

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 11, 2008

Issue 121

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
August 10, 2008	Strong Friday	1-4 Days	Bullish
7/30 & 8/10	Big up after big down	1-12 days	Bullish
August 8, 2008	Nasdaq Dn Sox Up	1-30 Days	Bullish
August 7, 2008	20 day high on low volume	1-10 days	Bearish
August 6, 2008	Fed day spike	1-10 days	Bearish
August 6, 2008	Put/Call 100-day low	1-10 days	Bearish
July 31, 2008	Strong move on rising volume	1-10 days	Bullish
July 29, 2008	Down 1.5% lowest vol in 10 days	1-12 days	Bullish
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 7, 2008	5 Weeks Lower	1-10 weeks	Bearish
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish

Short-term Outlook (1-5 days) – neutral – updated 8/11

After wild up and down action throughout the week, the market finished with strong gains on Friday. The S&P, Dow and Nasdaq all rose over 2% on the day, erasing Thursday's big down day. Breadth was strong, but not overwhelmingly so as advancing volume exceeded declining volume by between 3:1 and 4:1. We still haven't approached a 9:1 day since the July bottom. Volume was noticeably weak on Friday, which is not normally a good sign.

Friday's action did rekindle some recent studies. First, on Wednesday night I looked at cases where the market finished at a 20-day high while under its 200-day moving average and volume came in lower than the day before. I posted the results for the S&P 500 in the blog. Those results are below:

<i>SPX makes 20-day high and closes under 200 day MA. Volume is lower than yesterday</i>										
<i>Buy at close. Sell X days later. \$100k per trade. 1993 - present.</i>										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$19,211.82)	20	6	14	30.00	\$2,556.68	(\$2,467.99)	1.04	0.44	(\$960.59)
9	(\$24,815.47)	21	7	14	33.33	\$1,735.61	(\$2,640.34)	0.66	0.33	(\$1,181.69)
8	(\$19,672.60)	21	7	14	33.33	\$1,754.86	(\$2,282.62)	0.77	0.38	(\$936.79)
7	(\$16,919.06)	21	10	11	47.62	\$1,184.99	(\$2,615.36)	0.45	0.41	(\$805.67)
6	(\$12,954.86)	21	9	12	42.86	\$1,279.30	(\$2,039.04)	0.63	0.47	(\$616.90)
5	(\$7,543.13)	22	11	11	50.00	\$1,431.06	(\$2,116.80)	0.68	0.68	(\$342.87)
4	(\$7,995.88)	24	9	15	37.50	\$1,993.70	(\$1,729.28)	1.15	0.69	(\$333.16)
3	(\$1,271.34)	24	9	15	37.50	\$2,150.11	(\$1,374.82)	1.56	0.94	(\$52.97)
2	(\$5,232.00)	30	13	17	43.33	\$1,201.48	(\$1,226.54)	0.98	0.75	(\$174.40)
1	\$7,849.03	35	16	19	45.71	\$1,080.80	(\$497.04)	2.17	1.83	\$224.26

In the Subscriber Letter I ran the same test and looked at the Nasdaq Composite. The setup occurred again on Friday in the Nasdaq as well as the S&P. The Nasdaq results are below:

Nasdaq Composite makes 20-day high and closes under 200 day MA. Volume is lower than yesterday											
Buy at close. Sell X days later. \$100k per trade. 1993 - present.											
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade	
10	(\$1,821.25)	22	14	8	63.64	\$2,696.49	(\$4,946.51)	0.55	0.95	(\$82.78)	
9	(\$215.23)	23	15	8	65.22	\$2,165.30	(\$4,086.84)	0.53	0.99	(\$9.36)	
8	(\$5,594.31)	23	15	8	65.22	\$1,762.59	(\$4,004.14)	0.44	0.83	(\$243.23)	
7	(\$12,332.22)	23	12	11	52.17	\$1,630.32	(\$2,899.64)	0.56	0.61	(\$536.18)	
6	(\$10,167.13)	23	12	11	52.17	\$1,350.67	(\$2,397.75)	0.56	0.61	(\$442.05)	
5	(\$15,276.63)	25	10	15	40.00	\$1,835.03	(\$2,241.79)	0.82	0.55	(\$611.07)	
4	(\$10,656.75)	27	10	17	37.04	\$2,096.82	(\$1,860.29)	1.13	0.66	(\$394.69)	
3	(\$10,089.05)	27	13	14	48.15	\$1,664.40	(\$2,266.16)	0.73	0.68	(\$373.67)	
2	(\$15,764.27)	31	14	17	45.16	\$883.47	(\$1,654.87)	0.53	0.44	(\$508.52)	
1	(\$12,965.47)	38	19	19	50.00	\$667.30	(\$1,349.70)	0.49	0.49	(\$341.20)	

In this case the negative bias only seemed to last a week, but it certainly existed and helped to confirm the S&P 500 results. Wednesday and Friday are really the first hints of trouble from a volume perspective. Prior to that the pattern of strong volume on rising days and lower volume on declining days had exerted a bullish influence on market activity.

While volume was lacking on Friday, price action was bullish. The quick bounce back from Thursday's sizable selloff suggests bullish implications. Below is a study which I posted to the blog on July 30th. (Results do not include the July 28th/29th occurrence.) This is the first time such a thing has happened twice in such a short period of time.

The S&P loses at least 1.75% yesterday and then recovers all its losses today.											
Buy on close. Sell X days later. \$100,000 per trade. 1960 - present.											
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor	
12	\$59,216.41	19	14	5	73.68	\$4,823.16	(\$1,661.57)	2.90	\$3,116.65	8.13	
11	\$50,067.11	19	13	6	68.42	\$4,630.07	(\$1,687.31)	2.74	\$2,635.11	5.95	
10	\$42,698.95	19	14	5	73.68	\$3,875.15	(\$2,310.64)	1.68	\$2,247.31	4.70	
9	\$38,314.38	19	13	6	68.42	\$4,271.75	(\$2,869.72)	1.49	\$2,016.55	3.23	
8	\$29,310.33	19	10	9	52.63	\$5,293.32	(\$2,624.76)	2.02	\$1,542.65	2.24	
7	\$26,375.57	19	11	8	57.89	\$4,566.96	(\$2,982.63)	1.53	\$1,388.19	2.11	
6	\$23,132.12	19	12	7	63.16	\$4,081.98	(\$3,693.10)	1.11	\$1,217.48	1.89	
5	\$20,847.72	19	11	8	57.89	\$3,995.75	(\$2,888.19)	1.38	\$1,097.25	1.90	
4	\$20,211.24	19	12	7	63.16	\$3,236.90	(\$2,661.66)	1.22	\$1,063.75	2.08	
3	\$21,862.39	19	12	7	63.16	\$3,046.15	(\$2,098.78)	1.45	\$1,150.65	2.49	
2	\$9,401.90	19	12	7	63.16	\$1,616.14	(\$1,427.40)	1.13	\$494.84	1.94	
1	\$11,435.88	19	12	7	63.16	\$1,332.57	(\$650.70)	2.05	\$601.89	3.51	

While the sample size is a bit small these are strongly bullish results when considering average trade and profit factor.

Strong Friday price movement in the past has had a tendency to carry over through at least Monday. I broke this down in detail in the Subscriber Letter in June. Most of what follows is from that Letter and doesn't include the results from June 16th – present:

This first table looks at Mondays' performance by Fridays' performance:

<i>Friday Up X Percent -Buy at close. Sell Monday at close. \$100,000 per trade. 1960-present</i>											
Pct Up Fri	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
2	\$24,217.85	43	33	76.74	\$2,731.56	(\$3,515.37)	\$1,019.79	(\$943.52)	1.08	\$563.21	3.57
1.75	\$28,764.32	65	45	69.23	\$2,731.56	(\$3,515.37)	\$1,027.77	(\$874.26)	1.18	\$442.53	2.65
1.5	\$43,109.27	100	65	65.00	\$5,396.04	(\$3,515.37)	\$1,081.33	(\$776.50)	1.39	\$431.09	2.59
1.25	\$58,863.56	160	102	63.75	\$5,396.04	(\$3,515.37)	\$984.03	(\$728.20)	1.35	\$367.90	2.42
1	\$76,593.52	246	152	61.79	\$5,396.04	(\$3,515.37)	\$913.99	(\$677.53)	1.35	\$311.36	2.23
0.75	\$118,659.79	378	236	62.43	\$5,396.04	(\$3,515.37)	\$879.27	(\$639.19)	1.38	\$313.91	2.34
0.5	\$144,816.33	602	362	60.13	\$5,396.04	(\$3,515.37)	\$791.86	(\$598.46)	1.32	\$240.56	2.02
0.25	\$137,718.00	921	528	57.33	\$5,396.04	(\$3,515.37)	\$701.23	(\$596.23)	1.18	\$149.53	1.59

Please note that for all tests I actually looked at the “day after Friday” – not Monday. In other words, if Monday was a holiday then Tuesday's results were factored in.

Since the market has been in a sustained downtrend I also wanted to see if performance was affected by these circumstances:

<i>Friday Up X Percent and close < 200ma. Buy at close. Sell Monday at close. \$100,000 per trade. 1960-present</i>											
Pct Up Fri	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
2	\$21,412.88	26	19	73.08	\$2,731.56	(\$2,259.18)	\$1,362.85	(\$640.19)	2.13	\$823.57	5.78
1.75	\$25,388.57	39	28	71.79	\$2,731.56	(\$2,859.30)	\$1,209.86	(\$771.60)	1.57	\$650.99	3.99
1.5	\$36,955.86	54	38	70.37	\$5,396.04	(\$2,859.30)	\$1,326.00	(\$839.51)	1.58	\$684.37	3.75
1.25	\$41,109.19	77	48	62.34	\$5,396.04	(\$3,049.54)	\$1,343.06	(\$834.21)	1.61	\$533.89	2.76
1	\$42,903.33	100	62	62.00	\$5,396.04	(\$3,049.54)	\$1,184.92	(\$825.99)	1.43	\$429.03	2.40
0.75	\$41,112.65	137	80	58.39	\$5,396.04	(\$3,049.54)	\$1,089.97	(\$837.91)	1.30	\$300.09	1.89
0.5	\$42,027.33	203	112	55.17	\$5,396.04	(\$3,049.54)	\$992.23	(\$776.43)	1.28	\$207.03	1.61
0.25	\$34,685.76	276	144	52.17	\$5,396.04	(\$3,049.54)	\$911.58	(\$742.94)	1.23	\$125.67	1.36

Somewhat surprisingly, when looking at the “Avg Trade” column, Friday momentum carried over to Monday in an even bigger way when the market was trading below its 200-day moving average.

But how has the momentum carried through for the rest of the week? The results here are quite interesting as well. I used the 1%+ Friday move for these tests to ensure I had a decent sample size for all of them. Pay special attention to the “Avg Trade” and “% Profitable” columns for all these studies. First I looked at performance the week following a 1%+ Friday:

<i>Friday up at least 1%. Buy at close. Hold "X" days. \$100,000 per trade. 1960-present.</i>											
X Days	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$47,733.13	242	138	57.02	\$8,821.54	(\$10,421.45)	\$1,914.94	(\$2,082.01)	0.92	\$197.24	1.22
4	\$51,715.45	246	136	55.28	\$6,383.20	(\$6,227.66)	\$1,717.20	(\$1,652.94)	1.04	\$210.23	1.28
3	\$49,987.62	246	134	54.47	\$6,877.26	(\$6,924.56)	\$1,492.10	(\$1,363.22)	1.09	\$203.20	1.33
2	\$47,234.25	246	134	54.47	\$5,842.98	(\$5,021.64)	\$1,185.73	(\$1,015.03)	1.17	\$192.01	1.42
1	\$76,593.52	246	152	61.79	\$5,396.04	(\$3,515.37)	\$913.99	(\$677.53)	1.35	\$311.36	2.23

Here you see a strong Monday that gave back gains the rest of the week.

Next I again looked at occurrences below the 200ma:

<i>Friday up at least 1% and below 200ma. Buy at close. Hold "X" days. \$100,000 per trade. 1960-present.</i>											
X Days	Net Profit	Trades	Wins	% Profitable	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Avg Trade	Profit Factor
5	\$14,853.11	99	56	56.57	\$8,821.54	(\$7,022.60)	\$2,151.14	(\$2,456.06)	0.88	\$150.03	1.14
4	\$17,173.43	100	55	55.00	\$6,383.20	(\$6,227.66)	\$1,972.74	(\$2,029.50)	0.97	\$171.73	1.19
3	\$22,042.93	100	54	54.00	\$6,877.26	(\$6,924.56)	\$1,933.43	(\$1,830.27)	1.06	\$220.43	1.27
2	\$26,013.90	100	55	55.00	\$5,842.98	(\$5,021.64)	\$1,525.88	(\$1,286.88)	1.19	\$260.14	1.45
1	\$42,903.33	100	62	62.00	\$5,396.04	(\$3,049.54)	\$1,184.92	(\$825.99)	1.43	\$429.03	2.40

As we noted earlier, Mondays were even stronger in this case, but were given back the next day and the rest of the week even more forcefully.

NOTE: Results below here are all new/updated through today 8/8/08.

I wanted to see what happened when the move up on Friday occurred the week before options expiration:

<i>Friday is up at least 1%. Next Week is options expiration. Buy at close. Hold "X" days. \$100k/trade. 1960-present.</i>											
X Days	Net Profit	Trades	Wins	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
5	\$32,013.31	66	43	65.15	\$8,821.54	(\$6,557.14)	\$1,997.08	(\$2,341.78)	0.85	1.59	\$485.05
4	\$39,351.27	66	43	65.15	\$6,383.20	(\$3,892.40)	\$1,751.14	(\$1,562.95)	1.12	2.09	\$596.23
3	\$30,530.35	66	43	65.15	\$4,492.54	(\$3,734.78)	\$1,381.64	(\$1,255.65)	1.10	2.06	\$462.58
2	\$30,317.09	66	41	62.12	\$5,468.05	(\$2,763.99)	\$1,247.45	(\$867.85)	1.44	2.46	\$459.35
1	\$29,629.91	66	49	74.24	\$2,609.46	(\$2,859.30)	\$843.06	(\$687.05)	1.23	3.54	\$448.94

Options expiration weeks saw even better Monday follow through. Also, the market tended to add on to its gains through the rest of the week rather than give much of them back.

Lastly, I put it all together to see what happens when Friday is up 1% and the market is trading below its 200ma and next week is options expiration:

<i>Friday is up at least 1% and close < 200ma. Next Week is options expiration. Buy at close. Hold "X" days. \$100k/trade. 1960-present.</i>											
X Days	Net Profit	Trades	Wins	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
5	\$15,765.04	28	17	60.71	\$8,821.54	(\$4,405.92)	\$2,632.02	(\$2,634.48)	1.00	1.54	\$563.04
4	\$17,978.14	28	18	64.29	\$6,383.20	(\$3,674.34)	\$2,143.53	(\$2,060.54)	1.04	1.87	\$642.08
3	\$11,246.62	28	17	60.71	\$4,492.54	(\$2,912.25)	\$1,649.90	(\$1,527.43)	1.08	1.67	\$401.67
2	\$13,307.32	28	17	60.71	\$5,468.05	(\$2,763.99)	\$1,451.57	(\$1,033.58)	1.40	2.17	\$475.26
1	\$13,534.57	28	20	71.43	\$2,248.00	(\$2,859.30)	\$1,013.31	(\$841.45)	1.20	3.01	\$483.38

These are the best results of all as we see the strongest Monday performance of the bunch along with the best follow-through for the rest of the week. Also notable is that edge on the Monday follow-through has been much more pronounced since 1982. Below is the same test as above run from July 1982 to the present:

<i>Friday is up at least 1% and close < 200ma. Next Week is options expiration. Buy at close. Hold "X" days. \$100k/trade. 7/82-present.</i>											
X Days	Net Profit	Trades	Wins	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
5	\$20,105.17	14	9	64.29	\$8,821.54	(\$4,176.33)	\$3,630.76	(\$2,514.34)	1.44	2.60	\$1,436.08
4	\$18,045.46	14	10	71.43	\$6,383.20	(\$3,587.57)	\$2,661.41	(\$2,142.17)	1.24	3.11	\$1,288.96
3	\$12,709.36	14	9	64.29	\$4,492.54	(\$2,303.28)	\$2,207.12	(\$1,430.95)	1.54	2.78	\$907.81
2	\$15,927.50	14	10	71.43	\$5,468.05	(\$1,737.36)	\$1,924.60	(\$829.62)	2.32	5.80	\$1,137.68
1	\$13,126.32	14	14	100.00	\$2,044.35	\$0.00	\$937.59	\$0.00	100.00	100.00	\$937.59

Fourteen winners in a row is a nice streak. We'll see if it can continue tomorrow.

Below is tonight's [Aggregator](#) chart:



The green Aggregator line remains in positive territory, suggesting a bullish bias over the next few days. The black differential line shows that the S&P has mildly outperformed expectations over the last few days. I normally prefer to see both lines above 0 for high-probability long or both below 0 for a high probability short. In any case, my interpretation of the current studies is that they are suggesting some follow-through seems likely early in the week. After that, we'll be seeing some of the bullish studies drop off the list and a few of the bearish ones, such as the recent volume and put/call studies, could begin to exert negative influence. I'm currently looking to play strength early in the week and weakness later in the week.

Intermediate-term Outlook (1 week – 2 months) -neutral – updated 8/11

The market has continued to rally and put in a series of higher highs and higher lows since the July bottom. As I noted in the short-term outlook above, price action has been quite strong. Also in the bullish camp is the fact that the market bounced after such extremely poor breadth readings in July. This was discussed in the July 20th Letter. (Feel free to email me if you need a copy.)

Up until this week the volume pattern had been about picture perfect. With the studies noted above, that has changed over the last few days. There are also some other indicators which have received some attention this week that could have bearish implications.

The first is the ratio of Nasdaq volume to NYSE volume. I saw this keenly noted on both MarketTells.com and also on Cobra's Market View blog. The basic idea with the indicator is that when Nasdaq volume becomes extreme compared to NYSE volume, that suggests that more activity is occurring in more speculative stocks. Speculative alpha chasing is the type of behavior often associated with tops.

Over the last three days Nasdaq volume has exceeded NYSE by over 1.8 times on average. Below are some study results showing S&P performance after such occurrences. Note that the sizable discrepancy in instances is due to significant overlap.

<i>Nasdaq volume exceeds NYSE volume by an average of 1.8 times over the last 3 days. Buy at close. Sell X days later. \$100k/trade. 1991-present.</i>											
X Days	Trades	% Wins	Wins	Losses	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
40	8	12.50	1	7	\$13,176.96	(\$23,376.92)	\$13,176.96	(\$15,904.75)	0.83	0.12	(\$12,269.54)
35	9	33.33	3	6	\$13,052.40	(\$18,057.60)	\$8,523.49	(\$10,092.96)	0.84	0.42	(\$3,887.48)
30	10	20.00	2	8	\$10,660.08	(\$16,490.88)	\$7,402.89	(\$8,728.64)	0.85	0.21	(\$5,502.33)
25	10	50.00	5	5	\$13,586.28	(\$20,825.68)	\$7,000.58	(\$8,489.70)	0.82	0.82	(\$744.56)
21	12	33.33	4	8	\$11,888.40	(\$10,968.87)	\$6,923.14	(\$7,178.38)	0.96	0.48	(\$2,477.88)
20	12	41.67	5	7	\$8,590.80	(\$17,959.41)	\$4,126.97	(\$8,380.84)	0.49	0.35	(\$3,169.25)
19	12	41.67	5	7	\$8,500.58	(\$23,213.34)	\$4,415.80	(\$9,129.53)	0.48	0.35	(\$3,485.64)
18	13	53.85	7	6	\$12,472.20	(\$23,902.20)	\$4,909.63	(\$11,416.69)	0.43	0.50	(\$2,625.60)
17	13	46.15	6	7	\$9,881.04	(\$20,850.20)	\$4,013.81	(\$9,268.36)	0.43	0.37	(\$3,138.13)
16	13	46.15	6	7	\$12,002.34	(\$20,064.80)	\$5,807.00	(\$8,444.60)	0.69	0.59	(\$1,866.94)
15	13	53.85	7	6	\$12,336.24	(\$15,990.52)	\$5,982.35	(\$7,896.37)	0.76	0.88	(\$423.21)
10	17	52.94	9	8	\$19,103.70	(\$13,342.28)	\$5,212.24	(\$6,833.32)	0.76	0.86	(\$456.26)
9	18	33.33	6	12	\$16,181.10	(\$14,900.50)	\$6,617.99	(\$4,286.15)	1.54	0.77	(\$651.44)
8	20	45.00	9	11	\$13,582.20	(\$14,101.50)	\$4,747.81	(\$5,396.13)	0.88	0.72	(\$831.35)
7	21	38.10	8	13	\$11,615.94	(\$20,116.10)	\$5,733.21	(\$5,153.48)	1.11	0.68	(\$1,006.17)
6	23	34.78	8	15	\$11,698.20	(\$20,365.66)	\$4,370.65	(\$6,723.92)	0.65	0.35	(\$2,864.94)
5	24	41.67	10	14	\$10,069.18	(\$14,282.04)	\$3,891.48	(\$5,881.82)	0.66	0.47	(\$1,809.61)
4	27	44.44	12	15	\$9,677.70	(\$10,446.50)	\$4,128.53	(\$5,153.36)	0.80	0.64	(\$1,028.08)
3	32	46.88	15	17	\$11,553.60	(\$9,696.48)	\$3,106.19	(\$4,564.24)	0.68	0.60	(\$968.73)
2	41	36.59	15	26	\$14,168.40	(\$7,943.52)	\$3,734.31	(\$3,312.52)	1.13	0.65	(\$734.41)
1	76	43.42	33	43	\$13,967.69	(\$7,146.40)	\$2,333.51	(\$2,237.73)	1.04	0.80	(\$252.85)

It's fairly apparent why others track this indicator. I'm not quite sure how I feel about the study at the present time, though. While I'd rather the market weren't producing such readings, it seems as though "speculative excess" is an unlikely issue with the current market. With consumer and investor sentiment posting extremely low levels by numerous measures I'm having a hard time believing that's a problem. And even if the market did sell off from here, I don't believe anybody would refer to the current levels as a "top". So while historically similar readings have frequently led to weakness, the premise of the indicator seems off. For now I'm simply going to keep this indicator in mind and not necessarily include it in the Aggregator.

Another issue that I've seen noted a few different places is the low number of new highs versus new lows. On the surface this seemed to be potentially concerning to me so I took a look:

S&P 500 makes highest high and highest close in 30 days. New 52 week lows exceed new 52 week highs.												
Buy SPX on close. Sell X days later. \$100k per trade. 1970 - present.												
X Days	Net Profit	Trades	% Wins	Wins	Losses	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
30	\$6,646.50	8	62.50	5	3	\$5,520.40	(\$5,127.30)	\$3,249.86	(\$3,200.94)	1.02	1.69	\$830.81
20	\$5,376.89	8	75.00	6	2	\$5,489.32	(\$7,374.60)	\$2,814.87	(\$5,756.16)	0.49	1.47	\$672.11
10	\$7,555.25	11	72.73	8	3	\$2,887.48	(\$2,409.62)	\$1,494.66	(\$1,467.34)	1.02	2.72	\$686.84
9	\$945.02	12	58.33	7	5	\$2,295.48	(\$3,732.52)	\$1,582.86	(\$2,027.00)	0.78	1.09	\$78.75
8	(\$1,138.05)	12	58.33	7	5	\$2,995.40	(\$3,823.64)	\$1,420.52	(\$2,216.34)	0.64	0.90	(\$94.84)
7	(\$805.32)	12	58.33	7	5	\$2,945.08	(\$4,006.56)	\$1,503.46	(\$2,265.90)	0.66	0.93	(\$67.11)
6	\$3,426.73	13	53.85	7	6	\$4,035.12	(\$3,429.12)	\$1,725.15	(\$1,441.55)	1.20	1.40	\$263.59
5	\$10,266.56	13	69.23	9	4	\$4,290.80	(\$2,424.39)	\$1,635.13	(\$1,112.40)	1.47	3.31	\$789.74
4	\$4,532.00	15	66.67	10	5	\$4,275.84	(\$4,240.48)	\$1,290.30	(\$1,674.19)	0.77	1.54	\$302.13
3	(\$424.13)	16	62.50	10	6	\$2,458.20	(\$4,080.75)	\$930.76	(\$1,621.95)	0.57	0.96	(\$26.51)
2	\$4,905.55	17	58.82	10	7	\$2,212.98	(\$1,664.97)	\$1,056.50	(\$808.49)	1.31	1.87	\$288.56
1	\$1,498.52	18	50.00	9	9	\$1,516.26	(\$1,294.50)	\$576.14	(\$409.64)	1.41	1.41	\$83.25

Results appear choppy and under perform a random sampling. The instances are quite small, and before jumping to conclusions it's important to isolate the affect of the indicator. So below is the same test when news highs exceeded new lows:

S&P 500 makes highest high and highest close in 30 days. New 52 week highs exceed new 52 week lows.												
Buy SPX on close. Sell X days later. \$100k per trade. 1970 - present.												
X Days	Net Profit	Trades	% Wins	Wins	Losses	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
30	\$45,407.22	76	60.53	46	30	\$10,181.64	(\$16,698.36)	\$3,357.61	(\$3,634.76)	0.92	1.42	\$597.46
20	\$46,874.84	95	67.37	64	31	\$9,782.36	(\$12,082.93)	\$2,259.23	(\$3,152.12)	0.72	1.48	\$493.42
10	(\$7,081.82)	152	49.34	75	77	\$5,768.50	(\$7,084.34)	\$1,726.07	(\$1,773.21)	0.97	0.95	(\$46.59)
9	(\$1,724.40)	157	52.23	82	75	\$4,946.98	(\$8,605.65)	\$1,509.54	(\$1,673.42)	0.90	0.99	(\$10.98)
8	(\$5,070.33)	164	50.61	83	81	\$4,503.68	(\$7,137.90)	\$1,422.91	(\$1,520.64)	0.94	0.96	(\$30.92)
7	(\$237.39)	179	48.60	87	92	\$4,443.12	(\$8,722.04)	\$1,446.51	(\$1,370.48)	1.06	1.00	(\$1.33)
6	(\$622.58)	192	52.08	100	92	\$5,064.60	(\$4,802.89)	\$1,180.83	(\$1,290.28)	0.92	0.99	(\$3.24)
5	(\$13,249.83)	211	50.71	107	104	\$4,683.84	(\$4,624.70)	\$1,071.24	(\$1,229.55)	0.87	0.90	(\$62.80)
4	(\$8,503.07)	228	52.63	120	108	\$3,276.08	(\$4,617.49)	\$914.93	(\$1,095.32)	0.84	0.93	(\$37.29)
3	(\$17,401.51)	264	50.76	134	130	\$3,578.64	(\$4,034.70)	\$837.79	(\$997.42)	0.84	0.87	(\$65.91)
2	(\$14,754.10)	322	50.31	162	160	\$3,061.60	(\$4,033.80)	\$672.02	(\$772.64)	0.87	0.88	(\$45.82)
1	(\$5,741.46)	463	49.24	228	235	\$2,286.84	(\$3,515.37)	\$442.73	(\$453.98)	0.98	0.95	(\$12.40)

These results are worse than the 1st case where lows exceeded highs. So while the market may pull back (which it frequently does after making 30-day highs), the blame shouldn't be laid on the lagging number of new highs.

Overall, the intermediate-term outlook hasn't changed much from last week. I'm still expecting stronger conditions down the road, but the next few weeks appear less certain. I believe volume will be a key component to watch. Hopefully some of the volume indicators and patterns discussed lately can improve. It would also be nice to see stronger breadth participation. Those are two areas I will be watching especially carefully as I believe they should help to provide some clues.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

none

Open Big 50 Trades

None

Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 0

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	3.49
DJ US Insurance Index	IAK	0.00	DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	1.35	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.77
DJ US Oil Equip & Svcs	IEZ	7.69	DJ US Consumer Goods	IYK	0.68
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	0.00	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	1.01
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	5.26
DJ US Consumer Svcs	IYC	0.44	Nasdaq 100	QQQQ	2.00

Oil Equip and services is starting to get a bit overdone...

Additional New Trade Ideas

Extremely sharp and choppy back and forth action makes swing trading difficult. It also makes it a bit harder to find solid setups. Nothing gets stretched if it's constantly jiggling. No official setups tonight. Aggressive index traders could attempt to exploit the upside Friday-Monday momentum tomorrow by looking for long-side opportunities.

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IP(S)	8/6/2008	\$28.34	\$28.96	-2.19%	\$29.51	cover on %b < 75
MOS	8/6/2008	\$110.47	\$103.90	-5.95%	\$103.90	sold
FXE	8/7/2008	\$154.13	\$150.72	-2.21%	\$153.00	sold on gap open

MOS gave a disappointing stop out and FXE gapped way below the stop, giving a much large loss than anticipated. FXE remains stretched and could set up again as a potential bounce candidate for the long-side. It's a bit dangerous to try and attempt such a trade right now, though, since FXE is just beginning to breakdown out of a base.

Stocks and ETF's on my Radar

Semiconductor ETF's: SMH, IGW, PSI, and XSD. A pullback entry could offer nice longer-term risk/reward.

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