

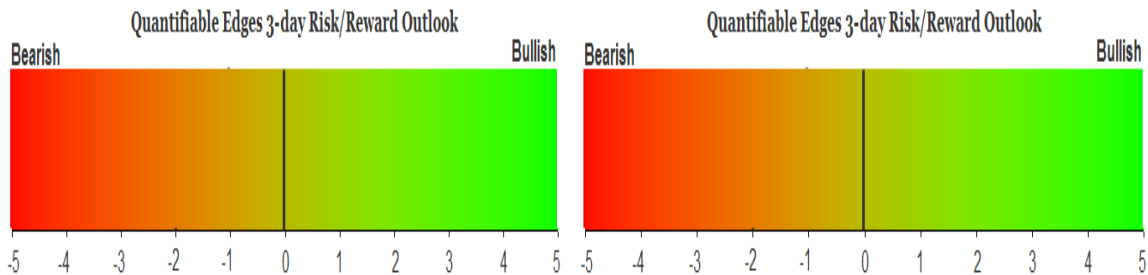
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 4, 2014

Volume 7 Issue 106

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Flat	50% Long XIV	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*

Expectations remain bullish. The market is still slightly overbought. But now it is also getting wound tightly so that a big move could trigger in the next few days. I'd rather not get caught on the wrong side of that. So with marginal evidence, I'm still sitting out..

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

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
June 3, 2014	SPX 50-high. VIX up	1-2 days	Bearish	
June 2, 2014	End of month on high of month	1-5 days	Bullish	
<b>Active - Long Term</b>				
June 2, 2014	NASDAQ leading SPX	int term	Bullish	
April 28, 2014	Sell in May	6 months	Bearish	
April 7, 2014	SPX new high while NDX huge drop	1-50 days	Bullish	
December 23, 2013	QE Tapering	int term	Neutral	
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
February 1, 2012	Golden Cross	int term	Bullish	
<b>Dropped Tonight</b>				
June 3, 2014	SPY up < 0.25% & top 10% day range	1 day	Bearish	
May 29, 2014	3 higher highs, lows, closes. Dn close.	1-4 days	Bullish	1.50%

**The Evidence**

Tuesday saw very small pullbacks for the indices. The SPX and NASDAQ each declined less than 0.1% and the Russell 2000 fell 0.2%. Breadth was weak as the NYSE Up Issues % came in at 48% and the Up Volume % was 38%. Total NYSE volume rose some from Monday's level.

The small move failed to trigger much of directional consequence in the Quantifinder. It did note that the 3/10 Offset HV indicator closed below the 0.25 threshold today. I last discussed this indicator in the 4/2/14 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 Tuesday the 3/10 Offset HV for SPX came in at 0.17 – easily qualifying for our “extremely low” measure.

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](#)

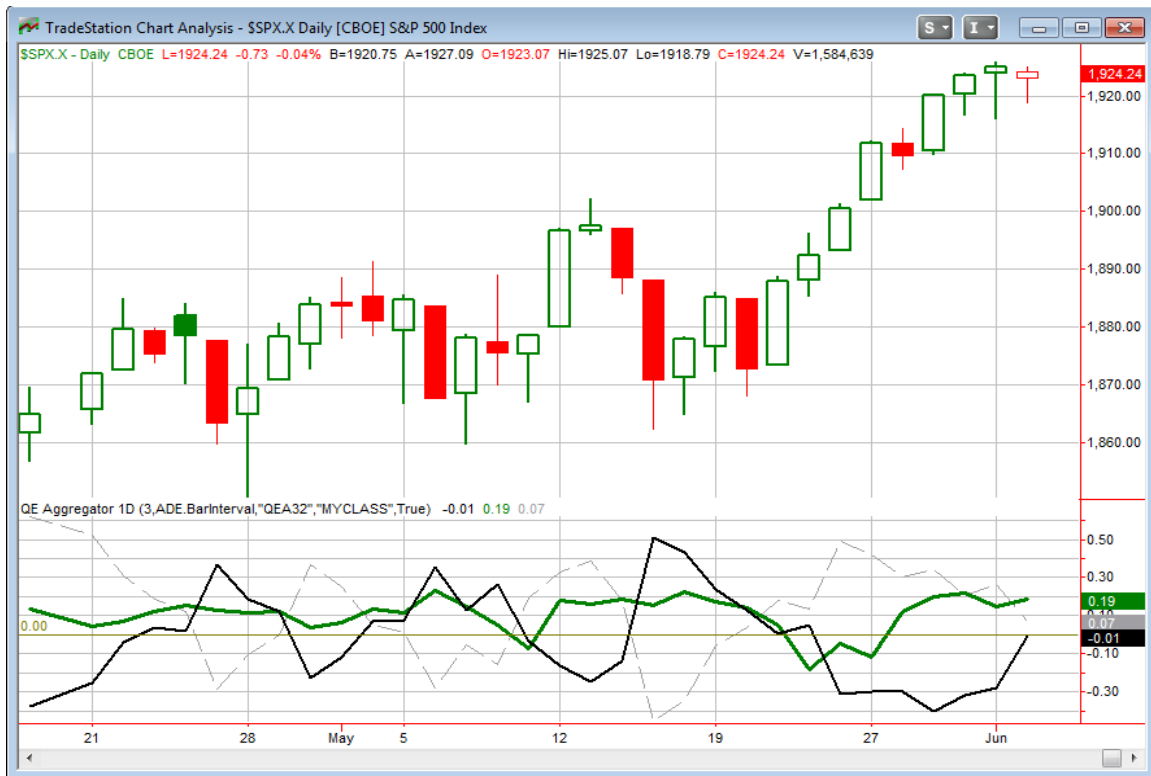
It's important to note that the 3/10 Offset HV indicator predicts volatility, not direction. For direction I look to the Aggregator. As you'll see below, the Aggregator is currently neutral. The low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward).

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.

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



Without anything new being added tonight the green Aggregator Line remained 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 came in just barely below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is still slightly overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are slated to remain positive again on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *inverted* at 1933.91 on Wednesday. That is 0.5% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, for SPX to remain overbought, it is going to need to close up at least 0.5% on Wednesday.

The Aggregator could very easily change to a long formation on Wednesday. All that has to happen is a flat close and no new studies showing up. I'm not getting ready to jump in just yet, though. Not only is risk elevated because the market is overbought, but it is also elevated by the very low 3/10 Offset HV. So while the last few days could be the consolidation before the next leg up, it's a bit risky to anticipate that just yet. I remain sidelined, but poised and ready in case we get a pullback offering better odds.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 6/2– neutral***

The intermediate-term outlook was last updated in the 6/2/14 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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