

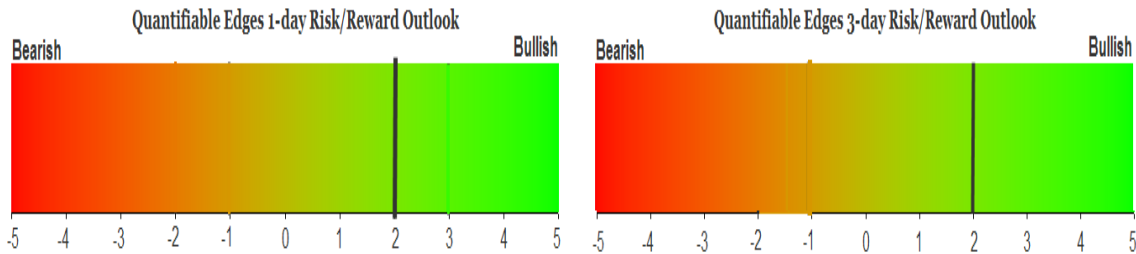
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 3, 2017

Volume 10 Issue 23

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The 3/10 HV indicator suggests a big move could be on the horizon.

### *Short-term Outlook*

#### *The Bottom Line*

Evidence remains bullish and the SPX remains oversold. The tight range the last few days suggests a fast move could be in the works. More likely, that move will be upwards. If not, watch out!

*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>						
February 1, 2017	3+ days down. Fed tomorrow.	1-4 days	Bullish	2.30%	-0.50%	-1.05%
February 1, 2017	4 days down. Tuesday	1-6 days	Bullish	2.50%	-1.20%	-2.50%
January 31, 2017	3 down days > 200ma. Turn Tues	1-8 days	Bullish	2.20%	-1.30%	-2.40%
January 31, 2017	VIX up 10%. SPX dn small.	1-5 days	Bullish	1.60%	-1.40%	-3.00%
<b>Active - Long Term</b>						
January 9, 2017	NASDAQ Leading	int term	Bullish			
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
<b>Dropped Tonight</b>						
February 1, 2017	3 days down. End of month	1 day	Bullish			
January 26, 2017	SPY breakaway gap	1-5 days	Bullish			

***The Evidence***

Thursday was again mixed and mild. The SPX closed up 0.06%, the NASDAQ lost 0.1%, and the Russell 2000 lost 0.3%. Breadth was weak as the NYSE Up Issues % was 54% and the Up Volume % came in at 54%. NYSE volume declined from Tuesday's level.

One factor that traders may want to consider is the fact that the 3/10 Offset HV indicator closed at just 0.15 on Thursday. This suggests a volatility expansion is likely to occur in the next few days. I discussed this indicator in the 4/27/15 in some detail.

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 this again in 2015. I found that during the 2009-2015 period that HV over this time period increased on average 4.75x over the next 3 days. This is below the historical average but still implied 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:

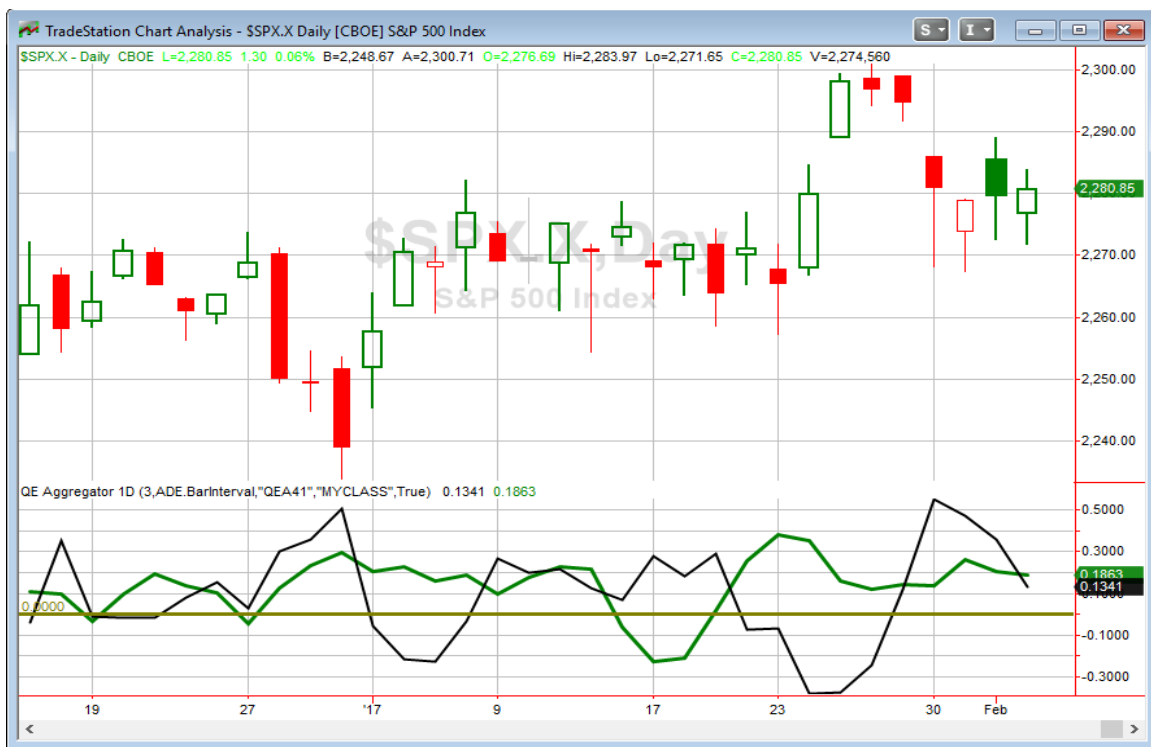
[Quantifiable Edges ORBs Study](#)

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 bullish. 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.



Without any new evidence emerging tonight, the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. Strongly bearish evidence would need to emerge in order to change this. The Differential Pivot will be 2291.25 on Friday. That is 0.5% above Thursday's close. Therefore, SPX will need to close up at least 0.5% on Friday in order to flip from oversold to overbought versus expectations.

So the Aggregator remains bullish. SPX is oversold. And the 3/10 HV is suggesting a sharp move could be coming. There is a decent chance that move will be higher. But so far the expected bounce has not materialized in a substantial way. And if a sharp move south is about to begin, I don't want to endure the whole thing. So I will be looking to place a stop below recent support for my SPY position. Details are in the Trade Ideas section down below.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 1/30 – bullish***

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***Open Catapult Triggers***

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	1/30/2017	\$227.55	\$227.77	0.10%	\$226.25	Aggregator

I am placing a stop below the recent swing low for SPY.

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

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