

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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March 14, 2008

Issue 19

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## Market Overview

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

Study Date	Description	Time span	Bias
March 12, 2008	Bottom Explosion - Now What?	1-20 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 3/14/08*

The market gapped significantly lower this morning, acting as a double-edged sword for subscribers. Any Catapult trades that hit their exit targets on Wednesday that subscribers elected to hold overnight got marked down at the open. Affected trades were GRMN, MOT, C, SLE and MRK. On the other hand it did provide a nice entry point for our most recent SPY purchase. As subscribers may be aware, [my research has shown buying gaps during downtrends](#) provides a quantifiable edge. Today that edge played out. The market recovered from the morning lows and closed nicely higher. Breadth was mildly positive and volume was above average and increased from yesterday. The last four days the market has closed down, up, down and up. Volume has been higher on the up days and lower on the down days, which is generally viewed as a positive.

The up and down action has put the market and most stocks in a position where I am having a difficult time finding new swing-trading candidates. When trade ideas are especially hard to find, that typically means the edges aren't great. It's been a wild and wonderful week from a trading standpoint. After peaking with between 20-25 open trades on Monday, we've spent the last three days exiting positions. We've got a few trades still working, including NYX, a few sector ETF trades and some SPY positions. My inclination is to step away for a day and just monitor current positions.

I continue to believe risk/reward favors the bullish case at this point. The extreme levels of fear and bearishness I've noted lately in such things as put/call ratios and Investors Intelligence survey lend support to the idea of a multi-week rally. My explosion off bottoms study remains in effect and also has a strong bullish tilt. Tomorrow would be the first day that an Investors Business Daily Follow Through Day is eligible to occur so I'll be sure to carefully monitor price and volume action in the indices. Follow Through Days can be a useful tool, but they are nowhere near as effective as they are advertised to be. Subscribers who missed my series on [Follow Through Days](#) may want to review it. [Parts 1](#) and [2](#) were the most popular among readers.

As I write this late at night the futures look to be trading significantly lower. The S&P futures are down 0.9%. Should it gap down this much in the morning my intraday trading will likely again focus on the long side.

### **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>
ABT	3/7/2008	\$51.04	\$52.55	3.0%	sell on open
ABT	3/10/2008	\$50.60	\$52.55	3.9%	sell on open
NYX	3/4/2008	\$63.09	\$62.08	-1.6%	
NYX	3/10/2008		\$62.08		buy @ \$57.40 limit

C, MRK, and SLE were all closed out at the open. The gap down hurt some but hopefully most subscribers were able to take profits at higher levels based on Wednesday's intraday notes. For those who didn't sell Abbott (ABT) during the day today, profits should be taken near Friday's open.

#### ***Open Big 50 Trades***

*None*

The gap down this morning hurt the exit prices for MOT and GRMN. GRMN finished with a slight loss and MOT with a slight gain. Hopefully based on Wednesday's market action and the intraday notes that were sent, people were able to take some profits at higher profits.

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

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
IBB	3/10/2008	\$69.80	\$73.05	4.7%	sell on open
XLV	3/10/2008	\$30.90	\$31.26	1.2%	
PPH	3/10/2008	\$69.36	\$70.03	1.0%	

Those subscribers who elected to hold IBB overnight may sell near the open tomorrow.

### ***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	2.70	DJ US Healthcare	IYH	6.34
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.38
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.68
DJ US Pharmaceuticals	IHE	5.41	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	4.88	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	13.16
DJ US Consumer Svcs	IYC	4.82	Nasdaq 100	QQQQ	2.00

Telecom and Healthcare remain quite oversold. I will continue to keep an eye out in those areas for opportunity.

### **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	\$131.65	1.5%		
SPY	3/10/2008	\$129.71	\$131.80	1.6%		sold @ \$131.80 limit
SPY	3/13/2008	\$129.63	\$131.65	1.6%		bought @ open

### **Stocks and ETF's on my Radar**

#### ***Ticker***            ***Notes***

none

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

***Oversold***

None

***Overbought***

none.

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