

PROQUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 20, 2008

Issue 87

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 10, 2008 | Bad Breadth - S&P 500 Rises | 1-10 days | Bearish |
| March 17, 2008 | Consumer Sentiment Stretch | 1-12 months | Bullish |

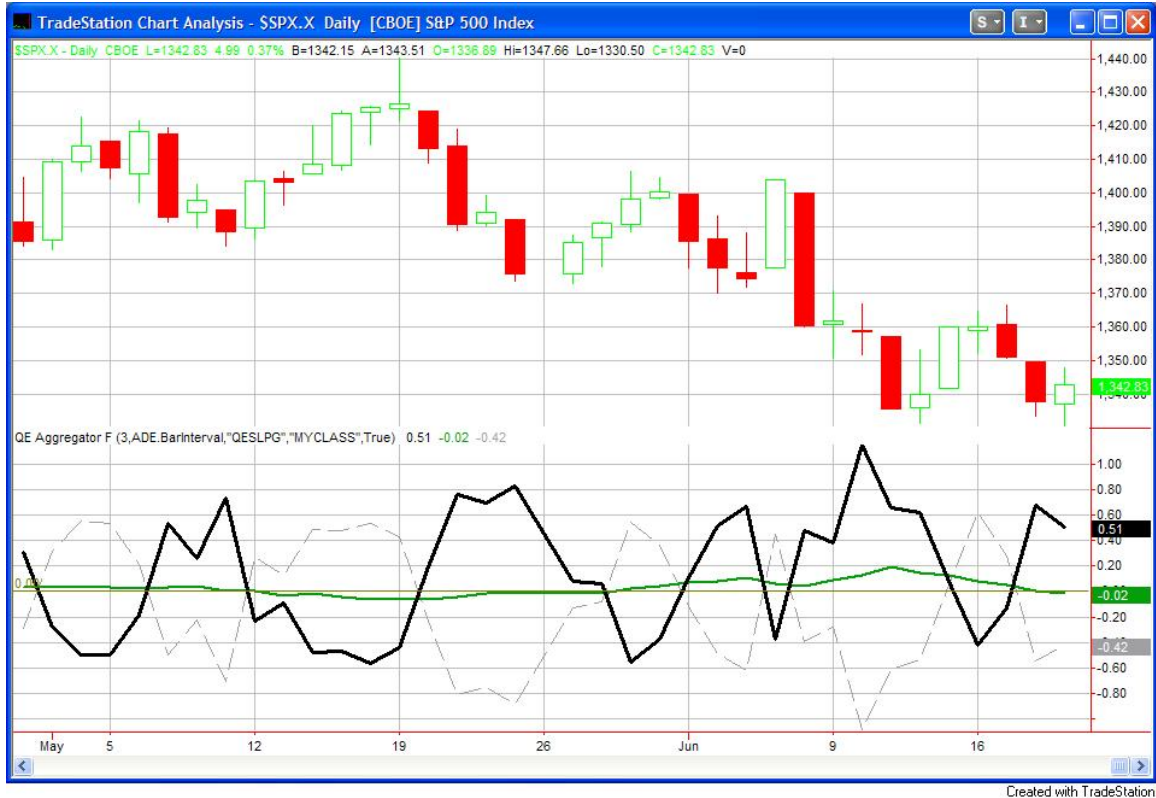
Short-term Outlook (1-5 days) – neutral – updated 6/20/08

The market put in a choppy day today. After selling off in the morning it bounced around and then close higher by a small amount. The S&P 500 finished up about 0.4%. Breadth was almost dead even. Volume rose a little.

Looking at the Summary of Studies above, what is so striking is the extremely low number of active studies. The last time there were as few as 3 active studies on the list was March 17th. I've had an extremely difficult time finding solid quantifiable edges over the last week or so. The multitude of studies with bullish implications from the beginning of June have all expired. Most of the studies I've looked at this over the past 2-3 days have been inconclusive. One example of this is from [tonight's blog](#). The fact that so little progress was made price-wise on Thursday's reversal changes the results from strongly positive to barely negative.

In the past when I've had difficulty in identifying edges, it has often led to choppy markets. That may well be what we are in for. Rather than performing extensive data-mining to try and uncover something, I normally find that patience is a better course of action. By letting the market come to me and not forcing trades I can become more receptive to new data that is coming in.

An updated Aggregator chart is below:



As you can see the green Aggregator line is now ever so slightly in negative territory. This is the first time this has happened in about a month. With the green Aggregator line negative, we would also be looking for the black differential line to be negative in order to initiate a short position. The differential line is squarely positive at the moment. As mentioned above, patience is important right now. With so few studies active, the green Aggregator line is capable of moving much faster and easier. I don't suspect it will be too long before some call to action arrives.

Another study I played around with tonight was examining how the market has performed when the Dow or S&P has been weak while the Nasdaq manage to hold up and at least chop sideways. I looked at it several different ways and results were inconclusive under all scenarios. One thing I can say is that it is fairly unusual for the Dow to drop as much as it has while the Nasdaq has held up. In fact it's only happened about ten times in the last 35 years. Performance following such occurrences was mixed.

Once again with clear edges not apparent, I am mostly looking to stand 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

New Triggers

GE – buy 1/3 position @ \$27.91

GE is another stock largely affected by the subprime mess. As with the bank Catapult trade ideas, I'd certainly suggest lighter than normal allocation if you are going to trade this one.

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 4/3 (RF-2, WB, GE)

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 | 5.82 |
| DJ US Regional Banks | IAT | 15.00 | DJ US Financial Services | IYG | 9.79 |
| 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 | 1.53 |
| DJ US Oil Equip & Svcs | IEZ | 0.00 | DJ US Consumer Goods | IYK | 6.12 |
| 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 | 2.44 | 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

Nothing is jumping out in this sideways market other than the GE trade.

There are numerous stocks listed in the “radar” section that attempted to reverse today. Should the market follow through to the upside, they stand a good chance of doing well.

Active Trades Table

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---------------|-------------------|--------------------|----------------------|--------------------|-------------|----------------------|
| WB | 6/10/2008 | \$18.63 | \$17.77 | -4.62% | | Catapult |
| RF | 6/10/2008 | \$14.06 | \$11.18 | -20.48% | | Catapult |
| RF | 6/16/2008 | \$13.22 | \$11.18 | -15.43% | | Catapult |
| FXV | 6/17/2008 | \$92.20 | \$92.41 | 0.23% | \$91.89 | sell on close > 10ma |

Stocks and ETF's on my Radar

All put in some kind of reversal today:

BK, IYR, KRE, UYG, XLF, XLI, CMCSA, CVS

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

None

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