

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 15, 2008

Issue 167

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
October 14, 2008	Nasdaq up 3% lowest vol in 5	1-17 days	Bearish	-10.00%	-17.63%
<i>October 9, 2008</i>	<i>5 Lower Lows & 100-day low</i>	<i>1-12 days</i>	<i>Bullish</i>	<i>2.28%</i>	<i>4.58%</i>
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 10/15

After a large gap up this morning the market gave back gains the rest of the day. The major indices all closed lower with the Nasdaq suffering the most. Breadth was a bit mixed as advancers outnumbered decliners but up volume lagged down volume. Total volume increased over yesterday's levels. The volume pattern so far for this rally is the opposite of what is normally preferable.

Today's action doesn't appear highly significant. I had a difficult time tonight finding any edges worth discussing. I'd been hoping for one more up day to sell into and perhaps begin to establish short positions. The morning gap provided a nice opportunity to exit most of the open trade ideas. Unfortunately I tend to be conservative after potential intermediate-term bottoms are put in place and did not use the opportunity to flip to the short side. Today's pullback has the index charts mid-range. I prefer entering trades at extremes or at least near support/resistance areas. This greatly helps to skew risk/reward in my favor.

All of the recent bullish studies have either expired, reached their targets, or both. All that is left is one bullish long-term study and one bearish short-term study. This is the lowest number of active studies I've shown since the inception of the Subscriber Letter. Potential studies I looked at tonight included 1) The possible significance of Day 2 of a potential new rally closing down rather than up (results showed no clear evidence of any significance), and 2) Whether the fact that the S&P has outperformed other, more typical, leaders such as the Nasdaq and the SOX should be construed as bullish or bearish. In fact, results here too were unclear.

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



With both the black differential line and the green Aggregator line both stretched below 0, the Aggregator is in a position where I normally like to short. Perhaps if the market didn't close so far off its highs and down on the day I would consider it. At this point I'd rather wait for better risk/reward and perhaps a more convincing case that just the 2 outstanding studies.

Intermediate-term Outlook (1 week – 2 months)–neutral -updated 10/13

As I stated last week, the freefall the market is in has become extreme enough by numerous counts that a bounce at this point COULD mark an intermediate-term low. Such extremes as those listed near the top of this report are frequently found near bottoms. Of course just because the market is down 40% doesn't mean it can't drop another 40%. Still, as extreme as short-term conditions are I feel the best course of action is to wait for the bounce, monitor the action there, and then further evaluate intermediate-term prospects. Obviously I'll be looking for indications of institutional buying along with strong breadth and volume patterns. From an intermediate-term perspective it now appears too late to short and too early to buy.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

Although I closed out all open Catapult trades this morning, 15 Catapults triggers have not yet officially satisfied their exit criteria. They are listed below under "Broad Market Large Cap CBI". If the market pulls back, they could be prime candidates for re-entry.

Catapult for ETF's Trades

None – both XLB and QQQQ should be exited.

Broad Market Large Cap CBI –15/9 (AA-3, AIG-2, BA-2, BUD, CBS, CPB-2, GD, TWX-3)

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	15.12
DJ US Insurance Index	IAK	4.05	DJ US Financial	IYF	1.37
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	9.46	DJ US Healthcare	IYH	7.04
DJ US Oil&Gas Expl & Prod	IEO	6.90	DJ US Industrial Sector	IYJ	3.83
DJ US Oil Equip & Svcs	IEZ	26.92	DJ US Consumer Goods	IYK	6.80
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	5.41
DJ US Healthcare Providers	IHF	12.24	DJ US Real Estate	IYR	1.22
DJ US Medical Devices	IHI	12.20	DJ US Transportation	IYT	0.00
DJ US Aerospace & Defense	ITA	8.33	DJ US Technology Sector	IYW	4.52
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	7.89
DJ US Consumer Svcs	IYC	8.77	Nasdaq 100	QQQQ	6.00

CBI levels continue to fall fast.

Additional New Trade Ideas

none

Active Trades Table

Symbol	Entry Date	Entry Price	Exit Price	% Gain/Loss	Stop	Notes
AA	10/8/2008	\$15.16	\$14.67	-3.23%		sold
AA	10/9/2008	\$14.71	\$14.67	-0.27%		sold
AES	10/7/2008	\$8.83	\$9.87	11.78%		sold
BA	10/10/2008	\$40.13	\$48.63	21.18%		sold
BHI	10/8/2008	\$39.93	\$43.31	8.46%		sold
CBS	10/13/2008	\$8.10	\$9.43	16.42%		sold
CMCSA	10/10/2008	\$15.93	\$17.93	12.55%		sold
COV	10/10/2008	\$41.82	\$49.95	19.44%		sold
CPB	10/10/2008	\$32.45	\$36.00	10.94%		sold
EXC	10/10/2008	\$46.46	\$57.58	23.93%		sold
EXC	10/13/2008	\$47.38	\$57.58	21.53%		sold
GD	9/30/2008	\$71.40	\$63.42	-11.18%		sold
HAL	10/8/2008	\$21.13	\$23.05	9.09%		sold
HAL	10/9/2008	\$20.99	\$23.05	9.81%		sold
HON	10/9/2008	\$34.08	\$35.28	3.52%		sold
HON	10/10/2008	\$29.28	\$35.28	20.49%		sold
IP	10/10/2008	\$18.95	\$23.06	21.69%		sold
MS	10/10/2008	\$9.19	\$21.21	130.79%		sold
PM	10/10/2008	\$37.01	\$46.87	26.64%		sold
TWX	10/7/2008	\$11.23	\$10.76	-4.19%		sold
TWX	10/8/2008	\$10.40	\$10.76	3.46%		sold
TYC	10/8/2008	\$28.35	\$30.14	6.31%		sold
TYC	10/9/2008	\$28.60	\$30.14	5.38%		sold
TYC	10/10/2008	\$25.73	\$30.14	17.14%		sold
XLB	10/7/2008	\$28.70	\$29.94	4.32%		sold
XXR	10/8/2008	\$8.45	\$8.83	4.50%		sold
XXR	10/9/2008	\$8.15	\$8.83	8.34%		sold
XXR	10/10/2008	\$7.68	\$8.83	14.97%		sold
SPY (1/4)	10/3/2008	\$112.00	\$100.00	-10.71%		sold
SPY (1/4)	10/6/2008	\$107.15	\$100.00	-6.67%		sold
SPY (1/4)	10/7/2008	\$105.00	\$104.70	-0.29%		sold
SPY (1/4)	10/7/2008	\$100.03	\$104.70	4.67%		sold

Positions were cleared out this morning. Tomorrow I'll show the complete results for September and October so far.

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