

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 26, 2013

Volume 6 Issue 249

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Though overbought, this time of year overbought can easily become more overbought.

## *Short-term Outlook*

### *The Bottom Line*

The market is short-term overbought. But I am not seeing indications that a pullback is likely, and overbought is prone to becoming more overbought around Christmas. I'm essentially neutral on the short-term prospects.

**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 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	1.90%
<b>Active - Long Term</b>				
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 continues to enjoy a festive late-December atmosphere. On Tuesday the SPX rallied 0.3%, the NASDAQ finished up 0.2% and the Russell 2000 rose 0.4%. Breadth was strong as the NYSE Up Issues % was 66% and the Up Volume % was 77%. Total NYSE volume was extremely light. That was due to it being Christmas Eve and being a half day. Volume will likely continue to be light for the rest of this week and next.

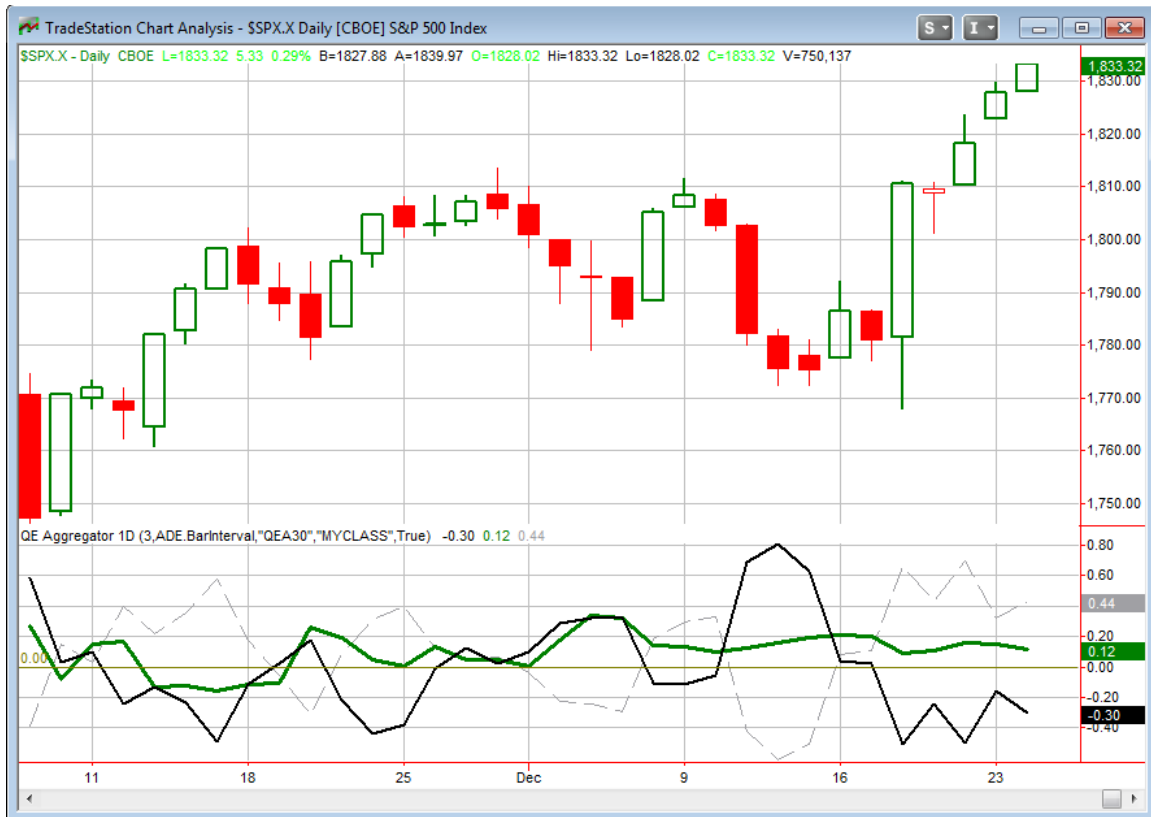
The market is now quite overbought, but we are in a strong seasonal period and the good holiday vibes have seemed to have a positive effect on market prices. It is not unusual for overbought markets to continue higher this time of year. This is demonstrated in the study below, which I last showed in the 12/27/11 subscriber letter.

Today is the last trading day before Christmas. SPX closes up for at least the 3rd day in a row. Buy on close. Sell X days later. \$100k/trade. 1960 - 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	9,193.56	13	10	3	76.92	1,365.55	4,482.50	-1,487.33	-3,252.48	0.92	3.06	707.20
4	6,465.59	13	8	5	61.54	1,420.67	4,440.00	-979.96	-1,858.56	1.45	2.32	497.35
3	7,938.17	13	9	4	69.23	1,141.19	3,950.00	-583.13	-1,185.36	1.96	4.40	610.63
2	4,977.90	13	9	4	69.23	799.88	1,839.29	-555.24	-1,331.88	1.44	3.24	382.92
1	5,090.53	13	8	4	61.54	840.04	1,751.75	-407.45	-945.36	2.06	4.12	391.58

As you can see, the short-term overbought condition sees the market continue higher more often than not. This study could even be considered borderline bullish based on the stats alone. But instances are low, the stats aren't quite compelling enough, and I wasn't

greatly fond of the profit curves. Still, the point is that overbought appears less likely to lead to a selloff over the next few days than it typically does.

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



The green Aggregator Line tonight held firm 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 remain flat.

With the current active studies, expectations are set to remain bullish on Thursday. This could change if strong bearish evidence emerges. The Differential Pivot will be 1824.78 on Thursday. That is about 0.5% below Monday's close. So SPX would need to close down at least this much in order for it to move from overbought to oversold on Thursday.

The market is too overbought to get me interested in new long entries right now. But I am seeing no compelling indications that shorting here would be a high-probability play. It is a “wait and remain alert” situation for me. A pullback in the next day or so could be an opportunity to get in on a turn-of-the-year bounce.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 12/23 – somewhat 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	\$78.40	-8.05%		Catapult
APC(1/3)	12/12/2013	\$83.74	\$78.40	-6.38%		Catapult
APC(1/3)	12/16/2013	\$78.30	\$78.40	0.13%		Catapult

*APC would reach its exit target on Thursday with a close of \$79.01 or higher.*

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