

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 2, 2014

Volume 7 Issue 228

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- The 1st dip below the 10ma for SPY after spending at least 25 days above it has always been buyable.
- System 11111 is set up for SPY – which has led to short-term bounces in the past.

Short-term Outlook

The Bottom Line

Compelling evidence is beginning to build suggesting a bounce is in order soon. The market is now “oversold” versus expectations with some room to the upside. I am bullish short-term and looking to get positioned to take advantage of a bounce.

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						
December 2, 2014	System 11111	1-4 days	Bullish			
December 2, 2014	1 day under 10ma in over 25 days	1-4 days	Bullish			
December 1, 2014	Big drop from 50-day high	1-4 days	Bullish			
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 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
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			
Dropped Tonight						
<i>December 1, 2014</i>	<i>Monday after Thanksgiving bearish</i>	<i>1 day</i>	<i>Bearish</i>			
December 1, 2014	Weak close to end the month	1 day	Bullish			
<i>November 28, 2014</i>	<i>Low vol Thanksgiving Wed</i>	<i>1-2 days</i>	<i>Bearish</i>			

The Evidence

The stock market suffered fairly strong selling on Monday. The SPX fell 0.7%, the NASDAQ lost 1.3%, and the Russell 2000 declined 1.6%. Breadth was negative as the NYSE Up Issues % came in at 23% and the Up Volume % was 22%. Total NYSE volume rose from Friday's shortened session.

The Quantifinder saw a few studies trigger based on Monday's action. Two of them were especially compelling. One showed that SPY is now set up to trigger QE numbered system 11111 on Tuesday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. I last noted this in the 6/13/14 Letter. Below are the updated stats.

SPY System 11111.			
\$100k/trade. \$0.01/share commission. 1994 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$10,920.36	Profit Factor	32.26
Gross Profit	\$11,269.73	Gross Loss	(\$349.37)
Total Number of Trades	14	Percent Profitable	92.86%
Winning Trades	13	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$780.03	Ratio Avg. Win:Avg. Loss	2.48
Avg. Winning Trade	\$866.90	Avg. Losing Trade	(\$349.37)
Largest Winning Trade	\$2,456.58	Largest Losing Trade	(\$349.37)

There have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. Below is the list of hypothetical trades.

SPY System 11111. \$100k/trade. \$0.01/share commission. 1994 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/06/94	Buy	\$47.25	0.53%	\$655.03
09/08/94	Sell	\$47.50		(\$253.56)
04/03/95	Buy	\$50.12	0.58%	\$877.80
04/04/95	Sell	\$50.41		(\$99.75)
05/19/95	Buy	\$51.98	1.33%	\$1,468.39
05/22/95	Sell	\$52.67		(\$114.42)
02/16/96	Buy	\$65.06	0.06%	\$275.94
02/21/96	Sell	\$65.10		(\$1,808.94)
10/01/96	Buy	\$68.59	0.57%	\$670.22
10/01/96	Sell	\$68.98		(\$218.55)
12/04/96	Buy	\$74.83	0.73%	\$788.24
12/09/96	Sell	\$75.38		(\$2,899.12)
11/24/99	Buy	\$140.75	0.36%	\$1,508.04
12/02/99	Sell	\$141.25		(\$1,239.00)
11/02/06	Buy	\$136.51	1.15%	\$1,292.10
11/06/06	Sell	\$138.08		(\$226.30)
09/01/09	Buy	\$101.95	0.11%	\$1,257.75
09/04/09	Sell	\$102.06		(\$2,320.50)
03/23/12	Buy	\$139.20	1.73%	\$1,730.38
03/26/12	Sell	\$141.61		(\$466.70)
08/24/12	Buy	\$140.31	2.47%	\$2,463.70
09/06/12	Sell	\$143.77		(\$127.80)
09/24/12	Buy	\$145.15	(0.35%)	\$746.65
09/27/12	Sell	\$144.64		(\$1,507.00)
12/04/13	Buy	\$179.10	1.03%	\$1,117.56
12/06/13	Sell	\$180.94		(\$417.00)
06/13/14	Buy	\$193.54	0.67%	\$737.88
06/17/14	Sell	\$194.83		(\$123.84)

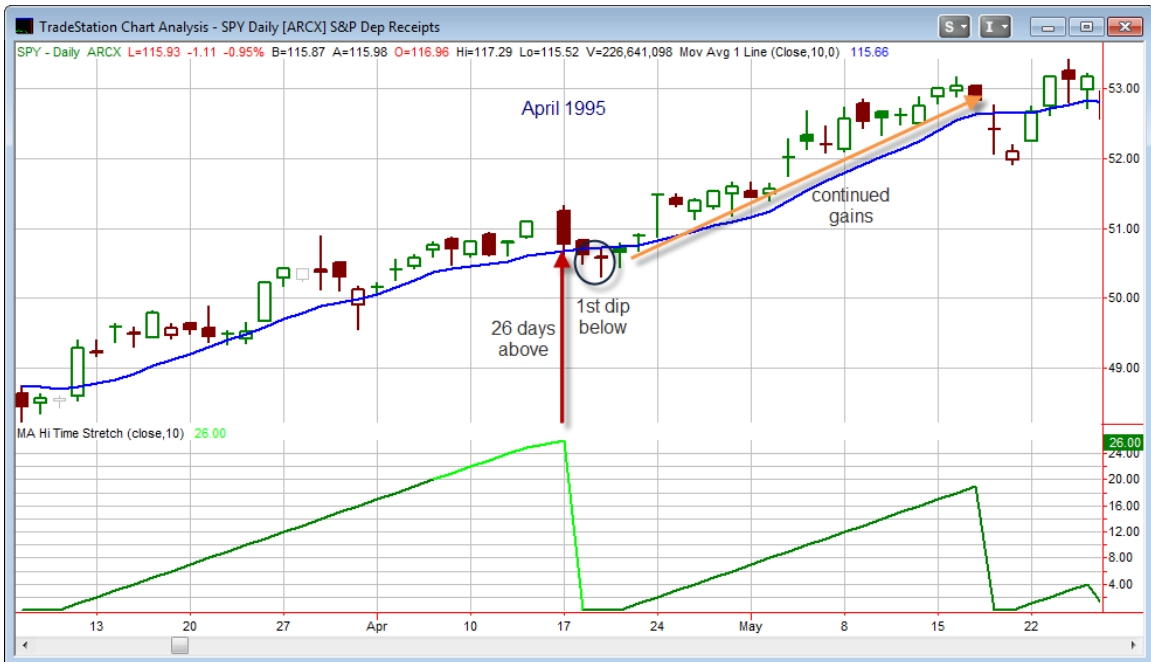
Avg bars in trade: 3.5

The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator as well. Subscribers may find a link to system the 11111 page below:

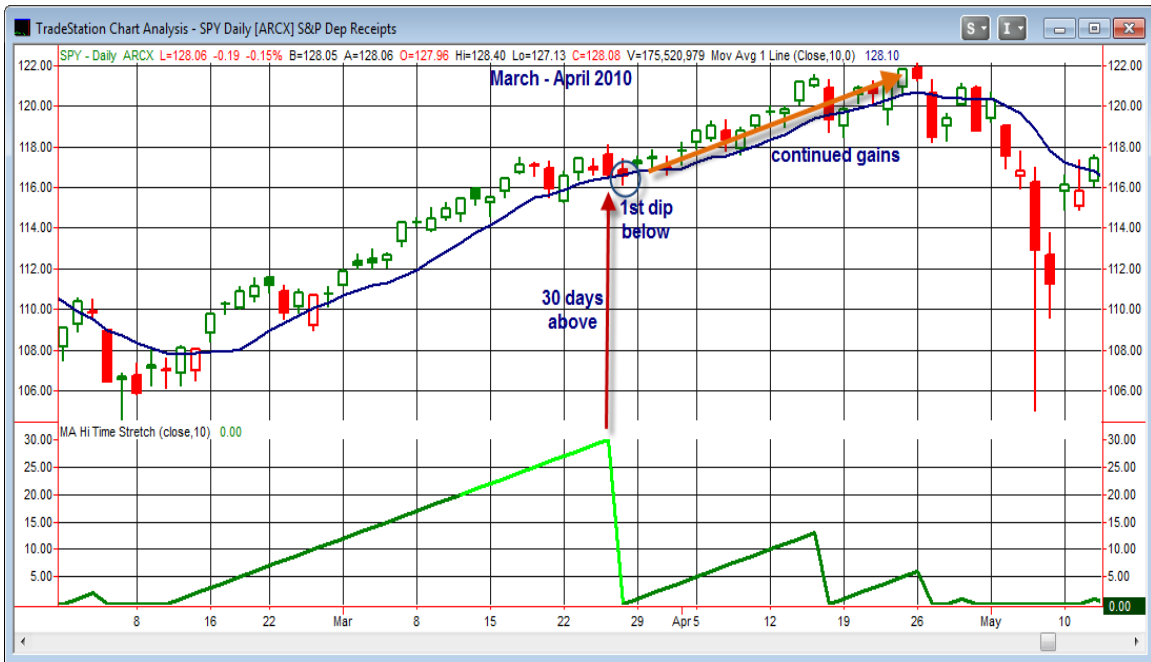
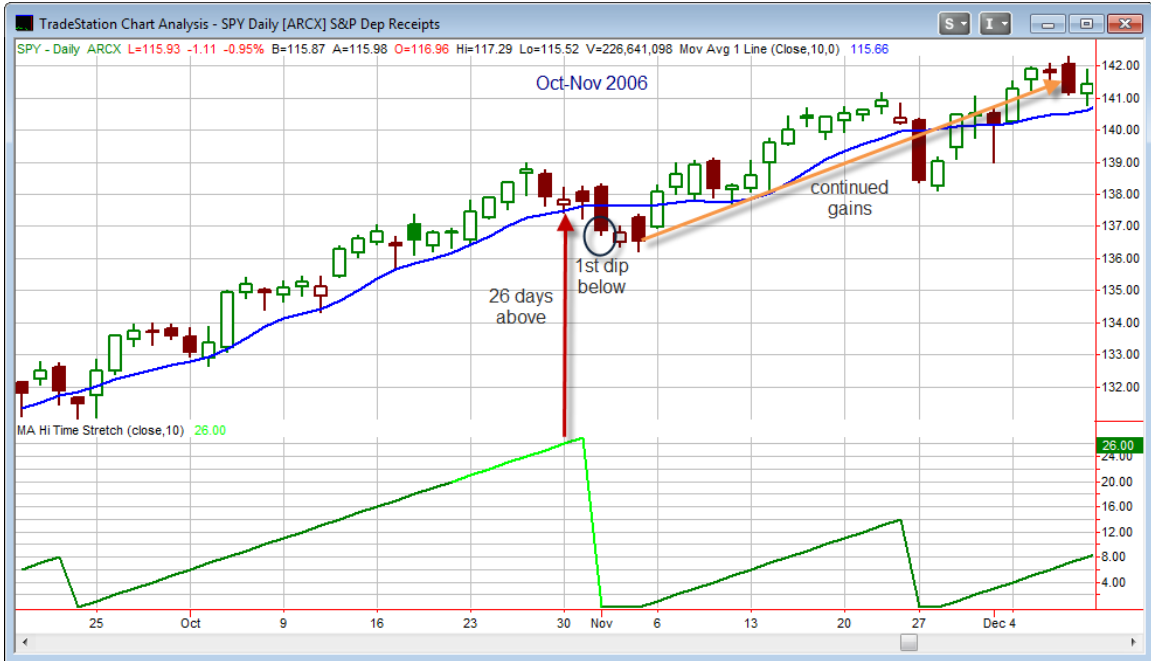
<http://quantifiableedges.com/system-11111/>

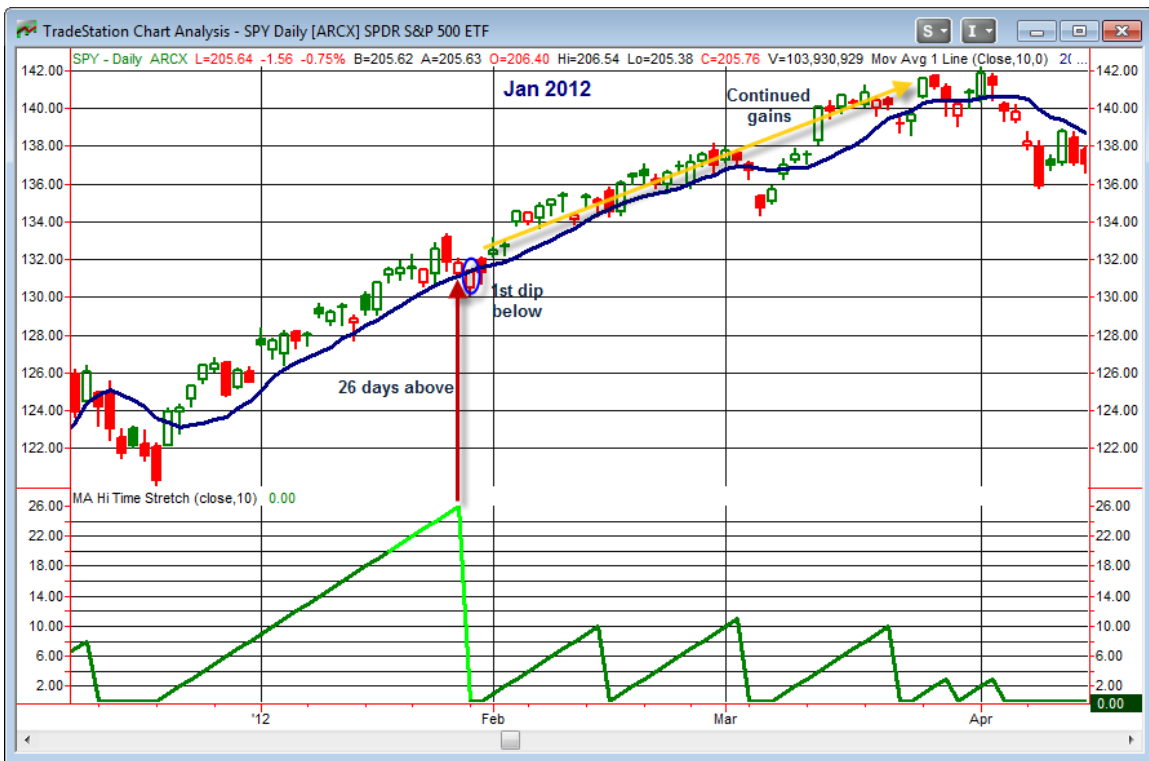
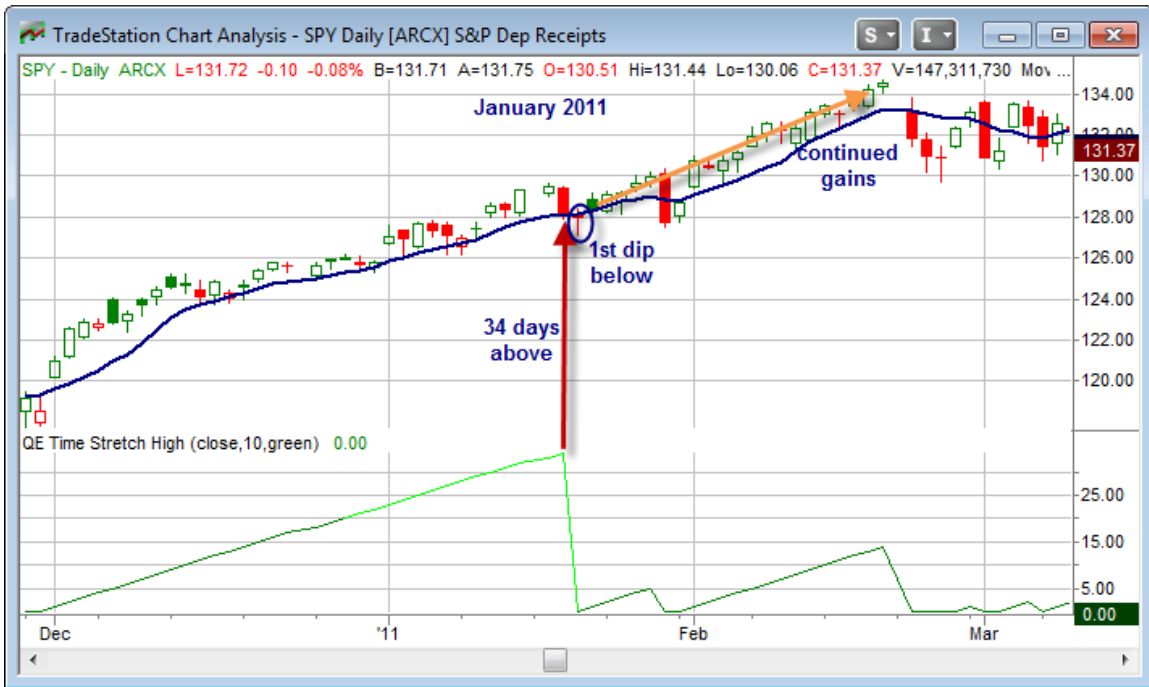
Also notable about Monday's action is that the SPY closed below its 10ma for the first time since October 16th. In the 1/31/12 Subscriber Letter I looked at all the instances where SPY had traded above its 10ma for at least 25 days then closed below it. Since its inception in 1993 there have been only eight other instances where SPY had a run of 25

days or more. I showed the charts of every instance and noted how the market reacted after it finally did close beneath its 10ma. I noted that the first dip never had resulted in the end of the rally. Below I have republished those 7 charts and added an 8th one to show the Jan. 2012 instance. The indicator in the bottom pane of each chart shows the number of days the SPY has closed above its 10ma.







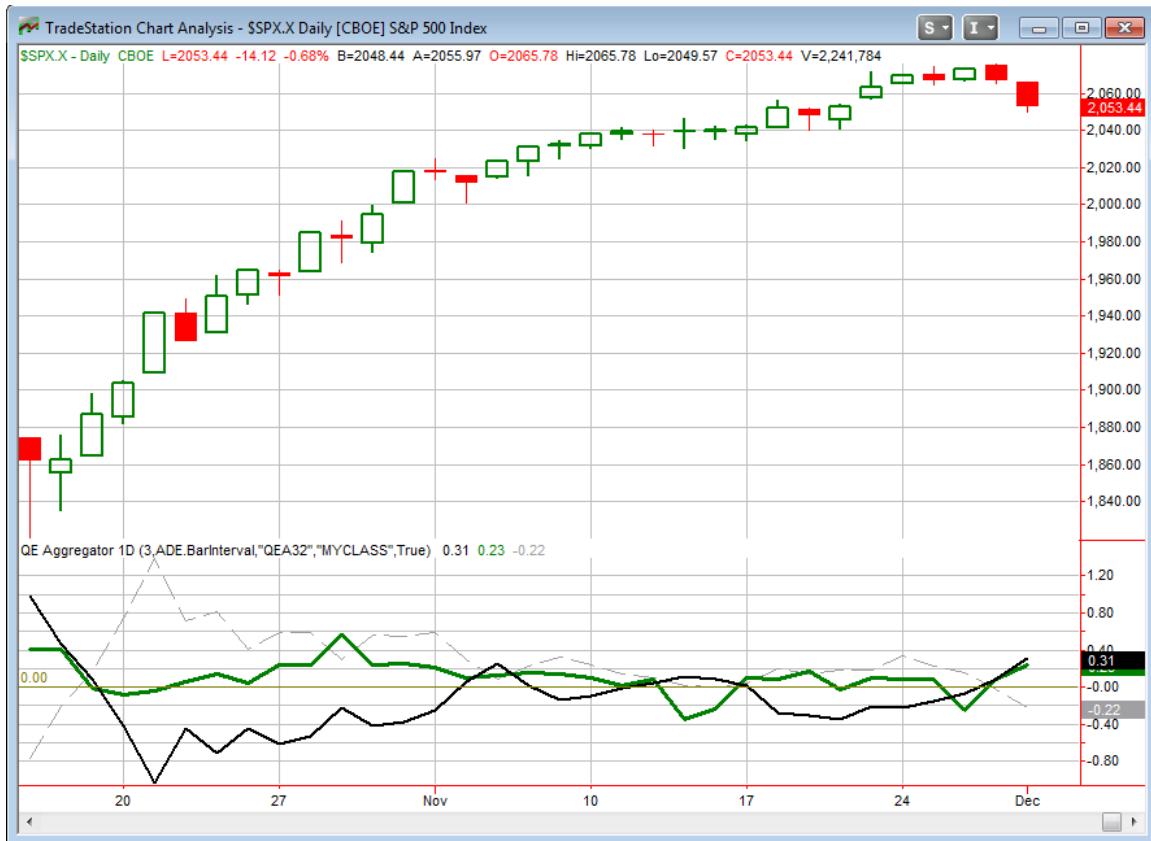


These charts all looked very similar. A brief examination is all that's needed to see that the first trip below the 10ma was a short one, and the uptrend quickly reasserted itself. Of course if you've been reading Quantifiable Edges for any period of time, you're probably used to looking at numbers. So below you will find the stats table.

After closing above the 10ma for at least 25 days in a row SPY closes below it today. Buy 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	32,590.78	8	8	0	100.00	4,073.85	7,915.86	0.00	0.00	100.00	100.00	4,073.85
19	32,241.64	8	8	0	100.00	4,030.20	6,866.19	0.00	0.00	100.00	100.00	4,030.20
18	27,295.52	8	8	0	100.00	3,411.94	5,903.19	0.00	0.00	100.00	100.00	3,411.94
17	26,255.73	8	8	0	100.00	3,281.97	5,537.25	0.00	0.00	100.00	100.00	3,281.97
16	27,482.22	8	8	0	100.00	3,435.28	5,662.44	0.00	0.00	100.00	100.00	3,435.28
15	27,708.37	8	8	0	100.00	3,463.55	6,047.64	0.00	0.00	100.00	100.00	3,463.55
14	27,929.08	8	8	0	100.00	3,491.14	6,115.05	0.00	0.00	100.00	100.00	3,491.14
13	29,764.70	8	8	0	100.00	3,720.59	6,500.25	0.00	0.00	100.00	100.00	3,720.59
12	26,085.09	8	8	0	100.00	3,260.64	5,604.66	0.00	0.00	100.00	100.00	3,260.64
11	25,020.84	8	8	0	100.00	3,127.60	5,845.41	0.00	0.00	100.00	100.00	3,127.60
10	22,026.10	8	8	0	100.00	2,753.26	5,325.39	0.00	0.00	100.00	100.00	2,753.26
9	19,087.05	8	8	0	100.00	2,385.88	4,882.41	0.00	0.00	100.00	100.00	2,385.88
8	17,189.64	8	8	0	100.00	2,148.70	4,574.25	0.00	0.00	100.00	100.00	2,148.70
7	13,834.30	8	8	0	100.00	1,729.29	4,304.61	0.00	0.00	100.00	100.00	1,729.29
6	10,925.70	8	6	2	75.00	1,895.68	3,158.64	-224.19	-280.80	8.46	25.37	1,365.71
5	12,692.35	8	7	1	87.50	1,878.71	3,466.80	-458.64	-458.64	4.10	28.67	1,586.54
4	12,608.12	8	8	0	100.00	1,576.02	3,158.64	0.00	0.00	100.00	100.00	1,576.02
3	8,403.40	8	8	0	100.00	1,050.43	2,744.55	0.00	0.00	100.00	100.00	1,050.43
2	4,849.72	8	7	1	87.50	726.19	1,656.36	-233.60	-233.60	3.11	21.76	606.22
1	3,519.35	8	5	3	62.50	742.91	1,974.15	-65.07	-98.75	11.42	19.03	439.92

Strong and persistent upside movement like we have seen lately hasn't just ended and lead to an immediate correction. The 1st dip has always been just that – a dip. New highs were always made in short order. After these new highs were made there may have been a loss of momentum that turned into a substantial top. It never came on the 1st dip, though – and the 1st dip is where we are now. The caveat here is obviously the low sample size. But with every instance positive not just for a day or 2, but for 16 of the next 20 days, I find these results very compelling. (In fact all 8 remain positive through day 27.) I have decided to include this study on both the short and intermediate-term Active List.

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



Tonight's studies helped green Aggregator Line move 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 also rose higher above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. So expectations are positive and the SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close below 0. Therefore the Aggregator signal stayed long at the close.

Expectations are set to remain bullish on Tuesday. It will take some pretty compelling bearish evidence to change this. The Differential Pivot will be 2071.10 on Tuesday. This is 0.9% above Monday's close. So SPX will need to close up at least this much in order for SPX to be considered "overbought" versus expectations on Tuesday.

I was hesitant to get long before SPX managed to close below its 5 and 10ma. It has done that now. I like the evidence shown tonight. I also like that the Differential Pivot is some distance away, leaving some room for gains. Though instances are fairly low for each of the studies, positive results have been very consistent. Both studies suggest the bounce should come quickly. So I will look to jump in here and get some long exposure in the hope of taking advantage of the expected bounce. Details are in the Trade Ideas section near the bottom of the letter.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/1 – somewhat bullish

The intermediate-term outlook was last updated in the 12/1/14 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.

SPY – buy ¼ index position at \$205.76 LIMIT. Based on the short-term outlook above, I will begin taking on some long index exposure in anticipation of a bounce.

XIV – buy ½ position at \$36.00 LIMIT, if not filled by the close, buy @ \$36.75 LIMIT ON CLOSE. VIX futures have sizable contango right now considering the 10% plus rise in the VIX over the last 2 days. This benefits XIV. The Quantifiable Edges aggressive VIX system is calling for long XIV and I will look to take on some exposure there as well.

Current Open Trade Ideas

None

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