

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 10, 2014

Volume 7 Issue 234

Market Overview



Signals Overview

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

Tonight's Research Points

- When SPX closes down but breadth is strong, it has often led to gains over the next few days.
- SPY's moved up > 1% from open to close and still finished negative – a bullish sign in the past.
- The Russell 2000 rising > 1% while SPX closes lower also suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

Evidence quickly turned higher based on Tuesday's action. And with SPX relatively oversold short-term, this appears to be a decent reward/risk scenario for adding new long positions. I'll be looking to do just that on Wednesday.

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 10, 2014	SPX Dn. RUT up 1%.	1 day	Bullish			
December 10, 2014	SPY rises > 1% open to close but down	1-2 days	Bullish			
December 10, 2014	SPX dn. Up Issue % > 55%	1-2 days	Bullish			
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 > 20d	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			

The Evidence

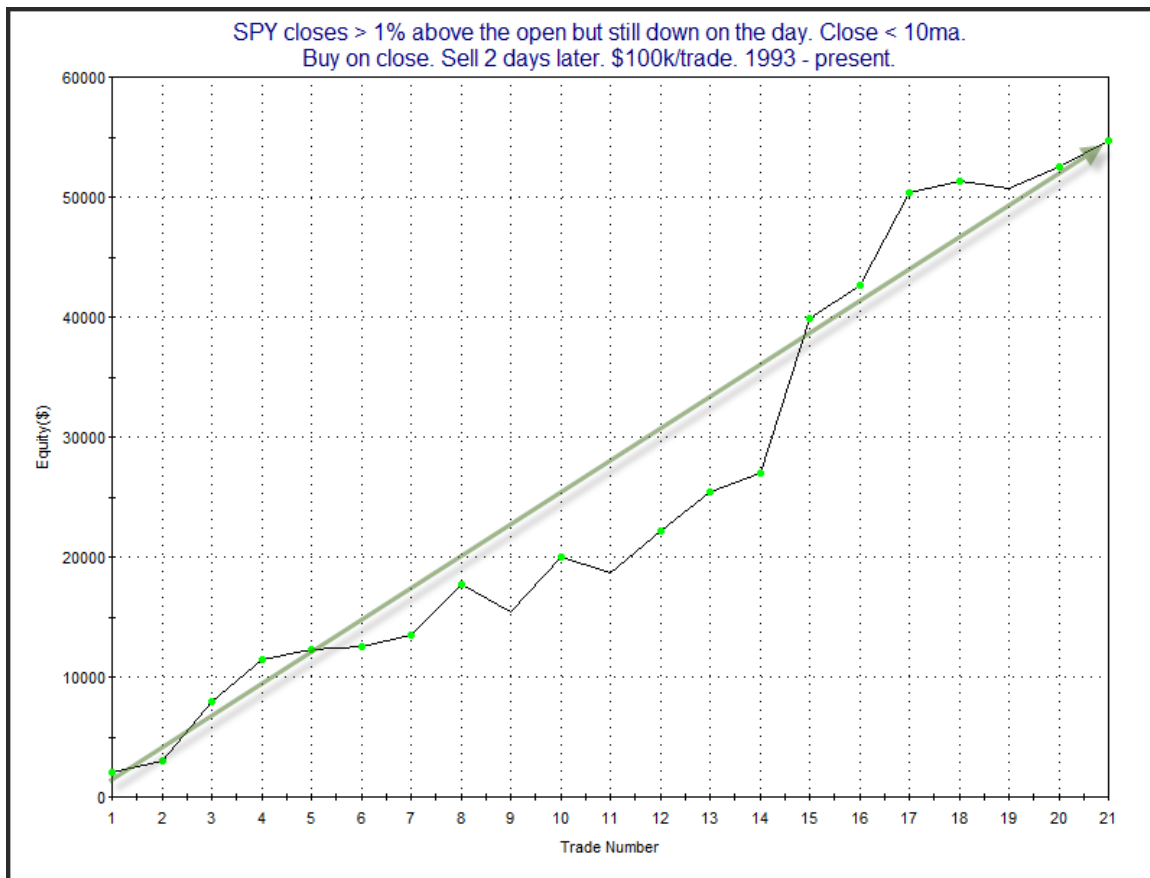
The market opened weak but finished mixed on Tuesday. After a big gap down, SPX closed down less than 1 point. The NASDAQ rose 0.5%, and the Russell 2000 gained 1.8%. Breadth was positive as the NYSE Up Issues % came in at 58% and the Up Volume % was 57%. Total NYSE volume rose from Monday's level.

There were several studies that triggered in the Quantifinder that again suggested SPY's big gap down and partial reversal could be a positive over the next few days. The study below is one I last showed in the 10/17/14 subscriber letter. It examined times when SPY rose over 1% from open to close but still finished down on the day and below its 10-day moving average. All results are updated.

SPY closes > 1% above the open but still down on the day. Close < 10ma. 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
10	54,326.05	18	13	5	72.22	5,174.46	12,037.05	-2,588.38	-4,065.60	2.00	5.20	3,018.11
9	60,576.58	18	16	2	88.89	3,995.01	10,793.37	-1,671.76	-2,059.71	2.39	19.12	3,365.37
8	62,642.21	18	14	4	77.78	4,971.29	10,774.35	-1,738.96	-3,155.60	2.86	10.01	3,480.12
7	70,129.61	18	15	3	83.33	5,001.40	15,348.76	-1,630.46	-2,787.78	3.07	15.34	3,896.09
6	64,784.70	18	15	3	83.33	4,683.04	11,639.99	-1,820.28	-2,442.90	2.57	12.86	3,599.15
5	47,711.08	20	14	6	70.00	4,537.34	11,238.92	-2,635.29	-6,614.24	1.72	4.02	2,385.55
4	48,914.00	21	15	6	71.43	4,069.82	10,630.48	-2,022.21	-6,725.16	2.01	5.03	2,329.24
3	33,771.34	21	15	6	71.43	3,004.94	6,933.92	-1,883.80	-5,355.22	1.60	3.99	1,608.16
2	54,665.53	21	18	3	85.71	3,266.83	12,814.15	-1,379.14	-2,251.30	2.37	14.21	2,603.12
1	41,183.84	21	16	5	76.19	3,123.92	14,507.65	-1,759.77	-3,547.32	1.78	5.68	1,961.14

The only instance that went more than 4 days before closing above the entry price was 9/17/2001. That was the day the market re-opened after the 9/11/2001 attacks.

The numbers here all look fantastic. The inclination to bounce has been both reliable and strong. Much of the gains have been realized in the first 2 days. Below is an equity curve for the 2-day holding period.



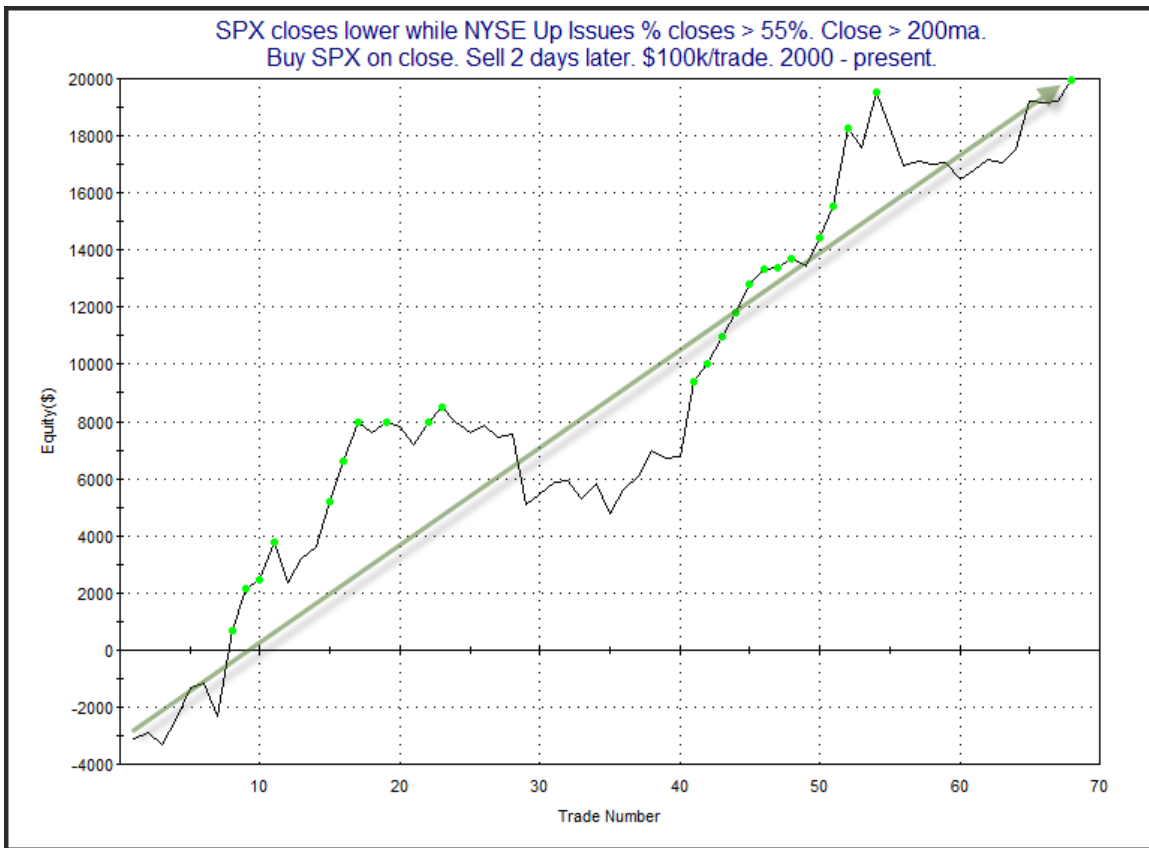
The profit curve looks as nice as the numbers, with a strong, steady upslope. I have included this study on the Short-Term Active List.

Also notable was that the Up Issues % was unusually strong for a day that the SPX declined. The study below was last seen just last week in the 7/1/14 Letter. It looks at days like Tuesday where SPX declined despite strong breadth. Results are updated.

SPX closes lower while NYSE Up Issues % closes > 55%. Close > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 2000 - 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	19,251.07	63	37	26	58.73	1,345.80	3,616.92	-1,174.75	-4,012.80	1.15	1.63	305.57
4	20,249.37	65	38	27	58.46	1,289.54	3,429.00	-1,064.93	-2,921.28	1.21	1.70	311.53
3	20,510.26	67	42	25	62.69	1,014.55	3,373.50	-884.03	-2,852.01	1.15	1.93	306.12
2	19,933.64	68	46	22	67.65	810.24	3,025.12	-788.07	-3,119.03	1.03	2.15	293.14
1	15,306.80	71	40	31	56.34	705.76	2,484.00	-416.89	-1,348.29	1.69	2.18	215.59

The edge isn't huge, but it does appear to be worth a closer look. The profit curve below gives a better idea of how it has played out over time.

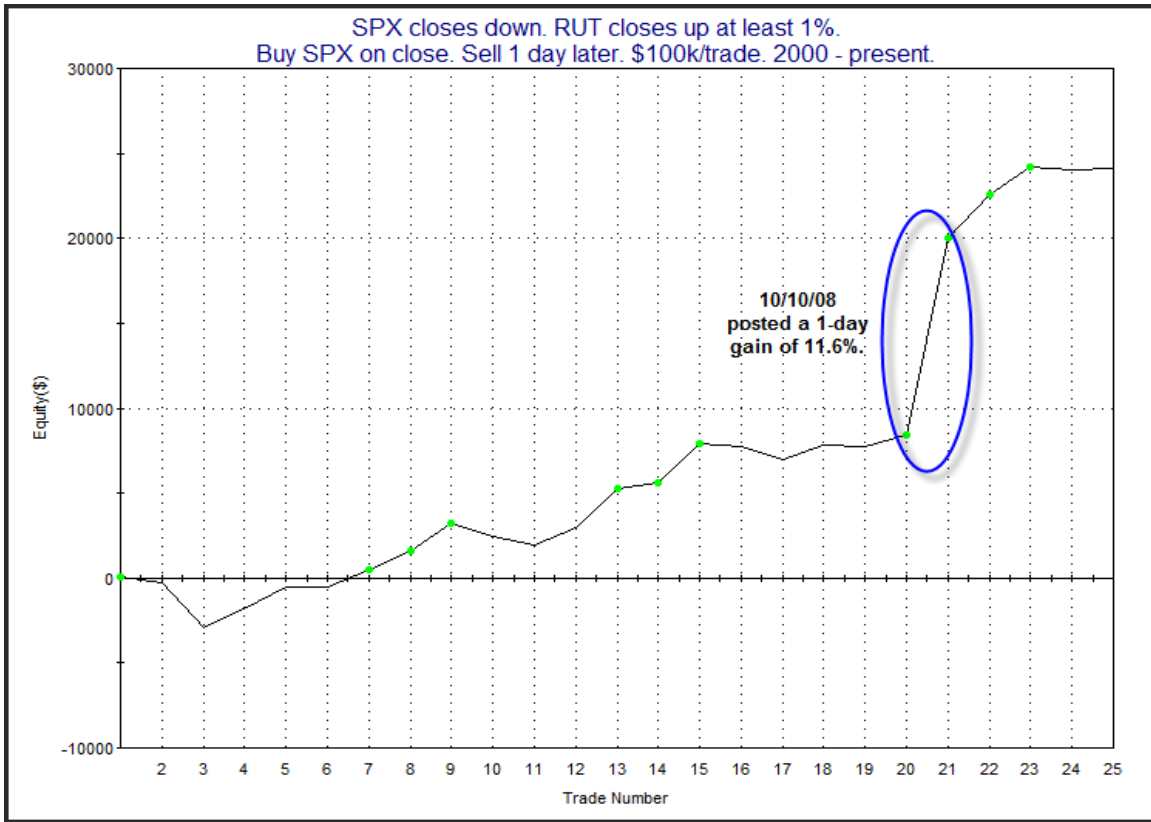


While the curve certainly appears choppy, it has persisted upwards. I believe this study is worth taking into consideration as well.

Another study that appeared tonight looked at other times the Russell 2000 closed up over 1% while the SPX closed down. There appeared to be possible bullish consequences for the following day, but not beyond that. Below are some stats assuming a 1-day holding period.

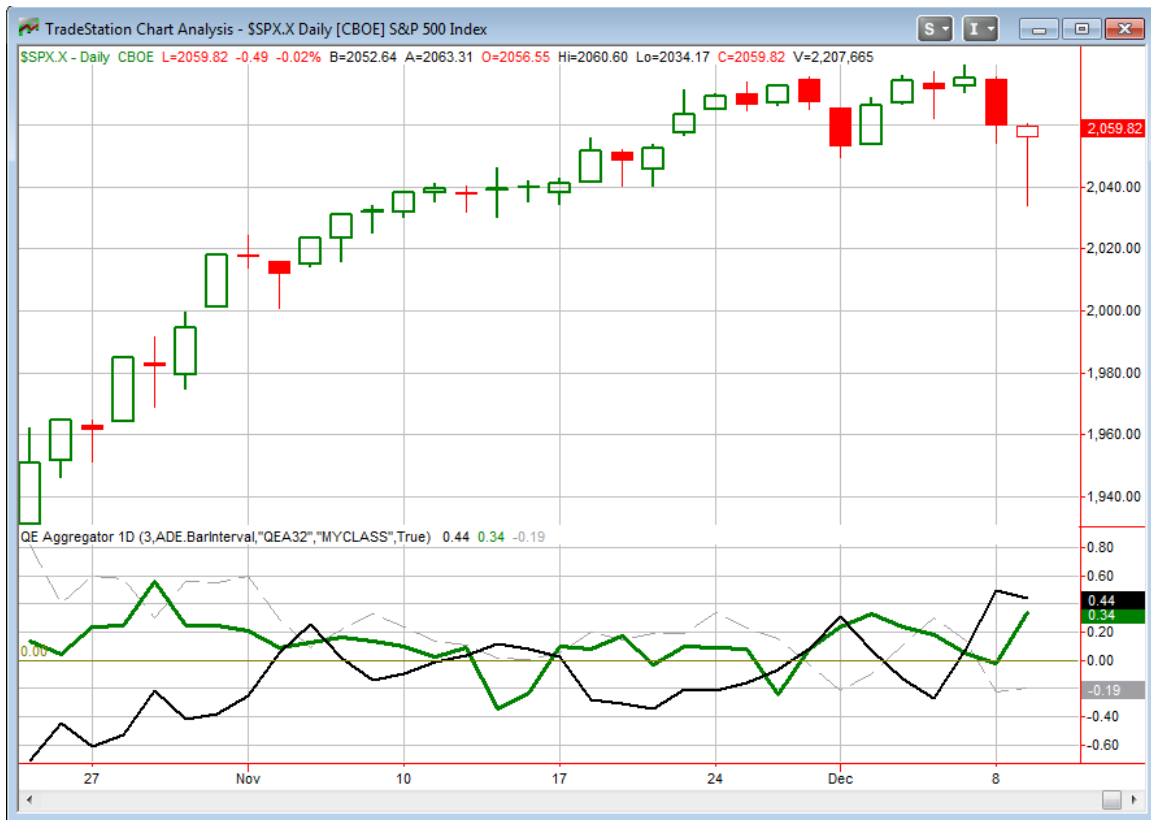
SPX closes down. RUT closes up at least 1%. Buy SPX on close. Sell 1 day later. \$100k/trade. 2000 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$24,077.46	Profit Factor	5.52
Gross Profit	\$29,398.60	Gross Loss	(\$5,321.14)
Total Number of Trades	25	Percent Profitable	68.00%
Winning Trades	17	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	\$963.10	Ratio Avg. Win:Avg. Loss	2.60
Avg. Winning Trade	\$1,729.33	Avg. Losing Trade	(\$665.14)
Largest Winning Trade	\$11,558.43	Largest Losing Trade	(\$2,722.05)

Stats here are very strong, but there was one big gain that skewed the curve. This can be seen below.



If we take out that one gain the average trade is still over 0.5%, so while the edge is exaggerated in the stats table, there does appear to be one.

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



With the new studies tonight the green Aggregator Line shot back above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line held strongly 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 above 0. Therefore the Aggregator signal turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. Of course that could change if more bearish evidence emerges. The Differential Pivot will be 2084.91 on Wednesday. This is 1.2% above Tuesday's close. So for SPX to move from "oversold" to "overbought" it is going to need to close up strongly on Wednesday.

Tonight's studies are fairly compelling for the long side. And with the SPX oversold versus expectations, this appears to be an opportune time to look for potential long opportunities. The numbered systems page has a several potential symbols to consider. I plan to look for index exposure with SPY. I also like the strong contango in the VIX term structure as well as the stretched VIX. So I'll also be looking to take on some XIV. Details are in the Trade Ideas section near the bottom of the letter.

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.

SPY – buy ¼ index position @ \$206.00 LIMIT. If not filled by close, buy @ \$206.46 LIMIT on close. Based on the short-term outlook, I will look to start scaling into a SPY position if we get a decent sized intraday pullback or a down close for SPY.

XIV – buy ½ position @ \$37.88 LIMIT. Steep contango, a stretched VIX, and a bullish Aggregator are typically a strong combination for a possible XIV trade. This is what the Aggressive VIX System looks to take advantage of. More info on these concepts can be found on the [VIX-based Research & Systems page](#). XIV trades can be extremely volatile. Traders should take this into account when considering their position size. I will begin to scale in to XIV if I can get filled at a price <= Tuesday's close.

Current Open Trade Ideas

None

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2014 Hanna Capital Management, LLC.