

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 27, 2013

Volume 6 Issue 250

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Short	100%Short SPY	Flat

## Tonight's Research Points

- The VXO's extended stretch below the 10ma suggests the SPX should decline in the next 1-2 days.

## *Short-term Outlook*

### *The Bottom Line*

There appears to be a small downside edge, but it is not likely to last long. It does not appear worth trading in this environment, either.

**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 27, 2013	VXO 15% below 10ma 3 days	1-2 days	Bearish	-1.80%
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 Thursday the SPX rallied 0.5%, the NASDAQ finished up 0.4% and the Russell 2000 rose 0.1%. Breadth was positive as the NYSE Up Issues % was 52% and the Up Volume % was 66%. Total NYSE volume was again extremely light. Volume will likely continue to be light for the rest of this week and next.

Thursday we again saw the VIX and VXO close well below their recent mean. Such stretches suggest a collapse in fear among investors. The study below was last seen in the 10/21/13 subscriber letter. It looks for stretches of 15% or more that have persisted for three days.

VXO closes over 15% below its 10ma for exactly the 3rd day in a row. Buy SPX on close. 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
5	-24,327.66	23	12	11	52.17	799.12	2,073.06	-3,083.38	-10,448.88	0.26	0.28	-1,057.72
4	-18,322.22	23	12	11	52.17	799.60	2,331.45	-2,537.95	-5,673.45	0.32	0.34	-796.62
3	-14,971.85	23	10	13	43.48	1,047.48	1,904.75	-1,957.43	-8,395.18	0.54	0.41	-650.95
2	-16,538.67	23	6	17	26.09	924.84	1,737.55	-1,299.28	-5,164.42	0.71	0.25	-719.07
1	-15,899.17	23	6	17	26.09	651.62	1,990.25	-1,165.23	-4,980.56	0.56	0.20	-691.27
<p><b>Just 4 instances failed to close below the entry price on either day 1 or day 2. All 4 continued higher and did not post a close below the entry price any time in the next month. The 4 instances took place on 7/18/94, 10/19/98, 10/2/01 &amp; 10/18/13.</b></p>												

Based on the stats table there appears to be a downside inclination. I find the note at the bottom of the study to be especially interesting. Nearly every case has experienced an almost immediate pullback, but those that didn't went without pulling back for a long time. Below I have listed all instances assuming a 2-day exit strategy.

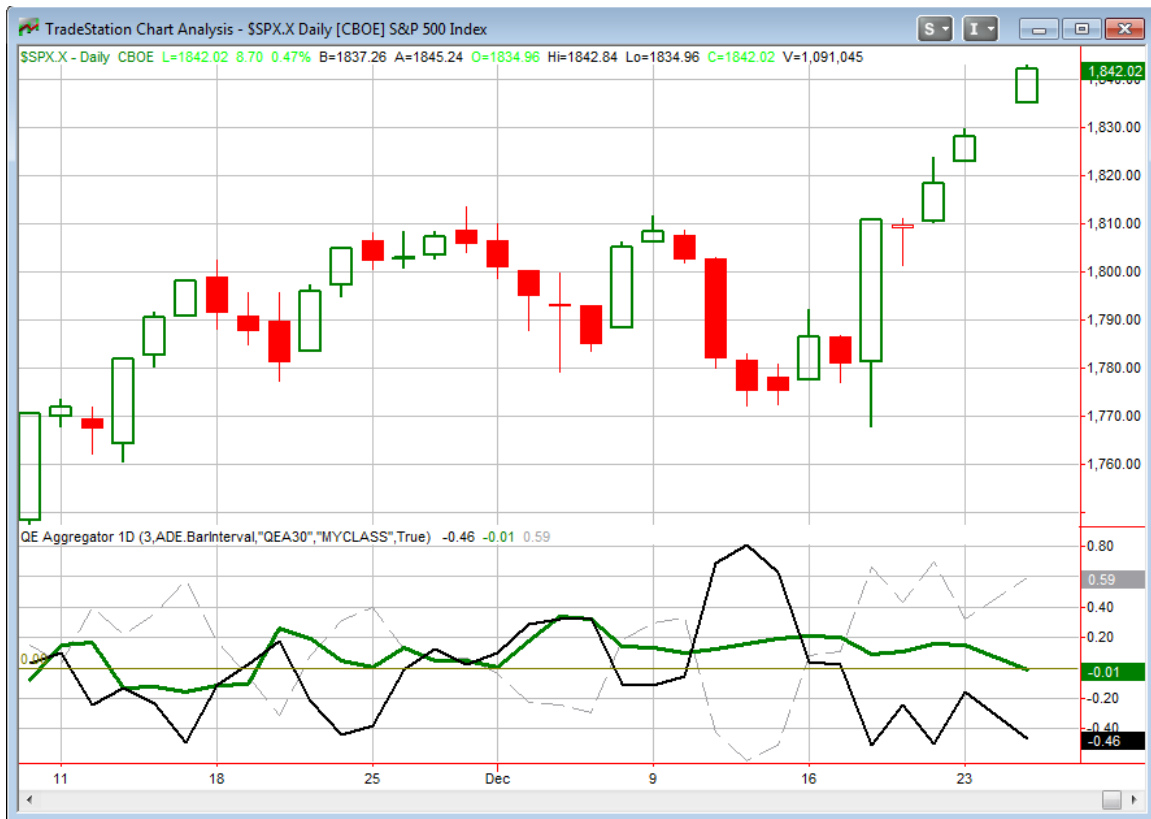
VXO closes over 15% below its 10ma for exactly the 3rd day in a row.  
Buy SPX on close. Sell X days later. \$100k/trade. 1987 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/02/87	Buy	\$255.75	(2.65%)	\$0.00
11/04/87	Sell	\$248.96		(\$5,075.18)
12/23/87	Buy	\$253.16	(3.00%)	\$0.00
12/28/87	Sell	\$245.57		(\$3,543.15)
11/14/90	Buy	\$320.39	(1.02%)	\$0.00
11/16/90	Sell	\$317.12		(\$1,687.92)
01/25/91	Buy	\$336.07	(0.07%)	\$395.01
01/29/91	Sell	\$335.84		(\$537.57)
07/18/94	Buy	\$448.55	0.68%	\$1,498.50
07/20/94	Sell	\$451.60		\$0.00
12/16/94	Buy	\$458.80	(0.37%)	\$0.00
12/20/94	Sell	\$457.10		(\$527.31)
10/19/98	Buy	\$1,062.40	0.71%	\$2,035.10
10/21/98	Sell	\$1,069.90		(\$404.20)
12/23/98	Buy	\$1,228.54	(0.25%)	\$241.38
12/28/98	Sell	\$1,225.48		(\$597.78)
10/02/01	Buy	\$1,051.33	1.74%	\$3,115.05
10/04/01	Sell	\$1,069.62		(\$935.75)
07/31/02	Buy	\$911.62	(5.20%)	\$0.00
08/02/02	Sell	\$864.24		(\$6,286.03)
08/19/02	Buy	\$950.70	(0.14%)	\$93.45
08/21/02	Sell	\$949.36		(\$2,034.90)
08/24/07	Buy	\$1,479.37	(3.18%)	\$0.00
08/28/07	Sell	\$1,432.36		(\$3,173.12)
09/20/07	Buy	\$1,518.75	(0.07%)	\$789.10
09/24/07	Sell	\$1,517.73		(\$169.00)
12/26/07	Buy	\$1,497.66	(1.28%)	\$0.00
12/28/07	Sell	\$1,478.49		(\$1,713.36)
11/05/08	Buy	\$952.77	(2.29%)	\$0.00
11/07/08	Sell	\$930.99		(\$5,515.12)
02/22/10	Buy	\$1,108.01	(0.25%)	\$51.30
02/24/10	Sell	\$1,105.24		(\$1,424.70)
06/17/10	Buy	\$1,116.04	(0.25%)	\$1,351.91
06/21/10	Sell	\$1,113.20		(\$694.20)
03/25/11	Buy	\$1,313.80	0.43%	\$451.44
03/29/11	Sell	\$1,319.44		(\$649.04)
07/01/11	Buy	\$1,339.67	(0.03%)	\$93.98
07/06/11	Sell	\$1,339.22		(\$647.50)
10/12/11	Buy	\$1,207.25	1.44%	\$1,423.52
10/14/11	Sell	\$1,224.58		(\$1,366.94)
06/20/12	Buy	\$1,355.69	(1.52%)	\$188.34
06/22/12	Sell	\$1,335.02		(\$2,283.44)
01/04/13	Buy	\$1,466.47	(0.64%)	\$0.00
01/08/13	Sell	\$1,457.15		(\$1,008.44)
10/18/13	Buy	\$1,744.50	0.58%	\$845.31
10/22/13	Sell	\$1,754.67		(\$218.31)

**Avg Run-up: \$547 Avg Drawdown: -\$1761**

The fact that the average drawdown is over 3x the size of the average run-up is also worth considering. All in all it appears the stretched VXO is suggesting a short-term pullback. I have included this study on the active list

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



Tonight's bearish study caused the green Aggregator Line to dip down slightly below 0. Negative readings mean net expectations from the Active List are for downside 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 negative and the SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. This caused the Aggregator signal to turn short.

With the current active studies, expectations are set to turn back to bullish on Friday. This could change if more bearish evidence emerges. The Differential Pivot will be 1835.52 on Friday. That is about 0.4% below Thursday's close. So SPX would need to close down at least this much in order for it to move from overbought to oversold on Friday.

There appears to be a very moderate downside edge. But I showed a study last night that suggesting shorting this time of year is not a high-probability play. Additionally, the QE Buying Power Index remains strong and I still have no desire to bet against liquidity. Lastly, with expectations set to turn back to bullish on Friday, the window of opportunity for bears here appears small – and likely not worth the risk. So I will sit out another day awaiting a more favorable setup.

***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	\$78.22	-8.26%		Catapult
APC(1/3)	12/12/2013	\$83.74	\$78.22	-6.59%		Catapult
APC(1/3)	12/16/2013	\$78.30	\$78.22	-0.10%		Catapult

*APC would reach its exit target on Friday with a close of \$78.80 or higher.*

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