

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 26, 2008

Issue 26

## Market Overview

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

Study Date	Description	Time span	Bias
February 1, 2008	FTD's Short-Term Implications	1-5 days	Bullish
March 26, 2008	Inside Days	1 day	Bearish
March 26, 2008	3 Higher Closes	1-3 days	Bearish
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 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 (1-5 days) –somewhat bearish – updated 3/26/08*

Tuesday was pretty much a nothing day in the market. The market churned most of the day with some minor wiggles. Volume was light. For the SPY this created an inside day on the chart. Inside days have historically led to a negative expectation the following day. In addition to this, I am finding a fair amount of evidence that the market is likely to pull back in the short-term. [Last night](#) and [tonight's blog](#) discuss the short-term overbought nature of the market.

The caution flag is the recent Follow Through Day the market put in. Investors Business Daily declared last Thursday a FTD. As I noted in my February 1<sup>st</sup> blog, FTD's have a positive expectation for the short-term despite the fact that they frequently create an overbought market. Since the S&P 500 is already nearly 2% above the close of the Follow Through Day and I am seeing a good amount of evidence to suggest a downside edge over the next few days, I will look to take on a small amount of short index exposure.

I will be looking to take profits fairly quickly on this one since the intermediate-term outlook remains bullish. Should the market fail to pull back in a substantial way over the next few days I will likely look for a quick exit anyway. Traders should also keep in mind that the [short-term action immediately after a Follow Through Day](#) has frequently predicted the long-term success of the rally. Should the market continue to show strength over the rest of the week that would add more fuel to the intermediate-term bullish case.

### **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	\$63.19	0.2%	sold @ \$63.19
NYX	3/10/2008				

NYX was sold on the open. No more Catapults are currently active.

#### ***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	\$177.75	6.4%	sell 1/2 @ \$177.50

*With a quick 6.4% gain I think it's wise to take some profits on this one. I'll look to sell half the position tomorrow.*

## 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	0.00
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	0.00
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	0.00
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

Very little selling means low CBI's across the board.

### Additional New Trade Ideas

The market is not providing a strong short-term edge right now. Individual stocks are showing similarly indecisive patterns. Pretty much “wait and see” mode tonight.

### *Longs*

none

### *Shorts*

SPY – Sell short @ \$135.20. Looking for a fill between today's high and close. As we've done in the past, I believe scaling in to this would be appropriate. The first lot should consist of ¼ the total amount you would be willing to put into a SPY trade.

### Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	3/7/2008	\$129.09	\$134.86	4.5%		sold @ \$134.86
SPY	3/13/2008	\$128.99	\$135.00	4.7%		sold @ \$135.00
IHF	3/20/2008	\$46.50	\$47.60	2.4%		sold @ \$47.60
GE	3/25/2008	\$37.40	\$37.27	0.3%	\$38.01	cover if %b closes < 75

### Stocks and ETF's on my Radar

#### *Ticker*      *Notes*

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

VNQ – Finished above Bollinger Band 3rd day in a row. 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. 5 closes above Bollinger Band. Spinning top formation today.

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