin to consider legging in to long index exposure. As I mentioned above, though, this selloff’s unprecedented nature has me somewhat wary. As of now, the Aggregator is scheduled to rise again tomorrow. And without a big up day tomorrow the S&P 3-day underperformance will become even more exaggerated. Therefore, as I note in the Trade Ideas section below I will look to begin scaling in should SPY close lower tomorrow.

While there are a good amount of stocks showing some characteristics of extreme selling, I tend to avoid system trades other than Catapults at times like this when clusters of Catapult trades begin to grow substantially I therefore don’t anticipate discussing trade ideas beyond Catapult, CBI and Index trades until the market starts to work off these conditions.

Intermediate-term Outlook (1 week – 2 months) – neutral – updated 6/9/2008

The studies are in a bit of an unusual situation right now. While we’ve had at least 7 of them active at all times since March 18th, the market is beginning to move into uncharted territory. Reasons for my considering it uncharted can be found in tonight’s short-term outlook section.

By next Monday there will only be two studies that still remain active. Those are the June 5th Put/Call Spike study and the March Consumer Sentiment study. In other words, from an intermediate-term standpoint, the studies are not revealing much at this point. Rather than try and make long-term predictions in an uncertain market environment, I prefer to shorten my outlook. For the time being, therefore, I am going to keep the intermediate-term outlook at “neutral” and rely almost exclusively on the short-term outlook.

<u>Catapult and Capitulative Breadth Statistics</u>

(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).

New Catapult Triggers

BAC – buy 1/3 position @ $29.61 limit
RF – buy 1/3 position @ $14.34 limit
WB – buy 1/3 position @ $18.89 limit

All three of these were mentioned as Catapult possibilities in last night's letter. Also noted at the time is that they are all banks. I prefer more industry diversification to accompany a CBI spike because it better would represent the broad market.

As mentioned last night there will be several ways to play this. I prefer to scale in to positions in the Catapult securities themselves and the also consider larger index positions should the selloff continue. In this case with the three new triggers all in the same industry group, I will take smaller positions than I normally would. (Note: I normally scale in 1/3 at a time. In this case the 1/3's are smaller for me.)

Another alternative to tracking three separate positions would be to simply take a position in IAT (or IYG). Should they continue to trigger, more IAT could be purchased.

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6/4 (F-3, BAC, RF, WB)

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	1.35		DJ US Financial	IYF	4.11
DJ US Regional Banks	IAT	11.25		DJ US Financial Services	IYG	7.69
DJ US Utilities	IDU	1.35		DJ US Healthcare	IYH	1.41
DJ US Oil&Gas Expl & Prod	IEO	0.00		DJ US Industrial Sector	IYJ	1.53
DJ US Oil Equip & Svcs	IEZ	0.00		DJ US Consumer Goods	IYK	2.04
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	2.44		DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	8.33		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

Additional New Trade Ideas

SPY – buy ¼ of total SPY allocation on close < $136.62. With a lower close we would see 1) Increased underperformance by the S&P on the Aggregator chart, 2) An Aggregator even higher and 3) A CBI likely at 7 or higher. Therefore, rather than waiting to buy on Wednesday morning, I'll look to begin the scale-in at tomorrow's close.

Active Trades Table

Symbol	**Entry Date**	**Entry Price**	**Current Price**	**% Gain/Loss**	**Stop**	**Notes**
F	5/22/2008	$7.49	$6.36	-15.09%		
F	5/23/2008	$6.99	$6.36	-9.01%		
F	5/27/2008	$6.79	$6.36	-6.33%		
EZA	6/3/2008	$126.01	$121.51	-3.57%		exit RSI4 closes > RSI15
ATI	6/6/2008	$67.73	$67.92	0.28%	$65.84	exit on close > 5ma

The average price in F (Ford) is $7.09. See the June 5th notes for further explanation of why no stops are used on official Catapult trades.

The exit for ATI is a close above the 5ma. Tomorrow that would mean $67.68 or higher. If it moves up during the day, traders could consider trailing a stop higher.

Stocks and ETF's on my Radar

none

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

None