

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 28, 2014

Volume 7 Issue 226

Market Overview



Signals Overview

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

Tonight's Research Points

- Low volume on Thanksgiving Wednesday has often been followed by a pullback in the few days.

Short-term Outlook

The Bottom Line

Evidence has flipped to now favor a pullback. I am slightly bearish. But the potential reward appears small and the risk in a counter-trend trade appears too high for me to want to get involved here.

Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn -1 Std Dev
Active - Short Term						
November 28, 2014	Low vol Thanksgiving Wed	1-2 days	Bearish			
November 25, 2014	2 unfilled up gaps and close@ 50-day hi	1-3 days	Bullish	0.90%	-0.65%	-1.20%
November 24, 2014	Thanksgiving Week	Wed-Fri	Bullish			
November 24, 2014	1-2% gain opex week	1-4 days	Bearish			
Active - Long Term						
November 19, 2014	RSI2 > 99	1-10 days	Bullish			
November 18, 2014	SPX 3-high. Russell dn 3 in row	1-10 days	Bullish			
November 13, 2014	5 up to 50 high then down day	1-10 days	Bullish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
October 30, 2014	VXO > 15% < 10ma 3 days thn no drop	1-20 days	Bullish	3.50%	-0.70%	-1.30%
October 27, 2014	NASDAQ leading SPX	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			

The Evidence

Wednesday saw the market post gains once again. The SPX rose 0.3%, the NASDAQ gained 0.6%, and the Russell 2000 rallied 0.4%. Breadth was positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 54%. Total NYSE came in light as it often does ahead of a holiday.

The Quantifinder triggered quite a few related to the very low volume. Low volume on up days can be a sign of complacency, so it will commonly trigger studies with bearish edges. But Wednesday's volume came one day ahead of Thanksgiving. So perhaps it wasn't so much a sign of complacency, but rather a sign of people taking off early ahead of the holiday. Often when volume comes in extremely light on or just in front of a holiday I will simply dismiss low-volume studies. But there was one low-volume study from the 11/26/10 letter that specifically examined low volume on the day before Thanksgiving. And it had interesting results. So I updated it below.

Wednesday before Thanksgiving posts the lowest NYSE volume in 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 2013.												
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	-3,881.91	11	6	5	54.55	1,473.59	3,685.24	-2,544.69	-7,726.01	0.58	0.69	-352.90
4	-334.20	11	5	6	45.45	1,477.79	3,610.64	-1,287.19	-4,359.94	1.15	0.96	-30.38
3	-6,743.43	11	3	8	27.27	1,647.26	3,468.90	-1,460.65	-4,948.90	1.13	0.42	-613.04
2	-11,362.41	11	2	9	18.18	664.12	1,096.98	-1,410.07	-5,644.20	0.47	0.10	-1,032.95
1	-3,660.26	11	4	7	36.36	356.81	746.00	-726.79	-1,721.70	0.49	0.28	-332.75

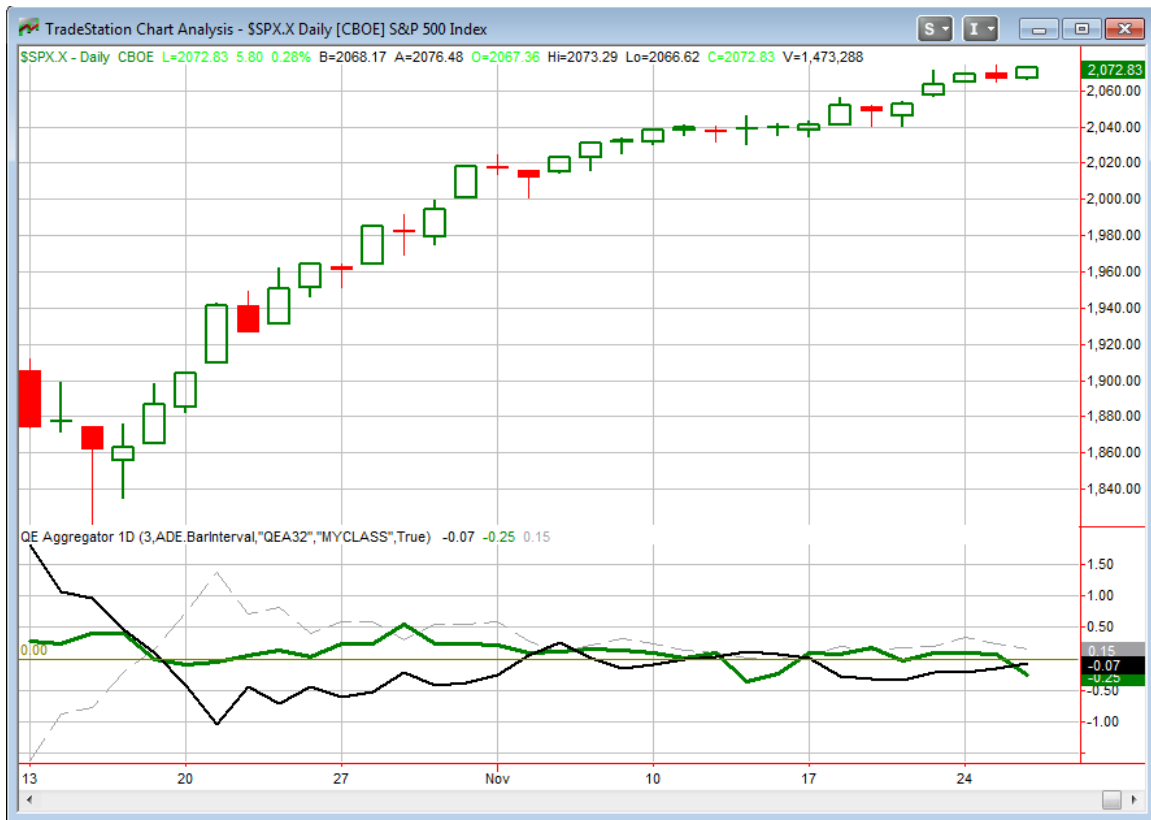
The 1st instance (1982) was the only one that did not close below Wednesday's close on either Friday or Monday.

In the last 44 years there have been 11 instances where Wednesday marked a 20-day volume low. This isn't as common as some might suspect but it's about 4 times higher than you'd get looking at any random day. Interesting is how poorly the SPX has performed over the next 2 days when volume has come in low. The number of instances is low, but I also took a deeper look at the results. Below are all the instances.

Wednesday before Thanksgiving posts the lowest NYSE volume in 20 days. Buy SPX on close. Sell 2 days later. \$100k/trade. 1970 - 2013.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/24/82	Buy	\$133.88	0.23%	\$1,574.06
11/29/82	Sell	\$134.19		(\$634.10)
11/25/87	Buy	\$244.10	(5.65%)	\$4.09
11/30/87	Sell	\$230.30		(\$7,496.97)
11/23/88	Buy	\$269.00	(0.14%)	\$0.00
11/28/88	Sell	\$268.63		(\$942.34)
11/24/93	Buy	\$462.36	(0.10%)	\$533.52
11/29/93	Sell	\$461.90		(\$114.48)
11/25/98	Buy	\$1,186.86	(1.96%)	\$512.40
11/30/98	Sell	\$1,163.62		(\$1,952.16)
11/24/99	Buy	\$1,417.08	(0.65%)	\$571.20
11/29/99	Sell	\$1,407.83		(\$905.10)
11/26/03	Buy	\$1,058.45	1.10%	\$1,129.88
12/01/03	Sell	\$1,070.12		(\$157.92)
11/24/04	Buy	\$1,181.76	(0.27%)	\$435.12
11/29/04	Sell	\$1,178.57		(\$788.76)
11/22/06	Buy	\$1,406.09	(1.72%)	\$0.00
11/27/06	Sell	\$1,381.96		(\$1,750.15)
11/25/09	Buy	\$1,110.63	(1.35%)	\$0.00
11/30/09	Sell	\$1,095.63		(\$2,420.10)
11/24/10	Buy	\$1,198.35	(0.88%)	\$0.00
11/29/10	Sell	\$1,187.76		(\$2,050.93)
Avg Run-up: 0.4% Avg Drawdown: - 1.75% Max Run-up: 1.6%				

I don't see any red flags here (other than the low number of instances). With the Average Drawdown over 4x the size of the Avg Run-Up, and also larger than the Max Run-up, reward/risk has favored the bears. Results appeared skewed enough to the downside that the study seems worth some consideration. I have included it on the Active List tonight.

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



Tonight's study helped green Aggregator Line drop down below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line stayed below 0. The negative Differential Line reading means the SPX is considered 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. Therefore the Aggregator signal turned short at the close.

Expectations are set to remain bearish on Friday. Of course this could change if more bullish evidence emerges. The Differential Pivot will be 2071.83 on Friday. This is just 0.05% below Wednesday's close. So nearly any close lower on Friday will cause SPX to move from overbought to oversold versus recent expectations.

The strong seasonality played out on Wednesday. Now the Aggregator has turned negative, but the evidence is not exactly overwhelming. We have 2 bullish and 2 bearish studies active on the short-term list, and one of the bearish ones contains just 11 instances. The amount of time SPX has been trending higher without a short-term pullback continues to get more and more stretched. And as overdue as a pullback is, I expect we will see one soon. But SPX will move to oversold with any small close lower on Friday (based on the Differential calculation). So potential downside reward here is limited. And in a market this persistently strong I want to see more potential reward if I

am going to take a counter-trend trade. Unfortunately this keeps me on the sidelines a little longer. But I have found over the years that when the market is not setting up in a way that my strategies can typically take advantage of, then it is best for me to protect my capital and wait for the next favorable opportunity to arise.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/24 – somewhat bullish

The intermediate-term outlook was last updated in the 11/24 Letter. It can be found in the most recent weekly letter on the website.

<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 [numbered systems 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

None

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