

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 12, 2014

Volume 7 Issue 236

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- The strongly rising VIX with the SPY also up is something that has often been followed by market gains.

## *Short-term Outlook*

### *The Bottom Line*

More evidence that the market should continue to bounce has emerged. I am long and looking to add a small amount to my holdings.

**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
<b>Active - Short Term</b>						
December 12, 2014	VIX up 6%. SPX up. Not Monday.	1-3 days	Bullish			
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 9, 2014	Big drop from 50-high	1-4 days	Bullish	1.20%	-0.80%	-1.50%
<b>Active - Long Term</b>						
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
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			
<b>Dropped Tonight</b>						
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			

**The Evidence**

The market bounced strongly in the morning but a good portion of the gains were given back in the afternoon. In the end, the SPX and NASDAQ each gained 0.5%, and the Russell 2000 rose 0.4%. Breadth was moderately positive as the NYSE Up Issues % came in at 55% and the Up Volume % was also 55%. Total NYSE volume declined some from Wednesday's level.

Especially interesting about the action on Thursday was that the VIX spiked over 8% while SPY closed up solidly. It's fairly remarkable to see such a large spike in the VIX on a day where the SPY actually rose. The study below was last seen in the 8/15/12 letter. It looked at non-Mondays that saw the VIX spike up > 6% despite the SPY also rising. I have updated the results table below.

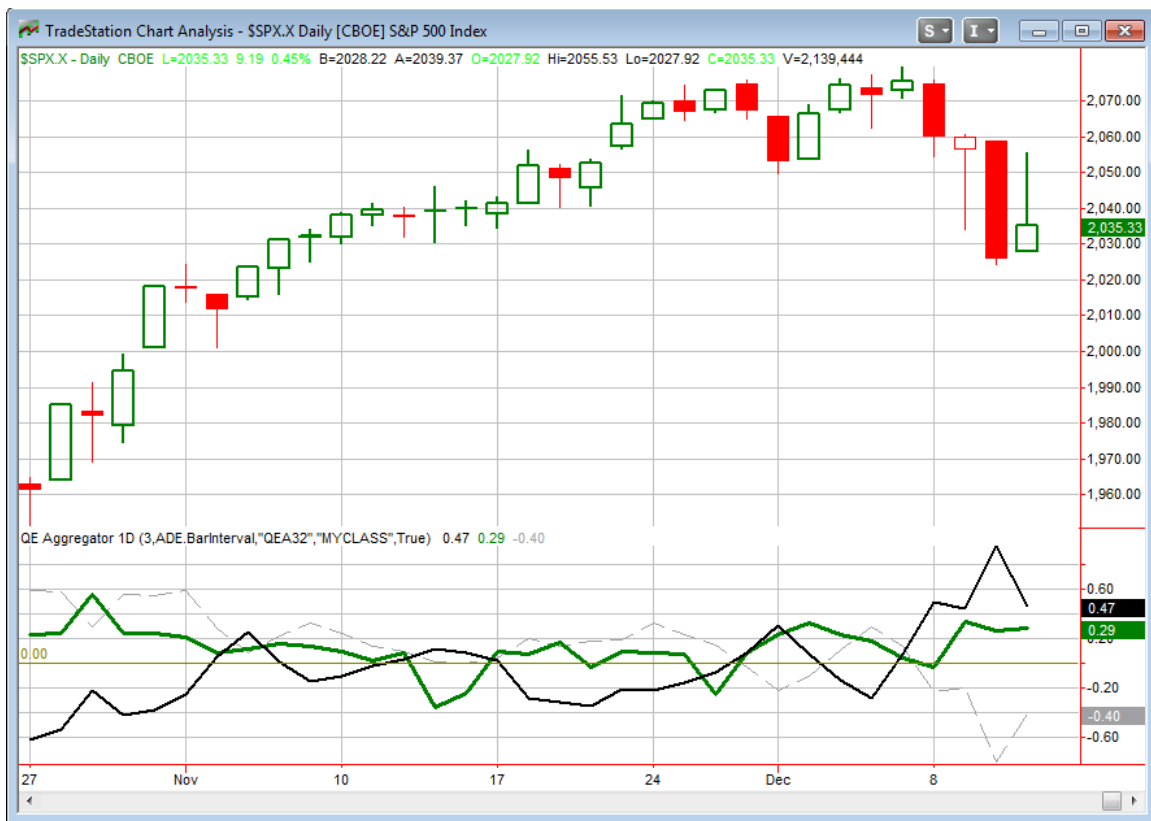
VIX closes up over 6% while SPY closes positive. Today is not Monday. Buy SPY on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	19,751.31	17	15	2	88.24	1,385.48	4,501.60	-515.48	-810.06	2.69	20.16	1,161.84
4	20,810.75	17	15	2	88.24	1,437.56	4,225.18	-376.36	-446.12	3.82	28.65	1,224.16
3	18,131.21	17	16	1	94.12	1,138.95	4,576.06	-91.98	-91.98	12.38	198.12	1,066.54
2	11,964.97	18	14	4	77.78	1,005.34	2,807.04	-527.43	-790.40	1.91	6.67	664.72
1	4,271.84	19	12	7	63.16	610.91	1,893.29	-437.02	-1,546.98	1.40	2.40	224.83
<b>100% of instances closed above the entry price at some point in the next week.</b>												

The edge here appears to be strong. Below is a list of all the instances along with their 3-day results.

VIX closes up over 6% while SPY closes positive. Today is not Monday. Buy SPY on close. Sell 3 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
03/31/94	Buy	\$44.60	0.47%	\$695.02
04/06/94	Sell	\$44.81		(\$2,802.50)
10/12/94	Buy	\$46.69	0.56%	\$1,370.24
10/17/94	Sell	\$46.95		\$0.00
11/23/94	Buy	\$45.25	0.91%	\$1,104.50
11/29/94	Sell	\$45.66		\$0.00
01/03/95	Buy	\$45.79	0.59%	\$1,004.18
01/06/95	Sell	\$46.06		(\$87.32)
05/04/95	Buy	\$52.25	0.54%	\$1,147.80
05/09/95	Sell	\$52.53		(\$325.21)
05/31/95	Buy	\$53.05	1.56%	\$1,903.85
06/05/95	Sell	\$53.88		\$0.00
12/05/95	Buy	\$62.14	0.05%	\$643.60
12/08/95	Sell	\$62.17		(\$579.24)
12/22/95	Buy	\$61.21	0.34%	\$751.18
12/28/95	Sell	\$61.42		\$0.00
02/06/96	Buy	\$64.77	1.65%	\$2,484.23
02/09/96	Sell	\$65.84		(\$108.01)
03/19/96	Buy	\$65.23	(0.09%)	\$475.23
03/22/96	Sell	\$65.17		(\$889.14)
09/03/96	Buy	\$65.75	0.29%	\$1,520.00
09/06/96	Sell	\$65.94		(\$1,109.60)
05/27/97	Buy	\$85.13	0.18%	\$504.82
05/30/97	Sell	\$85.28		(\$2,348.00)
03/17/00	Buy	\$146.94	2.14%	\$2,652.00
03/22/00	Sell	\$150.09		(\$1,659.20)
10/26/00	Buy	\$136.69	4.58%	\$5,117.00
10/31/00	Sell	\$142.95		(\$43.86)
06/16/11	Buy	\$127.30	1.69%	\$1,884.00
06/21/11	Sell	\$129.45		(\$565.20)
01/17/12	Buy	\$129.34	1.70%	\$2,017.53
01/20/12	Sell	\$131.54		(\$200.98)
08/14/12	Buy	\$140.79	0.99%	\$1,072.10
08/17/12	Sell	\$142.18		(\$170.40)

Results appear very strong. The average run-up here (1.55%) was more than twice the average drawdown (-0.64%). Additionally, the only losing instance 3 days later was down less than 0.1%. I've included this study on the Active List.

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



With tonight's study taken into account 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 Friday. This could change if strong bearish evidence emerges. The Differential Pivot will be 2066.92 on Thursday. This is 1.6% above Thursday's close. So for SPX to move from "oversold" to "overbought" it is going to need to close up strongly on Friday. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

We are certainly in a scary environment. And that fear is reflected in the VIX action. But I still like the bullish case. The studies the past couple of nights have been very compelling. The market is stretched. And we are about to enter a very strong seasonal period. In fact, next week (being opex week in December) is the week I have referred to

since 2008 as “The Most Wonderful Time of the Year”. It has been extremely bullish since 1984 when SPX options began trading. [This link is to a blog post](#) about it from last year. I’ll update all the stats in this weekend’s letter. Anyway, bottom line is that I have some long exposure. I will not add more to my index position tonight, but I will look to add 1 more Catapult position. Details are in the trade ideas section at 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***

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

*New*

FCX @ \$22.98 (buy 1/3 @ limit)

***Catapult for ETF’s Trades***

*None*

***Broad Market Large Cap CBI – 2(F, FCX)***

### 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.

**FCX – buy 1/3 Catapult position @ \$22.98 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	\$204.19	-0.84%		Aggregator
XIV(1/2)	12/10/2014	\$37.21	\$31.84	-14.43%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$31.84	-6.44%		Aggressive VIX
F(1/3)	12/11/2014	\$15.16	\$15.28	0.79%		Catapult

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