

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 18, 2008

Issue 1

Market Overview

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

Study Date	Description	Time span	Bias
February 12, 2008	Contraction of range	20 days	Bullish
February 1, 2008	FTD short-term implications	long-term	Bearish
January 27, 2008	Nasdaq/Russell Relationship	20 days	Bullish
January 24, 2008	Large Bars Down and Up	20 days	Bullish

Intermediate-term Outlook (2 weeks – 2 months) – positive – updated 2/18/2008

So far the January lows have held up. Some of the readings observed near the January bottom were severe enough that they have typically led to bull rallies in the past. These include the massive number of new lows, the high CBI, and the large reversals seen on January 22nd and 23rd. The huge jump in the McClellan Oscillator and strong overbought readings are also indicative of further strength in the intermediate-term. The huge increase in volatility was another clue suggesting further upside to come. In many cases in the past the market has retested its lows before strongly moving higher. Whether the lows posted on February 11th can be considered a retest is questionable.

The one negative study I referenced above is the Short-term Implications of FTD's which was posted to the blog on February 1st. Generally, the market direction in the first five days after a FTD has been 67% accurate in predicting whether that FTD was successful. Using January 31st as the FTD, the following five days indicate more downside. If you ignore the traditional FTD definition and defer to IBD's declaration of February 13th as the follow-through day, the market is still off to a lousy start and signaling a likely failure.

While most of the positive studies and indications occurred close to the January bottom and are now a few weeks old, we did get some good news this past week. The Investors Intelligence survey showed 36.7% bulls and 35.6% bears. The last time bears were this close to overtaking bulls was mid-2006. While not an exact timing device, relatively high levels of bearishness in the past have served as fuel for emerging bull moves.

Short-term Outlook (1-10 days) – neutral – updated 2/18/08

The last three days for the S&P 500 have been up big, down big, and nearly flat. It now sits close to the middle of its 3-week range. The range for the all major indices has been contracting recently and they are mostly starting to take on triangular shapes. I expect this contraction to resolve itself with a breakout in one direction fairly soon, but do not see a strong edge for picking that direction. After the contraction resolves itself, short-term edges may become more clear. A sharp break lower could set up as a retest of the January lows.

Short-term edges more often appear when the market is overbought or oversold. With the market range-bound I'm seeing few edges and the short-term mantra is basically "wait and see".

Catapult and Capitulative Breadth Statistics

Open Catapult Trades

Symbol	Trigger Date	Trigger Price	Current Price	% Gain/Loss
*HIG	2/11/2008	\$70.99	\$72.48	2.1%

*Note that the above trade was active prior to the release of the first Subscriber Letter. We do not endorse purchasing the stock at this point. It is only shown here so that subscribers may see the trade that is making the CBI a "1".

Open Big 50 Trades

None

Open Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1 (HIG)

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	5.41	DJ US Financial	IYF	1.03
DJ US Regional Banks	IAT	0.00	DJ US Financial Services	IYG	0.00
DJ US Utilities	IDU	0.00	DJ US Healthcare	IYH	1.41
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	0.00
DJ US Pharmaceuticals	IHE	0.00	DJ US Basic Materials	IYM	0.00
DJ US Healthcare Providers	IHF	4.08	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	2.78	DJ US Technology Sector	IYW	0.50
DJ US Home Construction	ITB	0.00	DJ US Telecommunications	IYZ	2.63
DJ US Consumer Svcs	IYC	0.88	Nasdaq 100	QQQQ	0.00

With the market in a range, there is minimal capitulative action in the sectors. The Insurance Index is the closest to providing notable readings.

Additional New Trade Ideas

Longs

none

Shorts

none

Active Trades Table

none

Stocks and ETF's on our Radar

Ticker *Notes*

MSFT – Has found some support near August lows. Closed below 10ma 33 days in a row.

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

(Note: This area will normally include ideas without test results. Since this is the first Letter and there are no tradable studies in our standard “tradable” list of stocks and ETF's, I decided to post some studies here rather than just ideas. This should give readers an idea of the kind of research that will normally be included. Since these trades are outside the Letter's tradable list, these studies will not be included among the “Active Trades Table” above going forward.)

Oversold

PNW – Closed slightly higher after posting 200 day low. Has closed below 10ma 22 days in a row.

Below is a study of similar conditions for all S&P 100 stocks over the last 15 years:

<i>Made 200 day low and then closed up on the day. Has closed below</i>						
<i>10ma for at 20 consecutive days. Buy next day with limit order at today's</i>						
<i>close. Sell on close above 10ma.</i>						
Total Trade	Winners	% Winners	Avg Win	Avg Loss	Profit Factor	Avg Trade
67	54	80.6%	5.1%	10.5%	2.21	2.3%

The high average loss here is likely higher than most traders would be willing to absorb. I therefore looked at results using the 200 day low as a stop.

<i>Made 200 day low and then closed up on the day. Has closed below</i>						
<i>10ma for at 20 consecutive days. Buy next day with limit order at today's</i>						
<i>close. Sell on close above 10ma. Sell stop order at 200 day low.</i>						
Total Trade	Winners	% Winners	Avg Win	Avg Loss	Profit Factor	Avg Trade
85	39	45.9%	6.5%	2.3%	2.32	1.7%

There were a few more trades here due to re-entries. The winning percentage was lowered to just below a coin flip, but the average loss was greatly reduced and the average gain increased. This left the study nearly as profitable on a per-trade basis and more tradable for most.

Over the last 15 years, this study would have triggered 4 times for PNW. The results are as follows:

Entry – 4/18/97, Exit-4/28/97, 2.25% gain.

Entry – 3/2/99, Exit-3/2/99, 3.27% gain.

Entry – 3/15/00, Exit-3/15/00, 9.85% gain.

Entry – 6/11/07, Exit-6/20/07, 0.69% loss.

Overbought

CHK – 7 higher highs and 7 higher closes. Doji.

Last 15 years across all S&P 100 stocks under the following conditions:

- 1) At least 7 consecutive higher closes.
- 2) At least 7 consecutive higher highs
- 3) S&P 500 closes below 200-day moving average

Sell short at the close. Buy to cover when stock closes below its 5-day moving average.

Total Trade	Winners	% Winners	Avg Win	Avg Loss	Profit Factor
34	27	79.4%	2.9%	1.1%	10.09

In the last 15 years, CHK has not had 7 higher closes and 7 higher highs while the S&P was below its 200-day moving average. It has happened three times when the S&P was above its 200ma. Shorting those cases and covering on a close below the 5ma resulted in a 4.3% profit, a 0.8% loss and a 0.9% profit. I did not include the doji formation in the testing, but candlestick techniques suggest doji's often precede reversals.

CTL – 6 higher highs. Bumping against resistance near 40 which was formerly support. Doji candle. Could offer nice risk/reward with intraday entry.



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.