

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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## Market Overview

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

<b>Study Date</b>	<b>Description</b>	<b>Time span</b>	<b>Bias</b>
June 17, 2008	3 up days - momentum slowing	1-10 days	<b>Bearish</b>
June 16, 2008	Friday-Monday Momentum	1-4 days	<b>Bullish</b>
June 12, 2008	McClellan Osc minus 200	1-6 days	<b>Bullish</b>
June 10, 2008	Bad Breadth - S&P 500 Rises	1-10 days	<b>Bearish</b>
March 17, 2008	Consumer Sentiment Stretch	1-12 months	<b>Bullish</b>

### ***Short-term Outlook (1-5 days) – neutral – updated 6/19/08***

The market sold off again today with the S&P 500 dropping about 1%. Volume rose to an average level and decliners outpaced advancers by about 2.5 to 1. A bad day for the market.

The persistency of the selloff in the banks is amazing. In [the blog tonight](#) I looked at some statistics with regards to time spent below the 10-day moving average. BAC, RF, GM and WB have all gone 30 or more days without closing above their 30-day moving averages. You should recognize the WB and RF symbols. Those are a couple of Catapult trades that have gone badly as of late. It's no wonder they've been trouble since they've spent about a month and a half below their 10-day moving averages. Also now closing 30 days below their 10-day moving averages are two bank-related ETF's: KBE and RKH. In the "Stocks on Radar" section below I discuss possibilities for these ETF's in more depth.

One indicator that is starting to near some interesting levels is the Fosback High-Low Logic Index. Created by Norm Fosback it looks at the number of new 52-week highs and 52-week lows on the NYSE. The index reading is calculated by taking the lesser of the two numbers and dividing it by the total issues traded on the NYSE. When this number is relatively high, then that signifies a split market environment and it can be a warning sign of an imminent selloff. Some traders may be familiar with the Hindenburg Omen, which is a data-mined derivation from this indicator.

Since the normal use of this indicator is in helping to spot market tops, I was curious to see whether high readings during a downtrend also had negative implications. The short answer is yes. Even when the market is substantially below its 52-week highs as it is

now, high readings can precede even deeper selling. Should the number continue to get more extreme, I will look to present the statistics in a more detailed and organized format.

Below is a look at the Aggregator chart.



The S&P has underperformed expectations by a fairly large amount over the last few days as can be seen by the high level of the black differential line. This underperformance is not currently accompanied by positive expectations from the green Aggregator line as it was on June 3 & 4 and June 10, 11 & 12. This doesn't mean the market won't bounce here. It means I'm simply not uncovering compelling evidence that it will. The S&P has managed to hold above last week's lows so far and perhaps it will find support in this area. The Nasdaq is also above last week's lows. The Dow, on the other hand, made a lower low today. The index trades will many times play off the oscillations of the market. It is not a matter of trying to catch every move, though. Rather we look only to play when clear edges are identified and the market is set up in a favorable manner. At the current time clear edges are not apparent and so I'm standing aside.

***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.)***

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
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	13.75	DJ US Financial Services	IYG	9.09
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	1.41
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	1.15
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	4.76
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	4.08	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	5.56	DJ US Technology Sector	IYW	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	5.26
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	0.00

### **Additional New Trade Ideas**

none

### **Active Trades Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
WB	6/10/2008	\$18.63	\$16.88	-9.39%		Catapult
RF	6/10/2008	\$14.06	\$11.40	-18.92%		Catapult
RF	6/16/2008	\$13.22	\$11.40	-13.77%		Catapult
FXV	6/17/2008	\$92.20	\$92.54	0.37%	\$91.89	sell on close > 10ma

## **Stocks and ETF's on my Radar**

*KBE and RKH.* Looking back over the last 10 years I was only able to find 20 other instances of ETF's that had traded below their 10-day MA for at least 30 days in a row. Buying when the count hit 30 and selling on a close above the 10 MA would have produced the following trades:

<b>ETF</b>	<b>Entry Date</b>	<b>Exit Date</b>	<b>Entry Price</b>	<b>Exit Price</b>	<b>Pct G/L</b>	<b>Days In Trade</b>
EWW	8/31/1998	9/15/1998	7.81	9.06	16.01%	10
EWG	5/9/2000	5/12/2000	24.13	24.5	1.53%	3
IVW	3/16/2001	3/26/2001	55.84	56.47	1.13%	6
EWS	4/2/2001	4/5/2001	5.25	5.59	6.48%	3
IYE	7/18/2001	7/20/2001	47.37	49.3	4.07%	2
OIH	7/18/2001	7/20/2001	55.25	59.42	7.54%	2
XLE	7/18/2001	7/20/2001	28.74	29.66	3.20%	2
XLY	9/21/2001	9/27/2001	21.05	22.4	6.41%	4
XLF	9/25/2001	9/26/2001	23.41	23.64	0.98%	1
EWG	10/9/2002	10/10/2002	8.55	9.14	6.90%	1
TLT	7/30/2003	8/7/2003	84.2	84	-0.24%	6
SHY	5/7/2004	5/17/2004	81.48	81.75	0.33%	6
TIP	5/7/2004	5/13/2004	99.85	100.58	0.73%	4
XLV	7/26/2004	8/3/2004	28.63	28.86	0.80%	6
PPH	7/27/2004	8/2/2004	74.07	74.17	0.14%	4
AGG	3/30/2005	3/31/2005	100.88	100.93	0.05%	1
USO	9/21/2006	9/27/2006	55.89	57.16	2.27%	4
TIP	6/14/2007	6/19/2007	97.75	98.48	0.75%	3
EFA	1/28/2008	1/29/2008	71.48	71.91	0.60%	1
EWU	1/28/2008	1/29/2008	21.74	22	1.20%	1

Nineteen of 20 trades would have been winners. Average return of 3% and all but one trade was closed out within 6 days.

While it may be tempting to take a shot when looking at some of these statistics, I prefer to have price on my side as well as time. Price really just broke down today from the short-term consolidation that had formed over the last 6 days or so. Buying into selloffs that are potential breakdowns is dangerous. I would prefer to see price more extended before taking a shot. Therefore, I'll be keeping an eye out for either further deterioration or a reversal setup that could be used to more conservatively enter a position.

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

*None*

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