

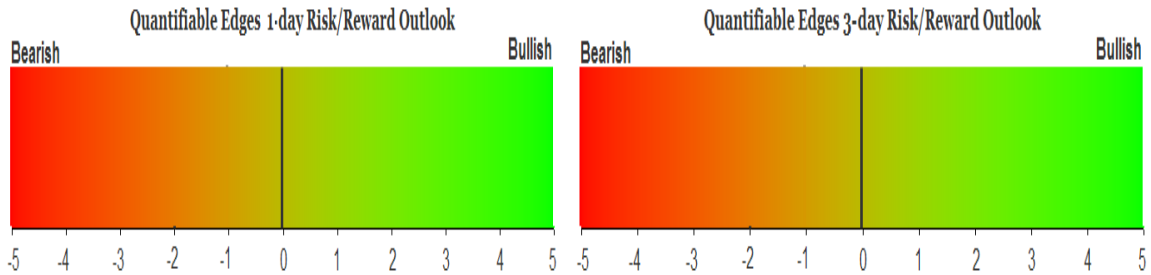
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 24, 2013

Volume 6 Issue 78

Market Overview



Signals Overview

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

Tonight's Research Points

- The very low 3/10 Offset HV suggests a big move could be coming in the next few days.

Short-term Outlook

The Bottom Line

Evidence still points to higher prices but SPX is now a quite overbought. Upside expectations but a strongly overbought market don't offer the kind of risk/reward I prefer. So I am now sidelined awaiting the next trading opportunity.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV<0.25	1-6 days	Bullish	2.00%
Active - Long Term				
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV<0.25	1-19 days	Bullish	4.50%
January 14, 2013	Breadth Divergence (from Tops Study)	int term	Bearish	
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
April 17, 2013	Sweet spot bounce	1-5 days	Bullish	2.90%
April 19, 2013	20-low > 200ma.	1-7 days	Bullish	2.00%

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

The Evidence

The market moved nicely higher for the 3rd day in a row on Tuesday. SPX posted a gain of 1.0% while the Nasdaq rose 1.1% and the Russell 2000 gained 1.6%. Breadth was strongly positive as the NYSE Up Issues % was 79% and the Up Volume % came in at 80%. Total NYSE volume rose some from Monday's low level.

The Quantifinder has been quiet the last few days and Tuesday that was again the case. One interesting observation from the Quantifinder is that the 3/10 Offset HV indicator closed below the 0.25 threshold today. For those that may not be familiar, or might want a refresher, below is a detailed overview of the 3/10 Offset HV copied from the 3/12/13 Letter.

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.

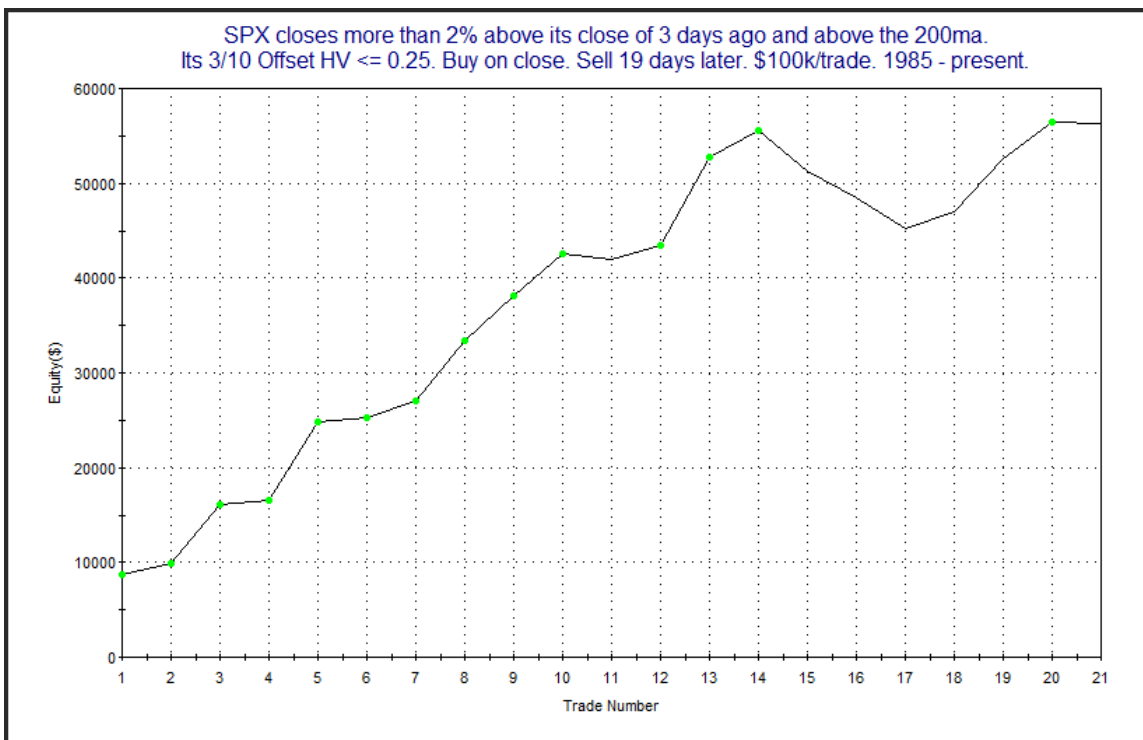
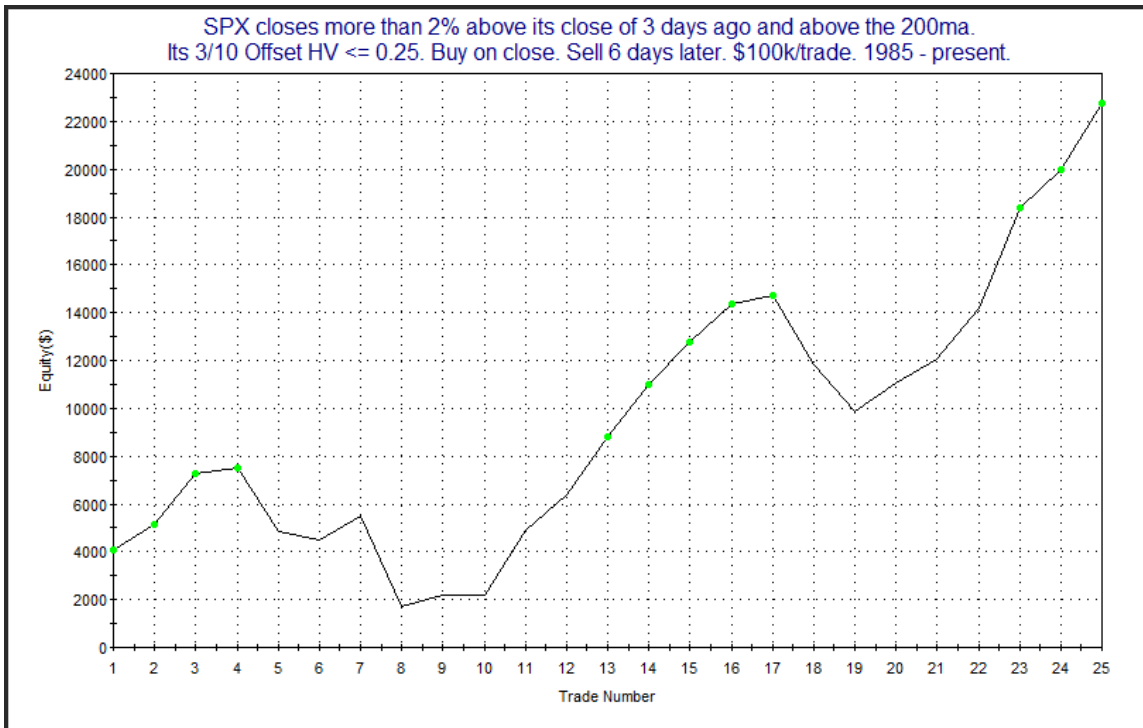
<http://www.quantifiableedges.com/members/qeindicators.php>

On Tuesday though, I found it particularly odd that the 3/10 Offset HV was so low considering we've seen a fairly strong move higher over the last three days. Wondering whether that meant downside risk is now greatly increased, I ran a study.

SPX closes more than 2% above its close of 3 days ago and above the 200ma.
Its 3/10 Offset HV <= 0.25. Buy on close. Sell X days later. \$100k/trade. 1985 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	52,929.88	21	16	5	76.19	4,255.15	9,311.76	-3,030.50	-6,635.95	1.40	4.49	2,520.47
19	56,335.56	21	16	5	76.19	4,215.96	9,258.48	-2,223.95	-4,276.35	1.90	6.07	2,682.65
18	53,492.86	22	17	5	77.27	3,899.09	10,412.64	-2,558.34	-3,726.38	1.52	5.18	2,431.49
17	41,741.10	22	16	6	72.73	3,630.15	10,683.36	-2,723.54	-5,009.90	1.33	3.55	1,897.32
16	42,287.28	22	15	7	68.18	3,850.54	10,667.52	-2,210.13	-6,108.95	1.74	3.73	1,922.15
15	42,879.21	22	15	7	68.18	3,643.89	8,742.96	-1,682.74	-3,353.25	2.17	4.64	1,949.06
14	42,264.47	23	17	6	73.91	3,085.24	8,253.36	-1,697.43	-3,334.55	1.82	5.15	1,837.59
13	39,937.50	23	16	7	69.57	3,024.61	6,434.62	-1,208.05	-3,430.60	2.50	5.72	1,736.41
12	37,779.76	23	17	6	73.91	2,681.96	6,140.16	-1,302.25	-3,768.05	2.06	5.84	1,642.60
11	31,973.41	23	17	6	73.91	2,448.35	5,708.16	-1,608.10	-4,522.00	1.52	4.31	1,390.15
10	30,657.67	24	18	6	75.00	2,229.22	5,768.50	-1,578.04	-3,819.05	1.41	4.24	1,277.40
9	24,340.26	24	15	9	62.50	2,270.11	5,859.48	-1,079.05	-2,858.55	2.10	3.51	1,014.18
8	13,420.93	24	17	7	70.83	1,455.89	4,162.27	-1,618.46	-3,819.90	0.90	2.18	559.21
7	13,888.66	24	17	7	70.83	1,497.32	3,983.52	-1,652.26	-4,227.28	0.91	2.20	578.69
6	22,755.85	25	19	6	76.00	1,808.36	4,206.89	-1,933.84	-3,782.08	0.94	2.96	910.23
5	18,527.68	25	19	6	76.00	1,609.21	3,481.56	-2,007.90	-2,842.40	0.80	2.54	741.11
4	17,336.42	25	17	8	68.00	1,736.70	2,616.60	-1,523.43	-2,910.70	1.14	2.42	693.46
3	10,763.15	25	17	8	68.00	1,418.76	2,315.72	-1,669.48	-3,701.10	0.85	1.81	430.53
2	13,002.07	26	17	9	65.38	1,132.52	2,451.76	-694.52	-1,675.86	1.63	3.08	500.08
1	2,019.54	28	13	15	46.43	729.80	1,857.24	-497.86	-1,515.80	1.47	1.27	72.13

I found it quite interesting that the numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. Being above the 200ma, that scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below are curves assuming 6-day and 19-day holding periods.



Both of these curves look pretty solid. I have added this study to both the short and long-term active lists.

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



Tonight's study helped keep the green Aggregator Line squarely above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line fell far below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is strongly 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 flat at the close.

Based on the current studies, expectations are slated to remain positive on Wednesday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1,556.84 on Wednesday. This is 1.4% below Tuesday's close. So it would take a very strong drop on Wednesday in order to move SPX back into oversold territory.

Despite being strongly overbought, evidence is pointing higher. As a short-term trader, this means I will need to exercise some patience and wait for the market to come back to

me. Trading the market is never as easy as just shorting overbought and buying oversold. The studies help me a great deal in understanding when overbought also carries a downside edge. It does not appear to right now.

Intermediate-term Outlook (2 weeks – 2 months)– updated 4/22 – somewhat bullish

The intermediate-term outlook was last updated in the 4/22 letter. Link below:

[2013-04-22 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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>SPY(1/4)</i>	<i>4/15/2013</i>	<i>\$155.12</i>	<i>\$156.95</i>	<i>1.18%</i>		<i>sold on open</i>

SPY was sold on the open as indicated in last night's subscriber letter.

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.