

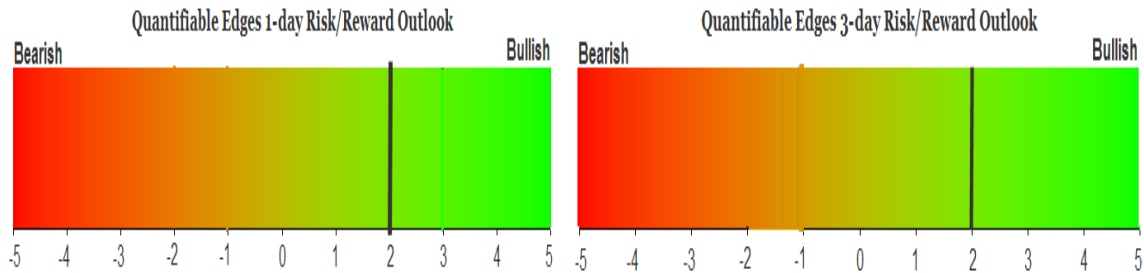
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 17, 2013

Volume 6 Issue 243

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Long

## Tonight's Research Points

- The weaker the close on Tuesday, the more bullish the setup for Wednesday.
- SPX up and VIX up on a Monday used to signal a down Tuesday. But that has not been the case in recent times, and I no longer view it as bearish.

## *Short-term Outlook*

### *The Bottom Line*

The edge still appears to be to the upside. I am long. Depending on Tuesday's action, I could either look to get longer, or look to take partial profits on a strong close.

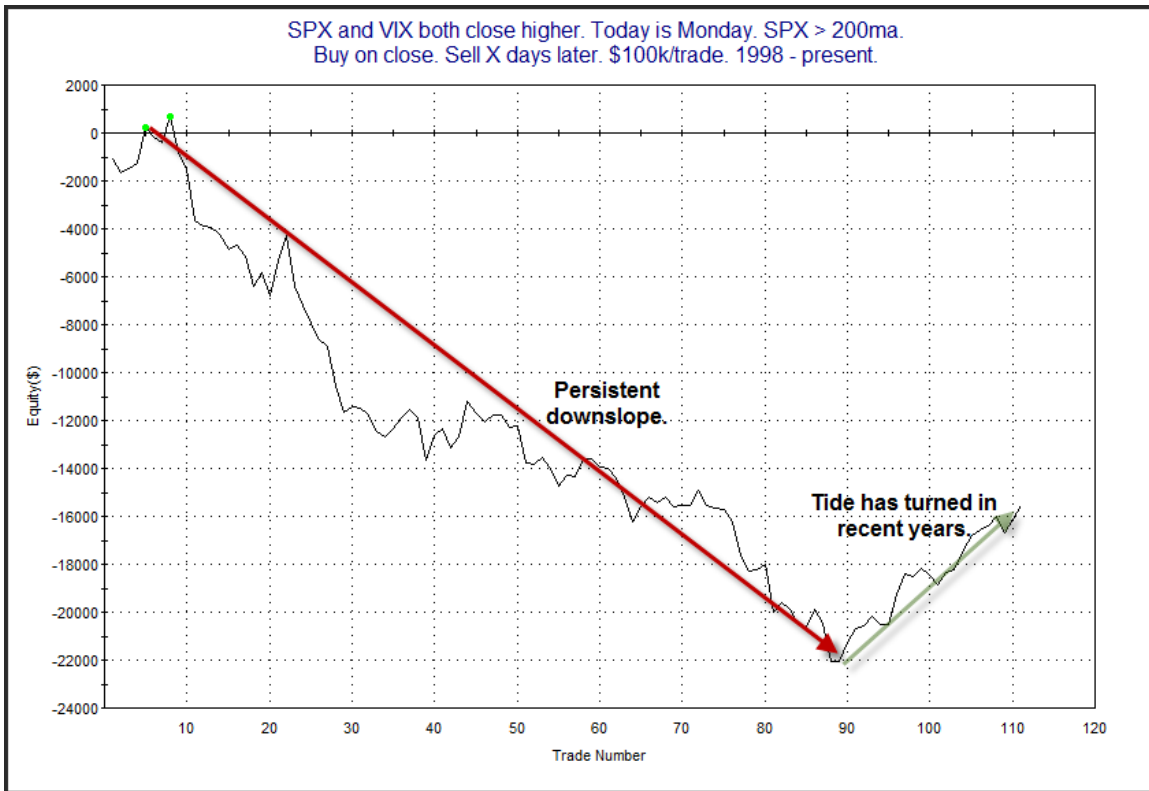
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Max Move
<b>Active - Short Term</b>				
December 16, 2013	3 down days into opex	1-2 days	Bullish	
December 16, 2013	Dec opex week	1-2 days	Bullish	
December 13, 2013	20-day low > 200ma	1-7 days	Bullish	2.00%
December 12, 2013	2 unfilled up gaps & 50-day high	1-4 days	Bullish	
<b>Active - Long Term</b>				
December 16, 2013	2nd half December seasonally strong	1-15 days	Bullish	3.60%
December 2, 2013	Nasdaq leading SPX	int term	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	

**The Evidence**

The market got a bounce on Monday. It started off with a big gap up. Then those gains were quickly increased early in the morning. But momentum died out and the close ended up back near the open for most indices. The SPX posted a 0.6% gain, the NASDAQ rose 0.7% and the Russell 2000 rallied 1.2%. Breadth was positive as the NYSE Up Issues % was 66% and the Up Volume % was 73%. Volume came in a bit higher than Friday, but still not heavy.

Very little triggered in the Quantifinder, and I did not come up with anything worth close investigation. This is not unusual on the first day of a bounce after a decent sized pullback. One study that did trigger was related to the rise in VIX that went along with the rise in SPX. Because the VIX has a tendency to fall on Friday afternoons and the rise on Mondays, Monday is the most common day of the week to see them both rise. The 10/2/12 study showed that SPX had an inclination to close lower on Tuesday after this setup occurred on Monday. But I also noted in that letter that the bearish inclination seemed to be waning. Below is an updated profit curve of this setup.



What once appeared to be a steady downslope has turned upwards recently. I don't know if this change in character is temporary or permanent, but it no longer seems wise to count on this as a bearish indication.

One thing traders may want to keep in mind on Tuesday is that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 7/30/13 letter. Below are the 4 quartiles from highest to lowest in the daily range (all updated).

Tomorrow is a Fed Day. SPY closes in top 25% of daily range.  
Buy on close. Sell next day's close. \$100k/trade. 1993 - 12/15/13

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$8,680.26	Profit Factor	1.42	
Gross Profit	\$29,338.01	Gross Loss	(\$20,657.75)	
Total Number of Trades	66	Percent Profitable	48.48%	
Winning Trades	32	Losing Trades	32	
Even Trades	2			
Avg. Trade Net Profit	\$131.52	Ratio Avg. Win:Avg. Loss	1.42	
Avg. Winning Trade	\$916.81	Avg. Losing Trade	(\$645.55)	
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)	

Tomorrow is a Fed Day. SPY closes > 50 and <=75% of daily range.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - 6/14/13.

TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$13,590.58	Profit Factor	2.06	
Gross Profit	\$26,412.57	Gross Loss	(\$12,821.99)	
Total Number of Trades	37	Percent Profitable	56.76%	
Winning Trades	21	Losing Trades	15	
Even Trades	1			
Avg. Trade Net Profit	\$367.31	Ratio Avg. Win:Avg. Loss	1.47	
Avg. Winning Trade	\$1,257.74	Avg. Losing Trade	(\$854.80)	
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)	

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of daily range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - 12/15/13

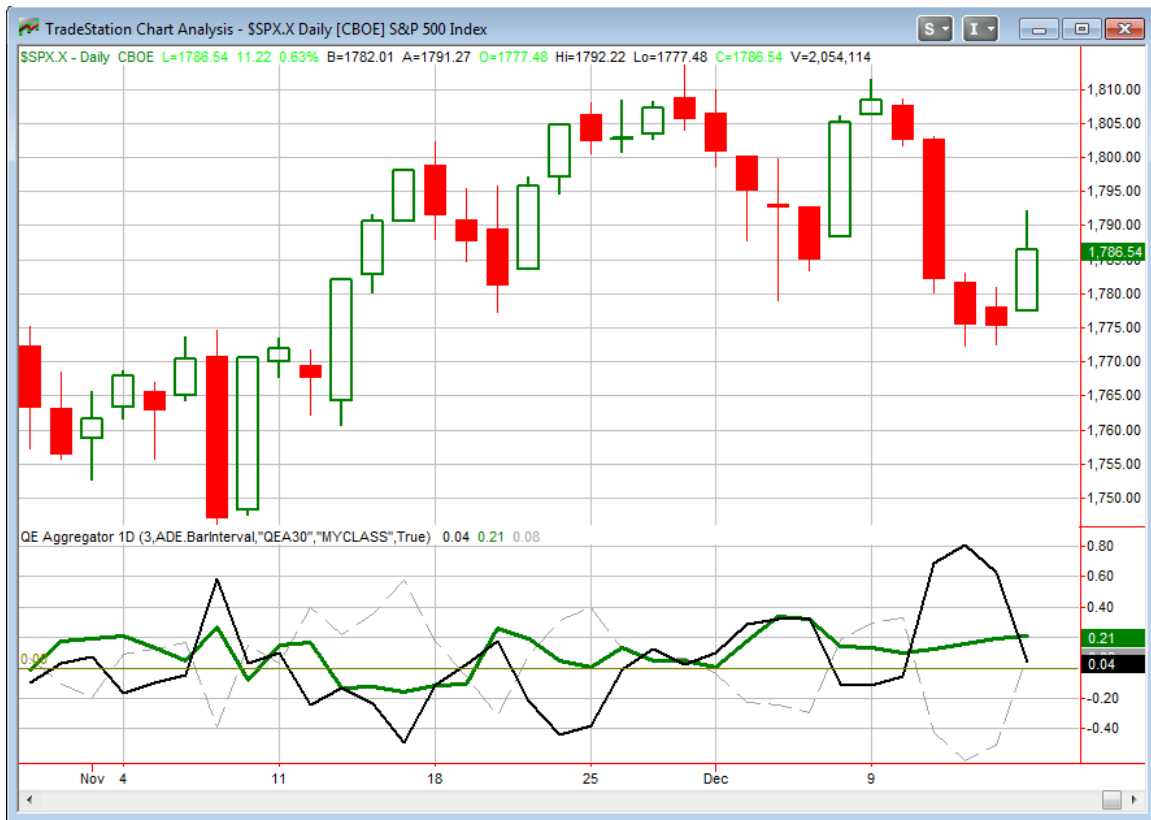
TradeStation Performance Summary				Collapse ^
All Trades				
Total Net Profit	\$10,338.95	Profit Factor	2.51	
Gross Profit	\$17,190.91	Gross Loss	(\$6,851.96)	
Total Number of Trades	28	Percent Profitable	71.43%	
Winning Trades	20	Losing Trades	8	
Even Trades	0			
Avg. Trade Net Profit	\$369.25	Ratio Avg. Win:Avg. Loss	1.00	
Avg. Winning Trade	\$859.55	Avg. Losing Trade	(\$856.50)	
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)	

SPY closes in bottom 25% of daily range. Tomorrow is a Fed Day.  
Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.

TradeStation Performance Summary <span style="float: right;">Collapse ^</span>			
All Trades			
Total Net Profit	\$20,552.27	Profit Factor	4.08
Gross Profit	\$27,234.96	Gross Loss	(\$6,682.69)
Total Number of Trades	35	Percent Profitable	74.29%
Winning Trades	26	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$587.21	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,047.50	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 3.5 years ago when I first devised this study holds true today: the worse the close, the better the edge. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Traders that may look to trade the Fed Day edge could consider taking an exit ahead of the Wednesday afternoon announcement.

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



Without any new studies tonight the green Aggregator Line remained well 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 now just barely positive. The positive Differential Line reading means the SPX is still moderately oversold versus recent expectations. So expectations are positive and the SPX is slightly oversold. 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 Tuesday. This could change if new bearish evidence emerges. The Differential Pivot will be *inverted* at 1782.29 on Tuesday. That is 0.2% *below* Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case it will take a decline of at least 0.2% in order for SPX to remain "oversold".

If the market struggles on Tuesday, then there is a good chance we'll see some positive Fed Day indications. And if it closes both lower and in the bottom end of its range, then I will definitely be interested in adding some short-term exposure. But if we get a strong move up, then I will be looking to take some profits.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 12/16 – bullish***

The intermediate-term outlook can be seen in the current weekly letter:

<http://quantifiableedges.com/current-weekly-letter/>

### **Catapult and Capitulative Breadth Statistics**

*Catapult & CBI Presentation Link*

#### ***Open Catapult Triggers***

*ABT 1/3 @ \$36.92 (buy 1/3 at limit) (not filled – cancel for now)*

*APC – @ \$85.26 (bought 1/3 size position)*

*APC – @ \$83.59 (bought 1/3 size position)*

*APC – @ \$78.30 (bought 1/3 size position)*

#### ***Catapult for ETF's Trades***

*None*

***Broad Market Large Cap CBI – 4(ABT, APC-3)***

### **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.*

**SPY - buy 1/4 index position @ \$178 LIMIT ON CLOSE IF SPY ALSO CLOSES IN BOTTOM HALF OF RANGE.** This is based on the short-term outlook above. I may only hold onto this lot until shortly before Wednesday's Fed announcement.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APC(1/3)	12/11/2013	\$85.26	\$79.07	-7.26%		Catapult
APC(1/3)	12/12/2013	\$83.74	\$79.07	-5.58%		Catapult
SPY(1/4)	12/12/2013	\$178.62	\$179.22	0.34%		Aggregator
SPY(1/4)	12/13/2013	\$178.00	\$179.22	0.69%		Aggregator
APC(1/3)	12/16/2013	\$78.30	\$79.07	0.98%		Catapult

*If SPY closes  $\geq$  \$179.00 and in the top half of its daily range, then I will sell one lot of SPY at the close.*

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2013 Hanna Capital Management, LLC.