

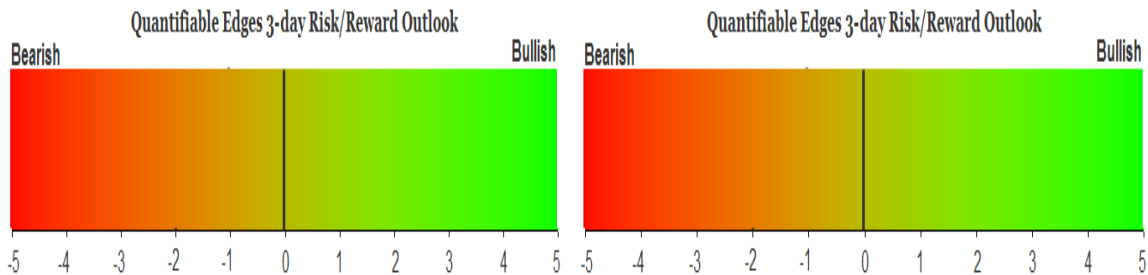
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 5, 2014

Volume 7 Issue 107

Market Overview



Signals Overview

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

Tonight's Research Points

- 10 days above the 5ma and a new 10-day high suggest the market is due for a brief pullback.
- A 50-day high, an inside day, and then another 50-day high have often been followed by a pullback.

Short-term Outlook

The Bottom Line

Some bearish evidence emerged tonight, but despite closing at a 50-day high, the market is no longer considered “overbought” versus expectations. So the edge is small. And the market is still set up for a volatility expansion. This is all combining to keep me sidelined.

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 5, 2014	10 days > 5ma. 10 high today	1-2 days	Bearish	
June 5, 2014	50 high, inside day, 50-high	1-5 days	Bearish	-2.00%
June 2, 2014	End of month on high of month	1-5 days	Bullish	
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	
Dropped Tonight				
June 3, 2014	SPX 50-high. VIX up	1-2 days	Bearish	

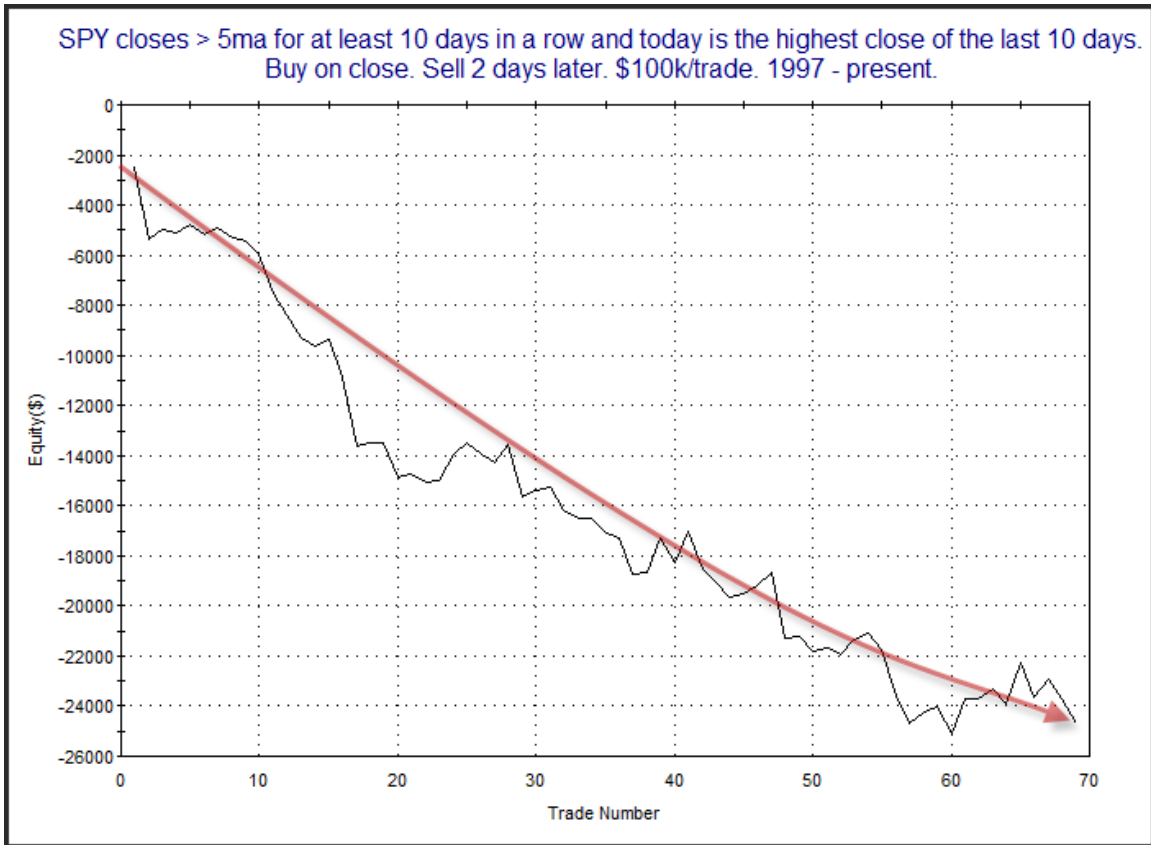
The Evidence

Wednesday saw the market make mild gains. The SPX rose 0.2%, the NASDAQ gained 0.4% and the Russell 2000 rallied 0.5%. Breadth was mildly positive as the NYSE Up Issues % came in at 51% and the Up Volume % was 54%. Total NYSE volume sank some from Tuesday's level.

SPY has now gone 10 days without closing below its 5ma. The study below was last seen in the 7/23/13 subscriber letter. It looks at other instances in which the market traded above the 5ma for at least 2 weeks and closed at a 10-day high. All results are updated.

SPY closes > 5ma for at least 10 days in a row and today is the highest close of the last 10 days. Buy on close. Sell X days later. \$100k/trade. 1997 - 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	-13,554.54	46	24	22	52.17	723.71	2,516.52	-1,405.62	-4,014.40	0.51	0.56	-294.66
4	-19,098.41	50	20	30	40.00	673.16	1,428.90	-1,085.39	-3,723.20	0.62	0.41	-381.97
3	-18,992.51	58	23	35	39.66	647.03	1,790.80	-967.84	-3,235.65	0.67	0.44	-327.46
2	-24,685.30	69	30	38	43.48	455.45	1,608.38	-1,009.18	-2,870.40	0.45	0.36	-357.76
1	-22,184.67	97	41	56	42.27	336.62	1,361.25	-642.61	-2,817.32	0.52	0.38	-228.71

In the past this setup has commonly been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The line looked to be flattening out a few instances ago, but it may now be getting back on track. It has generally headed from upper left to lower right for a long time and certainly appears worthy of consideration. I have added this study to the Active List tonight.

After Monday's move to a new high, Tuesday put in an inside day. With Wednesday closing at another new high the study below triggered. It was also last seen in the 7/23/13 subscriber letter. I have updated all statistics.

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and then closes at a 50-day high again today. Buy 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	-17,196.81	17	4	13	23.53	543.40	1,176.56	-1,490.03	-3,754.10	0.36	0.11	-1,011.58
4	-11,932.99	17	5	12	29.41	668.94	1,138.36	-1,273.14	-5,106.46	0.53	0.22	-701.94
3	-10,955.30	17	6	11	35.29	472.81	1,367.56	-1,253.83	-3,417.34	0.38	0.21	-644.43
2	-10,184.53	17	4	13	23.53	595.18	911.40	-966.56	-2,737.00	0.62	0.19	-599.09
1	-5,337.98	17	2	15	11.76	289.54	296.40	-394.47	-1,405.62	0.73	0.10	-314.00

Only 1 instance failed to close below the entry price at some point in the next 3 days. It triggered on 2/3/11.

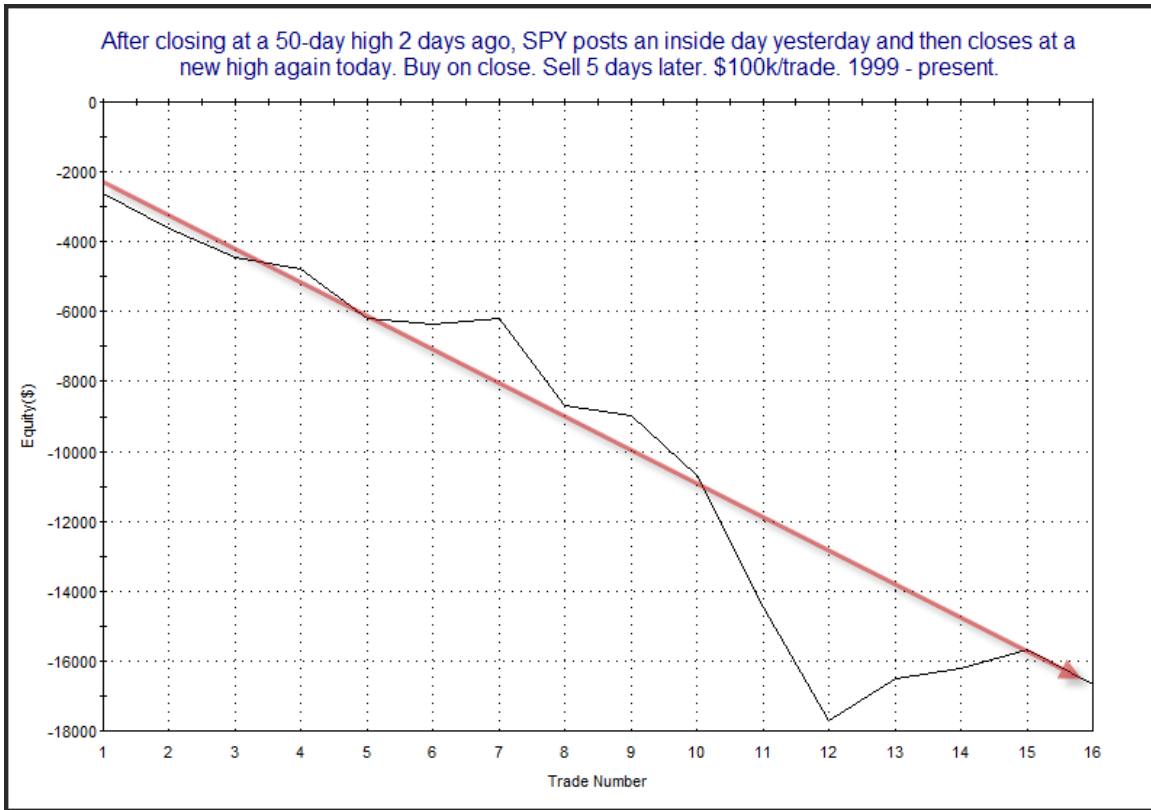
Stats here suggest a bearish inclination following action similar to the last 3 days. One day later the market has declined 15 of 17 times. Below I have listed all 17 instances

After closing at a 50-day high 2 days ago SPY posts an inside day yesterday and then closes at a 50-day high again today. Buy on close. Sell next day's close.
\$100k/trade. 1999 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/08/99	Buy	\$127.75	(0.95%)	\$0.00
01/11/99	Sell	\$126.53		(\$1,978.46)
03/15/99	Buy	\$131.22	(0.38%)	\$335.28
03/16/99	Sell	\$130.72		(\$571.50)
11/18/99	Buy	\$142.63	(0.09%)	\$238.34
11/19/99	Sell	\$142.50		(\$441.63)
08/28/00	Buy	\$151.77	(0.12%)	\$72.38
08/29/00	Sell	\$151.59		(\$565.88)
06/22/05	Buy	\$121.57	(1.41%)	\$24.66
06/23/05	Sell	\$119.86		(\$1,430.28)
07/14/05	Buy	\$122.91	(0.06%)	\$105.69
07/15/05	Sell	\$122.84		(\$447.15)
07/22/05	Buy	\$123.54	(0.28%)	\$331.69
07/25/05	Sell	\$123.19		(\$558.21)
05/09/06	Buy	\$132.62	(0.05%)	\$98.02
05/10/06	Sell	\$132.55		(\$550.42)
11/22/06	Buy	\$140.92	(0.40%)	\$0.00
11/24/06	Sell	\$140.35		(\$510.48)
10/09/07	Buy	\$156.48	(0.17%)	\$0.00
10/10/07	Sell	\$156.22		(\$683.73)
05/06/09	Buy	\$92.14	(1.39%)	\$1,095.85
05/07/09	Sell	\$90.86		(\$2,018.10)
08/04/10	Buy	\$112.97	(0.11%)	\$0.00
08/05/10	Sell	\$112.85		(\$787.65)
02/03/11	Buy	\$130.78	0.28%	\$320.88
02/04/11	Sell	\$131.15		(\$420.20)
02/07/12	Buy	\$134.79	0.30%	\$318.63
02/08/12	Sell	\$135.19		(\$355.68)
03/19/12	Buy	\$140.85	(0.29%)	\$0.00
03/20/12	Sell	\$140.44		(\$857.89)
05/17/13	Buy	\$166.94	(0.01%)	\$383.36
05/20/13	Sell	\$166.93		(\$197.67)
07/22/13	Buy	\$169.50	(0.21%)	\$194.37
07/23/13	Sell	\$169.14		(\$265.05)
Avg run-up: \$207 Avg Drawdown: -\$744				

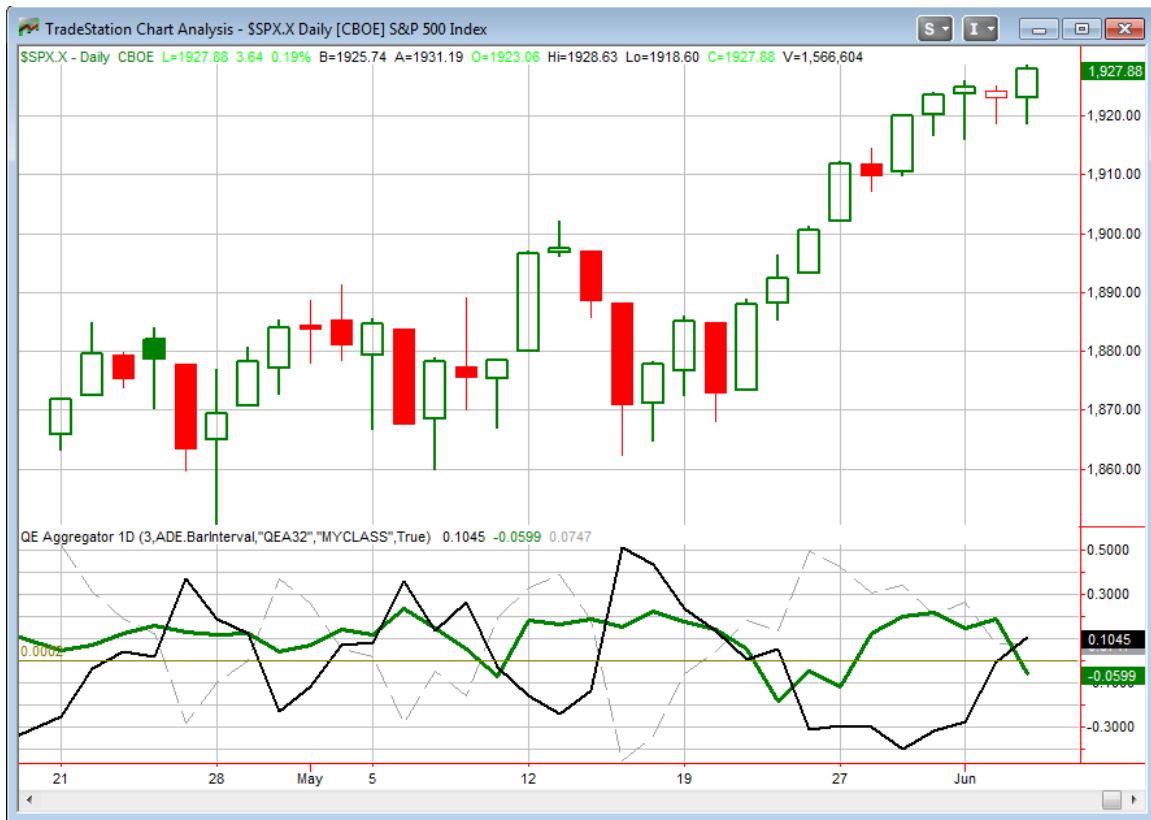
Risk/reward here heavily favors the short side. The average drawdown is nearly 4 times the size the average run-up. Also notable is that *the only instance* where intraday run-up exceeded drawdown was the one from 5/17/13.

I also produced a 5-day profit curve.



The downslope here is impressive. With all this in mind I believe this study worthy of inclusion on the Active Studies List.

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



With 2 bearish studies being added tonight the green Aggregator Line dove down below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line moved up and closed above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. It is unusual to think of a market at a 50-day high as “oversold”, but it has underperformed the bullish expectations the last few days and therefore is labeled as such. So expectations are now negative but the SPX has just turned “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 stayed flat at the close.

Based on the current active studies, expectations are slated to remain negative again on Thursday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 1935.61 on Thursday. That is 0.4% above Wednesday’s close. So for SPX to move to an overbought state and qualify for a possible short trade it is going to need to close up at least 0.4% on Thursday.

In last night’s letter I discussed the 3/10 Offset HV indicator. The extremely low reading there suggested sharp move could easily occur in the next few days. We obviously did not get a sharp move on Wednesday, but the indicator remains extremely low. So the volatility warning remains active. Between the neutral Aggregator and the low 3/10

Offset HV reading this appears to be a dangerous situation to try and trade. Tough to tell which way it will break, and if you are wrong, you could be very wrong. So I am not tempted in any way to try and take on new positions here.

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.

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2014 Hanna Capital Management, LLC.