

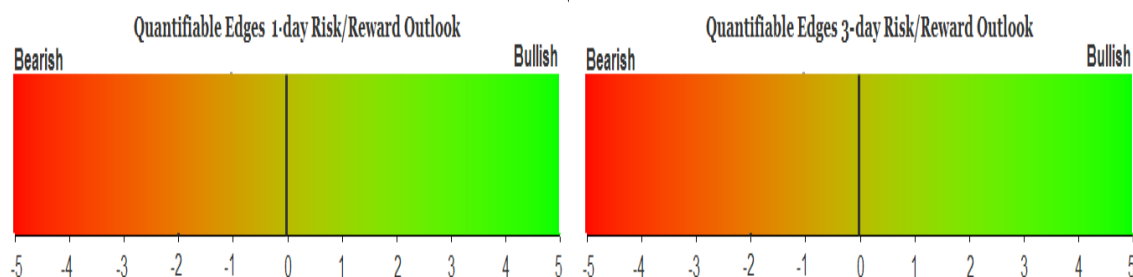
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 20, 2012

Volume 5 Issue 182

Market Overview



Signals Overview

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

Tonight's Research Points

- The tight range is likely to see a quick expansion in the next few days.

Short-term Outlook

The Bottom Line

It's been a tight range this week, and no substantial edge is apparent.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
September 18, 2012	SPY unfilled gap up then down from 20h	1-7 days	Bearish	-2.40%
September 14, 2012	100 day high on Fed Day	1-8 days	Bullish	1.90%
Active - Long Term				
September 17, 2012	QE3	int term	Bullish	
September 17, 2012	SPX and TNX hit 50-day high	1-20 days	Bearish	
September 11, 2012	Key Reversal from high	1-12 days	Bullish	
August 20, 2012	Nasdaq leading SPX	int term	Bullish	
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
September 18, 2012	SPX < 1% lower. Decliners 2x advancers	1-2 days	Bearish	-1.70%
September 17, 2012	VIX up SPX up Fri	1-3 days	Bearish	

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

The Evidence

Wednesday saw another tight range day, but this time the market closed mixed. The SPX rose 0.3% and the NASDAQ finished up 0.2%, but the Russell 2000 declined a very mild 0.03%. Breadth was modestly positive as the NYSE Up Issues % was 56% and Up Volume % came in at 59%. Total NYSE volume rose some from Tuesday's level.

The sideways conditions over the last 3 days caused the 3/10 Offset Historical Volatility Indicator came in at a very low 0.23 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 studies tonight the green Aggregator Line remained very slightly below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line remained above zero. This means the SPX is “oversold” versus recent expectations. So net expectations are bearish but the SPX is already oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This led the Aggregator System to remain flat at the close, as was indicated as likely on the systems page before the bell.

Based on the current open studies, expectations are scheduled to remain just barely negative again on Thursday. Of course this could easily change if more bullish evidence emerges. The Differential Pivot will be 1,463.00 on Thursday. That is about 0.1% above Wednesday's close. So the market would just need a mild close higher in order for the SPX to be considered "overbought" versus expectations.

With my bullish intermediate-term outlook I'd love to get a long signal but the short-term studies just aren't bullish. So I will wait until more compelling evidence and solid/risk reward avails itself. I'm sidelined yet again.

Intermediate-term Outlook (2 weeks – 2 months)– updated 9/17– bullish

The intermediate-term outlook was last updated in the 9/17 letter. A link is below:

[2012-09-17 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 0

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

None

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