

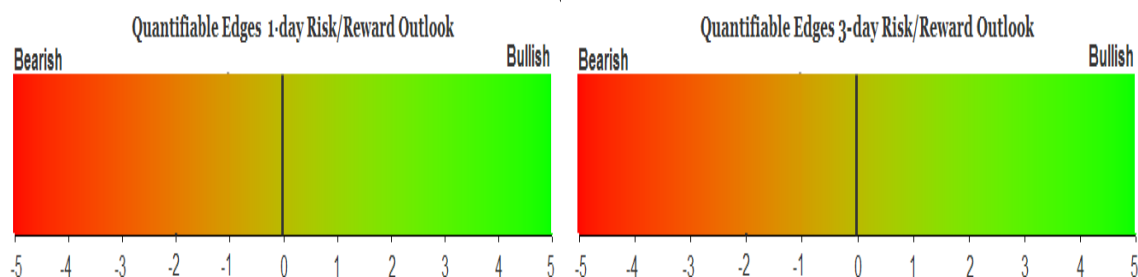
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 30, 2012

Volume 5 Issue 168

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	50% Long XIV	Flat	Long

Tonight's Research Points

- Nothing is happening – making it tough to find a strong directional edge.

Short-term Outlook

The Bottom Line

The quiet will only last so long. I intend to wait until I believe there is more of an edge before taking on an index position.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Max Move
Active				
August 29, 2012	SPX dn. Up Issues % > 55%.	1-2 days	Bullish	1.00%
August 27, 2012	SPY reverse up from 10-low	1-4 days	Bullish	
Active - Long Term				
August 22, 2012	Key Dowside Reversal from High	1-12 days	Bullish	
August 16, 2012	SPY 50-high on 20-low vol	1-10 days	Bearish	
August 15, 2012	SPY 50-high then 5-day inside range	1-10 days	Bullish	
August 10, 2012	SPX & TNX 50-day highs.	1-20 days	Bearish	
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
July 16, 2012	POMO modestly bullish	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
August 28, 2012	SPY up 2 < 3 ago	1-2 days	Bullish	

If the avg max move is achieved the study will appear in **bold italic blue** and no longer be active.

The Evidence

More boring drift for the stock market. Wednesday the SPX and Nasdaq gained 0.1%, and the Russell 2000 rallied 0.4%. Breadth was moderately positive as the NYSE Up Issues % was 58% and Up Volume % came in at 55%. Total NYSE volume again rose slightly.

The sideways conditions over the last 3 days caused the 3/10 Offset Historical Volatility Indicator came in at a very low 0.17 on Wednesday. I [first introduced this indicator in July of 2009](#). It essentially takes a short 3-day measure of Historical Volatility and compares that to the 10-day measure of 3-days ago. Low readings indicate there has been a contraction in volatility. High readings indicate there has been an expansion. Anything at or below 0.25 is regarded as extremely low. Often after sharp contractions like this we see a volatility expansion take place.

In August of 2009 I published a study that found this condition created a favorable environment for trading Opening Range Breakouts (ORBs). A link to that study is below:

[Quantifiable Edges ORBs Study.pdf](#)

For anyone who is interested in seeing some techniques for actually trading these ORBs, there is a webinar from October 2010 on the subject on the videos page (subscribers only).

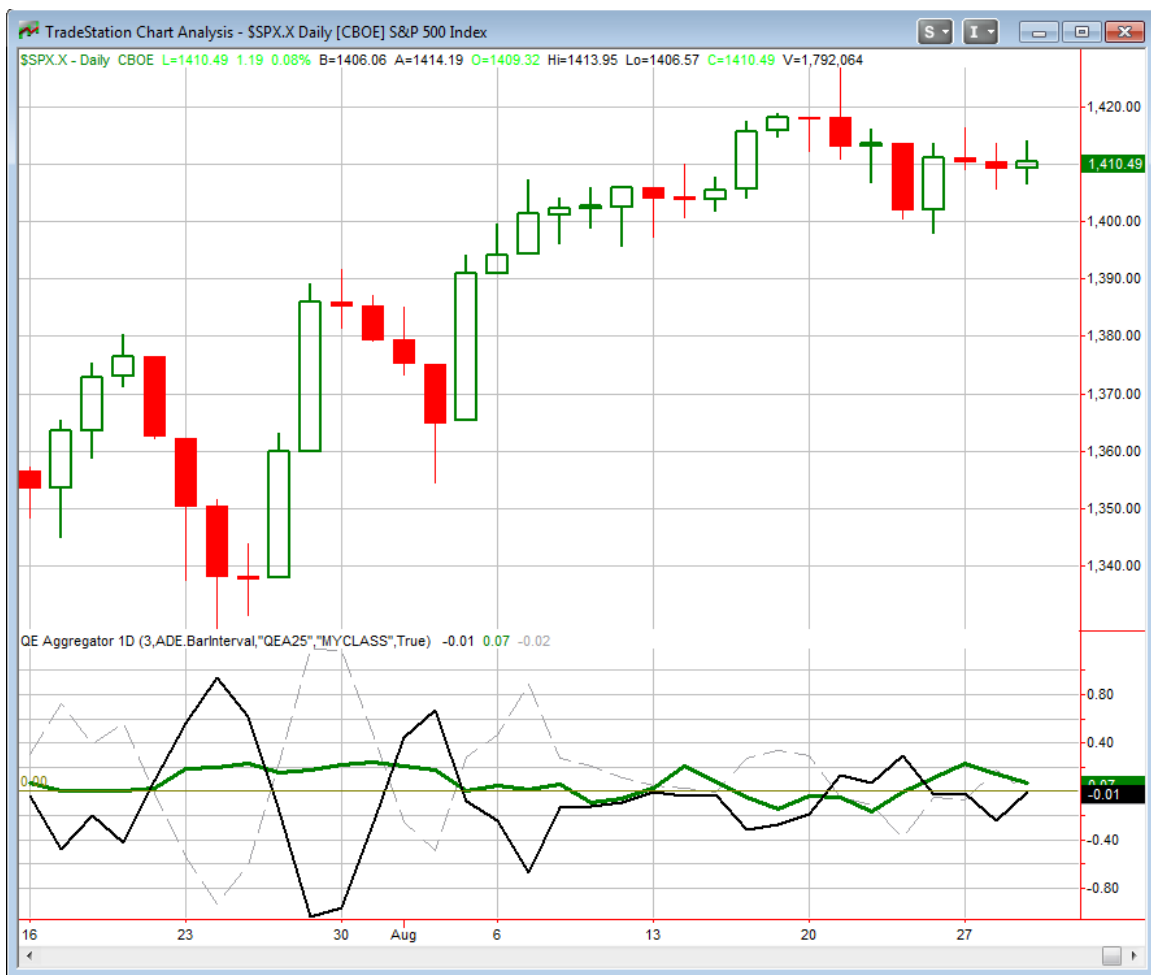
<http://www.quantifiableedges.com/members/videos.php>

It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. The Aggregator is currently neutral. Under these circumstances I could consider ORB trades in either direction. This would just be for a possible daytrade and is not something I will be tracking in the subscriber letter as an official trade idea. But even if you don't have any interest in attempting a daytrade, the low 3/10 Offset HV is worth noting. Because a volatility expansion (in either direction) is now likely, that means risk is elevated in open swing trade positions.

Of further note, the 3/10 Offset HV Calculation is available as part of the “QE Indicators/Functions for Tradestation”. Subscribers may download it to include on their own charts. A link to the Indicators page is below, where you may download the User Guide or the Tradestation ELD.

<http://www.quantifiableedges.com/members/qeindicators.php>

I have updated the [Aggregator](#) chart below.



Without any new directional edges to consider the green Aggregator Line remained above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line finished just below zero. This means the SPX is still overbought versus recent expectations. So net expectations are bullish but the SPX is already overbought. This is considered a neutral configuration.

Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This lead the Aggregator to remain flat. This was indicated as likely on the systems page shortly before the bell.

Both of the current short-term studies are schedule to expire on Thursday. So studies that trigger on Thursday will have a large impact on expectations. The Differential Pivot will again be *inverted* at 1,415.10 on Thursday. This is 0.3% *above* Wednesday's close. An inverted pivot means the Differential Line will move through zero on a flat close. So it will take a rise of 0.3% in order to keep the SPX "overbought" versus expectations. Any worse than that and the Differential Line will move above 0, signaling an oversold condition.

There is very little to do until the market tips its hand a little more. I will consider some position management though. Both the Catapults have found support levels but have yet to bounce in a meaningful way. I rarely use stops on Catapults, but with a volatility expansion probable I'd rather not sit through another leg down if these stocks break lower. So I have put in a stop strategy in the trade ideas section near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months)– updated 8/27– bullish

The intermediate-term outlook was last updated in the 8/27 letter. A link is below:

[2012-08-27 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

ETR – 1/3 @ \$69.04 (bought at limit)

MRK – 1/3 @ \$42.91 (bought @ limit)

ETR – 1/3 @ \$68.65 (bought @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/2(ETR-2, MRK)

Additional New Trade Ideas

A full listing of system triggers can be found at the [system triggers page](#) each night. I will cherry pick some of my favorite setups from the S&P 100 and ETF lists along with occasional other trade ideas to track below.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
ETR(1/3)	8/22/2012	\$69.04	\$68.35	-1.00%		Catapult
ETR(1/3)	8/23/2012	\$68.65	\$68.35	-0.44%		Catapult
MRK(1/3)	8/23/2012	\$42.90	\$43.06	0.37%		Catapult
XIV(1/2)	8/28/2012	\$13.88	\$13.77	-0.79%		Aggressive VIX

ETR(both lots) – I will place a stop exit @ \$67.89, but only if ETR does NOT gap down below there.

MRK – I will place a stop exit @ \$42.49, but only if MRK does NOT gap down below there.

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.

Copyright © 2012 Hanna Capital Management, LLC.