

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 1, 2008

Issue 157

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	Gap Down 1% & Close Positive	1-7 days	Bullish	2.80%	4.97%
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%
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) – neutral – updated 10/1

The worst day in 21 years was followed by a huge reversal on Tuesday. Breadth was strong as advancing volume made up about 88% of total volume and advancers swamped decliners 4:1. Volume was above average but quite a bit below yesterday's level. With regards to the study of Dow Jones crashes, I wrote the following in yesterday's Letter:

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.

As suspected, we got the bounce. Overall the bounce was strong – which is typically a good thing. I discussed this a bit in [tonight's blog](#). My issue with that study is that it is a bit too broad to apply to the current situation.

I also looked at other times the market gapped higher from a low and ran up without filling the gap:

SPY gaps up at least 0.25% from 50-day low. It closes higher than the open and never fills the morning gap.										
Buy on close. Sell X days later. \$100k/trade.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
10	(\$6,431.78)	25	11	14	44.00	\$1,909.49	(\$1,959.73)	0.97	0.77	(\$257.27)
9	(\$17,741.92)	25	10	15	40.00	\$1,829.20	(\$2,402.26)	0.76	0.51	(\$709.68)
8	(\$11,307.20)	26	13	13	50.00	\$1,634.62	(\$2,504.41)	0.65	0.65	(\$434.89)
7	(\$2,239.19)	27	14	13	51.85	\$2,017.56	(\$2,345.00)	0.86	0.93	(\$82.93)
6	(\$1,952.40)	27	14	13	51.85	\$1,775.70	(\$2,062.47)	0.86	0.93	(\$72.31)
5	(\$809.30)	27	13	13	48.15	\$1,774.90	(\$1,837.15)	0.97	0.97	(\$29.97)
4	\$2,692.35	28	16	12	57.14	\$1,594.43	(\$1,901.55)	0.84	1.12	\$96.16
3	\$126.14	28	17	11	60.71	\$1,160.76	(\$1,782.43)	0.65	1.01	\$4.51
2	(\$7,045.46)	28	14	14	50.00	\$1,225.09	(\$1,728.34)	0.71	0.71	(\$251.62)
1	(\$1,595.19)	28	14	14	50.00	\$963.43	(\$1,077.38)	0.89	0.89	(\$56.97)

Results here surprised me a bit. I thought the unfilled gap could be a sign of strength that could cause short-covering and fuel for a continued rally. In reality, the market almost always has a short-term pullback. I increased the requirement for the size of the gap to 0.75%, which is what I have used in the past as “large”. This lowered the number of instances to 12. Of those, 10 closed lower than the gap-day’s close within 3 days. The 2 that didn’t were 3/23/01 and 9/24/01. The March instance dipped below the entry price a few days later before embarking on a very strong 2-month rally. The September occurrence began to rally right away and didn’t revisit those levels for a long time.

Tonight’s Aggregator chart is below:



With the green Aggregator and black differential lines still squarely in positive territory, the Aggregator is suggesting more upside in the coming days. Should we get a positive close tomorrow, I would expect both of these lines to decline as some bearish studies

could begin to trigger. I'm not eager to chase, especially considering we're bouncing from a crash. I may begin thinking short if this rally continues for another day or two.

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
- HAL – buy 1/3 @ \$30.29
- AA – buy 1/3 @ \$21.38
- GD – bought 1/3 @ \$71.40

Some intraday pricing errors made it look like HAL and AA traded at their entry limits today when in fact they didn't. I apologize for any confusion. GD is the only "fill" above.

Catapult for ETF's Trades

- KOL – bought 1/3 @ \$27.19

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

None tonight

Active Trades Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GD	9/30/2008	\$71.40	\$73.62	3.11%		Catapult
KOL	9/30/2008	\$27.19	\$29.44	8.28%		sold 1/2 on close

Stocks and ETF's on my Radar

none

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