

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 1, 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

- When SPX closes down but breadth is strong, it has often led to gains over the next few days.
- Poor closes on the last day of the month have increased the upside edge for the 1<sup>st</sup> of the next month.

## *Short-term Outlook*

### *The Bottom Line*

Turn of the month is often a bullish time for stocks – especially under the similar circumstances. The edge does not appear to last long though. I am bullish for Tuesday, but fairly unclear after that.

**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>				
July 1, 2014	SPX dn. Up Issues % > 55%.	1-2 days	Bullish	
July 1, 2014	End of month closes in bottom 1/2	1 day	Bullish	
June 25, 2014	20-day intraday high. Close bottom 10%	1-8 days	Bullish	2.00%
June 19, 2014	100-day high on Fed Day	1-8 days	Bullish	1.90%
<b>Active - Long Term</b>				
June 24, 2014	5 up to 50-high then down	1-10 days	Bullish	
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	
<b>Dropped Tonight</b>				
June 30, 2014	SPY up < 0.25% and top 10% range	1 day	Bearish	
June 30, 2014	Gap reverse 2x > 10ma > 200ma	1 day	Bearish	

**The Evidence**

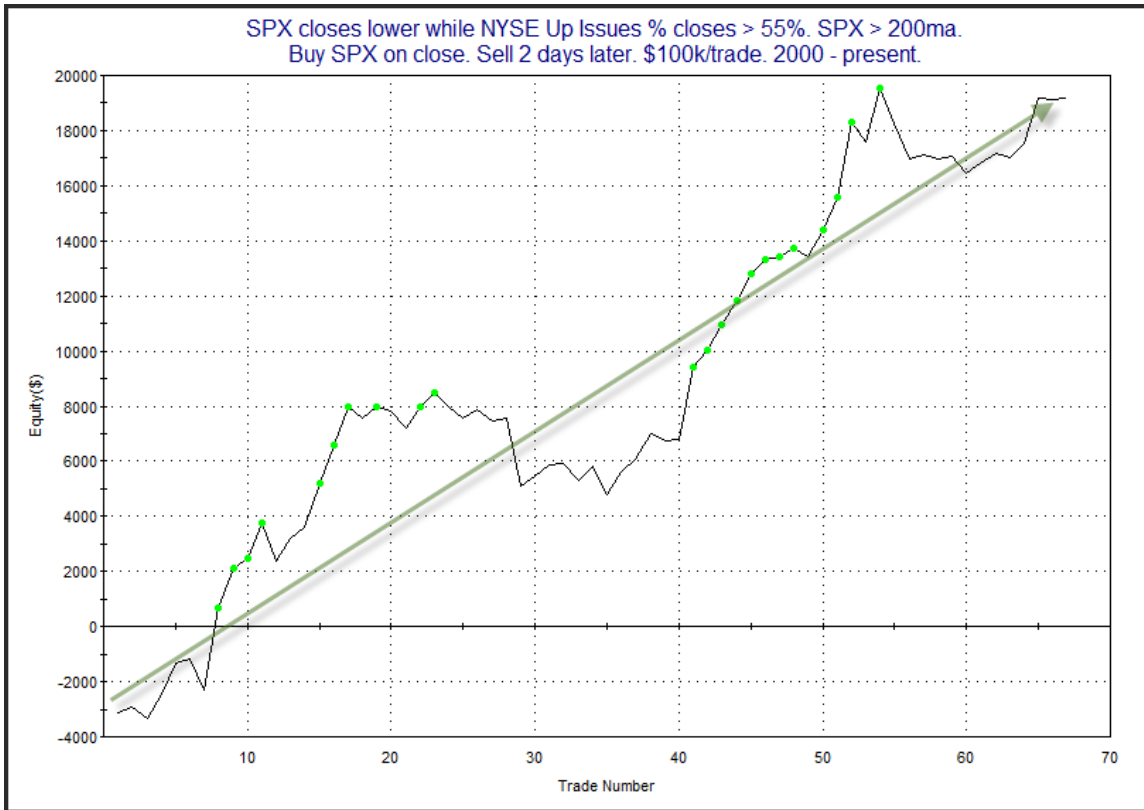
Monday was a quiet day that ended mixed. The SPX fell less than 1 point, the NASDAQ rose 0.2%, and the Russell 2000 gained 0.3%. Breadth was positive as the NYSE Up Issues % came in at 59% and the Up Volume % was 54%. Total NYSE volume was very light.

A number of studies triggered in the Quantifinder. Several of them were related to either month-end or the relatively strong breadth on a down day for SPX. I have chosen the most compelling studies to discuss below.

As noted, the Up Issues % was unusually strong for a day that the SPX declined. The study below was last seen just last week in the 5/2/14 Letter. It looks at days like Monday where SPX declined despite strong breadth. Results are updated.

SPX closes lower while NYSE Up Issues % closes > 55%. SPX > 200ma. Buy SPX 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	19,073.59	62	36	26	58.06	1,378.25	3,616.92	-1,174.75	-4,012.80	1.17	1.62	307.64
4	19,360.94	64	37	27	57.81	1,300.38	3,429.00	-1,064.93	-2,921.28	1.22	1.67	302.51
3	19,224.55	66	41	25	62.12	1,007.93	3,373.50	-884.03	-2,852.01	1.14	1.87	291.28
2	19,199.75	67	45	22	67.16	811.94	3,025.12	-788.07	-3,119.03	1.03	2.11	286.56
1	14,639.21	70	39	31	55.71	706.74	2,484.00	-416.89	-1,348.29	1.70	2.13	209.13

The edge isn't huge, but it does appear to be worth a closer look. The profit curve below gives a better idea of how it has played out over time.



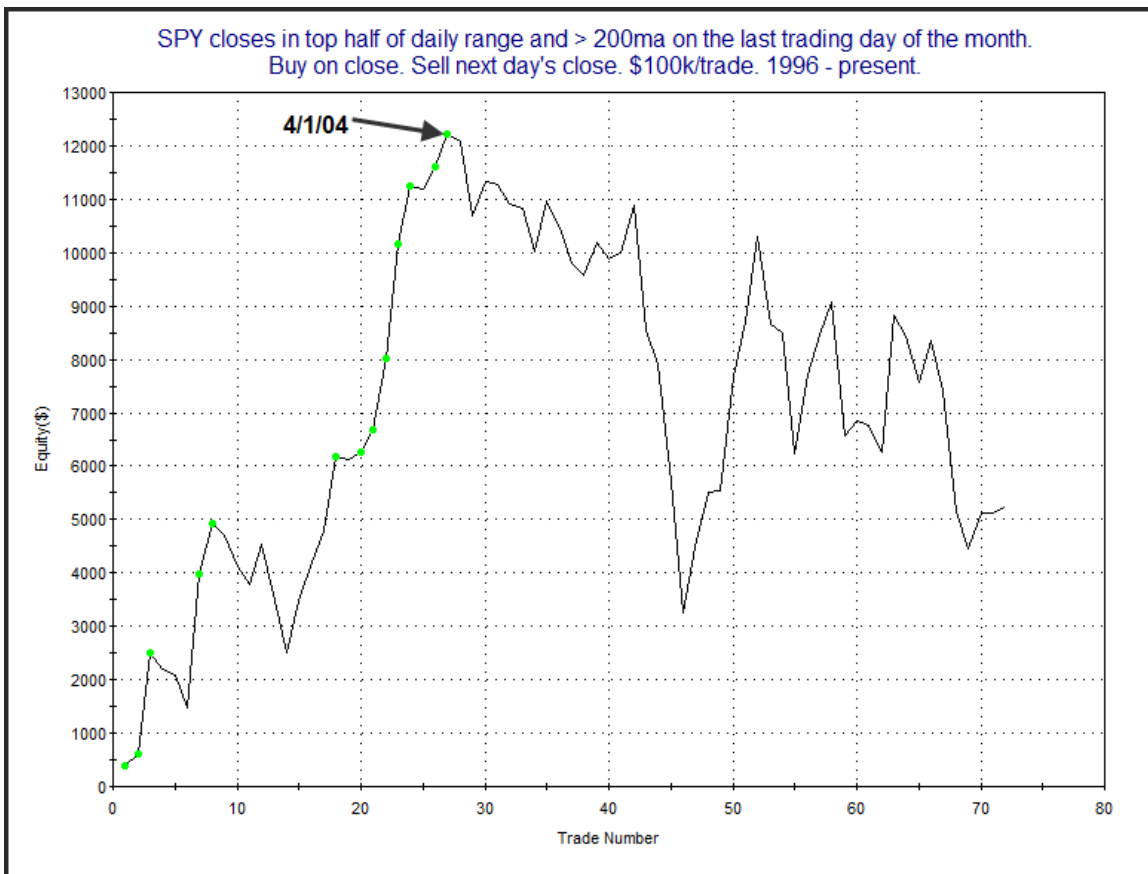
While the curve certainly appears choppy, it has persisted upwards. I believe this study is worth taking into consideration and I've included it among the active studies.

The 1<sup>st</sup> day of the month has generally been a strong day for the market since the late 80s / early 90s. The upside edge has primarily played out during uptrends, though. It has also become well publicized over the years. Perhaps due to this we have often seen rallies in the afternoon of the last day of the month. This suggests some market participants are likely front-running the 1<sup>st</sup> of month bullish edge. In the 7/31/13 letter I broke down the 1<sup>st</sup> of the month based on whether the last day of the month closed in the top or bottom half of the daily range. The results were eye-opening. First let's look at times the market closed in the top half of its range on the last day of the month.

SPY closes in top half of daily range and > 200ma on the last trading day of the month.  
Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ▲</span>			
All Trades			
Total Net Profit	\$5,228.95	Profit Factor	1.18
Gross Profit	\$34,075.42	Gross Loss	(\$28,846.47)
Total Number of Trades	72	Percent Profitable	51.39%
Winning Trades	37	Losing Trades	35
Even Trades	0		
Avg. Trade Net Profit	\$72.62	Ratio Avg. Win:Avg. Loss	1.12
Avg. Winning Trade	\$920.96	Avg. Losing Trade	(\$824.18)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

Results here are weak and don't suggest a substantial edge. Let's also take a look at the profit curve.



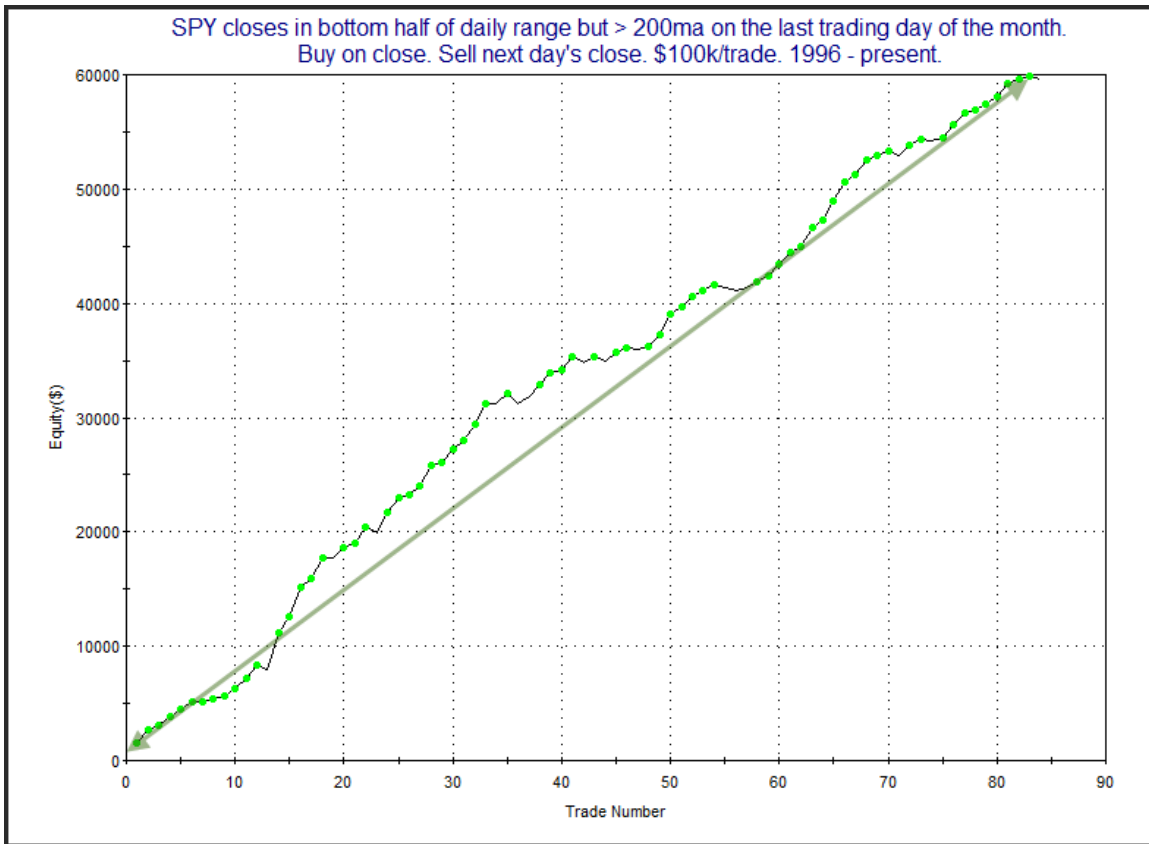
This is even bleaker than the numbers. The profit curve topped out over 10 years ago.

But now let's look at the stats when SPY closed in the bottom half of its daily range.

SPY closes in bottom half of daily range but > 200ma on the last trading day of the month.  
Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Collapse ^
<b>All Trades</b>				
Total Net Profit	\$59,678.16	Profit Factor	15.63	
Gross Profit	\$63,755.94	Gross Loss	(\$4,077.78)	
Total Number of Trades	84	Percent Profitable	84.52%	
Winning Trades	71	Losing Trades	13	
Even Trades	0			
Avg. Trade Net Profit	\$710.45	Ratio Avg. Win:Avg. Loss	2.86	
Avg. Winning Trade	\$897.97	Avg. Losing Trade	(\$313.68)	
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$885.28)	

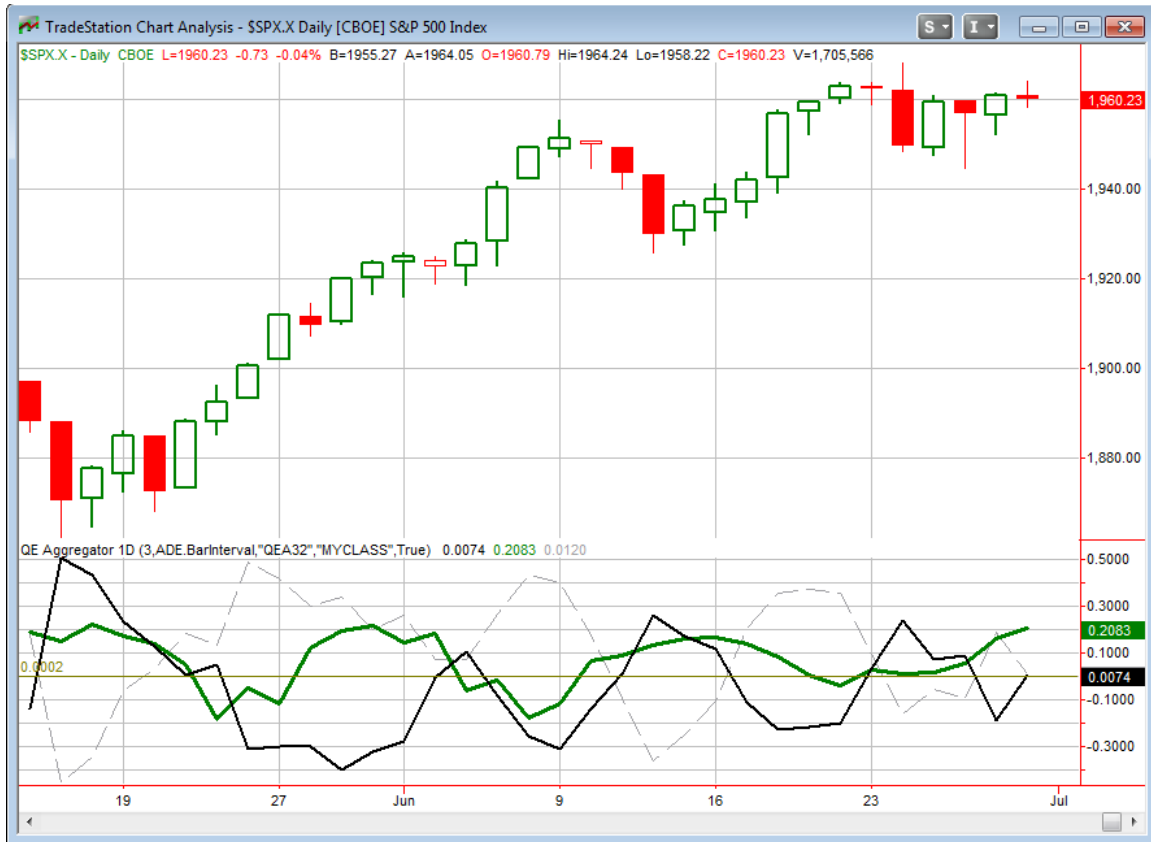
The stats here are phenomenal. Gains absolutely blow away losses in every category. Gross gains are over 15x the size of gross losses. And the *average* win is actually bigger than the *largest* loss. That's an incredible stat when you are looking at a sample size of 84 instances. And the profit curve...



You will be hard pressed to find a long-term profit curve much straighter and more impressive than this one.

I have added both of these studies to the Active List tonight.

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



With the new bullish studies tonight the green Aggregator Line moved a little further above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line rose just barely above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are positive and the SPX is now 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 remain positive on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1958.73 on Tuesday. That is 0.1% below Monday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX

closes flat. So in this case SPX will need to close down at least 0.1% in order to remain oversold. Otherwise it will be considered “overbought” versus expectations.

The inverted pivot limits the potential upside for any long trade. This is because the long signal will close out on Tuesday if it is right. So there is only 1 day in which to profit. Of course if the studies are wrong about the direction on Tuesday (by at least 0.1%), then SPX will remain oversold and open positions would remain at risk. So I don't love the risk/reward setup with the inverted pivot. Still, nimble traders could look to take advantage of the 1-day edge, perhaps even more so if there is morning weakness. I won't do so here in the letter. PM did trigger again today as a Catapult, and I will look to take on another lot of that.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 6/30 – slightly bullish***

The intermediate-term outlook was last updated in the 6/30/14 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***

*PM – 1/3 @ \$84.85 Limit (filled @ \$84.63)*

**New**

*PM – 1/3 @ \$84.31 Limit*

***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 2(PM-2)***

### **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.*

**PM – Buy 1/3 Catapult position @ \$84.31 limit.** This is from the Catapult section above. Catapults have been strong performers over the years, but have also been very volatile. More information on Catapults, including a detailed webinar, can be found on the Catapult System page in the members area of Quantifiable Edges. <http://quantifiableedges.com/catapult-system/>

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
PM(1/3)	6/30/2014	\$84.63	\$84.31	-0.38%		bought @ open

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