

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 19, 2008

Issue 2

Market Overview

Summary of Recent Active Studies (see <http://QuantifiableEdges.blogspot.com> for details)

Study Date	Description	Time span	Bias
February 19, 2008	Large Gap Up Closes Negative	5 days	Bullish
February 12, 2008	Contraction of range	20 days	Bullish
February 1, 2008	FTD short-term implications	long-term	Bearish
January 27, 2008	Nasdaq/Russell Relationship	20 days	Bullish
January 24, 2008	Large Bars Down and Up	20 days	Bullish

Intermediate-term Outlook (2 weeks – 2 months) – positive – updated 2/18/2008

So far the January lows have held up. Some of the readings observed near the January bottom were severe enough that they have typically led to bull rallies in the past. These include the massive number of new lows, the high CBI, and the large reversals seen on January 22nd and 23rd. The huge jump in the McClellan Oscillator and strong overbought readings are also indicative of further strength in the intermediate-term. The huge increase in volatility was another clue suggesting further upside to come. In many cases in the past the market has retested its lows before strongly moving higher. Whether the lows posted on February 11th can be considered a retest is questionable.

The one negative study I referenced above is the Short-term Implications of FTD's which was posted to the blog on February 1st. Generally, the market direction in the first five days after a FTD has been 67% accurate in predicting whether that FTD was successful. Using January 31st as the FTD, the following five days indicate more downside. If you ignore the traditional FTD definition and defer to IBD's declaration of February 13th as the follow-through day, the market is still off to a lousy start and signaling a likely failure.

While most of the positive studies and indications occurred close to the January bottom and are now a few weeks old, we did get some good news this past week. The Investors Intelligence survey showed 36.7% bulls and 35.6% bears. The last time bears were this close to overtaking bulls was mid-2006. While not an exact timing device, relatively high levels of bearishness in the past have served as fuel for emerging bull moves.

Short-term Outlook (1-10 days) – neutral – updated 2/19/08

After gapping up over 1% this morning the market failed to follow through. The major indices all closed lower on the day. While this might look like a bearish formation, it really isn't. Large gaps up that pull back and close lower on the day have a tendency to outperform over the next 1-5 days. More details on this study are available in [tonight's blog](#). This edge isn't huge and the market is basically back where it was yesterday – in the middle of its three week range. Therefore I'm not looking to put on an index position yet. About the only thing that might get me interested would be a large gap lower in the morning – something down to \$134.50 or so in the SPY. Even then I'd put the chances of a reversal up at about a coin flip. The risk/reward should be compelling enough to give it a shot, though.

Barring a big gap lower, I'm afraid we are still in "wait and see" mode. I prefer not to press when there is not a strong edge, so trade setups will be a bit light again tonight.

Catapult and Capitulative Breadth Statistics

Open Catapult Trades

Symbol	Trigger Date	Trigger Price	Current Price	% Gain/Loss	Action
*HIG	2/11/2008	\$70.99	\$73.31	3.3%	sell at open
SLE	2/19/2008	\$13.17	\$13.17	0.0%	buy at \$13.17 limit

The HIG trade that triggered prior to the release of the 1st Letter gave an exit signal today. It will be sold at the open tomorrow. It will not be tracked as part of the Letter's performance. Sara Lee (SLE) triggered today. A limit order will be placed at \$13.17 for tomorrow's trading. Hopefully this will be filled and give us the first "official" trade. A close lower tomorrow would almost certainly give us a 2nd trigger as well.

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (SLE)

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	0.00
DJ US Insurance Index	IAK	2.70	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	1.35	DJ US Healthcare	IYH	2.11
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.77
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	1.36
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	0.00
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	0.00	DJ US Technology Sector	IYW	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	2.19	Nasdaq 100	QQQQ	0.00

The range-bound market is providing readings of little value at this point in time.

Additional New Trade Ideas

Longs

none

Shorts

none

Active Trades Table

none

Stocks and ETF's on my Radar

Ticker ***Notes***

MSFT – Has found some support near August lows. Closed below 10ma 34 days in a row. Seems to be either putting in a handle before another leg down or carving out a bottom. Only 1% above recent lows, so we'll likely see a break either higher or lower soon.

MOS – High earnings momentum stock in fertilizer group poked out of a 5-week base today on increased volume. It has already closed above its 10-day moving average for 18-days in a row and the 3-period RSI is a bit stretched. I may consider looking at this on a pullback. Could also provide shorting opportunity if it breaks quickly higher from here for another few days.

Notable S&P 500 stocks outside my “tradable” radar

Oversold

DF – Has sold off hard the last two weeks. Sitting right near support in the \$24.10 - \$24.25 area. Could offer nice risk/reward for a long trade.

PNW – After setting up for us last night, this “unofficial trade” gapped higher this morning and never quite pulled back to yesterday’s close. It did finish well, and anyone that may have taken a shot with it should have some gains at this point. The exit signal as described last night would be a close above the 10ma.

Overbought

CHK – This was suggested as a short last night based on 7 higher highs and 7 higher closes with the S&P trading below its 200 day moving average. The doji candlestick was also noted. Today it gapped up and made its 8th higher high and higher close and put in another doji formation. Anyone who took this on the gap up should be about even. Anyone who didn’t could still consider an entry.

CTL – This one gapped right up to the 40 level noted last night and then sold off hard the rest of the day. Hopefully someone was quick enough to catch it and make some profits.

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