

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 13, 2014

Volume 7 Issue 113

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- 2 unfilled down gaps under similar circumstances has commonly been followed by a bounce over the next few days.
- SPY has closed at a 5-day low for the 1st time in over 2 weeks. This suggests a short-term upside edge.
- System 11111 is set up for SPY – which has led to short-term bounces in the past.

Short-term Outlook

The Bottom Line

Bullish evidence emerged on Thursday and the SPX is now squarely oversold. I like the long side and am looking to take advantage of an anticipated bounce.

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 13, 2014	Unfilled gap dn 2 days in row > 200	1-5 days	Bullish	
June 13, 2014	1st 5-day low close in > 10 days	1-4 days	Bullish	
June 13, 2014	System 11111	1-4 days	Bullish	
Active - Long Term				
June 13, 2014	Unfilled gap dn 2 days in row > 200	1-10 days	Bullish	
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 11, 2014	SPX down. RSI(2) > 90	1-2 days	Bullish	

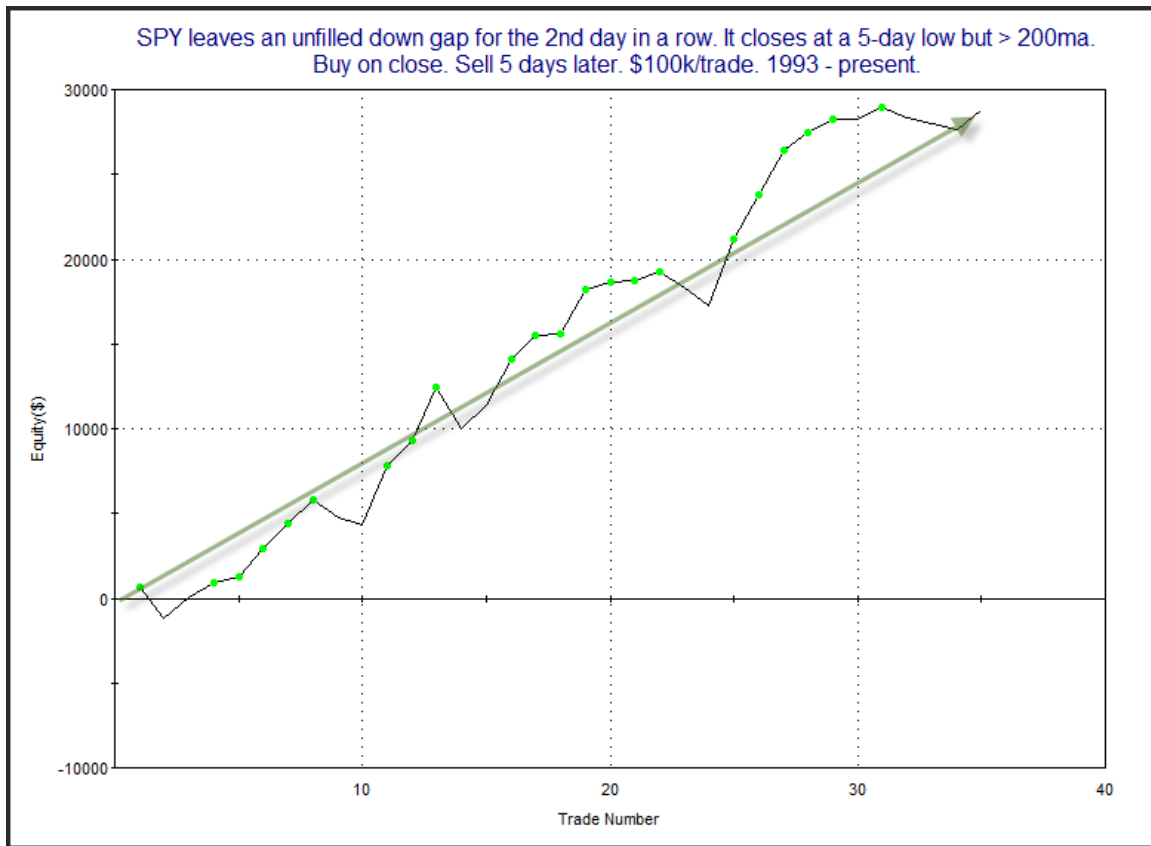
The Evidence

The market declined quite a bit on Thursday. The SPX fell 0.7%, the NASDAQ lost 0.8% and the Russell 2000 dropped 0.6%. Breadth was weak as the NYSE Up Issues % came in at 39% and the Up Volume % was 29%. Total NYSE volume spiked a bit from Wednesday's level.

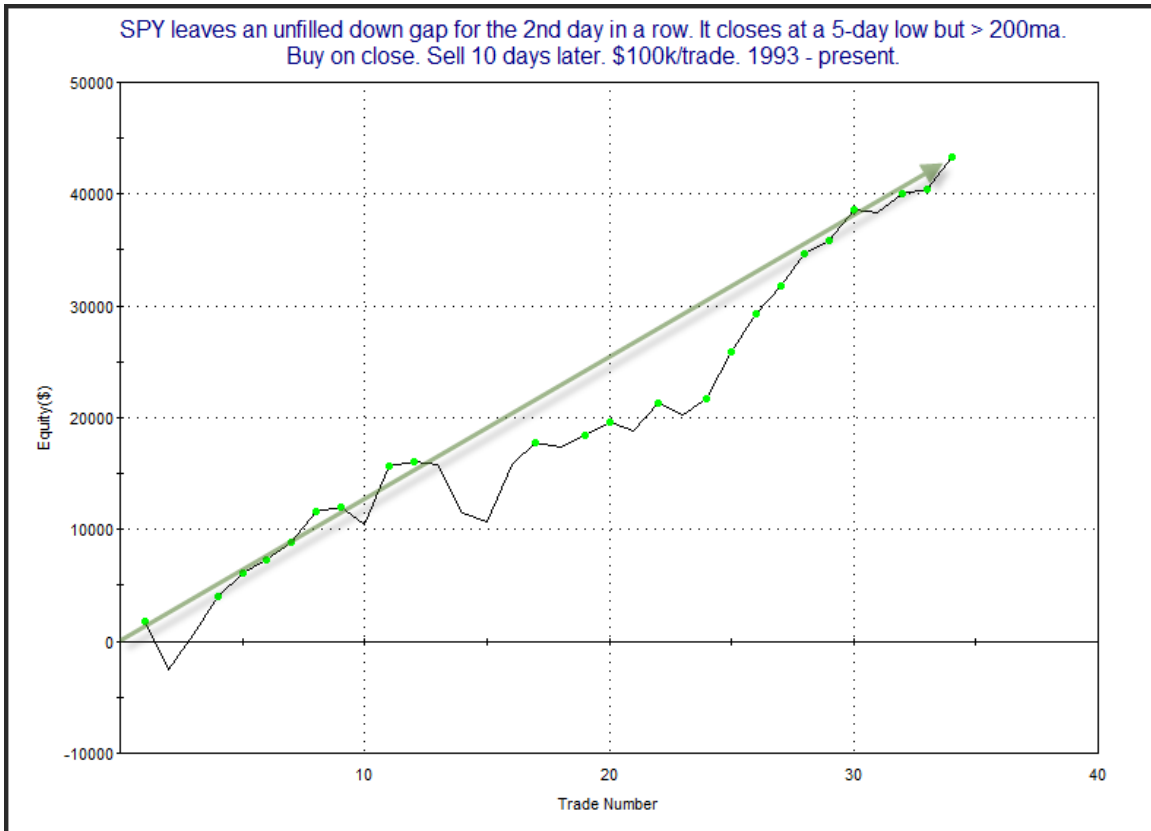
Notable about the price action over the last 2 days is that both Wednesday and Thursday SPY posted unfilled gaps down – never reaching breakeven at any point during the day. This helped trigger the study below, which I last featured in the 5/16/14 letter. Results are updated.

SPY leaves an unfilled down gap for the 2nd day in a row. It closes at a 5-day low but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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
10	43,277.05	34	25	9	73.53	2,286.82	5,325.39	-1,543.73	-4,353.36	1.48	4.11	1,272.85
9	39,744.92	35	28	7	80.00	2,054.38	4,882.41	-2,539.69	-6,273.96	0.81	3.24	1,135.57
8	33,124.65	35	25	9	71.43	2,044.12	4,574.25	-1,997.60	-4,801.50	1.02	2.84	946.42
7	22,169.36	35	24	10	68.57	1,937.90	4,429.74	-2,434.02	-5,057.58	0.80	1.91	633.41
6	27,686.88	35	26	9	74.29	1,642.39	3,828.72	-1,668.36	-3,734.50	0.98	2.84	791.05
5	28,776.81	35	25	10	71.43	1,518.50	3,940.02	-918.56	-2,465.95	1.65	4.13	822.19
4	23,153.98	35	27	8	77.14	1,157.48	4,388.28	-1,012.26	-1,920.60	1.14	3.86	661.54
3	12,205.09	35	21	14	60.00	1,050.05	3,325.14	-703.29	-1,645.38	1.49	2.24	348.72
2	8,015.28	35	21	14	60.00	904.72	2,948.14	-784.56	-2,436.12	1.15	1.73	229.01
1	3,921.92	36	21	15	58.33	706.09	1,974.15	-727.06	-1,849.26	0.97	1.36	108.94
Only one instance failed to close above the entry price at some point in the next 6 days. It triggered on 9/14/99.												

The numbers appear to suggest a strong tendency for a bounce in the next few days. Below is the profit curve assuming a 5-day holding period.



The solid upslope acts as confirmation of the bullish edge. Since the 10-day numbers were also strong I ran a profit curve for that as well.



This is also very strong. I have included this study on both the Short and Intermediate-term Active Lists tonight.

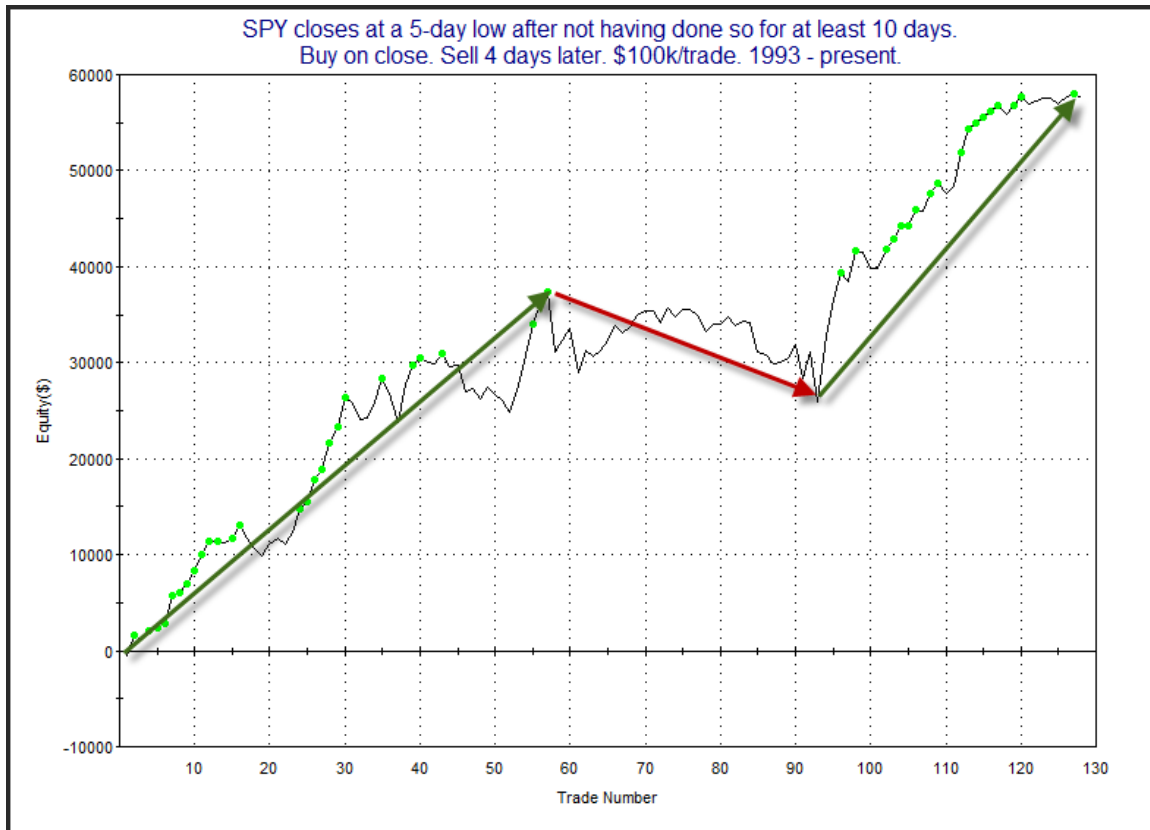
The 5-day low close was actually the 1st time SPY has done that in nearly 4 weeks. In the 3/12/14 subscriber letter I showed a study that examined results when the SPY closed at a 5-day low for the 1st time in over 2 weeks. I have updated that study below.

SPY closes at a 5-day low after not having done so for at least 10 days.
Buy on close. Sell X days later. \$100k/trade. 1993 - 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	44,568.66	128	79	48	61.72	1,509.37	6,103.89	-1,555.66	-4,906.44	0.97	1.60	348.19
4	57,593.29	128	84	44	65.63	1,373.02	6,941.43	-1,312.29	-6,244.56	1.05	2.00	449.95
3	35,229.17	128	77	51	60.16	1,249.65	5,888.16	-1,195.96	-5,295.84	1.04	1.58	275.23
2	20,108.91	128	70	57	54.69	1,084.98	3,809.72	-979.64	-3,737.28	1.11	1.36	157.10
1	12,983.24	128	70	58	54.69	816.31	2,812.20	-761.35	-3,909.03	1.07	1.29	101.43

111 of 128 instances (87%) closed above the entry price at some point in the next week.

Results here suggest a moderate upside edge. With the 4-day exit appearing to be compelling from a % Profitable, Avg Trade, and Profit Factor standpoint I ran an equity curve with it.



After showing a pretty consistent upside edge for nearly 60 instances, it chopped a bit. Over the last 35 trades or so the edge seems to have reasserted itself. The lesson with this study seems to be that persistent uptrends normally wither before they die, rather than turn on a dime.

It is also notable that SPY is now set up to trigger QE numbered system 11111 on Friday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. I last noted this in the 12/4/13 Letter. Below are the updated stats.

SPY system 11111.
\$100k/trade. \$0.01/share commission. 1994 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$9,946.54	Profit Factor	28.40
Gross Profit	\$10,309.59	Gross Loss	(\$363.05)
Total Number of Trades	13	Percent Profitable	92.31%
Winning Trades	12	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$765.12	Ratio Avg. Win:Avg. Loss	2.37
Avg. Winning Trade	\$859.13	Avg. Losing Trade	(\$363.05)
Largest Winning Trade	\$2,442.40	Largest Losing Trade	(\$363.05)

There have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. Below is the list of hypothetical trades.

SPY system 11111.
\$100k/trade. \$0.01/share commission. 1994 - present.

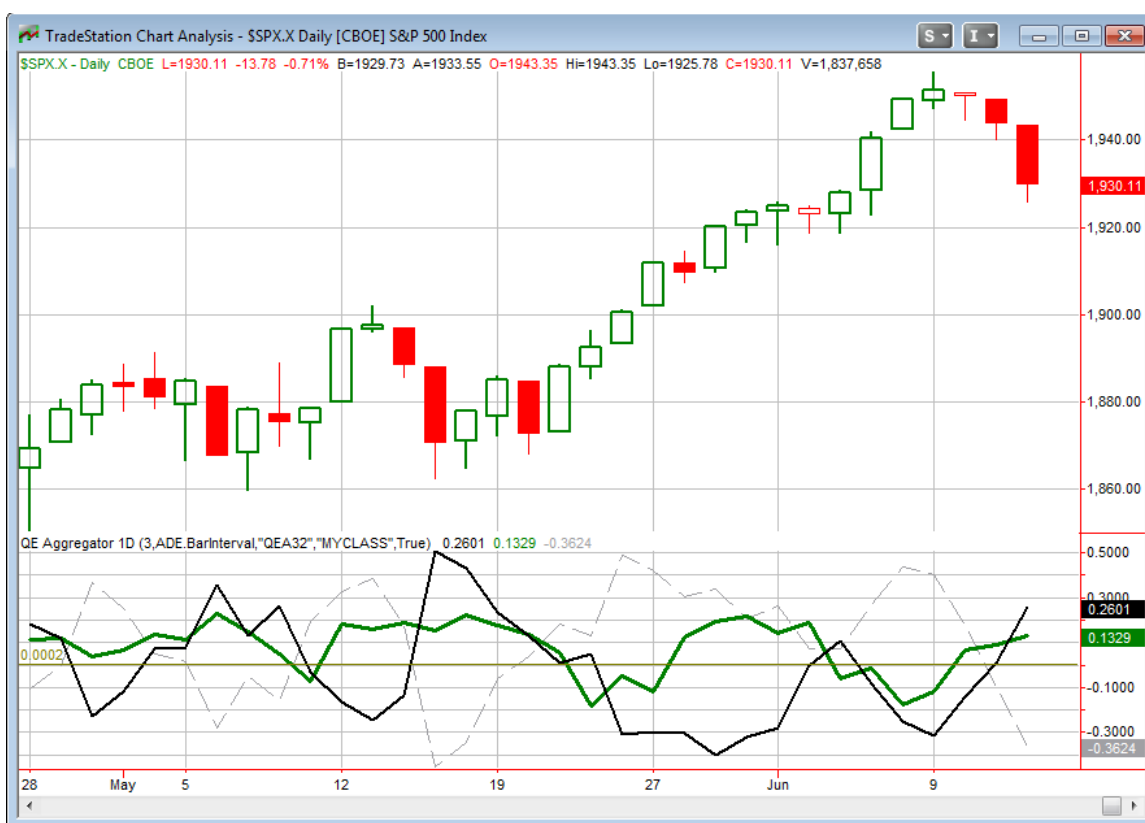
Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/06/94	Buy	\$47.25	0.53%	\$655.03
09/08/94	Sell	\$47.50		(\$253.56)
04/03/95	Buy	\$50.12	0.58%	\$877.80
04/04/95	Sell	\$50.41		(\$99.75)
05/19/95	Buy	\$51.98	1.33%	\$1,468.39
05/22/95	Sell	\$52.67		(\$114.42)
02/16/96	Buy	\$65.06	0.06%	\$275.94
02/21/96	Sell	\$65.10		(\$1,808.94)
10/01/96	Buy	\$68.59	0.57%	\$670.22
10/01/96	Sell	\$68.98		(\$218.55)
12/04/96	Buy	\$74.83	0.73%	\$788.24
12/09/96	Sell	\$75.38		(\$2,899.12)
11/24/99	Buy	\$140.75	0.36%	\$1,508.04
12/02/99	Sell	\$141.25		(\$1,239.00)
11/02/06	Buy	\$136.51	1.15%	\$1,292.10
11/06/06	Sell	\$138.08		(\$226.30)
09/01/09	Buy	\$101.95	0.11%	\$1,257.75
09/04/09	Sell	\$102.06		(\$2,320.50)
03/23/12	Buy	\$139.20	1.73%	\$1,730.38
03/26/12	Sell	\$141.61		(\$466.70)
08/24/12	Buy	\$140.31	2.47%	\$2,463.70
09/06/12	Sell	\$143.77		(\$127.80)
09/24/12	Buy	\$145.15	(0.35%)	\$746.65
09/27/12	Sell	\$144.64		(\$1,507.00)
12/04/13	Buy	\$179.10	1.03%	\$1,117.56
12/06/13	Sell	\$180.94		(\$417.00)

Avg bars in trades: 3.5

The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator as well. Subscribers may find a link to system the 11111 page below:

<http://quantifiableedges.com/system-11111/>

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



The bullish studies tonight helped the green Aggregator Line move further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also moved higher above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is oversold versus expectations. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore the Aggregator signal stayed long at the close.

With all the short-term studies currently bullish, expectations are set to remain bullish again on Friday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 1946.28 on Friday. That is 0.8% above Thursday's close. So for SPX to move back to overbought it will need to close up at least this much.

The Aggregator is suggesting an upside edge. I think it is one worth looking to take advantage of at this point. Evidence stacked up quickly on Thursday, and there is now ample room to the upside to provide a nice risk/reward scenario. I intend to begin scaling in to a long index position.

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

New

MDLZ @ \$37.31 - buy 1/3 at \$37.31 limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(MDLZ)

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 – buy ¼ index position @ \$193.54 LIMIT. Based on the short-term outlook. I am looking to begin scaling into a long position.

MDLZ – buy 1/3 Catapult position @ \$37.31 LIMIT. This is a Catapult trade from the Catapult & CBI section above. More info on Catapults may be found on the Catapult System page on the website.

<http://quantifiableedges.com/catapult-system/>

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.