

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2008

Issue 105

Market Overview

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

Study Date	Description	Time span	Bias
July 18, 2008	Big Volume Big Gain Under 200	1-18 days	Bullish
July 18, 2008	2% then 1% gains under the 200	1-19 days	Bullish
July 16, 2008	Net New Lows	1-4 days	Bullish
July 15, 2008	Failed Gap Up in Downtrend	1-7 Days	Bullish
July 7, 2008	5 Weeks Lower	1-10 weeks	Bearish
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) –neutral – updated 7/18

On Thursday the market followed through nicely on Wednesday's gains. The S&P was up 1.2%, the Nasdaq 1.2% and the Dow 1.85%. Advancers outpaced decliners by more than 2.5 to 1. Volume came in at the highest level since March.

The strong breadth the last two days has caused many of the breadth indicators and systems I've discussed over the last month or so to finally see an end to their oversold conditions. These include the [McClellan Oscillator](#), which finally moved back above 0 and the [10-day Adv/Decl EMA](#). The CBI has now dropped down to 4 – nearly signaling a neutral state. Many of the CBI percentages in the Sector CBI% Breakdown table have also dropped precipitously. If the positive breadth readings can be sustained then that could act a positive moving forward. I'll discuss an example of a positive breadth system in tomorrow night's Letter.

The strong volume on the rise today is a good sign. In [tonight's blog](#) I showed a study which looked at strong up days on high volume. Results were strongly positive when looking out over the next 1-20 days.

Another study I looked at tonight were times when the S&P 500 was trading below its 200 day moving average and a day that gained 2% (like Wednesday) was immediately followed up with a day that gained at least 1%.

SPX follows up a 2%+ day with a 1%+ day while trading < 200-day moving avg. Buy on close. Sell X days later. \$100,000 per trade. 1960-present.												
X Days	Net Profit	Gross Profit	Gross Loss	Trades	% Wins	Wins	Losses	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
20	\$73,176.27	\$96,452.79	(\$23,276.52)	28	75.00	21	7	\$4,592.99	(\$3,325.22)	1.38	\$2,613.44	4.14
19	\$78,555.07	\$102,597.40	(\$24,042.33)	28	75.00	21	7	\$4,885.59	(\$3,434.62)	1.42	\$2,805.54	4.27
18	\$71,736.71	\$97,927.63	(\$26,190.92)	29	75.86	22	7	\$4,451.26	(\$3,741.56)	1.19	\$2,473.68	3.74
17	\$68,975.47	\$95,072.63	(\$26,097.16)	30	66.67	20	10	\$4,753.63	(\$2,609.72)	1.82	\$2,299.18	3.64
16	\$54,624.78	\$85,691.06	(\$31,066.28)	30	60.00	18	12	\$4,760.61	(\$2,588.86)	1.84	\$1,820.83	2.76
15	\$39,217.15	\$73,725.25	(\$34,508.10)	30	60.00	18	12	\$4,095.85	(\$2,875.68)	1.42	\$1,307.24	2.14
14	\$23,941.00	\$67,045.64	(\$43,104.64)	31	58.06	18	13	\$3,724.76	(\$3,315.74)	1.12	\$772.29	1.56
13	\$22,292.09	\$66,702.75	(\$44,410.66)	32	59.38	19	13	\$3,510.67	(\$3,416.20)	1.03	\$696.63	1.50
12	\$13,706.67	\$52,309.05	(\$38,602.38)	32	50.00	16	16	\$3,269.32	(\$2,412.65)	1.36	\$428.33	1.36
11	\$28,295.22	\$63,516.16	(\$35,220.94)	33	57.58	19	14	\$3,342.96	(\$2,515.78)	1.33	\$857.43	1.80
10	\$21,491.48	\$61,137.52	(\$39,646.04)	33	48.48	16	17	\$3,821.10	(\$2,332.12)	1.64	\$651.26	1.54
9	\$15,089.29	\$57,127.99	(\$42,038.70)	33	51.52	17	16	\$3,360.47	(\$2,627.42)	1.28	\$457.25	1.36
8	\$32,154.00	\$66,476.05	(\$34,322.05)	34	55.88	19	15	\$3,498.74	(\$2,288.14)	1.53	\$945.71	1.94
7	\$18,361.13	\$62,572.72	(\$44,211.59)	34	52.94	18	16	\$3,476.26	(\$2,763.22)	1.26	\$540.03	1.42
6	\$18,155.51	\$62,419.05	(\$44,263.54)	35	54.29	19	16	\$3,285.21	(\$2,766.47)	1.19	\$518.73	1.41
5	\$16,724.25	\$55,085.04	(\$38,360.79)	35	57.14	20	15	\$2,754.25	(\$2,557.39)	1.08	\$477.84	1.44
4	\$5,255.04	\$42,359.67	(\$37,104.63)	35	57.14	20	15	\$2,117.98	(\$2,473.64)	0.86	\$150.14	1.14
3	(\$6,973.51)	\$29,668.66	(\$36,642.17)	35	54.29	19	16	\$1,561.51	(\$2,290.14)	0.68	(\$199.24)	0.81
2	\$11,227.10	\$32,582.70	(\$21,355.60)	36	50.00	18	18	\$1,810.15	(\$1,186.42)	1.53	\$311.86	1.53
1	\$4,273.01	\$27,475.04	(\$23,202.03)	42	52.38	22	19	\$1,248.87	(\$1,221.16)	1.02	\$101.74	1.18

A choppy first few days turns into a solid edge over the next few weeks. So far so good with this attempted rally.

Below is an updated Aggregator chart.



While the green Aggregator line is remains firmly above zero, the black differential line has taken a sharp dip, signaling the market has soundly outperformed expectations over the last few days. This is a profit-taking formation and a good place to think about taking a portion of the SPY trade off.

A continued rise over the next few days could set up a short trade as the market tests overbought in a downtrend. With the positive implications of the current batch of studies, though, I'll be more focused on buying pullbacks than shorting.

Intermediate-term Outlook (1 week – 2 months) -neutral – updated 7/14 – not updated tonight

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.

25th Day Below	Total # of Days Below
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 – Lame 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 3rd 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:

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. 1970-1981.										
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.

Sum of results of (NYSE New Highs - New Lows) / Total Issues over the last 5 days > 72.				
Hold for 40 days and then sell.				
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 bought 1/3 position @ \$54.27

Open Big 50 Trades

None

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 4/3 (CBS-2, EP, HIG)

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	2.33
DJ US Insurance Index	IAK	6.76	DJ US Financial	IYF	3.77
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	1.40
DJ US Utilities	IDU	6.76	DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	1.72	DJ US Industrial Sector	IYJ	1.53
DJ US Oil Equip & Svcs	IEZ	1.92	DJ US Consumer Goods	IYK	2.04
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	4.88
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	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	2.63	Nasdaq 100	QQQQ	2.00

Additional New Trade Ideas

No compelling opportunities currently.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	6/24/2008	\$131.05	\$125.29	-4.40%		sell @ \$125.15 limit
SPY	6/27/2008	\$128.28	\$125.29	-2.33%		Sell close > \$125.29
SPY	7/1/2008	\$126.52	\$125.29	-0.97%		
NYX	7/2/2008	\$49.51	\$45.35	-8.40%		sold on open
NYX	7/3/2008	\$47.72	\$45.35	-4.97%		sold on open
NYX	7/7/2008	\$47.07	\$45.35	-3.65%		sold on open
UNH	7/7/2008	\$22.71	\$22.60	-0.48%		sold on open
CBS	7/8/2008	\$17.59	\$17.31	-1.59%		Catapult
MDY	7/8/2008	\$141.67	\$144.34	1.88%		sold intraday
EP	7/10/2008	\$18.90	\$18.30	-3.17%		Catapult
SPY	7/15/2008	\$121.80	\$125.29	2.87%		
CBS	7/15/2008	\$16.71	\$17.31	3.59%		Catapult
HIG	7/16/2008	\$54.27	\$58.73	8.22%		Catapult

We were stopped out of the MDY position of the intraday alert was sent out to subscribers.

CBS is very close to triggering an exit. I'll calculate the level in morning and send out an update.

I'll definitely be looking to take of at least half the SPY trade tomorrow. As I type tonight the futures are down on some earnings disappointments. I'm not terribly interested in selling into a gap down. I've set up some initial parameters above. I may revise them or look to sell more depending on tomorrow's action. I'll send out an update should anything substantial happen.

Stocks and ETF's on my Radar

None tonight.

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

None

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