

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 17, 2008

Issue 104

## Market Overview

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

<b>Study Date</b>	<b>Description</b>	<b>Time span</b>	<b>Bias</b>
July 16, 2008	Net New Lows	1-4 days	Bullish
July 15, 2008	Failed Gap Up in Downtrend	1-7 Days	Bullish
July 14, 2008	Drop prior to op-ex	1-4 days	Bullish
July 7, 2008	5 Weeks Lower	1-10 weeks	Bearish
July 2, 2008	CBI=10	1-8 days	Bullish
June 25, 2008	Advancers Exp MA Ratio Study	1-20 days	Bullish
June 24, 2008	WR7 High Vol Down / NR7	1-18 days	Bullish
June 23, 2008	Gap & Drop At 50-low	1-19 days	Bullish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

### ***Short-term Outlook (1-5 days) –bullish – updated 7/17***

The market finally put in a strong move up today. The S&P rose 2.5% and the Nasdaq rose 3% after coming off extremely oversold breadth readings. Breadth and volume both came in pretty strong, but not exceptionally. Breadth was positive by about 3 to 1. Not exactly the “buy anything” kind of stampede you normally find near bottoms, but still pretty good. Financials, especially banks, saw massive short-covering / value buying today. RKH, a regional bank ETF, rose 17.7%. That’s considered a nice year or two normally. Of course it is still down slightly over the last week. NYSE volume was above normal but not as high as yesterday.

In a vacuum, today’s action tells me very little about the probable direction of the market over the next 1-20 days. Strong moves off lows are common in bear markets. They sometimes result in a tradeable bottom and sometimes just roll over. Rather than just make a blanket statement, below is a table which illustrates what I’ve typically seen tonight:

<b>SPX closes at 20-day low and then rises between 2%-3% the next day.</b>						
<b>Buy on close. Sell X days later. \$100,000 per trade. 1960 - present.</b>						
X Days	Net Profit	Trades	% Wins	Avg Win	Avg Loss	Avg Trade
20	\$8,455.45	27	66.67	\$3,915.70	(\$6,891.91)	\$313.16
19	(\$5,023.50)	27	55.56	\$4,535.38	(\$6,087.85)	(\$186.06)
18	\$7,930.94	27	59.26	\$4,100.82	(\$5,243.83)	\$293.74
17	\$7,748.48	27	59.26	\$3,692.28	(\$4,666.18)	\$286.98
16	\$3,095.96	27	59.26	\$3,359.70	(\$4,605.38)	\$114.67
15	\$3,387.67	27	55.56	\$3,177.39	(\$3,689.44)	\$125.47
14	\$9,898.34	27	55.56	\$3,435.74	(\$3,469.81)	\$366.61
13	\$9,014.38	27	51.85	\$3,215.68	(\$2,769.63)	\$333.87
12	\$8,459.16	27	44.44	\$3,530.94	(\$2,260.81)	\$313.30
11	\$1,893.03	28	35.71	\$4,324.91	(\$2,297.56)	\$67.61
10	(\$13,662.50)	28	32.14	\$4,732.09	(\$2,960.60)	(\$487.95)
9	\$1,351.21	28	42.86	\$4,113.38	(\$3,000.58)	\$48.26
8	(\$6,095.69)	28	50.00	\$3,440.18	(\$3,875.59)	(\$217.70)
7	\$1,927.50	28	39.29	\$4,170.20	(\$2,584.98)	\$68.84
6	\$2,914.73	29	55.17	\$2,547.77	(\$2,911.51)	\$100.51
5	\$5,526.92	29	55.17	\$2,263.76	(\$2,361.01)	\$190.58
4	\$8,395.73	29	62.07	\$1,854.55	(\$2,271.47)	\$289.51
3	(\$1,165.15)	29	58.62	\$1,307.72	(\$1,949.70)	(\$40.18)
2	\$8,825.15	29	55.17	\$1,618.97	(\$1,313.72)	\$304.32
1	\$14,135.39	29	65.52	\$1,028.02	(\$539.70)	\$487.43

So just bouncing off lows doesn't seem to provide any edge – up or down. But as can be seen in the list of active studies above, there are many reasons to be bullish. An Aggregator chart is below which illustrates what the studies are suggesting:



As you can see the black differential line dropped sharply Wednesday due to the market's strong performance. Still it remains slightly above the 0 line. This means that over the last 3 days the actual return of the market has come close to falling in line with the estimates. Meanwhile, the green Aggregator line is still significantly above the 0 line. The studies are suggesting a bullish edge over the next few days.

Today's move was nice. But coming off New Lows readings like we had yesterday, and with several other bullish studies also in effect including a high CBI, a low McClellan Oscillator, a spike in the VIX (and VIX:VXV ratio), Investors Intelligence extreme bearishness and more, additional upside is expected in the next few days. I won't be selling the index positions just yet.

I will also be looking into some intermediate-term ramifications in the next few days, but based on some of the extreme levels the market hit, I'd say there is a good chance I will be changing the Intermediate-term Outlook to Bullish in the next day or two.

***Intermediate-term Outlook (1 week – 2 months) -neutral – updated 7/14***

As I discussed last week, my biggest concern remains the persistency of the downtrend. The S&P 500 has now closed below its 10-day moving average for 25 days in a row. Going back to 1960 this has only happened 8 other times. I've updated last week's table to show all the instances and how long they lasted.

<b>25th Day Below</b>	<b>Total # of Days Below</b>
November 8, 1967	25
November 27, 1973	27
June 16, 1969	28
February 9, 1984	29
March 14, 1980	30
January 31, 1977	31
May 1, 1970	38
May 22, 1962	45

As you can see, 1984 was the last time this has happened. The good news is these streaks normally ended with sharp spikes up. Below I listed what happened for the 5 longest.

- 1962 – Jumped 8.5% in 7 days.
- 1970 – Jumped 13.3% in 7 days.
- 1977 – Lamé bounce before more downside.
- 1980 – Jumped 4.5% in 4 days
- 1984 – Jumped 3.25% in two days.

Of course this probable spike doesn't necessarily bode well for the intermediate-term. Another example of persistent selling from this week is that this week the %b calculation for the default 20-period, 2 standard deviation bands on a weekly chart of the SPX closed at 5 or lower for the 3<sup>rd</sup> week in a row. This is fairly unusual. I ran a study to see the results of other times this had happened:

Using standard 20-period, 2 deviation Bollinger Bands on a weekly chart the SPX closes with a %b value of 5 or less three weeks in a row.												
Buy on close. Sell "X" weeks later. \$100,000 per trade. 1960 - present.												
Weeks	Net Profit	Trades	% Wins	Winners	Losers	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	(\$48,851.99)	22	45.45	10	12	\$7,397.91	(\$13,766.30)	\$2,914.21	(\$6,499.50)	0.45	(\$2,220.55)	0.37
4	(\$27,359.46)	22	36.36	8	14	\$10,298.34	(\$14,280.39)	\$3,759.10	(\$4,102.30)	0.92	(\$1,243.61)	0.52
3	(\$10,358.92)	22	50.00	11	11	\$8,883.81	(\$6,842.75)	\$2,172.40	(\$3,114.12)	0.70	(\$470.86)	0.70
2	(\$14,866.61)	22	54.55	12	10	\$6,528.60	(\$9,632.70)	\$2,856.27	(\$4,914.19)	0.58	(\$675.76)	0.70
1	(\$17,992.54)	22	54.55	12	10	\$4,850.40	(\$11,533.34)	\$1,396.76	(\$3,475.36)	0.40	(\$817.84)	0.48

Results here were quite poor over the subsequent five weeks.

Another interesting measure of breadth that hit an extreme on Friday was the number of NYSE stocks hitting new 52-week lows. Rather than just looking at 52-week lows, I typically like to look at the net number of new highs minus new lows. As with many of the indicators I use, I believe it's important to normalize the results when looking over long time periods. For this indicator the need to normalize springs from the fact that the total issues trading on the NYSE is significantly greater now than it was in the 1970's. Therefore I divide the raw result by the number of issues outstanding to get a percent figure. The total result on Friday was a net of just over 23% of the total issues traded on the NYSE. This is larger than the number seen at the March lows, but not quite as large as the 28% net seen at the January lows.

Rather than look for 1 day spiked I like to see what the result is over the course of several days. I looked back over 5 days and summed the results. Over the last 5 days the sum of (New highs - New lows) / Total Issues has been about -73%. I looked back in time to see what happened at other periods in time when this had occurred. The first set of results is from 1988 - present:

Sum of results of (NYSE New Highs - New Lows) / Total Issues over the last 5 days > 72.										
Buy at close. Sell "X" days later. \$100,000 per trade. 1988 - present.										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
20	\$38,392.87	7	100.00	7	0	\$5,484.70	\$0.00	100.00	\$5,484.70	100.00
19	\$35,195.40	7	100.00	7	0	\$5,027.91	\$0.00	100.00	\$5,027.91	100.00
18	\$39,111.80	7	100.00	7	0	\$5,587.40	\$0.00	100.00	\$5,587.40	100.00
17	\$40,711.36	7	100.00	7	0	\$5,815.91	\$0.00	100.00	\$5,815.91	100.00
16	\$34,106.48	7	100.00	7	0	\$4,872.35	\$0.00	100.00	\$4,872.35	100.00
15	\$28,618.13	7	71.43	5	2	\$6,200.64	(\$1,192.53)	5.20	\$4,088.30	13.00
14	\$26,312.79	7	71.43	5	2	\$5,803.48	(\$1,352.30)	4.29	\$3,758.97	10.73
13	\$28,453.43	7	71.43	5	2	\$5,973.98	(\$708.24)	8.43	\$4,064.78	21.09
12	\$29,208.47	7	85.71	6	1	\$5,142.21	(\$1,644.81)	3.13	\$4,172.64	18.76
11	\$25,479.24	7	85.71	6	1	\$4,770.29	(\$3,142.47)	1.52	\$3,639.89	9.11
10	\$24,057.46	7	85.71	6	1	\$4,264.64	(\$1,530.36)	2.79	\$3,436.78	16.72
9	\$24,215.27	7	85.71	6	1	\$4,330.11	(\$1,765.40)	2.45	\$3,459.32	14.72
8	\$21,669.42	7	71.43	5	2	\$5,455.04	(\$2,802.90)	1.95	\$3,095.63	4.87
7	\$25,582.71	7	85.71	6	1	\$4,604.09	(\$2,041.85)	2.25	\$3,654.67	13.53
6	\$27,727.31	7	85.71	6	1	\$4,682.65	(\$368.60)	12.70	\$3,961.04	76.22
5	\$29,676.78	8	87.50	7	1	\$4,978.82	(\$5,174.95)	0.96	\$3,709.60	6.73
4	\$23,740.30	8	75.00	6	2	\$4,718.73	(\$2,286.03)	2.06	\$2,967.54	6.19
3	\$22,102.27	10	80.00	8	2	\$3,297.53	(\$2,139.00)	1.54	\$2,210.23	6.17
2	\$20,052.60	11	81.82	9	2	\$2,717.07	(\$2,200.50)	1.23	\$1,822.96	5.56
1	\$19,421.38	21	61.90	13	8	\$2,321.67	(\$1,345.04)	1.73	\$924.83	2.80

Low instances but a nice edge once you get out 3 weeks. All winners for an average 5% gain.

The second set of results is from 1970-1981:

<b>Sum of results of (NYSE New Highs - New Lows) / Total Issues over the last 5 days &gt; 72.</b>										
<b>Buy at close. Sell "X" days later. \$100,000 per trade. 1970-1981.</b>										
X Days	New Profit	Trades	% Profitable	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
20	(\$11,851.10)	11	54.55	6	5	\$2,739.75	(\$5,657.91)	0.48	(\$1,077.37)	0.58
19	(\$16,516.59)	13	46.15	6	7	\$2,181.12	(\$4,229.05)	0.52	(\$1,270.51)	0.44
18	(\$12,089.70)	13	46.15	6	7	\$2,880.61	(\$4,196.19)	0.69	(\$929.98)	0.59
17	(\$11,679.24)	13	38.46	5	8	\$3,094.61	(\$3,394.04)	0.91	(\$898.40)	0.57
16	(\$13,648.70)	13	30.77	4	9	\$3,710.32	(\$3,165.55)	1.17	(\$1,049.90)	0.52
15	(\$15,034.15)	13	46.15	6	7	\$3,318.06	(\$4,991.78)	0.66	(\$1,156.47)	0.57
14	(\$12,823.66)	13	46.15	6	7	\$2,807.31	(\$4,238.22)	0.66	(\$986.44)	0.57
13	(\$13,512.35)	14	35.71	5	9	\$2,963.98	(\$3,148.03)	0.94	(\$965.17)	0.52
12	(\$11,924.34)	14	50.00	7	7	\$2,037.21	(\$3,740.68)	0.54	(\$851.74)	0.54
11	(\$2,946.35)	14	50.00	7	7	\$3,023.56	(\$3,444.47)	0.88	(\$210.45)	0.88
10	(\$5,645.63)	15	40.00	6	9	\$3,253.45	(\$2,796.26)	1.16	(\$376.38)	0.78
9	(\$14,979.74)	17	41.18	7	10	\$2,349.15	(\$3,142.38)	0.75	(\$881.16)	0.52
8	(\$3,013.85)	18	61.11	11	7	\$1,991.71	(\$3,560.39)	0.56	(\$167.44)	0.88
7	(\$718.49)	18	50.00	9	9	\$3,121.43	(\$3,201.26)	0.98	(\$39.92)	0.98
6	(\$6,065.44)	20	35.00	7	13	\$3,686.12	(\$2,451.41)	1.50	(\$303.27)	0.81
5	\$699.01	24	54.17	13	11	\$3,535.45	(\$4,114.71)	0.86	\$29.13	1.02
4	(\$422.54)	28	46.43	13	14	\$2,638.43	(\$2,480.15)	1.06	(\$15.09)	0.99
3	(\$2,512.22)	34	52.94	18	16	\$2,176.17	(\$2,605.21)	0.84	(\$73.89)	0.94
2	\$884.71	50	50.00	25	25	\$2,040.00	(\$2,004.61)	1.02	\$17.69	1.02
1	\$2,104.82	95	49.47	47	47	\$1,374.17	(\$1,329.38)	1.03	\$22.16	1.03

So here we have yet another example of an oversold breadth indicator that just didn't fare well in the 70's.

Below is a table showing the results with a 40-day holding period.

<b>Sum of results of (NYSE New Highs - New Lows) / Total Issues over the last 5 days &gt; 72.</b>				
<b>Hold for 40 days and then sell.</b>				
Date	Type	Price	% Profit	Run-up/Drawdown
4/23/1970	Buy	\$83.04	-7.86%	\$0.00
6/18/1970	Sell	\$76.51		(\$16,555.00)
3/22/1973	Buy	\$108.84	-4.58%	\$3,552.66
5/18/1973	Sell	\$103.86		(\$4,571.64)
5/18/1973	Buy	\$103.86	1.79%	\$4,261.66
7/17/1973	Sell	\$105.72		(\$2,481.96)
11/26/1973	Buy	\$96.58	0.51%	\$3,332.70
1/23/1974	Sell	\$97.07		(\$4,574.70)
4/29/1974	Buy	\$90.00	-1.13%	\$3,444.10
6/25/1974	Sell	\$88.98		(\$3,455.21)
7/2/1974	Buy	\$84.30	-16.06%	\$818.34
8/28/1974	Sell	\$70.76		(\$16,058.44)
8/28/1974	Buy	\$70.76	-0.76%	\$3,871.62
10/24/1974	Sell	\$70.22		(\$11,982.24)
3/27/1980	Buy	\$101.23	9.27%	\$9,998.31
5/23/1980	Sell	\$110.61		(\$3,464.37)
9/28/1981	Buy	\$115.52	5.26%	\$9,065.20
11/23/1981	Sell	\$121.60		(\$795.80)
10/19/1987	Buy	\$224.83	7.99%	\$15,286.92
12/15/1987	Sell	\$242.80		(\$3,716.28)
8/23/1990	Buy	\$307.06	1.76%	\$6,327.75
10/19/1990	Sell	\$312.47		(\$4,078.75)
8/28/1998	Buy	\$1,027.25	4.39%	\$5,509.60
10/26/1998	Sell	\$1,072.30		(\$10,083.15)
9/21/2001	Buy	\$965.80	17.90%	\$18,795.44
11/16/2001	Sell	\$1,138.65		\$0.00
7/24/2002	Buy	\$843.43	-0.01%	\$14,345.26
9/19/2002	Sell	\$843.32		(\$3,223.76)
8/16/2007	Buy	\$1,411.27	10.67%	\$11,537.40
10/12/2007	Sell	\$1,561.80		\$0.00
1/22/2008	Buy	\$1,310.51	-0.92%	\$6,498.76
3/19/2008	Sell	\$1,298.51		(\$4,068.28)

Since 1980 there appears to be a substantial upside edge. During the 70's the setup led to more downside.

I am going to remain neutral for my intermediate-term bias, effectively deferring to the short-term for most of my decision making. While persistence is suggesting we may be entering an environment more like the 60's and 70's than anything seen since, I'm still hesitant to completely discount the last 25-30 years of data. Most of the current studies are suggesting a short-term low should be near. If the market reacts to many of the recent breadth and sentiment readings the way it has for the last 25 years or so, there is a good chance an intermediate-term rally of several weeks to a few months could ensue. If not it could be a long and painful summer for the bulls. Rather than try and guess how significant the bounce may be for the intermediate-term, we may be better served by evaluating the action as it unfolds.

### **Catapult and Capitulative Breadth Statistics**

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

#### ***Open Catapult Trades***

CBS – bought 1/3 position @ \$17.59  
 EP – bought 1/3 position @ \$18.91  
 CBS –bought 1/3 position @ \$16.71  
 HIG bbought 1/3 position @ \$54.27  
 AIG buy 1/3 position @ \$20.64 – no fill yet

#### ***Open Big 50 Trades***

None

#### ***Catapult for ETF's Trades***

MDY –bought @ \$141.67

#### ***Broad Market Large Cap CBI – 5/4 (CBS-2, EP, HIG, AIG)***

#### ***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	6.90	DJ US Energy	IYE	3.49
DJ US Insurance Index	IAK	14.86	DJ US Financial	IYF	8.56
DJ US Regional Banks	IAT	5.00	DJ US Financial Services	IYG	5.59
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	4.21
DJ US Oil Equip & Svcs	IEZ	1.92	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	7.32
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.78	DJ US Technology Sector	IYW	3.02
DJ US Home Construction	ITB	4.76	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	6.58	Nasdaq 100	QQQQ	4.00

#### **Additional New Trade Ideas**

Wait and see. Hopefully entering profit-taking mode over the next few days.

## Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	6/24/2008	\$131.05	\$124.01	-5.37%		
SPY	6/27/2008	\$128.28	\$124.01	-3.33%		
SPY	7/1/2008	\$126.52	\$124.01	-1.98%		
NYX	7/2/2008	\$49.51	\$44.41	-10.30%		sell on open
NYX	7/3/2008	\$47.72	\$44.41	-6.94%		sell on open
NYX	7/7/2008	\$47.07	\$44.41	-5.65%		sell on open
UNH	7/7/2008	\$22.71	\$22.53	-0.79%		sell on open
CBS	7/8/2008	\$17.59	\$16.91	-3.87%		Catapult
MDY	7/8/2008	\$141.67	\$143.45	1.26%		Catapult for ETF's
EP	7/10/2008	\$18.90	\$18.84	-0.32%		Catapult
SPY	7/15/2008	\$121.80	\$124.01	1.81%		
CBS	7/15/2008	\$16.71	\$16.91	1.20%		Catapult
HIG	7/16/2008	\$54.27	\$58.38	7.57%		Catapult

MDY is very close to an exit trigger. I'll be sure to send an intraday update to subscribers tomorrow with the intraday target.

### Stocks and ETF's on my Radar

*None tonight.*

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

*None*

### ***June Results and discussion of Catapult performance.***

All trade ideas closed out in June are listed below. Incredibly poor performance by two of the Catapult trade ideas, Ford (F) and Regions Financial (RF) made for a very difficult month. There were also Quantifiable Edges System trades that performed poorly in June. Since I am not acting as an advisor, I only offer out ideas. I don't suggest position sizes. Therefore, no matter how objective I try to be the reporting of the results is always going to look a little skewed depending on how you approach the trades. For instance, I always recommend scaling into the Catapult positions in 3 parts, whereas the "System" trades (whatever system I unveil other than Catapult) are normally one entry. The "QE Index" trades I normally recommend scaling into as well. For my own trading I trade much much larger size with the index trades than any of the individuals.

What might be most fair when evaluating the trade ideas would be to separate them by group. I'll consider ways to present it in such a manner in the future. The stats below should give you some idea, though.

After a dreadful June, the Catapults gave back all they gained in the March period and more. The net total for this group is -13.6% since February inception. If you're dividing your lots in three pieces as recommended, then that would be about -4.5% additive return on these positions.

The "system" trade also gave back much of their previous gains in June. As such, their net additive return fell to a +7.6% since inception.

The index trades (primarily SPY) which also get scaled into frequently did fine in June. They are at a gross positive 34.3% since inception (February 19<sup>th</sup>). Due to scaling this number would be reduced as well. I normally scale in 3 or 4 parts.

The June trades are all listed below:

<b>June</b>											
MER	Stock	QE System	Long	5/23/2008	\$44.29	6/3/2008	\$42.34	-4.4%	0	0.00%	-4.40%
SPY	Index	QE Index	Long	6/4/2008	\$137.77	6/4/2008	\$137.89	0.1%	1	0.09%	0.00%
ATI	Stock	QE System	Long	6/6/2008	\$67.73	6/10/2008	\$65.84	-2.8%	0	0.00%	-2.79%
EZA	ETF	QE System	Long	6/3/2008	\$126.01	6/16/2008	\$117.99	-6.4%	0	0.00%	-6.36%
F	Stock	Catapult	Long	5/22/2008	\$7.49	6/17/2008	\$6.25	-16.6%	0	0.00%	-16.56%
F	Stock	Catapult	Long	5/23/2008	\$6.99	6/17/2008	\$6.25	-10.6%	0	0.00%	-10.59%
F	Stock	Catapult	Long	5/27/2008	\$6.79	6/17/2008	\$6.25	-8.0%	0	0.00%	-7.95%
BAC	Stock	Catapult	Long	6/10/2008	\$29.35	6/18/2008	\$30.72	4.7%	1	4.67%	0.00%
BAC	Stock	Catapult	Long	6/11/2008	\$29.62	6/18/2008	\$30.72	3.7%	1	3.71%	0.00%
SPY	Index	QE Index	Long	6/12/2008	\$134.00	6/18/2008	\$137.07	2.3%	1	2.29%	0.00%
FXI	ETF	QE System	Long	6/17/2008	\$92.20	6/22/2008	\$93.05	0.9%	1	0.92%	0.00%
WB	Stock	Catapult	Long	6/10/2008	\$18.63	6/26/2008	\$17.36	-6.8%	0	0.00%	-6.82%
RF	Stock	Catapult	Long	6/10/2008	\$14.06	6/26/2008	\$11.40	-18.9%	0	0.00%	-18.92%
RF	Stock	Catapult	Long	6/16/2008	\$13.22	6/26/2008	\$11.40	-13.8%	0	0.00%	-13.77%
GE	Stock	Catapult	Long	6/20/2008	\$27.86	6/26/2008	\$27.59	-1.0%	0	0.00%	-0.97%
GE	Stock	Catapult	Long	6/23/2008	\$27.38	6/26/2008	\$27.59	0.8%	1	0.77%	0.00%
<b>Summary - June</b>											
Winners	6		Avg Win	2.07%							
Losers	10		Avg Loss	-8.91%							
Pct Winners	37.50%		Avg Trd Idea	-4.79%							
			Profit Factor	0.14							
<b>Summary - Since 2/19/08 Inception</b>											
Winners	53		Avg Win	2.81%							
Losers	22		Avg Loss	-5.50%							
Pct Winners	70.67%		Avg Trd Idea	0.38%							
			Profit Factor	1.23							

So even as frustrating as the last month has been (and it has) for me, the trades ideas are still holding up when looking back a few months.

The most frustrating part has certainly been the Catapult trades. This is by far the worst they have performed for me. The most disappointing part is that they were designed to take advantage of bear market environments. As I've discussed, sharp selloffs over the last 25 years have almost always led to sharp rebounds. It these sharp short-term rebounds that the Catapult has traditionally done so well at capturing. This was seen in March in the Subscriber Letter. Nearly all prior selling sprees have also meant good opportunity and profits for the Catapult trades as well. To illustrate I showed a couple of periods at the bottom of this Letter. The 1<sup>st</sup> is the June/July selloff from 2002. As you'll see, the Catapults worked fantastically during this period. The 2<sup>nd</sup> period is the January 2008 selloff. This table was lifted from the primer.

I strongly feel the reason the Catapults have failed so miserably in this recent selloff is the persistence and lack of sharp bounces. It has now been 28 days the S&P has closed under its 10-day moving average. This is an incredibly long period of time with few comparisons.

When large clusters of Catapult trades begin to form I typically focus primarily on them along with some index trades. In the past this strategy has served me well. While the recent selloff has been difficult, it has also been incredibly unusual. In the future I will likely take a similar approach. I'm sorry if some of you have suffered through the same trades as me over the last month. I'd be surprised to see this happen again. Still, it will be nice once the CBI is back to neutral and I can comfortably begin take other system trades, both long and short.

**2002 June-July Market Selloff**

**Backtested Catapult Trade Results (Test run in 2005)**

Symbol	Entry	Exit	Entry Price	Exit Price	% Gain/Loss
WMT	5/30/2002	6/5/2002	53.99	54.96	1.80%
EMC	6/3/2002	6/6/2002	6.81	7.28	6.90%
EP	5/29/2002	6/13/2002	27.01	22.55	-16.51%
EP	5/30/2002	6/13/2002	25.5	22.55	-11.57%
EP	6/3/2002	6/13/2002	21.95	22.55	2.73%
AES	6/5/2002	6/13/2002	5.24	4.86	-7.25%
AES	6/6/2002	6/13/2002	4.49	4.86	8.24%
AES	6/7/2002	6/13/2002	3.9	4.86	24.62%
UIS	6/12/2002	6/17/2002	9.89	10.25	3.64%
UIS	6/13/2002	6/17/2002	9.73	10.25	5.34%
UIS	6/14/2002	6/17/2002	9.7	10.25	5.67%
WMB	6/11/2002	6/19/2002	7.5	7.54	0.53%
WMB	6/12/2002	6/19/2002	7.43	7.54	1.48%
T	6/12/2002	6/24/2002	19.98	20.68	3.50%
WMB	6/24/2002	7/1/2002	6.53	5.66	-13.32%
WMB	6/25/2002	7/1/2002	5.94	5.66	-4.71%
WMB	6/26/2002	7/1/2002	5.75	5.66	-1.57%
LU	6/25/2002	7/5/2002	1.97	1.82	-7.61%
LU	6/26/2002	7/5/2002	1.58	1.82	15.19%
LU	6/27/2002	7/5/2002	1.52	1.82	19.74%
UIS	6/26/2002	7/12/2002	8.5	8.05	-5.29%
BAX	6/26/2002	7/16/2002	44.09	41.15	-6.67%
ABT	7/11/2002	7/16/2002	29.63	31.45	6.14%
CL	7/19/2002	7/23/2002	44.36	47.2	6.40%
AVP	7/17/2002	7/24/2002	22.77	23.25	2.11%
PG	7/17/2002	7/24/2002	40.03	41.13	2.75%
RSH	7/17/2002	7/24/2002	26	25.68	-1.23%
AVP	7/18/2002	7/24/2002	22.46	23.25	3.52%
RSH	7/18/2002	7/24/2002	25.27	25.68	1.62%
AVP	7/19/2002	7/24/2002	21.86	23.25	6.36%
RSH	7/19/2002	7/24/2002	24.8	25.68	3.55%
GM	7/22/2002	7/24/2002	41	44.75	9.15%
CAT	7/23/2002	7/24/2002	20	21.6	8.00%
CI	7/17/2002	7/25/2002	85.33	81.28	-4.74%
CI	7/18/2002	7/25/2002	82.8	81.28	-1.83%
AEP	7/19/2002	7/25/2002	28.3	29.5	4.24%
CI	7/19/2002	7/25/2002	82.16	81.28	-1.07%
HAL	7/19/2002	7/25/2002	11.55	12.54	8.57%
AEP	7/22/2002	7/25/2002	26.02	29.5	13.37%
HAL	7/22/2002	7/25/2002	9.97	12.54	25.78%
SBC	7/22/2002	7/25/2002	23.96	26.01	8.55%
AEP	7/23/2002	7/25/2002	23.51	29.5	25.48%
EXC	7/23/2002	7/25/2002	20.17	22.77	12.89%
HAL	7/23/2002	7/25/2002	9.1	12.54	37.80%
SBC	7/23/2002	7/25/2002	23.3	26.01	11.63%
HIG	6/27/2002	7/26/2002	58.04	48.7	-16.08%
HIG	7/18/2002	7/26/2002	50.15	48.7	-2.89%
HIG	7/19/2002	7/26/2002	49.53	48.7	-1.67%
AIG	7/23/2002	7/26/2002	51.1	56.82	11.19%
BAC	7/23/2002	7/26/2002	28.95	30.83	6.49%
HPQ	7/17/2002	7/29/2002	13.57	12.98	-4.35%
MCD	7/17/2002	7/29/2002	25.7	24.68	-3.97%
HPQ	7/18/2002	7/29/2002	13.35	12.98	-2.77%
MCD	7/18/2002	7/29/2002	25.11	24.68	-1.71%
ATI	7/19/2002	7/29/2002	10.98	10.24	-6.74%
HPQ	7/19/2002	7/29/2002	12.8	12.98	1.41%
MCD	7/19/2002	7/29/2002	24.17	24.68	2.11%
ATI	7/22/2002	7/29/2002	10.51	10.24	-2.57%
JPM	7/22/2002	7/29/2002	24.52	25.1	2.37%
ROK	7/22/2002	7/29/2002	16.26	18.61	14.45%
VZ	7/22/2002	7/29/2002	28.65	30.43	6.21%
ATI	7/23/2002	7/29/2002	9.66	10.24	6.00%
AXP	7/23/2002	7/29/2002	25.09	29.32	16.86%
C	7/23/2002	7/29/2002	25.21	31.1	23.36%
CCU	7/23/2002	7/29/2002	25	27.39	9.56%
CVX	7/23/2002	7/29/2002	33.48	37.19	11.08%
JPM	7/23/2002	7/29/2002	20.08	25.1	25.00%
ROK	7/23/2002	7/29/2002	16.2	18.61	14.87%
VZ	7/23/2002	7/29/2002	27.43	30.43	10.94%
WMB	7/23/2002	7/29/2002	1.19	1.99	67.23%
BMV	7/24/2002	7/29/2002	20.55	22.53	9.63%
EP	7/16/2002	7/30/2002	16.57	14.55	-12.19%
EP	7/17/2002	7/30/2002	14.9	14.55	-2.35%
EP	7/18/2002	7/30/2002	13.6	14.55	6.98%
RTN	7/22/2002	7/30/2002	29.05	31.9	9.81%
ETR	7/23/2002	7/30/2002	33.18	39.82	20.01%
RTN	7/23/2002	7/30/2002	29	31.9	10.00%
S	7/25/2002	7/31/2002	9	9.35	3.89%
S	7/26/2002	7/31/2002	7.05	9.35	32.62%
<b>Wins</b>	<b>55</b>				
<b>Losses</b>	<b>24</b>				
<b>Avg Win</b>	<b>11.26%</b>				
<b>Avg Loss</b>	<b>-5.86%</b>				
<b>Avg Trade</b>	<b>6.04%</b>				

**Janusry 2008 cluster of Catapult trades**

<b>Symbol</b>	<b>Entry Date</b>	<b>Exit Date</b>	<b>Entry Price</b>	<b>Exit Price</b>	<b>Gain/Loss</b>
SLE	1/17/2008	1/28/2008	14.65	14.33	-2.18%
DIS	1/18/2008	1/24/2008	28.51	29.23	2.53%
S	1/18/2008	1/28/2008	8.7	9.97	14.60%
SLE	1/18/2008	1/28/2008	14.4	14.33	-0.49%
TYC	1/22/2008	1/23/2008	33.72	36.4	7.95%
UTX	1/22/2008	1/23/2008	67.24	70.98	5.56%
CCU	1/22/2008	1/24/2008	32.14	33.72	4.92%
CSCO	1/22/2008	1/24/2008	23.42	25.11	7.21%
XRX	1/22/2008	1/24/2008	13.1	14.33	9.39%
DIS	1/22/2008	1/24/2008	28.12	29.23	3.95%
SLE	1/22/2008	1/28/2008	13.93	14.33	2.87%
BMY	1/22/2008	1/29/2008	22.89	23.61	3.14%
BMY	1/23/2008	1/29/2008	22.59	23.61	4.51%
AAPL	1/23/2008	1/31/2008	139.07	135.36	-2.67%
AAPL	1/24/2008	1/31/2008	135.6	135.36	-0.18%
AAPL	1/25/2008	1/31/2008	130.01	135.36	4.11%

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