

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

---

February 24, 2008

Issue 5

---

## Market Overview

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

Study Date	Description	Time span	Bias
February 12, 2008	<a href="#">Contraction of range</a>	20 days	Bullish
February 1, 2008	<a href="#">FTD short-term implications</a>	long-term	Bearish
January 27, 2008	<a href="#">Nasdaq/Russell Relationship</a>	20 days	Bullish

### *Intermediate-term Outlook (2 weeks – 2 months) – positive – updated 2/24/2008*

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 22<sup>nd</sup> and 23<sup>rd</sup>. 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 11<sup>th</sup> 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 1<sup>st</sup>. 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 31<sup>st</sup> 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 13<sup>th</sup> as the follow-through day, the market is still off to a lousy start and signaling a likely failure.

The contracting ranges have taken the shape of triangles over the last few weeks. In most cases we have found that triangle breakouts tend to reverse. A break down out of the current triangle situation could therefore set up a retest of the January lows. I have found no indication of a likely strong break of the contracted range in either direction. As long as the January lows hold and allow stocks time to build solid basing formations my intermediate-term outlook will likely have a positive tilt.

**Short-term Outlook (1-10 days) – neutral – updated 2/24/08**

The S&P 500 has now alternated positive and negative closes for seven days in a row. The maddening range we've been referring to over the last few days was not resolved on Friday. Some technicians may have felt the early drop in the indices on Friday signaled a breakdown of the triangle formation. For our purposes it didn't violate levels defined by our somewhat rudimentary definitions laid out in the [triangle study](#) on Thursday night. For a triangle break to be official we will need to see one of the following numbers broken: 1316.75 on the downside for method #1, 1369.23 on the upside for method #1, or 1367.94 to the upside or 1327.04 to the downside for method #2. All the morning drop and furious rally did on Friday was put the market back into the center of its range.

The late day rally was impressive. In the last hour of trading the S&P 500 gained over 1.5% to turn what appeared to be a forming breakdown into another intraday reversal. Surprisingly, [I was able to find no short-term predictive power among similar late-day surges.](#)

Therefore Friday's action did nothing to resolve the recent range nor provide us a short-term edge. Therefore, rather than get aggressive on either side of the market I remain heavily sidelined awaiting a higher-odds environment. I continue to believe a break of the range will lead to a multitude of setups in short-order.

**Catapult and Capitulative Breadth Statistics**

***Open Catapult Trades***

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
SLE	2/19/2008	\$13.10	\$13.13	0.2%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$13.13	0.2%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$13.13	0.8%	bought @ \$13.02

We were filled on our 3<sup>rd</sup> and final piece of the Sara Lee (SLE) trade on Friday at \$13.02. There are 2 possible exit targets for Catapult trades. One is based on an end-of-day target price while the other is based on an intraday target price. If either price is hit, it will trigger a sale near the open the following morning. The target prices are based on a custom indicator and the calculations can not be completed until after the stock has opened. *An estimate of the intraday price target based solely on recent closing prices is \$13.55 for Monday.*

***Open Big 50 Trades***

*None*

***Open Catapult for ETF's Trades***

*New Trade*

*IBB gave a trigger at Friday's close. Unfortunately I anticipate this one will gap up Monday morning after Genentech (DNA) received FDA approval for expanded use of its Avastin drug. I will therefore just watch this trade to see if an entry becomes available.*

### ***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.)***

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
DJ US Broker Dealers	IAI	0.00	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	4.05	DJ US Financial	IYF	0.68
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	4.05	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	2.63	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***

UNG – Has close above 10ma 13 days in a row. Hit an new high on Friday while putting in a wide-range bar. Could be approaching a short-term exhaustion point for this upmove. Worth keeping an eye one.

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

BAC – Broke down from triangle on Friday before reversing higher.

*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.*

COV, GD, DE

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

*More triangle formations from this list:*

AN, GR, MAR, WYN, LSI

#### ***Oversold***

none

#### ***Overbought***

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.