

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 20, 2015

Volume 8 Issue 96

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.
- 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 are slightly negative but SPX is no longer oversold. This is leaving the Aggregator neutral. And with the market now coiled, risk in both directions appears elevated.

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

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
May 20, 2015	3 up high,low, close. Dn close others up	1-4 days	Bullish			
May 19, 2015	SPX up VIX up Monday.	1-2 days	Bearish			
May 18, 2015	SPY low vol. VIX low close. OpEx Fri.	1-5 days	Bearish			
May 18, 2015	QE Buying Power Index short	1-4 days	Bearish			
May 15, 2015	Top of range close Opex Thursday	1-4 days	Bearish			
May 15, 2015	Low volume breakout to 50-high	1-5 days	Bullish			
<b>Active - Long Term</b>						
May 18, 2015	NASDAQ leading SPX	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			

**The Evidence**

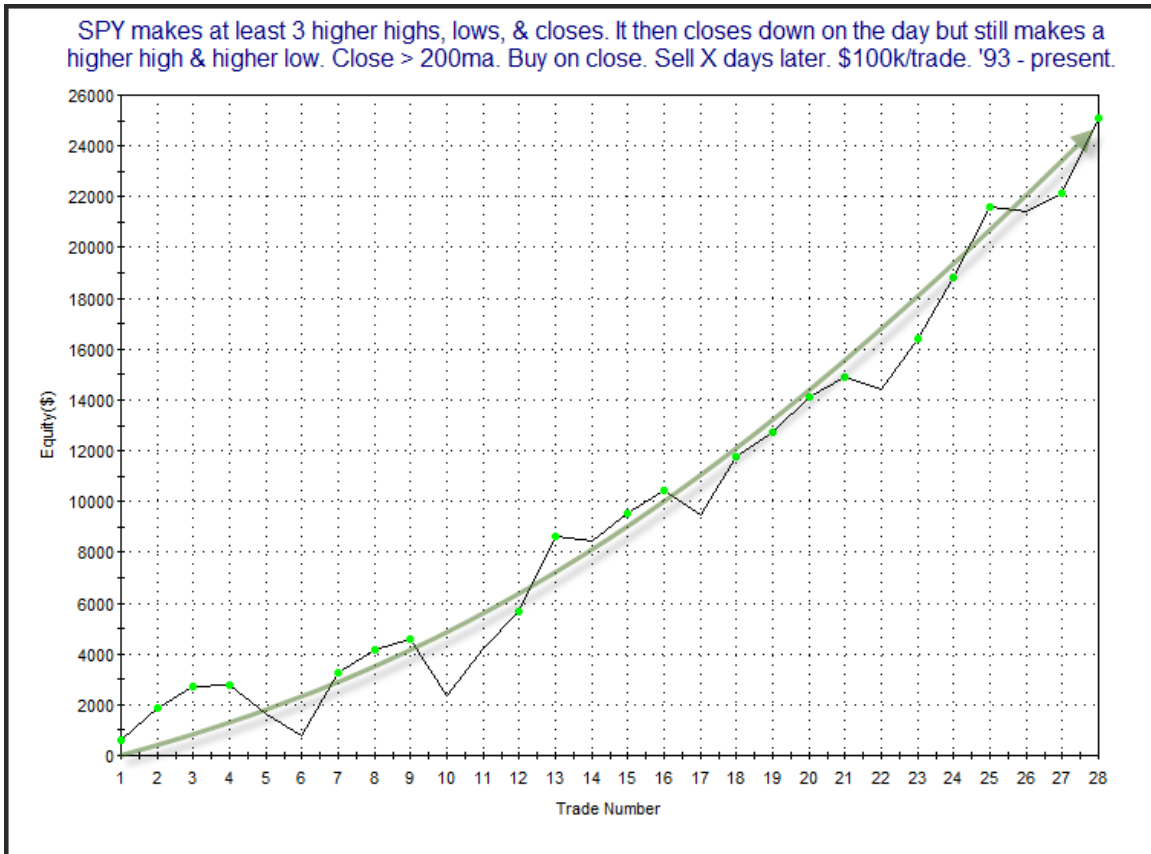
The market mostly saw mild losses on Tuesday. The SPX fell 0.1%, while the NASDAQ and the Russell 2000 each declined between 0.1% - 0.2%. Breadth was negative as the NYSE Up Issues % came in at 40% and the Up Volume % was 39%. Total NYSE volume rose a little from Monday’s extremely light level.

While SPY pulled back some on Tuesday, it did manage to register a higher high and a higher low. The study below was last seen in the 10/23/14 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I’ve updated the results.

SPY makes at least 3 higher highs, lows, & closes. It then closes down on the day but still makes a higher high & higher low. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. '93 - 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
5	20,341.75	28	18	10	64.29	1,645.26	3,602.64	-927.29	-2,800.26	1.77	3.19	726.49
4	25,118.75	28	21	7	75.00	1,480.19	2,962.96	-852.18	-2,191.22	1.74	5.21	897.10
3	14,942.83	28	20	8	71.43	1,073.84	2,762.41	-816.75	-2,640.33	1.31	3.29	533.67
2	10,913.88	28	22	5	78.57	748.35	2,073.28	-1,109.97	-1,804.67	0.67	2.97	389.78
1	7,712.54	28	20	8	71.43	522.25	1,395.93	-341.55	-1,137.92	1.53	3.82	275.45

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



The upslope is impressive. This study certainly appears worthy of consideration and I have included it on the Active List.

Another factor that traders may want to consider is the fact that the 3/10 Offset HV indicator closed at just 0.20 on Tuesday. This suggests a volatility expansion is likely to occur in the next few days. I discussed this indicator recently in the 4/27/15 when we had another low reading. Below I have copied that commentary:

*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...*

*In the July 2009 study I found on average when the 3/10 Offset HV falls below 0.25, then the 3-day Historical Volatility reading 3 days later is about 5.5 times higher than on the trigger day. I decided to examine the 6 years since then and found that HV over this time*

*period increased on average 4.75x over the next 3 days. This is below the historical average but still implies a sharp volatility expansion is likely.*

*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:*

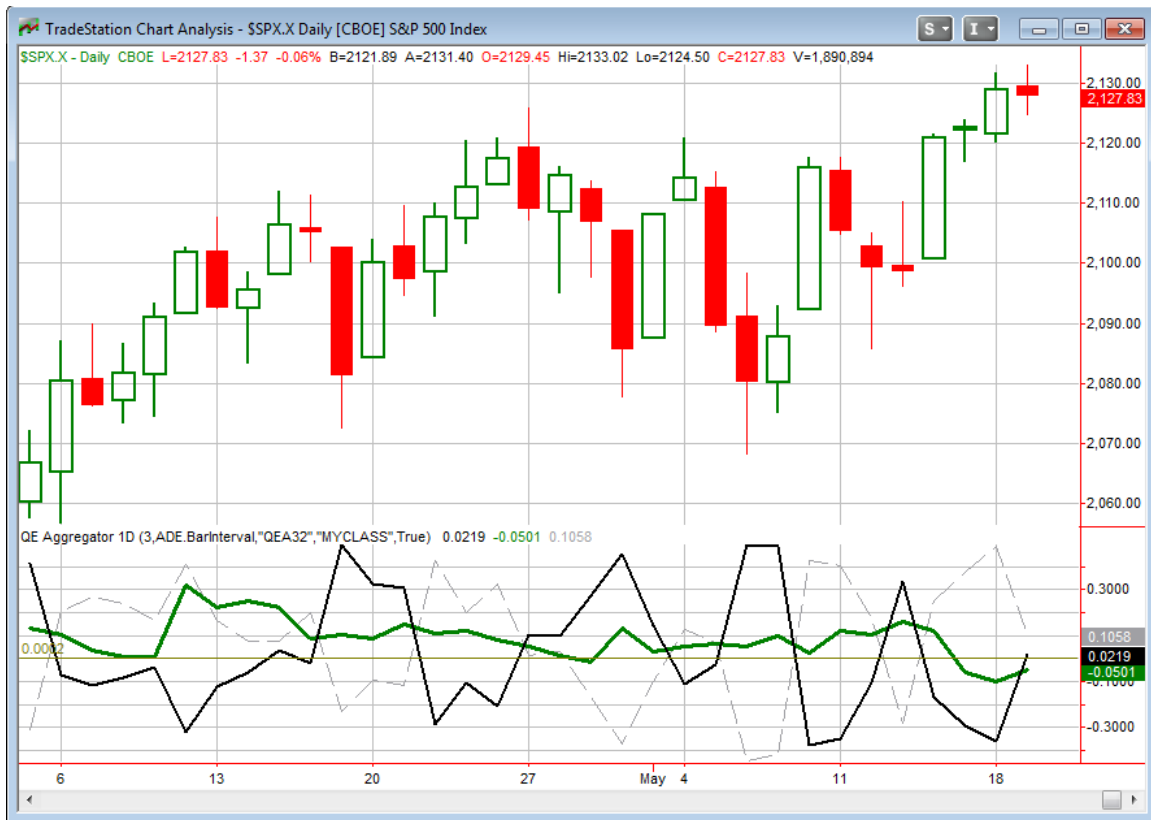
#### *Quantifiable Edges ORBs Study*

*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. Of course tonight the Aggregator is neutral. The low 3/10 Offset HV implies that a move in either direction could be exaggerated and increases risk (and possible reward).*

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



Even with tonight's bullish study the green Aggregator Line remained below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line inched above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is oversold. 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 turned flat at the close.

Based on the current active studies, expectations are set to turn positive on Wednesday. This could change if more bearish evidence emerges. The Differential Pivot will be nearly flat at 2127.40 on Wednesday. That is just 0.43 SPX points below Tuesday's close. Essentially this means that SPX will remain "oversold" versus expectations if it closes down at least 0.43 points, or it will flip to "overbought" versus recent expectations on any flat or up close.

Tuesday was not much of a pullback, but it seems to be enough that the downside edge is no longer strongly apparent. The study tonight is clearly bullish, and the market is now mildly short-term oversold. This leaves me neutral for the time being. With risk elevated thanks to the low 3/10 Offset HV reading, I'm feeling cautious about directional bets.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 5/18– slightly bullish**

The intermediate-term outlook was last updated in the 5/18 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**

HAL @ \$46.35 (bought 1/3 @ limit)

**Catapult for ETF’s Trades**

None

**Broad Market Large Cap CBI – 1(HAL)**

**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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	3/9/2015	\$32.25	\$45.03	39.63%	\$37.90	Aggressive VIX
HAL(1/3)	5/8/2015	\$46.35	\$45.07	-2.76%		Catapult
SPY(1/4)	5/18/2015	\$212.44	\$213.03	-0.28%		cover @ \$213.00 limit

I indicated I would look to cover my SPY short position on a close <= \$213.00 on Tuesday. While the “last trade” at 4pm was exactly \$213.00, the settlement price was \$213.03. Personally, the conditional order I set up with my broker was filled and I covered my position. But I generally look at “settlement” as the closing price. So I am not considering this trade idea closed. I will look to exit it on Wednesday. I may send out an intraday update with a stop a little above the high of the day if SPY gaps up and does not quickly fill.

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