

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 2, 2008

Issue 158

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 10/2

While still choppy intraday the market basically consolidated today as it awaits bailout news. Indices did finish a bit lower but it all seemed tame compared to recent activity. Volume sank and breadth was just slightly negative.

Monday's huge drop has now been followed by 2 inside days. This begs the question as to whether it's a pause before another leg down or whether a break higher is more probable. Use the SPY as a proxy I was only able to find 3 instances. Therefore I looked at the NDX.

<i>NDX falls on the widest range day of the last 7 days. It then posts 2 inside days. Buy on close. Sell X days later. \$100k/trade. 1986-present.</i>													
X Days	Net Profit	Trades	Wins	Losses	% Wins	Max Win	Max Loss	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade	
10	\$21,301.52	7	7	6	1	85.71	\$7,840.01	(\$1,587.00)	\$3,814.75	(\$1,587.00)	2.40	14.42	\$3,043.07
9	\$17,904.03	7	7	5	2	71.43	\$7,100.82	(\$1,845.75)	\$3,989.80	(\$1,022.48)	3.90	9.76	\$2,557.72
8	\$17,847.39	7	7	5	2	71.43	\$6,426.74	(\$1,023.50)	\$3,804.58	(\$587.75)	6.47	16.18	\$2,549.63
7	\$14,974.09	7	7	5	2	71.43	\$6,156.36	(\$2,380.50)	\$3,635.24	(\$1,601.05)	2.27	5.68	\$2,139.16
6	\$11,757.33	7	7	4	3	57.14	\$5,629.05	(\$2,208.00)	\$3,866.28	(\$1,235.93)	3.13	4.17	\$1,679.62
5	\$12,681.48	7	7	6	1	85.71	\$5,041.42	(\$529.00)	\$2,201.75	(\$529.00)	4.16	24.97	\$1,811.64
4	\$10,581.64	7	7	5	2	71.43	\$5,683.84	(\$109.25)	\$2,141.45	(\$62.82)	34.09	85.23	\$1,511.66
3	\$10,272.74	7	7	6	1	85.71	\$3,766.54	(\$483.00)	\$1,792.62	(\$483.00)	3.71	22.27	\$1,467.53
2	\$4,548.74	7	7	5	2	71.43	\$1,915.64	(\$928.26)	\$1,220.75	(\$777.51)	1.57	3.93	\$649.82
1	\$2,207.44	7	7	5	2	71.43	\$2,611.18	(\$2,098.75)	\$1,002.18	(\$1,401.74)	0.71	1.79	\$315.35

Seven instances is still low for comfort but it is interesting that the results were so strongly positive when looking at % wins, W/L Ratio, profit factor, and average trade. Still, it's not something I find trade-worthy.

Tonight's Aggregator chart is below:



Both the green Aggregator and the black differential line remain solidly positive. They're not truly representative of my interpretation of the recent studies, though. This does happen from time to time. My concern, and it's not reflected in the studies list, is that after the market has crashed and bounced as outlined in the study from Monday night, it has consistently given back part of that bounce. Today's meager decline would hardly seem to count, but there's always the chance the drop could satisfy and then the market runs higher from here. It would seem unlikely, though.

The bailout is a huge wildcard and also keeping me more cautious about taking on exposure. If the market was extremely stretched in one direction or the other then I may still look to play a reversal, but with a consolidation leading up to the news, it could break either way. The plan did make it through the senate this evening and futures have so far reacted with about a 1.5% decline since it passed. At this point I will likely wait until most news has been disseminated before betting heavily. The first reaction may very well be an over reaction and that is what may provide us an edge in the next few days.

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 – @ 127.83

HAL – @ \$30.29

AA – @ \$21.38

GD – bought 1/3 @ \$71.40

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	0.70
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	2.04
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	4.05
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	2.01
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	0.00
DJ US Consumer Svcs	IYC	0.88	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	\$72.00	0.84%		Catapult
KOL	9/30/2008	\$27.19	\$27.75	2.06%	\$25.60	exited 1/2 @ \$29.44

Stocks and ETF's on my Radar

none

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