

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 3, 2008

Issue 32

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 put 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

A mild pullback today. No real extremes in breadth, volume, sentiment or price that caught my eye. We appeared to be consolidating Tuesday's strong move. In yesterday's Subscriber Letter I wrote the following:

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.

The pullback began today. If it's going to act like the two we had in March then there should be a sharp selloff tomorrow. I am not anticipating that. I am just on the lookout for it. If it doesn't materialize, then that could indicate a change in character and perhaps serve as a bullish sign.

Long setups are evading me tonight. I did find one interesting short idea and a few others that made the radar...

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 | 0.00 |
| 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 | 0.00 |
| DJ US Consumer Svcs | IYC | 0.00 | Nasdaq 100 | QQQQ | 0.00 |

No signs of capitulative selling at the present time.

Additional New Trade Ideas

Longs

None – GLD gapped and ran on us today – not allowing for an entry. I listed four other possibilities last night in lieu of GLD – they all gapped higher and ran away as well. Sometimes it rains when you want to play baseball. Sometime you don't get a fill when you want to trade. This idea is closed for now. I'll keep an eye out should it drop back down.

Shorts

SLE – Short @ \$14.50. Off the radar and onto the trade list. SLE is being considered based on the following setup: 1) Close < 200-day moving average. (Long term downtrend) 2) Has closed higher at least 7 days in a row. (Short-term overbought). 3) Today is the lightest volume in 5 days. (The low volume is a clue that the buying enthusiasm is drying up.)

Shorting this setup and covering on a close below the 5-day MA in the S&P 100 stocks over the last 10 years would have produced the following results:

50 trades.

41 winners (82%)

Avg win = 2.2%

Avg Loss = 2.8%

Avg Trade = 1.3%

Profit Factor = 3.54

Additional Trades Active Table

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---------------|-------------------|--------------------|----------------------|--------------------|-------------|-----------------|
| AMAT | 3/28/2008 | \$19.98 | \$20.59 | 3.1% | | sold @ \$20.59 |
| SPY | 3/28/2008 | \$132.78 | \$137.06 | 3.2% | | sold @ \$137.06 |
| SPY | 3/31/2008 | \$131.51 | \$137.06 | 4.2% | | sold @ \$137.06 |

All positions were closed out today. If we don't get filled on SLE tomorrow, I'm going to feel naked.

Stocks and ETF's on my Radar

Ticker ***Notes***

AAPL – Reversal bar just below 200ma. Looks ready to pull back.

FDX – Similar to AAPL. Reversal bar just under 200ma.

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

Oversold

None

Overbought

none

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