

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 28, 2008

Issue 8

Market Overview

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

Study Date	Description	Time span	Bias
February 27, 2008	Significance of Lagging Nasdaq	1-10 weeks	Bearish
February 14, 2008	Count To Three	1-5 days	Bearish
February 25, 2008	Two Day Surge	1-10 days	Bearish
February 22, 2008	Triangles	intermediate	Bearish
February 12, 2008	Contraction of range	20 days	Bullish
February 1, 2008	FTD short-term implications	long-term	Bearish

Intermediate-term Outlook (2 weeks – 2 months) – neutral – updated 2/28/2008

At the end of January the market hit levels of “oversold” by several different measures. Many of the more significant readings came from breadth measures such as the massive number of 52-week lows, the McClellan Oscillator and the Quantifiable Edges CBI. Nearly everything I looked at told me the market had endured enough selling and that it was bound to rally for a while. Readings seen suggested a multi-week rally at a minimum and a possibility of an intermediate-term bottom.

A retest of the lows also seemed to be a fairly strong possibility. That retest has yet to arrive. We are now 5 weeks from the January bottom. The S&P 500 is 8.7% off its January lows, but really hasn’t made any headway in the last 3 ½ weeks. Most of the bullish studies I referenced back then are no longer exerting much influence. In their place is a batch of new studies – most of which have a bearish tilt.

The newest of these studies, “[The Intermediate Term Significance Of A Lagging Nasdaq](#)” was posted this morning. It suggested that with the NYSE composite hitting new 5-week highs, the degree with which the Nasdaq is currently lagging the NYSE has historically been bearish. Combined with other intermediate-term studies such as the [Triangles](#) and [FTD Short-term Implications](#) the picture my research is painting is becoming less rosy.

It’s fairly easy to discount or make excuses for results we don’t like. Take this morning’s lagging Nasdaq study, for instance. Many of the big name Nasdaq stocks like Apple, Google, Baidu and Research In Motion were leaders throughout 2007. Bear markets

frequently force changes in leadership. Therefore, I wouldn't expect the above stocks to lead now as they did last year. But just because I can come up with reasons an indicator or study may not be relevant this time, doesn't mean it isn't. Studies should be considered with an open mind and not easily dismissed. When several of them begin to point in one direction, perhaps it's time to listen.

I'm reticent to turn outright bearish at this point since the readings near the January lows did have such a bullish tilt. Also the market has started to put in a series of higher lows which is allowing bases to build and providing support for the indices. For the time being, therefore I am going to let the short-term analysis act as the guide and move the intermediate-term outlook to neutral.

Short-term Outlook (1-10 days) – negative – updated 2/28/08

The last two nights I have discussed the overbought nature of the market and showed several studies which indicated that a 1-3 day pullback was likely. The market was mixed today with volume coming in lighter and breadth slightly negative. Overall it was basically a nothing day filled with a decent amount of noise for day-traders. As you'd expect, this nothing day did little to change my short-term outlook.

[Triangles](#), [Back To Back Surge Days](#), [Count to Three](#), and the Subscriber-Letter-only study which combined several of these along with the VXO last night are all still in effect and bearish.

An important concept to keep in mind when trading overbought or oversold levels is that there are two ways these levels can be worked off. The first and most obvious is with price. Prices get extended in one direction and then they tend to oscillate back the other way. These oscillations are typically more regular with indices than with individual stocks. The second way states of overbought and oversold can be worked off is with time. Today was a great example of that. The market basically went sideways today, but we are now less overbought than we were yesterday. A few days of sideways action can sometimes be quite effective in working off overbought/oversold readings. Another day or two like today and the bearish edge which was fairly strong at Tuesday's close, will have dissipated greatly.

For now I am going to hold on to the SPY shorts that were initiated the last couple of days. Overbought in a long-term downtrend is still the state of the market. I will not be adding any to the position at this point since we are less overbought than we were yesterday in basically the same place. I'd prefer to give the positions another day or so to work out. Some long positions still remain active as well and should act as a hedge for the index shorts.

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

Since time as well as price can function as a way to work off overbought/oversold, the Catapult target prices were designed get progressively easier to hit over time. Today we again see this happening. As a review, 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 now just \$13.18 for Thursday.*

Open Big 50 Trades

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
STP	2/26/2008	\$36.90	\$39.22	6.3%	\$36.00	3/4 of position was sold @ \$40 for a 8.4% gain

Three-quarters of this position was sold today for \$40. The gap down hurt a little but we still realized an 8.4% gain on the position in one day. The rest I'll led ride until an official exit triggers. In any event, barring a huge gap lower, this trade will be extremely profitable. It wouldn't take too many of these for most traders to pay for a year's subscription to the Letter.

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	1.35	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	1.41
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	0.00	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	5.26
DJ US Consumer Svcs	IYC	1.32	Nasdaq 100	QQQQ	0.00

No substantial capitulation evident among the sectors.

Additional New Trade Ideas

Unfortunately I noted several overbought stocks and ETF's that fell back today (UNG, DBA, etc.) while those that were oversold began to bounce (GOOG, APPL, etc.). This means slim pickings for setups. I will therefore maintain the current trades and re-evaluate tomorrow.

Notable today was that we were filled on the 2nd lot of SPY, but not on UNG. We will abandon the UNG trade at this point.

Longs

none

Shorts

None

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY	2/27/2008	\$138.36	\$138.22	0.1%	na	sitting tight
SPY	2/26/2008	\$137.33	\$138.22	-0.6%	na	sitting tight

Stocks and ETF's on my Radar

Ticker ***Notes***

SLV – 2nd wide range day in a row after an extended move up.

ALL – Long-term downtrend. Short-term overbought. Right at its 50-day ma.

EWT – Short-term very extended.

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

Oversold

none

Overbought

none.

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