

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 21, 2008

Issue 4

Market Overview

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

Study Date	Description	Time span	Bias
February 20, 2008	Reversal of Reversal	1-3 days	Bearish
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

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 2/20/08

In Wednesday night's short-term outlook we referenced a study from the Quantifiable Edges Blog that indicated a downside edge seemed in place for a day or two. This edge played out today as the market sold off after gapping up. Volume increased on the exchanges and breadth was strongly negative. The S&P 500 and Dow gave back all of yesterday's gains and the NDX nearly did. The S&P and Dow also closed at their lowest levels since February 11th.

The trading ranges remain in place and I am now seeing triangles everywhere I look. The major indices have all been forming a series of higher lows and lower highs the last few weeks giving their chart formations the appearance of a triangle. I ran some studies tonight that I posted over at the Quantifiable Edges Blog which looked at triangle formations. The results of the studies indicated that about 2/3 of triangle formation breakouts fail and reverse. In other words, I can find no edge in trying to play a breakout in a triangle formation. The edge here would seem to be in playing a reversal after the breakout. All of which means I remain heavily sidelined. Rather than trying to guess the direction of the breakout or chase the first big move I shall remain in the dreaded "wait and see" mode. I suspect we will see plenty of setups once the range is broken.

Catapult and Capitulative Breadth Statistics

Open Catapult Trades

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
SLE	2/19/2008	\$13.10	\$13.02	-0.6%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$13.02	-0.7%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$13.02	0.0%	buy @ \$13.02 limit

Sara Lee (SLE) sold off again today and has now triggered our 3rd and final entry into the stock to be taken tomorrow morning.

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3 (SLE)

While the basic reading is now a "3" it is only in one stock. This is not as significant as a "3" reading in 3 different stocks. On the blog I only show and evaluate the basic number. In the Subscriber Letter I will also discuss the complex count when the reading begins to reach significant levels.

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	4.05	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	2.70	DJ US Healthcare	IYH	3.52
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	0.68
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	7.89
DJ US Consumer Svcs	IYC	2.19	Nasdaq 100	QQQQ	1.00

Telecom is beginning to show some capitulative breadth. We'll keep an eye there over the next few days.

Additional New Trade Ideas

Longs

none

Shorts

none

Active Trades Table

none

Stocks and ETF's on my Radar

Ticker ***Notes***

MSFT – Continues to consolidate near its lows. Has closed below 10ma 36 days in a row, which is by far the highest number among our target list of stocks. Still seems to be either putting in a handle before another leg down or carving out a bottom.

MOS – This is finally pulling back a bit. Still must wait to see if it offers a favorable entry.

The following stocks are setting up in triangles just like the market. Should the breakout reverse as I anticipate, these could provide opportunities at that time.

BAC, COV, GD, DE

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

More triangle formations from this list:

AN, GR, JCI, MAR, WYN

Oversold

none

Overbought

none.

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