

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 17, 2008

Issue 20

Market Overview

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

Study Date	Description	Time span	Bias
March 17, 2008	Consumer Sentiment Stretch	1-12 months	Bullish
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 3/17/2008

The January lows in the S&P futures were taken out tonight after news was announced that Bear Stearns is being bought by Morgan for \$2.00/share. The downtrend has reestablished itself. Most sentiment readings are now hitting such extreme levels that it appears a multi-week bottom should be close at hand.

Readings in such gauges as put/call ratios, the VIX, and consumer sentiment are all levels typically associated with bottoms. While it appears the time should be fairly near, it is difficult to tell the price level that the market will bottom at. I will be looking to the short-term outlook to help continue to guide me through this tricky time in the market.

Short-term Outlook (1-10 days) – neutral – updated 3/17/08

Many of the short-term guides I look at are reaching extreme levels here. Sentiment gauges were mentioned above. Short-term price drops of large magnitude also typically lead to sharp rebounds.

The problem is we seem to be experiencing an event that could put many gauges off the charts. With the S&P futures trading down between 2-3% my normal inclination would be to look to the long side. From an intraday standpoint I very well may do this again tomorrow. Reactions in this market are typically overreactions, and if you're patient, and don't chase prices, there is money to be made. From a swing trading standpoint, which is the time-frame the Subscriber Letter is capable of dealing with, I'm not interested in taking on more exposure just yet. This could quickly change in the next day or two.

Ideally I would like to see a flush out of prices. Panic selling from a price-standpoint can sometimes be identified when a downtrending stock or index drops about 2 times as

much as the other “big” bars in the downtrend. In this case that would take a selloff of 4% or more in the S&P 500. It wouldn’t need to close there, although that would be nice. Either the day of the washout or the next day I’d like to see a strong reversal to the upside. This is the kind of action that would get me more interested from a swing trading perspective. Tonight there will be no new trades suggested. Just management on some old ones and removal of one limit buy order.

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
ABT	3/7/2008	\$51.04	\$53.00	3.8%	sold @ \$53
ABT	3/10/2008	\$50.60	\$53.00	4.7%	sold @ \$53
NYX	3/4/2008	\$63.09	\$59.53	-5.6%	
NYX	3/10/2008		\$62.08		remove limit buy

ABT was sold at the open for a nice gain. The 2nd lot of NYX still has not been filled. With the market set to gap down tomorrow and trade wildly, I am removing the buy limit order on this one. The CBI will remain at “2” since the trigger is active. I may consider entering this 2nd lot once I get a better handle on the action of the next few days.

Open Big 50 Trades

None

Open Catapult for ETF’s Trades

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
IBB	3/10/2008	\$69.80	\$73.99	6.0%	sold @ \$73.99
XLV	3/10/2008	\$30.90	\$31.26	1.2%	sell on open
PPH	3/10/2008	\$69.36	\$70.03	1.0%	sell on open

IBB was sold on the open for \$73.99. Shortly after the open I sent out a message to subscribers that XLV and PPH had hit their target prices and may be sold as well. With the gap down tomorrow, I’m sure these will be two more examples of trades that look much worse in the Letter’s performance than most subscribers would have done in them. Although the official exit is always the next days open for the Subscriber Letter, I personally am not inclined to hold overnight once a target is hit until there are clear signs of an uptrend in place.

Broad Market Large Cap CBI – 2/1 (2 NYX)

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	4.05	DJ US Financial	IYF	1.37
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	1.35	DJ US Healthcare	IYH	7.04
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	1.35
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	4.39	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	\$129.61	-0.1%		
SPY	3/10/2008	\$129.71	\$131.80	1.6%		sold @ \$131.80 limit
SPY	3/13/2008	\$129.63	\$129.61	0.0%		

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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