

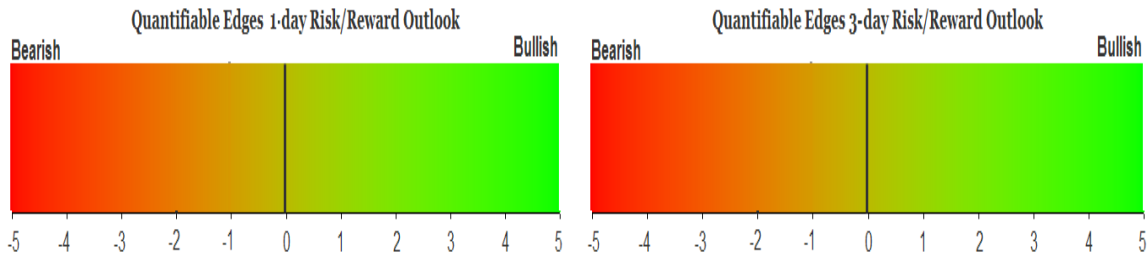
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 1, 2016

Volume 9 Issue 104

Market Overview



Signals Overview

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

Tonight's Research Points

- Poor closes on the last day of the month are often followed by a positive Day 1n of the next month.

Short-term Outlook

The Bottom Line

Like yesterday, evidence is slightly bullish but the market is a little overbought. This leaves me short-term neutral.

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

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
June 1, 2016	Month closes weakly	1 day	Bullish			
May 31, 2016	SPY breakaway gap	1-5 days	Bullish	1.50%	-1.00%	-2.00%
May 25, 2016	QE Buying Power Short Signal	1-6 days	Bearish			
Active - Long Term						
May 31, 2016	NASDAQ Leading	int term	Bullish			
May 24, 2016	Bounce from 20-low then inside day dn.	1-10 days	Bullish	5.00%	-2.85%	-6.75%
May 17, 2016	20-low to 4-high	1-20 days	Bullish	3.80%	-2.10%	-4.55%
April 26, 2016	Golden Cross	int term	Bullish			
March 2, 2016	FTD & 20-day high	int term	Bullish			
February 18, 2016	Up Issue % > 70% 3x	1-85 days	Bullish	10.70%	-5.10%	-12.10%
February 1, 2016	2 90% up days in 1 week	1-9 months	Bullish	23.10%	-6.60%	-15.10%
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
May 27, 2016	Down today. RSI2 > 90/	1-2 days	Bullish			

The Evidence

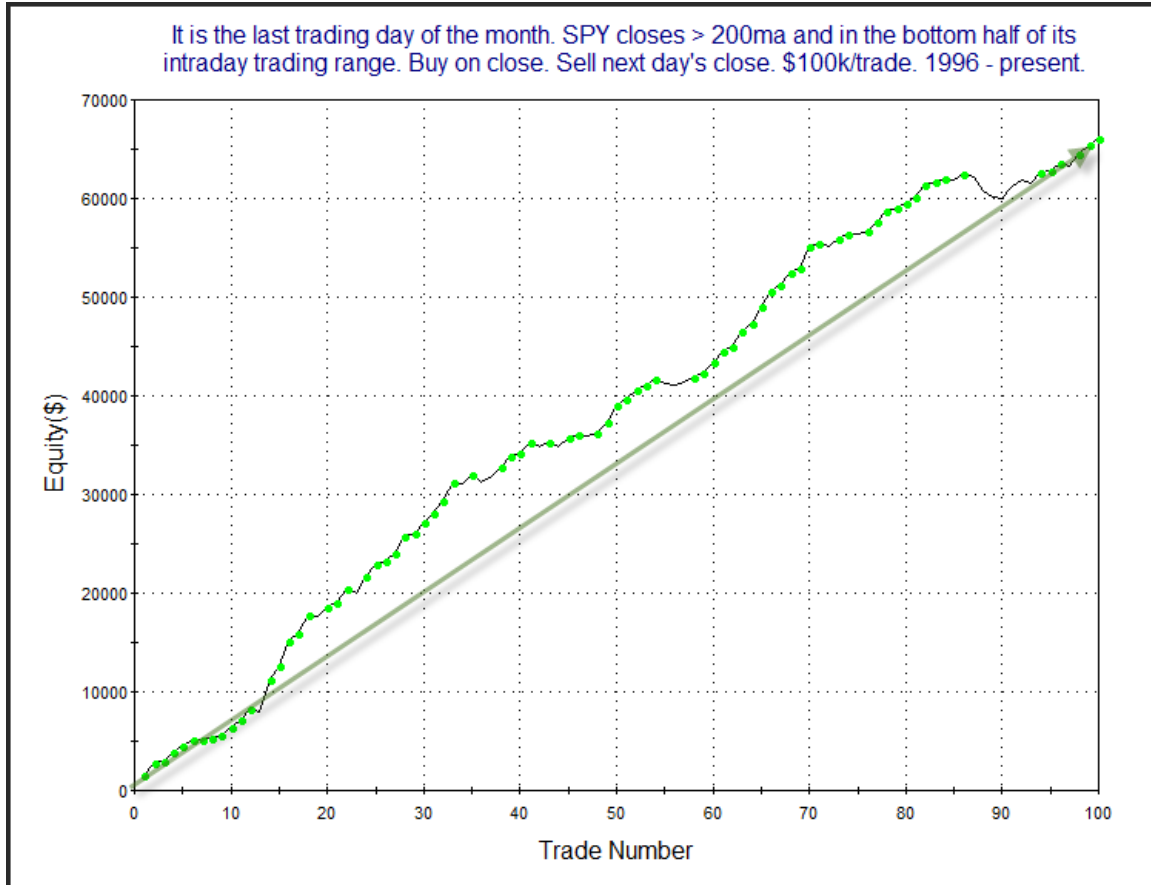
Tuesday was a mixed day for the market. The SPX lost 0.1%, the NASDAQ gained 0.3%, and the Russell 2000 rose 0.4%. Breadth was positive as the NYSE Up Issues % was 53% and the Up Volume % also came in at 53%. NYSE volume rose from Friday's level.

Wednesday is the 1st day of the month. The first of the month has had some interesting seasonal biases over the years. In the 9/2/14 letter I looked at how the 1st of the month performed and broke the results down by whether it finished the last day of the previous month in the upper or lower half of its daily range. Results showed a weak close going into month end was followed by better returns on a very consistent basis. I have updated those studies tonight. The first one below looks at times SPY closed in the bottom ½ of its daily range while above its 200ma. (This is the current situation.)

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

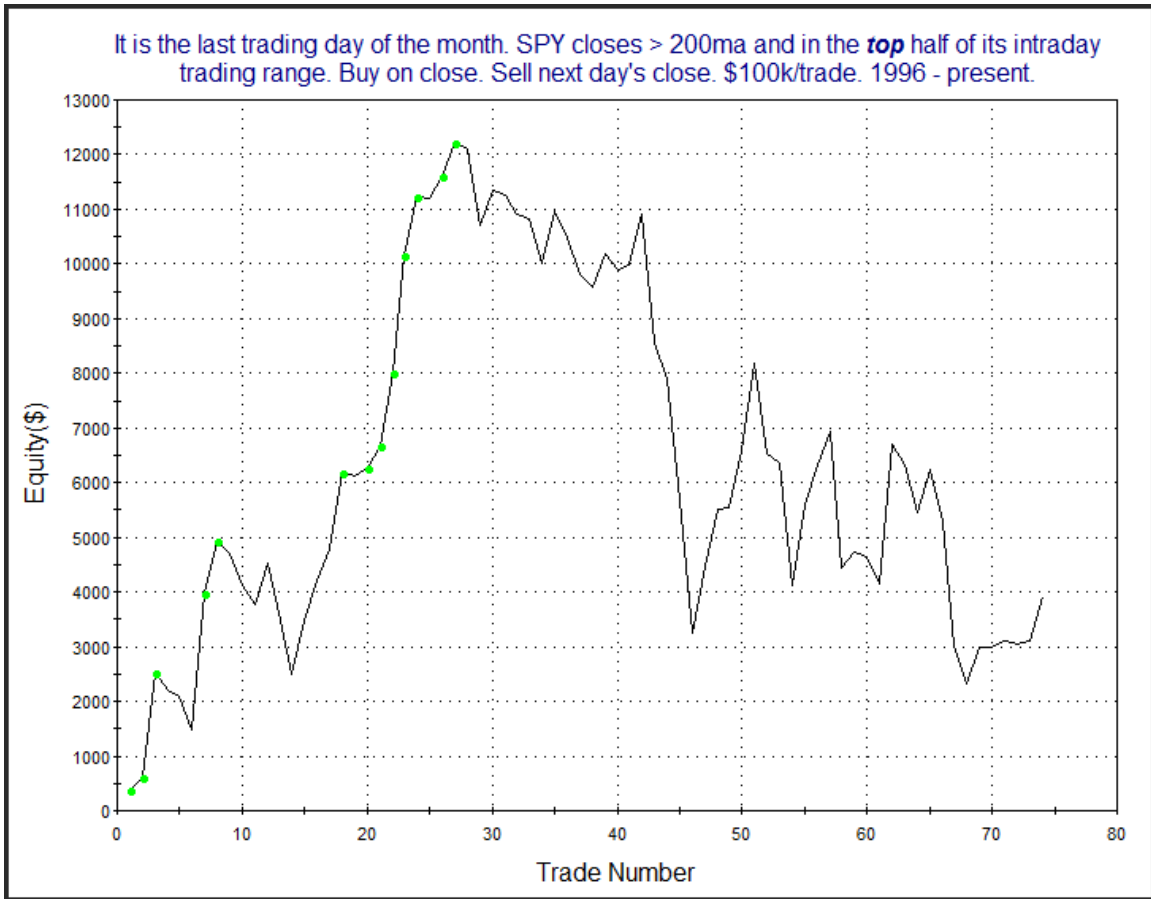
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$66,142.27	Profit Factor		10.22
Gross Profit	\$73,316.88	Gross Loss		(\$7,174.61)
Total Number of Trades	100	Percent Profitable		81.00%
Winning Trades	81	Losing Trades		19
Even Trades	0			
Avg. Trade Net Profit	\$661.42	Ratio Avg. Win:Avg. Loss		2.40
Avg. Winning Trade	\$905.15	Avg. Losing Trade		(\$377.61)
Largest Winning Trade	\$3,295.88	Largest Losing Trade		(\$1,353.69)

The stats here are very strong. Gains absolutely blow away losses. Gross gains are over 10x the size of gross losses. That's an incredible stat when you are looking at a sample size of 100 instances. And the profit curve...



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

Of course you may be wondering just how much it matters whether SPY closes in the top or bottom half of the day's range. To see the impact, below is a look at times where SPY closed in the top half.



This topped out in 2004 and has been a mess since.

The 1st day of the month has long carried an upside edge. Over the years more and more market participants have become aware of this. And depending on market conditions several of them may try and front-run this edge by getting into the market during the day on the last day of the month. When prices have been pushed higher in this way, it has basically eliminated the 1st day of month edge. But times when the afternoon of the last day has struggled and the market has closed poorly, then the strong day-1 seasonality has been able to consistently exert itself. Tuesday's weak finish bodes well for Wednesday.

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



With tonight's evidence included the green Aggregator Line moved a little further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line held just barely below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. 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.

With the current list of active studies, expectations are poised to remain positive on Wednesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2089.79 on Wednesday. That is 0.3% below Tuesday's close. So for SPX to move from overbought to oversold versus expectations it will need to close down at least 0.3%.

Tuesday did not really change anything. The Aggregator is neutral and so am I. Long-side evidence is leading here but I would prefer to see a bit more of a pullback to buy into. That appears unlikely to happen on Wednesday, with it being the 1st of the month. For now I will remain mostly sidelined and patient.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/31 – bullish

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

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
XIV(1/2)	5/5/2016	\$26.20	\$31.75	21.18%		Aggressive VIX

VIX futures contango remains strong (just under 14% between 1st and 2nd month). That is helping our XIV position. I will look to ride it a bit further.

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