

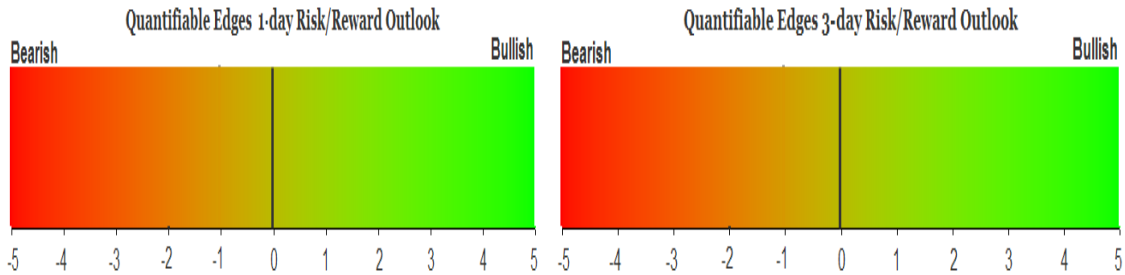
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 2, 2014

Volume 7 Issue 123

Market Overview



Signals Overview

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

Tonight's Research Points

- The low volume breakout to a new high appears to be a positive.
- The QE Buying Power Index for July is available and liquidity is not going to get any better than it is right now.

Short-term Outlook

The Bottom Line

Monday's bullish studies were right in a big way. And while evidence suggests we could see more upside, the market is now too overbought for my taste.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
July 2, 2014	Low vol breakout	1-5 days	Bullish	1.40%
July 1, 2014	SPX dn. Up Issues % > 55%	1-2 days	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%
Active - Long Term				
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	
Dropped Tonight				
July 1, 2014	End of month closes in bottom 1/2	1 day	Bullish	

The Evidence

Tuesday opened strong and never looked back. The SPX rallied 0.7%, the NASDAQ rose 1.1%, and the Russell 2000 also gained 1.1%. Breadth was positive as the NYSE Up Issues % came in at 66% and the Up Volume % was also 66%. Total NYSE volume was very light.

Not a lot that was new emerged, but the studies below are interesting. They are from the 3/27/13 letter and they look at SPX breakouts to new highs. The only difference between the two is that the 1st one requires a rise in volume and the 2nd one requires a decline in volume. Stats are updated for both of these.

SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is higher than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	1,446.57	64	33	31	51.56	1,729.38	4,720.04	-1,794.29	-4,162.56	0.96	1.03	22.60
9	-583.14	64	32	32	50.00	1,767.00	4,637.68	-1,785.22	-4,614.75	0.99	0.99	-9.11
8	-5,248.02	67	37	30	55.22	1,498.37	4,058.40	-2,022.92	-5,227.95	0.74	0.91	-78.33
7	7,265.22	68	37	31	54.41	1,659.43	6,337.26	-1,746.25	-5,444.25	0.95	1.13	106.84
6	6,348.36	68	42	26	61.76	1,273.75	4,166.72	-1,813.43	-4,332.45	0.70	1.13	93.36
5	6,633.40	68	36	32	52.94	1,320.67	5,231.46	-1,278.46	-4,452.84	1.03	1.16	97.55
4	-946.49	68	40	28	58.82	982.29	3,438.24	-1,437.08	-4,407.48	0.68	0.98	-13.92
3	-4,901.07	68	38	30	55.88	887.57	3,830.40	-1,287.62	-5,137.56	0.69	0.87	-72.07
2	-8,804.09	68	34	34	50.00	633.23	1,998.39	-892.18	-3,134.16	0.71	0.71	-129.47
1	1,000.80	68	34	34	50.00	410.64	1,606.89	-381.20	-2,279.88	1.08	1.08	14.72

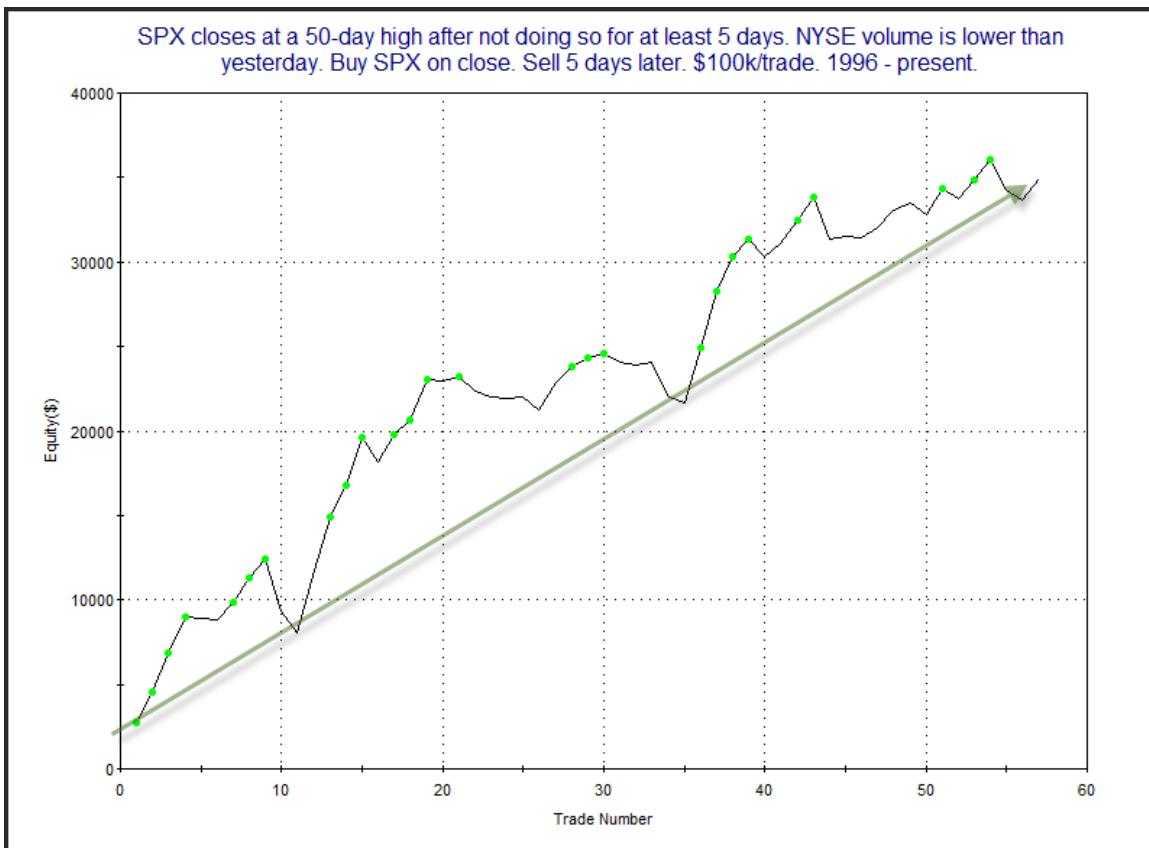
What we see here is that there is no edge apparent when the breakout is accompanied by an increase in volume. Now let's look at the study with decreasing volume.

SPX closes at a 50-day high after not doing so for at least 5 days. NYSE volume is lower than yesterday. Buy SPX on close. Sell X days later. \$100k/trade. 1996 - 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	24,506.82	55	34	21	61.82	1,961.21	5,960.00	-2,008.30	-8,724.80	0.98	1.58	445.58
9	35,022.05	56	41	15	73.21	1,724.37	5,147.20	-2,378.47	-7,308.66	0.72	1.98	625.39
8	29,342.53	56	36	20	64.29	1,707.63	5,096.00	-1,606.60	-4,215.62	1.06	1.91	523.97
7	20,875.07	56	34	22	60.71	1,451.73	4,112.00	-1,294.71	-3,581.76	1.12	1.73	372.77
6	33,452.89	57	35	22	61.40	1,484.27	4,158.60	-840.75	-3,334.80	1.77	2.81	586.89
5	34,937.86	57	36	21	63.16	1,481.22	3,687.06	-875.52	-3,070.40	1.69	2.90	612.94
4	25,006.02	57	38	19	66.67	1,145.56	3,349.50	-975.01	-2,913.85	1.17	2.35	438.70
3	25,594.90	57	37	20	64.91	1,145.93	3,803.64	-840.23	-2,125.44	1.36	2.52	449.03
2	12,500.84	57	39	18	68.42	704.25	2,212.98	-831.39	-2,752.74	0.85	1.84	219.31
1	7,312.30	57	39	18	68.42	413.25	1,415.70	-489.14	-1,921.32	0.84	1.83	128.29

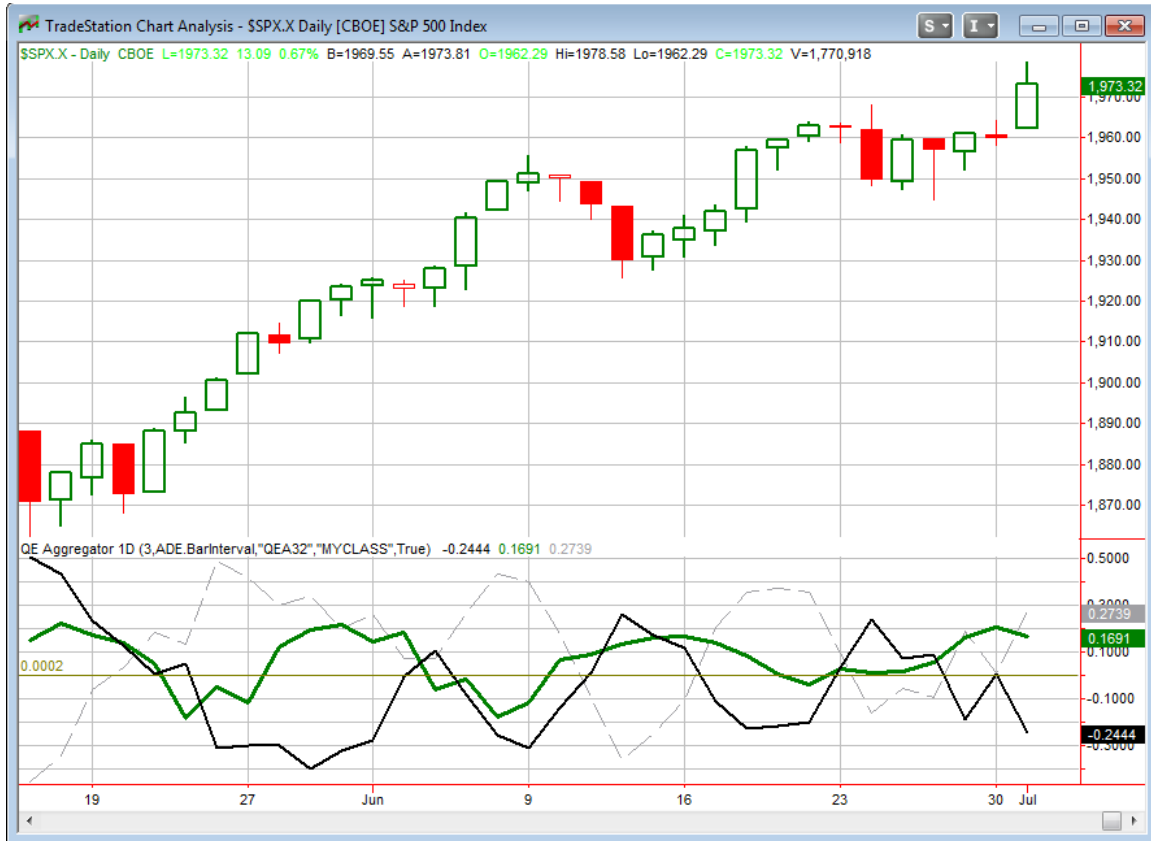
52 of 57 instances (91%) closed above the entry price at some point in the next week.

These stats are substantially better and suggest a decent upside edge over the next few days. Below is a profit curve assuming a 5-day holding period.



The strong steady upslope add additional confirmation of the edge.

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

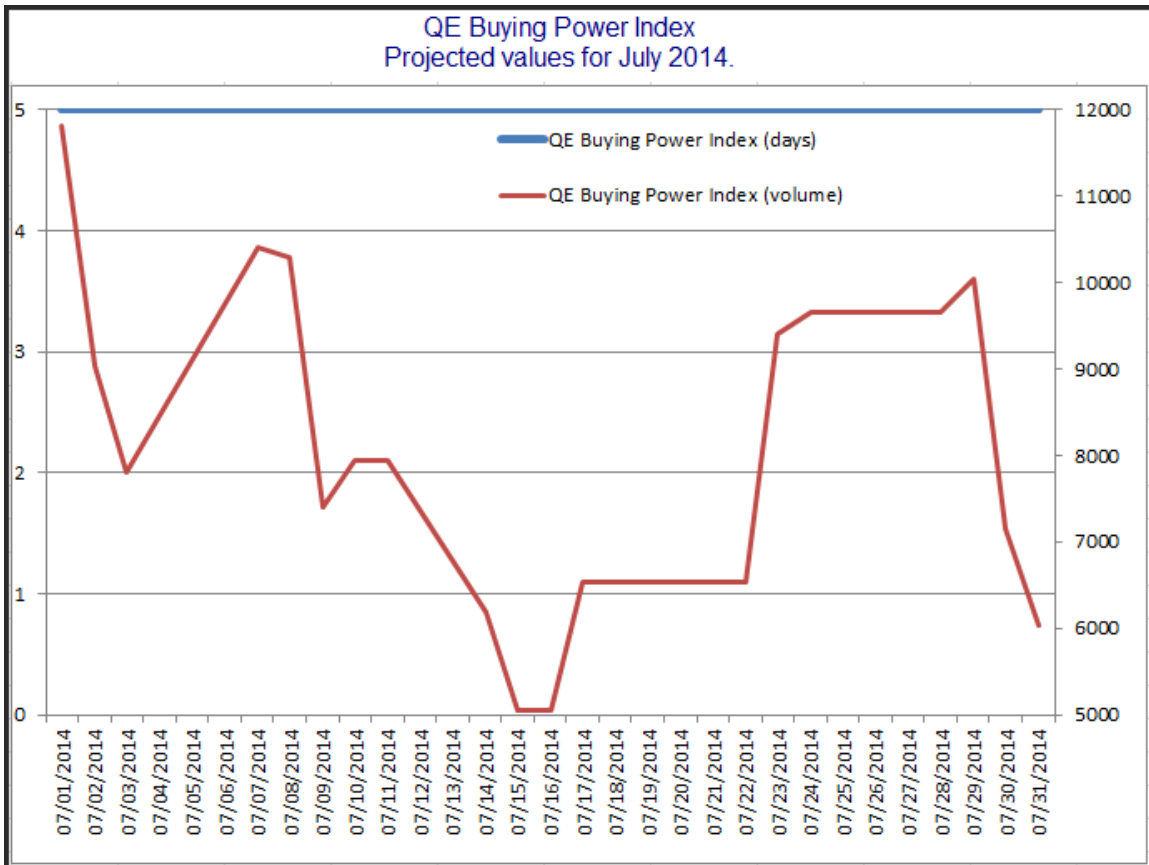


Additional bullish evidence tonight helped the green Aggregator Line remain squarely above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line crossed sharply down below 0. The negative Differential Line reading 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 turned flat at the close.

Based on the current active studies, expectations are slated to remain positive on Wednesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1965.49 on Wednesday. That is 0.4% below Tuesday's close. So SPX will need to close down at least 0.4% on Wednesday to move from overbought to oversold versus expectations.

Though evidence continues to point higher, I don't anticipate jumping in to the long side until price pulls back some. Risk/reward just is not as appealing when the market is overbought and at new highs. My Catapult position did trigger a 3rd (and final) entry, so I will be looking to add on the final lot there.

One other note is that I created the QE Buying Power Index for July based on the Fed's buying schedule. I have pasted it below as well as to the QE Buying Power Index page in the members area.



I'll discuss it a bit in the weekend letter. But for now I just wanted to make 2 quick observations. 1) Liquidity is at its strongest right now. This is the most support the market will have for the rest of the month. 2) If bears are going to press their case, mid-month appears to be the most opportune time from a liquidity standpoint.

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)

PM – 1/3 @ \$84.31 Limit (filled @ \$84.31)

New

PM – 1/3 @ \$84.21 Limit

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3(PM-3)

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. It is the 3rd and final lot for PM. 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
PM(1/3)	6/30/2014	\$84.63	\$84.21	-0.50%		Catapult
PM(1/3)	7/1/2014	\$84.31	\$84.21	-0.12%		bought @ open

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