

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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February 26, 2008

Issue 6

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## Market Overview

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

Study Date	Description	Time span	Bias
February 25, 2008	Two Day Surge	1-10 days	Bearish
February 22, 2008	Triangles	intermediate	Bearish
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 7<sup>th</sup> can be considered a retest is questionable.

We do have some negative studies active at this time. Still, the only one with longer-term implications is the FTD one from Feb. 1<sup>st</sup>. A downside break leading to a test of the January lows may have been preferable. Still, the fact that market continues to make higher lows should be considered a good thing. While there's a chance the market is in a longer-term bear market I still feel the market is more likely to put in a good rally from here than it is to put in another leg down below the January lows.

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

The contracting range that has acted as a source of frustration for our sing-trading timeframe this past week has broken. The S&P 500 moved decisively higher today and closed above the upper boundaries of its triangle pattern. Last week in [my study of triangles](#), I found that about 2/3 of the breakouts reverse direction and fail before reaching their target price.

Today I looked at [how the market has historically performed following back to back strong sessions in the S&P 500](#). The reaction was poor. Based on this study, over the next several days, the edge appears to be to the downside.

The combination of a the triangle study from last week and today's surge study are compelling enough for me to take a small shot at some downside in the S&P 500 Index. You'll find this trade in the "Additional New Trade Ideas" section below. I also believe this is prudent considering the active stock trades in the Subscriber Letter are all long trades.

### **Catapult and Capitulative Breadth Statistics**

#### ***Open Catapult Trades***

<b>Symbol</b>	<b>Trigger Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Action</b>
SLE	2/19/2008	\$13.10	\$13.00	-0.8%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$13.00	-0.8%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$13.00	-0.2%	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. (Not an intraday sale.) 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 is \$13.25 for Tuesday.*

#### ***Open Big 50 Trades***

*STP – STP triggered this afternoon. We will look to buy this at a limit price of \$36.90 tomorrow.*

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

*IBB – This trade gapped up as expected this morning and never looked back. We're going to have to just let this one go.*

#### ***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	2.70	DJ US Financial	IYF	0.00
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	4.05	DJ US Healthcare	IYH	2.82
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.00
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	0.00	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	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 remains the only sector approaching an interesting reading.

**Additional New Trade Ideas**

***Longs***

none

***Shorts***

SPY – Short at \$137.33 limit based on triangle reversal study and 2-day surge below 200ma.

**Active Trades Table**

none

**Stocks and ETF's on my Radar**

***Ticker***      ***Notes***

DBA – Large range bars after an extended run can sometimes signal exhaustive behavior.

*The following stocks broke out of their triangle patterns along with the market. They could provide nice shorting opportunities as well based on the idea that triangle breakouts usually fail.*

COV, DE

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

*More triangle formations from this list that are yet to break out:*

AN, GR, MAR, WYN

### ***Oversold***

none

### ***Overbought***

none.

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