

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 10, 2008

Issue 15

Market Overview

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

Study Date	Description	Time span	Bias
March 9, 2008	CBI of 11	1-15 days	Bullish
February 27, 2008	Significance of Lagging Nasdaq	1-10 weeks	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) – somewhat bullish – updated 3/10/2008

The closing lows in January have vanished and the intraday lows are now under fire. The difficulties many of our recent studies suggested actually came to bear. The Triangles study a few weeks ago for instance indicated that after the market broke up out of the triangle a return back down below the formation low was likely. This breakdown was accomplished on Thursday.

The technical picture of the market is now poor. A move below 1270 in the S&P would make it even worse. While that could easily happen, the CBI, along with some other oversold indicators I follow, is suggesting a multi-week rally should be at hand soon.

It's too late to turn bearish. I suppose in hindsight I should have done that on February 28th when I changed the outlook from bullish to neutral. I believe a strong bounce is likely sometime in the near future. The short-term outlook section will try and time this bounce and I will re-evaluate here once I feel the anticipated bounce is underway.

Short-term Outlook (1-10 days) – positive – updated 3/10/08

The S&P 500 posted another new closing low on Friday and is approaching its January intraday low of around 1270. After gapping down large due to a disappointing employment report it quickly recovered those losses in the first half hour of trading. Unfortunately those gains couldn't be held and the market reversed course again and finished the day below where it opened. Breadth was poor, but not as bad as Thursday. Volume was higher.

Several of the indicators I follow are showing extreme readings, suggesting a bounce should occur soon. These include put/call ratio, VIX and the Quantifiable Edges Capitulative Breadth Indicator (CBI). [In tonight's blog](#) I examined the CBI further since it spiked up to 11 on Friday. Since 1995, under circumstances similar to current where the market is making new intermediate-to-long term closing lows while the CBI moves to 10 or above, the S&P 500 has always begun a substantial bounce within 4 days. This does not preclude more immediate down-side pain. [There have been times when the market has suffered additional short-term losses of 10-12%](#) before the bounce began.

My indicators are suggesting that this leg lower is nearing completion. The market should likely begin to bounce sometime before the end of the week. I now believe it is time to begin to allocate more aggressively to index. When taking index trades based on extreme conditions such as these I typically like to scale in.

One way I might suggest scaling in currently would be the following: Break up the possible remaining capital you are willing to put into an S&P 500 index trade into 3 parts. The 1st part may be entered as a limit order tomorrow. The 2nd part should be entered on a sharp drop from current levels. The 3rd part may be entered when the market makes its first higher close.

There are three new Catapult trades being put on tonight. Combined with the Big 50 and Index trades, allocations are becoming relatively heavy as I anticipate a possible market bounce.

Catapult and Capitulative Breadth Statistics

(Catapult Presentation Part 1) (Catapult Presentation Part 2)

Open Catapult Trades

Symbol	Trigger Date	Entry Price	Current Pr	% Gain/Lo	Action
SLE	2/19/2008	\$13.10	\$12.49	-4.7%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$12.49	-4.7%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$12.49	-4.1%	bought @ \$13.02
MRK	3/4/2008	\$43.76	\$41.75	-4.6%	bought @ \$43.76
NYX	3/4/2008	\$63.09	\$60.51	-4.1%	bought @ \$63.09
MRK	3/5/2008	\$43.25	\$41.75	-3.5%	bought @ \$43.25
MRK	3/6/2008	\$42.06	\$41.75	-0.7%	bought @ \$42.06
WB	3/6/2008	\$27.00	\$27.22	0.8%	bought @ \$27.00
WB	3/7/2008		\$27.22		buy @ \$27.22 limit
C	3/7/2008		\$20.91		buy @ \$20.91 limit
ABT	3/7/2008		\$51.04		buy @ \$51.04 limit

Looking for a 2nd entry into WB and 1st entries into C and ABT.

Open Big 50 Trades

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GRMN	3/3/2007	\$58.60	\$55.14	-5.9%		
GRMN	3/4/2008	\$56.83	\$55.14	-3.0%		
AMZN	3/4/2008	\$61.67	\$64.09	3.9%		sold 1/2 @ \$66.00
MOT	3/4/2008	\$9.70	\$9.82	1.2%		

Open Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 11 (3 SLE, 3 MRK, NYX, 2 WB, C, ABT)

The CBI is now at 11/6. I am now beginning to scale in more aggressively.

Sector CBI Breakdown (% of stocks with active catapult triggers within each sector.)

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	6.90	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	6.76	DJ US Financial	IYF	3.77
DJ US Regional Banks	IAT	2.50	DJ US Financial Services	IYG	4.20
DJ US Utilities	IDU	5.41	DJ US Healthcare	IYH	6.34
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	2.72
DJ US Pharmaceuticals	IHE	10.81	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	2.04	DJ US Real Estate	IYR	2.44
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	3.52
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	10.53
DJ US Consumer Svcs	IYC	4.82	Nasdaq 100	QQQQ	5.00

CBI percentages continue to rise steadily. Nothing is screaming “buy” just yet, though. We do already have exposure in the highest % CBI sectors like IHE (ABT) and IYZ (MOT).

Additional New Trade Ideas

Longs

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	3/7/2008	\$129.73	\$129.71	0.0%		
SPY	3/7/2008		\$129.71			buy @ \$129.71 limit

Shorts

none

Additional Trades Active Table

none

Stocks and ETF's on my Radar

Ticker *Notes*

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

Oversold

MYL – Put in the reversal bar I was looking for. Could be playable.

Overbought

none.

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