

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 28, 2014

Volume 7 Issue 101

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	Flat

Tonight's Research Points

- 3 days of strong Nasdaq breadth are often followed by a down day.
- A rising VIX at a 50-day SPX high (on a Monday) suggests a pullback.

Short-term Outlook

The Bottom Line

The Aggregator is suggesting a bit of a downside edge. The window of opportunity appears small, though. I am not looking to take advantage of it just yet.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
May 28, 2014	SPX new high. VIX up. 1st day of week	1-2 days	Bearish	
May 28, 2014	Nas Up Issue % > 60% 3 days	1 day	Bearish	
Active - Long Term				
May 16, 2014	2 unfilled gaps dn > 200	1-10 days	Bullish	2.50%
May 1, 2014	3 of 4 Market Timing Indicators weak	int term	Bearish	
April 28, 2014	Sell in May	6 months	Bearish	
April 22, 2014	5 Days Higher < 50 but > 200	1-15 days	Bullish	
April 17, 2014	3 days up gain 2%. 3/10 Offset HV < 0.25	1-19 days	Bullish	
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	
Dropped Tonight				
May 23, 2014	Extremely low vol 2x. >10 & > 200ma	1-2 days	Bearish	

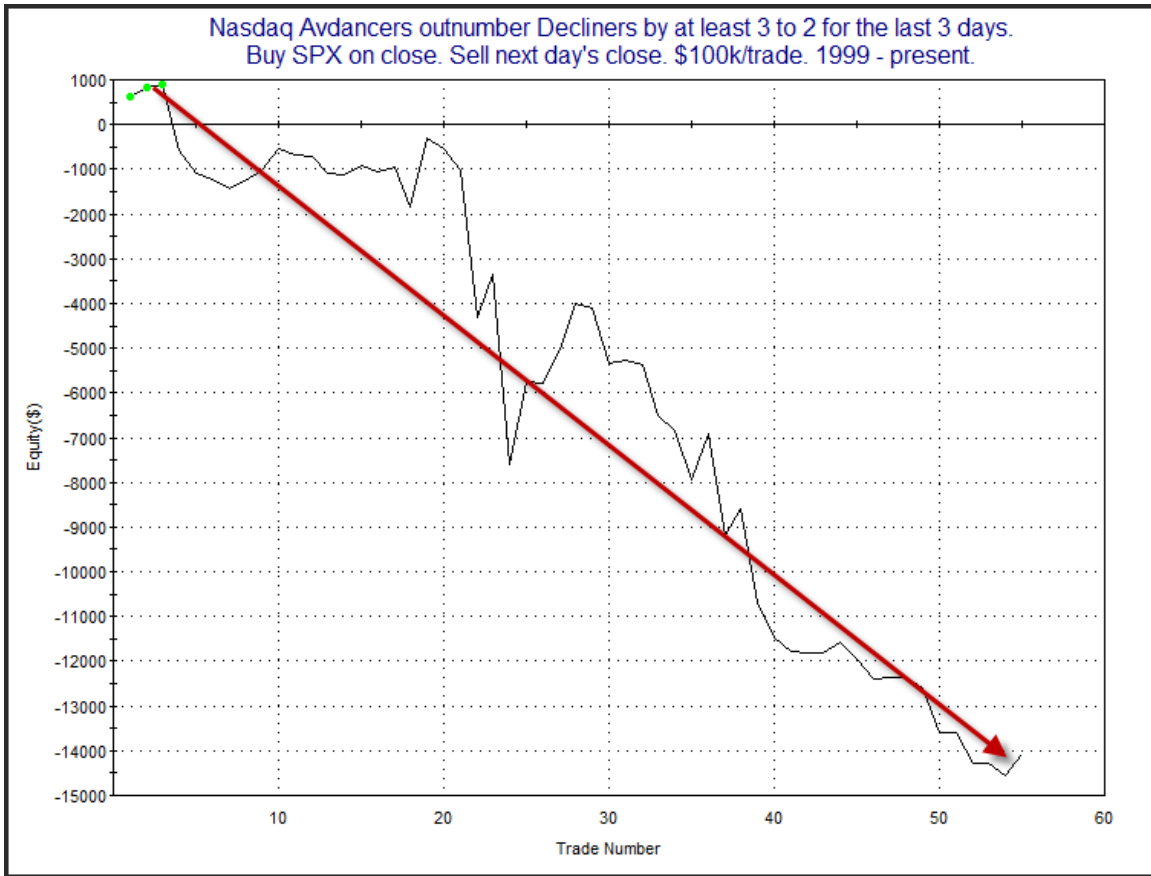
The Evidence

Tuesday saw the market make solid price gains. The SPX gained 0.6% and made a new all-time high, while the NASDAQ rose 1.2% and the Russell 2000 closed up 1.4%. Breadth was strongly positive as the NYSE Up Issues % came in at 75% and the Up Volume % was 65%. Total NYSE volume rose some from the last few days.

The Quantifinder featured a few studies tonight – all of which had either neutral or bearish implications. I’ll discuss the 2 bearish ones below. The 1st study looks at other times Nasdaq advancers outnumbered decliners by more than 3:2 for 3 days in a row. I last showed it in the 4/22/14 letter. Results are updated.

Nasdaq Advancers outnumber Decliners by at least 3 to 2 for the last 3 days. Buy SPX on close. Sell next day's close. \$100k/trade. 1999 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	(\$14,078.31)	Profit Factor	0.43
Gross Profit	\$10,723.03	Gross Loss	(\$24,801.34)
Total Number of Trades	55	Percent Profitable	40.00%
Winning Trades	22	Losing Trades	33
Even Trades	0		
Avg. Trade Net Profit	(\$255.97)	Ratio Avg. Win:Avg. Loss	0.65
Avg. Winning Trade	\$487.41	Avg. Losing Trade	(\$751.56)
Largest Winning Trade	\$1,857.24	Largest Losing Trade	(\$4,241.94)

The numbers imply a bit of a downside edge. I also produced an equity curve.



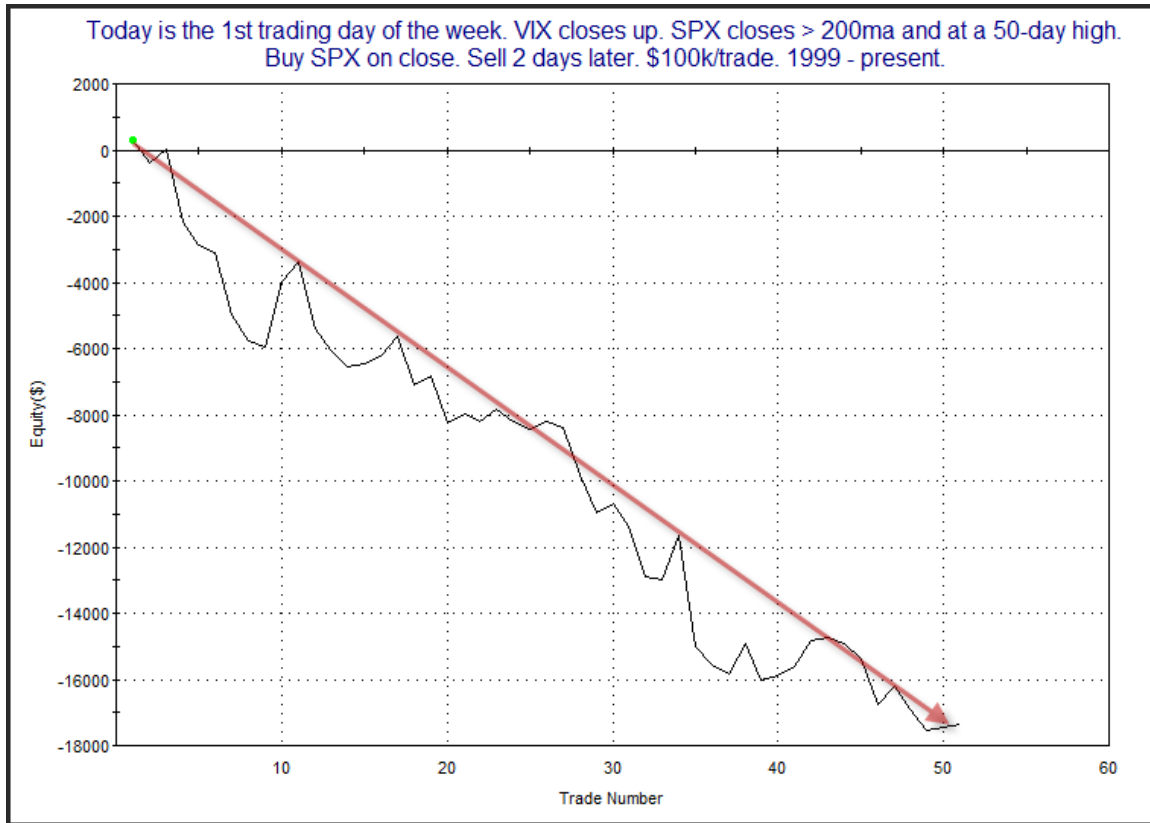
It's definitely choppy, but it has moved from upper left to lower right for a long time. I believe it is worth some consideration.

While the SPX closed up fairly strongly, the VIX also rose. The rising VIX warned of possible short-term trouble. The study below was last seen in the 5/21/13 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high.
Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.

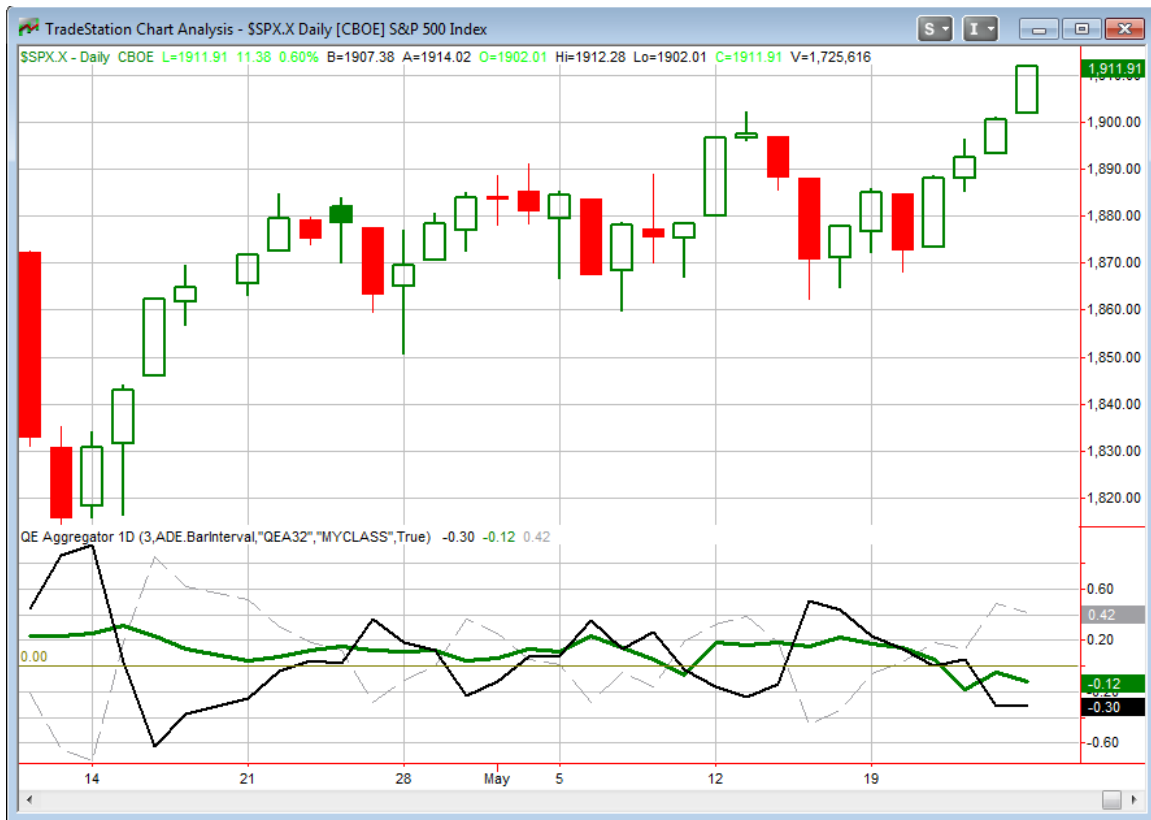
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-10,280.86	47	22	25	46.81	1,128.80	3,260.25	-1,404.58	-5,048.68	0.80	0.71	-218.74
4	-7,602.02	51	23	28	45.10	992.89	2,953.65	-1,087.09	-4,271.52	0.91	0.75	-149.06
3	-9,934.25	51	21	30	41.18	815.25	2,641.80	-901.82	-3,887.84	0.90	0.63	-194.79
2	-17,374.14	51	21	30	41.18	478.08	1,981.72	-913.80	-3,372.16	0.52	0.37	-340.67
1	-7,522.54	51	19	32	37.25	331.04	769.70	-431.64	-1,580.04	0.77	0.46	-147.50

Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The strong steady downslope serves as confirmation of the bearish edge. I have added both of these studies to the Short-Term Active List tonight.

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



The bearish studies tonight kept the green Aggregator Line below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line is also again below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal stayed short at the close.

If no new studies emerge on Wednesday, then expectations are slated to turn positive, thanks to the bullish seasonal tendency on the Thursday after Memorial Day (discussed in last night's Letter). Of course any new evidence that emerges will have a strong influence on expectations. The Differential Pivot will be 1892.47 on Wednesday. That is 1.0% below Tuesday's close. This means that SPX will need to close down strongly in order to move from "overbought" to "oversold" versus expectations.

The Aggregator is again showing suggesting a downside edge. But at this point the edge does not appear likely to last beyond Wednesday unless more bearish evidence emerges. So we are at a point where nimble or aggressive traders could look for downside opportunities on Wednesday. I am never particularly aggressive when shorting against a strong uptrend, and it's difficult to be daytrade-nimble with a nightly letter. So I will not

be looking to take on any exposure tonight. I'll wait another day and see how things play out.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/27– slightly bearish

The intermediate-term outlook was last updated in the 5/27/14 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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