

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 6, 2008

Issue 13

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 3/6/08

The market gapped up this morning, gave some big wiggles during the day, and closed higher. Breadth was positive but volume was light. It started to work off the oversold condition which had built up over the previous few days. It remains stuck in a broad trading range.

Today's hi-low range was smaller than the 50-day average true range for SPY. Even so, when I look back at the last 33 days of SPY trading, 27 of them came within \$0.10 of today's high or low. The triangle breakout and fakeout failed to move the SPY out of the broader trading range. The SPY is now at the lower end but nearing the middle of its range.

The CBI moved to 6. This indicates there remains excess to be worked off. Hopefully it's worked off with the higher prices rather than time. The other study I discussed last night was on reversal bars. The bars seen on Tuesday have provided a mild bullish edge in the past. With both of these studies still working in the markets favor and the fact that we remain in the lower half of the range, further upside over the next day or two seems more likely than not.

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	\$12.91	-1.5%	bought @ \$13.10
SLE	2/20/2008	\$13.11	\$12.91	-1.5%	bought @ \$13.11
SLE	2/21/2008	\$13.02	\$12.91	-0.8%	bought @ \$13.02
MRK	3/4/2008	\$43.76	\$43.25	-1.2%	bought @ \$43.76
NYX	3/4/2008	\$63.09	\$63.33	0.4%	bought @ \$63.09
MRK	3/5/2008		\$43.25		buy @ \$43.25 limit

Looking for a 2nd entry into MRK after today's continued slide.

Open Big 50 Trades

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
GRMN	3/3/2007	\$58.60	\$57.28	-2.3%		
GRMN	3/4/2008	\$56.83	\$57.28	0.8%		
AMZN	3/4/2008	\$61.67	\$64.99	5.4%		sold 1/2 @ \$66.00
MOT	3/4/2008	\$9.70	\$10.02	3.3%		

Half of the Amazon position was sold today at \$66.00 for a 7% gain.

Open Catapult for ETF's Trades

none

Broad Market Large Cap CBI – 6 (3 SLE, 2 MRK, NYX)

The CBI is now at 6/3. Six triggers in three stocks. A 7 could trigger a long index trade. I would much prefer a 7/4 rather than a 7/3 reading. I'll show stats on that if it becomes appropriate in the next few days.

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	2.70	DJ US Financial	IYF	2.05
DJ US Regional Banks	IAT	2.50	DJ US Financial Services	IYG	2.80
DJ US Utilities	IDU	4.05	DJ US Healthcare	IYH	4.93
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	0.00
DJ US Aerospace & Defense	ITA	0.00	DJ US Technology Sector	IYW	3.52
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	10.53
DJ US Consumer Svcs	IYC	3.51	Nasdaq 100	QQQQ	5.00

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

Additional New Trade Ideas

With a gaggle of long trades already on, a CBI indicating shorting is dangerous, and a market back in the middle of its range I'm not looking to get more aggressive here. No additional setups tonight. Let's see how the above trades play out over the next few days.

Longs

none

Shorts

none

Additional Trades Active Table

none

Stocks and ETF's on my Radar

Ticker *Notes*

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

Oversold

ADSK – This was the one stock I mentioned in this space last night. It rose 5.4% today.

MYL – Looks similar to ADSK of yesterday. No signs of slowing or reversing, yet though. This may need a few more days.

Overbought

none.

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