

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2008

Issue 84

Market Overview

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

Study Date	Description	Time span	Bias
June 17, 2008	3 up days - momentum slowing	1-10 days	Bearish
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 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) – neutral – updated 6/17/08

The market on Monday was mixed. The Nasdaq led the way gaining about 0.8%, the S&P 500 finished barely higher and the Dow was down 0.3%. Volume was lighter for the second day in a row. Breadth came in positive.

The bounce we were expecting early last week arrived over the last 3 days. The strength of the bounce to this point has been a bit disappointing and has fallen below average bounces when looking at such triggers as the CBI and McClellan Oscillator.

In [tonight's blog](#) I looked at situations where there was a deceleration in the short-term rise of the S&P 500. I found that when the market is trading below its 200 day moving average and it rises at least three days in a row but the rise on the most recent day was smaller than any of the others, the market is likely to reverse over the next few days. The historical return over the subsequent 2-10 days was quite negative.

Several of the indicators that were suggesting an upside edge last week have turned back towards neutral. The CBI closed at "3" today. The VXO, which was stretched to the upside last week, has now closed lower for three days in a row and below its 10-day moving average for the 2nd day. The McClellan Oscillator has moved from -200 to -34. As we saw last night these kind of moves during expiration week tend to carry further without reversing than they do during normal weeks. Still, last weeks edges are now dull and I'm seeing little that would suggest a strong upside edge.

Below is tonight's Aggregator chart to help illustrate this:



As you can see, the green Aggregator line remains above zero. It dropped quite a bit today, but the general consensus of the studies is still slightly positive. The black differential line shows that over the last three days the S&P has exceeded expectations by a decent amount. This is a profit-taking formation and that is what I am looking to do.

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
 RF – bought 1/3 position @ 13.22

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/2 (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	4.11
DJ US Regional Banks	IAT	12.50	DJ US Financial Services	IYG	7.69
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	2.70	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	4.88	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	4.76	DJ US Telecommunications	IYZ	5.26
DJ US Consumer Svcs	IYC	0.88	Nasdaq 100	QQQQ	0.00

Additional New Trade Ideas

With the market in a “profit taking” formation I’m reticent to go long anything that too closely correlates with the S&P. So tonight we have a currency play and a commodity play – both with the same setup.

FXV – buy @ \$92.28 limit. Enter stop @ \$91.89. Cancel purchase order if it looks to gap below the stop.

RIO - – buy @ \$34.84 limit. Enter stop @ \$33.94. Cancel purchase order if it looks to gap below the stop.

The setup for the trades is as follows: 1) Has closed below 10-period moving average for at least 10 days in a row. 2) Closed above its 200-day moving average. 3) Today’s low is the lowest low of the recent drop. 4) Today’s volume is the lowest volume in the last 10 days.

I tested the above criteria over the last ten years for both the current S&P 100 and my list of 104 liquid etf’s. Buying on the close and selling on a close above the 10-day moving average would have produced the following results:

	S&P 100	ETF's
Trades	81	39
Winners	66	34
Pct Winners	81.5%	87.2%
Avg Win	2.26%	1.68%
Avg Loss	-2.47%	-3.57%
Avg Trade	1.39%	1.10%
Profit Factor	4.0	4.0

The results assume no stop. With both attempting to find support near the 200-day moving average it makes sense to use a stop just below there.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
F	5/22/2008	\$7.49	\$6.25	-16.56%		sold
F	5/23/2008	\$6.99	\$6.25	-10.59%		sold
F	5/27/2008	\$6.79	\$6.25	-7.95%		sold
BAC	6/10/2008	\$29.35	\$30.29	3.20%		sell on open
WB	6/10/2008	\$18.63	\$18.20	-2.31%		Catapult
RF	6/10/2008	\$14.06	\$13.75	-2.20%		Catapult
SPY	6/10/2008	\$135.94	\$135.99	0.04%		stopped out
BAC	6/11/2008	\$29.62	\$30.29	2.26%		sell on open
SPY	6/12/2008	\$134.00	\$136.40	1.79%		sell @ \$136.20 limit
RF	6/16/2008	\$13.22	\$13.75	4.01%		bought at open

The short-term market analysis explains my reasons for profit taking in the SPY trade. I'm not terribly interested in selling into a large gap down and would give a chance to fill. Should it not fill in the first half-hour or so I would likely look to put a stop below the morning low.

BAC hit its exit trigger and will be closed at the open. The intraday update alerted subscribers to this.

Stocks and ETF's on my Radar

none

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

None

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