

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 9, 2013

Volume 6 Issue 89

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.
- The expansion of new highs suggests the intermediate-term environment should remain bullish for a while.

Short-term Outlook

The Bottom Line

It is a waiting game for me. Evidence continues to point towards a bullish edge but the SPX remains well overbought. So I continue to wait for an opportunity with more favorable risk.reward..

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

Study Date	Description	Time span	Bias	Avg Max Move
Active				
None				
Active - Long Term				
May 9, 2013	Breadth Confirms Rally (Study of Tops)	int term	Bullish	
May 6, 2013	Nasdaq leading SPX	int term	Bullish	
April 29, 2013	Sell in May unless Jan-April strong	1-6 months	Bullish	6.80%
April 29, 2013	6 months higher in a row	1-10 months	Bullish	14.30%
April 26, 2013	5 higher highs < 50-high.	1-15 days	Bullish	2.80%
April 24, 2013	SPX up 2% in 3 days. 3/10OffHV < 0.25	1-19 days	Bullish	4.50%
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
May 6, 2013	2 Unfilled Up Gaps. 50-day high.	1-3 days	Bullish	0.90%

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

The Evidence

Wednesday saw new highs again. The SPX closed higher with a gain of 0.4%, the NASDAQ rose 0.5%, and the Russell 2000 rallied 0.3%. Breadth was strongly positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 68%. Total NYSE volume rose for the 2nd day in a row.

I have to leave for the airport at 4am on Thursday, so I am going to keep it short tonight. From a short-term trading standpoint there was nothing that stood out strongly. Most of the studies showed results along the lines of “market is overbought but it is just as likely to continue higher as it is to pull back from here”. Another night I would pick one of theses to review, but like I said – gotta head to the airport. But there are two things worth pointing out. One of short-term consequence and one with intermediate-term implications. First, the short-term. (I’ll discuss the intermediate-term on down below the Aggregator chart and summary.)

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>

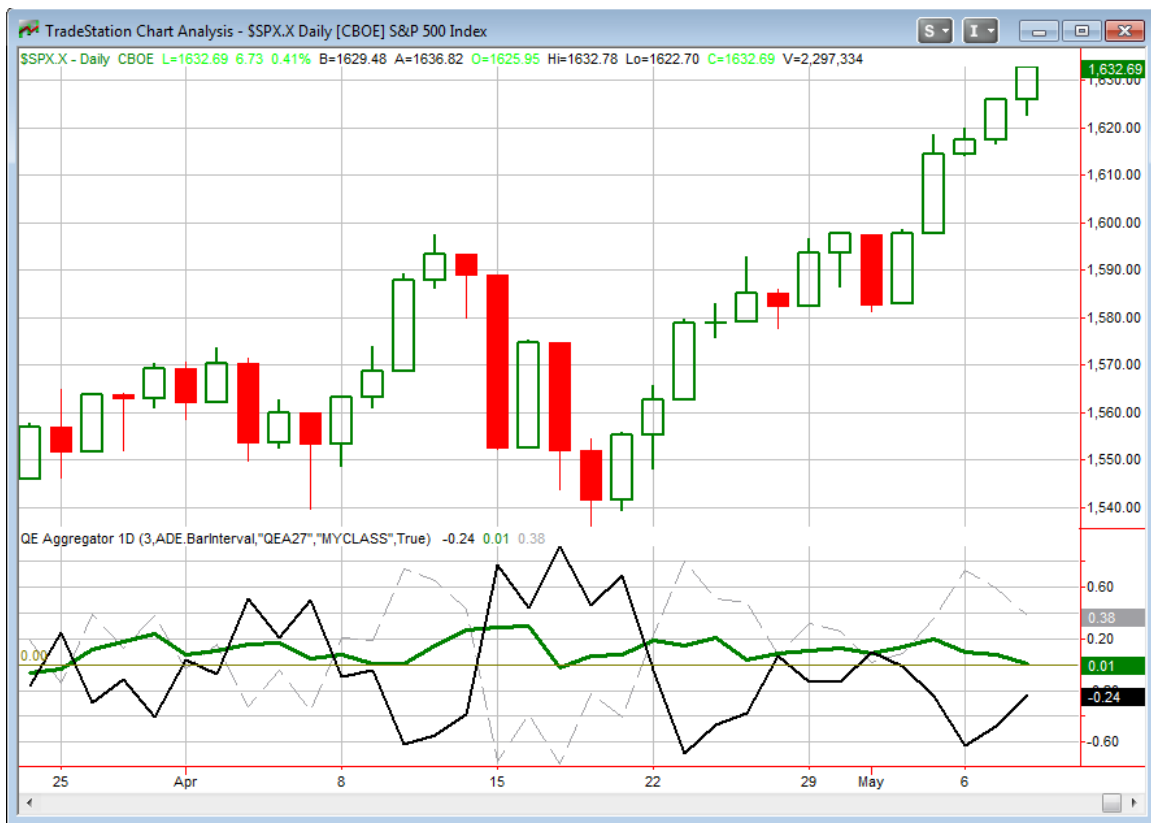
It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. The Aggregator is currently neutral. Under these circumstances I could consider ORB trades in either direction. This would just be for a possible daytrade and is not something 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>

So bottom line here is that we could get a sharp move in the next few days, and it could be either up or down. And without any active short-term studies it seems risks are rising in both directions here.

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



With just the intermediate-term studies to go on the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line is still below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are bullish but the SPX is 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 remain flat at the close.

Based on the current studies, expectations are slated to remain positive on Thursday. Of course with no active short-term studies expectations will be greatly dependent on new information. The Differential Pivot will be 1,624.45 on Thursday. This is 0.5% below current levels. So despite the strong rise over the last several days, it won't take too much of a pullback Thursday for SPX to be considered "oversold" versus recent expectations.

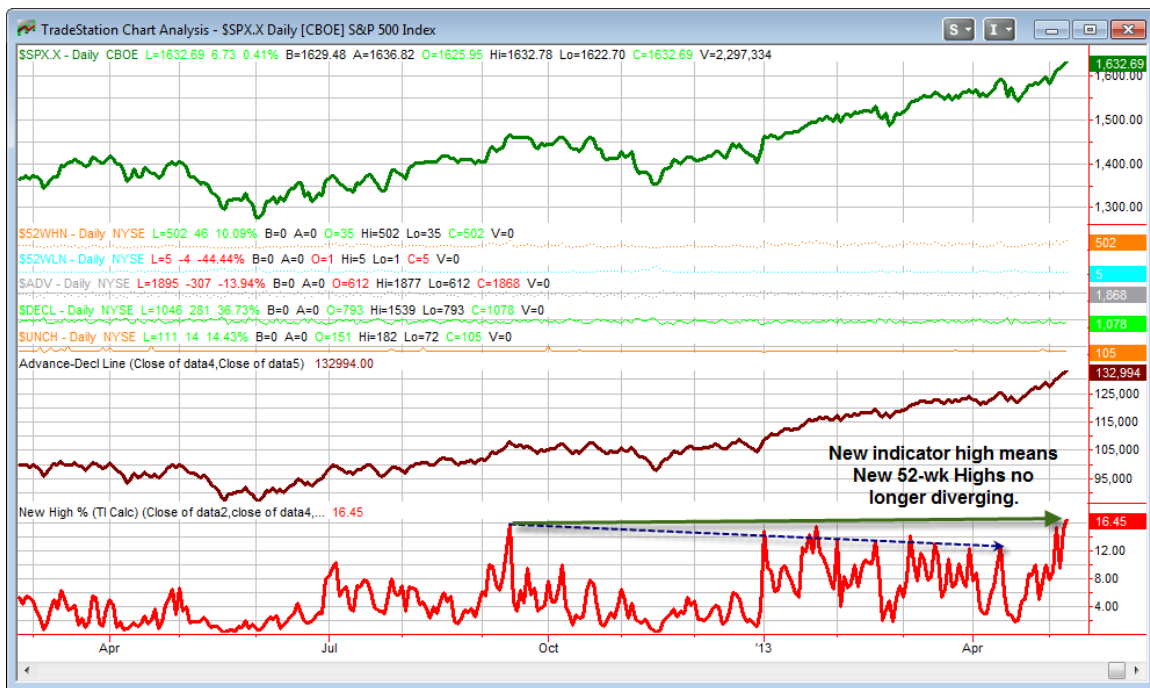
Again nothing is changing for me. Expectations suggest we could see further upside, but we are already overbought to the point that risk is increased. So rather than press my

luck, I will continue to wait for a more favorable opportunity to emerge before looking to take on new index exposure.

Intermediate-term happening

There was one very positive sign given by the market on Wednesday, and that was the expansion in the number of stocks hitting new 52-week highs. Despite repeated new highs for the SPX, the % of stocks hitting new 52-week highs had faltered since last September. That changed on Wednesday as 16.5% of NYSE issues made new 52-week highs.

In the Quantifiable Edges Study of Tops (always available on the Downloads page for subscribers) I went through every major top since 1970. For purposes of that study I defined a “major top” as any top that was followed by a decline of at least 20%. I found that in every case, there was a divergence in % of NYSE issues hitting new 52-week highs, and that the divergence was in effect for at least 2 months before any market top. Here is an updated chart with that indicator.



Of course the market can always do something it never has before. (We’ve seen several of those over the years.) But Wednesday’s accomplishment appears to greatly reduce the risk of a bear market beginning any time in the next 2 months. For a view of all tops since 1970, please refer to the Study of Tops. Here is a link for your convenience.

[QEStudyOfTops.pdf](#)

Intermediate-term Outlook (2 weeks – 2 months)– updated 5/6 –bullish

The intermediate-term outlook was last updated in the 5/6 letter. Link below:
[2013-05-06 QE Subscriber Letter.pdf](#)

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

EXC- bought 1/3 @ \$35.25 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(EXC)

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
EXC(1/3)	5/7/2013	\$35.25	\$35.71	1.30%		Catapult

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