

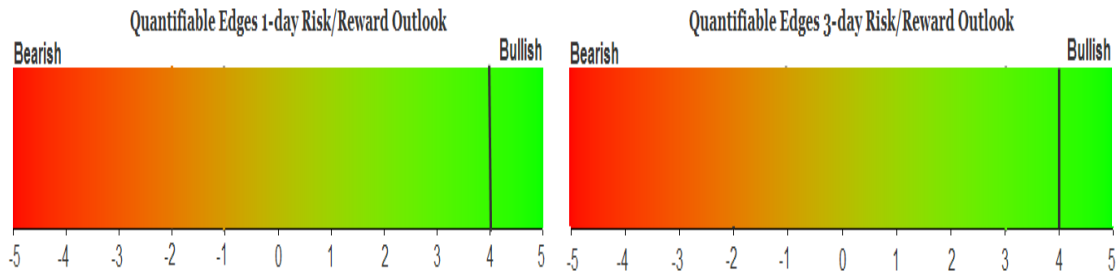
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 11, 2014

Volume 7 Issue 235

Market Overview



Signals Overview

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

Tonight's Research Points

- The 1st 10-day low in a while is often buyable, but it has been less reliable when the market is drifting sideways.
- The stretched VIX is suggesting a bounce over the next 1-2 days.
- 3 down days, a gap down, and a 10-day low have combined for a substantial upside edge in the past.

Short-term Outlook

The Bottom Line

Evidence continues to build suggesting a short-term bounce. And the market is now strongly oversold. I am long and looking to get longer.

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 11, 2014	30+ days over 10-low then 10lo, hi ADX	1-4 days	Bullish			
December 11, 2014	VIX 25% over 10ma. SPX > 200ma	1-2 days	Bullish			
December 11, 2014	10-low, unfilled gap dn, 3 days lower	1-2 days	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	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 10, 2014	SPX Dn. RUT up 1%.	1 day	Bullish			
December 9, 2014	Poor breadth on drop from 50-high	1-2 days	Bearish	-1.40%	0.40%	1.00%

The Evidence

Despite some bullish evidence Tuesday night, the market got hit pretty hard on Wednesday. The SPX lost 1.6%, the NASDAQ fell 1.7%, and the Russell 2000 declined 2.2%. Breadth was extremely negative as the NYSE Up Issues % came in at 17% and the Up Volume % was just 6%. Total NYSE volume rose for the 3rd day in a row.

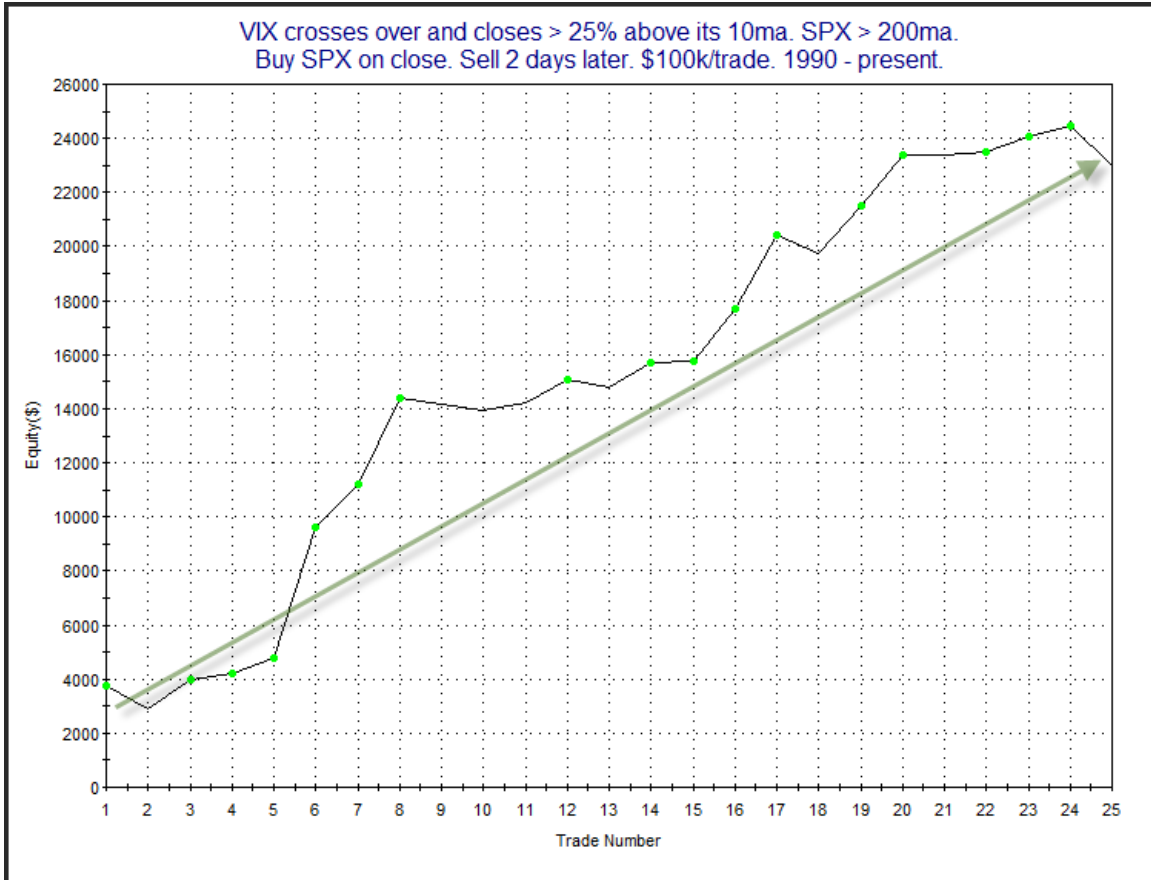
A good number of studies triggered in the Quantifinder tonight. The ones below are the ones I found most worth consideration.

While the SPX declined sharply, the VIX index rose sharply. In fact it closed 35% above its 10-day moving average. In the 8/1/14 letter I examined stretches of 25% or more. I have updated that study below.

VIX crosses over and closes > 25% above its 10ma. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 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	24,358.92	25	14	11	56.00	2,497.32	7,070.28	-963.96	-1,759.84	2.59	3.30	974.36
4	30,232.41	25	18	7	72.00	2,076.69	4,690.50	-1,021.14	-2,255.24	2.03	5.23	1,209.30
3	20,102.01	25	18	7	72.00	1,502.14	3,940.55	-990.94	-2,269.28	1.52	3.90	804.08
2	22,990.95	25	18	7	72.00	1,486.45	4,809.66	-537.87	-1,478.36	2.76	7.11	919.64
1	16,198.51	25	19	6	76.00	1,125.63	5,117.46	-864.75	-1,632.28	1.30	4.12	647.94

23 of 25 instances (92%) closed above the entry price at some point in the next 3 days. All 25 did within 7 days.

Very impressive consistency. Sizable bounces seem to have been the norm under these circumstances. Below is a profit curve that assumes a 2-day exit strategy.



Impressive steadiness. I have included this study on the Active List.

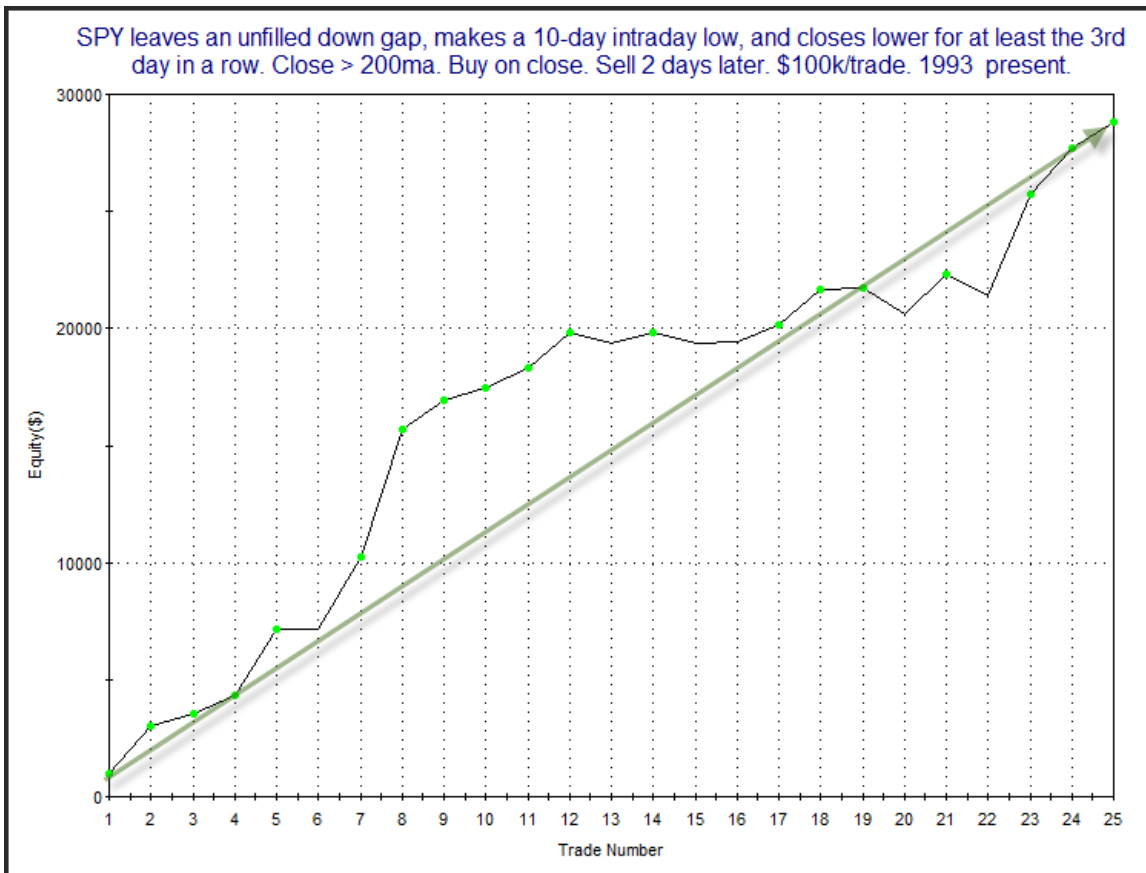
There were also a number of Quantifinder studies that looked at SPY and/or SPX making short-term lows, closing down 3 days in a row, and/or leaving unfilled gaps down. This next study was last seen in the 10/2/14 letter and it combined all of these ideas. All stats are updated.

SPY leaves an unfilled down gap, makes a 10-day intraday low, and closes lower for at least the 3rd day in a row. 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: ProfitFactor	All: Avg Trade
5	23,856.73	25	18	7	72.00	1,943.08	8,239.74	-1,588.38	-4,770.78	1.22	3.15	954.27
4	18,875.60	25	16	9	64.00	1,981.23	5,581.02	-1,424.89	-4,430.01	1.39	2.47	755.02
3	28,144.08	25	20	5	80.00	1,627.51	4,249.44	-881.24	-1,847.47	1.85	7.39	1,125.76
2	28,799.59	25	20	4	80.00	1,584.03	5,477.88	-720.23	-1,118.36	2.20	11.00	1,151.98
1	15,495.90	26	20	6	76.92	947.05	5,764.38	-574.20	-1,677.36	1.65	5.50	596.00

24 of 26 instances (92%) closed above the entry price at some point in the next 3 days.

The stats suggest a high probability of an almost immediate bounce. And although much different than the 1st study, the results are actually quite similar. Below is a profit curve assuming a 2-day holding period.



The curve is a little choppy, but the study certainly seems strong enough to include on the Active List tonight.

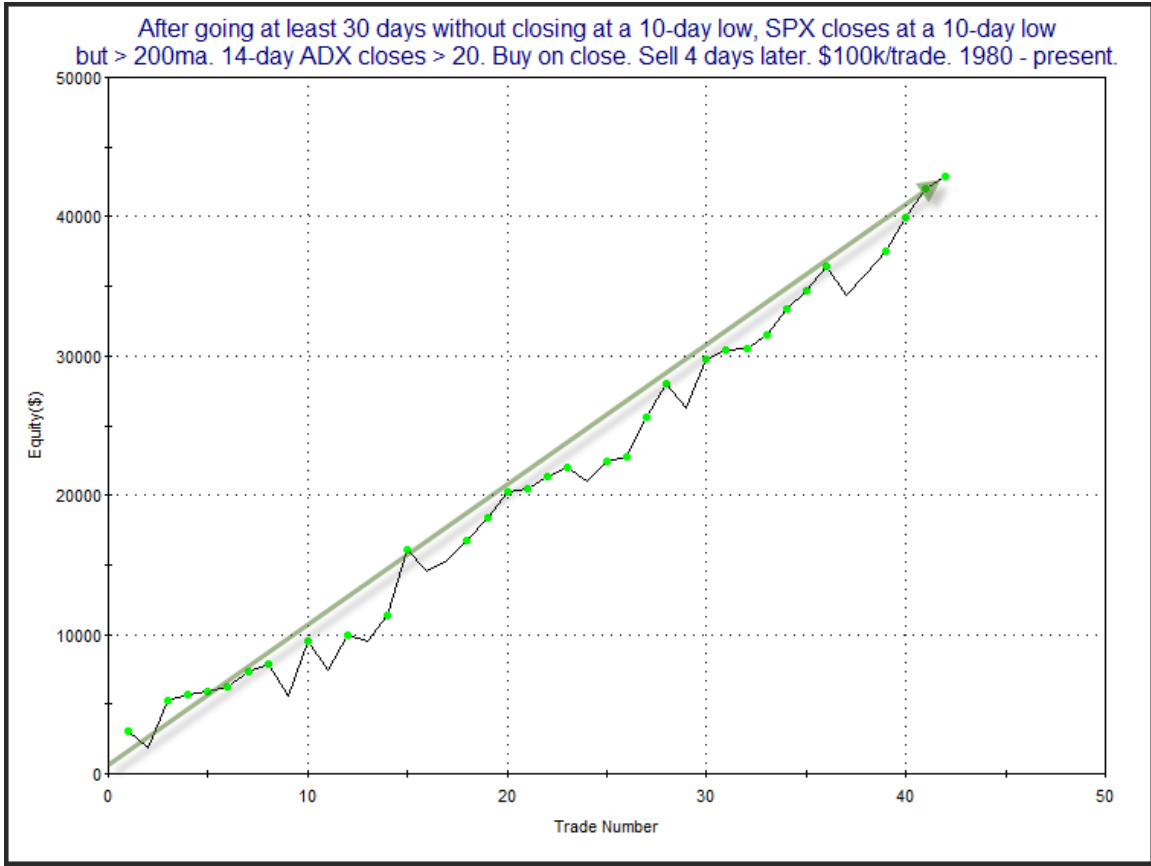
Notable about the low close on Wednesday is that it was the 1st 10-day low close since 10/16. Before today SPX had gone 38 trading days without posting a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after such a long time without one has provided a solid upside edge. In the 8/15/13 letter I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. In that letter I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. Updated results are below with that filter included.

After going at least 30 days without closing at a 10-day low, SPX closes at a 10-day low but > 200ma. 14-day ADX closes > 20. Buy on close. Sell X days later. \$100k/trade. 1980 - 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	67,539.15	42	28	14	66.67	3,066.44	12,395.76	-1,308.66	-5,362.24	2.34	4.69	1,608.08
9	65,852.42	42	31	11	73.81	2,631.57	10,529.82	-1,429.67	-3,753.36	1.84	5.19	1,567.91
8	63,733.48	42	32	10	76.19	2,499.86	10,554.48	-1,626.20	-6,117.72	1.54	4.92	1,517.46
7	44,643.84	42	30	12	71.43	2,400.49	7,743.24	-2,280.90	-8,141.12	1.05	2.63	1,062.95
6	44,969.00	42	31	11	73.81	2,038.06	5,893.74	-1,655.54	-4,111.40	1.23	3.47	1,070.69
5	40,668.96	42	29	13	69.05	1,964.92	4,608.35	-1,254.90	-3,502.11	1.57	3.49	968.31
4	42,873.59	42	34	8	80.95	1,613.71	4,690.50	-1,499.06	-2,202.96	1.08	4.58	1,020.80
3	21,998.52	42	30	12	71.43	1,262.33	3,940.55	-1,322.61	-4,464.88	0.95	2.39	523.77
2	13,268.33	42	28	14	66.67	1,030.05	3,744.45	-1,112.36	-7,559.56	0.93	1.85	315.91
1	7,508.77	42	26	16	61.90	711.68	2,287.60	-687.18	-1,922.40	1.04	1.68	178.78

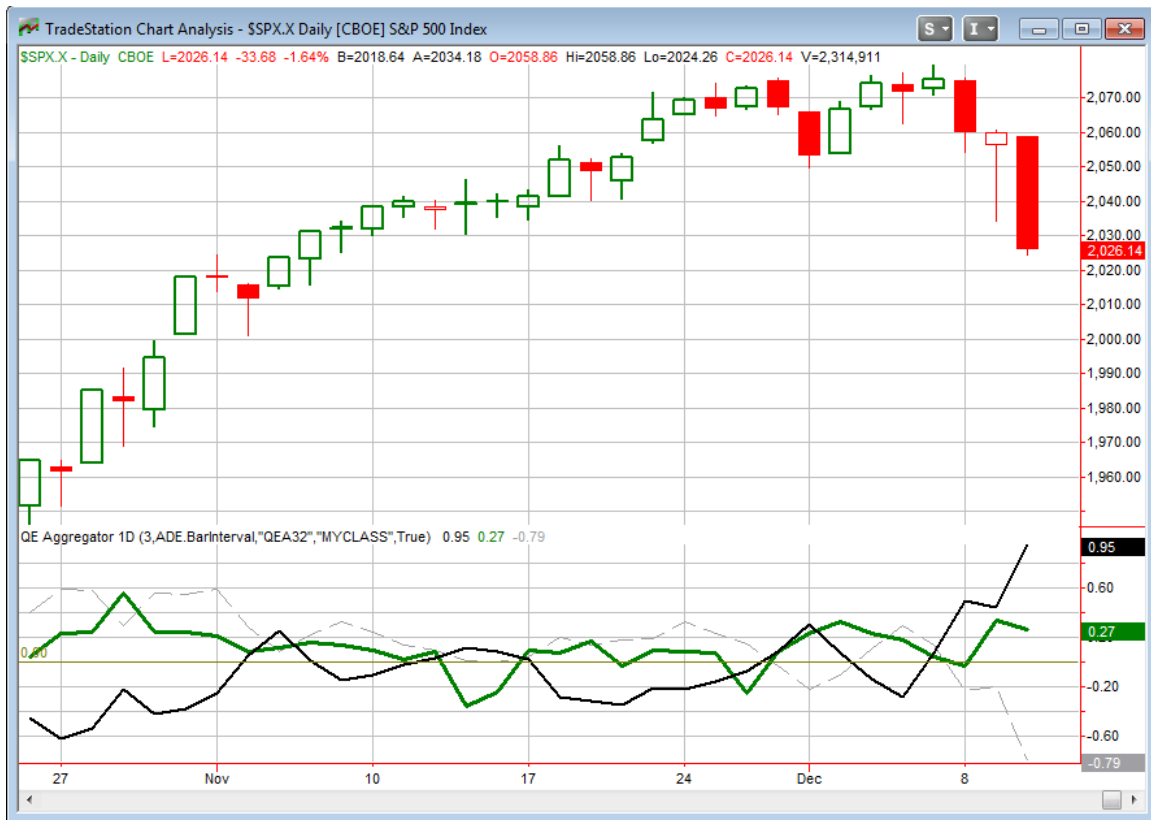
40 of 42 instances (95%) closed above the entry price at some point in the next week.

The numbers here are quite good, suggesting a short-term upside edge. Below is a profit curve.



This profit curve also shows a strong steady upslope.

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



With the new studies tonight the green Aggregator Line stayed far 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 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 stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Thursday. It would take compelling bearish evidence to change that. The Differential Pivot will be 2063.93 on Thursday. This is 1.9% above Wednesday's close. So for SPX to move from "oversold" to "overbought" it is going to need to close up an awful lot on Thursday. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

I was obviously early in starting to scale into my long position on Wednesday. But the new evidence suggests the long side should contain an upside edge. The studies are compelling. And the market is so oversold short-term, that there appears to be a good amount of room for a bounce. So I will look to up my exposure on Thursday. Details are 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

New

F @ \$15.16 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(F)

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 @ \$203.16 LIMIT. Based on the short-term outlook, I will look to continue to scale in to my long index position with a 2nd lot (of possibly 4).

XIV – buy ½ position @ \$34.03 LIMIT. The SPX appears primed for a bounce, the VIX is strongly overbought, and there still remains a small amount of contango in the futures. I will look to scale in to the 2nd and final lot of my XIV trade here if I can get a decent fill. As I mentioned last night, XIV trades can be extremely volatile. Traders should take this into account when considering their position size.

F – buy 1/3 Catapult position @ \$15.16 LIMIT. From the Catapult section above. More about Catapults can be found on [the Catapult System page](#) on the website..

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	12/10/2014	\$205.91	\$203.16	-1.34%		bought on open
XIV(1/2)	12/10/2014	\$37.21	\$34.03	-8.55%		bought on open

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