QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 11, 2008 Issue 16

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 3/11/08

Significant CBI spikes of 10 or higher typically happen about once per year. When I started the Subscriber Letter I anticipated featuring a multitude of interesting systems that I could discuss each night. There are a few reasons the Catapult is my favorite system to trade. For one it gets me into trades at times when my other trend following methods would have me on the sideline (like now). Secondly, the significance of the CBI and the historical reliability of it as an indicator is extremely compelling. It now appears that the market has decided the Quantifiable Edges Subscriber Letter will focus almost exclusively on Catapults and CBI for a short while. Once the bounce arrives, I can start to explore other ideas and systems. Until that happens, Catapult and CBI will remain front and center in my trading and the Subscriber Letter.

The market fell again today in somewhat unspectacular fashion. Volume was lower. Breadth was poor, but not extremely so. Prices slid about 1.5% for the S&P 500 where the lows of January held by about 2 points.

Extreme readings came in two areas where they've been extreme for a few days now – CBI and put/call ratios. The CBOE total volume put/call ration hit its highest level since January 17th. The CBI hit it highest level (15) since I began tracking it live. In tonight's blog I discuss the three other times the CBI has spiked this high while the market is posting new lows – August '98, September '01 and July '02. All extreme selloffs and extreme opportunities.

All three of those instances ended with a complete capitulative washout of prices and the CBI jumped into the mid-30's or higher in each case. Thus far this selloff has been comparatively orderly. In last night's Letter I suggested the following method for scaling in to this situation:

"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."

In my eyes today does not qualify as a sharp drop. There was little hint of a washout from what I saw. Therefore, while part 1 should have been entered on Monday morning, I am still waiting for parts 2 and 3.

There are 4 Catapult signals tonight and 4 Catapult for ETF's. As I discussed in the Catapult presentation, I typically like to cap my daily exposure at 3 positions. Should you elect to adopt this technique that would mean a 3/8 normal lot size for tomorrow's trades assuming both Catapult and Catapult for ETF's trades. Alternatively, you could simply choose less than 8 and allocate slightly larger.

I am not suggesting any more SPY long exposure until a clear washout or reversal day appears. A breakdown below 1270 could lead to a fast fall. It seems wise to keep some capital aside to allocate aggressively when the bottom becomes more evident. Current Catapult, Big 50, Catapult for ETF's and CBI SPY Index trades have a fairly heavy allocation in place already.

Catapult and Capitulative Breadth Statistics

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

Open Catapult Trades

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
SLE	2/19/2008	$13.10	$12.33	-5.9%	bought @ $13.10
SLE	2/20/2008	$13.11	$12.33	-5.9%	bought @ $13.11
SLE	2/21/2008	$13.02	$12.33	-5.3%	bought @ $13.02
MRK	3/4/2008	$43.76	$41.26	-5.7%	bought @ $43.76
NYX	3/4/2008	$63.09	$57.40	-9.0%	bought @ $63.09
MRK	3/5/2008	$43.25	$41.26	-4.6%	bought @ $43.25
MRK	3/6/2008	$42.06	$41.26	-1.9%	bought @ $42.06
WB	3/6/2008	$27.00	$26.19	-3.0%	bought @ $27.00
WB	3/7/2008	$27.22	$26.19	-3.8%	bought @ $27.22
C	3/7/2008	$20.91	$19.69	-5.8%	bought @ $20.91
ABT	3/7/2008	$51.04	$50.60	-0.9%	bought @ $51.04
WB	3/10/2008		$26.19		buy @ $26.19 limit
C	3/10/2008		$19.69		buy @ $19.69 limit
ABT	3/10/2008		$50.60		buy @ $50.60 limit
NYX	3/10/2008		$57.40		buy @ $57.40 limit

Looking for a 3rd and final entry into WB and 2nd entries into C, NYX and ABT. We've been a bit unfortunate with a few of these trades. SLE for instance was close to triggering an exit before the current leg down began. The market selloff has hit several of the Catapult trades especially hard. It is not unusual for the early trades to be loss leaders. As many of our positions have been hit the hardest, I also expect them to be among the best bouncers. Cluster profitability will depend largely upon some of these later trades as well as the index positions. Sticking to the plan remains of utmost importance from my standpoint. Should you adopt the 3-position max daily technique and also look to add the Catapult for ETF trades that would mean each lot should be about 3/8 normal size.

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

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
IBB	3/10/2008		$69.80		buy @ $69.80 limit
XLV	3/10/2008		$31.00		buy @ $31 limit
IAI	3/10/2008		$37.60		buy @ $37.60 limit
PPH	3/10/2008		$69.36		buy @ $69.36 limit

Should you elect to cap the daily position limit at 3 positions as discussed above, then each lot would be about 3/8 normal size.

Broad Market Large Cap CBI – 15 (3 SLE, 3 MRK, 2 NYX, 3 WB, 2 C, 2 ABT)
The CBI is now at 15/6. The plan remains the same as yesterday. Look for a reversal or a washout to enter the next lot of SPY.

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

Index	ETF	CBI %		Index	ETF	CBI %
DJ US Broker Dealers	IAI	10.34		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	6.76		DJ US Healthcare	IYH	9.15
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	4.76
DJ US Pharmaceuticals	IHE	16.22		DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	4.08		DJ US Real Estate	IYR	2.44
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	4.02
DJ US Home Construction	ITB	0.00		DJ US Telecommunications	IYZ	13.16
DJ US Consumer Svcs	IYC	6.14		Nasdaq 100	QQQQ	5.00

CBI percentages continue to rise. We already have exposure in the highest % CBI sectors like IHE (ABT & MRK) and IYZ (MOT). The Catapult for ETF's IAI trade is also confirmed with its high CBI%.

Additional New Trade Ideas

Longs
none

Shorts
none

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	3/7/2008	$129.73	$127.57	-1.7%		
SPY	3/7/2008	$129.71	$127.57	-1.6%		

Stocks and ETF's on my Radar

Ticker ***Notes***

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

Oversold
None

Overbought
none.