

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 11, 2008

Issue 38

Market Overview

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

| | | | |
|------------------|-------------------------------|-------------|---------|
| April 10, 2008 | Relatively High Put/Call | 20 days | Bullish |
| April 8, 2008 | Negative Reversal Bars | 3-5 days | Bearish |
| April 4, 2008 | Trend Over Volatility (TOV) | 20 days | Bullish |
| April 1, 2008 | 3 Surge Days | 2-6 weeks | Bullish |
| February 1, 2008 | FTD's Short-Term Implications | long-term | 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 |

Short-term Outlook (1-5 days) –neutral – updated 4/11/08

The market put in an up day Thursday. Volume was higher, but not terribly high. Breadth was solid while not spectacular. Technology and energy fared well. The Nasdaq made up all of its losses from Wednesday while the S&P made up about half. Unfortunately for our strategies the action moved us back into the range rather than becoming more stretched.

The one area of the market that is truly stretched to the upside is energy. We remain short SLB awaiting a pullback in the stock and group to allow us to exit. Trying to short momentum can be very difficult. SLB's status as a laggard in the oil service group makes it a higher probability setup.

Although many of the stocks I short in the Subscriber Letter are overbought in nature it is important to keep the big picture in mind. I don't typically short stocks making runaway moves to the upside. Stocks making runaway moves down make for better reversal candidates than shorting runaway moves up. There are several reasons for this. One of the most important is that there is no topping equivalent to a short-covering rally. When a move becomes exhausted to the downside the rebound is typically extremely sharp. When a move gets exhausted to the upside the overbought condition can be worked off by shallow pullbacks or sideways consolidations. Even if risks were relatively equal, the

potential reward of shorting an upmove isn't nearly the potential reward of buying a down move.

As an example let's look at Halliburton (HAL). One indicator I use is a 3-period smoothed RSI. Of all the stocks in my large-cap universe, HAL's is the highest at a whopping 99.7. It hasn't had a down close in 15 days, and today's percent gain was the highest in the last 10 days. If we scan for S&P 100 stocks that exhibited these conditions in the last 10 years we won't find any. Eliminating the need to go 15 days without a down close does provide 61 instances. Shorting a S&P 100 stock with a 99 or higher 3-period RSI and a percent gain that is the highest in the last 10 days during the last 10 years would not have been a good idea. If we look to exit on a cross below the 5-period moving average then the average trade would have lost about 1% plus commissions. I'm not suggesting a long in HAL. Historically, it would be a better idea than a short, though. This is just meant to illustrate the point that shorting into runaway upmoves is a dangerous game.

There is one suggested long trade tonight.

Intermediate-term Outlook (2 weeks – 2 months) – bullish – updated 4/9/2008

Some of our intermediate-term studies are beginning to age. The sphere of influence for the March 12 Bottom Explosion Study was 1-20 days. Thursday will mark 20 days out and the positive influence from that study will dissipate. Next Thursday we'll see the "3.5% Up Cluster" and "Bottom Explosion 2" studies from March 19th lose their influence.

This isn't necessarily a negative. I have yet to notice any market action that indicates to me that the market is likely to sell off in a substantial way. The levels reached in March from a price, breadth and sentiment standpoint were extreme enough that a substantial multi-week rally was almost certain to emerge. Whether it turns out to be a bear market rally or a new emerging bull is still up in the air. As we've come a decent ways via both time and price from the March lows, it is important to be cognizant that those studies mentioned above are losing influence. The easy part of the rally is ending. From a predictive standpoint, things may begin to get murkier here. It will remain important to continually look for clues of either continued strength or returning weakness.

On the positive side, the April 1st "3 Surge Days" study will soon begin to exert influence. Also, as I mentioned above I am not seeing anything with negative intermediate-term consequences as of now. Therefore my outlook remains bullish and my trading will generally favor the long side until my studies of market action and indicators tell me different.

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 | 0.00 | DJ US Energy | IYE | 0.00 |
| DJ US Insurance Index | IAK | 0.00 | DJ US Financial | IYF | 0.00 |
| DJ US Regional Banks | IAT | 0.00 | DJ US Financial Services | IYG | 0.00 |
| DJ US Utilities | IDU | 0.00 | DJ US Healthcare | IYH | 0.00 |
| 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 | 0.00 | DJ US Basic Materials | IYM | 0.00 |
| DJ US Healthcare Providers | IHF | 0.00 | DJ US Real Estate | IYR | 0.00 |
| 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

GRMN – buy @ \$46.56. As I've shown multiple times in the blog, [reversal type bars](#) at lows tend to have a positive expected value. Looking at *GRMN*'s setup I note the following conditions: 1) Made a 50-day low today. 2) Closed at least 1% higher. Buying the close and selling on a cross of the 10-sma over the last 10 years in all S&P 100 stocks would have produced the following results:

Trades – 1098

Winners – 779 (71%)

Avg gain – 3.8%

Avg Loss – 5.5%

Avg Trade – 1.15%

Profit Factor – 1.73

Using a stop had a slight negative effect on the overall results. I will likely trail one if the trade begins to go our way. The expected value of 1.15% isn't great but this could balance off our short exposure a bit. I wouldn't get too aggressive with position size on this one.

Additional Trades Active Table

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|---------------|-------------------|--------------------|----------------------|--------------------|-------------|--------------|
| SLB | 4/8/2008 | \$90.58 | \$92.60 | -2.2% | | |
| | | | | | | |

Stocks and ETF's on my Radar

none

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

Oversold

None

Overbought

None

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.