

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 26, 2008

Issue 91

Market Overview

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

Study Date	Description	Time span	Bias
June 25, 2008	Pre-Fed Drop Studies	1-2 days	Bullish
June 25, 2008	Advancers Exp MA Ratio Study	1-20 days	Bullish
June 11/24	Draggin Breadth	1-10 days	Bearish
June 24, 2008	WR7 High Vol Down / NR7	1-18 days	Bullish
June 23, 2008	SPX under BB VIX not stretched	1-12 days	Bearish
June 23, 2008	Friday-Monday Negative Momo	1-4 days	Bearish
June 23, 2008	Gap & Drop At 50-low	1-19 days	Bullish
June 17, 2008	3 up days - momentum slowing	1-10 days	Bearish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) –bullish – updated 6/26/08

The Fed meeting today created a sizable amount of volatility. Stocks closed well off their highs though still positive on the day and slightly above the morning gap. Volume was fairly high with all the action. Breadth was quite strong for the 1st time in a while with advancing stocks outnumbering decliners by over 2:1.

The late-day fade was a bit of a disappointment as the market looked like it was ready to blast off a couple of times. I looked to see how the market has typically followed up a Fed day where the S&P gained between 0%-1%. Results were basically in line with random, providing no compelling edge in either direction.

The early morning strength caused the CBI to drop from “8” to “3”. This puts it back to a neutral state – no longer suggesting an upside edge. And while the remaining studies listed above is fairly mixed, the bullish suggestion far outweighs the bearish over the next few days. Below is the current Aggregator chart to help visualize this.



While the green Aggregator line is suggesting a move up over the next 3 days, the S&P relative performance and differential lines are basically flat. The S&P is no longer underperforming based on the action the past three days. From a trading perspective, I prefer both the green aggregator and black differential line to be stretched in the same direction as they were yesterday to suggest odds are strongly in my favor. I'm not seeing this and therefore am reluctant to add to the current long position. On the other hand, evidence is still suggesting a short-term upside edge. So selling the current position doesn't seem the right thing to do just yet either.

Therefore tonight I will simply hold tight and see what action tomorrow brings.

Intermediate-term Outlook (1 week – 2 months) – slightly bullish – updated 6/25/2008

I am now starting to see some intermediate-term indications that lead me to believe the market will soon enter a rally phase. I discussed some breadth indicators above that are effective for short-term analysis. I'm now also seeing some breadth indicators with more intermediate-term influence reaching extreme levels. For instance the number of stocks trading above their 40-day moving average dipped below 20% today. Also the number that are trading at least 1 standard deviation below their 40-day moving average is up to over 70%. These are extreme readings that have frequently led to intermediate-term advances.

For instance, looking back to 1988 and buying the S&P when the number of stocks trading above their 40-ma dipped below 20% and then selling when this number rose back above 45% would have been profitable 20 of 22 (91%) times. The average trade would have lasted between 4 and 5 weeks and the average return would have been

between 3.5% and 4.0%. Looking at various exit scenarios basically anything between 35% and 50% would have performed quite well.

In addition to the extreme breadth readings, consumer confidence continues to spiral downward. I looked at this in the blog back in March, and I intend to re-visit the study soon. The basic lesson from that study was that consumer confidence fell hard and bottomed near market bottoms. Returns going forward after similar deterioration in confidence were consistently good for the stock market.

The technical levels on everyone's minds are the March lows. The S&P and Nasdaq may or may not test/break these levels. If they do, by the time the market gets there (or a bit lower), I believe bearishness will reach such levels that the market will inevitably rally. At this point I would be surprised to see the selloff continue too much longer. I suspect a bottom at least as tradeable as the March bottom is likely to form soon.

I've moved the bias to "slightly bullish" rather than all-out "bullish" since I would like to see additional extremes or price confirmations before jumping in wholeheartedly.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

BAC – bought 1/3 position @ \$25.88

UNH – bought 1/3 position @ \$26.15

GM – bought 1/3 position @ \$12.76

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/3 (BAC, UNH, GM)

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	3.45	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	9.46	DJ US Financial	IYF	4.79
DJ US Regional Banks	IAT	7.50	DJ US Financial Services	IYG	4.90
DJ US Utilities	IDU	2.70	DJ US Healthcare	IYH	2.11
DJ US Oil&Gas Expl & Prod	IEO	1.72	DJ US Industrial Sector	IYJ	1.92
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	9.52
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	8.16	DJ US Real Estate	IYR	1.22
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	13.89	DJ US Technology Sector	IYW	1.01
DJ US Home Construction	ITB	4.76	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	3.07	Nasdaq 100	QQQQ	2.00

Additional New Trade Ideas

No official setups tonight. I'd prefer to see how the market plays out for another day before taking on more exposure. There is one setup in the "radar" section.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
WB	6/10/2008	\$18.63	\$17.87	-4.08%		exit on open
RF	6/10/2008	\$14.06	\$11.58	-17.64%		exit on open
RF	6/16/2008	\$13.22	\$11.58	-12.41%		exit on open
GE	6/20/2008	\$27.86	\$27.99	0.47%		exit on open
GE	6/23/2008	\$27.38	\$27.99	2.23%		exit on open
BAC	6/24/2008	\$25.88	\$26.61	2.82%		Catapult
UNH	6/24/2008	\$26.15	\$26.79	2.45%		Catapult
GM	6/24/2008	\$12.76	\$12.81	0.39%		Catapult
SPY	6/24/2008	\$131.05	\$131.81	0.58%		

Stocks and ETF's on my Radar

UPS – Triggered a system originally published on 5/9. From that Letter...

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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