

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 16, 2008

Issue 83

Market Overview

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

Study Date	Description	Time span	Bias
June 16, 2008	Friday-Monday Momentum	1-4 days	Bullish
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
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) – slightly bullish – updated 6/16/08

Friday was a strong day for the market. The S&P 500 rose 1.5%. Volume came in lighter, but advancers outnumbered decliners on the NYSE by about 2.5 to 1. Notably lagging were the banks.

In tonight's blog I looked at Monday performance of the stock market based on Fridays' strength. The basic results of the research were that the better the market performed on Friday, the better the market has performed on Monday. You may want to [review the blog](#) before continuing further as I am about to expand on those concepts below:

First is the table I showed in the blog which broke down Mondays' performance by Fridays' performance:

<i>Friday Up X Percent -Buy at close. Sell Monday at close. \$100,000 per trade. 1960-present</i>											
Pct Up Fri	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
2	\$24,217.85	43	33	76.74	\$2,731.56	(\$3,515.37)	\$1,019.79	(\$943.52)	1.08	\$563.21	3.57
1.75	\$28,764.32	65	45	69.23	\$2,731.56	(\$3,515.37)	\$1,027.77	(\$874.26)	1.18	\$442.53	2.65
1.5	\$43,109.27	100	65	65.00	\$5,396.04	(\$3,515.37)	\$1,081.33	(\$776.50)	1.39	\$431.09	2.59
1.25	\$58,863.56	160	102	63.75	\$5,396.04	(\$3,515.37)	\$984.03	(\$728.20)	1.35	\$367.90	2.42
1	\$76,593.52	246	152	61.79	\$5,396.04	(\$3,515.37)	\$913.99	(\$677.53)	1.35	\$311.36	2.23
0.75	\$118,659.79	378	236	62.43	\$5,396.04	(\$3,515.37)	\$879.27	(\$639.19)	1.38	\$313.91	2.34
0.5	\$144,816.33	602	362	60.13	\$5,396.04	(\$3,515.37)	\$791.86	(\$598.46)	1.32	\$240.56	2.02
0.25	\$137,718.00	921	528	57.33	\$5,396.04	(\$3,515.37)	\$701.23	(\$596.23)	1.18	\$149.53	1.59

Please note that for all tests I actually looked at the “day after Friday” – not Monday. In other words, if Monday was a holiday then Tuesday's results were factored in.

Since the market has been in a sustained downtrend I also wanted to see if performance was affected by these circumstances:

<i>Friday Up X Percent and close < 200ma. Buy at close. Sell Monday at close. \$100,000 per trade. 1960-present</i>											
Pct Up Fri	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
2	\$21,412.88	26	19	73.08	\$2,731.56	(\$2,259.18)	\$1,362.85	(\$640.19)	2.13	\$823.57	5.78
1.75	\$25,388.57	39	28	71.79	\$2,731.56	(\$2,859.30)	\$1,209.86	(\$771.60)	1.57	\$650.99	3.99
1.5	\$36,955.86	54	38	70.37	\$5,396.04	(\$2,859.30)	\$1,326.00	(\$839.51)	1.58	\$684.37	3.75
1.25	\$41,109.19	77	48	62.34	\$5,396.04	(\$3,049.54)	\$1,343.06	(\$834.21)	1.61	\$533.89	2.76
1	\$42,903.33	100	62	62.00	\$5,396.04	(\$3,049.54)	\$1,184.92	(\$825.99)	1.43	\$429.03	2.40
0.75	\$41,112.65	137	80	58.39	\$5,396.04	(\$3,049.54)	\$1,089.97	(\$837.91)	1.30	\$300.09	1.89
0.5	\$42,027.33	203	112	55.17	\$5,396.04	(\$3,049.54)	\$992.23	(\$776.43)	1.28	\$207.03	1.61
0.25	\$34,685.76	276	144	52.17	\$5,396.04	(\$3,049.54)	\$911.58	(\$742.94)	1.23	\$125.67	1.36

Somewhat surprisingly, when looking at the “Avg Trade” column, Friday momentum carried over to Monday in an even bigger way when the market was trading below its 200-day moving average.

But how has the momentum carried through for the rest of the week? The results here are quite interesting as well. I used the 1%+ Friday move for these tests to ensure I had a decent sample size for all of them. Pay special attention to the “Avg Trade” and “% Profitable” columns for all these studies. First I looked at performance the week following a 1%+ Friday:

<i>Friday up at least 1%. Buy at close. Hold "X" days. \$100,000 per trade. 1960-present.</i>											
X Days	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$47,733.13	242	138	57.02	\$8,821.54	(\$10,421.45)	\$1,914.94	(\$2,082.01)	0.92	\$197.24	1.22
4	\$51,715.45	246	136	55.28	\$6,383.20	(\$6,227.66)	\$1,717.20	(\$1,652.94)	1.04	\$210.23	1.28
3	\$49,987.62	246	134	54.47	\$6,877.26	(\$6,924.56)	\$1,492.10	(\$1,363.22)	1.09	\$203.20	1.33
2	\$47,234.25	246	134	54.47	\$5,842.98	(\$5,021.64)	\$1,185.73	(\$1,015.03)	1.17	\$192.01	1.42
1	\$76,593.52	246	152	61.79	\$5,396.04	(\$3,515.37)	\$913.99	(\$677.53)	1.35	\$311.36	2.23

Here you see a strong Monday that gave back gains the rest of the week.

Next I again looked at occurrences below the 200ma:

<i>Friday up at least 1% and below 200ma. Buy at close. Hold "X" days. \$100,000 per trade. 1960-present.</i>											
X Days	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$14,853.11	99	56	56.57	\$8,821.54	(\$7,022.60)	\$2,151.14	(\$2,456.06)	0.88	\$150.03	1.14
4	\$17,173.43	100	55	55.00	\$6,383.20	(\$6,227.66)	\$1,972.74	(\$2,029.50)	0.97	\$171.73	1.19
3	\$22,042.93	100	54	54.00	\$6,877.26	(\$6,924.56)	\$1,933.43	(\$1,830.27)	1.06	\$220.43	1.27
2	\$26,013.90	100	55	55.00	\$5,842.98	(\$5,021.64)	\$1,525.88	(\$1,286.88)	1.19	\$260.14	1.45
1	\$42,903.33	100	62	62.00	\$5,396.04	(\$3,049.54)	\$1,184.92	(\$825.99)	1.43	\$429.03	2.40

As we noted earlier, Mondays were even stronger in this case, but were given back the next day and the rest of the week even more forcefully.

Next I wanted to see what happened when the move up on Friday occurred the week before options expiration:

<i>Friday up at least 1%. Next week is options expiration. Buy at close. Hold "X" days. \$100,000 per trade. 1960-present.</i>											
X Days	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$35,090.99	65	43	66.15	\$8,821.54	(\$6,557.14)	\$1,997.08	(\$2,308.33)	0.87	\$539.86	1.69
4	\$40,606.14	65	43	66.15	\$6,383.20	(\$3,892.40)	\$1,751.14	(\$1,576.96)	1.11	\$624.71	2.17
3	\$32,149.49	65	43	66.15	\$4,492.54	(\$3,734.78)	\$1,381.64	(\$1,239.13)	1.12	\$494.61	2.18
2	\$30,980.66	65	41	63.08	\$5,468.05	(\$2,763.99)	\$1,247.45	(\$876.73)	1.42	\$476.63	2.54
1	\$29,621.15	65	48	73.85	\$2,609.46	(\$2,859.30)	\$860.44	(\$687.05)	1.25	\$455.71	3.54

Options expiration weeks saw even better Monday follow through. Also, the market tended to add on to its gains through the rest of the week rather than give much of them back.

Lastly, I put it all together to see what happens when Friday is up 1% and the market is trading below its 200ma and next week is options expiration:

Friday up at least 1% and close < 200ma. Next week is options expiration. Buy at close. Hold "X" days. \$100,000 per trade. 1960-present.											
X Days	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$18,842.72	27	17	62.96	\$8,821.54	(\$4,405.92)	\$2,632.02	(\$2,590.16)	1.02	\$697.88	1.73
4	\$19,233.01	27	18	66.67	\$6,383.20	(\$3,674.34)	\$2,143.53	(\$2,150.05)	1.00	\$712.33	1.99
3	\$12,865.76	27	17	62.96	\$4,492.54	(\$2,912.25)	\$1,649.90	(\$1,518.26)	1.09	\$476.51	1.85
2	\$13,970.89	27	17	62.96	\$5,468.05	(\$2,763.99)	\$1,451.57	(\$1,070.58)	1.36	\$517.44	2.30
1	\$13,525.81	27	19	70.37	\$2,248.00	(\$2,859.30)	\$1,066.18	(\$841.45)	1.27	\$500.96	3.01

These are the best results of all as we see the strongest Monday performance of the bunch along with the best follow-through for the rest of the week.

So Friday's 1.5% move up should be considered encouraging, at least for Monday and perhaps even further into the week. Now let's take a quick look at what the Aggregator chart is suggesting:



The strong performance the last two days has brought the market more in line with expectations. The green Aggregator line remains strongly positive. The McClellan Oscillator moved higher but still closed below zero at -79. The CBI also dropped slightly to 6 due to the trades listed in the CBI section below. These facts, along with the studies discussed above, suggest the best course of action would be to give the SPY trades a little bit more time before taking profits.

Intermediate-term Outlook (1 week – 2 months) – neutral – updated 6/16/2008

From an intermediate-term perspective, direction remains unclear. The last few weeks the S&P retraced a little more than 50% of its move up from the March lows to the May highs. It has now bounced for a couple of days. On a positive note we've seen indicators become extreme at a higher level than before. This includes the CBI, the McClellan Oscillator and several other indicators I've shown in the studies over the last couple of weeks.

The studies based on these indicators have been mostly bullish lately, but they are also short-term in nature. In other words, the last few days were expected and we may see more of a bounce this week. It's what happens when this bounce fizzles out that is unclear. Will the market be able to put together some higher lows and rally to new highs? Or will it continue the short-term downtrend and test the March bottom? At this point I remain somewhat neutral from an intermediate-term standpoint.

Below is a chart that I found to be interesting which shows an example of how breadth has weakened, which I consider to be a bad sign. The top portion of the chart is the S&P 500 since shortly after the January low was made. The blue indicator on the bottom of the chart is the number of NYSE new lows. The vertical maroon lines found throughout the chart show each day that the price dropped down through 1335 as it did on last Wednesday. As you can see, since the January bottom no drop through 1335 was accompanied by more new lows that were found last Wednesday.



As I mentioned, I've yet to find anything too compelling which would suggest to me that the market is highly more likely to test new highs before testing new lows, or visa-versa. Therefore I'll look to the short-term outlook to determine the trading bias, with an open mind to both long and short.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

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)
 RF – buy 1/3 position @ \$13.28 limit

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 6/3 (BAC-3, RF-2, 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	5.48
DJ US Regional Banks	IAT	16.25	DJ US Financial Services	IYG	10.49
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	2.11
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	4.08
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	6.12	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	8.33	DJ US Technology Sector	IYW	1.01
DJ US Home Construction	ITB	4.76	DJ US Telecommunications	IYZ	5.26
DJ US Consumer Svcs	IYC	1.32	Nasdaq 100	QQQQ	1.00

About 4 years ago I did some in depth market research on short-term tops and bottoms. The results of that research led me to develop the Hanna ETF Money Flow System, which was sold through TradingMarkets (and is no longer available). One of the more valuable pieces of information that the research revealed was that when the market reversed, even on a short-term basis, the groups that tended to get the most inflows and the best bounce were those that were most beaten down.

Over the last two days, banks and financials have lagged, which is quite unusual considering their state. Normally they would outperform the market on the bounce. I

expect and hope they will play some catch-up in the next few days, which should also give the broad market a nice boost. Should they fail to do so, that could be a bad sign for the broad market as well.

Additional New Trade Ideas

With two Catapult positions looking to be put on and the market already bouncing from oversold, I am not interested in adding additional new exposure just yet.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F	5/22/2008	\$7.49	\$6.27	-16.29%		sell on open
F	5/23/2008	\$6.99	\$6.27	-10.30%		sell on open
F	5/27/2008	\$6.79	\$6.27	-7.66%		sell on open
EZA	6/3/2008	\$126.01	\$117.99	-6.36%		sold on close
BAC	6/10/2008	\$29.35	\$29.78	1.47%		Catapult
WB	6/10/2008	\$18.63	\$18.19	-2.36%		Catapult
RF	6/10/2008	\$14.06	\$13.28	-5.55%		Catapult
SPY	6/10/2008	\$135.94	\$136.15	0.15%		
BAC	6/11/2008	\$29.62	\$29.78	0.54%		Catapult
SPY	6/12/2008	\$134.00	\$136.15	1.60%		

Ford hit its intraday target and an alert was sent out. The trade idea will be closed at tomorrow's open.

The exit trigger for EZA was when the 4-period RSI closed above the 15-period RSI. With a late push, that happened Friday. For my own trading I will give this one another day or two, as it appears it is just beginning to bounce. For purposes of tracking, I must close it since that is what the "system" called for. Traders should handle it however they best see fit.

Stocks and ETF's on my Radar

none

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

None

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