

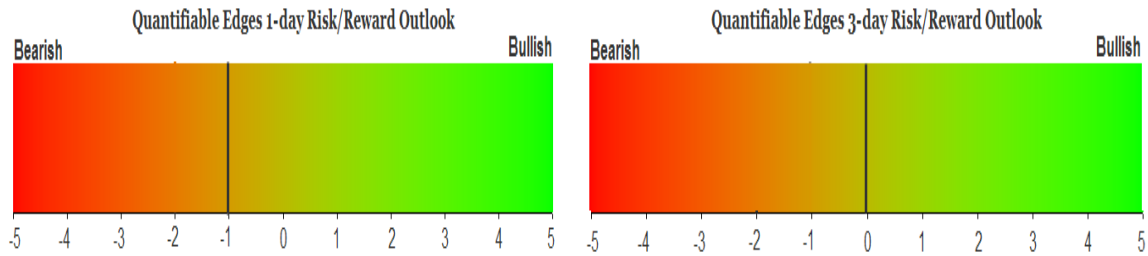
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 7, 2016

Volume 9 Issue 108

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

## *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
<b>Active - Short Term</b>						
June 7, 2016	VIX up SPX 50-high. Monday	1-2 days	Bearish			
June 6, 2016	Big drop from 50-high	1-4 days	Bullish	1.10%	-0.80%	-1.60%
<b>Active - Long Term</b>						
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	290% 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			
<b>Dropped Tonight</b>						
June 6, 2016	Unfilled gap from 50-high	1 day	Bearish			
May 31, 2016	SPY breakaway gap	1-5 days	Bullish	1.50%	-1.00%	-2.00%

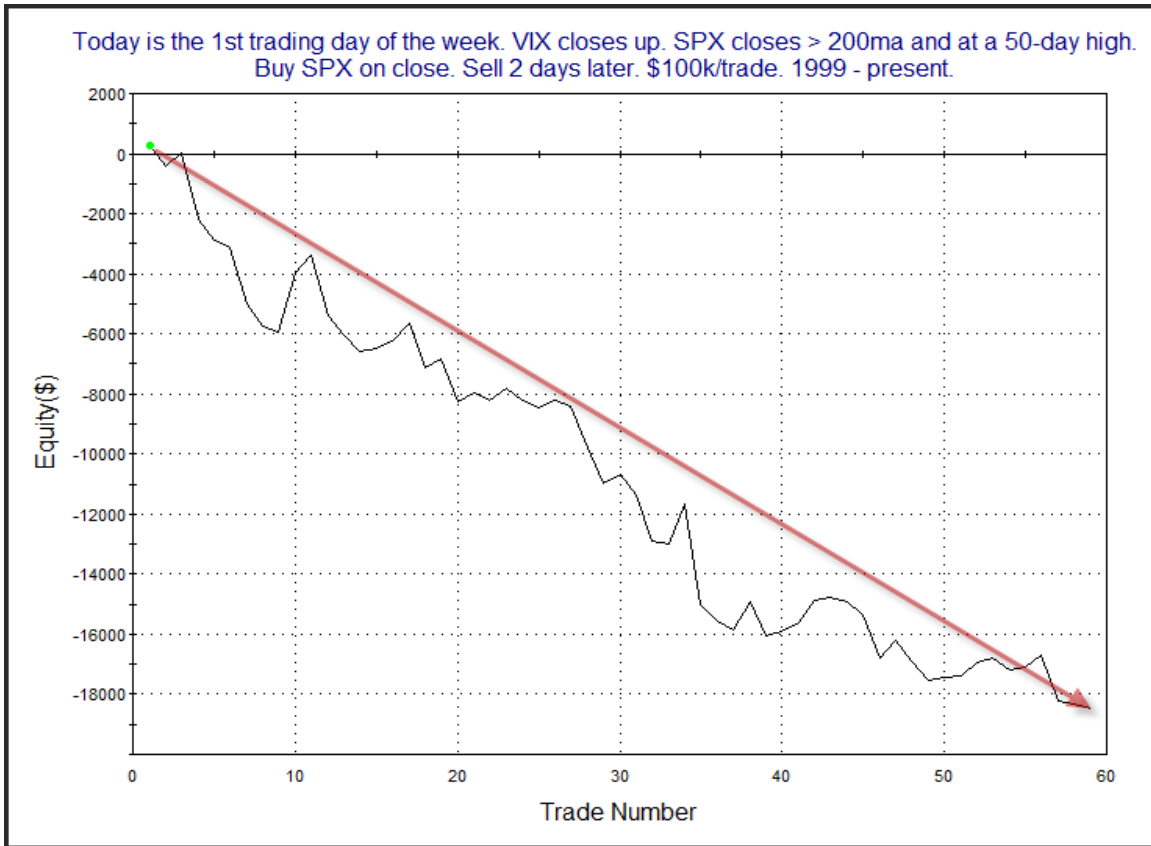
**The Evidence**

Monday was a solid up day for the market. The SPX gained 0.5%, the NASDAQ rose 0.5%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % was 69% and the Up Volume % came in at 77%. NYSE volume was very light.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 2/18/15 letter. Results are all updated.

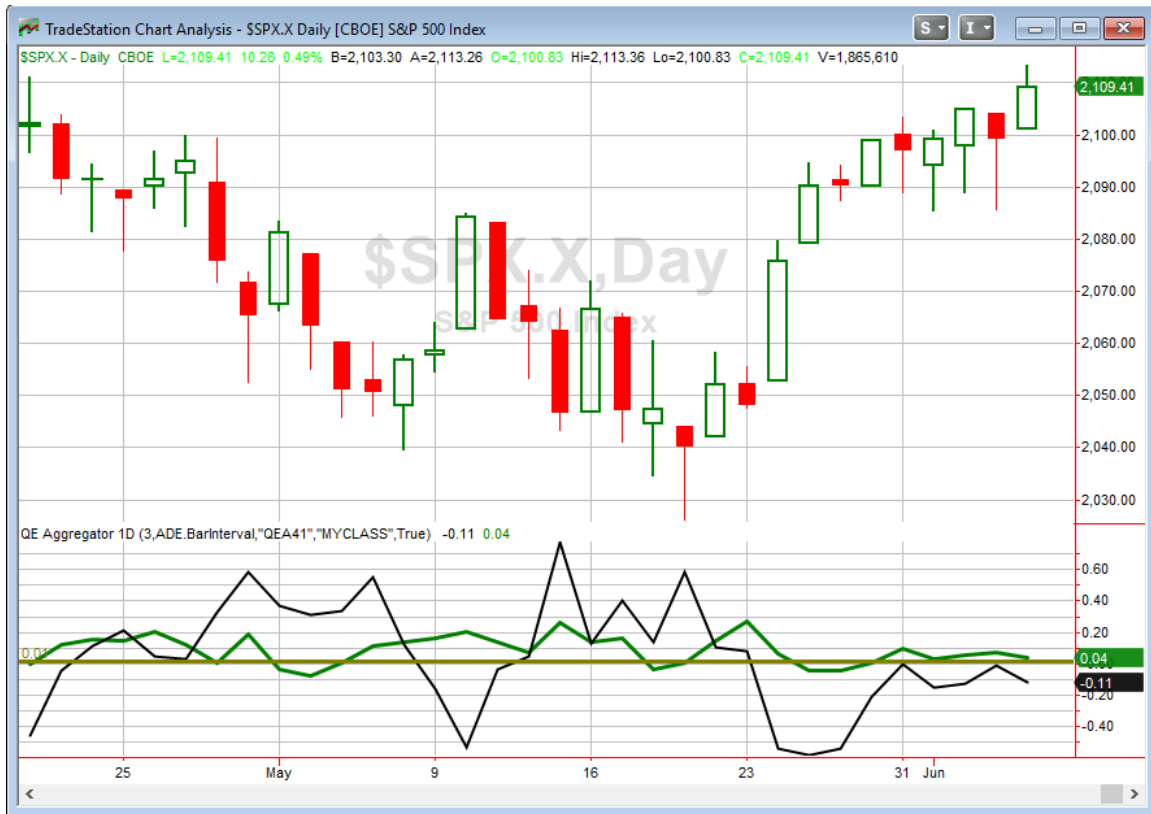
Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-13,333.91	54	26	28	48.15	1,067.41	3,260.25	-1,467.38	-5,048.68	0.73	0.68	-246.92
4	-8,104.33	59	28	31	47.46	947.81	2,953.65	-1,117.52	-4,271.52	0.85	0.77	-137.36
3	-10,106.21	59	26	33	44.07	754.15	2,641.80	-900.43	-3,887.84	0.84	0.66	-171.29
2	-18,493.09	59	25	34	42.37	443.03	1,981.72	-869.67	-3,372.16	0.51	0.37	-313.44
1	-7,661.35	59	21	38	35.59	328.47	769.70	-383.14	-1,580.04	0.86	0.47	-129.85

Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long and fairly steady decline, with the most recent instance again making new lows. This study seems worthy of consideration and I have included it on the Active List.

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



With tonight's study included the green Aggregator Line still held a little 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 a little 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 a little positive on Tuesday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2109.11 on Tuesday. That is just 0.30 points below Monday's close. SO SPX will continue to be overbought versus expectation on any up close, and will finished oversold on just about any down close.

This is still not an appealing setup in my view. Tonight's study suggests we could see a pullback in the next day or so. But overall evidence is a little bullish. And with the market neither strongly overbought or oversold the reward/risk does not appear highly favorable. I'll wait until a more favorable opportunity emerges before taking on new exposure.

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

<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>
XIV(1/2)	5/5/2016	\$26.20	\$33.42	27.56%		Aggressive VIX

VIX futures contango remains strong (just over 16% between 1<sup>st</sup> and 2<sup>nd</sup> month). That is helping our XIV position. I will look to ride it a bit further.

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