

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 19, 2013

Volume 6 Issue 245

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- 100-day highs on Fed Days have often led to follow-on buying.
- The basing period does not appear long enough for today's breakout to be very meaningful.

## *Short-term Outlook*

### *The Bottom Line*

There is still some hint of further upside, but the market is so overbought after Wednesday's rally that I aim to take profits and get largely flat.

**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 19, 2013	Fed Day closes at 100-day high	1-8 days	Bullish	
<b>Active - Long Term</b>				
December 19, 2013	20-high on high vol	1-20 days	Bullish	
December 18, 2013	4 Hindenburg Trigger	1 - 35 days	Bearish	-7.00%
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	
<b>Dropped Tonight</b>				
<i>December 18, 2013</i>	<i>Fed Day Wednesday</i>	<i>1 day</i>	<i>Bullish</i>	
<i>December 13, 2013</i>	<i>20-day low &gt; 200ma</i>	<i>1-7 days</i>	<i>Bullish</i>	<i>2.00%</i>

***The Evidence***

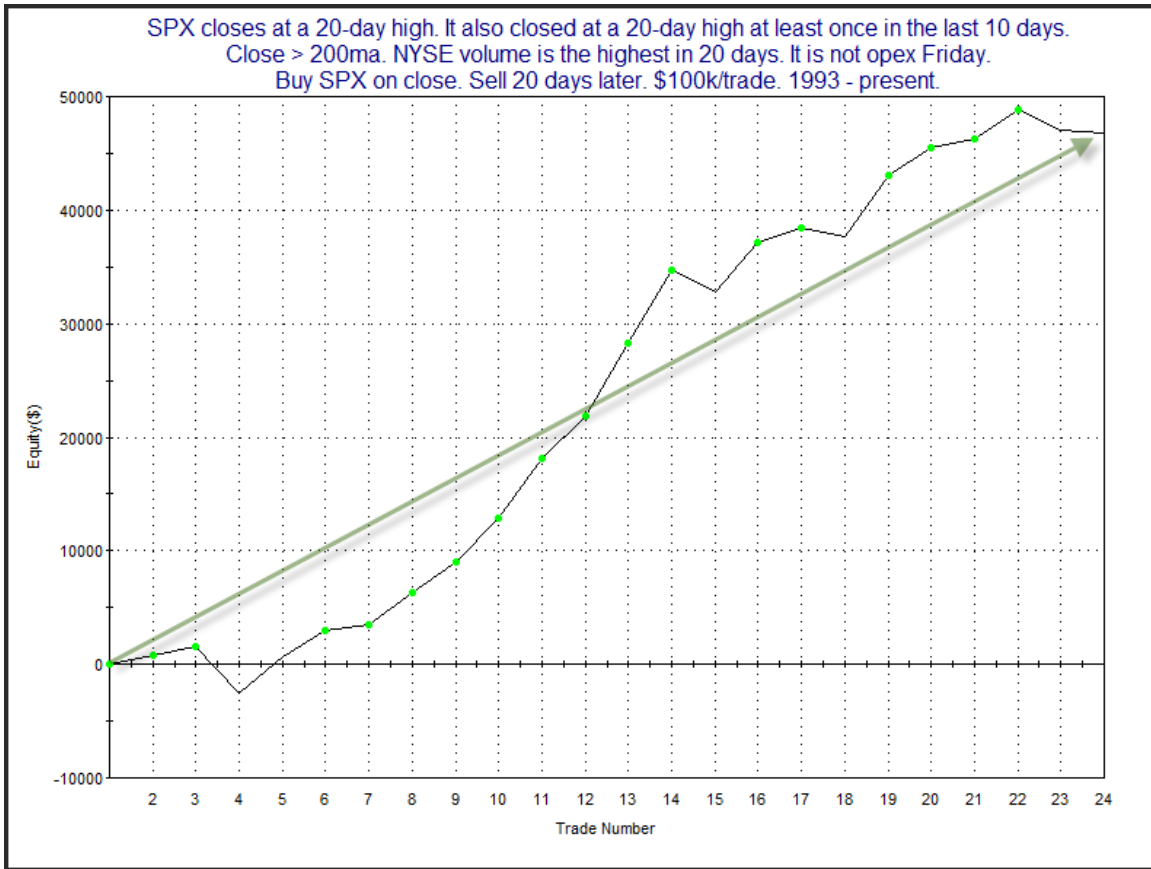
So the Fed said they are going to start tapering, and the response was a big rally. The SPX ended with a 1.6% gain while the NASDAQ rose 1.2% and the Russell 2000 rallied 1.3%. Breadth was strongly positive as the NYSE Up Issues % was 77% and the Up Volume % was 83%. Volume came in very high.

Quite a few studies triggered in the Quantifinder tonight. After sorting through them I chose the most compelling and interesting to discuss tonight. The setup below was last seen in the 9/14/12 letter. It examined breakouts to new highs on the highest volume in a month. Op-ex Fridays were excluded because they typically have very high volume. There is also a filter showing that no lengthy base has been built. Results are updated.

SPX closes at a 20-day high. It also closed at a 20-day high at least once in the last 10 days.  
 Close > 200ma. NYSE volume is the highest in 20 days. It is not opex Friday.  
 Buy SPX on close. Sell X 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
20	46,798.54	24	19	5	79.17	2,928.97	6,447.84	-1,770.38	-4,137.71	1.65	6.29	1,949.94
19	44,959.85	24	19	5	79.17	2,941.20	6,379.16	-2,184.58	-4,532.28	1.35	5.12	1,873.33
18	39,693.55	24	19	5	79.17	2,617.50	5,997.88	-2,007.79	-5,186.38	1.30	4.95	1,653.90
17	40,793.31	24	19	5	79.17	2,702.76	5,665.56	-2,111.84	-4,998.59	1.28	4.86	1,699.72
16	39,074.35	24	20	4	83.33	2,365.11	5,316.64	-2,056.97	-3,266.28	1.15	5.75	1,628.10
15	37,734.33	25	18	7	72.00	2,646.60	5,280.54	-1,414.91	-3,939.84	1.87	4.81	1,509.37
14	34,676.96	25	20	5	80.00	2,255.91	4,999.68	-2,088.25	-3,993.99	1.08	4.32	1,387.08
13	34,504.08	25	19	6	76.00	2,350.94	4,789.50	-1,693.95	-2,815.80	1.39	4.39	1,380.16
12	28,465.05	25	18	7	72.00	2,203.44	4,951.21	-1,599.55	-2,992.08	1.38	3.54	1,138.60
11	23,702.77	25	18	7	72.00	2,040.68	5,026.96	-1,861.37	-3,677.70	1.10	2.82	948.11
10	20,650.68	25	16	9	64.00	2,135.02	4,304.04	-1,501.07	-3,411.90	1.42	2.53	826.03
9	20,899.03	25	17	8	68.00	1,991.60	3,941.96	-1,619.78	-3,097.47	1.23	2.61	835.96
8	19,075.19	25	17	8	68.00	1,926.24	4,503.68	-1,708.86	-2,963.67	1.13	2.40	763.01
7	17,782.61	26	18	8	69.23	1,439.83	2,907.80	-1,016.79	-2,268.24	1.42	3.19	683.95
6	16,577.80	26	20	6	76.92	1,370.25	2,721.95	-1,804.55	-4,691.70	0.76	2.53	637.61
5	9,064.68	26	17	9	65.38	1,230.00	2,489.51	-1,316.14	-2,959.32	0.93	1.77	348.64
4	11,242.10	27	17	10	62.96	1,253.40	3,276.08	-1,006.58	-2,560.74	1.25	2.12	416.37
3	12,816.12	29	18	11	62.07	1,195.75	3,578.64	-791.58	-1,553.21	1.51	2.47	441.94
2	6,125.29	30	20	10	66.67	656.03	1,593.78	-699.54	-1,421.00	0.94	1.88	204.18
1	101.91	36	18	18	50.00	396.00	1,109.66	-390.34	-1,099.82	1.01	1.01	2.83

The numbers here suggest a decent long-side inclination for the intermediate-term. Short-term numbers are ok, but the curves are not great. Below is the 20-day profit curve.



The last couple of instances have not panned out, but the overall upslope still appears to be intact.

If there had been a longer base-building period before Wednesday’s breakout then the short-term results would have been more attractive. That can be seen in this study from the 11/14/13 letter. (The numbers remain the same so it is not updated.)

SPX closes at a 20-day high. It has not closed at a 20-day in the last 10 days.  
 Close > 200ma. NYSE volume is the highest in 20 days. It is not opex Friday.  
 Buy SPX on close. Sell X 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
20	28,241.93	12	10	2	83.33	3,098.14	6,645.00	-1,369.75	-1,518.22	2.26	11.31	2,353.49
19	30,029.24	12	10	2	83.33	3,239.67	6,957.50	-1,183.76	-2,336.29	2.74	13.68	2,502.44
18	34,757.95	12	10	2	83.33	3,655.13	6,622.50	-896.69	-1,503.48	4.08	20.38	2,896.50
17	35,797.33	12	11	1	91.67	3,416.99	6,003.20	-1,789.57	-1,789.57	1.91	21.00	2,983.11
16	36,954.54	12	10	2	83.33	3,849.43	5,887.44	-769.89	-1,470.65	5.00	25.00	3,079.55
15	35,784.55	12	10	2	83.33	3,866.84	6,105.00	-1,441.92	-2,393.24	2.68	13.41	2,982.05
14	31,993.60	12	10	2	83.33	3,407.31	6,007.40	-1,039.77	-1,680.36	3.28	16.39	2,666.13
13	30,153.31	12	11	1	91.67	2,799.19	5,741.66	-637.78	-637.78	4.39	48.28	2,512.78
12	27,500.96	12	11	1	91.67	2,506.06	5,978.75	-65.66	-65.66	38.17	419.84	2,291.75
11	29,228.60	12	12	0	100.00	2,435.72	5,250.00	0.00	0.00	100.00	100.00	2,435.72
10	25,855.09	12	11	1	91.67	2,428.30	4,885.00	-856.26	-856.26	2.84	31.20	2,154.59
9	27,041.27	12	12	0	100.00	2,253.44	5,451.25	0.00	0.00	100.00	100.00	2,253.44
8	23,117.76	12	10	2	83.33	2,361.21	3,842.50	-247.17	-450.24	9.55	47.76	1,926.48
7	21,701.27	12	10	2	83.33	2,303.69	4,443.12	-667.79	-811.65	3.45	17.25	1,808.44
6	18,968.17	12	10	2	83.33	2,118.44	4,698.80	-1,108.11	-2,094.42	1.91	9.56	1,580.68
5	19,088.18	12	10	2	83.33	2,061.60	4,683.84	-763.91	-1,360.77	2.70	13.49	1,590.68
4	14,956.20	12	10	2	83.33	1,613.33	4,518.75	-588.55	-1,043.86	2.74	13.71	1,246.35
3	10,457.41	12	10	2	83.33	1,222.18	2,403.80	-882.17	-1,369.04	1.39	6.93	871.45
2	5,308.33	12	7	5	58.33	1,056.14	1,998.39	-416.94	-1,301.14	2.53	3.55	442.36
1	8,881.39	12	10	2	83.33	980.38	1,606.89	-461.21	-645.21	2.13	10.63	740.12

Results here are substantially stronger.

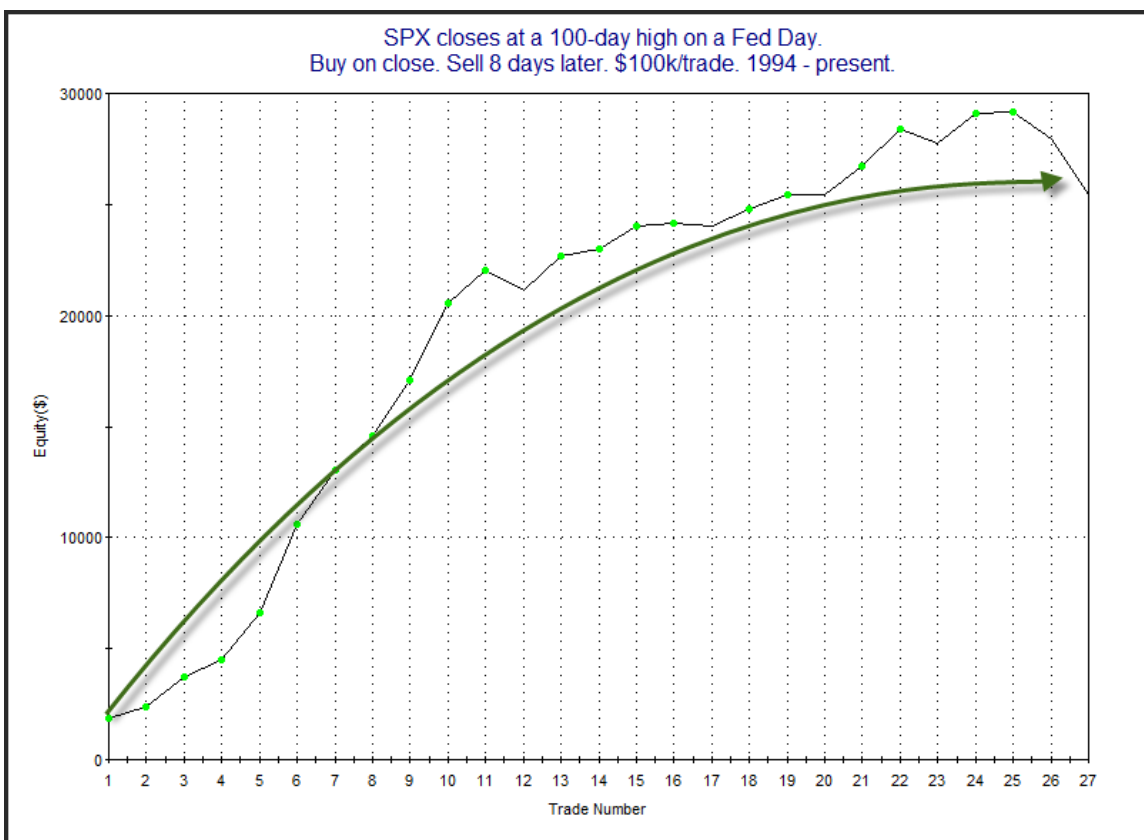
In “The Quantifiable Edges Guide to Fed Days” I discussed Fed Days that close at new highs. The basic finding was that when the market closed at a short-term high on a Fed Day, then it was likely to pull back over the next few days. But when it closed at a long-term high, then the rally was likely to continue. Below is a study from the guide that last appeared in the 9/19/13 Subscriber Letter.

SPX closes at a 100-day high on a Fed Day.  
Buy on close. Sell X days later. \$100k/trade. 1994 - 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
10	23,535.71	27	19	8	70.37	1,799.18	5,492.11	-1,331.08	-2,161.08	1.35	3.21	871.69
9	24,611.15	27	20	7	74.07	1,815.29	5,708.74	-1,670.67	-2,346.69	1.09	3.10	911.52
8	25,429.78	27	21	6	77.78	1,472.30	3,995.65	-914.77	-2,506.29	1.61	5.63	941.84
7	20,067.15	27	20	7	74.07	1,273.68	3,198.09	-772.34	-1,924.89	1.65	4.71	743.23
6	20,631.73	27	22	5	81.48	1,135.45	3,147.85	-869.64	-1,530.45	1.31	5.74	764.14
5	17,082.05	27	21	6	77.78	1,044.21	2,353.88	-807.73	-1,866.75	1.29	4.52	632.67
4	14,635.38	27	19	8	70.37	1,103.92	3,173.92	-792.39	-1,601.70	1.39	3.31	542.05
3	7,404.64	27	16	11	59.26	889.56	2,227.50	-620.76	-1,349.76	1.43	2.08	274.25
2	9,131.90	27	17	10	62.96	905.44	2,314.87	-626.05	-1,562.33	1.45	2.46	338.22
1	5,660.48	27	17	10	62.96	603.90	2,073.34	-460.58	-1,393.26	1.31	2.23	209.65

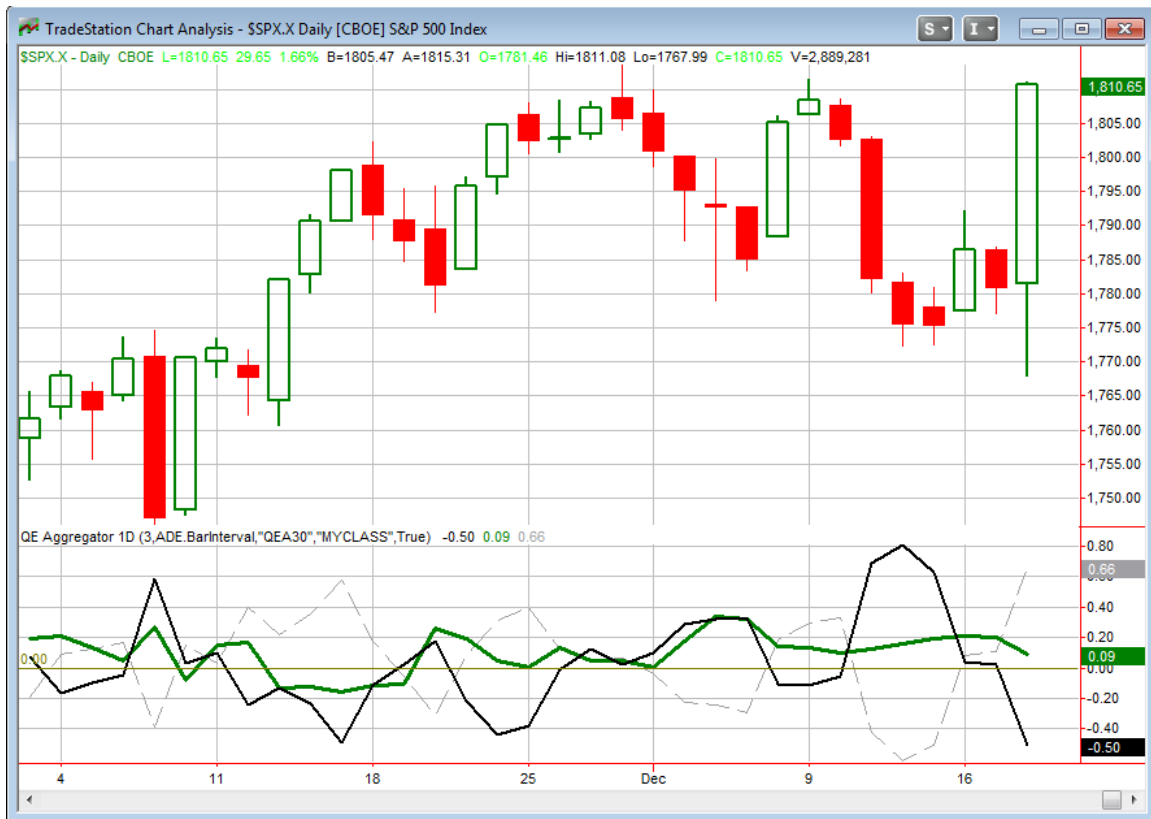
The only instance not to close above the entry price at some point in the next 7 days was the last one, which triggered on 9/18/13.

This suggests further upside is likely over the next 1-2 weeks. Below is the profit curve assuming an 8-day holding strategy.



The last 2 instances have struggled and the curve is not as appealing as it once was, but it is way too early to write this one off. I still believe it is worthy of consideration and have included it on the short-term active list.

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



The green Aggregator Line tonight again remained a little above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line took a huge dive thanks to the big SPX rally. The negative Differential Line reading means the SPX is strongly overbought versus recent expectations. So expectations are positive but the SPX is strongly oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. This caused the Aggregator signal to turn flat.

With the current active studies, expectations are set to remain bullish on Thursday. This could change if new bearish evidence emerges. The Differential Pivot will be 1796.31 on Thursday. That is 0.8% below Wednesday's close. So it will take a decline of at least this much in order to move the SPX into oversold territory.

A rally like Wednesday's will turn the market overbought in a hurry. I'm content to take profits, step aside, and wait for the next setup. I do still have some Catapult exposure and I will hold that until the exit signal arrives.

***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***

*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 – 3(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.*

**None tonight.**

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APC(1/3)	12/11/2013	\$85.26	\$79.65	-6.58%		Catapult
APC(1/3)	12/12/2013	\$83.74	\$79.65	-4.88%		Catapult
<b>SPY(1/4)</b>	<b>12/12/2013</b>	<b>\$178.62</b>	<b>\$178.92</b>	<b>0.17%</b>		<b>sold on open</b>
SPY(1/4)	12/13/2013	\$178.00	\$181.70	2.08%		sell @ \$181.40 limit
APC(1/3)	12/16/2013	\$78.30	\$79.65	1.72%		Catapult

*I am looking to exit the 2<sup>nd</sup> lot of SPY. I placed the exit limit a little below Wednesday's close to increase my chances of getting a fill if SPY gaps down.*

*APC would reach its exit target on Thursday with a close of \$80.40 or higher.*

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