

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

March 11, 2014

Volume 7 Issue 47

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- The very light volume on the pullback Monday could suggest more selling soon.
- 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

A sideways day led to no change in my outlook. The Aggregator is in a bullish formation. But I am a little wary because short-term liquidity flows have been light, my intermediate-term outlook is only moderately bullish, and the SPX has gone an extended period without a short-term pullback.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
March 10, 2014	SPX 3-day high while Russell down 3	1-4 days	Bullish	2.60%
March 10, 2014	Gap up partial reversal 2 days	1-5 days	Bullish	2.00%
March 7, 2014	Unfill gap 20-high poor close	1-3 days	Bullish	1.20%
Active - Long Term				
March 10, 2014	SPX 3-day high while Russell down 3	1-10 days	Bullish	4.50%
December 23, 2013	QE Tapering	int term	Neutral	
December 2, 2013	Nasdaq leading SPX	int term	Bullish	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	

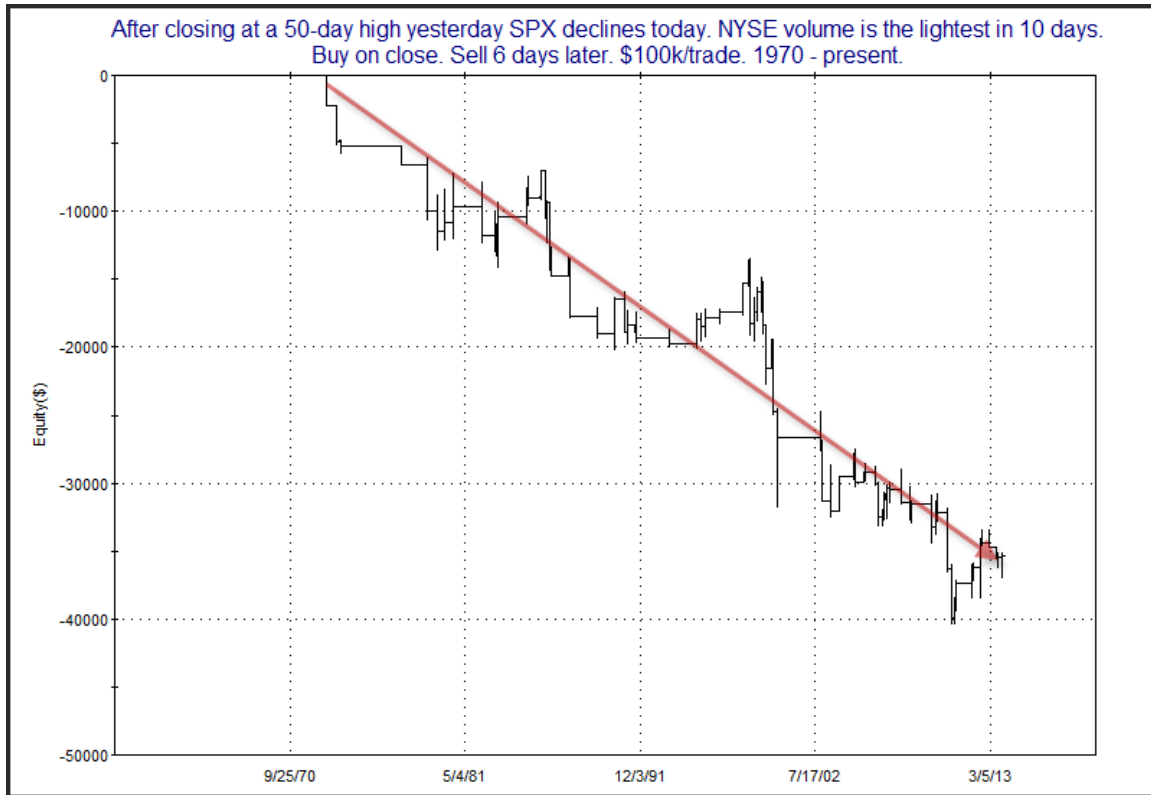
The Evidence

Monday looked like it might turn into a selloff for a while but an afternoon rally wiped away much of the intraday losses. The SPX and Nasdaq each finished down less than 0.1% and the Russell 2000 lost 0.2%. Breadth was mildly negative as the NYSE Up Issues % came in at 43% and the Up Volume % was 37%. Total NYSE volume came in at the lightest level so far in 2014.

The study below is one that triggered just a few days ago in the 3/6/14 letter. I did update the stats. It looks at light volume occurring on down days after a 50-day high.

After closing at a 50-day high yesterday SPX declines today. NYSE volume is the lightest in 10 days. Buy on close. Sell X days later. \$100k/trade. 1970 - 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
10	-23,344.99	64	34	30	53.13	1,731.07	5,104.00	-2,740.04	-6,121.74	0.63	0.72	-364.77
9	-19,624.35	65	34	31	52.31	1,725.02	3,955.23	-2,525.00	-6,236.87	0.68	0.75	-301.91
8	-28,456.77	65	31	34	47.69	1,515.34	3,521.07	-2,218.60	-6,661.66	0.68	0.62	-437.80
7	-36,290.77	65	30	35	46.15	1,317.29	3,732.48	-2,165.98	-7,193.64	0.61	0.52	-558.32
6	-35,336.70	66	31	35	46.97	1,083.91	2,563.47	-1,969.66	-5,426.99	0.55	0.49	-535.40
5	-23,748.05	67	32	35	47.76	953.13	2,273.04	-1,549.94	-4,288.68	0.61	0.56	-354.45
4	-20,811.99	69	34	35	49.28	868.93	2,457.84	-1,438.74	-4,263.60	0.60	0.59	-301.62
3	-4,969.94	70	38	32	54.29	860.65	2,169.48	-1,177.33	-3,726.24	0.73	0.87	-71.00
2	-2,542.95	71	37	34	52.11	719.20	2,328.05	-857.45	-4,049.40	0.84	0.91	-35.82
1	-4,512.83	71	36	35	50.70	515.05	2,235.13	-658.70	-3,068.81	0.78	0.80	-63.56

The first few days don't show much of an edge, but once you get out 6-7 days there appears to be a possible downside inclination. To confirm this I took a look at the equity curve. In this case I decided to show time on the x-axis rather than instances to demonstrate how consistent the edge has been over the years.



For a study without strongly lopsided statistics, the steadiness is impressive. But with no real edge appearing for the first several days, I again decided not to include this study on the active list. Still, it may be worth keeping in mind.

It was also noted by the Quantifinder that the 3/10 Offset HV indicator closed below the 0.25 threshold today. I last discussed this indicator in the 10/29/13 Letter.

I first introduced the 3/10 Offset HV 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 very low numbers like this we see a volatility expansion take place. On Monday the 3/10 Offset HV for SPX came in at just 0.12.

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

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).

Daytrading ORBs using the 3/10 Offset HV as a filter

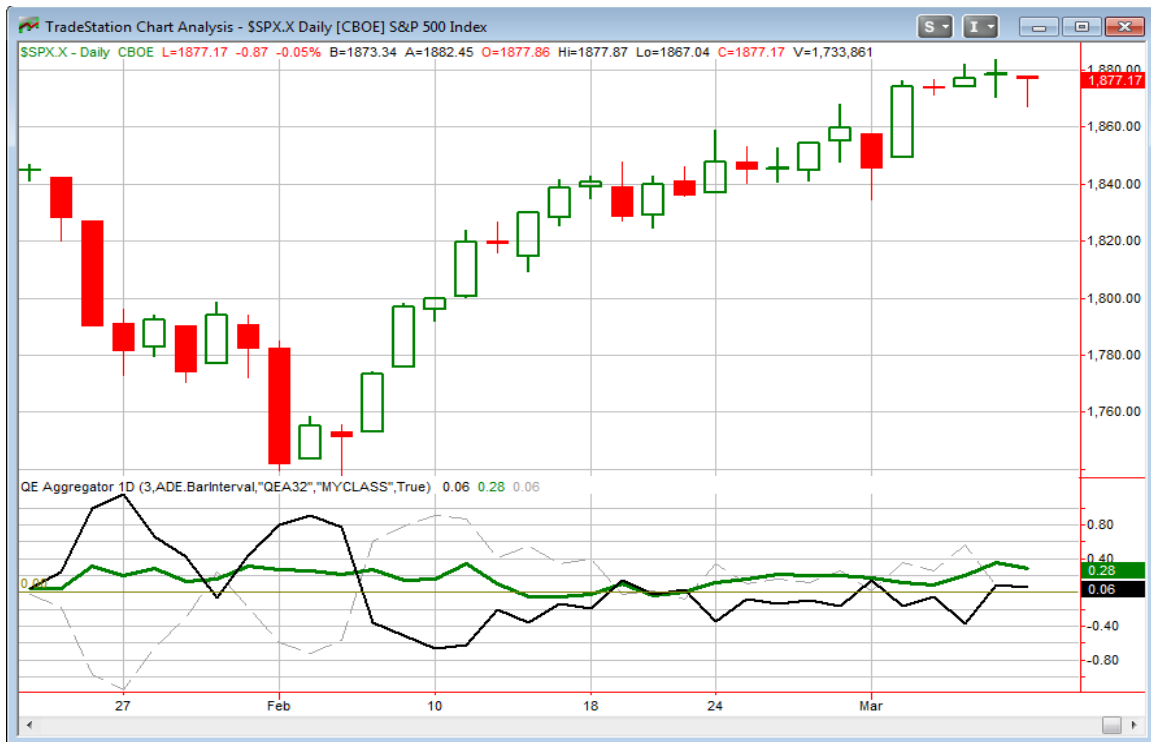
It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. As you'll see below, the Aggregator is currently suggesting an upside edge. The low 3/10 Offset HV implies that an up day could be exaggerated and increases potential reward. (Of course if the Aggregator is wrong, the low reading could lead to a big move against a long position).

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://quantifiableedges.com/qeindicators/>

So the bottom line with the low 3/10 Offset HV is that it suggests the market is primed for a quick, strong move. Depending on how the morning plays out on Tuesday I could decide to take an opening range breakout at some point.

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



Without any new studies being added to the list the green Aggregator Line faded a little but is still well above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line as remained above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is relatively oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal remained long at the close.

Based on the current active studies, expectations are slated to remain bullish on Tuesday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 1884.48 on Tuesday. That is 0.4% above Monday's close. So SPX will need to close up at least this much in order for it to move from oversold back to overbought versus expectations.

The setup is nearly the same as last night. Evidence is bullish. And while SPX is oversold as measured by the Differential calculation, it is overbought by many other measures. Most of the time this would not bother me and I would consider it a buying opportunity anyway. But last night I indicated I was a little wary of getting long here. The reasons were 1) my intermediate-term outlook was only moderately bullish, 2) without 2 lower closes in a row or a single close below the 10ma for over a month SPX was overdue for a bit of a pullback, and 3) liquidity flows as measure by QE Buying

Power Index Volume were fairly weak. Nothing has changed. So while evidence is pointing higher, I am inclined to wait for a more favorable entry. If we get a close below the 10ma in the next few days, that might be enough to get me interested.

Intermediate-term Outlook (2 weeks – 2 months) – updated 3/10 – slightly bullish

The intermediate-term outlook was last updated in the 3/10 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

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 [numbered systems 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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