

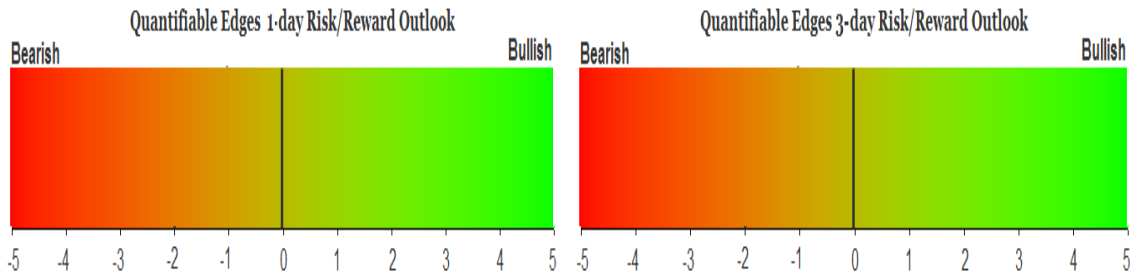
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 9, 2014

Volume 7 Issue 233

Market Overview



Signals Overview

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

Tonight's Research Points

- Relatively strong drops from 50-day highs have consistently been followed by bounces.
- SPX down < 1% from 50-day high on 2:1 negative breadth has often led to 1-2 more days of selling.

Short-term Outlook

The Bottom Line

Evidence suggests the pullback could worsen over the next 1-2 days. But the market is already oversold. If the market does pull back further we could see more bullish evidence emerge, anticipating a bounce. So rather than try a counter-trend short position here, I'll see what plays out and perhaps get ready to get long if the pullback does continue.

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 9, 2014	Poor breadth on drop from 50-high	1-2 days	Bearish	-1.40%	0.40%	1.00%
December 9, 2014	Big drop from 50-high	1-4 days	Bullish	1.20%	-0.80%	-1.50%
Active - Long Term						
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
December 5, 2014	10-high outside day w/ down close > 200ma	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 4, 2014	2 unfilled up gaps & 50-day high	1-3 days	Bullish	0.90%	-0.60%	-1.20%

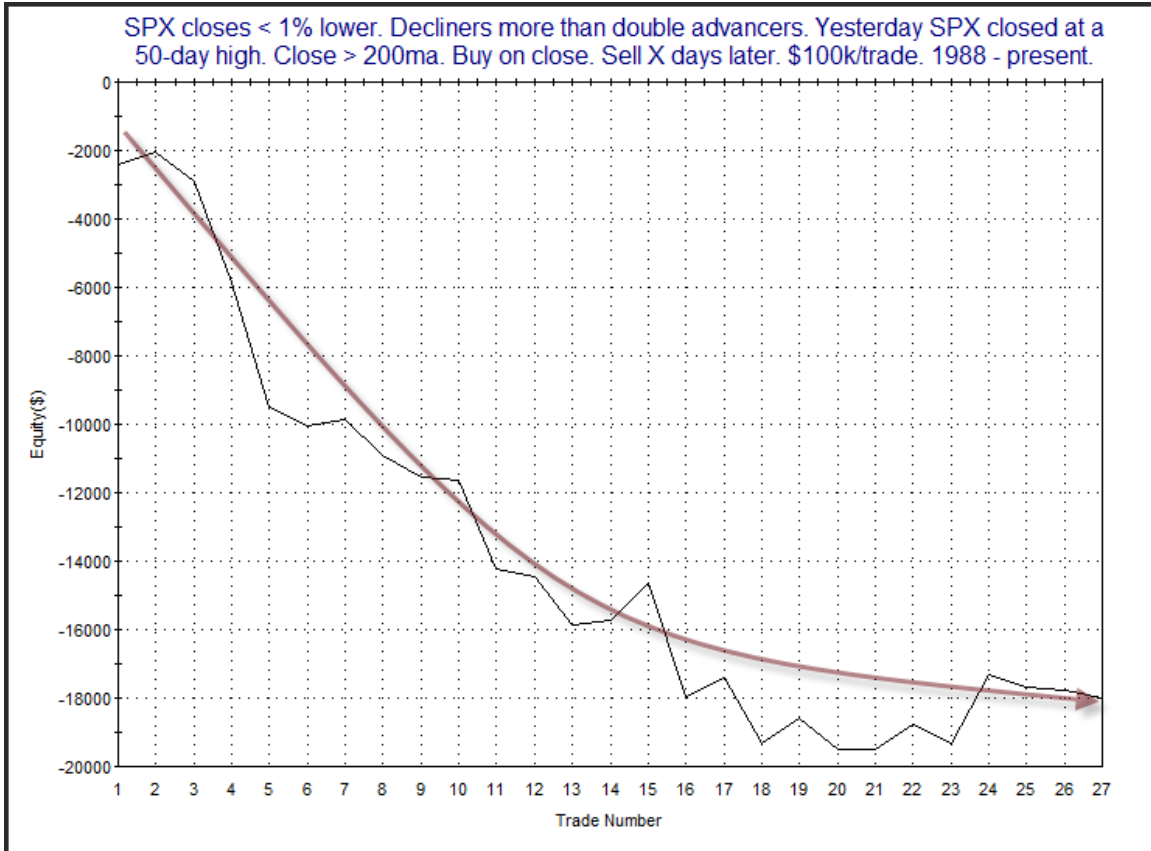
The Evidence

It was a tough start to the week for the market. The SPX closed down 0.7%, the NASDAQ declined 0.8%, and the Russell 2000 lost 1.3%. Breadth was weak as the NYSE Up Issues % came in at 30% and the Up Volume % was 21%. Total NYSE volume rose from Friday's level.

Monday's action provided mixed indications from the Quantifinder. First I will show a bearish study, and then a bullish one. This first study is from the 10/31/13 Subscriber Letter. It notes the fact that coming off an intermediate-term high on Friday, selling was broad but not extremely deep as measured by the SPX. Results are updated.

SPX closes < 1% lower. Decliners more than double advancers. Yesterday SPX closed at a 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1988 - 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
5	88.08	26	16	10	61.54	806.40	3,149.37	-1,281.44	-2,538.28	0.63	1.01	3.39
4	-6,979.98	27	11	16	40.74	935.07	2,725.38	-1,079.11	-3,709.52	0.87	0.60	-258.52
3	-15,564.11	27	9	18	33.33	583.01	2,192.40	-1,156.18	-3,721.09	0.50	0.25	-576.45
2	-18,001.23	27	8	19	29.63	722.11	1,998.36	-1,251.48	-3,611.48	0.58	0.24	-666.71
1	-14,548.11	27	8	19	29.63	599.65	938.07	-1,018.17	-3,794.40	0.59	0.25	-538.82

This type of broad selling will often see a deepening in the following days. Risks appear to far outweigh potential rewards when looking at metrics such as win/loss ratio and profit factor. The downside edge plays out quickly though, and has generally exhausted itself after the first couple of days. Below is a profit curve that assumes a 2-day holding period.



The curve may not be quite as steep as it once was, but it is still declining and seems to support the idea of a downside edge.

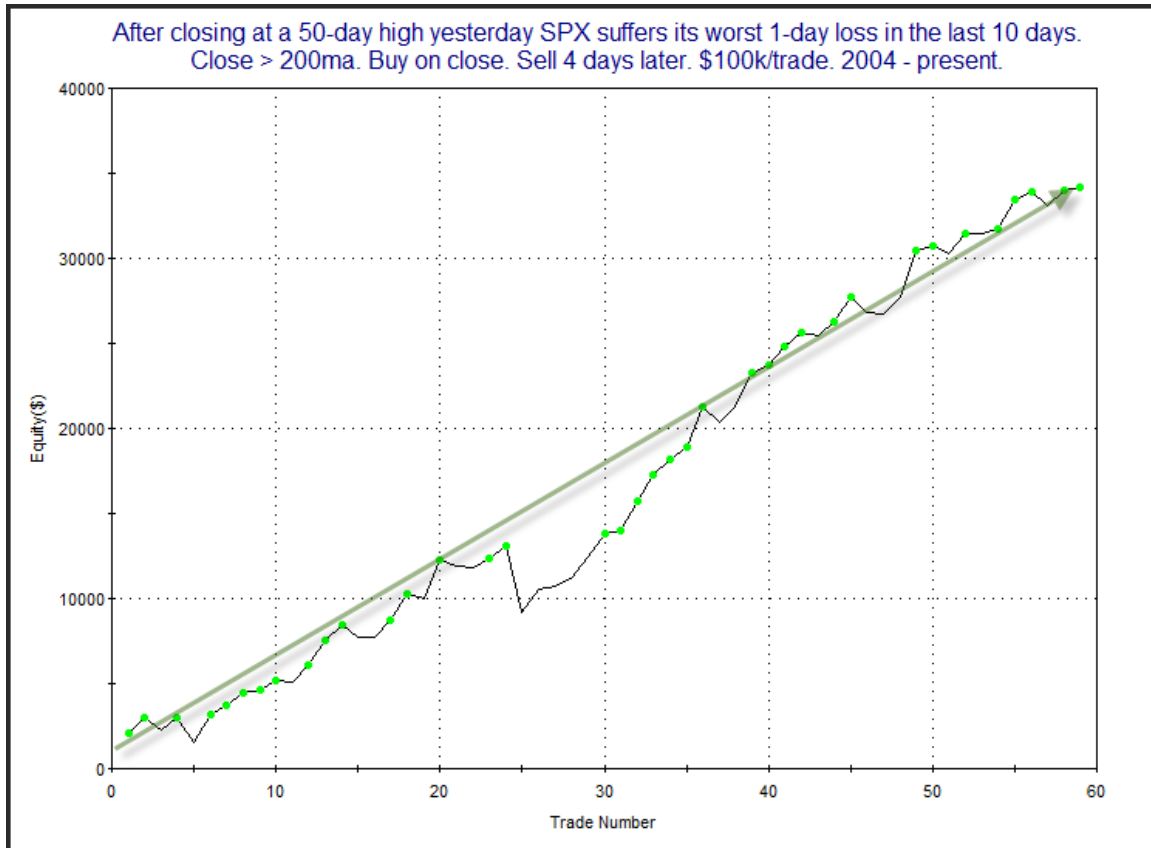
But as I mentioned, some bullish evidence also emerged. The study below was last seen just recently in the 12/1/14 Letter. It looks at *relatively* large drops from intermediate-term highs. It triggered again on Monday and I have updated all the stats.

After closing at a 50-day high yesterday SPX suffers its worst 1-day loss in the last 10 days. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 2004 - 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	31,321.37	55	40	15	72.73	1,265.57	3,149.37	-1,286.77	-3,454.00	0.98	2.62	569.48
4	34,185.15	59	43	16	72.88	1,052.50	2,725.38	-692.02	-3,895.76	1.52	4.09	579.41
3	25,350.85	60	44	16	73.33	829.37	2,192.40	-696.35	-1,808.21	1.19	3.28	422.51
2	15,084.12	61	35	26	57.38	816.28	2,437.50	-518.69	-1,777.55	1.57	2.12	247.28
1	5,780.86	61	35	26	57.38	543.62	1,521.72	-509.45	-1,354.59	1.07	1.44	94.77

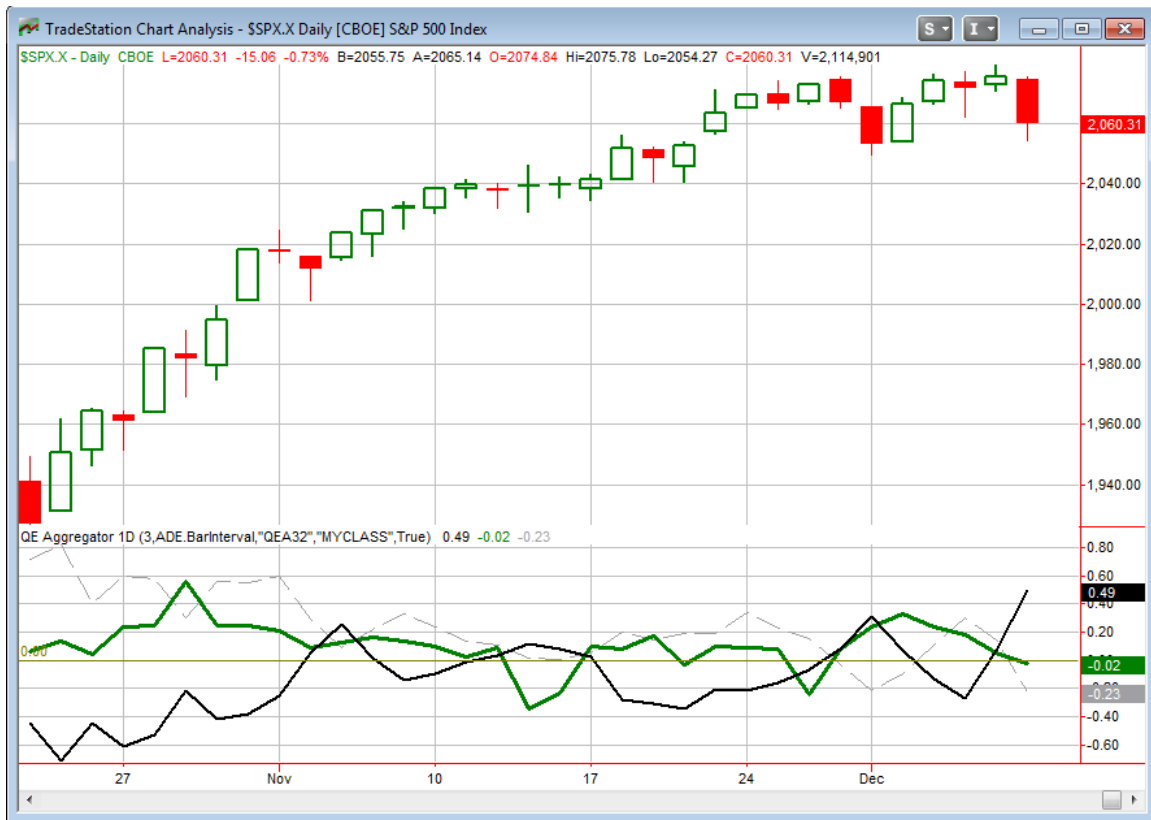
56 of 61 (92%) instances closed above the entry price at some point in the next week.

Over the last 11 years the stats are impressive. And the 3-4 day consistency is strong. Below is a profit curve that assumes a 4-day holding period.



The steady upslope seems to confirm the bullish inclination.

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



With the mix of evidence tonight the green Aggregator Line dipped down just below 0. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line moved further above 0. The positive Differential Line reading means the SPX is considered oversold versus recent expectations. So expectations are now slightly negative but the SPX is solidly oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to turn bullish on Tuesday. Of course that could easily change if more bearish evidence emerges. The Differential Pivot will be 2087.28 on Tuesday. This is 1.3% above Monday's close. So for SPX to move from "oversold" to "overbought" it is going to need to close up very strongly on Tuesday.

Evidence is suggesting the pullback could have another day or more to go. But with SPX already oversold versus expectations, reward/risk doesn't appear strong here for shorts. Of course another day or two lower could certainly get me interested in playing the bounce. I am not going to jump the gun yet. But further selling and more bullish indications on Tuesday would almost certainly get me interested in starting to build a long position on Wednesday. I'll wait and see what emerges Tuesday, though, before placing any new trade ideas in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/8 – somewhat bullish

The intermediate-term outlook was last updated in the 12/8 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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