

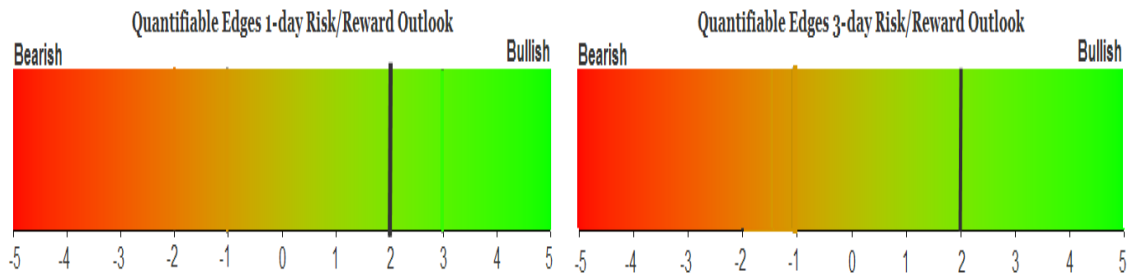
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 24, 2014

Volume 7 Issue 120

Market Overview



Signals Overview

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

Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- 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.

Short-term Outlook

The Bottom Line

The mild pullback on Monday caused some bullish studies to emerge and turn the Aggregator slightly (and temporarily) bullish. So there appears to be an upside edge, but as I discuss in the short-term section, the edge is not strong enough for me to look to buy just yet.

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 24, 2014	SPX dn but RSI2 > 90	1-2 days	Bullish	
June 24, 2014	5 up to 50-high then down	1-2 days	Bullish	
June 23, 2014	1%-2% Rise during opex week > 200	1-5 days	Bearish	-1.40%
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 24, 2014	5 up to 50-high then down	1-10 days	Bullish	
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	
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	

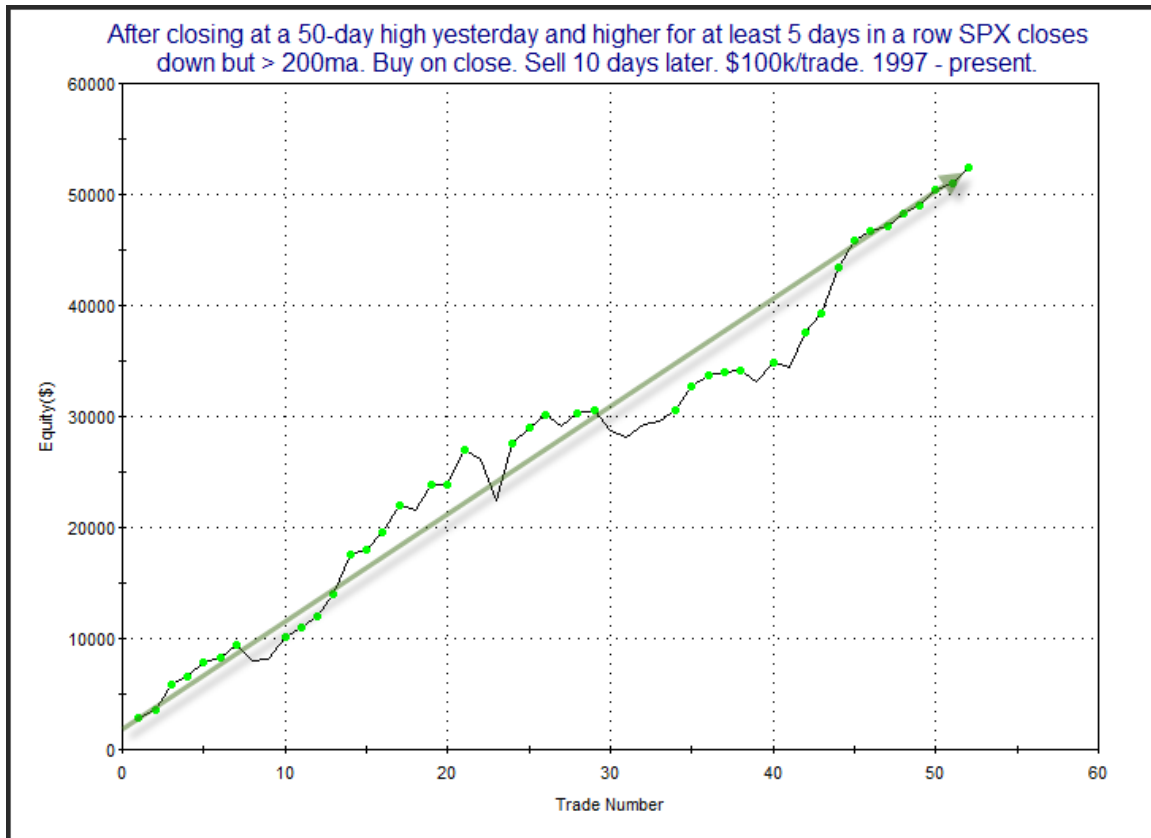
The Evidence

Monday's action was mixed and quiet. The SPX fell less than a point while the NASDAQ rose less than 1 point. The Russell 2000 declined 0.3%. Breadth was also mixed as the NYSE Up Issues % came in at 48% and the Up Volume % was 51%. Total NYSE volume was around the recent average..

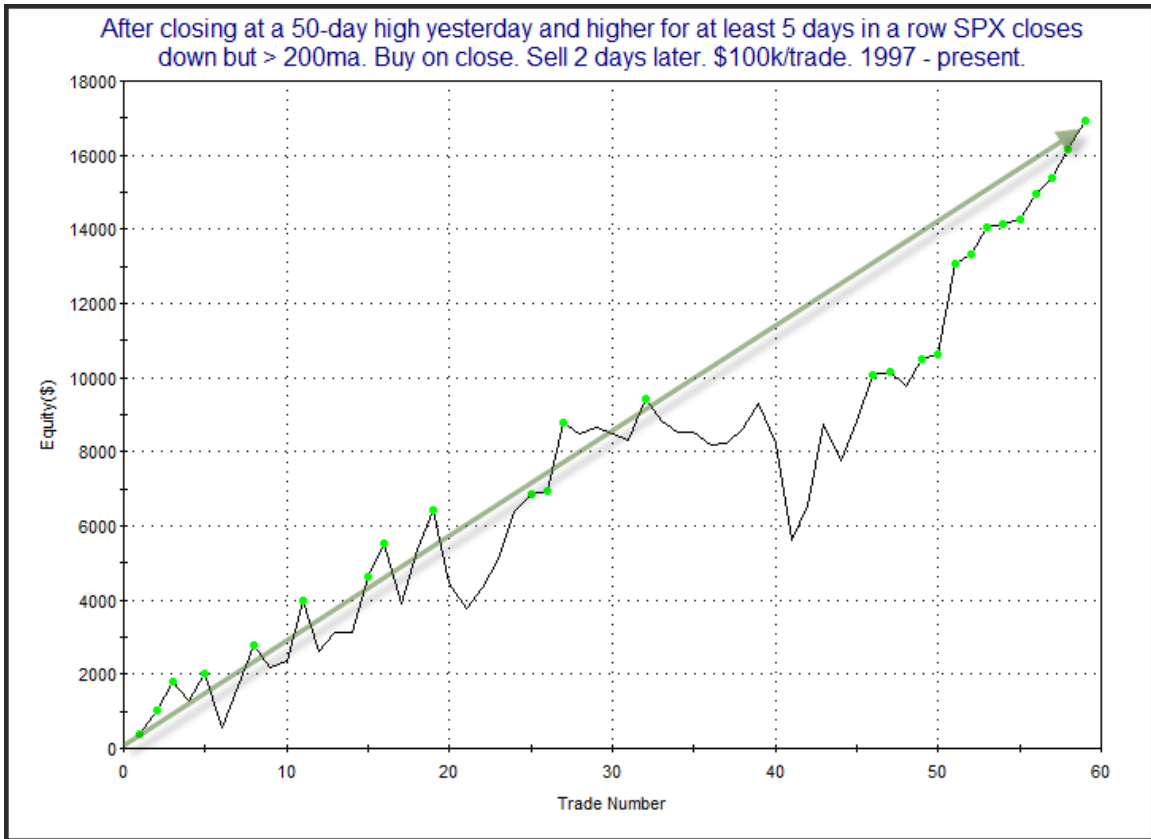
One study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 10/24/13 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 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
10	52,396.96	52	43	9	82.69	1,477.76	5,131.35	-1,238.51	-3,672.90	1.19	5.70	1,007.63
9	51,888.62	55	45	10	81.82	1,469.35	5,023.20	-1,423.22	-4,151.40	1.03	4.65	943.43
8	45,708.37	56	39	17	69.64	1,676.24	4,878.08	-1,156.77	-4,874.10	1.45	3.32	816.22
7	36,868.70	57	38	19	66.67	1,538.31	3,874.76	-1,136.15	-3,912.48	1.35	2.71	646.82
6	36,686.11	59	40	19	67.80	1,402.73	4,307.20	-1,022.26	-3,637.71	1.37	2.89	621.80
5	27,561.10	59	37	22	62.71	1,226.99	4,252.50	-810.80	-2,466.75	1.51	2.55	467.14
4	29,631.12	59	37	22	62.71	1,255.34	3,843.00	-764.39	-3,003.39	1.64	2.76	502.22
3	17,624.14	59	38	21	64.41	923.60	2,472.85	-832.03	-1,992.34	1.11	2.01	298.71
2	16,922.86	59	41	18	69.49	782.90	2,437.50	-843.10	-2,614.95	0.93	2.12	286.83
1	9,894.53	59	38	20	64.41	540.59	1,751.19	-532.39	-1,744.10	1.02	1.93	167.70

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 2-day timeframe suggests a quick little boost is also likely. Let's take a look below at both the 10-day and 2-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 2-day curve.



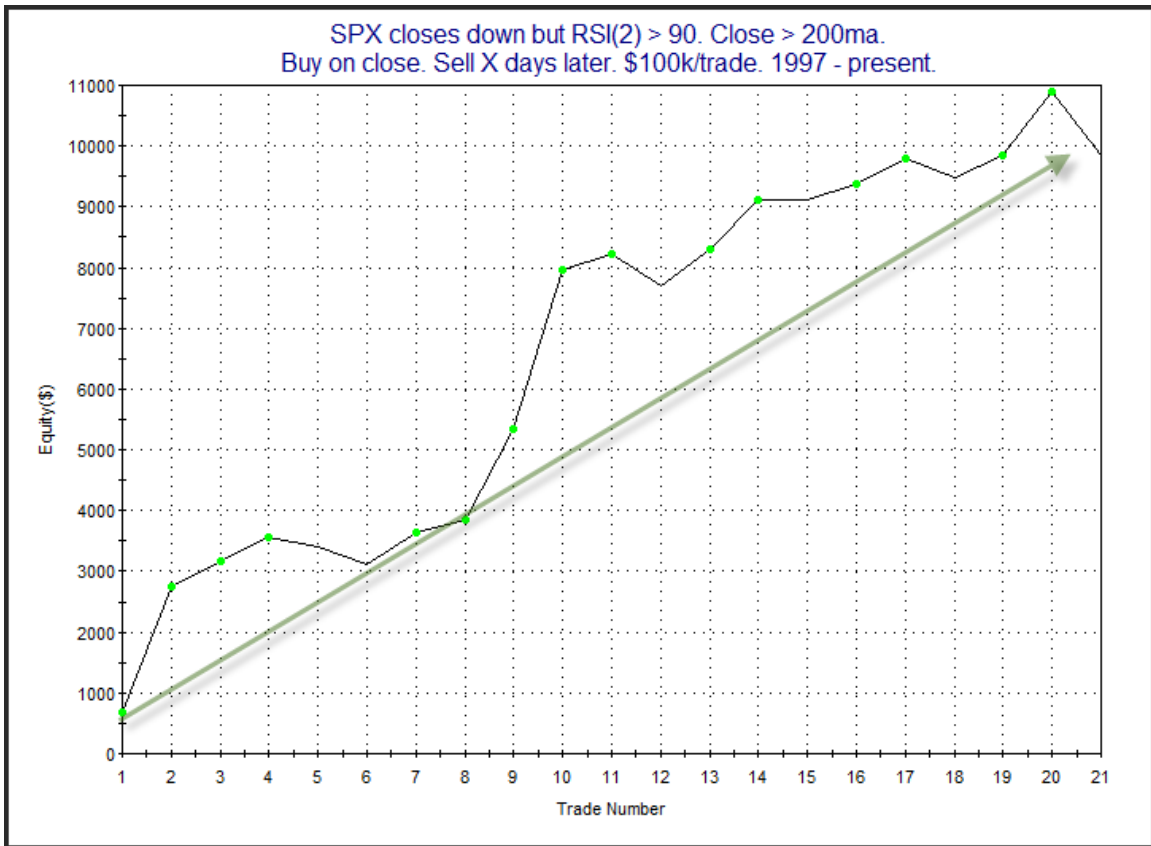
Results are choppier here but the curves look somewhat similar. And even with more whipsaws this one appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

The recent string of positive closes also has most oscillators strongly overbought short-term. With such a small decline on Monday 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 Monday. 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.

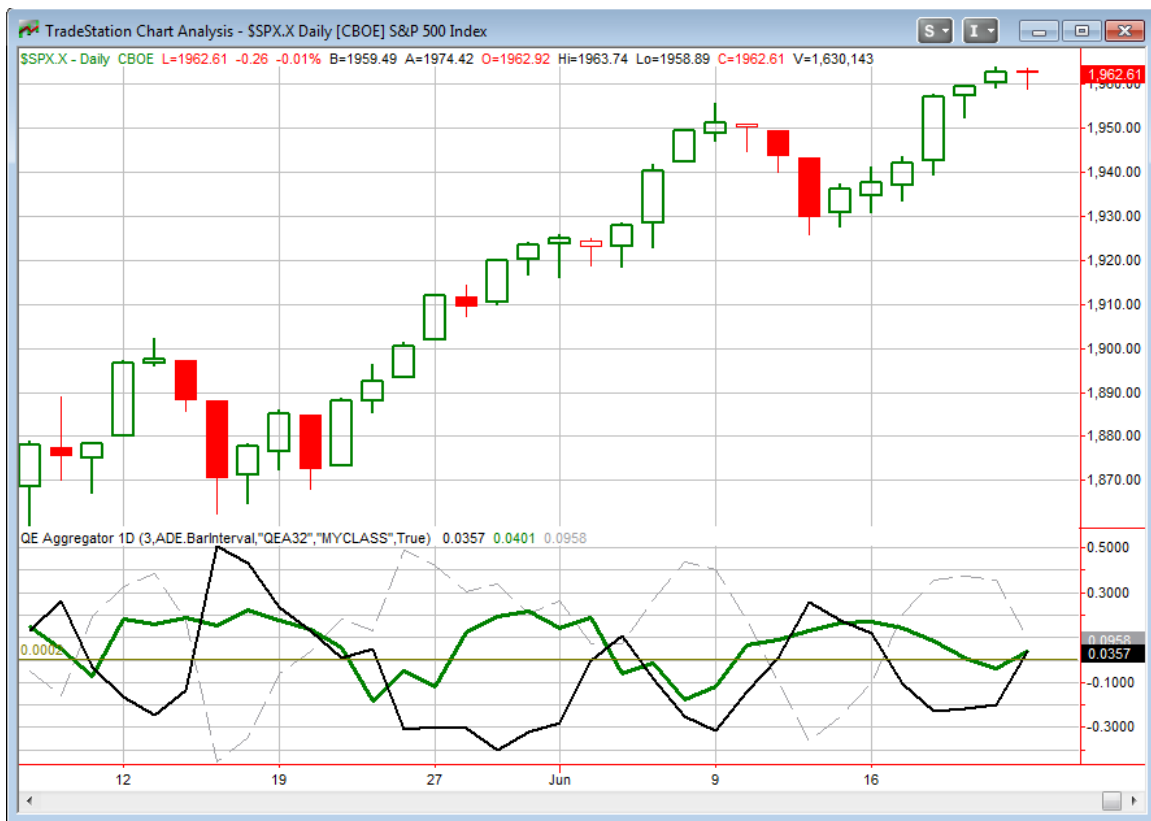
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	2,788.24	19	7	12	36.84	1,676.86	4,121.28	-745.81	-2,008.73	2.25	1.31	146.75
4	4,033.28	20	10	10	50.00	1,138.55	3,806.46	-735.22	-1,717.70	1.55	1.55	201.66
3	9,841.66	21	12	9	57.14	1,140.83	2,923.44	-427.60	-1,123.50	2.67	3.56	468.65
2	9,835.49	21	15	6	71.43	811.94	2,619.76	-390.61	-1,054.68	2.08	5.20	468.36
1	5,060.18	21	15	6	71.43	468.01	2,310.88	-326.65	-704.76	1.43	3.58	240.96

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.



The last trade did not work out, but results here are still impressive. I have added this study to the Active List.

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



With tonight's bullish studies factored in the green Aggregator Line rose 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 also rose 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 turned long at the close.

Based on the current active studies, expectations are slated to turn back to negative on Tuesday (for just one day). Of course this could change if more bullish evidence emerges. The Differential Pivot will be 1964.03 on Tuesday. That is less than 1.5 points above Monday's close. So it is only going to take a very small move up to turn SPX back to overbought.

Similar to last night, I find myself in a situation where the Aggregator is suggesting an edge, but that edge appears limited and most likely short-lived. With expectations set to turn negative and SPX very close to overbought, there is no room for this trade to run even if the Aggregator is right about direction on Tuesday. So reward/risk is weak, and

with most short-term indicators providing overbought readings, rather than oversold, I just don't find a long entry appealing here. So I will sit out another day and see what emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/23 – slightly bullish

The intermediate-term outlook was last updated in the 6/23/14 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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