

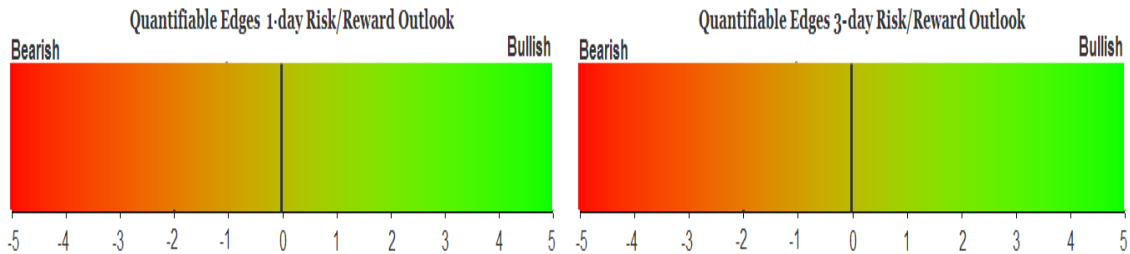
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 20, 2014

Volume 7 Issue 118

Market Overview



Signals Overview

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

Tonight's Research Points

- High closes on the Thursday prior to opex have routinely been followed by a pullback over the next few days.
- Intraday action on opex Friday has been weak over the years.

Short-term Outlook

The Bottom Line

We are overbought and headed into a time when that is normally not a good thing. But overall evidence won't turn bearish until at least Friday. So I remain sidelined and patiently awaiting my next strong opportunity.

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 20, 2014	Top 10% 10-day range Opex Thurs	1-4 days	Bearish	-1.40%
June 19, 2014	100-day high on Fed Day	1-8 days	Bullish	1.90%
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 13, 2014	Unfilled gap dn 2 days in row > 200	1-5 days	Bullish	

The Evidence

Thursday was a mixed day for the market. The SPX gained 0.1%, the NASDAQ declined 0.1% and the Russell 2000 rose 0.1%. Breadth was positive as the NYSE Up Issues % came in at 55% and the Up Volume % was 56%. Total NYSE volume fell a little from Wednesday's level.

There were a few studies that appeared in the Quantifinder that had pretty docile results. The study below was the most compelling. I last showed it in the 2/21/14 Letter. It looks at times the market closed at a high level just before options expiration. It generally has been a bad time for an overbought market.

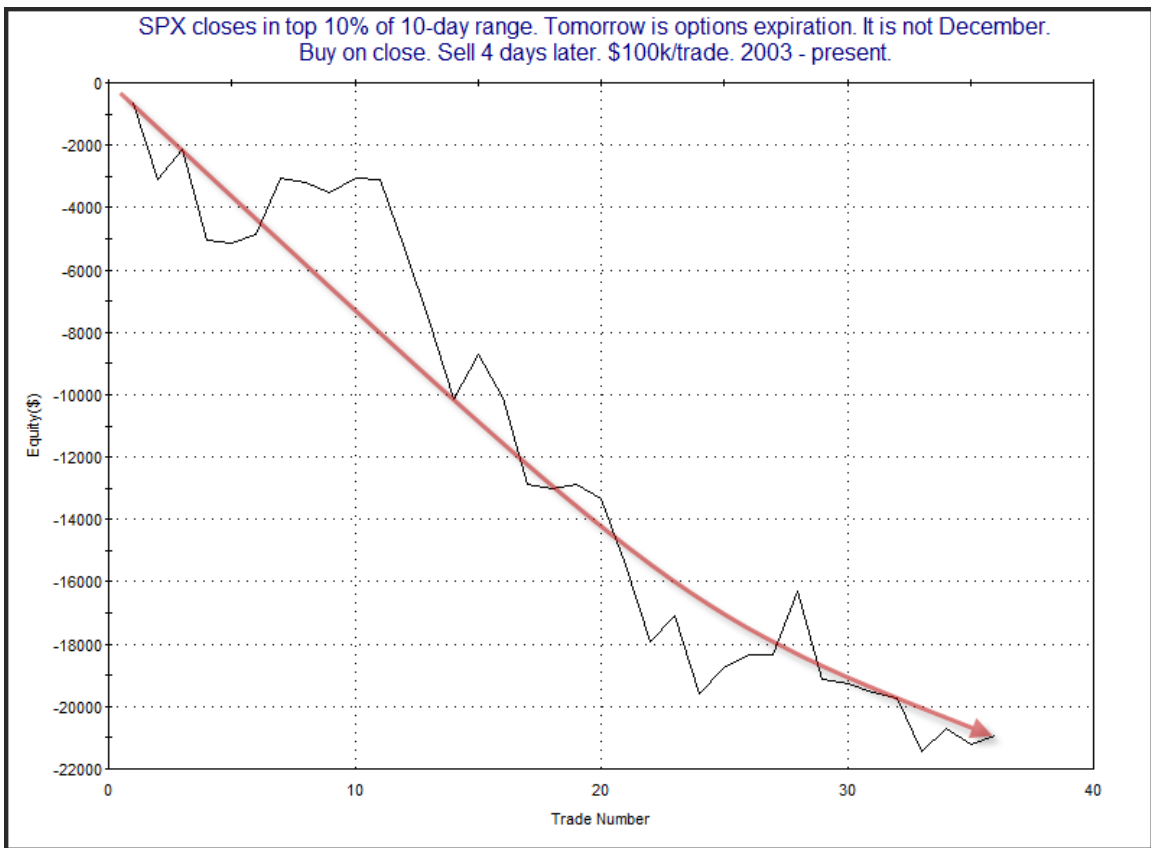
SPX closes in top 10% of 10-day range. Tomorrow is options expiration. Buy on close. Sell X days later. \$100k/trade. 2003 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-19,617.85	39	15	24	38.46	876.71	3,768.30	-1,365.36	-4,932.90	0.64	0.40	-503.02
4	-18,824.93	39	15	24	38.46	831.68	1,994.25	-1,304.17	-2,899.20	0.64	0.40	-482.69
3	-9,668.25	39	20	19	51.28	663.42	2,166.00	-1,207.19	-2,828.70	0.55	0.58	-247.90
2	-8,975.47	39	24	15	61.54	467.45	1,588.40	-1,346.29	-3,784.65	0.35	0.56	-230.14
1	-2,812.76	39	22	17	56.41	381.38	2,286.84	-659.01	-2,875.60	0.58	0.75	-72.12

The numbers here are fairly convincing. Overbought into seasonal weakness often leads to a pullback. But I have shown over the years that the 2nd part of December is seasonally strong, not weak. So in the 2/21/14 letter I decided to exclude that 1 month and run the study for the remaining 11 months. Those results are also updated below.

SPX closes in top 10% of 10-day range. Tomorrow is options expiration. It is not December.
Buy on close. Sell X days later. \$100k/trade. 2003 - present.

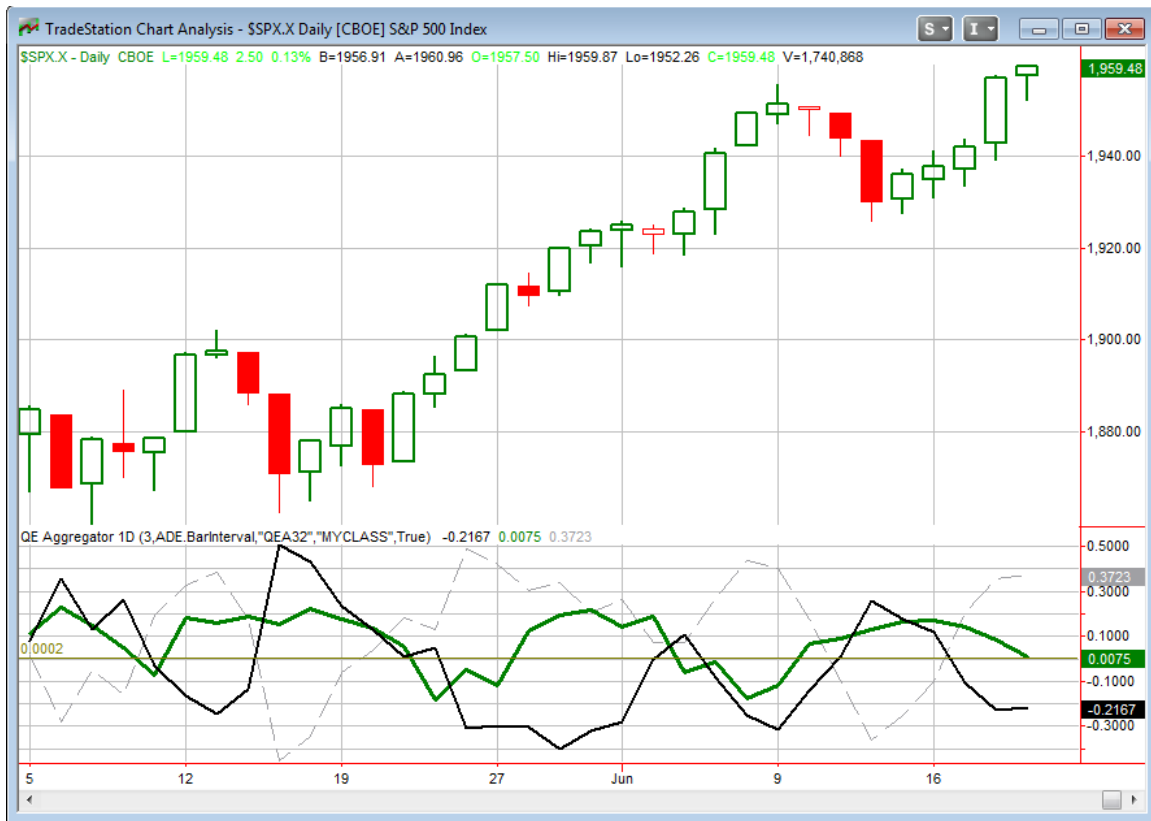
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-21,474.86	36	13	23	36.11	830.08	3,768.30	-1,402.87	-4,932.90	0.59	0.33	-596.52
4	-20,913.09	36	13	23	36.11	788.45	1,994.25	-1,354.91	-2,899.20	0.58	0.33	-580.92
3	-11,598.58	36	17	19	47.22	666.94	2,166.00	-1,207.19	-2,828.70	0.55	0.49	-322.18
2	-10,118.38	36	22	14	61.11	448.42	1,588.40	-1,427.40	-3,784.65	0.31	0.49	-281.07
1	-3,357.40	36	20	16	55.56	389.97	2,286.84	-697.29	-2,875.60	0.56	0.70	-93.26

Numbers here appear squarely bearish. Below is a profit curve that assumes a 4-day holding period.



The curve would seem to confirm the downside edge. I have added this study to the Active List tonight.

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



Despite tonight's bearish study the green Aggregator Line held barely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line stayed under 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 stayed flat at the close.

Based on the current active studies, expectations are slated to turn negative on Friday. Of course this could change if more bullish evidence emerges. The Differential Pivot will be 1951.15 on Friday. That is 0.4% below Thursday's close. So SPX will need to close down at least this much in order to move from overbought to oversold on Friday.

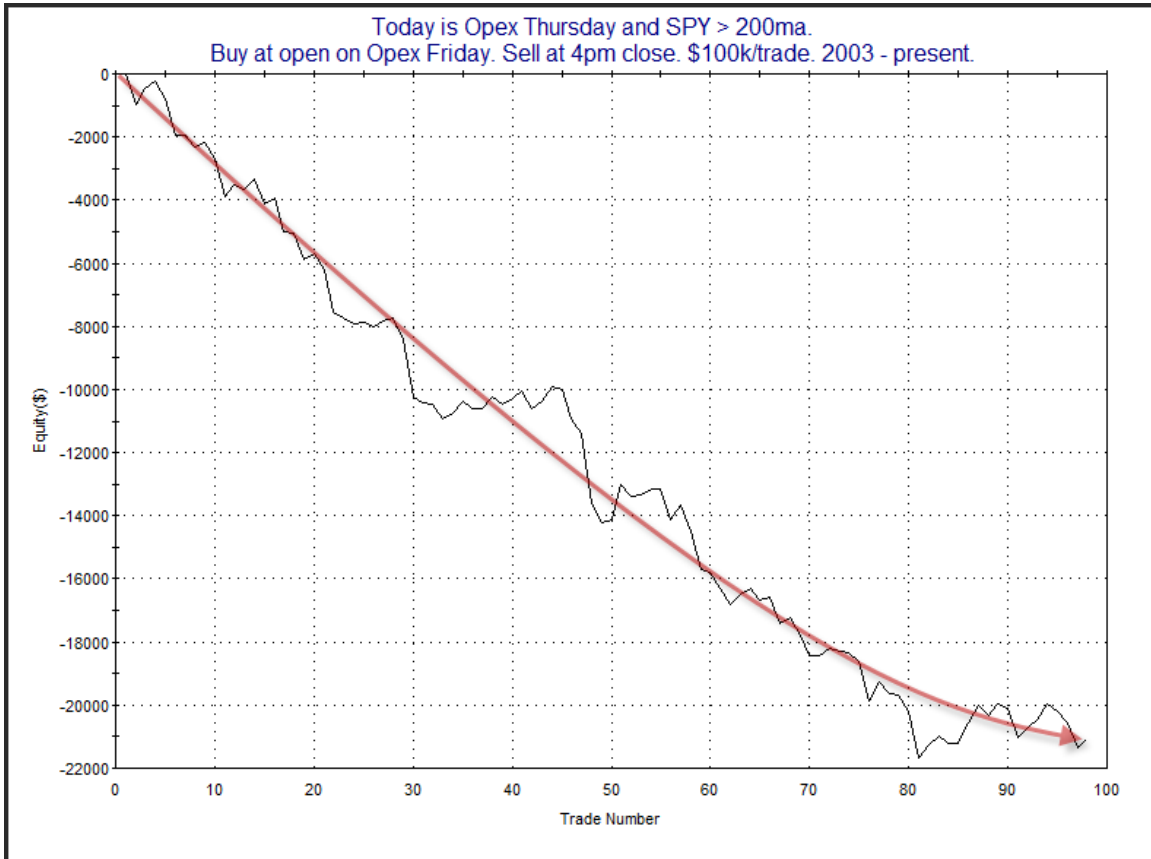
Things appear to be setting up for a possible short signal on Friday. Expectations are slated to turn negative and unless the market closes down a decent amount, it will be considered overbought. I am not going to jump in early in anticipation of a signal that may or may not come. Instead I will wait to see how things play out on Friday, and then consider taking a position on Monday.

One other notable is that Opex Fridays have a poor intraday track record when the market is in a long-term uptrend. This can be seen in the study below.

Today is Opex Thursday and SPY > 200ma.
Buy at open on Opex Friday. Sell at 4pm close. \$100k/trade. 2003 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$21,062.30)	Profit Factor	0.35
Gross Profit	\$11,509.33	Gross Loss	(\$32,571.63)
Total Number of Trades	98	Percent Profitable	40.82%
Winning Trades	40	Losing Trades	58
Even Trades	0		
Avg. Trade Net Profit	(\$214.92)	Ratio Avg. Win:Avg. Loss	0.51
Avg. Winning Trade	\$287.73	Avg. Losing Trade	(\$561.58)
Largest Winning Trade	\$1,138.50	Largest Losing Trade	(\$2,236.00)

The numbers here all suggest opex Fridays have commonly seen intraday selling. Below is a profit curve.



This is a pretty good curve, though it has flattened out some of late. Aggressive traders, or those that do daytrade, could look to take advantage of this apparent downside edge.

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

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 tonight.

Current Open Trade Ideas

None

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