

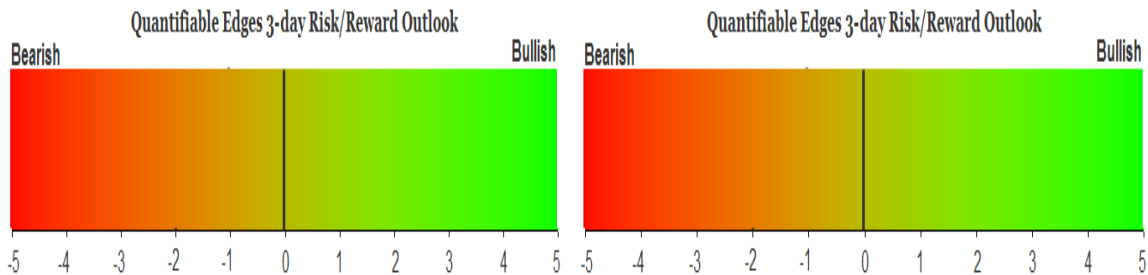
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 3, 2014

Volume 7 Issue 105

Market Overview



Signals Overview

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

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on a Monday) suggests a pullback.
- Monday's mild up close near the top of its range suggests a bearish 1-day edge.

Short-term Outlook

The Bottom Line

No changes from last night. Expectations are still bullish, but the market remains overbought. I'm not inclined to buy into such overbought conditions, so I am still waiting for a better setup before jumping back into the market.

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

| Study Date | Description | Time span | Bias | Avg Max Move |
|----------------------------|---|-----------|---------|--------------|
| Active - Short Term | | | | |
| June 3, 2014 | SPX 50-high. VIX up | 1-2 days | Bearish | |
| June 3, 2014 | SPY up < 0.25% & top 10% day range | 1 day | Bearish | |
| June 2, 2014 | End of month on high of month | 1-5 days | Bullish | |
| May 29, 2014 | 3 higher highs, lows, closes. Dn close. | 1-4 days | Bullish | 1.50% |
| Active - Long Term | | | | |
| 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 | |

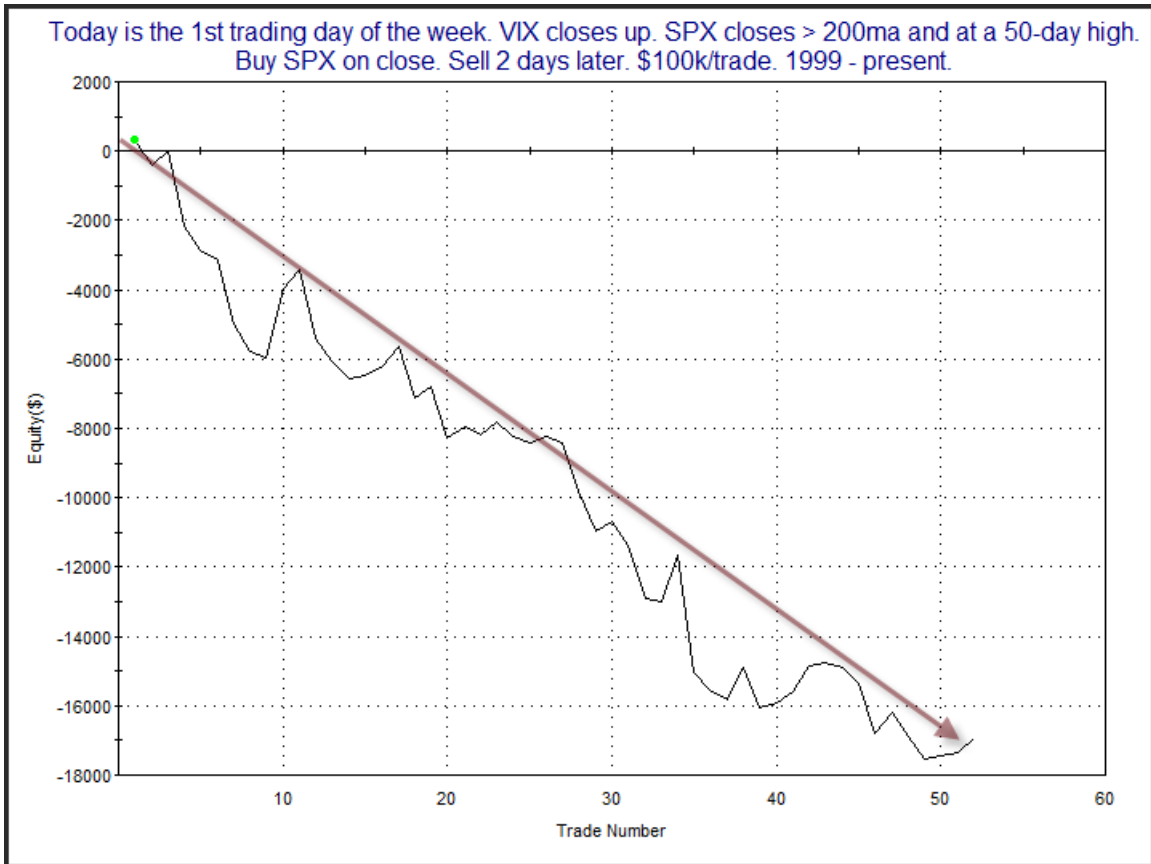
The Evidence

Monday was another mixed day for the indices. The SPX rose 0.1% and again closed at a new high. But the NASDAQ declined 0.1% and the Russell 2000 fell 0.5%. Breadth was also mixed as the NYSE Up Issues % came in at 47% and the Up Volume % was 52%. Total NYSE volume rose declined to an very light level.

While the SPX closed up the VIX also rose. The rising VIX warned of possible short-term trouble. The study below was last seen just last week in the 5/28/14 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 | -9,327.93 | 52 | 22 | 30 | 42.31 | 805.75 | 2,641.80 | -901.82 | -3,887.84 | 0.89 | 0.66 | -179.38 |
| 2 | -16,951.90 | 52 | 22 | 30 | 42.31 | 475.55 | 1,981.72 | -913.80 | -3,372.16 | 0.52 | 0.38 | -326.00 |
| 1 | -7,633.30 | 52 | 19 | 33 | 36.54 | 331.04 | 769.70 | -421.91 | -1,580.04 | 0.78 | 0.45 | -146.79 |

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



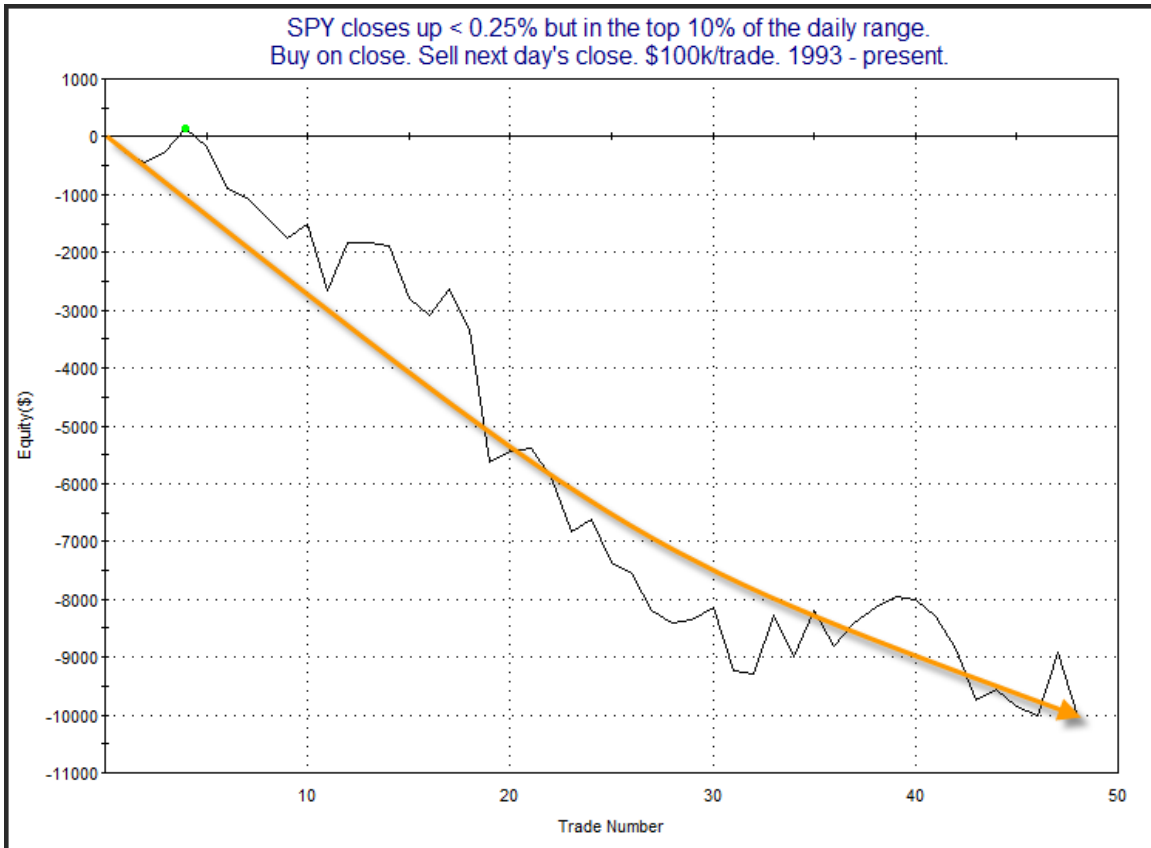
The strong steady downslope serves as confirmation of the bearish edge.

The next study was last seen in the 5/6/14 subscriber letter. It suggests that when SPY closes strong (in the top 10% of its range) but still only manages a small gain on the day, that the next day has a downside tendency. Stats are updated.

SPY closes up < 0.25% but in the top 10% of daily range.
 Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

| TradeStation Performance Summary Collapse ^ | | | |
|--|--------------|--------------------------|---------------|
| All Trades | | | |
| Total Net Profit | (\$9,931.28) | Profit Factor | 0.44 |
| Gross Profit | \$7,710.00 | Gross Loss | (\$17,641.28) |
| Total Number of Trades | 50 | Percent Profitable | 38.00% |
| Winning Trades | 19 | Losing Trades | 31 |
| Even Trades | 0 | | |
| Avg. Trade Net Profit | (\$198.63) | Ratio Avg. Win:Avg. Loss | 0.71 |
| Avg. Winning Trade | \$405.79 | Avg. Losing Trade | (\$569.07) |
| Largest Winning Trade | \$1,093.35 | Largest Losing Trade | (\$2,290.72) |

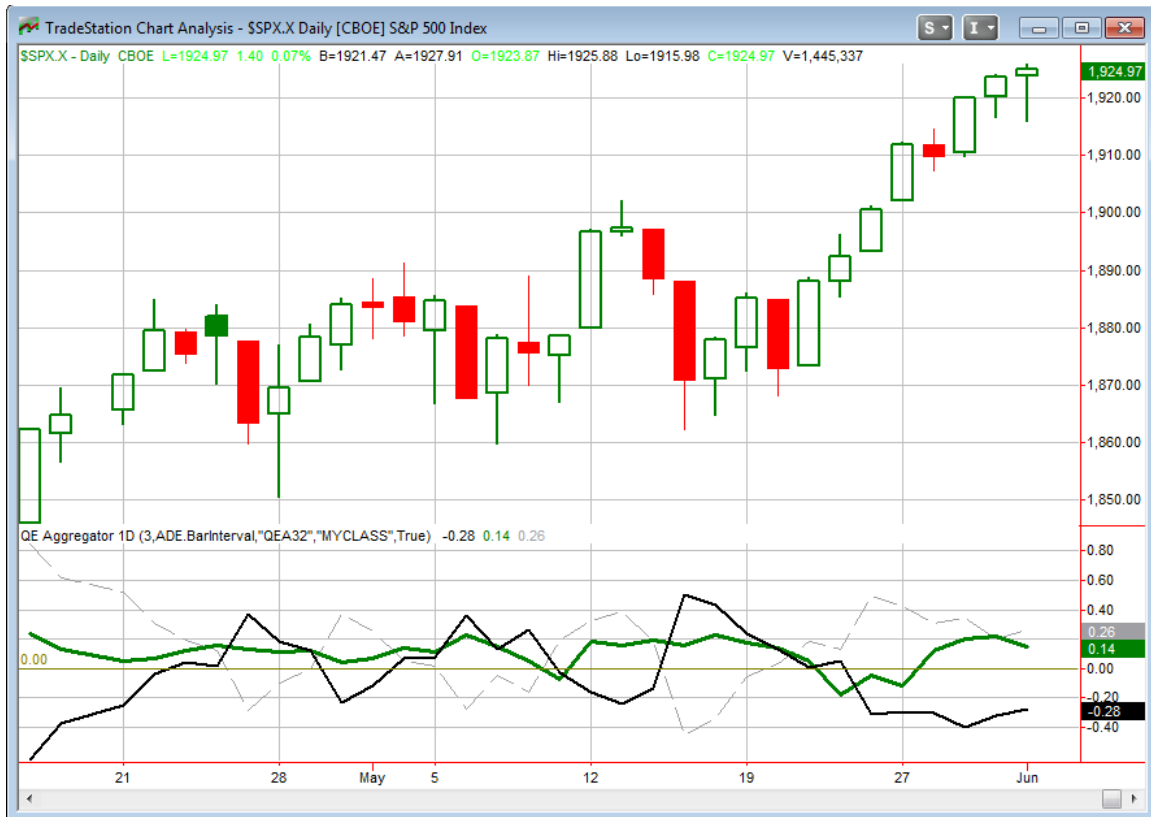
As you can see there appears to be a bit of a bearish inclination. Below is a profit curve showing how the edge has played out over time.



It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the

opposite direction the next day. The bearish edge here too may be waning a bit, but I have included this study on the Active List for tonight.

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



Even with tonight's bearish studies 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 is again below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the 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 slated to remain positive again on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1923.92 on Tuesday. That is only about 1 point below Monday's close. So it won't take much of a pullback for SPX to move from overbought to oversold versus expectations on Tuesday.

We remain overbought with positive expectations. Until this changes there is really nothing for me to do. I need to either see strong bearish evidence or a pullback to an oversold condition to get me interested in a position. So it is another day of “wait and remain ready” for me.

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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