

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 5, 2013

Volume 6 Issue 235

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing	NDX Trend Timer
Long	100% Long XIV	Flat	Long

Tonight's Research Points

- 7 days up for VIX has been rare but bullish.
- Some anxiety is coming in over Friday's employment report, but recent reports have mostly led to good days.

Short-term Outlook

The Bottom Line

Evidence is looking better tonight and the market is now more oversold. I am already long and will continue to add.

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

Study Date	Description	Time span	Bias	Avg Max Move
Active - Short Term				
December 5, 2013	VIX up 7 days	1-3 days	Bullish	2.10%
December 4, 2013	3 down from 50-high < 10ma > 10-low	1-4 days	Bullish	1.75%
December 4, 2013	System 11111	1-4 days	Bullish	
Active - Long Term				
December 2, 2013	Nasdaq leading SPX	int term	Bullish	
November 21, 2013	3-day pullback. Low 3/10 Offset HV	1-10 days	Bullish	
October 25, 2013	SPX > 50,2 Bollinger Band	1-50 days	Bullish	
October 21, 2013	70% Advancing Issues 3 Days In Row	1-75 days	Bullish	10.60%
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish	
April 29, 2013	6 months higher in a row	1-10 months	Bullish	14.30%
September 17, 2012	QE3	int term	Bullish	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
December 2, 2013	SPX dn. Up Issus > 55%	1-3 days	Bullish	1.10%

The Evidence

After trading all over the place on Wednesday, the market ended up largely unchanged. The SPX declined 0.1%, the Nasdaq gained less than 1 point, and the Russell 2000 fell 0.2%. Breadth was negative as the NYSE Up Issues % was 38% and the Up Volume % was 42%. Total NYSE volume rose for the 3rd day in a row.

One notable bit of action is that Wednesday marked the 7th day in a row that the VIX has risen. That is a very unusual streak. I decided to look back at all other times the VIX had risen for 7 days in a row while SPY was above its 200ma. Below are results of SPY over the following days.

VIX closes up for the 7th day in a row. Buy SPY on close. Sell 3 days later. \$100k/trade. 1993 - 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	13,879.07	7	6	1	85.71	2,454.16	4,455.11	-845.91	-845.91	2.90	17.41	1,982.72
4	12,468.31	7	5	2	71.43	2,657.44	4,855.07	-409.45	-780.84	6.49	16.23	1,781.19
3	12,354.42	7	7	0	100.00	1,764.92	4,577.32	0.00	0.00	100.00	100.00	1,764.92
2	8,748.12	7	5	2	71.43	2,012.33	4,932.84	-656.76	-882.06	3.06	7.66	1,249.73
1	2,077.24	7	5	2	71.43	852.44	2,355.32	-1,092.48	-1,677.36	0.78	1.95	296.75

Instances are low, but so far the returns are overwhelmingly bullish. Below is the list of instances assuming a 3-day holding period.

VIX closes up for the 7th day in a row.
Buy SPY on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/03/94	Buy	\$46.48	0.58%	\$795.87
01/06/94	Sell	\$46.75		(\$21.51)
02/06/96	Buy	\$64.77	1.65%	\$2,484.23
02/09/96	Sell	\$65.84		(\$108.01)
03/19/97	Buy	\$78.78	0.95%	\$1,015.20
03/24/97	Sell	\$79.53		(\$1,142.10)
10/30/97	Buy	\$89.94	4.58%	\$4,999.50
11/04/97	Sell	\$94.06		\$0.00
03/30/98	Buy	\$109.56	2.25%	\$2,453.28
04/02/98	Sell	\$112.03		(\$136.80)
08/05/03	Buy	\$96.42	1.93%	\$2,208.81
08/08/03	Sell	\$98.28		\$0.00
04/09/12	Buy	\$138.22	0.41%	\$491.64
04/12/12	Sell	\$138.79		(\$1,778.58)
Avg trade: 1.8% Avg Run-up: 2.1% Avg Drawdown: -0.5%				

Very little drawdown compared to both the run-up and the average trade. This appears to be worth some consideration. I also looked to see how the VIX did over this 3-day time period.

VIX closes up for the 7th day in a row.
"Buy" VIX on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
01/03/94	Buy	\$12.57	(10.34%)	\$0.00
01/06/94	Sell	\$11.27		(\$12,966.65)
02/06/96	Buy	\$14.59	0.27%	\$274.16
02/09/96	Sell	\$14.63		(\$4,797.80)
03/19/97	Buy	\$21.74	(7.73%)	\$0.00
03/24/97	Sell	\$20.06		(\$9,427.95)
10/30/97	Buy	\$38.20	(15.60%)	\$0.00
11/04/97	Sell	\$32.24		(\$15,989.87)
03/30/98	Buy	\$24.66	(10.87%)	\$0.00
04/02/98	Sell	\$21.98		(\$10,867.40)
08/05/03	Buy	\$22.68	(13.62%)	\$0.00
08/08/03	Sell	\$19.59		(\$13,623.81)
04/09/12	Buy	\$18.81	(8.56%)	\$11,961.00
04/12/12	Sell	\$17.20		(\$8,558.76)

Except for the 1996 instance, there was a decline of at least 7% every time.

One reason we have seen the VIX rise lately is anxiety over QE tapering. Real news of this decision won't arrive for about 2 weeks, but many people look at the employment report as the most important economic barometer, and it could impact the Fed's decision. The employment report is due to be released Friday morning. News there could certainly send the market in either direction.

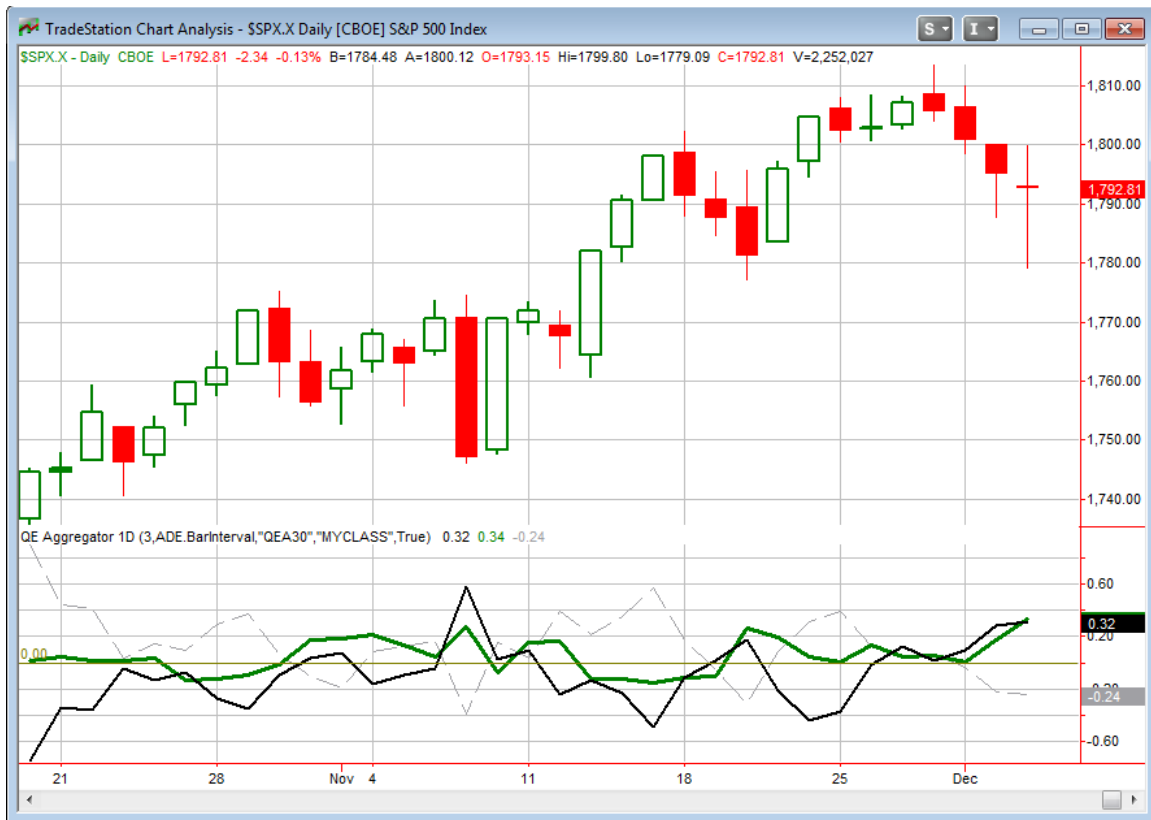
But anxiety about the employment report has largely been unfounded over the last year and a half. The table below looks at how the VIX, XIV and SPX have all performed on employment days since 7/1/12.

Tomorrow is an employment day.
Buy at close. Sell next day's close. \$100k/trade. 7/1/2012 - present.

Date/Time	VIX % CHG	XIV % CHG	SPX % CHG
07/05/12	(2.29%)	1.19%	(0.94%)
07/06/12			
08/02/12	(10.98%)	7.11%	1.90%
08/03/12			
09/06/12	(7.82%)	5.60%	0.40%
09/07/12			
10/04/12	(1.51%)	1.30%	(0.03%)
10/05/12			
11/01/12	5.39%	(2.54%)	(0.94%)
11/02/12			
12/06/12	(4.10%)	3.72%	0.29%
12/07/12			
01/03/13	(5.01%)	1.95%	0.49%
01/04/13			
01/31/13	(9.66%)	5.25%	1.01%
02/01/13			
03/07/13	(3.60%)	1.28%	0.45%
03/08/13			
04/04/13	0.22%	(0.26%)	(0.43%)
04/05/13			
05/02/13	(5.45%)	2.21%	1.05%
05/03/13			
06/06/13	(8.96%)	4.61%	1.28%
06/07/13			
07/03/13	(8.20%)	5.25%	1.02%
07/05/13			
08/01/13	(7.42%)	2.40%	0.16%
08/02/13			
09/05/13	0.51%	(0.84%)	0.01%
09/06/13			
10/21/13	1.29%	(0.52%)	0.57%
10/22/13			
11/07/13	(7.26%)	4.14%	1.34%
11/08/13			

These 17 instances have shown a strong propensity for the VIX to drop, and XIV and SPX to rally. While trading ahead of a big report is always risky, market nervousness on Thursday could create a nice buying opportunity.

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



The new bullish study tonight helped the green Aggregator Line again move 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 is also still well above 0. The positive Differential Line reading means the SPX is oversold versus recent expectations. So expectations are strongly positive and the SPX has underperformed over the last few days. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. This caused the Aggregator signal to remain long.

With the current active studies, expectations are set to remain bullish on Thursday. Of course this could change if strong new bearish evidence emerges. The Differential Pivot will be 1802.73 on Thursday. That is 0.6% above Wednesday's close. So it will take a close higher of at least this much to move SPX from oversold to overbought versus expectations.

Nothing really has changed since last night. I still like the upside evidence. And the market still has some room to the north before it becomes overbought. The VIX studies were fairly compelling, and I will look to add the 2nd lot of XIV if more nervousness causes it to decline much on Thursday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/2 – bullish

The intermediate-term outlook was last updated in the 12/2 subscriber 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 [system triggers 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.

XIV – Buy ½ position @ \$31.66 LIMIT ON CLOSE. This would be the 2nd and final lot for this trade. I am leaving this entry similar to the way it looked last night. If we get a close down at \$31.66 or lower I will put on the 2nd half of this position. The VIX is quite stretched. Contango is still evident in the VIX futures, and we are showing a strong likelihood of a market bounce. Additionally, tonight's studies build the case even further between the multiple up days and the recent employment reports.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	11/29/2013	\$180.95	\$179.73	-0.67%		Aggregator
XIV(1/2)	12/2/2013	\$32.78	\$31.99	-2.41%		Aggressive XIV
TWX	12/3/2013	\$65.46	\$65.44	-0.03%		sys 80402
SPY(1/4)	12/4/2013	\$179.10	\$179.73	0.35%		bought on open

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