

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 17, 2014

Volume 7 Issue 115

Market Overview



Signals Overview

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

Tonight's Research Points

- A 2-day rise in SPY that fails to make up the losses of the previous day has often been followed by more short-term buying when the market has been in an uptrend.

Short-term Outlook

The Bottom Line

There still appears to be more left in this bounce. I am partially long and will look to get longer if SPY finishes weak on Tuesday. A strong finish will lead me to take profits.

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 17, 2014	SPY up 2 days but < 3 ago. Close > 200	1-2 days	Bullish	
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	

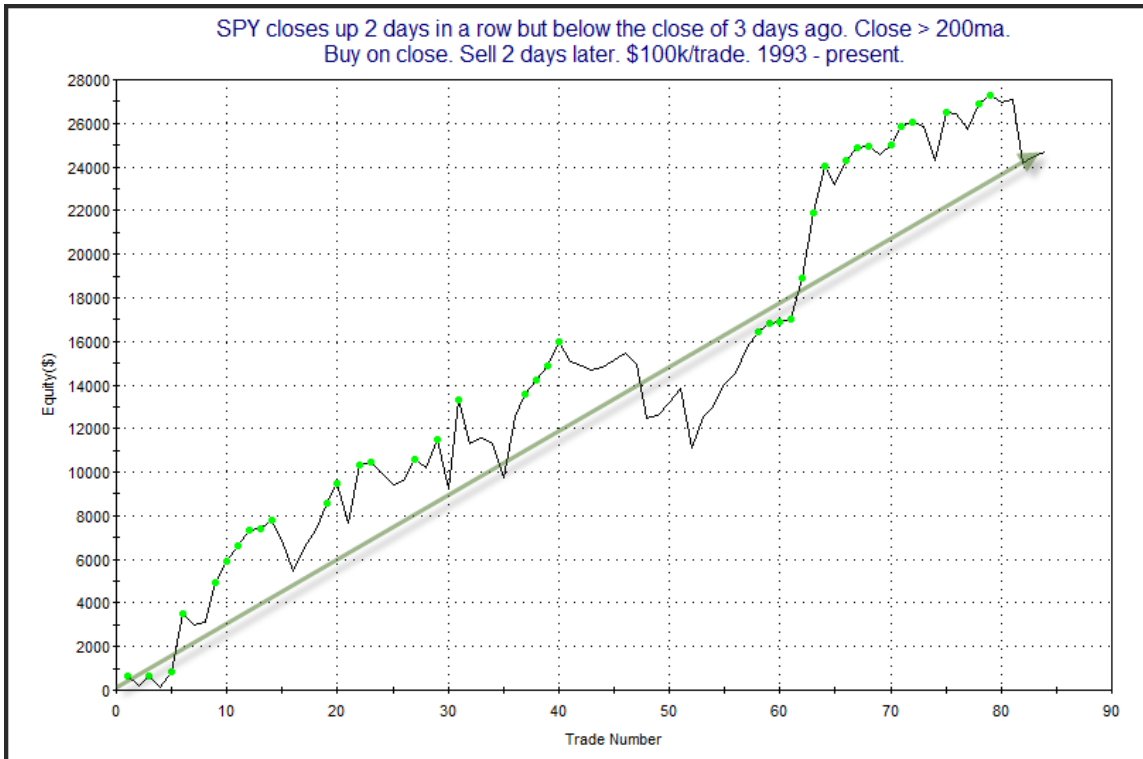
The Evidence

The bounce continued on Monday, but not in a big way. The SPX gained 0.1%, the NASDAQ closed up 0.2% and the Russell 2000 rose 0.4%. Breadth was very slightly negative as the NYSE Up Issues % came in at 49% and the Up Volume % was 48%. Total NYSE volume rose just a little from Friday's level.

Not much emerged of great interest. There was a bullish price action-based study though. It was last seen in the 4/30/14 Letter. It looked at times that SPY bounced up 2 days in a row but still failed to close above the close of 3 days ago. I have updated the study below.

SPY closes up 2 days in a row but below the close of 3 days ago. Close > 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
5	16,000.65	82	48	33	58.54	1,493.69	4,717.70	-1,687.77	-6,549.84	0.89	1.29	195.13
4	19,531.85	83	53	30	63.86	1,328.99	4,698.60	-1,696.81	-4,384.89	0.78	1.38	235.32
3	13,567.83	84	51	33	60.71	1,214.23	3,000.00	-1,465.39	-4,092.24	0.83	1.28	161.52
2	24,691.56	84	57	27	67.86	908.69	4,088.25	-1,003.84	-2,932.22	0.91	1.91	293.95
1	5,804.91	84	47	35	55.95	627.72	3,732.75	-677.08	-1,777.90	0.93	1.24	69.11

The stats appear to suggest a bit of an upside edge over the 1st 2 days. Below is an equity curve using a 2-day exit strategy.



There have been a few dips in the curve but overall it seems good enough to include the study on the Active List.

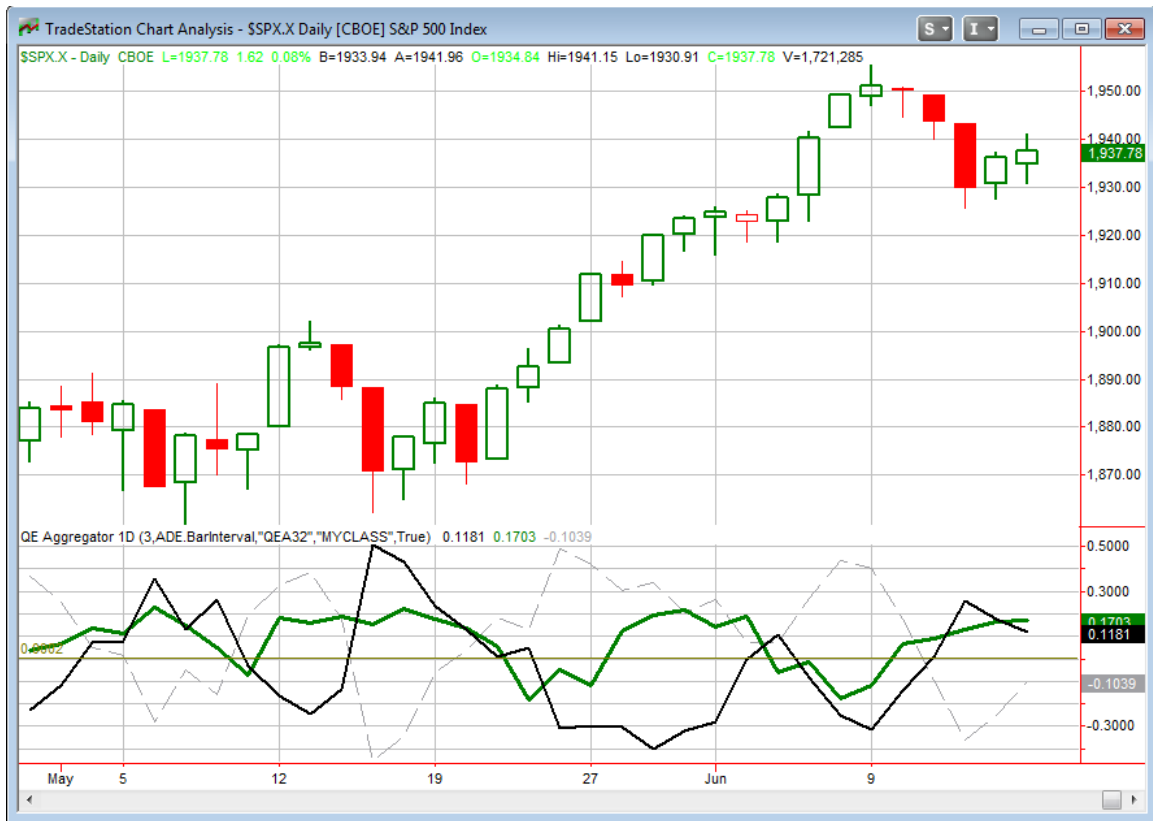
To see the importance of the “close < 3 days ago” filter let’s also examine those times when the 2-day rally *was* strong enough to close above the close of 3 days ago. Those results are below.

SPY closes up 2 days in a row and \geq the close of 3 days ago. Close > 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
5	38,390.94	442	251	191	56.79	1,304.38	5,470.88	-1,513.14	-8,618.72	0.86	1.13	86.86
4	32,367.28	489	271	214	55.42	1,187.89	4,985.56	-1,353.05	-12,608.53	0.88	1.11	66.19
3	48,407.06	562	334	226	59.43	941.88	4,431.45	-1,177.79	-5,587.56	0.80	1.18	86.13
2	33,147.55	662	374	284	56.50	779.55	3,949.33	-909.87	-5,249.75	0.86	1.13	50.07
1	31,776.47	1,022	540	471	52.84	542.46	2,922.95	-554.47	-3,686.32	0.98	1.12	31.09

As you can see, that small change makes a big difference. Two days out total net profit is about the same despite the fact that there are about 5 times as many instances. And the profit curves look more like drift than any consistent edge.

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



Tonight's bullish study did not move the green Aggregator Line much, as it 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 also remained 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 Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted* at 1935.75 on Tuesday. That is 0.1% *below* Monday's close. An inverted pivot means that the Differential Line will cross though 0 if SPX

closes flat. In this case it means that SPX will need to decline more than 0.1% in order to remain oversold. Otherwise it will be considered “overbought” versus recent expectations.

Despite 2 up days there appears to remain a little more room for price to rise. Also worth noting is the fact that Wednesday is a Fed Day. Last night I showed in detail that the worse Tuesday closes, the brighter the outlook for Wednesday. Those that would like a refresher may refer to the 6/16/14 Letter on [the Archives Page](#) (gold subscribers only).

I normally view inverted pivots as good times to take profits, because upside is limited. So I will look to exit my SPY position if SPY gaps up substantially on Tuesday. But thanks to the bullish Aggregator along with the upcoming Fed Day Wednesday I will also be in the market to add another lot of SPY if it closes weakly.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/16 – slightly bullish

The intermediate-term outlook was last updated in the 6/16/14 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

MDLZ @ \$37.31 - bought 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 at \$193.75 LIMIT ON CLOSE IF SPY ALSO CLOSES IN BOTTOM ½ OF INTRADAY RANGE. Based on the short-term outlook above. If filled, I will be looking to take a quick exit on this one and will likely sell prior to Wednesday’s Fed announcement.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/13/2014	\$193.54	\$194.29	0.39%		Aggregator
MDLZ(1/3)	6/13/2014	\$37.31	\$37.25	-0.16%		Catapult

With the inverted pivot I will look to sell SPY at the open if it opens \geq \$195.00. Also, I will sell SPY at the close if it closes \geq \$194.20 and in the top half of its daily range.

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