

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 5, 2014

Volume 7 Issue 231

Market Overview



Signals Overview

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

Tonight's Research Points

- Employment days have done very well since August of 2012.
- Key reversal days near short-term highs are often only temporary setbacks.
- A 3rd Hindenburg Omen signal triggered – a potential warning sign

Short-term Outlook

The Bottom Line

Short-term evidence is still pointing higher but the market is still overbought. This leaves me with a neutral short-term outlook.

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 5, 2014	Employment Day tomorrow	1 day	Bullish			
December 4, 2014	2 unfilled up gaps & 50-day high	1-3 days	Bullish	0.90%	-0.60%	-1.20%
December 2, 2014	1st day under 10ma in over 25 days	1-4 days	Bullish	1.90%	-0.30%	-0.60%
Active - Long Term						
December 5, 2014	10-high outside day w/ down close > 200	1-11 days	Bullish	2.00%	-2.00%	-4.20%
December 2, 2014	1st day under 10ma in over 25 days	1-20 days	Bullish	4.74%	-0.35%	-0.65%
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						
December 1, 2014	Big drop from 50-day high	1-4 days	Bullish			

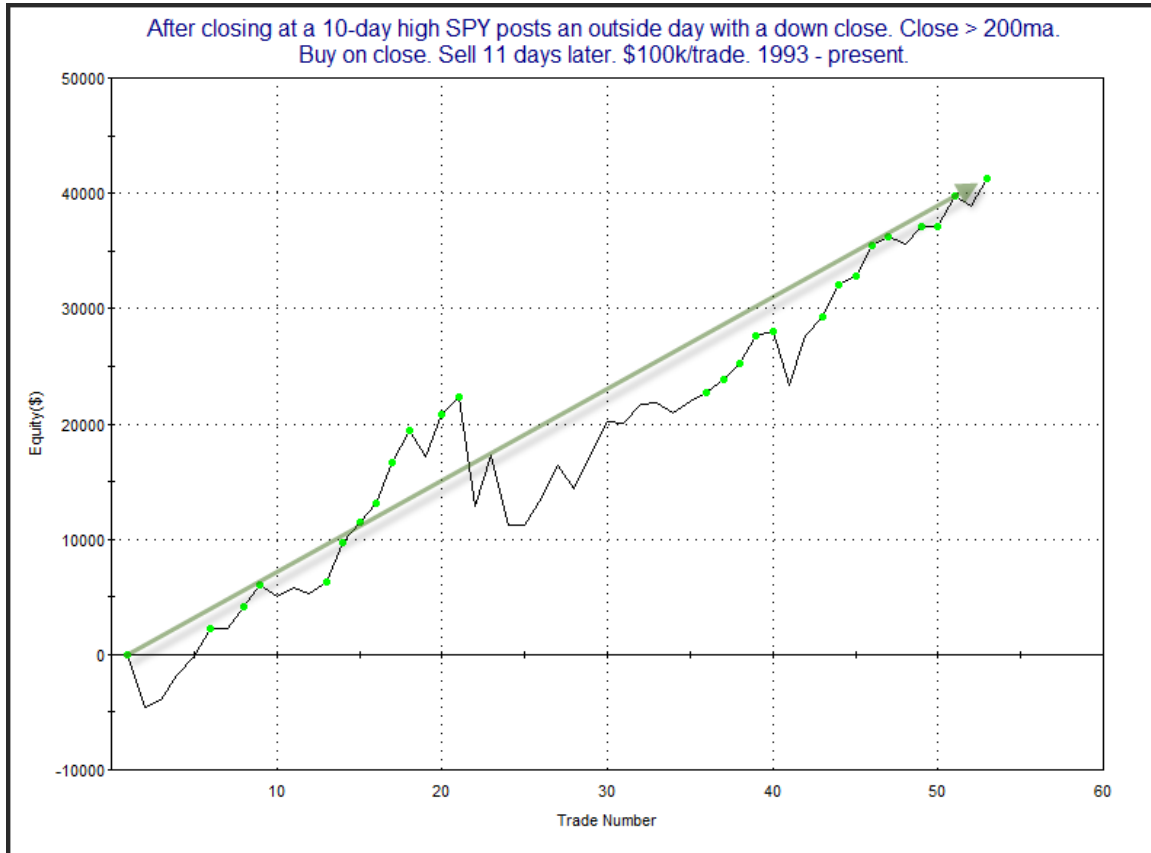
The Evidence

Thursday saw most of the indices experience mild pullbacks. The SPX and NASDAQ each fell 0.1%, and the Russell 2000 declined 0.5%. Breadth was negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 28%. Total NYSE declined for the 3rd day in a row.

Despite the mild action, there were some indications worth discussing. When price makes a new short-term high as it did Thursday, and then reverses down to form an outside day, and closes negative, that is sometimes considered a "key reversal". I looked at reversals like this a number of times in the past. For the very short-term there rarely appears to be a substantial edge. Often test results will show churn or very mildly bearish numbers. But when you look out 1 to 2 weeks what you often see is that the uptrend most of the time will reassert itself. In the 2/20/14 subscriber letter there was a study that exemplified this. I have updated its results below.

After closing at a 10-day high SPY posts an outside day with a down close. Close > 200ma. 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: Profit Factor	All: Avg Trade
12	39,749.38	53	37	16	69.81	2,016.79	4,987.60	-2,179.50	-8,625.12	0.93	2.14	749.99
11	41,289.52	53	40	13	75.47	1,863.92	4,366.44	-2,559.03	-9,406.32	0.73	2.24	779.05
10	36,211.79	55	36	19	65.45	1,944.60	4,438.52	-1,778.62	-7,577.46	1.09	2.07	658.40
9	27,147.06	57	38	19	66.67	1,650.36	4,389.12	-1,871.93	-8,065.18	0.88	1.76	476.26
8	23,373.75	58	36	22	62.07	1,663.86	4,878.08	-1,660.23	-7,638.87	1.00	1.64	403.00
7	14,991.00	59	39	20	66.10	1,457.95	3,874.76	-2,093.46	-7,341.61	0.70	1.36	254.08
6	13,184.10	62	37	25	59.68	1,514.19	4,307.20	-1,713.64	-6,404.44	0.88	1.31	212.65
5	16,600.94	64	38	26	59.38	1,283.08	4,252.50	-1,236.78	-4,294.08	1.04	1.52	259.39
4	-1,397.21	65	30	35	46.15	1,331.21	3,843.00	-1,180.95	-4,135.32	1.13	0.97	-21.50
3	-10,887.37	65	32	33	49.23	996.75	2,301.60	-1,296.46	-3,726.24	0.77	0.75	-167.50
2	-12,614.42	66	30	36	45.45	812.20	2,437.50	-1,027.23	-3,611.48	0.79	0.66	-191.13
1	-10,696.94	66	31	35	46.97	575.21	1,464.75	-815.09	-3,794.40	0.71	0.63	-162.07

A little weakness over the next couple of days is normal, but before long the move higher sees a continuation. Below is a profit curve using an 11-day holding period.



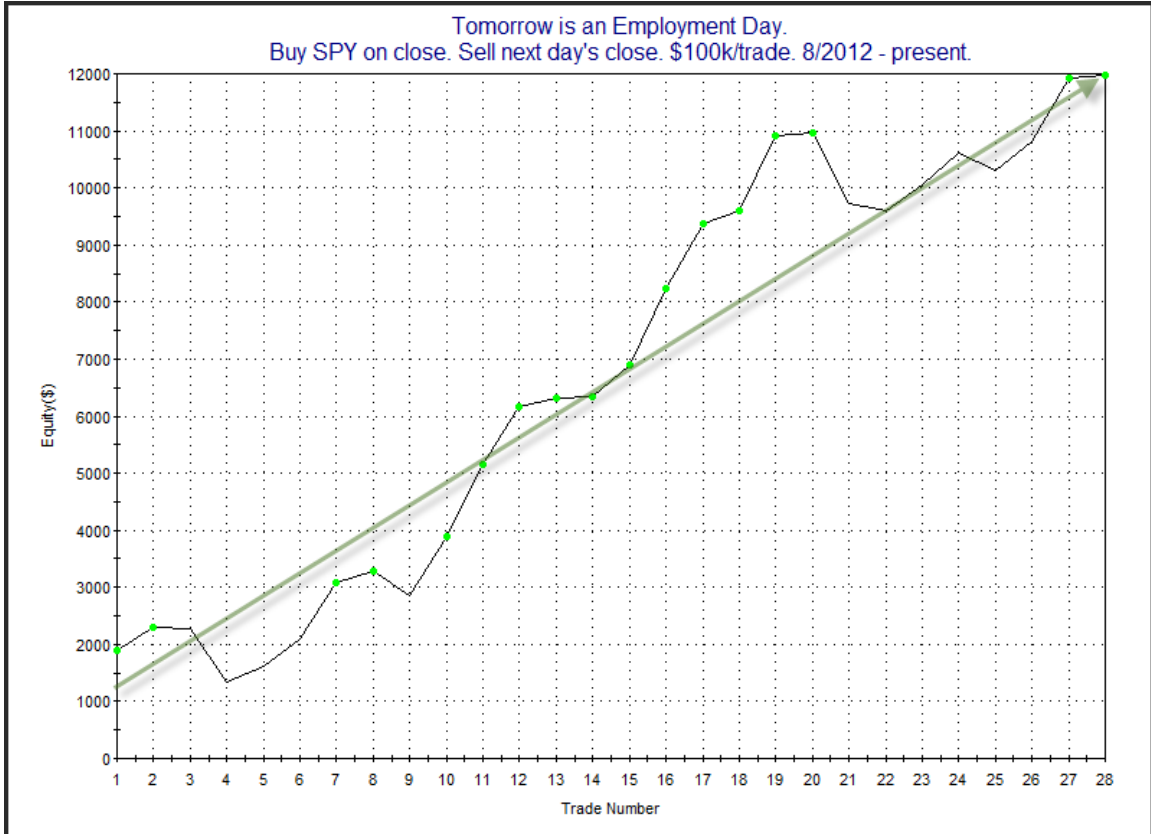
The strong, steady upslope serve as confirmation of the bullish edge. I have added this study to the intermediate-term active list.

Another bit of information to consider for Friday is that the BLS is due to release the employment report at 8:30am EST. This report tends to be the most highly watched monthly economic report, and it will often be followed by a strong market reaction. In the last 2.5 years or so, this reaction has been consistently bullish. On the Overnight Edges blog a few of months ago [I showed the overnight implications of the report](#). And I also showed the [intraday implications on the Quantifiable Edges blog](#). Below are the results since August 2012 measuring from the close before the Employment Day to the close of the Employment Day.

Tomorrow is an Employment Day.
Buy SPY on close. Sell next day's close. \$100k/trade. 8/2012 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	\$11,963.21	Profit Factor	4.93
Gross Profit	\$15,008.77	Gross Loss	(\$3,045.56)
Total Number of Trades	28	Percent Profitable	78.57%
Winning Trades	22	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$427.26	Ratio Avg. Win:Avg. Loss	1.34
Avg. Winning Trade	\$682.22	Avg. Losing Trade	(\$507.59)
Largest Winning Trade	\$1,897.27	Largest Losing Trade	(\$1,231.36)

It has really been a hot streak since the summer of 2012. This is not the kind of edge that I would expect to last forever. There have been both bullish and bearish streaks like this with regards to employment days over the years. But it is certainly something to be aware of and to take into account for as long as the hot-streak lasts. Below is a profit curve.



After a brief dip in the Spring the edge quickly reasserted itself.

The Quantifinder also noted that today another Hindenburg Omen signal triggered. This is #3. I showed research on this in Tuesday night's letter. It is generally considered a potential warning sign of a market top. The results do not appear as dire as the name. Now that we have 3 signals I will update that research this weekend. Subscribers that want to view the notes on it from Tuesday can find it on the Archives page under the Letters dropdown on the website.

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



Tonight's studies helped the green Aggregator Line remain above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained below 0. The negative Differential Line reading means the SPX is considered 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. Therefore the Aggregator signal stayed flat at the close.

Expectations are set to remain bullish on Friday. Of course this could easily change if compelling bearish evidence emerges. The Differential Pivot will be *inverted at 2079.99* on Friday. This is 0.4% *above* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case SPX is going to need to close up about 0.4% in order to remain overbought versus recent expectations. Otherwise it will be considered "oversold" versus expectations.

Tonight's evidence does nothing to change the short-term outlook. The market remains overbought. But with a strong uptrend, positive seasonality, and bullish short-term evidence, there does not appear to be an edge in trying to short. At the same time, being overbought makes new long positions extra-risky, especially with the QE Buying Power Index so weak. So there is little for me to do but wait and remain ready for a better opportunity to pounce.

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.

None tonight

Current Open Trade Ideas

None

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