

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 28, 2008

Issue 28

## 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	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 bullish – updated 3/28/08*

On March 25<sup>th</sup> and 26<sup>th</sup> (before the open) I posted four studies – all of which had short-term bearish implications. Short-term for these studies was anywhere from 1 to 10 days. On the 26<sup>th</sup> and 27<sup>th</sup> the market pulled back. It is now reaching a point where these studies are beginning to lose their negative influence. The "Inside Days" study only had a 1 day timeframe. "3 Higher Closes" only exerted a negative influence for up to 3 days. "2 Day Surge" and "VXO Stretch" are still actively bearish. Even so, after two days of selling overbought conditions are dissipating and bearish studies are losing influence.

Meanwhile, our intermediate-term studies, all of which had bullish results, are just beginning to hit their sweet spots. Nothing I've seen in the last few days has indicated to me that the positive influence of all our intermediate-term studies has dissipated or been negated. I am therefore continuing to approach the market with a bullish bias and an expectation that it will make higher highs and higher lows over the next several weeks.

From the standpoint of looking to individual stocks for opportunities, there is still not a lot out there. To give you some idea, I looked at all the stocks in the S&P 100 along with the 115 highly liquid ETF's I follow. None of them closed below their lower Bollinger Band today. In fact, none of them even made a 10-day low. There is a lot pulling back, but there is virtually nothing that you would consider oversold. The CBI numbers are also miniscule across the board. Without any evidence of oversold breadth the market could easily have further to fall.

The pullback over the last two days has brought the SPY near a potential support area. The 10 and 20 day moving averages are close below. Also the SPY has now retraced 50% of its move up from the 3/20 low to the 3/24 high. The 50% retracement is a number that is closely watched by Fibonacci analysts. While I have never managed to garner much value from Fibonacci numbers, it serves as an important number for me as well. If you consider the low of the recent upleg a potential stop and the high of the recent upleg a profit target, a 50% retracement is the point where risk equals reward. If my current analysis tells me that the market is more likely to rise and start a new upleg than it is to fall below the recent swing low, then a purchase in this area will have a positive expectancy. Conveniently, my current analysis is telling me just this. In fact the positive expectancy is somewhat understated here since I am of the opinion that a new leg up could go somewhat farther than the recent swing high of 135.81 (or 1359 on the SPX). All of this is a bit of a long-winded way to say that the market has reached an area where I am now interested in beginning to scale in again.

### **Catapult and Capitulative Breadth Statistics**

*(Catapult Presentation Part 1) (Catapult Presentation Part 2)*

#### ***Open Catapult Trades***

none

#### ***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	\$178.87	7.1%	sold

*Gapped a little lower this morning posting an opening of \$180.23, which was where the 2<sup>nd</sup> part of the position was sold. The average sale price over the last two days was \$178.865 – good for a nice 7.1% gain in 4 trading days.*

#### ***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

No real signs of capitulative selling at the present time.

**Additional New Trade Ideas**

***Longs***

SPY – Buy @ \$132.78. Beginning to scale in due to reasons discussed in the short-term outlook. I’m looking to take on about 25% of the total position I am willing to allocate to SPY at this point.

AMAT – Buy @ \$19.98.

I tested all S&P 100 stocks going back ten years based on the following criteria. 1) 50-day high made within the last ten days. 2) Close above 200-day moving average. 3) Has made at least 4 lower closes in a row. 4) Closed at a 10-day low today.

Buying under these conditions and selling on a close above the 10-day moving average would have yielded the following results:

Total trades – 1048. 71% winners. Avg gain: 3.1%. Avg loss: 4.1%. Avg trade: 1.1%. Profit factor: 1.9.

In AMAT alone it was 5 for 7. Avg win: 4.8%. Avg loss: 1.9%. Avg trade: 2.9%. Profit factor: 6.4.

***Shorts***

none

**Additional Trades Active Table**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GE	3/25/2008	\$37.40	\$37.31	0.2%	\$37.31	covered @ \$37.31

I may have been too aggressive in moving the stop down with this one, which is disappointing. It was covered @ \$37.31 for a very slight gain.

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

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

UNH – *Has spent 18 days below 10-day moving average. Near new lows. Appears to be setting up for a long.*

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

### ***Oversold***

None

### ***Overbought***

none

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.