

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 4, 2012

Volume 5 Issue 192

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Flat	100% Long XIV	Flat	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*

There is more evidence pointing to a continuation upwards over the next few days than there is that the market will decline. Still, SPX is now up 3 days in a row (though none of them were very large rises). This leaves it slightly overbought. I plan to get flat and wait for a dip to take on my next long position. Those with longer time frames or that are accustomed to trading with less dexterity could consider holding here.

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active</b>				
October 3, 2012	2 up < 3 days ago	1-2 days	Bullish	1.00%
October 1, 2012	Last Day of Month < 10ma > 200ma	1-5 days	Bullish	2.20%
<b>Active - Long Term</b>				
September 17, 2012	QE3	int term	Bullish	
September 17, 2012	SPX and TNX hit 50-day high	1-20 days	<b>Bearish</b>	
July 30, 2012	SPX 50-day high on 90% up vol	1-50 days	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
September 26, 2012	4 down on Tuesday	1-6 days	Bullish	2.65%
October 1, 2012	Unfilled gap up. Unfilled gap down.	1-3 days	<b>Bearish</b>	<b>-1.60%</b>
September 28, 2012	Unfill gap up from 10-low > 200	1-4 days	Bullish	1.90%

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

***The Evidence***

Wednesday was a mixed day for the market. The SPX gained 0.4% while the Nasdaq rose 0.5%, and the Russell 2000 declined 0.2%. Breadth was mixed as the NYSE Up Issues % was 49% and the Up Volume % came in at 54%. Total NYSE volume rose some from Tuesday's level.

Not a lot to discuss tonight as movement this week has been muted. 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 last discussed this indicator in detail just a few weeks ago in the 9/20/12 letter. I have copied that commentary below.

*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.



With a few studies expiring the green Aggregator Line held firm and is still squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell just barely below. This means the SPX is “overbought” versus recent expectations. So net expectations are bullish but the SPX is now overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator system to turn from long to flat at the close. This was indicated as likely on the systems page shortly before the bell.

Based on the current open studies, expectations are scheduled to remain positive on Thursday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1,452.06 on Thursday. This is about 1 point *above* Wednesday’s close. An inverted pivot means the Differential Line will cross 0 on a flat close. In this case the SPX will need to rise a little over 1 point if it is going to remain overbought. Otherwise, it will be considered oversold.

I still think we have some more upside ahead. Liquidity remains strong. The intermediate-term outlook is bullish, and there is very little suggesting a selloff here. But while I like the market’s chances of extending its gains, my swing trading methodology does not call for me to remain long in an overbought condition. So I am going to step back and look to exit my remaining long position here. With the Differential Pivot inverted I am not going sell into a gap down. A close lower could very easily cause the Aggregator signal to turn bullish once again. So I might as well demand a decent price for my position. In the trade ideas section below I put the sell limit at a little above the close – which is my estimated level of the SPY equivalent of the Differential Pivot.

**Intermediate-term Outlook (2 weeks – 2 months)– *updated 10/1– bullish***

The intermediate-term outlook was last updated in the 10/1 letter. A link is below:

[2012-10-01 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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	9/25/2012	\$145.65	\$145.09	-0.38%		sell @ \$145.20 limit

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