

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 5, 2008

Issue 12

Market Overview

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

Study Date	Description	Time span	Bias
March 5, 2008	Reversal Bars	1-10 Days	Bullish
March 5, 2008	CBI of 5	1-15 days	Bullish
February 27, 2008	Significance of Lagging Nasdaq	1-10 weeks	Bearish
February 12, 2008	Contraction of range	20 days	Bullish
February 1, 2008	FTD short-term implications	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 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) – mildly positive – updated 3/5/08

Another gap lower, selloff, and reversal made for plenty of intraday action but left the market pretty close to where it started the day. Breadth was negative by about 2 to 1 and volume came in heavier today. At one point during the day I noticed breadth was close to 9:1 but the late-day rally shifted those stats significantly.

The move off the lows creates the same problem it did yesterday – the market is now well off support levels, making an entry here more risky. Odds of a successful bounce are increasing, though.

In tonight's blog I show the mild bullish tendency following reversal bars similar to today's. Two bars of this type in a row as we've seen the last two days is unprecedented for both the SPY and the NDX.

Also of note is that the CBI now stands at "5". This too has proved bullish in the past. I discuss this further in the "Broad Market Large Cap CBI" section below, but we are nearing levels where I will be looking to take on long index positions. The move to "5" means two more Catapult trades triggered today. With 5 active Catapult triggers and 4 active Big 50 triggers we already have a decent amount of long exposure. I'd prefer not to jack it up any further with index trades until the odds appear a bit more heavily in our favor. In the meantime, should the market bounce strongly before I initiate index trades, the Catapults and Big 50 trades should allow for some decent participation.

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
SLE	2/19/2008	\$13.10	\$12.85	-1.9%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$12.85	-2.0%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$12.85	-1.3%	bought @ \$13.02
MRK	3/4/2008		\$43.76		buy @ \$43.76 limit
NYX	3/4/2008		\$63.09		buy @ \$63.09 limit

Looking for 2 new entries in MRK and NYX. I will mail out the actual intraday target for SLE tomorrow after the open.

Open Big 50 Trades

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
STP	2/26/2008	\$36.90	\$39.00	5.7%	\$36.00	stopped out of remaining @ \$36- avg exit \$39
GRMN	3/3/2007	\$58.60	\$58.00	-1.0%		
GRMN	3/4/2008	\$56.83	\$58.00	2.1%		
AMZN	3/4/2008	\$61.67	\$65.34	6.0%		sell 1/2 @ \$66.00 limit
MOT	3/4/2008	\$9.70	\$9.93	2.4%		

We had an unfortunate stop out in STP today, but still made 5.7% on the position. Our other three Big 50 stocks all acted well. I will email out intraday targets to subscribers tomorrow sometime after the open. Amazon has moved up far enough that partial profits may be taken by conservative traders. I will look to exit part of the position @ \$66.00 tomorrow.

Open Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 5 (3 SLE, MRK, NYX)

The CBI is now at 5/3. Five triggers in three stocks. As I've mentioned in the past, 5 is the first level of significance. Historically, buying the S&P 500 when the CBI closes at 5 and then selling when it closes at 3 or lower has been profitable about 77% of the time with gains outsizing losses by about 5 to 1. I normally don't buy at this point, but rather wait until it hits 7. A 5 to me is a signal to avoid adding any new short exposure.

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	1.35	DJ US Financial	IYF	1.71
DJ US Regional Banks	IAT	2.50	DJ US Financial Services	IYG	2.80
DJ US Utilities	IDU	4.05	DJ US Healthcare	IYH	4.23
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.77
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	2.04
DJ US Pharmaceuticals	IHE	5.41	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	2.04	DJ US Real Estate	IYR	1.22
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	3.02
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	10.53
DJ US Consumer Svcs	IYC	3.51	Nasdaq 100	QQQQ	3.00

CBI percentages are on the rise all around. Telecom could provide a nice trade with any further triggers.

Additional New Trade Ideas

Two new Catapults along with our already established positions are providing decent long-side exposure already. Shorts will be avoided until the CBI drops below 5.

Longs

none

Shorts

none

Additional Trades Active Table

Symbol	Position	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SLV	Short	2/29/2008	\$196.66	\$195.75	0.5%	na	covered on close below 5ma

The exit for this setup was a close below the 5 ma. That triggered today and the trade was good for a small gain.

Stocks and ETF's on my Radar

Ticker ***Notes***

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

Oversold

ADSK – Strong selloff losing steam. Big gap to the upside to try and fill.

Overbought

none.

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