QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 12, 2008 Issue 81

Market Overview

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

Study Date	Description	Time span	Bias
June 12, 2008	McClellan Osc minus 200	1-6 days	Bullish
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) – bullish – updated 6/12/08

The market sold off again today. Volume rose and breadth was once again lopsided to the negative. On the surface it just appeared to be a bad day all around. The question now is, “Was it bad enough?”.

One breadth measurement I like to use is the McClellan Oscillator. In tonight’s blog I discussed the fact that Worden Bros. reading of the McClellan Oscillator (T2106) came in under negative 200 today and showed some findings based off of this extreme. The data only goes back to 1986 but over that time there have been 17 prior instances of the Oscillator hitting -200 or less. Buying the S&P when it hit this reading and then selling when the Oscillator crossed zero again was profitable 17 out of 17 times. The graphic below shows all the trades with entry and exit dates:

TradeStation Strategy Performance Report - $SPX.X Daily (6/13/1983-6/11/2008)

TradeStation Trade By Trade

#	Type	Date/Time	Signal	Price	Shares/Ctrts Profit	Net Profit Cum Net Profit	% Profit	Run-up DrawDown
1	Buy	04/04/94	Buy	$438.92	227	$1,977.17	1.98%	$2,764.86
	Sell	04/22/94	Sell	$447.63	$1,977.17	$1,977.17		($20.43)
2	Buy	10/27/97	Buy	$876.97	114	$7,070.28	7.07%	$7,073.70
	Sell	11/03/97	Sell	$938.99	$7,070.28	$9,047.45		($2,473.80)
3	Buy	04/27/98	Buy	$1,086.54	92	$3,172.16	3.17%	$3,172.16
	Sell	05/01/98	Sell	$1,121.02	$3,172.16	$12,219.61		($464.60)
4	Buy	08/04/98	Buy	$1,072.12	93	$2,704.44	2.71%	$2,829.06
	Sell	08/18/98	Sell	$1,101.20	$2,704.44	$14,924.05		($1,685.16)
5	Buy	08/31/98	Buy	$957.55	104	$6,853.60	6.88%	$6,853.60
	Sell	09/08/98	Sell	$1,023.45	$6,853.60	$21,777.65		($1,825.20)
6	Buy	03/22/01	Buy	$1,117.00	89	$3,857.26	3.88%	$5,905.15
	Sell	03/30/01	Sell	$1,160.34	$3,857.26	$25,634.91		$0.00
7	Buy	09/17/01	Buy	$1,038.77	96	$208.32	0.21%	$734.40
	Sell	09/28/01	Sell	$1,040.94	$208.32	$25,843.23		($9,025.92)
8	Buy	07/22/02	Buy	$819.85	121	$9,572.31	9.65%	$9,572.31
	Sell	07/29/02	Sell	$898.96	$9,572.31	$35,415.54		($5,344.57)
9	Buy	05/10/04	Buy	$1,087.12	91	$187.46	0.19%	$1,711.71
	Sell	05/20/04	Sell	$1,089.18	$187.46	$35,603.00		($982.80)
10	Buy	03/22/05	Buy	$1,171.71	85	$1,049.75	1.05%	$1,537.65
	Sell	04/06/05	Sell	$1,184.06	$1,049.75	$36,652.75		($681.70)
11	Buy	05/18/06	Buy	$1,261.81	79	$1,449.65	1.45%	$1,479.67
	Sell	05/26/06	Sell	$1,280.16	$1,449.65	$38,102.40		($1,301.13)
12	Buy	06/13/06	Buy	$1,223.69	81	$2,176.47	2.20%	$2,830.95
	Sell	06/26/06	Sell	$1,250.56	$2,176.47	$40,278.87		($356.40)
13	Buy	03/05/07	Buy	$1,374.12	72	$2,338.56	2.36%	$2,594.16
	Sell	03/12/07	Sell	$1,406.60	$2,338.56	$42,617.43		$0.00
14	Buy	06/07/07	Buy	$1,490.72	67	$2,826.73	2.83%	$3,215.33
	Sell	06/15/07	Sell	$1,532.91	$2,826.73	$45,444.16		($221.77)
15	Buy	07/26/07	Buy	$1,482.66	67	$993.61	1.00%	$1,422.41
	Sell	08/08/07	Sell	$1,497.49	$993.61	$46,437.77		($3,703.09)
16	Buy	08/15/07	Buy	$1,406.70	71	$2,869.82	2.87%	$3,452.02
	Sell	08/21/07	Sell	$1,447.12	$2,869.82	$49,307.59		($2,563.10)
17	Buy	03/10/08	Buy	$1,273.39	78	$5,966.22	6.01%	$6,730.62
	Sell	03/24/08	Sell	$1,349.88	$5,966.22	$55,273.81		($1,279.98)
18	Buy	06/11/08	Buy	$1,335.49	74	n/a	n/a	$0.00
	Sell	open	n/a	$1,335.49	n/a	n/a		$0.00

Combined with the CBI, breadth indicators are now suggesting the market is primed for a bounce. In fact, looking at the active list of studies, which include not only studies based on breadth, but sentiment, volume, and price action as well, they are nearly all short-term bullish. To further illustrate this, below is tonight's Aggregator chart:

You'll note the green Aggregator line is now at 0.18. It rose significantly today due to the McClellan Oscillator study and is now at its highest point since early April. Since Friday's huge move down dropped off the 3-day average, the S&P underperformance quieted a bit, but is still in fairly extreme territory. With both the green Aggregator line and black differential line stretched above the zero line, the Aggregator is also suggesting a bounce is likely.

Although there are several studies with bullish implications there are still some reasons for caution. I continue to be somewhat bothered by the fact that the market put in some fairly unprecedented moves on Friday and Monday (Thurs-Fri reversal, bad breadth while S&P is up). The VIX spiked significantly on Friday, but today it seemed to drift. The CBOE put/call ratio also failed to spike significantly with today's selloff. The March lows are still a good ways off and the market is in a bit of a freefall mode. While our indicators are suggesting "buy", there's really no telling just how much lower the market will drop before bouncing. Therefore, I will maintain a conservative approach by continuing to scale in to the SPY allocation. There was also a 3rd and final trigger for BAC today.

I attached a few files along with tonight's Letter. Please make sure to see my notes under the Active Trades table for an explanation.

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).
RF – bought 1/3 position @ $14.06
WB – bought 1/3 position @ $18.63
BAC – bought 1/3 position @ $29.35
BAC – bought 1/3 position @ $29.62

New Catapult Triggers

BAC – buy 1/3 position @ $28.85 limit

Open Big 50 Trades
None

Open Catapult for ETF's Trades
None

Broad Market Large Cap CBI – 8/4 (F-3, BAC-3, 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	5.14
DJ US Regional Banks	IAT	15.00		DJ US Financial Services	IYG	9.79
DJ US Utilities	IDU	1.35		DJ US Healthcare	IYH	2.82
DJ US Oil&Gas Expl & Prod	IEO	0.00		DJ US Industrial Sector	IYJ	2.68
DJ US Oil Equip & Svcs	IEZ	0.00		DJ US Consumer Goods	IYK	5.44
DJ US Pharmaceuticals	IHE	0.00		DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	4.08		DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	4.88		DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	11.11		DJ US Technology Sector	IYW	1.01
DJ US Home Construction	ITB	4.76		DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	0.44		Nasdaq 100	QQQQ	0.00

A large number of banks are extremely oversold. This group should outperform on the bounce.

Additional New Trade Ideas

SPY – buy @ $134.00 another ¼ of total allocation. Based on the short term market outlook above I'm looking to continue to scale in. If filled, the SPY trade will have a ½ allocation.

Active Trades Table

Symbol	**Entry Date**	**Entry Price**	**Current Price**	**% Gain/Loss**	**Stop**	**Notes**
F	5/22/2008	$7.49	$5.97	-20.29%		Catapult
F	5/23/2008	$6.99	$5.97	-14.59%		Catapult
F	5/27/2008	$6.79	$5.97	-12.08%		Catapult
EZA	6/3/2008	$126.01	$116.00	-7.94%		exit RSI4 closes > RSI15
BAC	6/10/2008	$29.35	$28.85	-1.70%		Catapult
WB	6/10/2008	$18.63	$18.97	1.83%		Catapult
RF	6/10/2008	$14.06	$13.69	-2.63%		Catapult
SPY	6/10/2008	$135.94	$133.94	-1.47%		
BAC	6/11/2008	$29.62	$28.85	-2.60%		Catapult

The trade ideas currently look like a train wreck. While it can be discouraging to have trade ideas go against you almost immediately, it is normally not the best idea to throw in the towel prior to a bounce. To refresh older subscribers' memories and show newer subscribers how the Catapult and CBI trades have worked out in the past I've attached 2 old Subscriber Letters for your review. The 1st one is from March 10th. If you check the Catapult section you see all the open Catapult trade ideas there. You'll notice on March 10th they all looked pretty bad.

The 2nd Subscriber Letter I attached was the March 31st Letter. In it you may find all the results for March along with entry and exit dates. Using these two Letters, you may see how a recent large Catapult cluster worked out. This is not to say that all of the current trades will work out as well as we saw in March. In fact, with Ford out there, I can pretty much guarantee they won't. Still, scaling in a not panicking are paramount to profiting over the long haul using the Catapult and CBI techniques.

Stocks and ETF's on my Radar

none

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

None