

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 29, 2008

Issue 9

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 2/29/08

After three nights of discussing the overbought nature of the S&P 500 it's finally moving in our direction. The S&P 500 sold off a little less than 1% today after posting a very small loss yesterday. Volume picked up over yesterday and breadth was negative by more than 2 to 1. This leaves us back in no-man's land. The market is neither overbought nor oversold as we enter the seasonally strong end of month / beginning of month timeframe.

Short positions in SPY were taken on Tuesday and Wednesday morning at the previous day's closing prices. Both of these positions are now profitable with the 2nd one up over 1%. There were 4 studies we referenced when entering these positions over the last few days. Three of the four studies were very short-term in nature and their edge is already dissipating. The Triangles study was the only one with longer-term meaning.

With the influence of our studies waning and the market back in no-man's land and facing a bullish time window over the next few days it appears to be a good time to take profits. Most stocks are also in no-man's land, leaving new setups a bit light again tonight.

Catapult and Capitulative Breadth Statistics

Open Catapult Trades

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
SLE	2/19/2008	\$13.10	\$13.00	-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

It's rare to see such a sideways consolidation after a Catapult trade and this one is beginning to try my patience. Hopefully we'll get the expected spike higher to sell into in the next few days. *The intraday price target estimate is now \$13.17 for Friday.*

Open Big 50 Trades

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
STP	2/26/2008	\$36.90	\$37.92	2.8%	\$36.00	3/4 of position was sold @ \$40 for a 8.4% gain

Three-quarters of this position was sold Wednesday 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 lead 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	2.63
DJ US Consumer Svcs	IYC	1.75	Nasdaq 100	QQQQ	0.00

No substantial capitulation evident among the sectors.

Additional New Trade Ideas

Longs

none

Shorts

SLV – Short @ \$196.66 - Silver appears to be making a parabolic move. We are going to short here in anticipation of a pullback. I looked at the historical results of shorting across my list of 114 ETF's based on the following setup: 1)The ETF has three days in a

row where its true range is more than 1.5 times the average true range of the past 50 days.
 2) It makes a new 20-day high each of the three days.

Among the 114 ETF's this setup only occurred 58 times. Shorting the setup and covering on a close below the 5-day ma resulted in 67% winning trades – but only 58 occurrences. Running the same test across all S&P 100 stocks provided 168 occurrences – 68% of which were profitable. Losers were slightly bigger than gainers in both cases. The profit factor on these trades was about 1.9.

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Pr	% Gain/Lo	Stop	Notes
SPY	2/27/2008	\$138.36	\$136.87	1.1%	na	cover @ \$137.25 limit
SPY	2/26/2008	\$137.33	\$136.87	0.3%	na	cover @ \$137.25 limit

We'll look to cover this one at tomorrow's open, but don't want to pay u[to much into a gap. Should it gap up and fail to pull back, we'll then put a buy to cover stop order in \$0.01 above the high of the first hour of trading. If it manages to hit neither the stop or limit price by the close, I will look to sell it then.

Stocks and ETF's on my Radar

Ticker *Notes*

Notable S&P 500 stocks outside my "tradable" radar

Oversold

none

Overbought

none.

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