

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 2, 2008

Issue 31

Market Overview

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

Study Date	Description	Time span	Bias
April 1, 2008	3 Surge Days	2-6 weeks	Bullish
February 1, 2008	FTD's Short-Term Implications	long-term	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 3/31/2008

On March 20th the market but in an IBD Follow Through Day, rising strongly on high volume. On March 24th another Follow Through Day was posted. Over the last three days (26th, 27th, 28th) the market has steadily pulled back. The S&P 500 is now trading over 1% below its March 20th closing level. In the February 1st, 2008 study on Short-term Implication of Follow Through Days, I determined that success or failure of a Follow Through Day was many times predicted by the action in the first week. If the market was able to add on to its gains over the 1st week, then there was about a 2/3 chance that the Follow Through Day would succeed. On the other hand, a failure to add to the gains over the first week led to a failure of the rally about 2/3 of the time. This study is therefore predicting a failure of the recent rally.

While it is the most current in terms of its price action, it is still the only study with bearish intermediate-term implications. All of the studies listed above from March 12th to March 24th with intermediate-term influence suggest the market has made a low which should hold for at least several more weeks and that we should see rising prices over the next month or so.

Those studies are what still have me favoring the bullish camp. We have the first warning sign, though. Over the next several days and weeks it will be important to continually monitor price, sentiment, breadth, and volume and look for further hints with bearish or bullish implications. The bullish outlook remains in tact...for now.

Short-term Outlook (1-5 days) – neutral – updated 4/2/08

The stock market exploded once again today for some significant gains. This is the third time in the last three weeks that the S&P has posted a 3.5% or greater gain. Fortunately, the Subscriber Letter has held some SPY each time. [I posted a study to the blog](#) today which suggests that the implications of another 3.5%+ day are bullish looking out over the next several weeks.

I ran several studies today looking at near-term price action (1-5 days) following days like today. No matter how I slice it, the results were pretty much the same. There is an overall positive expectancy even in the short-term. That said, in nearly every case the market has pulled back at some point within the next one to three days. This is similar to results I discussed near the top of the [March 19th blog](#). The average pullback has been about 2-2.5% after an episode like today.

It therefore seems best to me to look once again to close out the SPY positions. With gains between 3-4% on an index trade over a swing time-frame, profit taking seems prudent. Also, with a short-term pullback a high probability there is a good chance we could once again re-enter this trade at a lower price point. Shorting does not yet have a positive expectancy, so I will look to go flat SPY and continually evaluate for the next entry.

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

None

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	3.45	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	0.70
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	0.70
DJ US Oil&Gas Expl & Prod	IEO	0.00	DJ US Industrial Sector	IYJ	0.38
DJ US Oil Equip & Svcs	IEZ	0.00	DJ US Consumer Goods	IYK	0.00
DJ US Pharmaceuticals	IHE	2.70	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	0.00	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	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

GLD – Buy @ \$86.86. Setup: Has closed below its 10-day MA for at least 10 days in a row. 2) Made a 10-day low today. 3) Closed above its 200-day MA. Buying under these conditions and selling on a close above the 10-day MA across our list of 114 ETF’s over the last 10 years would have produced the following results:

453 trades.
 367 winners (81%)
 Avg win = 1.8%
 Avg Loss = 2.3%
 Avg Trade = 1.1%
 Profit Factor = 3.92

Other ETF’s that also qualify and could be substituted include SLV, GDX, and IAU. I simply chose GLD for the Letter since it is the most liquid.

Shorts

none

Additional Trades Active Table

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
AMAT	3/28/2008	\$19.98	\$20.04	0.3%		
SPY	3/28/2008	\$132.78	\$136.61	2.9%		sell @ \$136.61
SPY	3/31/2008	\$131.51	\$136.61	3.9%		sell @ \$136

I lowered the limit on one lot to try and make sure I get a fill. With any luck we’ll get a slight gap up tomorrow to sell both lots into.

Stocks and ETF's on my Radar

Ticker ***Notes***

UNH – *Bounced very nicely today. If you took this you might want to consider profit taking.*

SLE – *Up six days in a row and accelerating. Look for reversal bar to provide short opportunity.*

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

Oversold

None

Overbought

none

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