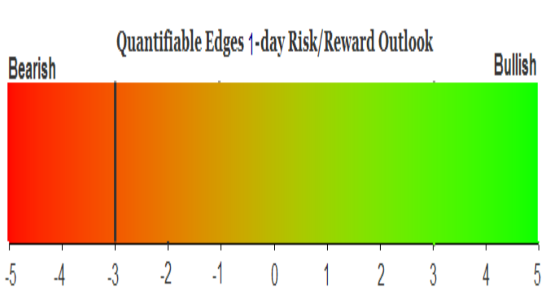
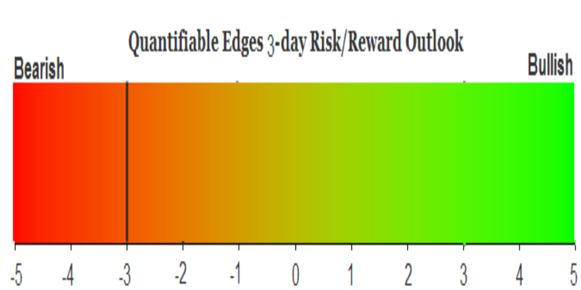
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 9, 2014 Volume 7 Issue 109

Market Overview





Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100% Short SPY	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.
- RSI(2) crossing above 99 bodes well for the intermediate-term.

Short-term Outlook
The Bottom Line
The Aggregator is now negative. And while there are reasons to be cautious, I will look to take on a small amount of short exposure if I can get a favorable entry on Monday.

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 9, 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%
Active - Long Term				
June 9, 2014	RSI(2) > 99	1-15 days	Bullish	2.40%
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 6, 2014	***Employment Day***	***1 day***	***Bullish***	
June 2, 2014	***End of month on high of month***	***1-5 days***	***Bullish***	

The Evidence

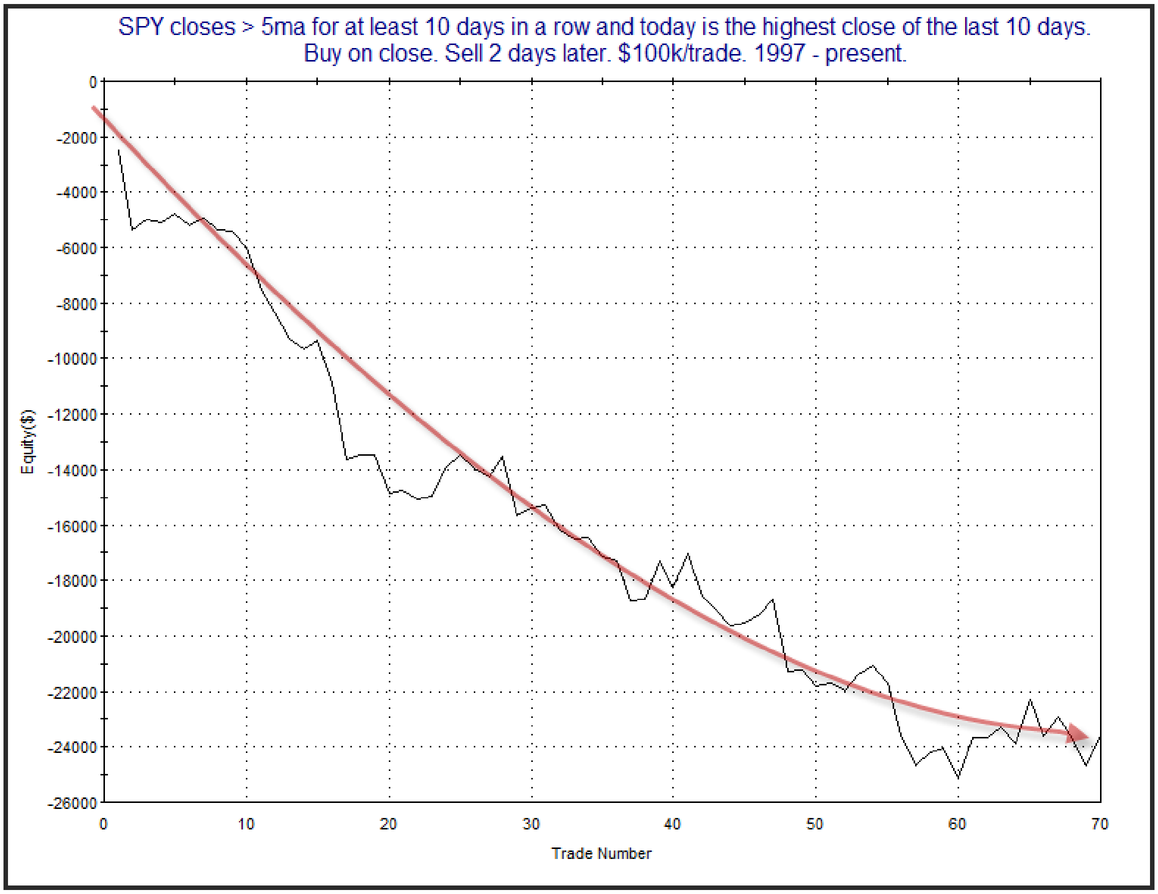
Friday saw more gains and more new highs for the market. The SPX rose 0.5%, the NASDAQ gained 0.6% and the Russell 2000 rallied 1.0%. Breadth was strongly positive as the NYSE Up Issues % came in at 73% and the Up Volume % was 70%. Total NYSE volume declined from Thursday's level.

SPY has now gone 12 days without closing below its 5ma. The study below was last seen just a couple of days ago in the 6/5/14 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. It triggered again and I have updated the results.

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	-23,553.07	70	31	38	44.29	477.28	1,608.38	-1,009.18	-2,870.40	0.47	0.39	-336.47
1	-21,055.23	99	43	56	43.43	347.23	1,361.25	-642.61	-2,817.32	0.54	0.41	-212.68

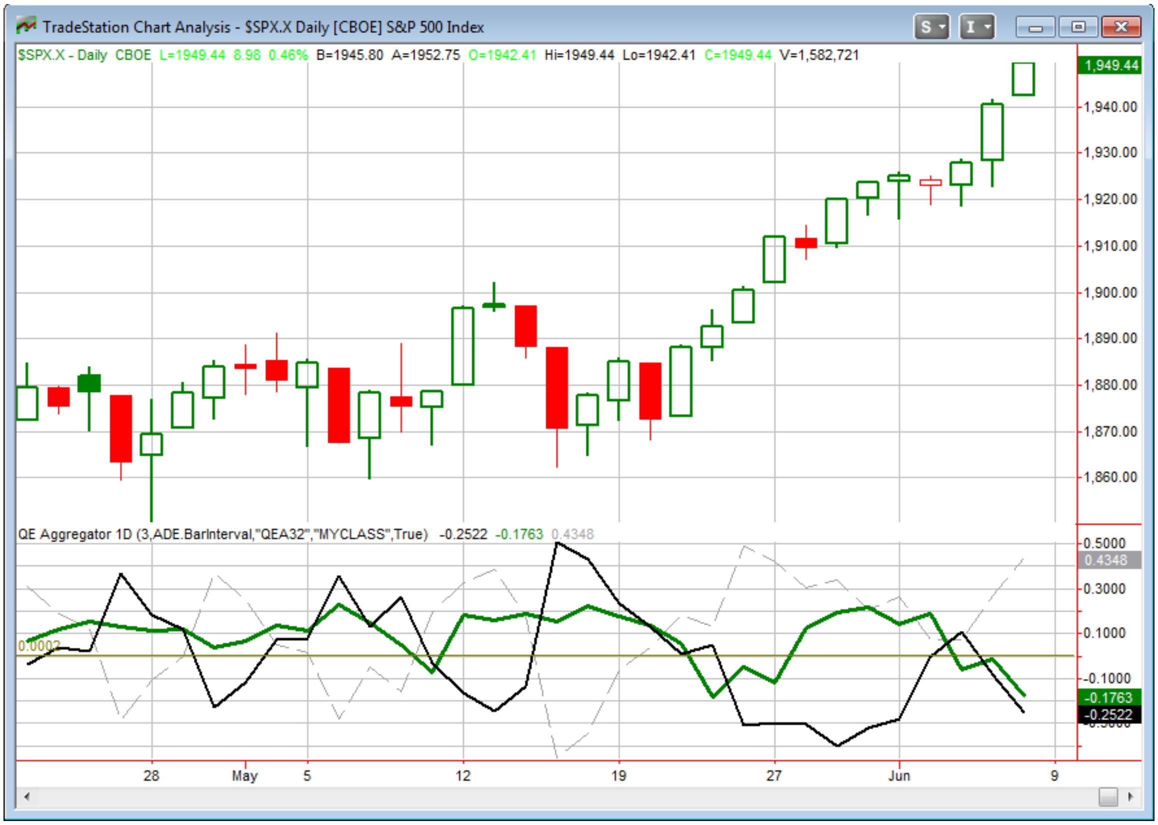
In the past this setup has commonly been followed by a short-term pullback. The downside edge doesn't last long, though. It seems to pretty much play itself out over the first 2 days. Below is an equity curve showing how the edge has evolved over time. It uses a 2-day exit strategy.



The line may be flattening out a bit here, but I think it is too soon to throw away this study. 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.

I have updated the Aggregator chart below.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952



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

Based on the current active studies, expectations are slated to remain negative again on Monday. Of course this could change if new bullish evidence emerges. The Differential Pivot will be 1932.83 on Monday. That is 0.9% below Friday's close. So for SPX to move to an oversold state it would have to close down quite a bit on Monday.

The Aggregator is suggesting a bit of a downside edge. And with a fair amount of room to the south before the market would get oversold again, risk/reward appears pretty good for a short trade. I'm generally cautious about shorting against 1) the long-term trend, 2) a QE Buying Power Index locked at five, and 3) against my intermediate-term outlook. But with risk/reward looking pretty good here, I will look to take on a small short position IF I can get a favorable entry on Monday. Therefore, I will be looking for either a large gap up or a substantial close higher in order to get short.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/9– slightly bullish
It was another up week and more all-time highs for the SPX. The trend is clearly still up. And there was even a bullish intermediate-term study that triggered.

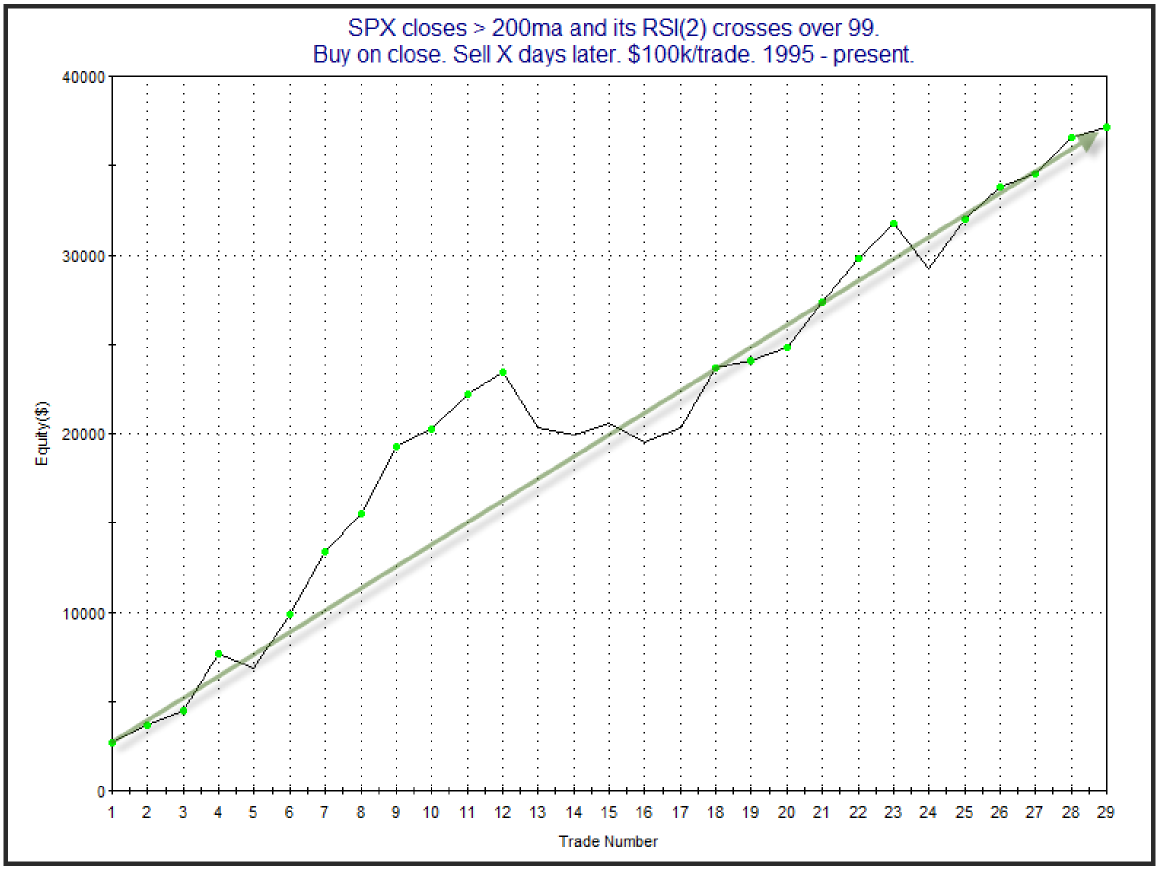
When the market starts to get short-term overbought we often see studies pop up that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges dwindle. And rather than strength leading to weakness the strength will often beget more strength. The study below exemplifies the kind of extreme short-term overbought scenario we now find ourselves in.

SPX closes > 200ma and its RSI(2) crosses over 99.
Buy on close. Sell X days later. $100k/trade. 1995 - 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
15	37,180.41	29	24	5	82.76	1,881.97	3,782.11	-1,597.39	-3,063.60	1.18	5.66	1,282.08
14	30,370.18	29	22	7	75.86	1,852.90	4,461.36	-1,484.79	-2,699.52	1.25	3.92	1,047.25
13	29,460.23	30	24	6	80.00	1,677.22	3,989.82	-1,798.84	-3,320.01	0.93	3.73	982.01
12	27,936.42	30	23	7	76.67	1,628.30	4,058.61	-1,359.21	-3,175.53	1.20	3.94	931.21
11	28,893.44	30	23	7	76.67	1,697.23	4,106.40	-1,448.99	-2,523.21	1.17	3.85	963.11
10	23,854.28	31	22	9	70.97	1,643.84	3,770.55	-1,367.79	-2,793.28	1.20	2.94	769.49
9	19,822.07	31	21	10	67.74	1,513.79	3,453.27	-1,196.74	-3,440.07	1.26	2.66	639.42
8	21,769.56	31	20	11	64.52	1,616.64	3,547.80	-960.29	-3,460.32	1.68	3.06	702.24
7	15,098.32	32	19	13	59.38	1,415.65	3,564.39	-907.62	-4,153.62	1.56	2.28	471.82
6	6,875.73	32	19	13	59.38	1,168.05	2,634.36	-1,178.25	-5,296.92	0.99	1.45	214.87
5	3,517.91	32	21	11	65.63	857.92	1,782.39	-1,318.04	-3,596.40	0.65	1.24	109.93
4	3,952.47	32	22	10	68.75	836.89	2,442.90	-1,445.92	-3,039.18	0.58	1.27	123.51
3	-1,140.66	33	20	13	60.61	749.50	1,982.20	-1,240.82	-2,880.45	0.60	0.93	-34.57
2	-712.72	33	18	15	54.55	694.07	1,998.39	-880.39	-2,348.76	0.79	0.95	-21.60
1	1,076.19	33	17	16	51.52	601.15	2,096.10	-571.46	-3,515.37	1.05	1.12	32.61

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.

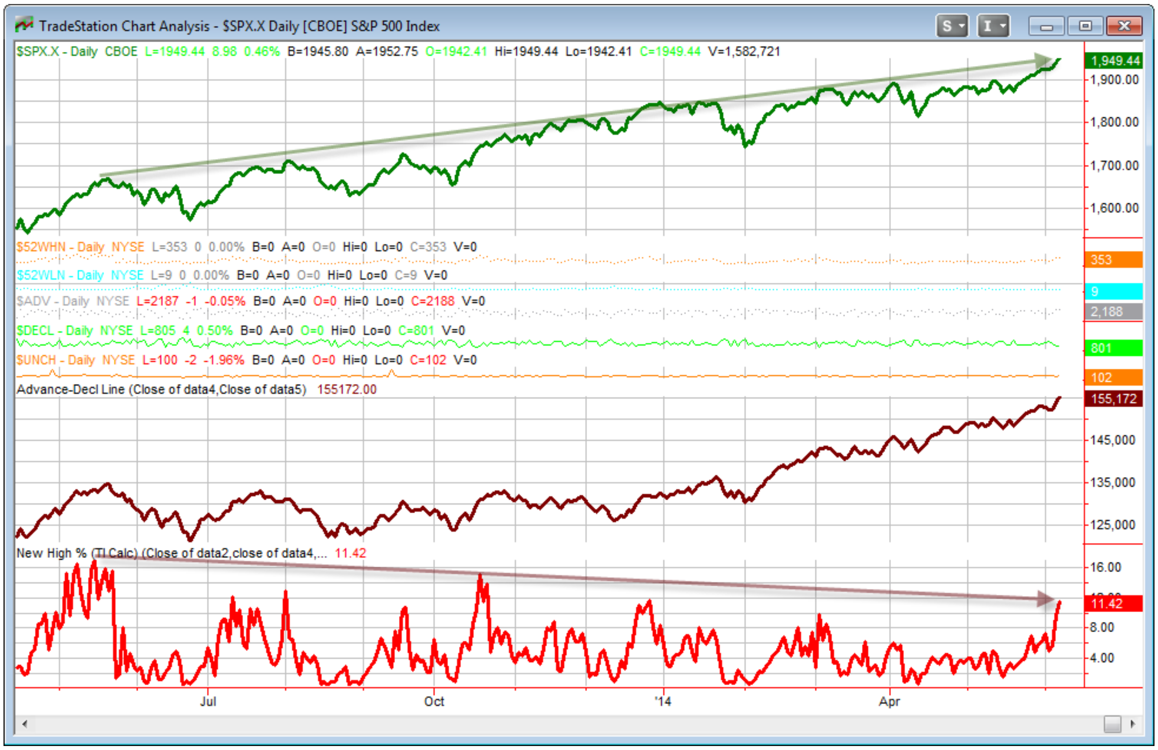
Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952



The upside edge has been apparent for a while and still appears to be intact. Obviously this study does not help us with the short-term, but I have added it as an intermediate-term study.

The new closing high on Friday in the S&P 500 was accompanied by a few more stocks hitting 52-week highs than we have seen in a while. But it is still substantially below the peak seen in May 2013. This divergence is still a bit of a concern. The chart below can also be found on the QE charts page.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952



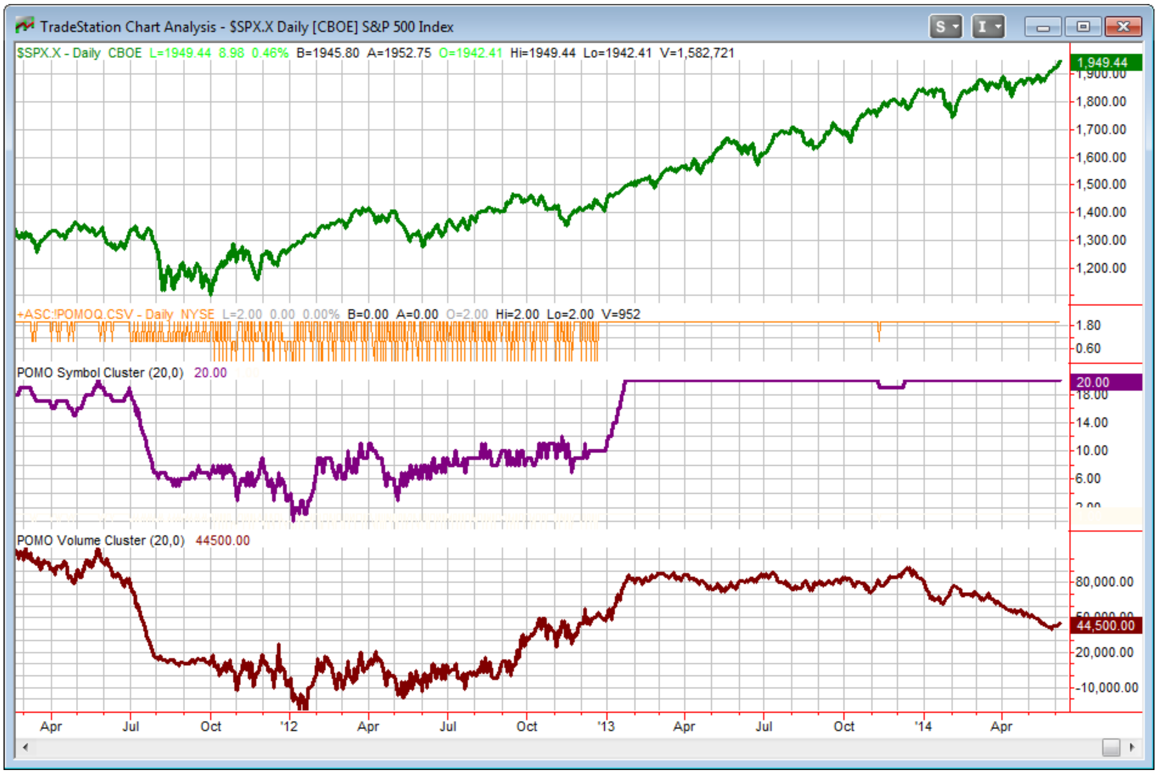
I won't repeat all my comments from last week. Subscribers that would like more info on this chart should check out the Study of Tops (available for Gold & Silver subscribers on the special reports downloads page). Until this divergence is resolved with new highs increasing beyond the May 2013 level, the market remains at risk of topping out. If the divergence is resolved, then it would be highly unlikely that the market would top out and begin a major decline any time in the next couple of months.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days. Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS days indicator is still riding along at 20, where it spent most of 2013 and 2014 so far. The volume indicator is about where it was last week. It should continue to move sideways during June. We estimate net inflows this past week to have been a little under $11 billion. That is about what we are expecting for each week this month, as there is not likely to be big swings in buying amounts based on the schedule. To this point the reduced liquidity has still been positive enough to provide a decent wind at the market's back. At some point I expect the reduced inflows will take their toll, but we may need to see further reduction before this happens.

So liquidity appears ample, though declining. The leading NASDAQ is now providing is a plus, and the uptrend is certainly intact. Tonight's RSI(2) > 99 study is providing further fuel for the bulls over the next few weeks. The bears are banking on the shrinking New High % divergence and the weak seasonality. With the new RSI study tilting the evidence bullish I moved my outlook from neutral to slightly bullish. I will look to trade longs a bit more aggressively than shorts for the time being.

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.

SPY – short ¼ index position @ $196.00 LIMIT ON OPEN. If not filled, cancel order and look to short @ $196.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on a small amount of short exposure if SPY gaps up strongly or closes up at >= $196.00

Current Open Trade Ideas

None.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952