

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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March 13, 2008

Issue 18

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## Market Overview

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

Study Date	Description	Time span	Bias
12-Mar-08	Bottom Explosion - Now What?	1-20 days	Bullish
March 9, 2008	CBI of 12	1-15 days	Bullish
February 27, 2008	Significance of Lagging Nasdaq	1-10 weeks	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 28<sup>th</sup> 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) – bullish – updated 3/13/08*

One of the biggest challenges for me in writing this newsletter is trying to anticipate action far enough in advance. Trades I post tonight must be held until Friday morning for purposes of tracking. The volatile market environment combined with the inability to trade intraday or even end-of-day makes entries and exits a bit tricky. I've tried to overcome this to some degree by sending out intraday updates when important triggers are met. By doing this hopefully subscribers can more easily incorporate some of my ideas into their own trading. I will try to keep the intraday updates to a minimum and rarely anticipate sending out 3 of them as I did today. I do not want to inundate anyone with extra email, but do want to alert on certain important triggers. While I will always

make the official trade entries overnight, I see no reason for subscribers to go without the information that long if I can help it. Should anyone not want the intraday updates, please let me know.

As most of you are likely aware the morning and early afternoon was very good for many of the Catapult trades. The CBI took a dive today – dropping from 12 down to 4. I indicated in my 12:45 intraday note that the drop to 4 was enough to get me to take profits on the SPY trades. The afternoon selloff did affect my thinking, though, so I will do my best to outline a game plan below.

I am generally bullish over the short-term so I would prefer to carry some index exposure. [The study from last night's blog](#) provided fairly compelling evidence of a continued move up over the next 3-20 days. It also indicated a high probability of a quick 1-3 day pullback. That pullback began this afternoon. I would prefer to enter a trade a little early here rather than miss out on the anticipated next leg up.

In other news today, the Investors Intelligence survey came out decidedly bearish. While not a perfect timing device, strong bearish readings tend to have a contrarian effect. I view this as a potential positive for the market.

The futures this evening are trading lower. A lot can change by morning but I am not interested in selling the outstanding SPY holdings into a gap down. In the Active Trades Table below where I have been tracking the SPY trades I will therefore enter a sell with a limit price. I also will leave the limit buy in place since I am interested in adding exposure on a pullback. The entry and exit prices I'm posting are not terribly important except for tracking my picks. Of greater importance is that traders are able to follow my line of thinking with these index trades so they may formulate a plan according to their tolerances. It's been a good few days and I sincerely hope you've all gained some value from the Subscriber Letter.

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

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

#### ***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	\$12.94	-1.2%	sell on open
SLE	2/20/2008	\$13.11	\$12.94	-1.3%	sell on open
SLE	2/21/2008	\$13.02	\$12.94	-0.6%	sell on open
MRK	3/4/2008	\$43.76	\$42.45	-3.0%	sell on open
NYX	3/4/2008	\$63.09	\$60.22	-4.5%	
MRK	3/5/2008	\$43.25	\$42.45	-1.8%	sell on open
MRK	3/6/2008	\$42.06	\$42.45	0.9%	sell on open
WB	3/6/2008	\$27.00	\$29.63	9.7%	sold @ open
WB	3/7/2008	\$27.22	\$29.63	8.9%	sold @ open
C	3/7/2008	\$20.91	\$21.21	1.4%	sell on open
ABT	3/7/2008	\$51.04	\$51.34	0.6%	
ABT	3/10/2008	\$50.60	\$51.34	1.5%	
NYX	3/10/2008		\$60.22		buy @ \$57.40 limit

Even though the 3<sup>rd</sup> lot of WB never received a fill due to the gap up Tuesday, the 2 lots

that were entered had fantastic performance. There is a lot listed as “sell on open” above. Hopefully some of you were able to take advantage of the intraday information and realize some profits in positions like C and MRK at slightly higher prices.

***Open Big 50 Trades***

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GRMN	3/3/2007	\$58.60	\$58.82	0.4%		sell on open
GRMN	3/4/2008	\$56.83	\$58.82	3.5%		sell on open
AMZN	3/4/2008	\$61.67	\$66.39	7.6%		sold for \$66.385 avg
MOT	3/4/2008	\$9.70	\$10.01	3.2%		sell on open

Even after selling off quite a bit at the end of the day, GRMN and MOT are looking much better than 2 days ago. AMZN was sold and turned out to be a very nice trade.

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

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
IBB	3/10/2008	\$69.80	\$71.99	3.1%	
XLV	3/10/2008	\$30.90	\$31.30	1.3%	
PPH	3/10/2008	\$69.36	\$70.04	1.0%	

No triggers yet in this group.

***Broad Market Large Cap CBI – 4/2 (2 NYX, 2 ABT)***

***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	2.70	DJ US Financial	IYF	1.03
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	5.41	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	2.72
DJ US Pharmaceuticals	IHE	10.81	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	12.24	DJ US Real Estate	IYR	1.22
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	1.01
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	15.79
DJ US Consumer Svcs	IYC	4.82	Nasdaq 100	QQQQ	2.00

Telecom and Healthcare failed to relieve their oversold conditions. We have plenty of healthcare exposure. MOT triggered an exit today for telecom. I may consider adding IYZ in soon.

## 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	\$131.23	1.2%		
SPY	3/10/2008	\$129.71	\$131.23	1.2%		sell @ \$131.80 limit
SPY	3/12/2008					buy @ \$130.00 limit

## 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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