

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 25, 2017

Volume 10 Issue 100

Market Overview



Signals Overview

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

Tonight's Research Points

- The recent mild action sets the market up for a possible sharp move.

Short-term Outlook

The Bottom Line

Similar to last night, the studies suggest more upside is likely but the market is already short-term overbought. This leaves me neutral.

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
Active - Short Term						
May 22, 2017	10 Intra-Low yest. Unfill gap. Cls<10m.	1-5 days	Bullish			
May 22, 2017	1.75% drop. Then up 2 < 3 ago.	1-5 days	Bullish			
Active - Long Term						
May 15, 2017	Gap dn from 5-low and close < open	1-10 days	Bullish	2.90%	-1.60%	-3.40%
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			

The Evidence

Wednesday saw the market rise for the 5th day in a row, and also led to some new all-time highs. The SPX finished up 0.25%, the NASDAQ gained 0.4%, and the Russell 2000 rose 0.1%. Breadth was mixed as the NYSE Up Issues % was 56% and the Up Volume % came in at 49%. NYSE volume rose slightly from Tuesday's level.

It was an odd night with regards to studies. There were some notable things that happened with the market, like the recent VIX dive, and the new market highs. But none of them generated consistent edges that have persisted as of late.

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 2/3/17 Letter 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:

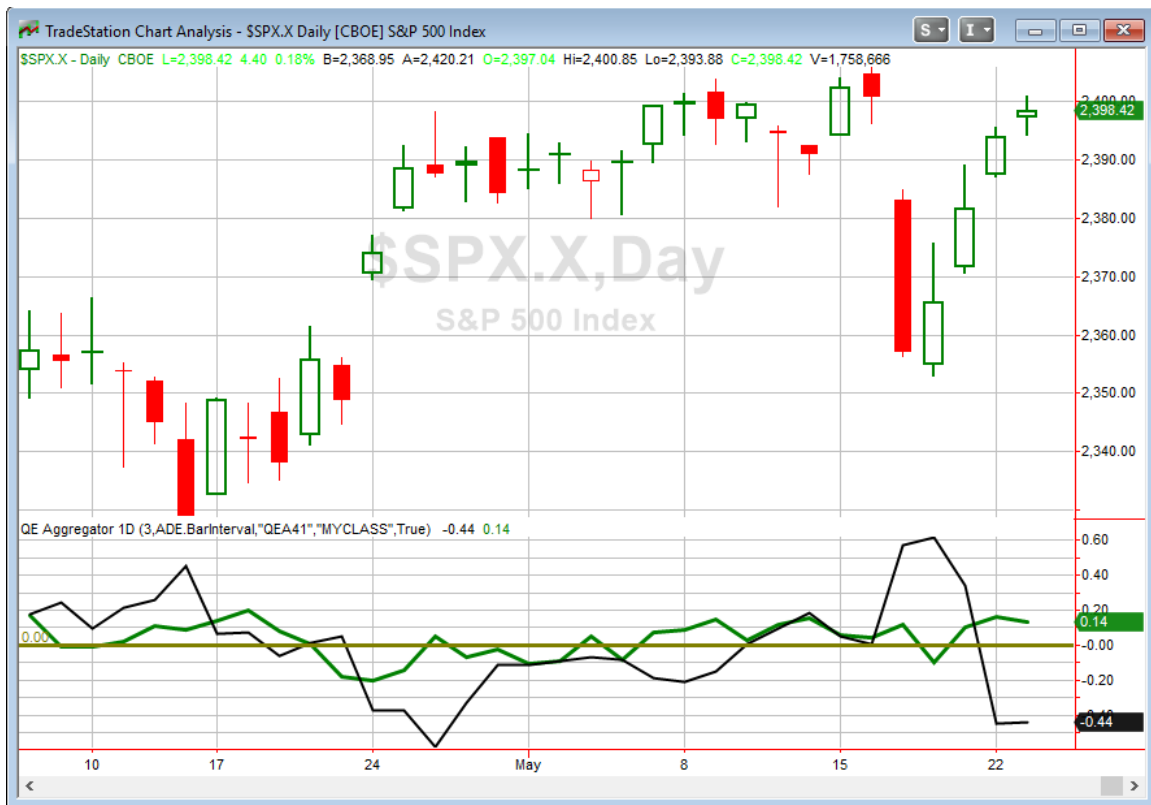
[Quantifiable Edges ORBs Study](#)

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 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.



Without any new studies to consider the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are

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. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2398.15 on Thursday. That is 0.3% below Wednesday's close. So for SPX to move from overbought to oversold versus expectations on Thursday it will need to close down at least 0.3%.

Short-term edges are pretty lacking at the moment. That is not surprising considering we are in the midst of a series of mild up days. Strong moves often lead to strong edges. Mild moves don't. So I will continue to wait for the next setup with strongly favorable reward/risk potential to emerge. It does not appear we are there, yet.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 5/22 –bullish***

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

DIS – 1/3 @ \$111.62 (bought @ limit)

DIS – 1/3 @ \$111.17 (bought @ limit)

DIS – 1/3 @ \$106.31 (bought @ limit)

Broad Market Large Cap CBI – 3(DIS-3)

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
DIS(1/3)	5/4/2017	\$110.58	\$107.71	-2.60%		Catapult
DIS(1/3)	5/5/2017	\$111.17	\$107.71	-3.11%		Catapult
DIS(1/3)	5/18/2017	\$105.98	\$107.71	1.63%		Catapult
FB(1/3)	5/18/2017	\$144.72	\$150.04	3.68%		sell on open

FB reached its exit trigger. It will be sold at Thursday's open.

If DIS can hit \$108.06 during the day, it will achieve its exit trigger. It will then be sold at Friday's open.

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