

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 26, 2014

Volume 7 Issue 122

Market Overview



Signals Overview

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

Tonight's Research Points

- The pattern of the last 2 days would have been bullish if it occurred near the bottom of the recent range. But closing near the top of the range suggests no real edge.

Short-term Outlook

The Bottom Line

The Aggregator remains bullish. I think the bounce could have a bit further to go as well, and I am positioned to take advantage of additional upside.

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 25, 2014	20-day intraday high. Close bottom 10%	1-8 days	Bullish	2.00%
June 23, 2014	1%-2% Rise during opex week > 200	1-5 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	
Dropped Tonight				
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 20, 2014	Top 10% 10-day range Opex Thurs	1-4 days	Bearish	-1.40%

The Evidence

The bounce the studies were anticipating got going on Wednesday. The SPX rose 0.5%, the NASDAQ gained 0.7%, and the Russell 2000 closed up 0.8%. Breadth was positive as the NYSE Up Issues % came in at 68% and the Up Volume % was 67%. Total NYSE volume rose some from Tuesday's level.

Nothing terribly compelling emerged from the Quantifinder on Wednesday. But there were some studies worth a little discussion. On Tuesday the bulls tried to make a move higher and failed, making for a higher high and a lower close. On Wednesday the opposite happened. The bears failed in their attempt at a move lower. In the 2/27/13 Subscriber Letter I looked two-day moves like this. I found results to be substantially different based on whether the market is near the top or the bottom of its short-term range. When the pattern occurs in the lower end of the short-term range it has been consistently bullish over the next 4-5 days. But when the pattern happens and SPX closes in the top of the short-term range (like the current setup), it has not shown strong results. This can be seen in the two studies below, which I copied from the 2/27/13 letter. (Neither are updated.)

Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and close < 10ma.
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	20,583.74	18	13	5	72.22	1,802.08	3,344.64	-568.66	-2,608.20	3.17	8.24	1,143.54
4	16,023.59	18	15	3	83.33	1,373.43	2,345.07	-1,525.98	-2,618.70	0.90	4.50	890.20
3	4,880.15	18	12	6	66.67	1,120.85	2,224.32	-1,428.34	-3,490.90	0.78	1.57	271.12
2	4,061.32	18	11	7	61.11	1,173.62	2,967.00	-1,264.07	-2,226.32	0.93	1.46	225.63
1	4,121.39	18	10	8	55.56	859.23	1,712.28	-558.87	-1,180.27	1.54	1.92	228.97

The only instance NOT to close above the entry price at some point in the next week was the 1st one on 1/25/00.

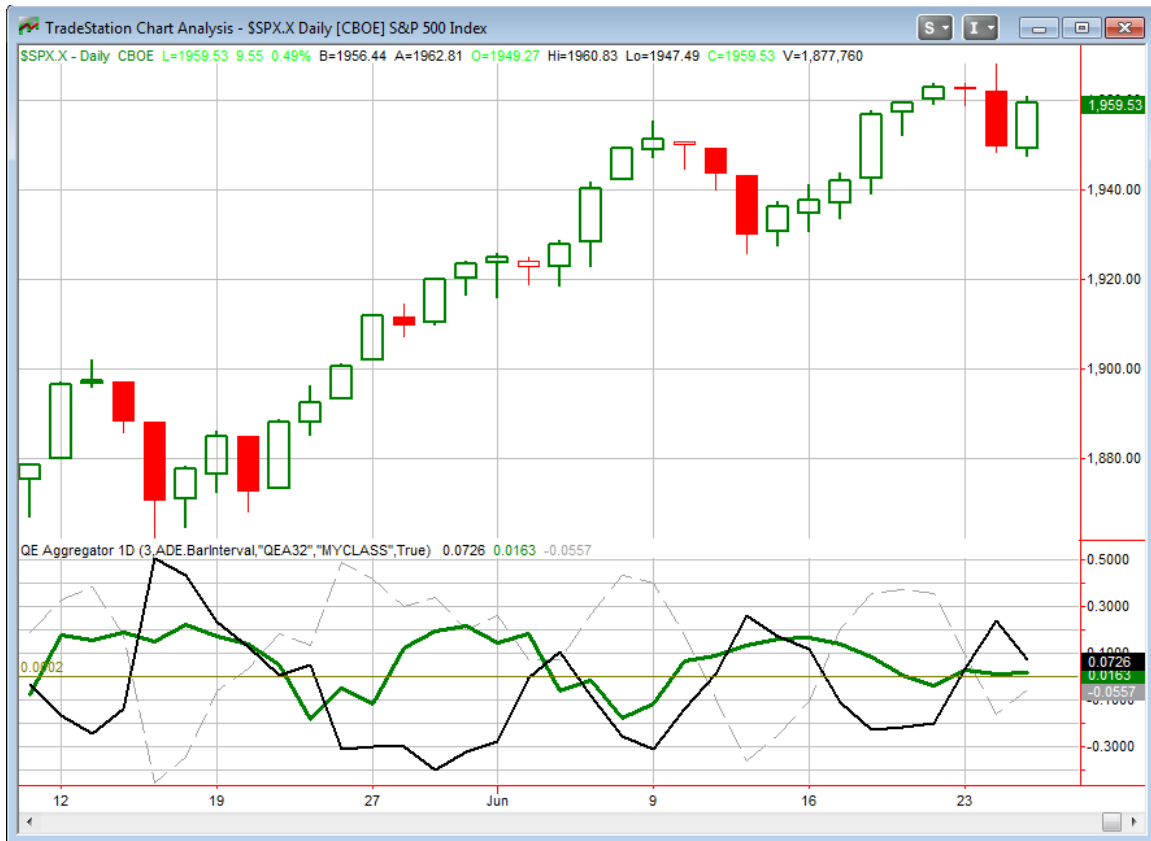
Yesterday SPX makes a higher high and closes down on the day. Today SPX makes a lower low and closes up on the day. Close > 200ma and **close > 10ma**.
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

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5	-7,514.79	34	19	15	55.88	876.44	1,657.22	-1,611.14	-3,770.60	0.54	0.69	-221.02
4	-12,374.20	36	18	18	50.00	835.11	1,984.54	-1,522.56	-4,575.48	0.55	0.55	-343.73
3	-8,765.32	36	17	19	47.22	905.06	1,918.21	-1,271.12	-2,726.23	0.71	0.64	-243.48
2	-2,694.25	37	20	17	54.05	522.64	1,844.90	-773.36	-2,362.36	0.68	0.80	-72.82
1	-1,751.45	37	18	19	48.65	464.69	1,063.14	-532.42	-1,275.95	0.87	0.83	-47.34

So while the last 2 days could have been a nice little setup under the right circumstances, that is not currently the case. These series of studies do provide another example (we've seen many over the years) of why it is important to identify the relative position of the market when considering the meaning of short-term patterns.

So nothing new is being added to the Active List tonight. There are 2 bullish studies and 1 bearish study expiring from the list, though.

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



Without anything new being added tonight the green Aggregator Line managed to hold 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 stayed 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 remained long at the close.

Based on the current active studies, expectations are slated to remain positive on Thursday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1962.44 on Thursday. That is 0.15% above Wednesday's close. SPX will therefore only need to close up a small amount on Thursday in order to move from oversold to overbought versus expectations.

I took on some long exposure at the open on Wednesday. At this point it still appears that the bounce could have further to go. So I will hold onto that exposure on Thursday in anticipation of more gains. But if Thursday closes much higher, then I will look to take profits.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	6/25/2014	\$194.25	\$195.58	0.68%		bought on open

I will look to exit my 1 lot of SPY if it closes >= \$195.90.

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