

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 11, 2008

Issue 80

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	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
April 15 / May 23	WR7/NR7	1-15 days	Bullish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

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

The market gapped lower, tried to rally and actually went positive for a short while around mid-day. After 1pm it gave back a good portion of its move of the lows. The final numbers were rather benign, with the S&P down 3 the Dow up 9 and the Nasdaq down 10.5. Volume ticked up over yesterday and breadth remained quite poor.

With BAC triggering another entry the CBI edged up to 7 today. This is typically a level where I like to start scaling long index shares and that was done with the closing SPY order from last night's trade ideas section. In tonight's blog I showed the results that I've discussed many times in the past, effectively buying when the CBI hits 7 or higher and then selling when it returns to three or lower. Another exit strategy which I've previously discussed and which I prefer in many cases is to take the first profitable exit when the CBI hits 5 or lower, or if not profitable wait until it hits 3 before exiting. Below is the hypothetical performance report using that strategy.

TradeStation Strategy Performance Report - SSPX.X Daily (2/1/1994-6/10/2008)			
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$77,760.27	Profit Factor	14.95
Gross Profit	\$83,336.35	Gross Loss	(\$5,576.08)
Total Number of Trades	48	Percent Profitable	85.42%
Winning Trades	41	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$1,620.01	Ratio Avg. Win:Avg. Loss	2.55
Avg. Winning Trade	\$2,032.59	Avg. Losing Trade	(\$796.58)
Largest Winning Trade	\$7,695.44	Largest Losing Trade	(\$1,759.84)
Max. Consecutive Winning Trades	10	Max. Consecutive Losing Trades	1
Avg. Bars in Winning Trades	5.12	Avg. Bars in Losing Trades	8.14
Avg. Bars in Total Trades	5.56		
Max. Shares/Contracts Held	199	Account Size Required	\$1,759.84
Return on Initial Capital	77.76%	Annual Rate of Return	4.12%
Return Retracement Ratio	0.38	RINA Index	661.98
Trading Period	13 Yrs, 11 Mths, 13 Dys	Percent of Time in the Market	6.26%
Max. Equity Run-up	\$79,723.00		
Max. Drawdown (Intra-day Peak to Valley)		Max. Drawdown (Trade Close to Trade Close)	
Value	(\$15,641.12)	Value	(\$1,759.84)
Net Profit as % of Drawdown	497.15%	Net Profit as % of Drawdown	4418.60%
Max. Trade Drawdown	(\$14,339.60)		

It is important to note that while the largest losing trade was only a 1.7% loss, there were a few wild round trips. The max trade drawdown was actually 14% in July of 2002. Combining the CBI analysis with the list of active studies as well as the Aggregator chart further down, it appears there is a good chance the market will bounce within the next few days. I'm still a bit wary though due to some recent unprecedented action discussed that last two nights, such as the Thursday/Friday rally and reversal and yesterday's strongly negative breadth on an up day. Rather than get overly aggressive too early I'd rather step off the gas a bit and see how things play out tomorrow. Significantly more selling and/or a further spike in the CBI (preferably to 10 or above) could get me more interested to stepping in with a larger portion of my SPY allocation. For tonight the 2nd part of the BAC position will suffice.

As promised, below is tonight's Aggregator chart. I stepped back for a little longer-term view tonight.



Notable is the fact that the black differential line has only spent two days as high as this – and they were both in March. March 10th was the only day with a higher differential and a positive Aggregator (green) line as well. If not for the highly unusual activity of late, this is the type of situation that I might look for to aggressively allocate to index shares. From my standpoint it appears this market could either bounce very shortly as it normally would or turn into a freefall which could lead to a fantastic bounce. In either case I'd like to be able to position myself to take advantage of it. By taking some exposure now but leaving a fair amount on the table to put to work if things really start to get out of hand I'm giving myself a chance to profit either way.

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.

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).

BAC – bought 1/3 position @ \$29.35

RF – bought 1/3 position @ \$14.06

WB – bought 1/3 position @ \$18.63

New Catapult Triggers

BAC – buy 1/3 position @ \$29.62 limit

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6/4 (F-3, BAC-2, 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	2.11
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	1.92
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	11.11	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	0.00	Nasdaq 100	QQQQ	0.00

Aerospace & Defense is also getting stretched.

Additional New Trade Ideas

none

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F	5/22/2008	\$7.49	\$6.12	-18.29%		
F	5/23/2008	\$6.99	\$6.12	-12.45%		
F	5/27/2008	\$6.79	\$6.12	-9.87%		
EZA	6/3/2008	\$126.01	\$118.70	-5.80%		exit RSI4 closes > RSI15
BAC	6/10/2008	\$29.35	\$29.62	0.92%		
WB	6/10/2008	\$18.63	\$19.76	6.07%		
RF	6/10/2008	\$14.06	\$14.40	2.42%		
SPY	6/10/2008	\$135.94	\$135.94	0.00%		
ATI	6/6/2008	\$67.73	\$65.84	-2.79%	\$65.84	stopped out

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.

Stocks and ETF's on my Radar

none

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

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.