

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 31, 2013

Volume 6 Issue 252

Market Overview



Signals Overview

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

Tonight's Research Points

- Under similar circumstances “Turnaround Tuesday” has acted more like “Continuation Tuesday”.
- The last day of the year used to be bullish, but the edge seems to have flipped bearish since the turn of the century.
- The last 15 minutes of the year have been especially harsh – except for last year.

Short-term Outlook

The Bottom Line

Expectations are bullish but the market is still not oversold. I think we’ll likely see a move up in the next few days. If SPY closes down again on Tuesday, I’ll look to position myself to take advantage for that move up.

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 31, 2013	Continuation Tuesday	1-2 days	Bearish	-1.80%
December 30, 2013	SPX dn but RSI(2) > 90	1-2 days	Bullish	
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%
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	
February 1, 2012	Golden Cross	int term	Bullish	
Dropped Tonight				
December 27, 2013	VXO 15% below 10ma 3 days	1-2 days	Bearish	-1.80%

The Evidence

The market may as well have been closed on Monday. Nothing really happened. The SPX, Nasdaq and Russell 2000 all closed down less than 0.1%. Breadth was mildly negative as the NYSE Up Issues % was 47% and the Up Volume % was 46%. Total NYSE volume was a little above Friday's level, but still holiday-light.

As I laid out in the [“Turnaround Tuesday” study from the 9/25/12 blog](#), Tuesday has generally been the best day under many circumstances for the market to begin to mount a bounce. But I as I showed in the 12/3/13 Subscriber Letter, circumstances like the present have not shown the bullish tendency. In that letter I broke down 2-day pullbacks by whether they closed above or below the 200ma.

First I looked at all instances since 2000 where SPX had closed down for exactly 2 days in a row. Here are those results.

SPX closes down for exactly the 2nd day in a row. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$20,153.87	Profit Factor	1.74
Gross Profit	\$47,318.24	Gross Loss	(\$27,164.37)
Total Number of Trades	70	Percent Profitable	51.43%
Winning Trades	36	Losing Trades	34
Even Trades	0		
Avg. Trade Net Profit	\$287.91	Ratio Avg. Win:Avg. Loss	1.65
Avg. Winning Trade	\$1,314.40	Avg. Losing Trade	(\$798.95)
Largest Winning Trade	\$10,716.03	Largest Losing Trade	(\$2,190.26)

The win rate is 50/50, but the winners have been quite a bit bigger on average, so the net expectation is bullish. But now let's break it down based on the long-term trend. First let's look at times when SPX has closed *under* its 200ma (*unlike* now).

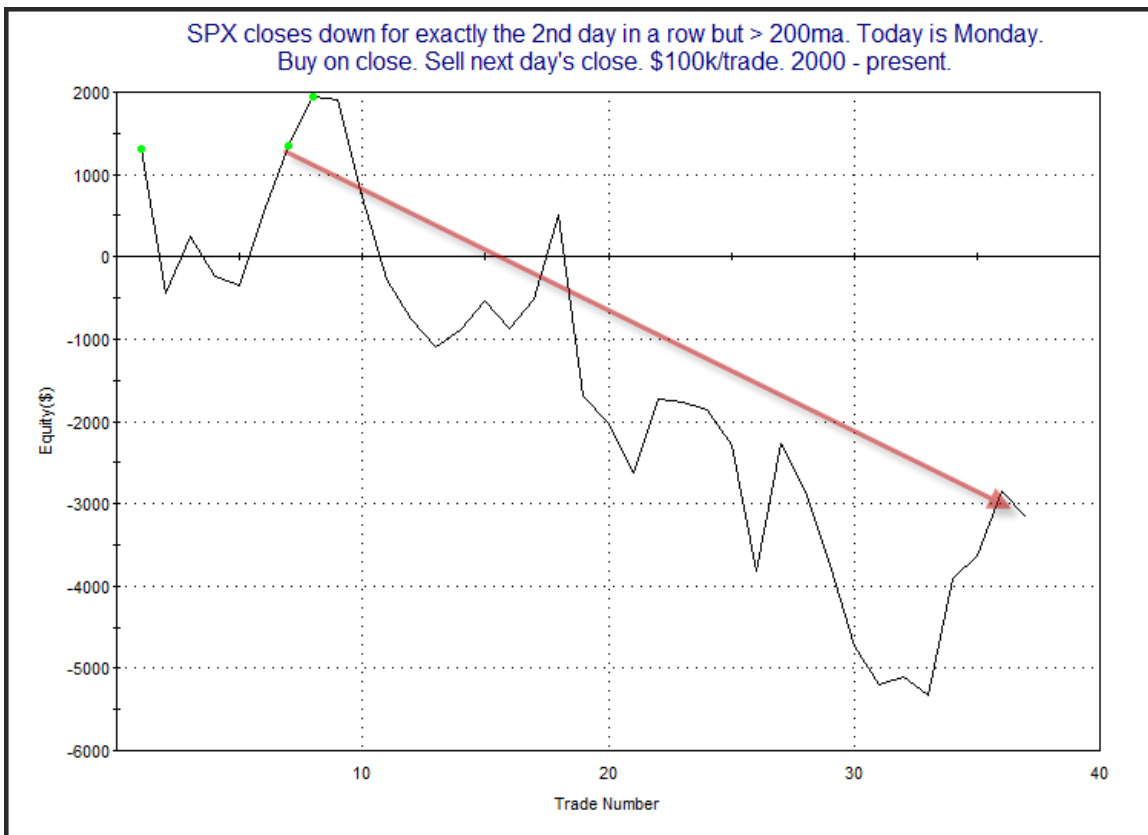
TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$23,315.03	Profit Factor	2.83
Gross Profit	\$36,050.39	Gross Loss	(\$12,735.36)
Total Number of Trades	33	Percent Profitable	63.64%
Winning Trades	21	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	\$706.52	Ratio Avg. Win:Avg. Loss	1.62
Avg. Winning Trade	\$1,716.69	Avg. Losing Trade	(\$1,061.28)

We see here just under half of the total instances, but very positive numbers, and more than the previous study's total gains. Of course what is good news for one segment is bad for the other. Here are the results under circumstances similar to the present where the SPX is above its 200ma.

SPX closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	(\$3,161.16)	Profit Factor	0.78
Gross Profit	\$11,267.85	Gross Loss	(\$14,429.01)
Total Number of Trades	37	Percent Profitable	40.54%
Winning Trades	15	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	(\$85.44)	Ratio Avg. Win:Avg. Loss	1.15
Avg. Winning Trade	\$751.19	Avg. Losing Trade	(\$655.86)
Largest Winning Trade	\$1,548.33	Largest Losing Trade	(\$2,190.26)

“Turnaround Tuesday” sure doesn’t fit here. In fact, the tendency appears to be a continuation of the 2-day pullback. “Continuation Tuesday” appears to be more appropriate. Below is the profit curve.



Definitely choppy, and some recent instances did not conform. But while the edge here is not clear-cut, there appears to be a small bearish tendency. I have included this on the short-term Active List.

In the 12/3/13 Letter I also broke down this study by night & day performance. The results there were interesting. To do this I needed to use SPY instead of SPX, so the instances are slightly different. Below are the (updated) night and day returns of Monday's close to Tuesday's close after 2 down days above the 200ma.

SPY closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy on close. Sell next day's open. \$100k/trade. 2000 - present.

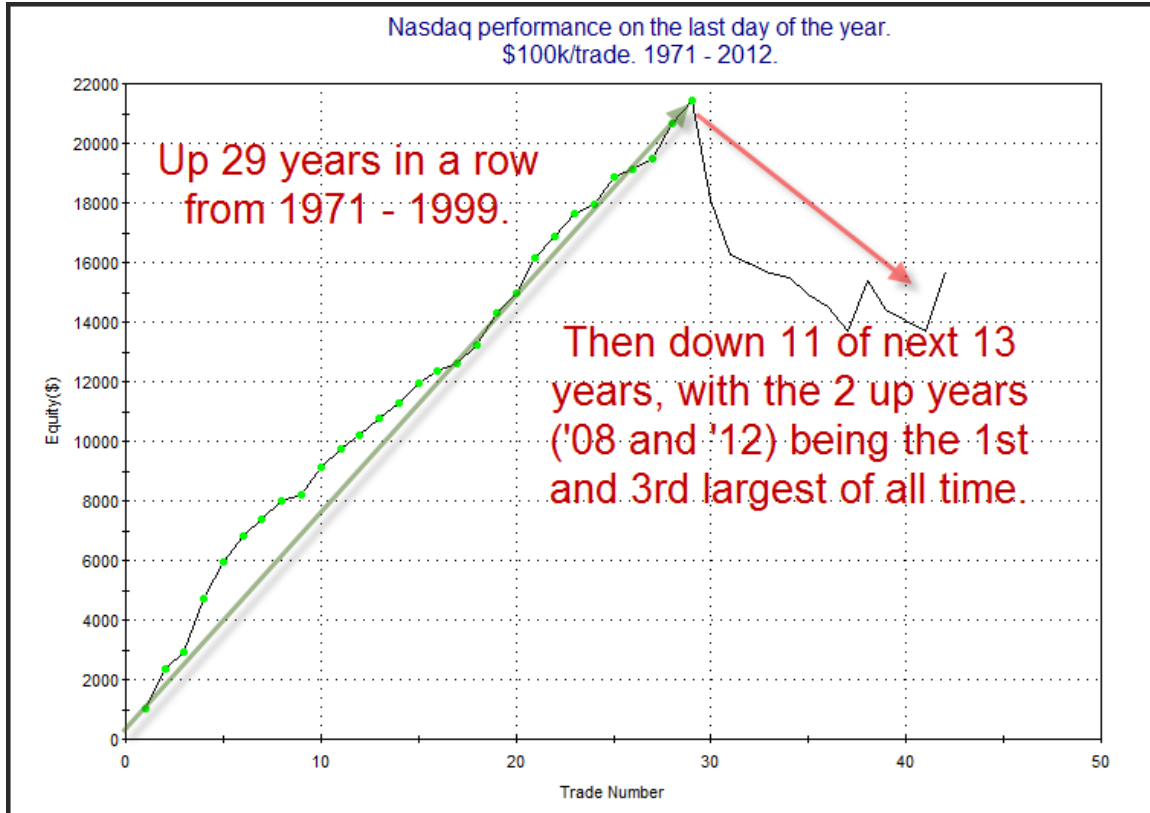
TradeStation Performance Summary			
All Trades			
Total Net Profit	\$5,618.69	Profit Factor	2.40
Gross Profit	\$9,621.99	Gross Loss	(\$4,003.30)
Total Number of Trades	47	Percent Profitable	70.21%
Winning Trades	33	Losing Trades	13
Even Trades	1		
Avg. Trade Net Profit	\$119.55	Ratio Avg. Win:Avg. Loss	0.95
Avg. Winning Trade	\$291.58	Avg. Losing Trade	(\$307.95)
Largest Winning Trade	\$1,116.18	Largest Losing Trade	(\$1,023.40)

SPY closes down for exactly the 2nd day in a row but > 200ma. Today is Monday.
Buy tomorrow's open. Sell on close. \$100k/trade. 2000 - present.

TradeStation Performance Summary			
All Trades			
Total Net Profit	(\$8,381.35)	Profit Factor	0.61
Gross Profit	\$13,008.96	Gross Loss	(\$21,390.31)
Total Number of Trades	47	Percent Profitable	42.55%
Winning Trades	20	Losing Trades	27
Even Trades	0		
Avg. Trade Net Profit	(\$178.33)	Ratio Avg. Win:Avg. Loss	0.82
Avg. Winning Trade	\$650.45	Avg. Losing Trade	(\$792.23)
Largest Winning Trade	\$2,457.00	Largest Losing Trade	(\$1,910.65)

As you can see, the negative tendency is all due to Tuesday's day session. The overnight actually appears bullish. Day traders may want to keep this in mind, especially if the market gaps up on Tuesday.

In the 12/30/11 letter I showed that while the last day of the year used to be a bullish day for the market it seems to have changed since the turn of the century. I looked at performance across a number of indices and found the tendencies to be fairly consistent. Below is an equity curve for the NASDAQ Composite on the last day of the year. Its results stood out the most.



Closing up 29 years in a row is fairly astounding. Just as astounding is the abrupt end to the apparent edge. And with the only two up years since 1999 being such big winners (1.7% and 2.0%), taking a seasonal bet either way appears dangerous. I have no good explanation for why such a formerly consistent edge has changed, but it obviously has.

I also ran some tests tonight suggested by an Overnight Edges subscriber the other day. In those tests I examined SPY performance near the end of the day. I found the returns in the last 15 minutes of the year to be especially interesting.

SPY performance in the last 15 minutes of the YEAR.
\$100k/trade. 1998 - 2012.

TradeStation Performance Summary		Collapse ^	
All Trades			
Total Net Profit	(\$3,668.27)	Profit Factor	0.11
Gross Profit	\$472.06	Gross Loss	(\$4,140.33)
Total Number of Trades	14	Percent Profitable	14.29%
Winning Trades	2	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	(\$262.02)	Ratio Avg. Win:Avg. Loss	0.68
Avg. Winning Trade	\$236.03	Avg. Losing Trade	(\$345.03)
Largest Winning Trade	\$415.36	Largest Losing Trade	(\$654.48)

The numbers here are very strong. The average trade has seen SPY drop over 0.25%, and the average losing trade has seen it close down 0.345%. That's a sizable move for a 15-minute period. Below is a list of all the instances.

SPY performance in the last 15 minutes of the YEAR. \$100k/trade. 1998 - 2012.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/31/98 15:45	Buy	\$123.69	(0.65%)	\$153.52
12/31/98 16:00	Sell	\$122.88		(\$808.00)
12/29/00 15:45	Buy	\$132.47	(0.17%)	\$22.62
12/29/00 16:00	Sell	\$132.25		(\$444.86)
12/31/01 15:45	Buy	\$115.58	(0.60%)	\$8.65
12/31/01 16:00	Sell	\$114.89		(\$631.45)
12/31/02 15:45	Buy	\$88.11	0.06%	\$90.72
12/31/02 16:00	Sell	\$88.16		(\$181.44)
12/31/03 15:45	Buy	\$111.45	(0.27%)	\$26.91
12/31/03 16:00	Sell	\$111.15		(\$269.10)
12/31/04 15:45	Buy	\$121.28	(0.20%)	\$8.24
12/31/04 16:00	Sell	\$121.04		(\$206.00)
12/30/05 15:45	Buy	\$125.03	(0.34%)	\$23.97
12/30/05 16:00	Sell	\$124.60		(\$375.53)
12/29/06 15:45	Buy	\$141.91	(0.29%)	\$49.28
12/29/06 16:00	Sell	\$141.50		(\$295.68)
12/31/07 15:45	Buy	\$147.04	(0.42%)	\$6.80
12/31/07 16:00	Sell	\$146.42		(\$462.40)
12/31/08 15:45	Buy	\$90.59	(0.40%)	\$77.21
12/31/08 16:00	Sell	\$90.23		(\$606.65)
12/31/09 15:45	Buy	\$111.96	(0.46%)	\$8.93
12/31/09 16:00	Sell	\$111.44		(\$473.29)
12/31/10 15:45	Buy	\$125.81	(0.02%)	\$7.94
12/31/10 16:00	Sell	\$125.79		(\$230.26)
12/30/11 15:45	Buy	\$126.00	(0.33%)	\$0.00
12/30/11 16:00	Sell	\$125.59		(\$325.13)
12/31/12 15:45	Buy	\$141.87	0.42%	\$485.76
12/31/12 16:00	Sell	\$142.46		(\$7.04)

Just as last year was the biggest up day for the Nasdaq on the last day of the year, the last 15 minutes showed the largest rise for SPY. Of course there was a good bit of excitement about a Fiscal Cliff resolution at the time, and that did play out nicely for the market when it opened for business in 2013.

The Nasdaq study is a great reminder though. The market is constantly changing and evolving. 2014 is just a few trading hours away. I'm not sure what it has in store for us, but I know it will play out in its own unique pattern. We will see clues along the way, and many of the truisms we've identified through studies over the last 6 years at Quantifiable Edges will continue to work. But some may flounder. And when something stops working, like the "last day of year bullishness" above, then I will do my best to recognize it early. Examining edges is more than just running numbers. The profit curves are so vital. And as I've done this more and more over the last several years I have seen this point driven home time and again through my research. This is why I so often take the time to show the profits curves in the subscriber letter.

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



The green Aggregator Line managed to rise a bit 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 (barely) 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 Tuesday. This could change if more bearish evidence emerges. The Differential Pivot will be *inverted at 1846.73* on Tuesday. An inverted pivot means the Differential Line will cross through 0 if SPX closes flat. In this case, SPX is going to need to close up over 0.3% in order to remain overbought. Otherwise it will be considered “oversold” versus recent expectations.

The Aggregator is not quite there yet, but another down day on Tuesday would 1) see the SPX oversold and 2) almost certainly leave expectations bullish as several “3 down days” and “turn of the month” studies emerge. So I’ll be looking to take a small position if SPY closes down again on Tuesday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/30 – bullish

The intermediate-term outlook was last updated in the 12/30 letter and can be found using the link below:

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

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

None

Catapult for ETF’s Trades

None

Broad Market Large Cap CBI – 0

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 ¼ index position @ \$183.75 LIMIT ON CLOSE. Based on the short-term outlook above, I'll look to scale into some SPY for a short-term trade if it closes down a little on Tuesday.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
APC(1/3)	12/11/2013	\$85.26	\$79.33	-6.96%		<i>sold on open</i>
APC(1/3)	12/12/2013	\$83.74	\$79.33	-5.27%		<i>sold on open</i>
APC(1/3)	12/16/2013	\$78.30	\$79.33	1.32%		<i>sold on open</i>

APC was sold at the open as per last night's letter.

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