

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 8, 2008

Issue 204

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
December 8, 2008	Gap Down & Reverse	1-2 days	Bearish	-2.60%	-5.20%
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish		

If the avg max move is achieved it will appear in **bold and brown**. 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) – very slightly bearish – updated 12/8

After a large gap down of nearly 2%, the market did an about face and closed more than 3% above yesterday's close. Breadth was strong. Up issues outnumbered down issues by about 2 to 1 and up volume came in greater than down volume by about 4 to 1. Total volume rose a little but still wasn't much above average.

For those of you with déjà-vu, I basically took Wednesday night's opening paragraph, pasted it above and changed 2 numbers and 1 word. In other words, Friday's bar looks very similar to Wednesday's. So how did I feel about it on Wednesday? Might as well do some more copy and pasting. The first test looked at gaps lower that finished strongly above the previous day's close.

<i>SPY gaps lower by X% and then closes at least X% above yesterday's close.</i>										
<i>Buy on close. Sell 2 days later. \$100k/trade. 1994-present.</i>										
X%	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fact	Avg Trade
2	(\$2,050.38)	3	1	2	33.33	\$1,042.80	(\$1,546.59)	0.67	0.34	(\$683.46)
1.75	(\$2,050.38)	3	1	2	33.33	\$1,042.80	(\$1,546.59)	0.67	0.34	(\$683.46)
1.5	(\$11,416.73)	5	1	4	20.00	\$1,042.80	(\$3,114.88)	0.33	0.08	(\$2,283.35)
1.25	(\$13,863.80)	7	2	5	28.57	\$1,455.03	(\$3,354.77)	0.43	0.17	(\$1,980.54)
1	(\$18,769.15)	12	4	8	33.33	\$1,015.68	(\$2,853.98)	0.36	0.18	(\$1,564.10)
0.75	(\$25,169.08)	21	8	13	38.10	\$978.43	(\$2,538.19)	0.39	0.24	(\$1,198.53)
0.5	(\$17,508.52)	53	24	29	45.28	\$1,421.12	(\$1,779.84)	0.80	0.66	(\$330.35)

(From Wednesday night) *Returns are generally negative across the board. More so above 0.5%. Using 0.75% as a test sample I looked out X days to see results:*

SPY gaps lower by 0.75% and closes positive on the day by at least 0.75%.													
Buy on close. Sell X days later. \$100k/trade. 1994-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	\$7,123.43	16	11	5	68.75	\$5,261.19	(\$5,110.71)	\$2,149.93	(\$3,305.16)	0.65	1.43	\$445.21	
9	\$4,801.51	16	11	5	68.75	\$4,319.59	(\$7,087.58)	\$1,937.95	(\$3,303.19)	0.59	1.29	\$300.09	
8	\$6,540.22	17	11	6	64.71	\$5,514.32	(\$7,889.26)	\$2,177.60	(\$2,902.22)	0.75	1.38	\$384.72	
7	\$10,262.08	17	11	6	64.71	\$4,707.64	(\$7,561.30)	\$2,363.56	(\$2,622.84)	0.90	1.65	\$603.65	
6	\$6,685.19	19	11	8	57.89	\$4,811.10	(\$8,517.85)	\$2,637.05	(\$2,790.29)	0.95	1.30	\$351.85	
5	(\$6,889.14)	19	10	9	52.63	\$7,631.40	(\$11,633.47)	\$2,312.90	(\$3,335.34)	0.69	0.77	(\$362.59)	
4	(\$11,333.90)	20	9	11	45.00	\$7,370.70	(\$10,330.74)	\$2,674.36	(\$3,218.47)	0.83	0.68	(\$566.70)	
3	(\$13,375.84)	21	9	12	42.86	\$5,984.25	(\$7,379.10)	\$1,845.16	(\$2,498.52)	0.74	0.55	(\$636.94)	
2	(\$25,169.08)	21	8	13	38.10	\$1,867.25	(\$7,703.78)	\$978.43	(\$2,538.19)	0.39	0.24	(\$1,198.53)	
1	(\$11,106.28)	21	9	12	42.86	\$1,834.83	(\$5,238.25)	\$915.76	(\$1,612.34)	0.57	0.43	(\$528.87)	

Not seen in the table above is that 77% of instances closed below the close of the trigger day within the next 2 days. Looking out 7 days 90% posted at least 1 close below the trigger close. If you increase the requirements to a 1% gap and a 1% higher close then 11 of 12 would have posted a close below the trigger day close within the next 3 days. Overall there appears to be a fairly strong tendency to pull back after such bars occur. The pullback is often short-lived though.

That pullback arrived on Thursday but didn't stay long. This suggests Friday's action is potentially short-term bearish.

We've seen in the past, though, that strong Friday's have a tendency to carry through until Monday's close and sometimes longer. In the August 11th Subscriber Letter I noted that the edge was especially strong if the Friday happened to fall just prior to expirations week.

We don't have that advantage this week. What we have this week is that the strong move on Friday came on the heels of the big employment report. Employment data is released the first Friday of every month. It is often considered the most important and influential report of the month. Therefore I decided to see what happened if the strong Friday up move came on an employment Friday. First let's look at some of the past base studies from the August 11th Letter:

This first one looked at performance the week following a 1%+ Friday:

Friday up at least 1%. Buy at close. Hold "X" days. \$100,000 per trade. 1960-present.											
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 looked at occurrences below the 200ma (this table was updated tonight):

SPX closes up 1% on a Friday and below the 200ma.										
Buy on close. Sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	(\$145.23)	106	58	48	54.72	\$2,114.06	(\$2,557.51)	0.83	1.00	(\$1.37)
4	\$15,935.03	107	57	50	53.27	\$2,124.27	(\$2,102.96)	1.01	1.15	\$148.93
3	\$14,153.11	107	55	51	51.40	\$2,095.89	(\$1,982.76)	1.06	1.14	\$132.27
2	\$25,453.91	107	57	50	53.27	\$1,663.98	(\$1,387.86)	1.20	1.37	\$237.89
1	\$42,772.15	107	65	41	60.75	\$1,239.81	(\$922.32)	1.34	2.13	\$399.74

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

Now for today's test...what if it is an "employment Friday"?

SPX closes up 1% on the first Friday of the month and below the 200ma.										
Buy on close. Sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Fac	Avg Trade
5	(\$10,096.70)	20	11	9	55.00	\$1,417.61	(\$2,854.49)	0.50	0.61	(\$504.84)
4	(\$12,065.05)	20	9	11	45.00	\$1,386.83	(\$2,231.50)	0.62	0.51	(\$603.25)
3	(\$14,594.02)	20	11	9	55.00	\$1,375.76	(\$3,303.04)	0.42	0.51	(\$729.70)
2	(\$4,596.96)	20	10	10	50.00	\$988.14	(\$1,447.83)	0.68	0.68	(\$229.85)
1	\$2,031.71	20	10	9	50.00	\$873.25	(\$744.53)	1.17	1.30	\$101.59

The Monday follow through is substantially weaker here – not too much above market drift. It's basically a 50/50 proposition the whole next week but the risks outweigh the reward by about 2:1. The bearish inclination isn't quite strong enough for me to include it in the Aggregator, but it certainly disappoints from a bullish standpoint. As the day was winding down Friday I was expecting the Friday-Monday carry through studies to help provide a more positive influence.

There's an abnormal lack of active short-term studies at the current time. The last couple of days have seen several either meet their objectives or expire. I've had an unusually difficult time replacing them as edges with more than a day or two of visibility haven't availed themselves. This isn't terribly odd considering last week was spent in a consolidation. I expect as we move out of this range it will be easier to quantify some short-term trading edges.

The [Aggregator](#) chart is updated below (although there is little behind the Aggregator calculation tonight):



What we see here is that while the market has rallied on a net basis over the last few days, our expectations for the next few days have declined a bit. The Aggregator and black differential lines are therefore both below the zero line in a typical shorting configuration. A more aggressive trader could start looking to take on a short position somewhere in here. I'd prefer to give it a little more room to rise before establishing a short. On the SPY chart there are two areas of potential resistance. The first is the 11/28 high just above \$90. The second is the 50-day moving average which today stands at \$93.70 and is declining fast. Should the SPY manage to break through the 1st potential resistance area around \$90 I'd expect two things: 1) It will likely pull back to retest that area increasing the probabilities of a short above \$90, and 2) the 50-day moving average is likely to offer some resistance as well. Therefore I'm going to give it another day before potentially suggesting a short. Ideally I'd like to like to get a short trade on between these two areas. Of course the ideal rarely occurs, but I'll let it play out a little longer before committing capital.

Intermediate-term Outlook (2 weeks – 2 months)–slightly bullish -updated 12/8

Last week I remarked that “*the market has managed to bounce strongly from levels that were extremely oversold based on historical measures. Most of the time in the past this has led to continued follow through over the next few weeks or months. This is the third try for such a rally since early October. The first two attempts quickly died out.*”

When looking for clues that a bounce such as the current one could be successful there are a few different indications that many market technicians may look for. Strong bounces off the bottom frequently will move many indicators from oversold to

overbought. If they get either more overbought than is traditionally seen or remain overbought for a longer time period than is typical, then that is commonly viewed as a positive. Other indications that are frequently considered a good sign are momentum divergences. It could be argued we are seeing both right now, so I thought I'd break these down a little bit.

At first the fact that the market rallied 5 days in a row off the bottom and the S&P rose nearly 20% over those 5 days suggested unusual strength and persistence. The table below is from the November 28th Subscriber Letter which looked at instances of 5 higher closes following long-term lows:

SPX makes 5 higher closes after closing at a 50-day low 6 days ago. Remains under 200ma.										
Buy on close. Sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
25	\$35,968.38	14	12	2	85.71	\$3,092.14	(\$568.65)	5.44	32.63	\$2,569.17
23	\$36,761.80	14	13	1	92.86	\$2,921.50	(\$1,217.70)	2.40	31.19	\$2,625.84
20	\$28,284.79	14	11	3	78.57	\$2,838.72	(\$980.37)	2.90	10.62	\$2,020.34
15	\$14,110.81	14	9	5	64.29	\$1,861.74	(\$528.97)	3.52	6.34	\$1,007.92
10	(\$6,382.02)	15	8	7	53.33	\$1,586.21	(\$2,724.53)	0.58	0.67	(\$425.47)
9	(\$10,256.82)	15	8	7	53.33	\$1,419.53	(\$3,087.58)	0.46	0.53	(\$683.79)
8	(\$10,271.99)	15	7	8	46.67	\$1,657.37	(\$2,734.19)	0.61	0.53	(\$684.80)
7	(\$9,209.11)	15	8	7	53.33	\$1,544.51	(\$3,080.74)	0.50	0.57	(\$613.94)
6	(\$6,535.05)	15	9	6	60.00	\$1,348.09	(\$3,111.31)	0.43	0.65	(\$435.67)
5	(\$3,265.23)	15	9	6	60.00	\$1,407.27	(\$2,655.10)	0.53	0.80	(\$217.68)
4	\$2,179.77	15	9	6	60.00	\$1,381.05	(\$1,708.28)	0.81	1.21	\$145.32
3	\$5,373.79	15	12	3	80.00	\$1,024.13	(\$2,305.25)	0.44	1.78	\$358.25
2	(\$10.85)	15	9	6	60.00	\$967.67	(\$1,453.31)	0.67	1.00	(\$0.72)
1	\$3,279.16	15	11	4	73.33	\$573.68	(\$757.84)	0.76	2.08	\$218.61

Choppy results over the 1st two weeks give way to consistent strength over the next 4-5 weeks.

The problem is that day 6 the S&P sold off about 9% for the 2nd worst day of this bear market. Hardly the kind of buying fortitude you'd expect. Still, it recovered quite a bit over the last 4 days of this week. So perhaps hope is not lost. It has now been 10 trading days since the bottom and we've yet to see 2 down days in a row. (Of course the 2 days that were down were quite brutal.)

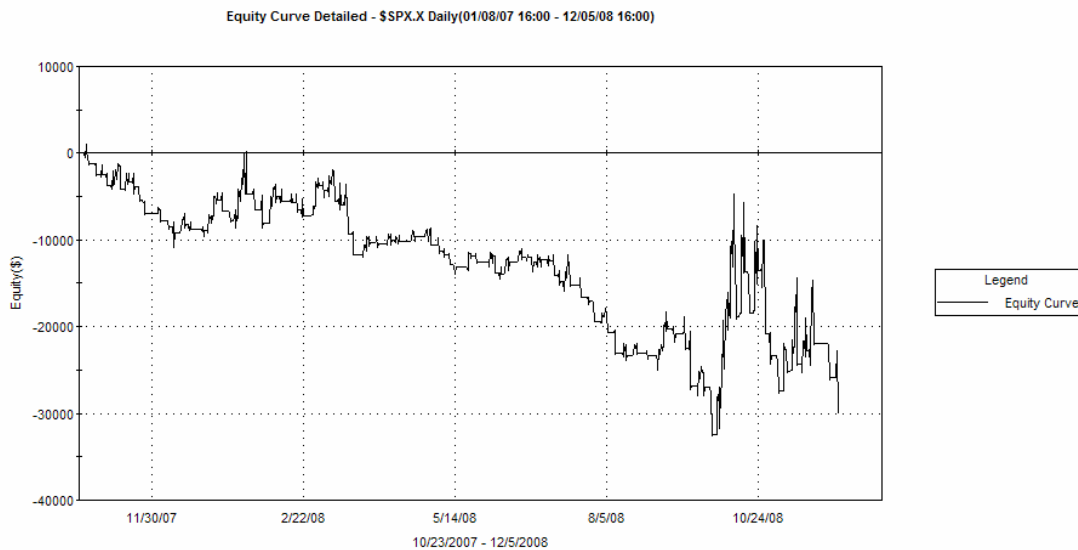
I decided to look at other times the market came off a long-term low and over the next 10 days went without posting 2 down days in a row:

S&P makes 100 day low and then over the next 10 day it does NOT have an instance of 2 down days in a row.											
Buy on close of 10th day. Sell X days later. \$100k/trade. 1960-present.											
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade	
50	\$7,388.51	27	14	13	51.85	\$7,212.89	(\$7,199.38)	1.00	1.08	\$273.65	
40	\$17,732.78	29	16	13	55.17	\$4,903.27	(\$4,670.73)	1.05	1.29	\$611.48	
30	\$26,555.88	29	18	11	62.07	\$3,991.09	(\$4,116.70)	0.97	1.59	\$915.72	
20	\$16,944.16	29	21	8	72.41	\$2,229.89	(\$3,735.44)	0.60	1.57	\$584.28	
15	\$13,889.19	29	21	8	72.41	\$2,022.33	(\$3,572.48)	0.57	1.49	\$478.94	
10	\$19,028.29	29	19	10	65.52	\$1,809.67	(\$1,535.54)	1.18	2.24	\$656.15	
9	\$19,869.96	29	20	9	68.97	\$1,623.99	(\$1,401.10)	1.16	2.58	\$685.17	
8	\$10,954.67	29	17	12	58.62	\$1,592.87	(\$1,343.68)	1.19	1.68	\$377.75	
7	\$6,890.46	29	18	11	62.07	\$1,286.72	(\$1,479.14)	0.87	1.42	\$237.60	
6	\$4,898.50	29	18	11	62.07	\$1,442.64	(\$1,915.36)	0.75	1.23	\$168.91	
5	(\$2,520.48)	29	16	13	55.17	\$1,460.05	(\$1,990.86)	0.73	0.90	(\$86.91)	
4	(\$6,641.99)	30	15	15	50.00	\$1,285.39	(\$1,728.19)	0.74	0.74	(\$221.40)	
3	(\$6,136.83)	31	16	15	51.61	\$870.25	(\$1,337.39)	0.65	0.69	(\$197.96)	
2	(\$9,538.98)	32	12	20	37.50	\$690.34	(\$891.15)	0.77	0.46	(\$298.09)	
1	(\$8,832.91)	32	11	21	34.38	\$508.64	(\$687.05)	0.74	0.39	(\$276.03)	

I don't find the results here too encouraging. Over the next 50 days the positive performance wrecks of underperformance when compared to long-term norms.

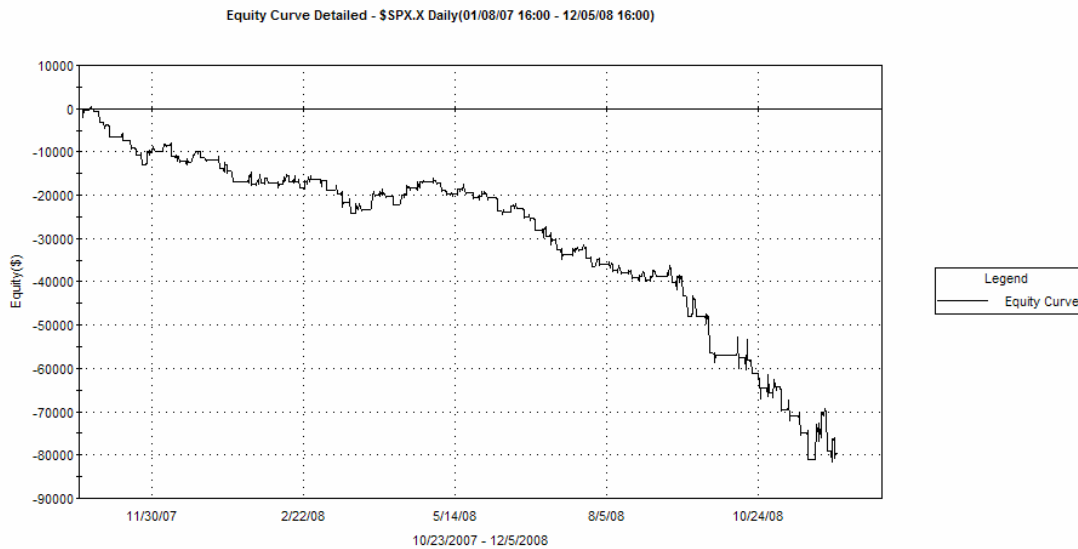
I also thought it might be helpful to break down the Trend vs. Chop chart that I show each week on the charts page of the website. The basic chart looks at both upside and downside follow-through from day to day. Below I broke it down to downside follow-through and upside follow-through.

The first chart looks at results of shorting any down day and then covering the short whenever the market closes higher. If the chart is trending down that means chop is prevailing and the market is reversing with more force than it is following through. In an up market it's not a bad thing to see downside follow-through fail. During the early October selloff you see the chart saw a quick rise, but since that time it has chopped lower.



Not only would we like to see a lack of downside follow-through, but upside follow-through should strengthen if the market is strengthening. Below is the upside Trend vs.

Chop chart. (In this chart you buy after and up day and sell and go flat on any down day.)



What we see here is that although the market has moved higher the last couple of weeks, upside follow through on a day to day basis has not been strong. The downside reversals have done a nice job of wiping out any follow-through gains. This should change if the market is truly strengthening.

I've seen it pointed out by several people that we are now seeing several divergences on the charts and that this should be considered a positive sign. In general this line of thinking is correct. Below is a table of results going back to 1960 that looked to purchase possible RSI divergences following 100-day lows:

14-Day RSI Divergence appears as S&P 500 attempts to rally from a 100-day low.										
Buy on close. Sell X days later. \$100k/trade. 1960-present.										
X Days	Net Profit	Trades	Wins	Losses	% Wins	Avg Win	Avg Loss	W/L Ratio	Profit Factor	Avg Trade
150	\$270,114.18	29	20	9	68.97	\$18,060.87	(\$10,122.58)	1.78	3.96	\$9,314.28
140	\$188,583.90	30	20	10	66.67	\$15,256.04	(\$11,653.69)	1.31	2.62	\$6,286.13
130	\$216,013.32	31	22	9	70.97	\$13,488.47	(\$8,970.33)	1.50	3.68	\$6,968.17
120	\$194,687.72	31	20	11	64.52	\$13,782.75	(\$7,360.67)	1.87	3.40	\$6,280.25
110	\$193,738.18	32	20	12	62.50	\$14,068.76	(\$7,303.08)	1.93	3.21	\$6,054.32
100	\$177,498.12	34	21	13	61.76	\$12,666.72	(\$6,807.93)	1.86	3.01	\$5,220.53
90	\$176,109.62	35	22	13	62.86	\$11,637.43	(\$6,147.22)	1.89	3.20	\$5,031.70
80	\$164,443.02	36	25	11	69.44	\$9,767.36	(\$7,249.19)	1.35	3.06	\$4,567.86
70	\$141,507.62	37	24	13	64.86	\$8,879.14	(\$5,507.05)	1.61	2.98	\$3,824.53
60	\$129,886.45	39	25	14	64.10	\$7,816.17	(\$4,679.85)	1.67	2.98	\$3,330.42
50	\$108,260.68	40	25	14	62.50	\$7,617.90	(\$5,870.49)	1.30	2.32	\$2,706.52
40	\$84,700.81	45	29	16	64.44	\$6,883.29	(\$7,182.16)	0.96	1.74	\$1,882.24
30	\$87,006.24	48	32	16	66.67	\$6,029.06	(\$6,620.23)	0.91	1.82	\$1,812.63
20	\$62,952.67	52	30	22	57.69	\$5,799.11	(\$5,046.39)	1.15	1.57	\$1,210.63
10	\$61,158.44	62	38	24	61.29	\$3,795.91	(\$3,461.93)	1.10	1.74	\$986.43

Pretty good results when looking at winning %, profit factor, and average trade. The problem is we've already seen many of these divergences this year and they've all failed

in a meaningful way. Below is a chart from April-present. The purple trendlines drawn on the bottom identify RSI divergences that were present at the time of a rally attempt.



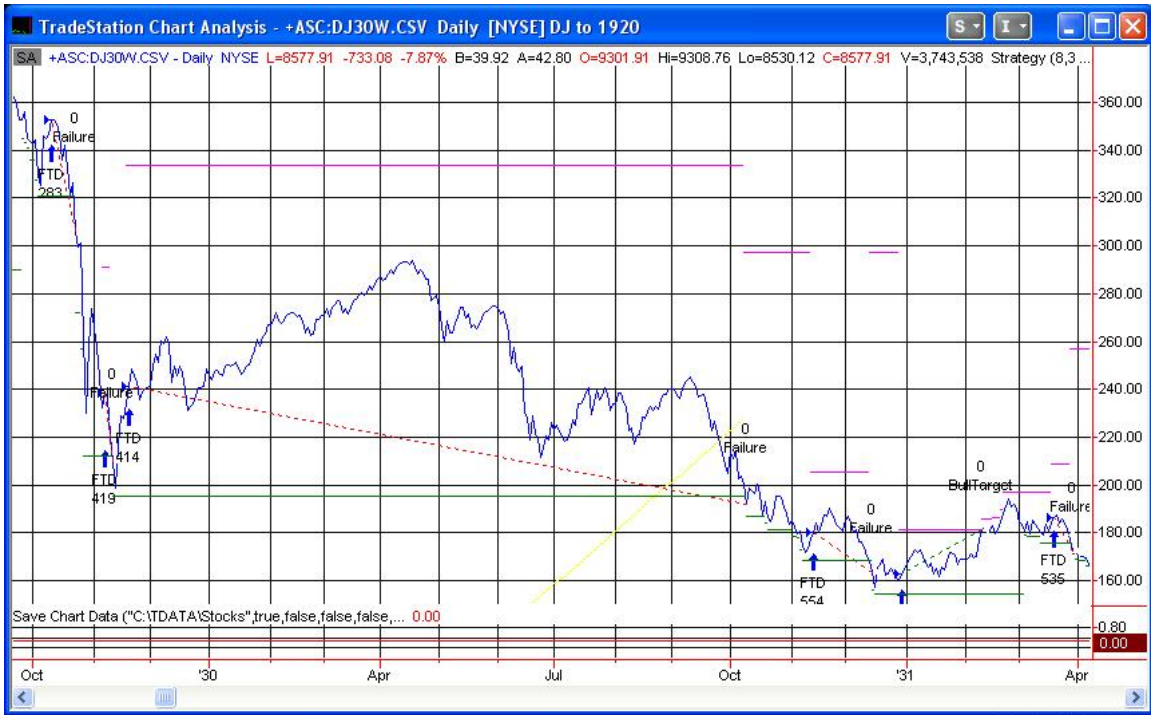
Using a 20-day holding period, results below are listed from 1998 –present. What strikes me here is that RSI divergences such as we’re seeing now worked quite well after “normal” corrections in otherwise healthy markets. The failures occurred during the 2000-2002 bear and the current bear.

Buy	10/09/98	Buy	\$970.10	\$0.00	103	\$17,602.70	17.62%
Sell	11/06/98	Sell	\$1,141.00			\$17,602.70	\$76,791.10
Buy	09/27/99	Buy	\$1,281.21	\$0.00	78	\$968.76	0.97%
Sell	10/25/99	Sell	\$1,293.63			\$968.76	\$77,759.86
Buy	12/01/00	Buy	\$1,334.55	\$0.00	74	(\$3,794.72)	(3.84%)
Sell	01/02/01	Sell	\$1,283.27			(\$3,794.72)	\$73,965.14
Buy	02/26/01	Buy	\$1,250.06	\$0.00	79	(\$7,689.86)	(7.79%)
Sell	03/26/01	Sell	\$1,152.72			(\$7,689.86)	\$66,275.28
Buy	06/05/02	Buy	\$1,046.06	\$0.00	95	(\$8,746.65)	(8.80%)
Sell	07/03/02	Sell	\$953.99			(\$8,746.65)	\$57,528.63
Buy	10/11/02	Buy	\$806.48	\$0.00	123	\$10,855.98	10.94%
Sell	11/08/02	Sell	\$894.74			\$10,855.98	\$68,384.61
Buy	03/13/03	Buy	\$804.19	\$0.00	124	\$8,356.36	8.38%
Sell	04/10/03	Sell	\$871.58			\$8,356.36	\$76,740.97
Buy	05/13/04	Buy	\$1,097.55	\$0.00	91	\$2,521.61	2.52%
Sell	06/14/04	Sell	\$1,125.26			\$2,521.61	\$79,262.58
Buy	06/09/06	Buy	\$1,259.85	\$0.00	79	\$591.71	0.59%
Sell	07/10/06	Sell	\$1,267.34			\$591.71	\$79,854.29
Buy	08/17/07	Buy	\$1,415.97	\$0.00	70	\$4,247.60	4.29%
Sell	09/17/07	Sell	\$1,476.65			\$4,247.60	\$84,101.89
Buy	01/10/08	Buy	\$1,409.19	\$0.00	70	(\$5,453.00)	(5.53%)
Sell	02/08/08	Sell	\$1,331.29			(\$5,453.00)	\$78,648.89
Buy	03/18/08	Buy	\$1,287.50	\$0.00	77	\$5,944.40	6.00%
Sell	04/16/08	Sell	\$1,364.70			\$5,944.40	\$84,593.29
Buy	09/18/08	Buy	\$1,210.34	\$0.00	82	(\$21,640.62)	(21.80%)
Sell	10/16/08	Sell	\$946.43			(\$21,640.62)	\$62,952.67
Buy	11/14/08	Buy	\$913.01		109	n/a	n/a
Sell	open	n/a	\$876.07		n/a	n/a	n/a

The 70's bear market was filled with failed divergences as well. There were 6 of them between February and September of 1974 as the market continued to sink to new depths. This seems to suggest that while momentum divergences may prove useful in secular bull markets, they simple aren't reliable in strong bear markets.

This isn't terrible surprising. Most traditional tools have failed to work well in the current environment. Consider IBD Follow-Through-Days for instance. There have been no less than six failed follow-through days since the beginning of the year. In the October 20th Subscriber Letter I looked at how follow-through days would have faired following the Crash of 1929. Below is an excerpt from that Letter:

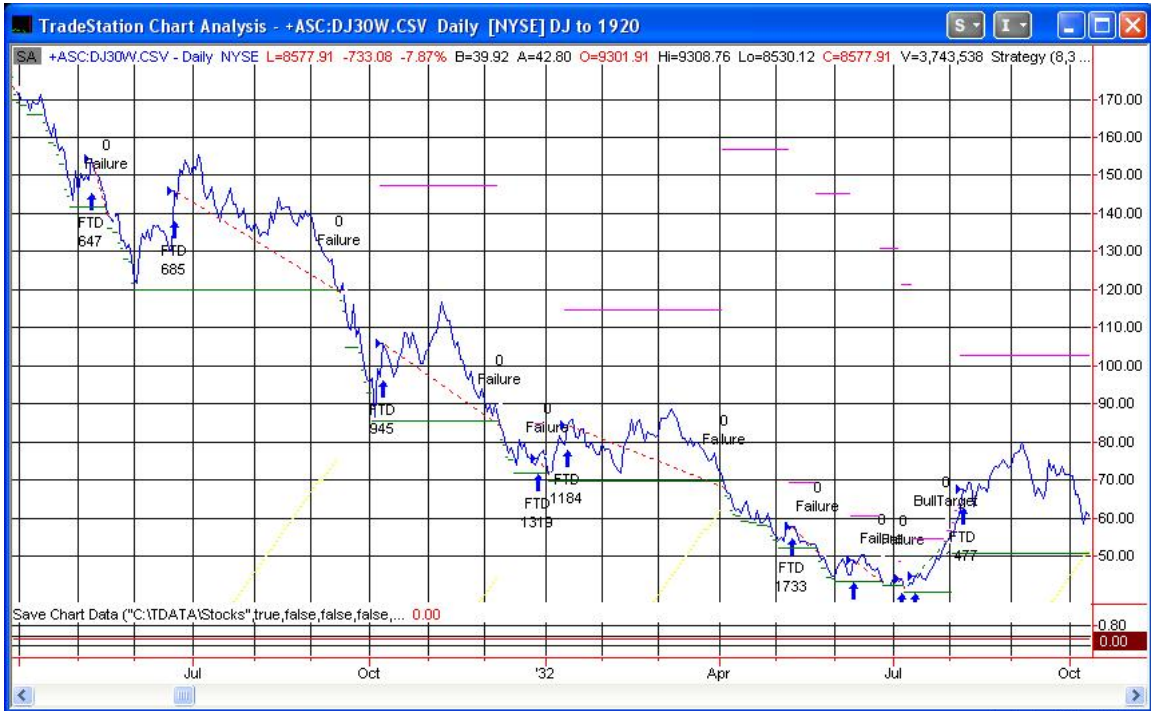
I thought it would be interesting to see how FTD's performed following the 1929 crash. As a brief reminder, "success" for a FTD would entail either 1) The market making a new high or 2) a rally from the close of the FTD that equals at least twice the distance from the low to the FTD. Below are charts spanning the period from 1929 to in 1932.



Created with TradeStation

In this chart we see several failures and one FTD that led to a rally meeting its target. While it didn't meet the definition of success, the rally in the early part of 1930 was actually the best over the time period.

Next is '31 - '32:



Created with TradeStation

Plenty more failures are seen here before the market finally bottoms in mid-1932. All told there were 13 failed FTD's and one successful one before the 1932 bottom arrived.

In summary, we are seeing evidence that in a secular bull market would strongly suggest a sizeable rally of some length is due (overdue). It is important to be cognizant of the fact that such traditional tools simply cannot be relied upon in the current environment. The market has gone down further and longer than it almost always has without a strong rally of intermediate-term duration. We've had a nice rally off the lows and there's a decent possibility that the market could already have begun a multi-month move higher. Trading with a somewhat bullish bias, especially if we take out and hold above the 11/28 highs and the 50-day moving average would seem a better bet than trading with a bearish bias. Flexibility will be important, though. That bullish bias will need to be constantly rethought. We're not experiencing a "typical" market selloff and the first intermediate-term rally may well not be typical either.

Catapult and Capitulative Breadth Statistics

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

Open Catapult 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	2.33
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	0.00	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	3.45	DJ US Industrial Sector	IYJ	0.00
DJ US Oil Equip & Svcs	IEZ	1.92	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	2.04	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	0.00
DJ US Consumer Svcs	IYC	2.19	Nasdaq 100	QQQQ	1.00

Additional New Trade Ideas

GSG – buy ½ position @ \$27.13. The commodity selloff appears to be extremely overdone short-term. This entry is from the triggers page and is based on [system 80421](#).

There's actually a huge list of commodity ETF's that are strongly oversold and appear primed to bounce. In lieu of GSG, traders could consider entries in DJP, OIL, DBA, DBC, USO or GLD. There all reaching an area where a snapback appears likely. I'll only track GSG since that's the one with an "official" system trigger. I listed it as a ½ position. In this case I'd prefer to scale in to another ½ should it continue to pull back.

Active Trades Table

None.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2008 Hanna Capital Management, LLC