

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 13, 2008

Issue 82

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 6/13/08

After gapping up this morning the market failed to hold its gains in the afternoon. It turned negative a little after 3pm and then rebounded in the last half hour to close up a little less than ½% across the major indices. Volume came in lighter and breadth was nearly dead even. The action was fairly typical of how the markets react to mid-sized gaps up during downtrends. Filling the gap and closing slightly worse than the open is right in line with [previous tests I've run](#). It's [the large gaps up of 0.75% or more](#) in the SPY that frequently lead to short-covering rallies.

As can be seen below, the action did very little to change the look of the Aggregator chart. The S&P has still underperformed expectations as of late and the Aggregator is still suggesting that the market should move higher in the short-term. This can once again be seen by both the green aggregator line and the black differential line being stretched above zero.



The McClellan Oscillator inched up to about -175. The CBI did not budge today. WB or BAC could trigger exits tomorrow with strong days. Ford even has a shot at an exit with a very strong day. I am unable to calculate the exit triggers without an opening price, so I will send them out tomorrow intraday should we get close.

A down day tomorrow could move the CBI up to 10. The two stocks that appear to have a chance are Regions Financial (RF) – again, and Lehman (LEH). To be clear I have absolutely no intention of trading the potential disaster that is Lehman. Should it trigger it would need to be counted in the CBI, but it will not qualify as a trade idea.

So a strong up day Friday could see a big reduction in the CBI and a chance to take some profits. A big down day could register a CBI of 10, which would likely entice me to scale in more on the SPY trade. I looked back at any time the SPY was trading under its 200-day moving average and finished down at least 1% on a Friday. It has happened 60 times in the last 14 years. Of those 60 times, only 7 gapped up and never filled on Monday morning. Therefore, rather than putting a limit on close order out there should the market sell off, I will allow myself the weekend to study and consider before committing additional capital to SPY.

I did leave the unfilled BAC trade open in case there is some selling tomorrow.

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 (remains open)

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	0.00	DJ US Financial	IYF	5.14
DJ US Regional Banks	IAT	15.00	DJ US Financial Services	IYG	9.79
DJ US Utilities	IDU	0.00	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	8.16	DJ US Real Estate	IYR	1.22
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	1.51
DJ US Home Construction	ITB	4.76	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	1.32	Nasdaq 100	QQQQ	1.00

ITA and IAT both had sharp spikes that failed to hold up today. I expect them to remain volatile with the high CBI percentages. They should outperform the market on any short-covering bounce.

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	\$6.00	-19.89%		Catapult
F	5/23/2008	\$6.99	\$6.00	-14.16%		Catapult
F	5/27/2008	\$6.79	\$6.00	-11.63%		Catapult
EZA	6/3/2008	\$126.01	\$115.41	-8.41%		exit RSI4 closes > RSI15
BAC	6/10/2008	\$29.35	\$29.36	0.03%		Catapult
WB	6/10/2008	\$18.63	\$19.31	3.65%		Catapult
RF	6/10/2008	\$14.06	\$13.49	-4.05%		Catapult
SPY	6/10/2008	\$135.94	\$134.45	-1.10%		
BAC	6/11/2008	\$29.62	\$29.36	-0.88%		Catapult
SPY	6/12/2008	\$134.00	\$134.45	0.34%		

Intraday updates will be sent with exit trigger prices should it look like any Catapults have a chance tomorrow.

Stocks and ETF's on my Radar

When clusters get large and the market is in a strong selloff mode as it is now, I narrow my focus to Catapult and Index (SPY) trades. For those who would like a little more action I present the following:

ITA – The defense ETF with the high CBI % listed in the table above could provide a nice bounce. Wednesday's low of \$58 could provide a reasonable stop. (I would avoid IAT – the bank ETF - unless you don't have exposure already with WB, RF, and BAC.)

EPP and EWA – Australia and Pacific ex-Japan (pick one). Similar charts likely due to crossover of investments. Have both seen some pretty extreme selling over the last couple of weeks. The April lows are nearby as potential support. They both qualify under the May 9th system (SL80509 in the current directory). Below is the excerpt from the May 9th Subscriber Letter discussing that system:

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

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

None

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