

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 11, 2014

Volume 7 Issue 111

Market Overview



Signals Overview

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

Tonight's Research Points

- When an overbought market pulled back as little as it did today, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.
- Tuesday's mild up close near the top of its range suggests a bearish 1-day edge.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. I am not seeing a strong edge here and intend to sit out and see what occurs on Wednesday.

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 11, 2014	SPX down. RSI(2) > 90	1-2 days	Bullish	
June 10, 2014	VIX up. SPX 50-day high.	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	

The Evidence

Tuesday was a mixed session as the indices mostly closed near breakeven. The SPX fell less than 1 point while the NASDAQ gained a mere 0.04% and the Russell 2000 rallied 0.3%. Breadth was somewhat weak as the NYSE Up Issues % came in at 41% and the Up Volume % was 49%. Total NYSE volume declined again and was very light.

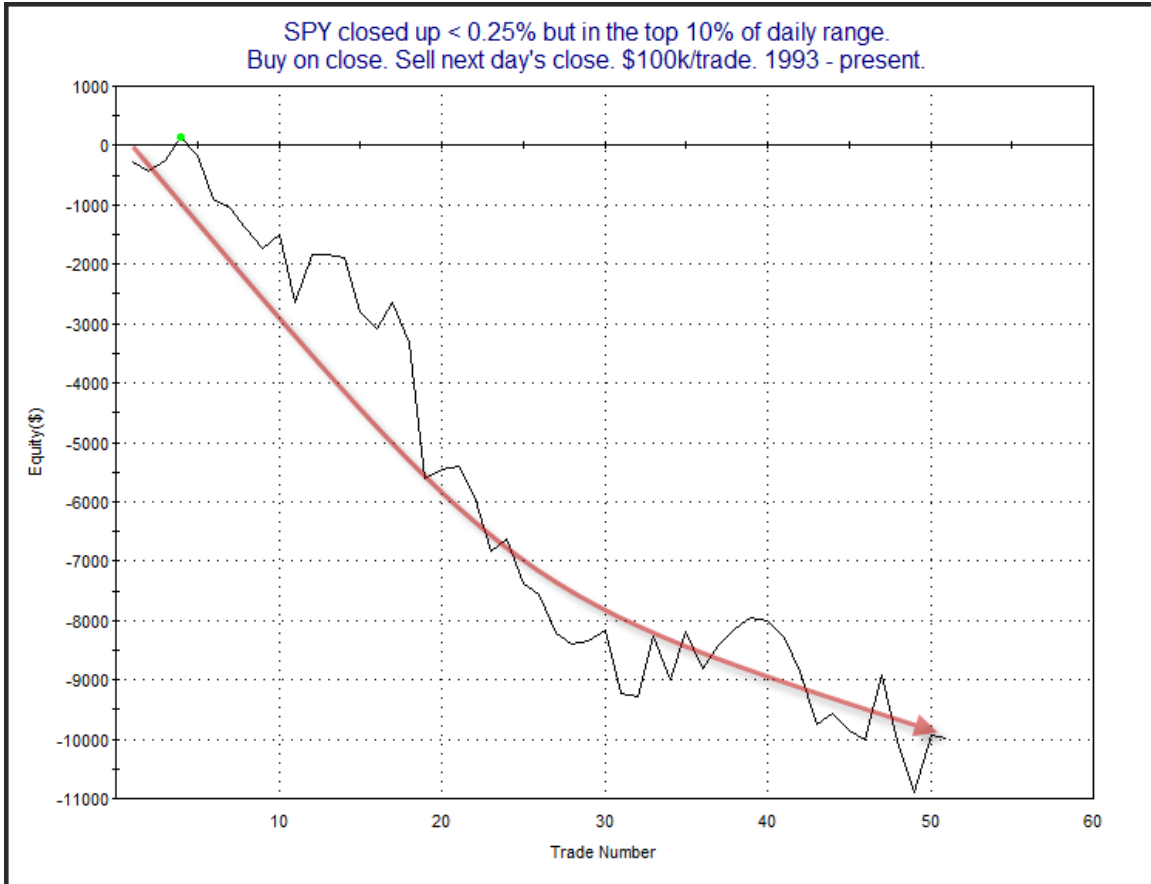
While SPX closed down slightly, SPY closed up slightly. This created some crosscurrents in the studies.

The first study was last seen last month 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 closed 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	(\$9,983.08)	Profit Factor	0.44
Gross Profit	\$7,710.00	Gross Loss	(\$17,693.08)
Total Number of Trades	51	Percent Profitable	37.25%
Winning Trades	19	Losing Trades	32
Even Trades	0		
Avg. Trade Net Profit	(\$195.75)	Ratio Avg. Win:Avg. Loss	0.73
Avg. Winning Trade	\$405.79	Avg. Losing Trade	(\$552.91)
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.



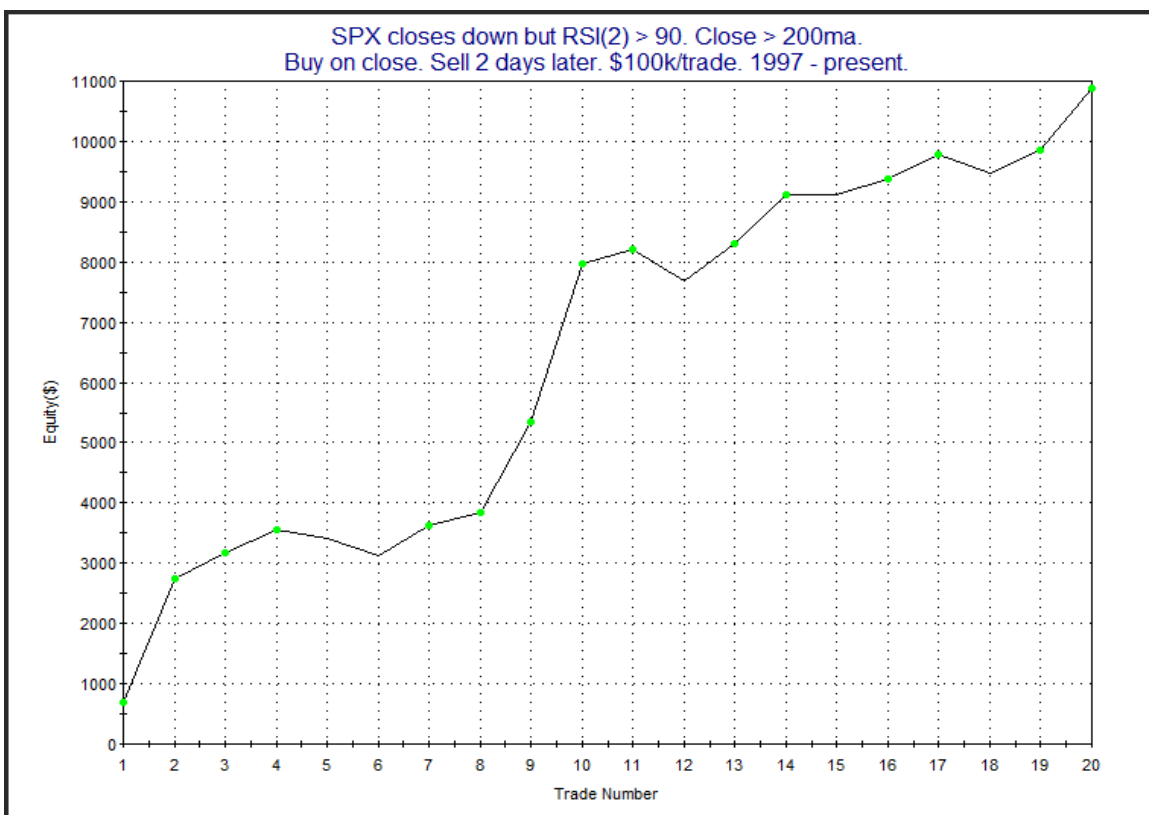
It appears that when the market needs to expend a fair amount of energy just to squeak out a small gain, that its lack of momentum is often followed by a swing back in the opposite direction the next day. The bearish edge here too may be waning a bit, but I have included this study on the Active List for tonight.

But not everything favored the bears. The recent string of positive closes has most oscillators strongly overbought short-term. With such a small decline on Wednesday the SPX is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a very sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Tuesday. It therefore triggered the below study from the 2/13/14 letter, which I have updated.

SPX closes down but RSI(2) > 90. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1997 - present.

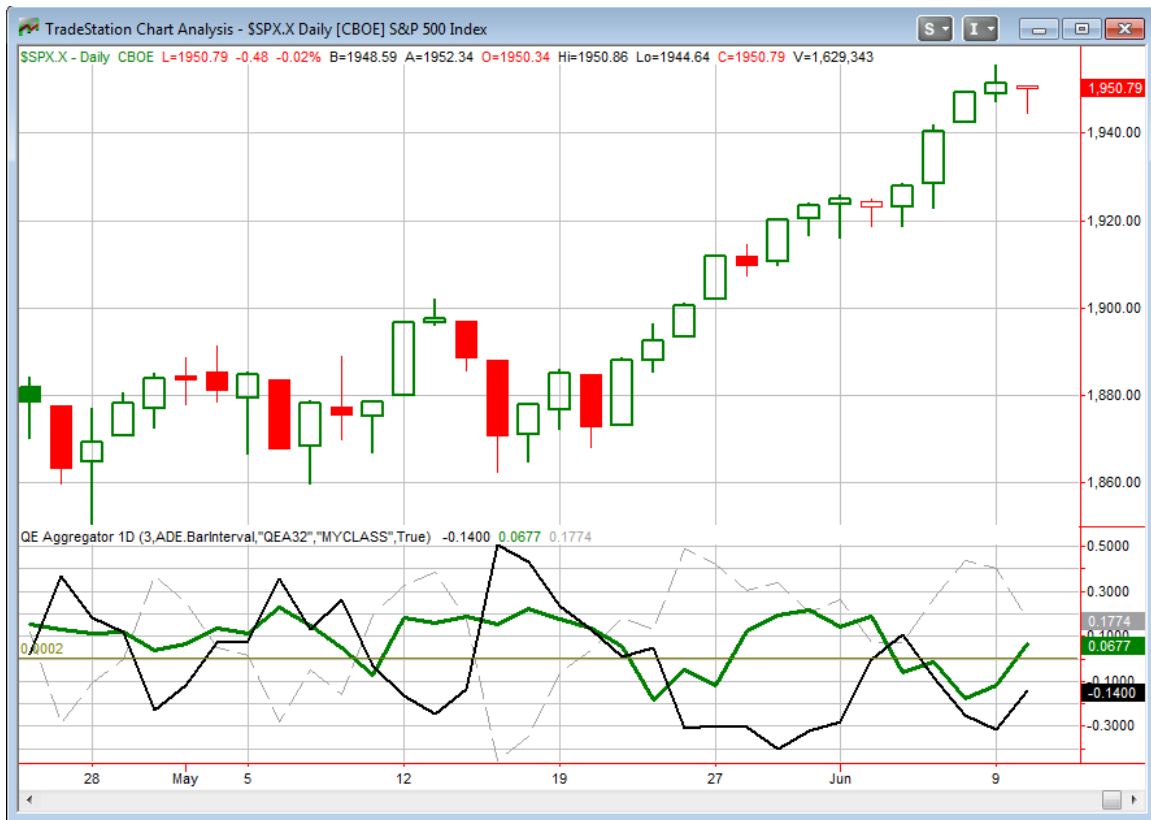
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	3,237.04	18	7	11	38.89	1,676.86	4,121.28	-772.81	-2,008.73	2.17	1.38	179.84
4	4,696.79	19	10	9	52.63	1,138.55	3,806.46	-743.18	-1,717.70	1.53	1.70	247.20
3	10,587.79	20	12	8	60.00	1,140.83	2,923.44	-387.78	-1,123.50	2.94	4.41	529.39
2	10,890.17	20	15	5	75.00	811.94	2,619.76	-257.80	-525.07	3.15	9.45	544.51
1	5,412.08	20	15	5	75.00	468.01	2,310.88	-321.61	-704.76	1.46	4.37	270.60

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



Results here are impressive. I have added this study to the Active List.

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



With tonight's studies included the green Aggregator Line crossed back 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 still below 0. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the SPX is overbought versus expectations. 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 turned flat at the close.

Based on the current active studies, expectations are slated to remain positive again on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 1944.55 on Wednesday. That is 0.3% below Tuesday's close. So for SPX to move to an oversold state it would have to close down at least this much on Wednesday.

So the Aggregator is back to neutral. And really we seem to be in a market that is not providing a substantial short-term directional edge. Tuesday's pseudo-pullback is not nearly enough to work off any overbought condition. And until that happens I am not inclined to take a long position. And of course shorting is not an option without the evidence pointing that way. So I'll continue to sit another day and see what emerges on Wednesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/9– slightly bullish

The intermediate-term outlook was last updated in the 6/9/14 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

Current Open Trade Ideas

None.

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