

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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March 20, 2008

Issue 23

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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 19, 2008	Bottom Explosion 2	1-20 days	Bullish
March 19, 2008	4% up day	1-10 days	Bullish
March 19, 2008	3.5% Up Cluster	10-20 days	Bullish
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 3/19/2008*

I discussed several studies [tonight on the blog](#), all of which basically said the same thing: higher prices should be expected in the coming weeks. The strong 4% surge in the market today combined with the 3.5% surge last week suggests we may be at a turning point. High put/call ratios and VIX readings confirm these price-based studies. Additionally, we've had extremely positive breadth twice in the last 6 days. This was interrupted by a 90% downside day on the 14<sup>th</sup>. These extreme breadth readings serve as another form of confirmation.

There really isn't a whole lot else to look for. When price, sentiment, and breadth all say the same thing it normally pays to listen. At this point I'm anticipating continued upside and a long-side focus for the Subscriber Letter's short-term trades.

### *Short-term Outlook (1-10 days) – bullish – updated 3/20/08*

The market gave back a good chunk of its rally today, dropping 2.4% on heavier volume. Breadth was negative and overall it was a bad day. So does the size of the drop today have negative implications going forward? Not that I could find. [In the blog tonight](#) I show the two other instances since 1960 when the S&P rose 4% one day and then dropped 2.4% the next. They were October 1987 and October 2002 – both major market bottoms.

High volatility is typical near market bottoms and we are certainly getting our fair share of volatility. I believe big drops like today help to keep enough people worried that the

market can build a rally. The VIX moved back to nearly 30 and the put/call ratio was quite high once again today. People are nervous and that is normally a good thing on a long-term basis. For the short-term I think we are back to an area where picking up some more exposure seems like a good idea. In individual stocks there is very little setting up due to the recent choppiness. With all the positives I'm seeing though I believe picking up some more SPY exposure could be a good idea. I've discussed breaking the total SPY exposure you are willing to carry into four parts. I already have two SPY lots in the Letter. Tomorrow morning I will look to add a third. One more possibly to go. I will put a stop on this portion of the position in case things really start to fall apart tomorrow.

As of 11 pm eastern the S&P futures are down over 0.75%. As I've noted in the past, large gaps down (0.75% or greater) during downtrends [tend to have a bullish edge](#). I will therefore welcome the opportunity to buy into the gap.

When trading gaps down intraday I don't normally enter my whole position right away. Rather I'll buy some near the open and then add to it if it drops lower and looks to bounce. A reasonable place to set an initial stop on one of these trades is normally the pre-market low. Recently I have noticed that many gaps are being faded right at the open. Within a few seconds the SPY might pop \$0.15-\$0.20 or more. Therefore I've taken to buying a couple of minutes before the open rather than at the open. It's been effective over a small sample set.

### **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
NYX	3/4/2008	\$63.09	\$59.52	-5.7%	
NYX	3/10/2008		\$59.52		buy @ \$56.25

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

*None*

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

*none*

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

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

<b>Index</b>	<b>ETF</b>	<b>CBI %</b>	<b>Index</b>	<b>ETF</b>	<b>CBI %</b>
DJ US Broker Dealers	IAI	13.79	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	2.70	DJ US Financial	IYF	1.37
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	2.10
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	6.34
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	1.15
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	14.29	DJ US Real Estate	IYR	0.00
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	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	7.89
DJ US Consumer Svcs	IYC	1.75	Nasdaq 100	QQQQ	1.00

**Additional New Trade Ideas**

***Longs***

Buy IHF @ \$46.50 limit. Set stop @ \$44.99. Looking to take advantage of the relatively high CBI%.

***Shorts***

none

**Additional Trades Active Table**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
SPY	3/7/2008	\$129.73	\$130.32	0.5%		
SPY	3/13/2008	\$129.63	\$130.32	0.5%		
SPY	3/20/2008		\$130.32		\$125.99	buy @ \$130.32

**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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