

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 23, 2013

Volume 6 Issue 247

Market Overview



Signals Overview

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

Tonight's Research Points

- Over the next several days seasonality is set to be especially strong.
- The Fed's taper announcement is likely *not* good news for the long-term.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, but a down close on Monday would likely turn it positive. I'll look to take on some long exposure if that happens.

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 23, 2013	Twas 3 Nights Before Christmas	1-8 days	Bullish	
December 19, 2013	Fed Day closes at 100-day high	1-8 days	Bullish	
Active - Long Term				
December 23, 2014	QE Tapering	int term	Neutral	
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%
February 1, 2012	Golden Cross	int term	Bullish	

The Evidence

The market put in another solid day on Friday and reach new rally highs. The SPX gained 0.5%, the NASDAQ finished up 1.2% and the Russell 2000 rose 1.9%. Breadth was strong as the NYSE Up Issues % was 75% and the Up Volume % was 69%. Volume was very high, primarily due to options expiration.

The study below is the “Twas 3 Nights Before Christmas” study, and I have shown it each year in the letter. It triggered as of Friday’s close. I mentioned it in Thursday night’s letter with regards to SPX and the Nasdaq composite. Below are those and additional updated results.

Buy SPX at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	36,033.13	26	20	6	76.92	2,516.20	7,830.30	-2,381.80	-4,436.38	1.06	3.52	1,385.89
9	43,715.31	26	19	7	73.08	2,946.54	7,974.78	-1,752.70	-3,298.00	1.68	4.56	1,681.36
8	48,686.32	26	20	6	76.92	2,707.79	8,333.40	-911.57	-2,482.44	2.97	9.90	1,872.55
7	37,511.76	26	19	7	73.08	2,291.71	7,796.76	-861.54	-1,580.04	2.66	7.22	1,442.76
6	24,291.16	26	17	9	65.38	1,904.97	7,752.90	-899.26	-1,768.23	2.12	4.00	934.28
5	28,716.34	26	20	6	76.92	1,781.87	7,247.22	-1,153.50	-2,846.94	1.54	5.15	1,104.47
4	19,105.87	26	17	9	65.38	1,595.08	5,070.22	-890.06	-2,258.85	1.79	3.39	734.84
3	16,741.12	26	17	9	65.38	1,415.64	4,592.40	-813.86	-1,794.00	1.74	3.29	643.89
2	15,554.40	26	19	7	73.08	1,092.70	3,257.17	-743.84	-2,185.04	1.47	3.99	598.25
1	9,299.53	26	19	7	73.08	727.00	2,523.24	-644.79	-1,518.40	1.13	3.06	357.67
24 of 26 (92%) instances closed above the entry price at some point in the next week.												

The stats all appear quite strong. I would note the “Max Losing Trade” column shows very mild numbers from days 1-8, with no decline being worse than 2.5%.

But as I discussed last week, smallcaps rule this time of year. So let’s examine some other indices. First let’s look at the Russell 2000.

**Buy Russell 2000 at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	62,901.24	26	22	4	84.62	3,454.03	11,169.90	-3,271.87	-5,643.30	1.06	5.81	2,419.28
9	68,668.12	26	21	5	80.77	3,788.13	10,353.42	-2,176.53	-5,973.50	1.74	7.31	2,641.08
8	74,171.66	26	23	3	88.46	3,403.90	9,130.50	-1,372.71	-2,948.40	2.48	19.01	2,852.76
7	64,498.50	26	24	2	92.31	2,797.12	7,189.56	-1,316.19	-1,809.60	2.13	25.50	2,480.71
6	57,537.39	26	21	5	80.77	2,862.33	8,941.50	-514.30	-977.82	5.57	23.38	2,212.98
5	47,783.37	26	21	5	80.77	2,468.59	11,299.50	-811.39	-2,385.63	3.04	12.78	1,837.82
4	31,254.77	26	19	7	73.08	1,962.16	7,987.50	-860.89	-1,845.90	2.28	6.19	1,202.11
3	27,850.75	26	21	5	80.77	1,465.82	5,136.75	-586.29	-1,591.20	2.50	10.50	1,071.18
2	22,334.46	26	19	7	73.08	1,357.90	4,317.75	-495.08	-930.30	2.74	7.44	859.02
1	12,234.59	26	20	6	76.92	753.56	2,299.70	-472.78	-1,354.50	1.59	5.31	470.56

All 26 instances closed above the entry price at some point in the next 4 trading days

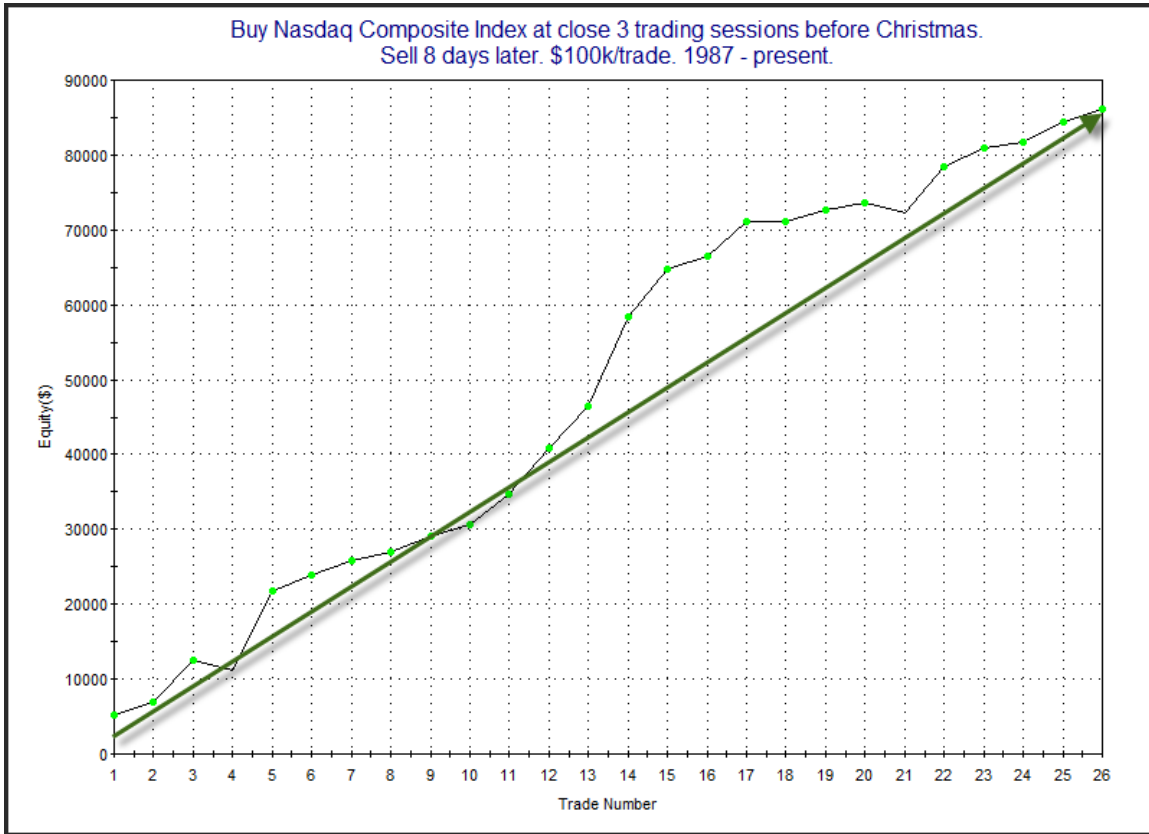
Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

**Buy Nasdaq Composite Index at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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	73,498.35	26	22	4	84.62	3,888.51	12,374.58	-3,012.24	-5,231.80	1.29	7.10	2,826.86
9	79,959.50	26	22	4	84.62	4,026.01	11,558.04	-2,153.16	-5,039.77	1.87	10.28	3,075.37
8	86,057.91	26	24	2	92.31	3,698.10	11,915.40	-1,348.19	-1,412.66	2.74	32.92	3,309.92
7	53,324.61	26	19	7	73.08	3,135.68	9,428.34	-893.34	-2,010.42	3.51	9.53	2,050.95
6	46,108.11	26	21	5	80.77	2,425.81	9,407.88	-966.79	-2,010.42	2.51	10.54	1,773.39
5	43,848.58	26	19	7	73.08	2,605.65	9,436.56	-808.39	-2,882.56	3.22	8.75	1,686.48
4	32,119.22	26	19	7	73.08	1,992.64	8,665.86	-820.12	-2,063.36	2.43	6.59	1,235.35
3	28,709.49	26	19	7	73.08	1,759.86	6,748.14	-675.40	-1,927.36	2.61	7.07	1,104.21
2	26,270.31	26	20	6	76.92	1,565.40	7,726.74	-839.60	-2,114.45	1.86	6.21	1,010.40
1	13,566.49	26	21	5	80.77	848.92	2,423.79	-852.16	-1,439.75	1.00	4.18	521.79

Since Nasdaq inception in 1971, the only year that the Nasdaq failed to closed above the entry price at some point in the next 5 trading days was 1986.

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week. Below is the 8-day profit curve.



The curve is as impressive as the stats.

Lastly, let's look at the NDX.

Buy NDX at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	76,824.33	26	21	5	80.77	4,293.91	14,811.16	-2,669.56	-5,387.52	1.61	6.76	2,954.78
9	86,514.05	26	22	4	84.62	4,388.66	13,881.66	-2,509.13	-5,095.68	1.75	9.62	3,327.46
8	92,877.32	26	23	3	88.46	4,201.24	14,312.70	-1,250.41	-2,534.56	3.36	25.76	3,572.20
7	55,843.81	26	19	7	73.08	3,438.23	12,688.52	-1,354.66	-3,669.30	2.54	6.89	2,147.84
6	42,174.30	26	19	7	73.08	2,701.95	11,843.52	-1,308.97	-2,893.94	2.06	5.60	1,622.09
5	48,232.52	26	19	7	73.08	3,044.18	11,443.50	-1,372.41	-3,226.03	2.22	6.02	1,855.10
4	36,173.78	26	18	8	69.23	2,477.97	11,245.05	-1,053.71	-2,242.57	2.35	5.29	1,391.30
3	32,045.68	26	17	9	65.38	2,394.03	8,742.60	-961.42	-2,203.20	2.49	4.70	1,232.53
2	30,381.44	26	20	6	76.92	1,890.91	10,167.30	-1,239.44	-3,741.36	1.53	5.09	1,168.52
1	16,983.28	26	20	6	76.92	1,149.84	2,863.84	-1,002.24	-2,662.20	1.15	3.82	653.20

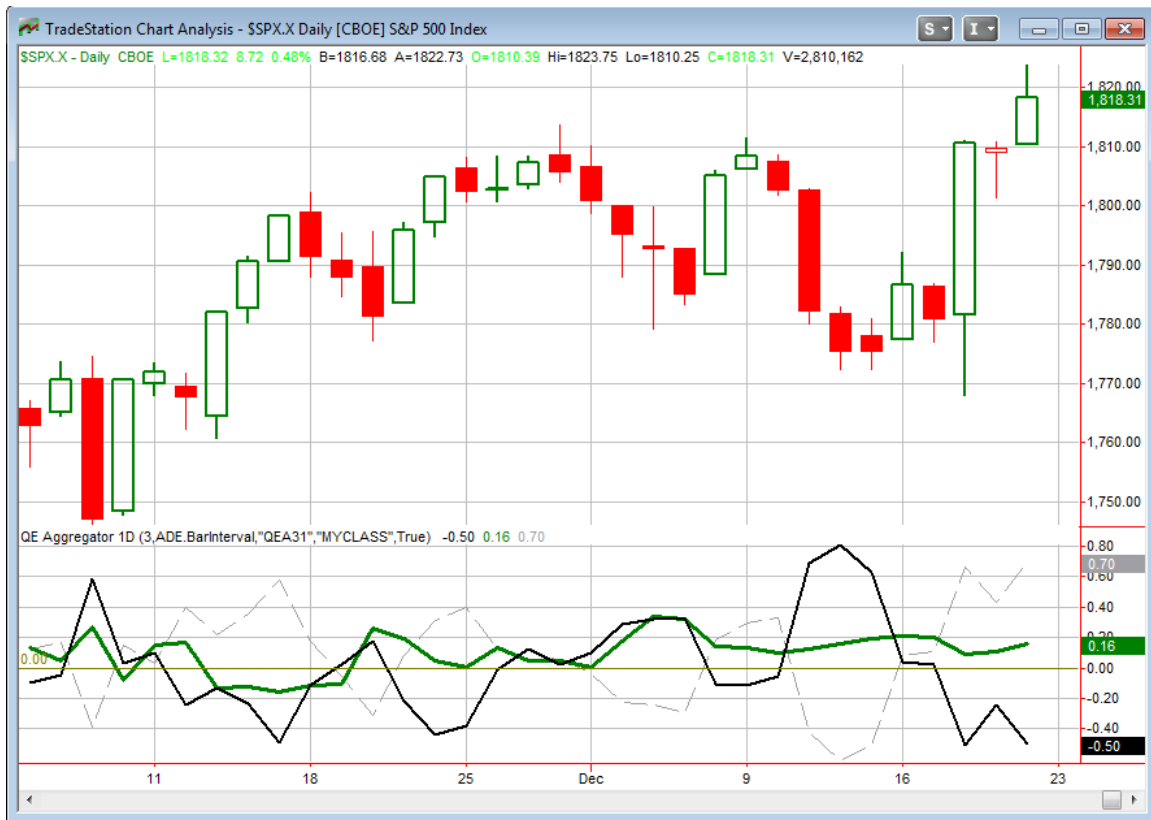
24 of 26 (92%) instances closed above the entry price at some point in the next week.

Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

There were a few studies that appeared in the Quantifinder that had previously been labeled bullish. One was related to the breakout, and the other was related to the strong breadth in the last few days. But both had equity curves that I no longer felt were appealing, and I decided to eliminate them.

Due to the strong seasonality we are seeing, between here and the end of the year I will likely deviate from my typical SPY trades and look to get into either QQQ or IWM if an opportunity arises.

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



With strong seasonality kicking in the green Aggregator Line tonight inched a little 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 still negative. The negative Differential Line reading means the SPX is overbought versus recent expectations. So expectations are positive but the 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. This caused the Aggregator signal to turn flat.

With the current active studies, expectations are set to remain bullish on Monday. This could change if strong bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 1819.63 on Monday. That is a little more than one point *above* Friday's close. an inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to rise a little over one point in order to remain overbought versus short-term expectations. Otherwise, it will be considered "oversold".

I generally like to have some long exposure at this time of year, unless the market is strongly overbought, or there are bearish indications suggesting a warning. At this point, it appears there may be an opportunity setting up to take advantage of a high probability seasonality boost. Therefore, I'll be looking to get long either QQQ or SPY on Monday afternoon if they fail to rally.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/23 – somewhat bullish

The market put in some nice gains this week, and is now back at all-time highs. Any doubts of whether the uptrend is still intact should now be alleviated.

A few new intermediate-term studies triggered this past week. They were mixed in nature. The first one was from the 12/18/13 Letter. I have copied an excerpt below:

One possible intermediate-term alarm sounded on Tuesday, and that was a 4th Hindenburg trigger in the last 30 days. The last cluster we had was in August, and I wrote some detailed analysis at that time. I have updated that analysis below:

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead. Tuesday marked the 4th recent Hindenburg Omen signals (under the less strict rules).

Below are the rules for a Hindenburg Omen signal.

- 1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically about 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have only been 6 instances since 1980 where there has been a cluster of 3 or more triggers. Five saw lower prices ahead, but this does not give us a sample size that is really workable. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)*
- 2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.*
- 3. The McClellan Oscillator is negative on the same day.*
- 4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).*

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when the 1st Hindenburg Omen triggers.
Sell X days later. \$100/trade. 1980 - 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
100	16,561.43	24	13	11	54.17	6,820.92	13,171.60	-6,555.51	-19,079.85	1.04	1.23	690.06
95	18,339.00	25	14	11	56.00	6,707.64	17,946.48	-6,869.81	-22,416.88	0.98	1.24	733.56
90	2,137.27	25	13	12	52.00	6,683.88	15,961.92	-7,062.76	-20,572.65	0.95	1.03	85.49
85	16,396.78	26	14	12	53.85	7,588.99	16,670.24	-7,487.42	-21,465.22	1.01	1.18	630.65
80	749.70	26	13	13	50.00	7,252.72	16,583.84	-7,195.06	-21,552.30	1.01	1.01	28.83
75	238.30	26	14	12	53.85	6,490.78	14,501.70	-7,552.72	-22,917.59	0.86	1.00	9.17
70	-5,136.07	26	12	14	46.15	7,937.35	17,714.32	-7,170.31	-20,289.64	1.11	0.95	-197.54
65	-15,707.93	26	12	14	46.15	7,324.52	16,609.84	-7,400.16	-21,508.76	0.99	0.85	-604.15
60	-31,054.88	26	12	14	46.15	6,303.86	17,197.44	-7,621.52	-24,323.31	0.83	0.71	-1,194.42
55	-55,722.66	26	11	15	42.31	5,941.98	14,306.24	-8,072.29	-27,246.71	0.74	0.54	-2,143.18
50	-35,732.04	26	10	16	38.46	6,738.56	14,509.04	-6,444.85	-29,846.67	1.05	0.65	-1,374.31
45	-22,085.93	27	13	14	48.15	5,422.72	13,151.98	-6,612.95	-23,971.88	0.82	0.76	-818.00
40	-19,862.13	27	12	15	44.44	6,092.06	12,520.58	-6,197.79	-23,520.93	0.98	0.79	-735.63
35	-19,328.91	29	13	16	44.83	5,817.65	12,021.20	-5,934.89	-24,659.19	0.98	0.80	-666.51
30	-11,643.85	29	15	14	51.72	4,624.67	9,855.58	-5,786.70	-22,460.42	0.80	0.86	-401.51
25	-5,947.21	30	14	16	46.67	5,152.84	9,781.64	-4,880.44	-27,340.01	1.06	0.92	-198.24
20	-10,929.02	31	16	15	51.61	3,949.12	9,257.67	-4,941.00	-19,533.91	0.80	0.85	-352.55
15	6,233.45	34	16	18	47.06	3,225.92	9,103.68	-2,521.18	-8,166.80	1.28	1.14	183.34
10	-3,262.76	40	19	21	47.50	2,522.20	9,012.33	-2,437.36	-7,899.90	1.03	0.94	-81.57
5	-20,127.73	50	17	33	34.00	1,849.17	4,926.56	-1,562.53	-5,775.12	1.18	0.61	-402.55

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when the 2nd Hindenburg Omen triggers.
Sell X days later. \$100k/trade. 1980 - 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
100	26,898.95	13	8	5	61.54	8,036.45	17,883.98	-7,478.53	-18,879.12	1.07	1.72	2,069.15
95	23,070.79	14	9	5	64.29	7,381.26	17,605.78	-8,672.11	-21,212.88	0.85	1.53	1,647.91
90	22,054.63	14	10	4	71.43	6,172.13	20,476.59	-9,916.68	-20,011.68	0.62	1.56	1,575.33
85	7,163.52	15	7	8	46.67	9,200.25	20,455.19	-7,154.78	-21,883.68	1.29	1.13	477.57
80	6,472.48	15	8	7	53.33	7,696.39	18,961.47	-7,871.24	-21,961.68	0.98	1.12	431.50
75	10,263.99	15	8	7	53.33	7,890.59	17,861.51	-7,551.54	-23,181.60	1.04	1.19	684.27
70	-3,656.11	15	9	6	60.00	6,305.81	21,700.67	-10,068.06	-19,060.08	0.63	0.94	-243.74
65	-24,980.14	15	7	8	46.67	6,780.26	20,504.41	-9,055.25	-23,131.68	0.75	0.66	-1,665.34
60	-14,676.10	15	8	7	53.33	5,588.81	19,457.95	-8,483.79	-22,011.60	0.66	0.75	-978.41
55	-32,222.51	15	7	8	46.67	5,811.57	18,625.49	-9,112.94	-26,329.68	0.64	0.56	-2,148.17
50	-25,584.35	16	7	9	43.75	6,467.96	17,961.02	-7,873.34	-29,889.60	0.82	0.64	-1,599.02
45	-26,235.95	17	7	10	41.18	5,587.25	16,345.32	-6,534.67	-24,766.56	0.86	0.60	-1,543.29
40	-21,976.59	17	7	10	41.18	5,898.03	14,615.13	-6,326.28	-24,853.92	0.93	0.65	-1,292.74
35	-16,473.85	17	8	9	47.06	5,331.43	13,303.31	-6,569.47	-22,211.28	0.81	0.72	-969.05
30	-20,661.59	17	9	8	52.94	4,331.49	11,007.09	-7,455.63	-20,354.88	0.58	0.65	-1,215.39
25	-22,473.16	18	9	9	50.00	4,262.08	10,173.56	-6,759.10	-23,381.28	0.63	0.63	-1,248.51
20	-30,025.89	19	7	12	36.84	3,944.37	8,886.35	-4,803.04	-22,295.52	0.82	0.48	-1,580.31
15	-1,896.70	20	8	12	40.00	3,145.17	8,305.02	-2,254.84	-6,748.56	1.39	0.93	-94.84
10	-6,714.63	26	8	18	30.77	2,981.07	9,247.23	-1,697.96	-5,748.21	1.76	0.78	-258.26
5	-3,288.28	34	12	22	35.29	2,221.24	6,245.73	-1,361.05	-3,352.36	1.63	0.89	-96.71

Some of these numbers look a little worse, but you'd probably need to squint to notice. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy SPX when the 3rd Hindenburg Omen triggers.
Sell X days later. \$100k/trade. 1980 - 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
100	24,547.43	10	7	3	70.00	6,497.67	18,512.90	-6,978.75	-16,085.07	0.93	2.17	2,454.74
95	14,171.68	10	6	4	60.00	6,404.26	16,070.66	-6,063.47	-16,770.54	1.06	1.58	1,417.17
90	1,060.35	10	5	5	50.00	7,421.31	18,595.58	-7,209.24	-19,277.67	1.03	1.03	106.03
85	9,240.07	10	6	4	60.00	7,078.03	18,884.96	-8,307.03	-21,362.25	0.85	1.28	924.01
80	-7,227.80	11	5	6	45.45	7,540.10	16,528.58	-7,488.05	-19,449.82	1.01	0.84	-657.07
75	997.16	11	5	6	45.45	9,641.47	18,289.24	-7,868.36	-22,758.23	1.23	1.02	90.65
70	-9,972.66	11	5	6	45.45	7,622.19	19,119.22	-8,013.93	-21,021.08	0.95	0.79	-906.61
65	-24,312.51	11	4	7	36.36	6,515.62	17,909.76	-7,196.43	-23,731.66	0.91	0.52	-2,210.23
60	-24,033.87	11	4	7	36.36	5,846.03	17,209.10	-7,903.00	-22,576.69	0.74	0.49	-2,184.90
55	-29,102.66	11	3	8	27.27	7,196.06	17,905.52	-6,336.35	-20,673.65	1.14	0.43	-2,645.70
50	-18,897.71	12	4	8	33.33	7,428.85	17,255.74	-6,076.64	-22,263.69	1.22	0.61	-1,574.81
45	-28,482.23	12	5	7	41.67	5,102.88	15,507.80	-7,713.81	-25,143.29	0.66	0.47	-2,373.52
40	-38,157.63	12	4	8	33.33	5,582.58	13,700.50	-7,560.99	-26,846.01	0.74	0.37	-3,179.80
35	-29,355.64	12	3	9	25.00	6,823.64	11,461.78	-5,536.29	-22,795.79	1.23	0.41	-2,446.30
30	-29,214.58	13	6	7	46.15	4,754.90	10,991.14	-8,249.14	-23,844.34	0.58	0.49	-2,247.28
25	-36,178.35	13	5	8	38.46	4,444.14	9,841.04	-7,299.88	-25,105.73	0.61	0.38	-2,782.95
20	-41,061.44	13	4	9	30.77	4,136.00	8,458.80	-6,400.61	-21,406.07	0.65	0.29	-3,158.57
15	-34,465.23	15	6	9	40.00	3,205.22	7,078.68	-5,966.28	-26,924.26	0.54	0.36	-2,297.68
10	-42,296.03	17	5	12	29.41	1,892.94	3,159.86	-4,313.39	-25,784.94	0.44	0.18	-2,488.00
5	-13,719.37	22	6	16	27.27	1,564.02	4,174.28	-1,443.97	-3,509.22	1.08	0.41	-623.61

Between 35 and 55 days out there appears to be some pretty poor returns on a small sample size.

With the 4th trigger occurring on Tuesday I also updated the stats when 4 signals occur.

Buy SPX when the 4th Hindenburg Omen triggers. Sell X days later. \$100k/trade. 1980 - 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
100	10,753.93	7	5	2	71.43	3,275.36	7,362.09	-2,811.44	-3,671.20	1.17	2.91	1,536.28
95	8,459.44	7	3	4	42.86	5,663.41	6,207.97	-2,132.70	-4,635.15	2.66	1.99	1,208.49
90	-3,036.53	7	2	5	28.57	4,199.09	4,666.20	-2,286.94	-6,882.20	1.84	0.73	-433.79
85	1,098.95	7	3	4	42.86	4,450.55	7,141.18	-3,063.18	-6,553.95	1.45	1.09	156.99
80	1,156.14	7	3	4	42.86	4,702.76	7,248.39	-3,238.04	-6,169.80	1.45	1.09	165.16
75	-6,739.43	8	3	5	37.50	5,784.06	8,515.03	-4,818.32	-9,034.35	1.20	0.72	-842.43
70	-11,409.38	8	4	4	50.00	2,475.77	3,749.51	-5,328.12	-9,322.50	0.46	0.46	-1,426.17
65	-24,740.37	8	2	6	25.00	787.95	1,445.70	-4,386.04	-10,467.60	0.18	0.06	-3,092.55
60	-26,640.33	8	3	5	37.50	513.94	949.65	-5,636.43	-11,602.80	0.09	0.05	-3,330.04
55	-25,996.67	8	2	6	25.00	948.91	1,201.20	-4,649.08	-8,851.04	0.20	0.07	-3,249.58
50	-20,458.02	9	3	6	33.33	2,689.94	3,934.12	-4,754.64	-9,493.04	0.57	0.28	-2,273.11
45	-24,937.30	9	2	7	22.22	2,367.91	3,631.33	-4,239.02	-14,483.52	0.56	0.16	-2,770.81
40	-26,280.87	9	2	7	22.22	2,385.07	3,315.35	-4,435.86	-11,889.84	0.54	0.15	-2,920.10
35	-35,747.35	9	1	8	11.11	3,328.16	3,328.16	-4,884.44	-14,149.68	0.68	0.09	-3,971.93
30	-17,212.09	10	4	6	40.00	2,889.95	5,262.60	-4,795.31	-13,738.80	0.60	0.40	-1,721.21
25	-18,478.32	10	4	6	40.00	2,791.46	6,253.80	-4,940.70	-12,343.52	0.56	0.38	-1,847.83
20	-29,190.14	10	1	9	10.00	4,796.40	4,796.40	-3,776.28	-9,672.80	1.27	0.14	-2,919.01
15	-22,060.04	10	2	8	20.00	3,896.04	4,301.89	-3,731.52	-8,414.48	1.04	0.26	-2,206.00
10	-18,522.59	14	4	10	28.57	1,570.31	2,279.81	-2,480.38	-6,566.95	0.63	0.25	-1,323.04
5	-15,562.01	15	3	12	20.00	1,274.64	2,769.90	-1,615.49	-4,884.75	0.79	0.20	-1,037.47

There are only 9 instances when looking out 35-45 days, but with 8 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

Buy SPX when the 4th Hindenburg Omen triggers.
Sell 35 days later. \$100k/trade. 1980 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
02/14/80	Buy	\$116.72	(14.16%)	\$1,001.52
04/07/80	Sell	\$100.19		(\$16,264.00)
07/24/86	Buy	\$237.94	(3.06%)	\$6,846.00
09/12/86	Sell	\$230.66		(\$3,864.00)
03/15/94	Buy	\$467.01	(3.35%)	\$873.12
05/05/94	Sell	\$451.38		(\$6,666.10)
12/08/99	Buy	\$1,403.88	(3.11%)	\$5,262.52
01/28/00	Sell	\$1,360.16		(\$3,385.28)
04/24/06	Buy	\$1,308.11	(6.45%)	\$1,412.84
06/13/06	Sell	\$1,223.69		(\$6,504.84)
07/20/07	Buy	\$1,534.10	(5.37%)	\$853.45
09/10/07	Sell	\$1,451.70		(\$10,627.50)
10/25/07	Buy	\$1,514.39	(3.07%)	\$2,532.42
12/14/07	Sell	\$1,467.95		(\$7,147.14)
06/04/13	Buy	\$1,631.38	3.34%	\$4,111.40
07/24/13	Sell	\$1,685.94		(\$4,334.05)
08/09/13	Buy	\$1,691.42	(0.58%)	\$2,267.96
09/30/13	Sell	\$1,681.55		(\$3,773.05)

The June instance did not conform, and saw a 3.3% gain 35 days later. But it DID post a drop of 4.3% during this period before staging that rebound. So the numbers still appear to favor the bears. And it is impressive that all 9 instances dipped at least 3% below the close of the 4th Hindenburg day at some point in the next 35 days. And the avg drawdown is about 2.5x the avg run-up.

In all, there just is not enough data for me to make a strong statement about the Hindenburg Omen. But when there have been 3-4 signals in the past, market difficulty has commonly occurred. My take is that the 4-cluster Hindenburg Omen we are now seeing is a possible warning sign. I think results are strong enough to give it some consideration and I have again included it on the intermediate-term active list.

Subscribers that wish to study Hindenburgs more on their own may download the Tradestation strategy code from the member downloads section.

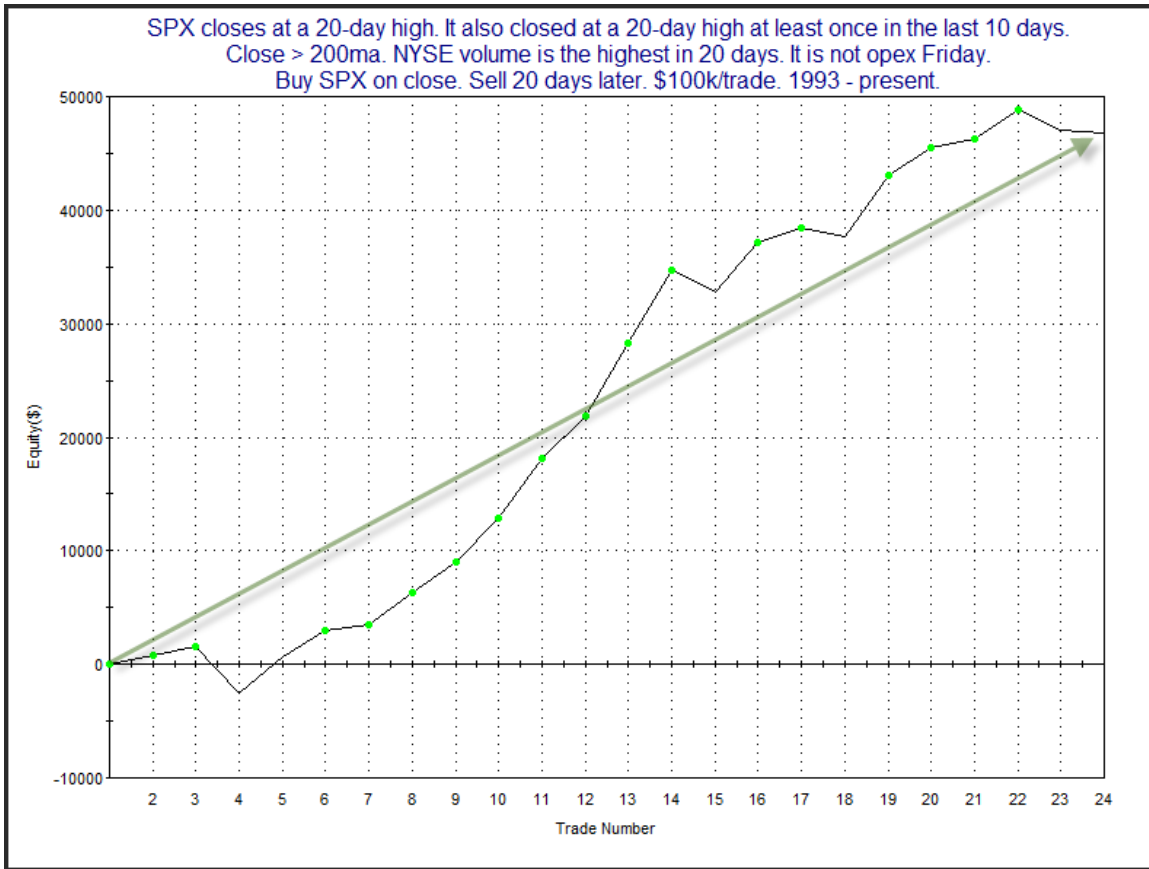
<http://quantifiableedges.com/other-code-spreadsheets/>

But the next night we saw a bullish intermediate-term study emerge. I also copied that one below.

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.



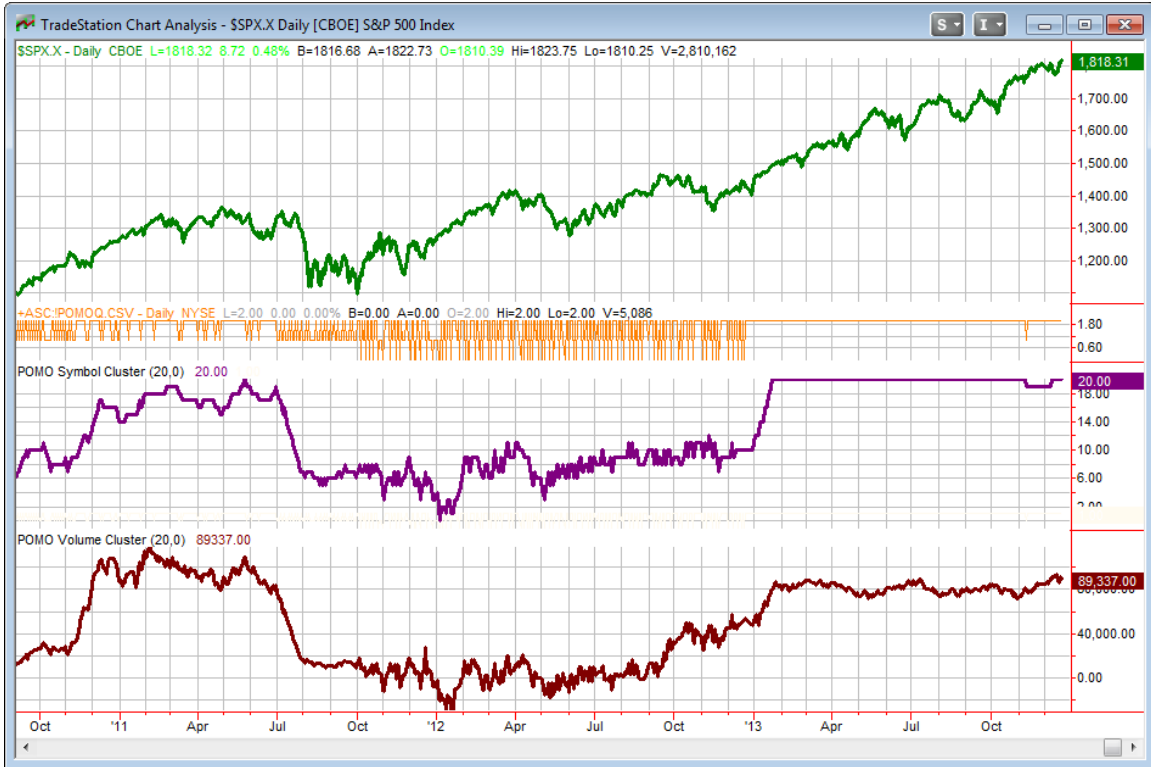
The last couple of instances have not panned out, but the overall upslope still appears to be intact.

But I believe the biggest news of the week came with the Fed meeting announcement on Wednesday. Let's first discuss the POMO/QE chart and then I'll discuss the news and my current interpretation of it.

I update the intermediate-term POMO/QE chart each week. For those not familiar, below is a brief description.

POMO stands for Permanent Open Market Operations and it is how the Fed has gone into the open market to buy securities over the last several years. The net effect of this buying is an influx of cash into the system. It appears a portion of that cash makes its way to the stock market and works as a bullish influence. A "POMO Day" is simply a day where these operations take place. The chart below shows a couple of indicators. The top pane is the S&P 500. The middle (purple) pane is the net rolling number of days in the last 20 that have been POMO days. In other words, a day the Fed buys on the market will add +1 while a day of selling will count as -1. The bottom pane is the total amount of money infused into (or taken out of) the system over the previous 20 days.

Since the Sept 13, 2012 QE3 announcement the POMO numbers are also adjusted to reflected the Fed's new approach of buying AMBS securities. Therefore, prior to that date the indicators just look at POMO, since that date it is a combination of POMO and AMBS flows.



The POMO/AMBS volume indicator is still extremely high and near the highest point of its range for the last year. The days indicator is again at 20 where it has spent most of 2013. High days readings like this were a rarity during past QE implementations, but have been the norm so far this year. We estimate net inflows this past week to have been about \$24.3 billion, a strong number, even for 2013. This could provide fuel for the upcoming week.

But it is not likely that we are going to see a week with buying that strong again anytime soon. This upcoming week the Fed is only going to be doing a small amount of buying. The schedules call for about a \$9 billion inflow.

And starting in January the Fed plans to reduce the total amount of bond purchases from \$85 billion per month to \$75 billion. While the market initially reacted positively to this news, I do not view it as long-term bullish. Strong inflows have provided a very bullish backdrop for stock prices over the last several years. Outflows, or periods of Fed inactivity have led to difficult market conditions.

Of course \$75 billion of purchasing is still a substantial amount of Fed stimulus. But the market has grown accustomed to more, so it will be interesting to see whether lowered levels can provide remotely the same support for the market. The Fed did not lay out a complete plan for how much it intended to taper over time. Some assumptions I have seen look at continually reducing the amount of stimulus by \$10 billion after each upcoming Fed meeting. That would effectively wipe out QE liquidity infusions by the end of 2014.

2013 was pretty easy to evaluate from a liquidity standpoint. It was simply a matter of staying bullish as long as the Fed continued to pump at such inflated levels. 2014 will likely be a bit trickier, because there will continue to be stimulus, just less of it. I believe we are going to encounter some more substantial corrections in 2014. Traders and investors are going to need to stay much more on their toes. 2013 was a year where intermediate-term traders would have had an easier time than those who use a swing-trading approach. I suspect that will flip in 2014.

But while swing traders may have more opportunities in 2014, they are going to have to trade under more variable market conditions. Don't go into next year expecting it to be like this one. Next week I will update the Fed SOMA account & SPX chart to further demonstrate the importance that bond purchases have played in stock market returns over the last 10 years.

I am remaining bullish for the next week. Once the year ends, I will likely become neutral, or only slightly bullish on the market. Trend and momentum measures still favor more upside, and the Nasdaq is in a leading position, which is a good thing. We also had a volume-related study emerge this past week suggesting more upside. But the Hindenburg Omen signals provide a warning sign, and the breadth divergences noted by the [QE Study of Tops indicators](#) remain in place. Liquidity remains perhaps the top market influence in my book, and that is no longer strongly bullish. I'm currently viewing it as either slightly bullish or neutral, and the more the Fed tapers the more neutral/negative liquidity will become. So the bottom line is that this is likely my last week with an all-out "bullish" intermediate-term outlook for some time.

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.

QQQ buy ¼ index position at \$86.49 LIMIT ON CLOSE. If QQQ does not fill, buy SPY instead at a limit of \$181.50 LIMIT ON CLOSE.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APC(1/3)	12/11/2013	\$85.26	\$78.77	-7.61%		Catapult
APC(1/3)	12/12/2013	\$83.74	\$78.77	-5.94%		Catapult
APC(1/3)	12/16/2013	\$78.30	\$78.77	0.60%		Catapult

APC would reach its exit target on Friday with a close of \$79.81 or higher.

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