

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

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Issue 10

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## Market Overview

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

Study Date	Description	Time span	Bias
February 27, 2008	Significance of Lagging Nasdaq	1-10 weeks	Bearish
February 22, 2008	Triangles	intermediate	Bearish
February 12, 2008	<a href="#">Contraction of range</a>	20 days	Bullish
February 1, 2008	<a href="#">FTD short-term implications</a>	long-term	Bearish

### *Intermediate-term Outlook (2 weeks – 2 months) – neutral – updated 2/28/2008*

At the end of January the market hit levels of “oversold” by several different measures. Many of the more significant readings came from breadth measures such as the massive number of 52-week lows, the McClellan Oscillator and the Quantifiable Edges CBI. Nearly everything I looked at told me the market had endured enough selling and that it was bound to rally for a while. Readings seen suggested a multi-week rally at a minimum and a possibility of an intermediate-term bottom.

A retest of the lows also seemed to be a fairly strong possibility. That retest has yet to arrive. We are now 5 weeks from the January bottom. The S&P 500 is 8.7% off its January lows, but really hasn’t made any headway in the last 3 ½ weeks. Most of the bullish studies I referenced back then are no longer exerting much influence. In their place is a batch of new studies – most of which have a bearish tilt.

The newest of these studies, “[The Intermediate Term Significance Of A Lagging Nasdaq](#)” was posted this morning. It suggested that with the NYSE composite hitting new 5-week highs, the degree with which the Nasdaq is currently lagging the NYSE has historically been bearish. Combined with other intermediate-term studies such as the [Triangles](#) and [FTD Short-term Implications](#) the picture my research is painting is becoming less rosy.

It’s fairly easy to discount or make excuses for results we don’t like. Take this morning’s lagging Nasdaq study, for instance. Many of the big name Nasdaq stocks like Apple, Google, Baidu and Research In Motion were leaders throughout 2007. Bear markets frequently force changes in leadership. Therefore, I wouldn’t expect the above stocks to lead now as they did last year. But just because I can come up with reasons an indicator

or study may not be relevant this time, doesn't mean it isn't. Studies should be considered with an open mind and not easily dismissed. When several of them begin to point in one direction, perhaps it's time to listen.

I'm reticent to turn outright bearish at this point since the readings near the January lows did have such a bullish tilt. Also the market has started to put in a series of higher lows which is allowing bases to build and providing support for the indices. For the time being, therefore I am going to let the short-term analysis act as the guide and move the intermediate-term outlook to neutral.

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

The market finished off February on a bad note with the major averages all dropping 2.5% or more. The selling came on high volume and with extremely negative breadth. 84% of the issues traded on the NYSE closed down and 94% of the trading volume was negative. My decision to cover the outstanding SPY position at the open was a bit early, but a decent 3-day index trade none the less. The overbought measures that led us into the trade have now all been worked off. The market is now starting to enter oversold territory by some measures.

Lowry's Research has found that *clusters* of days where 90% of issues traded and 90% of volume were focused in one direction have helped to identify market bottoms. My research looking back to 1970 shows that *individual 90% down volume days* have more often led to additional weakness and net losses over the next 1-5 days.

As noted in [tonight's blog](#), there has been a positive bias in recent years on the 1<sup>st</sup> trading day of the month. This bias is a relatively new phenomenon and it didn't exist prior to the mid-90's.

I'm seeing fair amount of stocks that are close to posting readings that might make us interested in buying, but they're not quite there yet. Another down day could bring a plethora of setups. There is a new Big 50 trade setup in GRMN below, but other than that I'm going to tread lightly and give it another day to play out.

As I write this late Sunday night, the S&P futures are down about 8 points. Intraday traders could consider gap-fade trade tomorrow with any further weakness in the futures. [My research has shown that fading large gaps down](#) in downtrending markets has historically provided traders an edge. This is a difficult trade to maneuver in the context of a nightly newsletter so I won't be taking a position here.

## Catapult and Capitulative Breadth Statistics

### *Open Catapult Trades*

Symbol	Trigger Date	Entry Price	Current Price	% Gain/Loss	Action
SLE	2/19/2008	\$13.10	\$12.63	-3.6%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$12.63	-3.7%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$12.63	-3.0%	bought @ \$13.02

The intraday price target estimate is now \$13.12 for Monday.

### *Open Big 50 Trades*

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GRMN	3/3/2007		\$58.71			look to buy @ \$58.71 limit
STP	2/26/2008	\$36.90	\$37.17	0.7%	\$36.00	3/4 of position was sold @ \$40 for a 8.4% gain

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

none

### *Broad Market Large Cap CBI – 3 (SLE)*

While the basic reading is now a “3” it is only in one stock. This is not as significant as a “3” reading in 3 different stocks. On the blog I only show and evaluate the basic number. In the Subscriber Letter I will also discuss the complex count when the reading begins to reach significant levels.

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

Index	ETF	CBI %	Index	ETF	CBI %
DJ US Broker Dealers	IAI	3.45	DJ US Energy	IYE	0.00
DJ US Insurance Index	IAK	1.35	DJ US Financial	IYF	0.34
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.70
DJ US Utilities	IDU	4.05	DJ US Healthcare	IYH	2.82
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	1.36
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	2.04	DJ US Real Estate	IYR	0.00
DJ US Medical Devices	IHI	0.00	DJ US Transportation	IYT	4.76
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	2.19	Nasdaq 100	QQQQ	1.00

No substantial capitulation evident among the sectors.

### Additional New Trade Ideas

#### *Longs*

none

**Shorts**

none

**Additional Trades Active Table**

Symbol	Position	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY	Short	2/27/2008	\$138.36	\$135.60	2.0%	na	covered @ \$135.60
SPY	Short	2/26/2008	\$137.33	\$135.60	1.3%	na	covered @ \$135.60
SLV	Short	2/29/2008	\$196.66	\$196.68	0.0%	na	doji marking short-term top?

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

*Ticker*            *Notes*

**Notable S&P 500 stocks outside my "tradable" radar**

***Oversold***

none

***Overbought***

none.

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