

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 25, 2008

Issue 25

Market Overview

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

Study Date	Description	Time span	Bias
March 25, 2008	2 Day Surge	3-10 days	Bearish
March 25, 2008	VXO Stretch	1-10 days	Bearish
March 24, 2008	Nasdaq Leadership Bullish	1-10 weeks	Bullish
March 19, 2008	Bottom Explosion 2	1-20 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

Intermediate-term Outlook (2 weeks – 2 months) – 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 14th. 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 (1-5 days) –neutral – updated 3/25/08

The market put in another strong effort today as the S&P 500 rose 1.5% and the Nasdaq over 3%. Breadth was nicely positive but volume was lacking. After the runup of the last two days it appeared that buyers began to step away this afternoon, unwilling to chase prices any higher. As I discussed in [tonight's blog](#), price and sentiment have become extended and a pullback in the next few days is becoming a likely scenario.

I am therefore interested taking profits on our outstanding index trades. I don't want to sell into a large gap down, but will look to take profits near today's closing prices. The intermediate-term outlook remains bullish and I am not finding downside edges

compelling enough to make me interested in index shorts. Therefore, profit taking with the intent to buy back should the pullback occur is the gameplan for the SPY trades. I *am* interested in short exposure in individual issues that have high probability setups and have identified one of these below.

Should the market pull back as I anticipate, then I will be focusing on exploiting long-side edges. At this point, we have had a nice run and with the Letter's short-term timeframe in mind it seems like an opportune place to take some profits.

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	\$62.75	-0.5%	sell on open
NYX	3/10/2008				

NYX hit its intraday target of \$64.39 today. Subscribers were made aware of this and given the option of exiting during the day. Those that elected to hold may sell it at the open tomorrow.

Open Big 50 Trades

None

Open Catapult for ETF's Trades

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
SLV	3/20/2008	\$167.01	\$167.87	0.5%	bought \$167.01

DBA gapped up and never provided an entry. We will let it go at this point.

Broad Market Large Cap CBI – 0

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	0.00	DJ US Financial	IYF	0.68
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	1.40
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	1.41
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	0.00
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	1.35
DJ US Healthcare Providers	IHF	4.08	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	2.63
DJ US Consumer Svcs	IYC	0.00	Nasdaq 100	QQQQ	0.00

Additional New Trade Ideas

Longs

none

Shorts

GE – *Sell short*@ \$37.40 limit. The following conditions are present: 1) %b closes at 98 or above 4 days in a row. 2) Today’s close is lower than yesterdays. 3) Today’s close is below the 200-day moving average. Looking back 10 years and shorting under these conditions and then covering when the %b closed below 75 would have produced 96 trades across all S&P 100 stocks. Seventy-five (78.1%) were winners. Gross gains outsized gross losses by 2.3 to 1. The expected value of each trade was a 1.9% gain. With the market also overbought in a downtrend, this appears to be a high probability entry. If filled below \$38 then a stop may be place at \$38.01, which is above the recent high and 200-day moving average.

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	3/7/2008	\$129.09	\$134.72	4.4%		sell @ \$134.5 limit
SPY	3/13/2008	\$128.99	\$134.72	4.4%		sell @ \$135 limit
SPY	3/20/2008	\$129.80	\$134.35	3.5%		sold @ \$134.35
IHF	3/20/2008	\$46.50	\$47.59	2.3%		sell on open

The CBI% in IHF has dropped from 14 to 4 signaling an exit to the trade. As mentioned in the short-term market outlook section, I am also looking to take profits on the outstanding SPY positions.

Stocks and ETF’s on my Radar

Ticker ***Notes***

JPM – Short-term overbought and nearing top of 7-month trading range.

VNQ – Finished above Bollinger Band 2nd day in a row. Doji. Approaching 200ma resistance.

Notable S&P 500 stocks outside my “tradable” radar

Oversold

None

Overbought

HRB – Up over 25% in the last 5 trading days.

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