

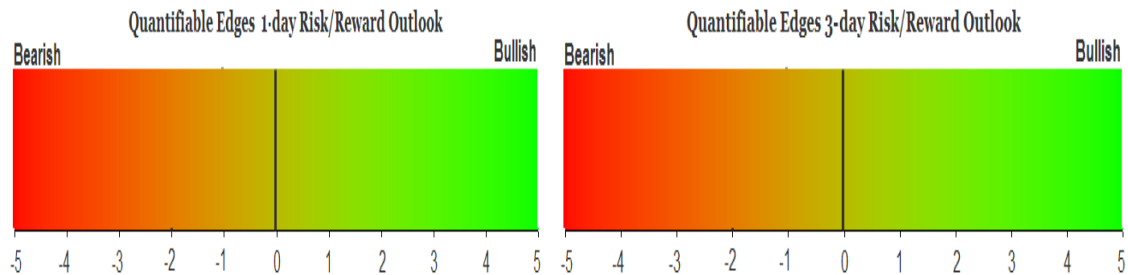
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 8, 2014

Volume 7 Issue 126

Market Overview



Signals Overview

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

Tonight's Research Points

- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.
- SPX down < 1% from 50-day high on 2:1 negative breadth has often led to 1-2 more days of selling.

Short-term Outlook

The Bottom Line

While expectations turned negative the market quickly turned oversold. This leaves me without a strongly favorable risk/reward setup and a neutral outlook once again.

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 8, 2014	Unfill gap up, 20-high. Unfilled gap dn.	1 day	Bearish	
July 8, 2014	Weak drop on very poor breadth fr 50h	1-2 days	Bearish	
July 2, 2014	Low vol breakout	1-5 days	Bullish	1.40%
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				
<i>July 7, 2014</i>	<i>50-high, inside day, 50-high</i>	<i>1 day</i>	<i>Bearish</i>	
June 25, 2014	20-day intraday high. Close bottom 10%	1-8 days	Bullish	2.00%

The Evidence

The market never managed to get going on Monday. It gapped down and meandered sideways to down throughout the day. The SPX lost 0.4%, the NASDAQ fell 0.8% and the Russell 2000 dropped 1.8%. Breadth was weak as the NYSE Up Issues % came in at 31% and the Up Volume % was 25%. Total NYSE volume wasn't much higher than the ½ day on Thursday.

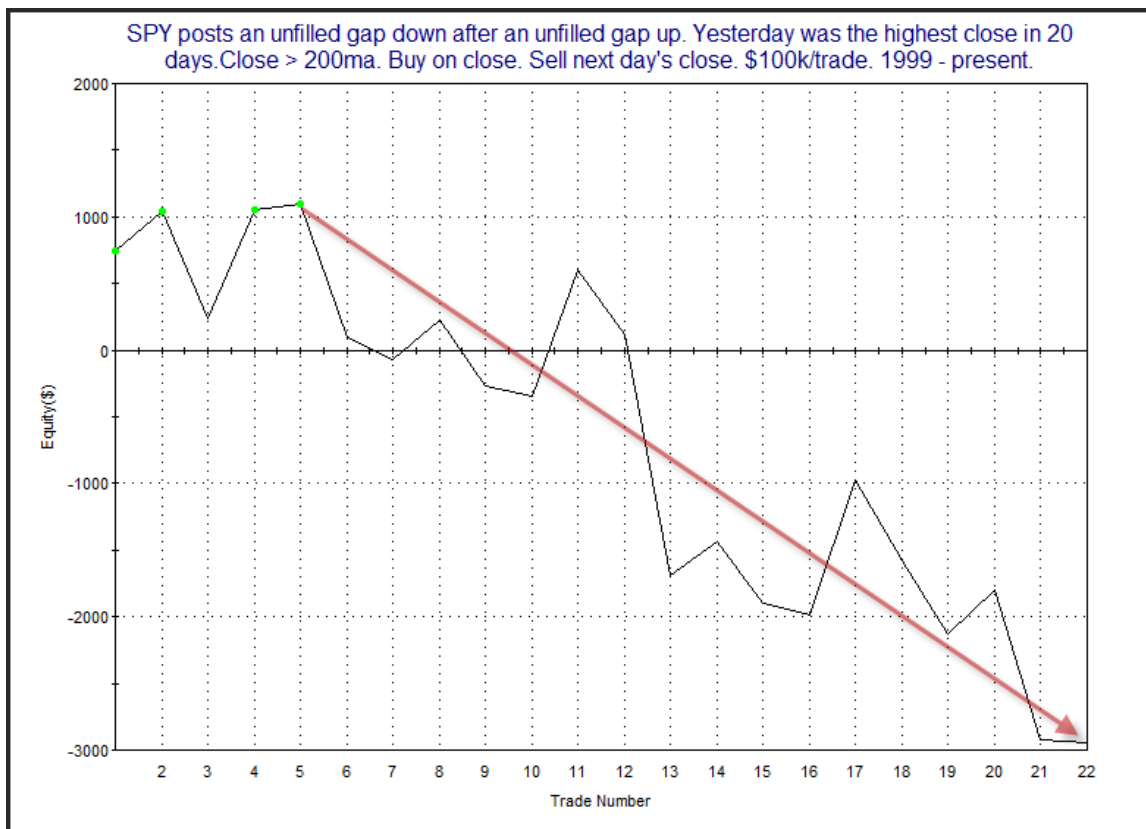
There were a couple of studies that appeared in the Quantifinder tonight that were worth a close look.

This 1st study examined SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 2/21/13 Subscriber Letter. Back then it appeared to suggest a multi-day pullback. But as with just about any bearish study during the last 18 months, this one has not played out well when looking out more than 1 day. So rather than review the full table, below is a detailed (and updated) look at the 1-day results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$2,944.34)	Profit Factor	0.62
Gross Profit	\$4,731.07	Gross Loss	(\$7,675.41)
Total Number of Trades	22	Percent Profitable	40.91%
Winning Trades	9	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	(\$133.83)	Ratio Avg. Win:Avg. Loss	0.89
Avg. Winning Trade	\$525.67	Avg. Losing Trade	(\$590.42)
Largest Winning Trade	\$1,008.68	Largest Losing Trade	(\$1,807.92)

The numbers here appear to suggest a moderate downside edge. Let's also take a look at the profit curve.



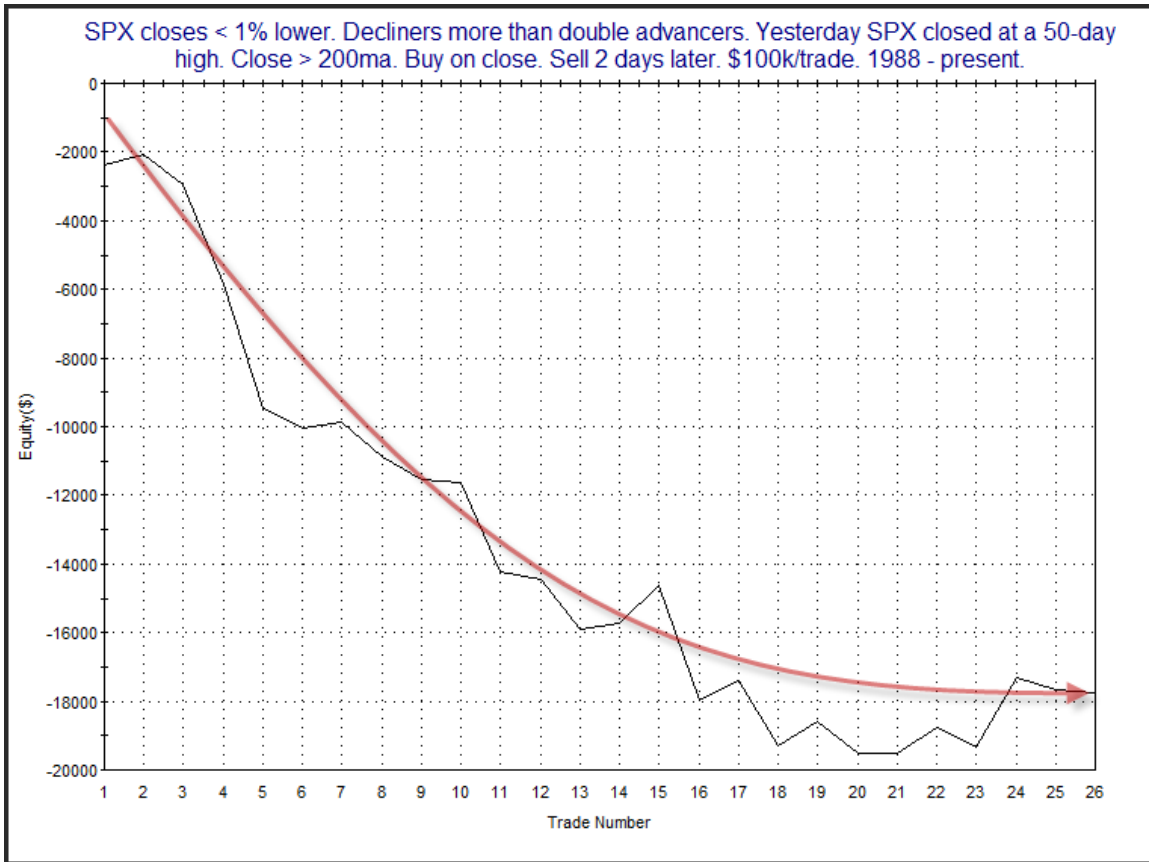
While the curve is very choppy, it has persisted downwards and is continuing to make new lows. This seems to act as some confirmation of the downside edge.

This next study is from the 1/31/13 Subscriber Letter. It notes the fact that coming off an intermediate-term high on Thursday, selling was broad but not terribly deep as measured by the SPX. Results are updated.

SPX closes < 1% lower. Decliners more than double advancers. Yesterday SPX closed at a 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - present.

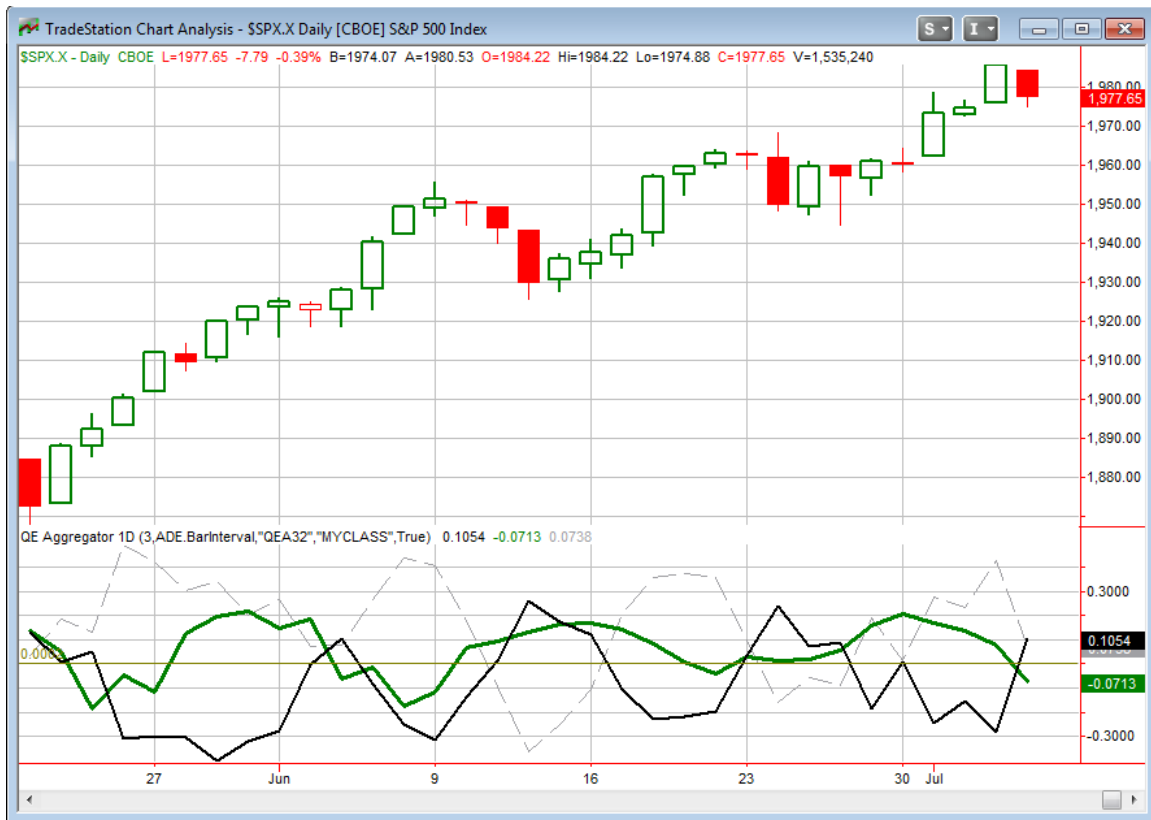
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	115.58	25	16	9	64.00	806.40	3,149.37	-1,420.77	-2,538.28	0.57	1.01	4.62
4	-6,475.98	26	11	15	42.31	935.07	2,725.38	-1,117.45	-3,709.52	0.84	0.61	-249.08
3	-14,915.61	26	9	17	34.62	583.01	2,192.40	-1,186.04	-3,721.09	0.49	0.26	-573.68
2	-17,760.23	26	8	18	30.77	722.11	1,998.36	-1,307.62	-3,611.48	0.55	0.25	-683.09
1	-13,851.11	26	8	18	30.77	599.65	938.07	-1,036.01	-3,794.40	0.58	0.26	-532.73

This type of broad, shallow selling will often hit the SPX in the following days. Risks appear to far outweigh potential rewards when looking at metrics such as win/loss ratio and profit factor. The downside edge plays out quickly though, and has generally exhausted itself after the first couple of days. Below is a profit curve that assumes a 2-day holding period.



The curve here has definitely flattened. It has been a victim of the incredibly persistent bull market we've been in. I'm keeping a close eye on this study, but it is too early to throw it out yet, and I have included it on the Active List tonight.

So with 2 new bearish studies to take under consideration, I have updated the [Aggregator](#) chart below.



The bearish studies tonight pushed the Aggregator Line down below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line jumped up above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are negative but the SPX is already oversold. 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 slightly positive on Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 1984.75 on Tuesday. That is 0.4% above Monday's close. So SPX will need to close up at least this much in order to move from oversold to overbought versus expectations.

The tables have turned since last night but the overall outlook has not. I'm still relatively neutral. There certainly appears to be both bearish evidence and some room to the downside. But with a strong uptrend, positive liquidity, and the market already oversold versus recent expectations, shorting appears to be a risky endeavor. I'll remain sidelined and patiently awaiting the next strongly favorable trading opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/7 – slightly bullish

The intermediate-term outlook was last updated in the 7/7/14 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
PM(1/3)	7/2/2014	\$84.21	\$85.20	1.18%		<i>sold on open</i>

PM was sold at the open as per the instructions in last night's letter.

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