

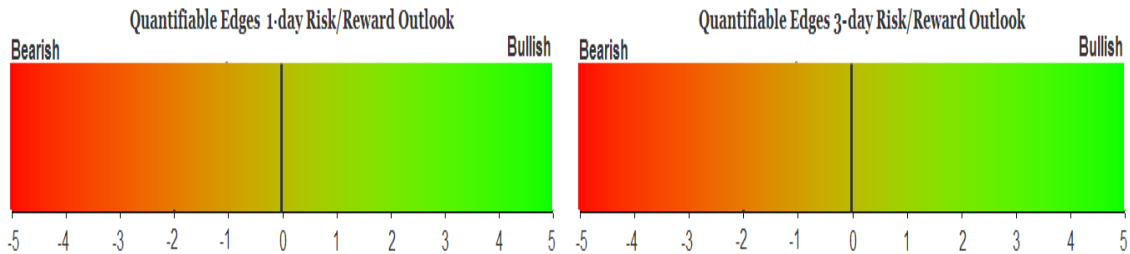
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 18, 2014

Volume 7 Issue 116

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Fed Days are generally bullish, though this one does not appear to have as strong of an upside edge as most.

## *Short-term Outlook*

### *The Bottom Line*

Three up days has SPX now short-term overbought. So although evidence still points higher, risk/reward is no longer very good. Therefore, I am neutral on the outlook.

**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
June 18, 2014	Fed Day	1 day	Bullish	
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	
<b>Active - Long Term</b>				
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 market posted gains for the 3<sup>rd</sup> day in a row on Tuesday. The SPX gained 0.2%, the NASDAQ closed up 0.4% and the Russell 2000 rose 0.8%. Breadth was positive as the NYSE Up Issues % came in at 61% and the Up Volume % was 67%. Total NYSE volume rose just a little from Monday's level.

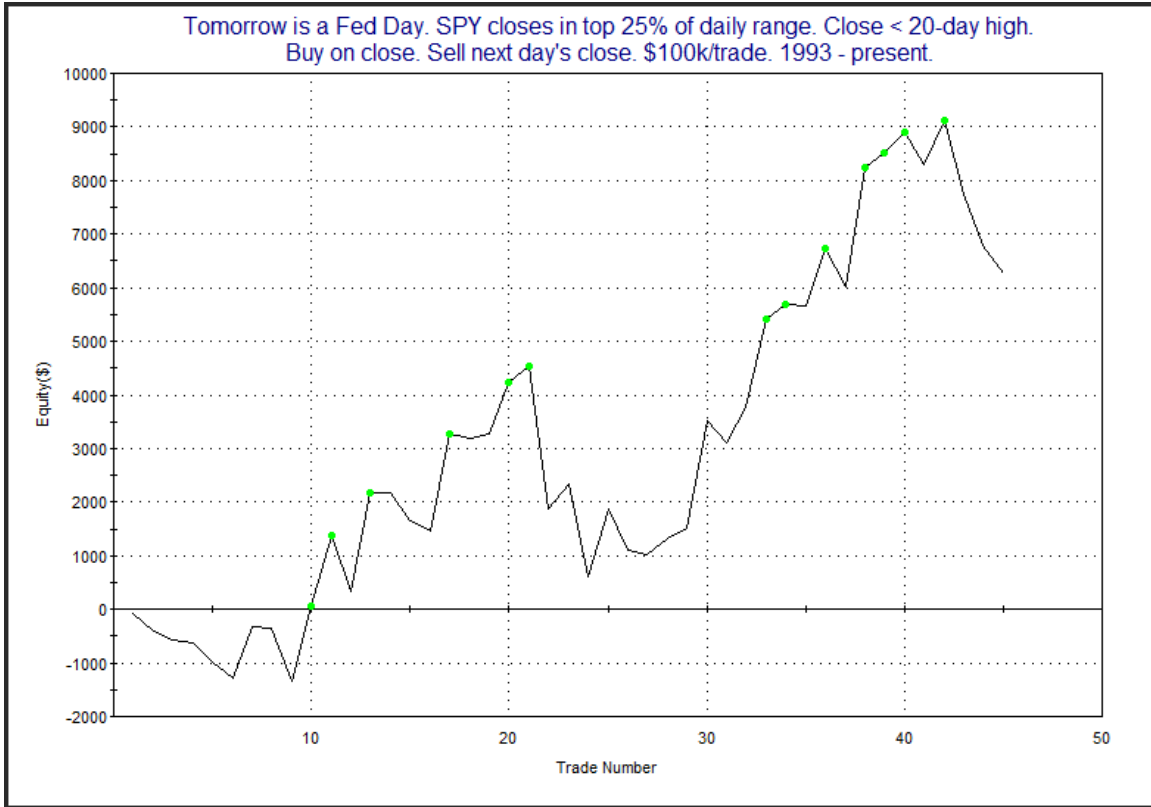
In Sunday night's letter I showed that the lower in the daily range that SPY closes on the day before a Fed Day, the greater the upside edge for the Fed Day. On Tuesday SPY closed strongly, meaning the upside Fed Day edge was reduced. Below is the study I showed Sunday night that looked at closes in the top quartile.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>				
<b>All Trades</b>				
Total Net Profit	\$7,188.50	Profit Factor		1.32
Gross Profit	\$29,338.01	Gross Loss		(\$22,149.51)
Total Number of Trades	68	Percent Profitable		47.06%
Winning Trades	32	Losing Trades		34
Even Trades	2			
Avg. Trade Net Profit	\$105.71	Ratio Avg. Win:Avg. Loss		1.41
Avg. Winning Trade	\$916.81	Avg. Losing Trade		(\$651.46)
Largest Winning Trade	\$2,238.25	Largest Losing Trade		(\$2,739.69)

I've shown in the past that the upside Fed Day has not held over the years when the market has closed at an intermediate term high the day before. Today we did not close at a 20 day high. The study below, from the 1/29/14 letter combines this concept with the one from the first study. Results are updated.

TradeStation Performance Summary <span style="float: right;">Collapse </span>			
All Trades			
Total Net Profit	\$6,258.67	Profit Factor	1.45
Gross Profit	\$20,273.24	Gross Loss	(\$14,014.57)
Total Number of Trades	45	Percent Profitable	46.67%
Winning Trades	21	Losing Trades	23
Even Trades	1		
Avg. Trade Net Profit	\$139.08	Ratio Avg. Win:Avg. Loss	1.58
Avg. Winning Trade	\$965.39	Avg. Losing Trade	(\$609.33)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,683.80)

The average win to loss ratio isn't bad but the winning percentage is below breakeven. Below is a profit curve showing how the trades have played out over time.



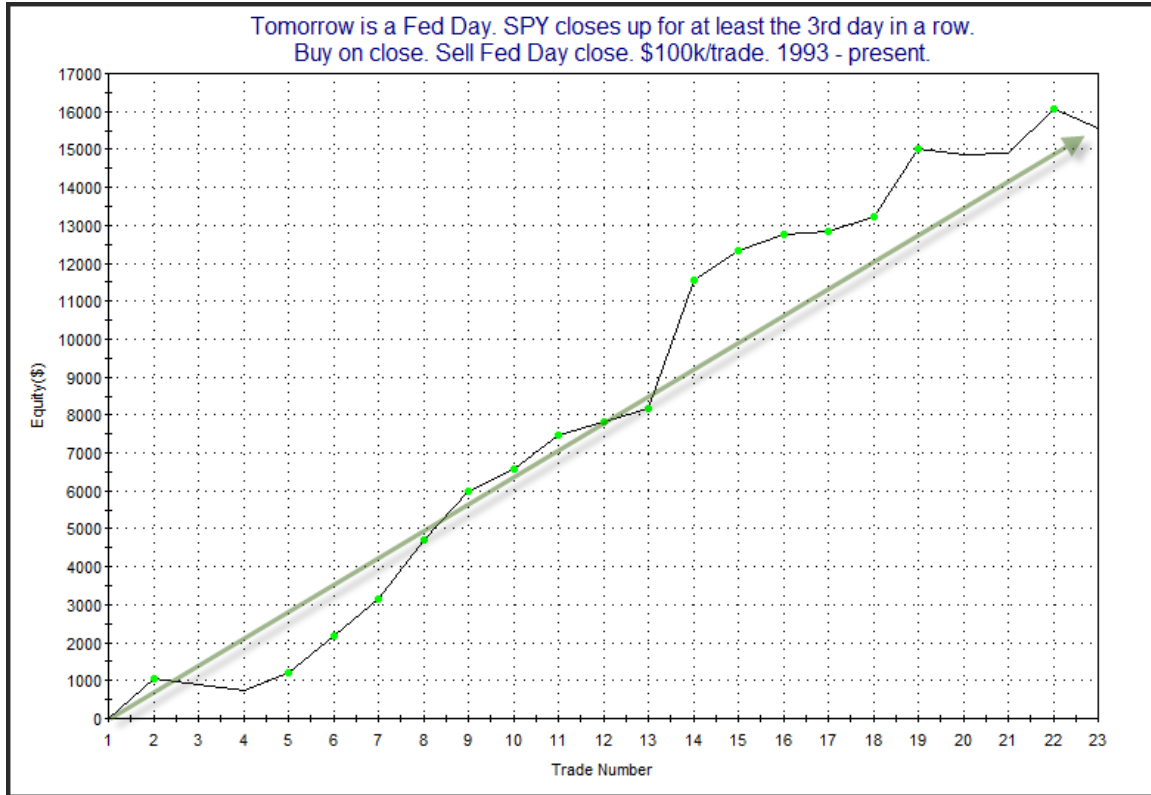
Not a terribly smooth curve, and the last few instances have not helped the cause at all. It seems there may be a mild bullish edge, but not a terribly reliable one.

Ironically, in a way that only the market can contradict itself, another study today suggested the move higher over the last few days may actually improve Wednesday's Fed Day outlook. The study requires at least three up days.

Tomorrow is a Fed Day. SPY closes up for at least the 3rd day in a row.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

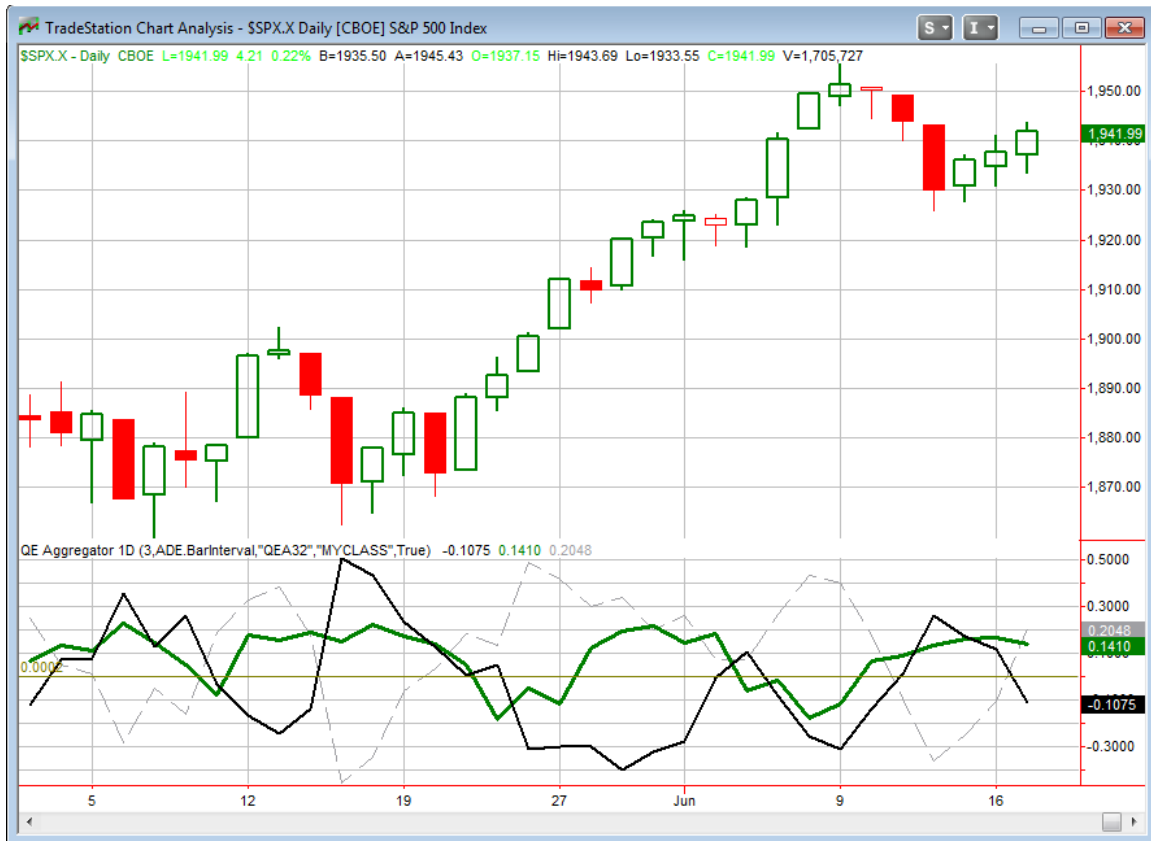
TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$15,574.69	Profit Factor	17.66
Gross Profit	\$16,509.82	Gross Loss	(\$935.13)
Total Number of Trades	23	Percent Profitable	78.26%
Winning Trades	18	Losing Trades	4
Even Trades	1		
Avg. Trade Net Profit	\$677.16	Ratio Avg. Win:Avg. Loss	3.92
Avg. Winning Trade	\$917.21	Avg. Losing Trade	(\$233.78)
Largest Winning Trade	\$3,383.38	Largest Losing Trade	(\$496.32)

The average trade shown here is about twice as strong as the average Fed Day. Below is a profit curve.



The strong, steady upslope serves as confirmation of the bullish edge. The Fed Day studies are conflicting a bit here. I think overall there is a bit of an upside edge, and have averaged them together for Aggregator purposes.

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



Tonight's studies again 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 dove down below 0. The negative Differential Line reading means the SPX is now 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 changed from long to flat at the close.

With all the short-term studies currently bullish, expectations are set to remain bullish again on Wednesday. But most of them will be expiring Wednesday, so this could easily change if some bearish evidence emerges. The Differential Pivot will be *inverted at* 1943.68 on Wednesday. That is 0.1% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case it means that SPX will need to rise more than 0.1% in order to remain overbought. Otherwise it will be considered "oversold" versus recent expectations.

The Aggregator is neutral and so am I. After 3 up days I am happy to take my profits and await the next high-probability opportunity. Wednesday's Fed announcement has the ability to move the market, and the reaction could lead to our next substantial edge.

It was pointed out by a subscriber that the SPY trades have been on quite a roll. The last time I entered a lot of SPY that turned out to be a loser was in September. Since then there have now been 17 winners in a row. I'm fairly certain this is the longest win streak since Quantifiable Edges began in 2008. Over the long run I have generally been right on about 2/3 of my trades. So I do not expect the current hot streak to last forever, and there is a pretty good chance 1 of the next 3 or 4 trades will be a loser. But good fortune is nice to enjoy while it lasts. Hopefully some readers have been able to prosper from the streak. Keep in mind, though, losers will happen.

***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.*

**None tonight.**

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/13/2014	\$193.54	\$194.83	0.67%		<i>sold on close</i>
MDLZ(1/3)	6/13/2014	\$37.31	\$37.37	0.16%		Catapult

*SPY was sold at the close as per last night's instructions.*

*MDLZ will meet its end-of-day target on a close  $\geq$  \$37.53. I will look to sell at the close at that level.*

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