

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 30, 2008

Issue 156

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	Avg Max Move	Avg MM + 1 Std Dev
September 29, 2008	8% Drop	1-3 days	Bullish	tgt 1 = 6.1%(1175)	tgt2 = 11%(1228)
September 28, 2008	2 Days Higher Since 6/07	1-4 days	Bearish	-1.22%	-2.13%
September 28, 2008	Gap Down 1% & Close Positive	1-7 days	Bullish	2.80%	4.97%
September 28, 2008	SP up on Bad Breadth	1-3 days	Bearish	-1.96%	-3.27%
September 25, 2008	Pullback at decreasing rate	1-10 days	Bullish	3.55%	7.16%
September 19, 2008	Big Reversal Days	1-18 days	Bullish	6.30%	10.00%
8/27 & 9/11	Weak Bounce	1-17 days	Bearish	-5.30%	-8.90%
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		

If the avg max move is achieved it will appear in **bold and green**. If the avg + 1 std deviation is achieved, the study will in *bold italic blue* and will be removed tomorrow.

Short-term Outlook (1-5 days) – bullish – updated 9/30

Crash. The market got destroyed today. The S&P was down almost 9%. The NDX was down 10.5%. The banking index (BKX) was down over 20%. Volume was relatively high but not as high as a couple of weeks ago. From a breadth standpoint – almost nothing was bought. Over 95% of issues traded on the NYSE declined. Down volume accounted for almost 99% of all volume.

In [tonight's blog](#) I put the magnitude of the day's losses into a historical perspective. Basically it compares to two periods – the Crash of '87, and the Crash of '29 and the ensuing bear market. Other than during those periods, there simply haven't been one-day selloffs of quite this magnitude.

The good news is that every panic selloff of this magnitude has seen a near-immediate bounce. Within 3 days in fact. The bad news is that it tends to die out quickly and either roll over or flat-line. Below is a table showing the results of buying after 8% plus drops in the Dow:

Dow Jones closes 8% or more lower. Buy on close. Sell X days later. \$100k/trade. 1929-present.												
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
10	\$41,606.85	9	6	3	66.67	\$25,663.20	(\$23,707.70)	\$15,550.69	(\$17,232.43)	0.90	1.80	\$4,622.98
9	\$54,412.33	9	6	3	66.67	\$19,962.80	(\$19,494.70)	\$15,398.77	(\$12,660.10)	1.22	2.43	\$6,045.81
8	\$61,862.03	9	6	3	66.67	\$19,264.80	(\$15,396.60)	\$14,416.57	(\$8,212.47)	1.76	3.51	\$6,873.56
7	\$62,746.41	9	8	1	88.89	\$17,868.80	(\$9,230.30)	\$8,997.09	(\$9,230.30)	0.97	7.80	\$6,971.82
6	\$55,330.95	9	8	1	88.89	\$13,010.40	(\$8,579.20)	\$7,988.77	(\$8,579.20)	0.93	7.45	\$6,147.88
5	\$40,425.13	9	6	1	66.67	\$15,837.20	(\$10,915.50)	\$8,556.77	(\$10,915.50)	0.78	4.70	\$4,491.68
4	\$79,292.44	9	7	2	77.78	\$20,808.00	(\$9,632.00)	\$12,862.16	(\$5,371.35)	2.39	8.38	\$8,810.27
3	\$90,423.63	9	8	1	88.89	\$22,310.80	(\$5,031.00)	\$11,931.83	(\$5,031.00)	2.37	18.97	\$10,047.07
2	\$73,711.52	9	8	1	88.89	\$16,479.27	(\$804.30)	\$9,314.48	(\$804.30)	11.58	92.65	\$8,190.17
1	\$32,629.69	9	6	3	66.67	\$14,796.80	(\$11,681.50)	\$7,478.27	(\$4,079.97)	1.83	3.67	\$3,625.52

Selling at the 1st profitable exit would have resulted in 6 sales the next day, two on the 2nd day, and one on the third day. All winners. Average gain of about 8.4%. Unfortunately, reviewing the charts in the blog will show that none of these sharp rallies created V-bottoms like those seen in '97, '98, or '01.

The bearish studies all reached their avg. max gain + 1 standard deviation targets, so they have been eliminated from the Aggregator. I made some adjustments in tonight's study results which lowered the targets slightly to between 6-11% over the next 3 days. The [Aggregator](#) now looks like this:



As you can see, both the green Aggregator line and the black differential line are stretched high above 0. This is a short-term bullish setup. I will look to play it by beginning to scale in to a SPY position. Obviously this trade comes with higher risk than usual due to the extreme volatility of the market.

Intermediate-term Outlook (1 week – 2 months)–neutral -updated 9/30

Most of the positives I wrote about last night have been wiped away. The FTD and the Lowry’s signal both failed as the recent lows were taken out in a big way. The market has yet to show any ability to follow through to the upside. About the only thing going for it is that we have once again reached such extreme conditions that it’s possible an intermediate-term bottom could be carved out. I will look to provide more expansive intermediate-term analysis in the next few days. For now I am moving from “somewhat bullish” to “neutral”.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

AAPL – 1/3 @ 127.83

New Catapults

HAL – buy 1/3 @ \$30.29

AA – buy 1/3 @ \$21.38

GD – buy 1/3 @ \$71.40

Catapult for ETF’s Trades

New

KOL – buy 1/3 @ \$27.19

XLE – buy 1/3 at \$59.65

Broad Market Large Cap CBI –4 (AAPL,HAL,AA,GD)

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	4.65
DJ US Insurance Index	IAK	1.35	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	4.05	DJ US Healthcare	IYH	0.00
DJ US Oil&Gas Expl & Prod	IEO	5.17	DJ US Industrial Sector	IYJ	1.53
DJ US Oil Equip & Svcs	IEZ	5.77	DJ US Consumer Goods	IYK	1.36
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	5.41
DJ US Healthcare Providers	IHF	2.04	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	2.44	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	2.78	DJ US Technology Sector	IYW	1.51
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	1.32	Nasdaq 100	QQQQ	4.00

Additional New Trade Ideas

SPY – buy @ \$112.25 limit. If it gaps up in the morning, I'd like to get some on any pullback close to Monday's close. Traders will need to use their own discretion on this one.

Three Catapult trades are listed above along with two Catapult for ETF trades I will track these. Personally, I'm more focused on the index trades than the Catapults, and that is where my size is going. My Catapult positions are extremely small. Should a large cluster quickly form, I may look more heavily towards these trades.

Active Trades Table

None – which seems like a good thing after Monday's action.

Stocks and ETF's on my Radar

none

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