

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 10, 2013

Volume 6 Issue 131

Market Overview



Signals Overview

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

Tonight's Research Points

- Short-term overbought is reaching a point where a downside edge is no longer evident.
- 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

The Aggregator now neutral. I have no interest in taking on new positions until a strong edge is more evident.

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				
July 10, 2013	RSI(2) crosses over 99. SPX > 200ma	1-15 days	Bullish	2.40%
June 28, 2013	70% Advancing Issues 3 Days In Row	1-85 days	Bullish	10.60%
June 28, 2013	SPY up 3 days on lower volume	1-19 days	Bearish	-4.00%
June 4, 2013	Hindenburg Omen cluster	1-50 days	Bearish	-8.60%
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%
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
July 5, 2013	SPX up. NYSE Up Issues < 40%	1-3 days	Bearish	-1.50%

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

The Evidence

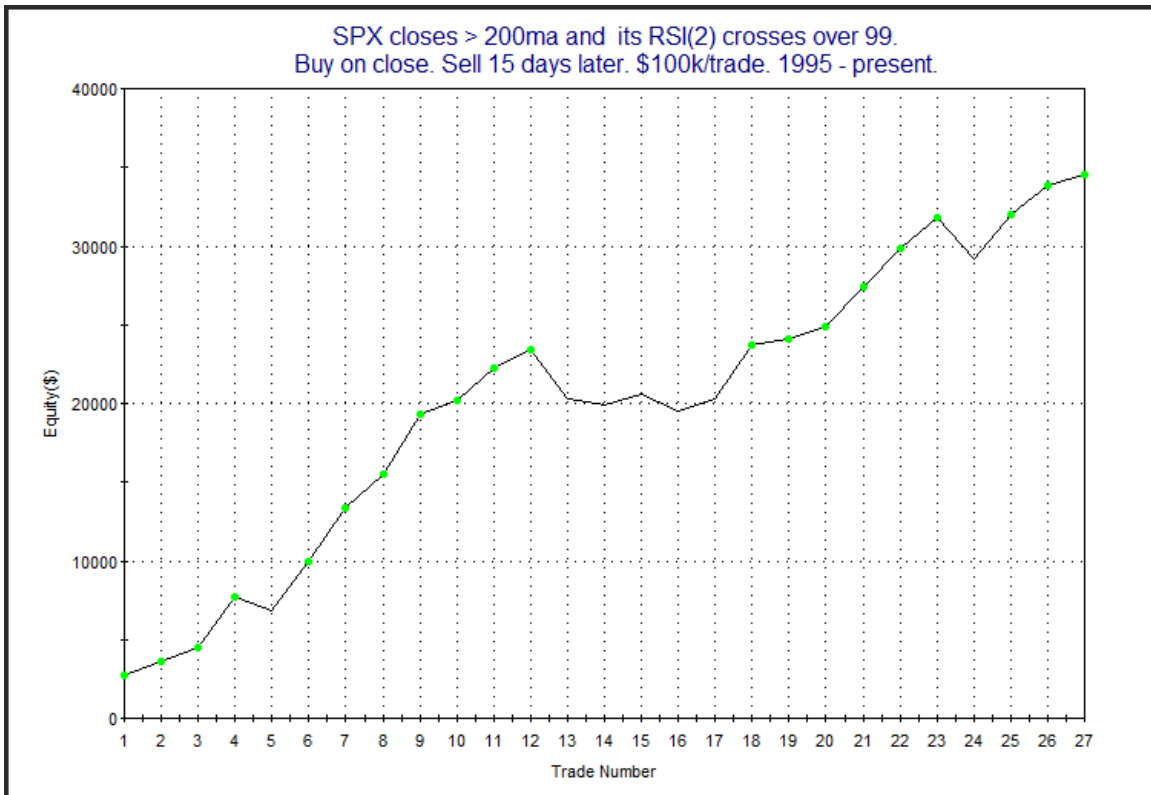
The rally continued on Tuesday. The SPX rose 0.7%, the Nasdaq climbed 0.6%, and the Russell 2000 gained 0.9%. Breadth was positive as the NYSE Up Issues % was 73% and the Up Volume % was 78%. Total NYSE volume continued to be light.

When the market starts to get short-term overbought we often see studies pop up that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that downside edges are no longer prevalent. The study below exemplifies the kind of extreme short-term overbought scenario we now find ourselves in.

SPX closes > 200ma and its RSI(2) crosses over 99.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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
15	34,512.42	27	22	5	81.48	1,931.79	3,782.11	-1,597.39	-3,063.60	1.21	5.32	1,278.24
14	28,533.54	27	21	6	77.78	1,846.81	4,461.36	-1,708.26	-2,699.52	1.08	3.78	1,056.80
13	26,642.59	28	22	6	78.57	1,701.62	3,989.82	-1,798.84	-3,320.01	0.95	3.47	951.52
12	24,794.49	28	21	7	75.00	1,633.76	4,058.61	-1,359.21	-3,175.53	1.20	3.61	885.52
11	26,358.22	28	21	7	75.00	1,738.15	4,106.40	-1,448.99	-2,523.21	1.20	3.60	941.36
10	20,657.71	29	20	9	68.97	1,648.39	3,770.55	-1,367.79	-2,793.28	1.21	2.68	712.33
9	16,176.32	29	19	10	65.52	1,481.25	3,453.27	-1,196.74	-3,440.07	1.24	2.35	557.80
8	17,854.08	29	18	11	62.07	1,578.74	3,547.80	-960.29	-3,460.32	1.64	2.69	615.66
7	10,612.67	30	17	13	56.67	1,318.34	3,564.39	-907.62	-4,153.62	1.45	1.90	353.76
6	2,710.06	30	17	13	56.67	1,060.43	2,634.36	-1,178.25	-5,296.92	0.90	1.18	90.34
5	856.08	30	19	11	63.33	808.13	1,782.39	-1,318.04	-3,596.40	0.61	1.06	28.54
4	1,338.68	30	20	10	66.67	789.89	2,442.90	-1,445.92	-3,039.18	0.55	1.09	44.62
3	-3,048.86	31	18	13	58.06	726.76	1,982.20	-1,240.82	-2,880.45	0.59	0.81	-98.35
2	-2,041.09	31	17	14	54.84	654.78	1,998.39	-940.88	-2,348.76	0.70	0.85	-65.84
1	754.93	31	15	16	48.39	659.89	2,096.10	-571.46	-3,515.37	1.15	1.08	24.35

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it as an intermediate-term study.

An 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 short-term risks are rising in both directions here.

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



With just intermediate-term studies in effect the green Aggregator Line tonight inched itself above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are slightly positive but 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 turn flat at the close.

With no active short-term studies, expectations will be largely dependent on any new studies that emerge. If none emerge, then expectations will remain positive. The Differential Pivot will be 1,632.00 on Wednesday. That is 1.2% below Tuesday's close. So unless there is a strong selloff on Wednesday, SPX will remain overbought.

The Aggregator is neutral and so am I. Additionally, the low 3/10 Offset HV suggests we could see a relatively sharp move here in the next few days. So direction is unclear and risk appears high. This is not a setup I care for. I'll continue to exercise patience until a better opportunity avails itself.

Intermediate-term Outlook (2 weeks – 2 months)– updated 7/8 – somewhat bullish

The intermediate-term outlook was last updated in the 7/8 letter. Link below:

[2013-07-08 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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