

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 17, 2014

Volume 7 Issue 239

Market Overview



Signals Overview

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

Tonight's Research Points

- The Quantifiable Edges CBI has reached 12 – a strong indication of both a short and intermediate-term bottom in the past.
- Since 1982, 3 down days combined with a Fed Day has resulted in consistent gains over the next 3 days.
- Extreme VIX action suggests a short-term bounce.

Short-term Outlook

The Bottom Line

Same stance tonight. Evidence for a bounce continues to build. I am looking to take advantage of that bounce.

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 17, 2014	CBI >= 10. SPX > 200ma.	1-4 days	Bullish			
December 17, 2014	VIX 35% > 10ma	1 day	Bullish			
December 17, 2014	3 days lower into Fed Day	1-3 days	Bullish			
December 16, 2014	SPY close bottom 25% 4 days in row	1-5 days	Bullish			
December 16, 2014	20-day low on a Monday	1-4 days	Bullish			
December 15, 2014	Big drop on Friday	1-6 days	Bullish	2.50%	-1.70%	-3.70%
December 15, 2014	Dn 1.5% 2x in 5 days	1-7 days	Bullish	3.50%	-1.90%	-4.40%
December 15, 2014	Oversold into Most Wonderful Week	1-6 days	Bullish	2.35%	-1.10%	-2.10%
Active - Long Term						
December 17, 2014	CBI >= 11.	1-20 days	Bullish			
December 15, 2014	End of Yr. Strength & January Effect	thru Jan 2	Bullish			
December 9, 2014	Hindenburg Omens	1-35 days	Bearish			
December 5, 2014	10-high outside day w/ down close > 20%	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 15, 2014	Unfilled gap up. Unfill gap dn < 2 a	1-3 days	Bearish			
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			

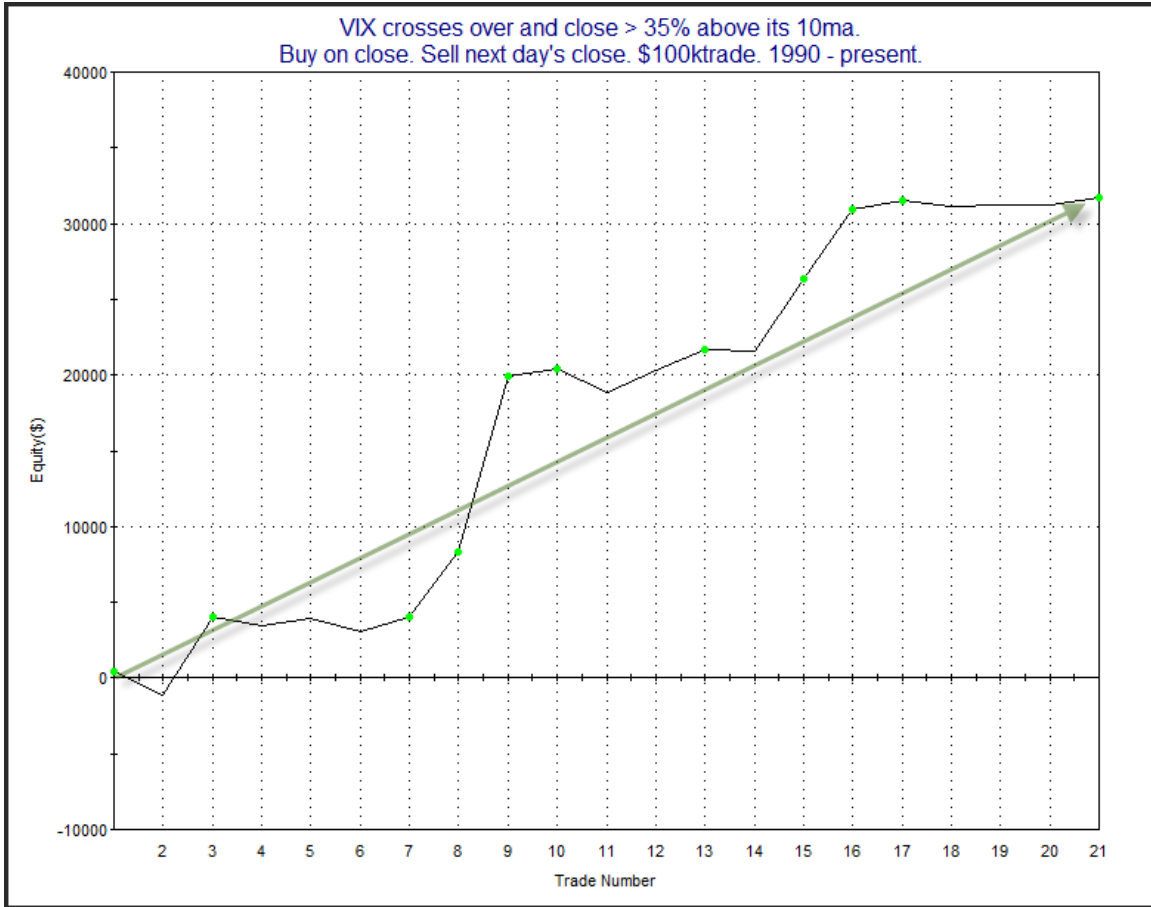
The Evidence

Another day, another failed bounce attempt. Tuesday saw more losses. The SPX fell 0.9%, the NASDAQ lost 1.2%, and the Russell 2000 declined 0.1%. Breadth was negative as the NYSE Up Issues % came in at 42% and the Up Volume % was 44%. Total NYSE volume rose for the 3rd day in a row.

The VIX posted another large gain Tuesday. It rose 15.4%. This triggered a few VIX-related studies in the Quantifinder. The one below is the one that I found most compelling. It was last seen in the 1/27/14 subscriber letter.

VIX crosses over and close > 35% above its 10ma. Buy on close. Sell next day's close. \$100ktrade. 1990 - present.			
TradeStation Performance Summary			Collapse ^
All Trades			
Total Net Profit	\$31,707.33	Profit Factor	7.21
Gross Profit	\$36,815.15	Gross Loss	(\$5,107.82)
Total Number of Trades	21	Percent Profitable	71.43%
Winning Trades	15	Losing Trades	6
Even Trades	0		
Avg. Trade Net Profit	\$1,509.87	Ratio Avg. Win:Avg. Loss	2.88
Avg. Winning Trade	\$2,454.34	Avg. Losing Trade	(\$851.30)
Largest Winning Trade	\$11,558.43	Largest Losing Trade	(\$1,532.16)

A close this far above the 10ma is rare. It has frequently meant a market bounce the next day. Follow through after day 1 has been unreliable, though. Below is a profit curve.



The curve is fairly impressive also. This study seems worth consideration.

Last night I discussed the Quantifiable Edges CBI, which was at 8. With Monday's selling it reached 12. In the past I have shown that readings of 10 or higher have been strong predictor's of a bounce. The study below is copied from last night's letter.

Below is a list of all the instances where the CBI closed ≥ 10 while SPX was above its 200ma. ...this one looks to exit when the CBI returns to 3 or lower.

CBI reaches at least 10 and SPX > 200ma.
Buy SPX on close. Sell when CBI <= 3. \$100k/trade. 1995 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.09%	\$1,116.22
12/19/96	Sell	\$745.77		(\$3,806.94)
04/03/97	Buy	\$750.32	0.59%	\$2,554.93
04/15/97	Sell	\$754.72		(\$2,231.74)
08/14/97	Buy	\$924.77	1.58%	\$1,574.64
08/20/97	Sell	\$939.35		(\$3,394.44)
01/26/00	Buy	\$1,404.09	0.37%	\$1,048.67
02/01/00	Sell	\$1,409.28		(\$3,836.84)
02/02/04	Buy	\$1,135.26	0.40%	\$809.60
02/09/04	Sell	\$1,139.81		(\$952.16)
03/23/05	Buy	\$1,172.53	0.76%	\$765.85
03/30/05	Sell	\$1,181.41		(\$751.40)
03/05/07	Buy	\$1,374.12	2.36%	\$2,594.16
03/12/07	Sell	\$1,406.60		\$0.00
03/17/11	Buy	\$1,273.72	1.94%	\$2,095.08
03/21/11	Sell	\$1,298.38		\$0.00
05/18/12	Buy	\$1,295.22	1.97%	\$2,561.79
05/24/12	Sell	\$1,320.68		\$0.00
02/05/14	Buy	\$1,751.64	2.59%	\$2,644.23
02/07/14	Sell	\$1,797.02		\$0.00
08/01/14	Buy	\$1,925.15	0.61%	\$1,007.25
08/11/14	Sell	\$1,936.92		(\$1,038.87)

Only 11 instances, but the perfect record is impressive.

I also looked at these 11 instances to see how they performed over the next 1-5 days. Those results are below.

CBI reaches at least 10 and SPX > 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	13,015.78	11	10	1	90.91	1,360.14	3,854.34	-585.58	-585.58	2.32	23.23	1,183.25
4	14,026.76	11	10	1	90.91	1,482.13	3,882.27	-794.58	-794.58	1.87	18.65	1,275.16
3	8,857.97	11	7	4	63.64	1,569.54	2,747.40	-532.20	-683.73	2.95	5.16	805.27
2	2,959.61	11	6	5	54.55	1,527.01	2,586.66	-1,240.49	-3,119.03	1.23	1.48	269.06
1	3,413.02	11	7	4	63.64	940.59	1,599.29	-792.78	-2,587.68	1.19	2.08	310.27

Numbers here appear strong. Four to five days out the stats look especially appealing. Below is the list of instances, along with their 4-day returns.

CBI reaches at least 10 and SPX > 200ma. Buy SPX on close. Sell 4 days later. \$100k/trade. 1995 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.33%	\$1,116.22
12/10/96	Sell	\$747.54		(\$2,440.14)
04/03/97	Buy	\$750.32	1.37%	\$2,554.93
04/09/97	Sell	\$760.60		(\$835.24)
08/14/97	Buy	\$924.77	1.58%	\$1,574.64
08/20/97	Sell	\$939.35		(\$3,394.44)
01/26/00	Buy	\$1,404.09	0.37%	\$1,048.67
02/01/00	Sell	\$1,409.28		(\$3,836.84)
02/02/04	Buy	\$1,135.26	0.66%	\$662.64
02/06/04	Sell	\$1,142.76		(\$952.16)
03/23/05	Buy	\$1,172.53	0.76%	\$765.85
03/30/05	Sell	\$1,181.41		(\$751.40)
03/05/07	Buy	\$1,374.12	2.09%	\$2,594.16
03/09/07	Sell	\$1,402.85		\$0.00
03/17/11	Buy	\$1,273.72	1.87%	\$2,095.08
03/23/11	Sell	\$1,297.54		\$0.00
05/18/12	Buy	\$1,295.22	1.97%	\$2,561.79
05/24/12	Sell	\$1,320.68		\$0.00
02/05/14	Buy	\$1,751.64	3.89%	\$4,098.30
02/11/14	Sell	\$1,819.75		\$0.00
08/01/14	Buy	\$1,925.15	(0.81%)	\$906.27
08/07/14	Sell	\$1,909.57		(\$1,038.87)

The August 2014 instance that showed a loss after four days was higher on the fifth day, and a strong rally kicked off from there. Overall, these results appear very strong.


While 10 has been a strong indication for a short-term bounce, 11 or higher has been a reliable indication for the intermediate-term. Tuesday was just the 23rd time the CBI reached as high as 11. Looking out 20 days later, every other instance has been trading higher. Below is the full listing of triggers and the 20-day results.

Quantifiable Edges CBI reaches at least 11.
Buy SPX on close. Sell 20 days later. \$100k/trade. 1995 - present.

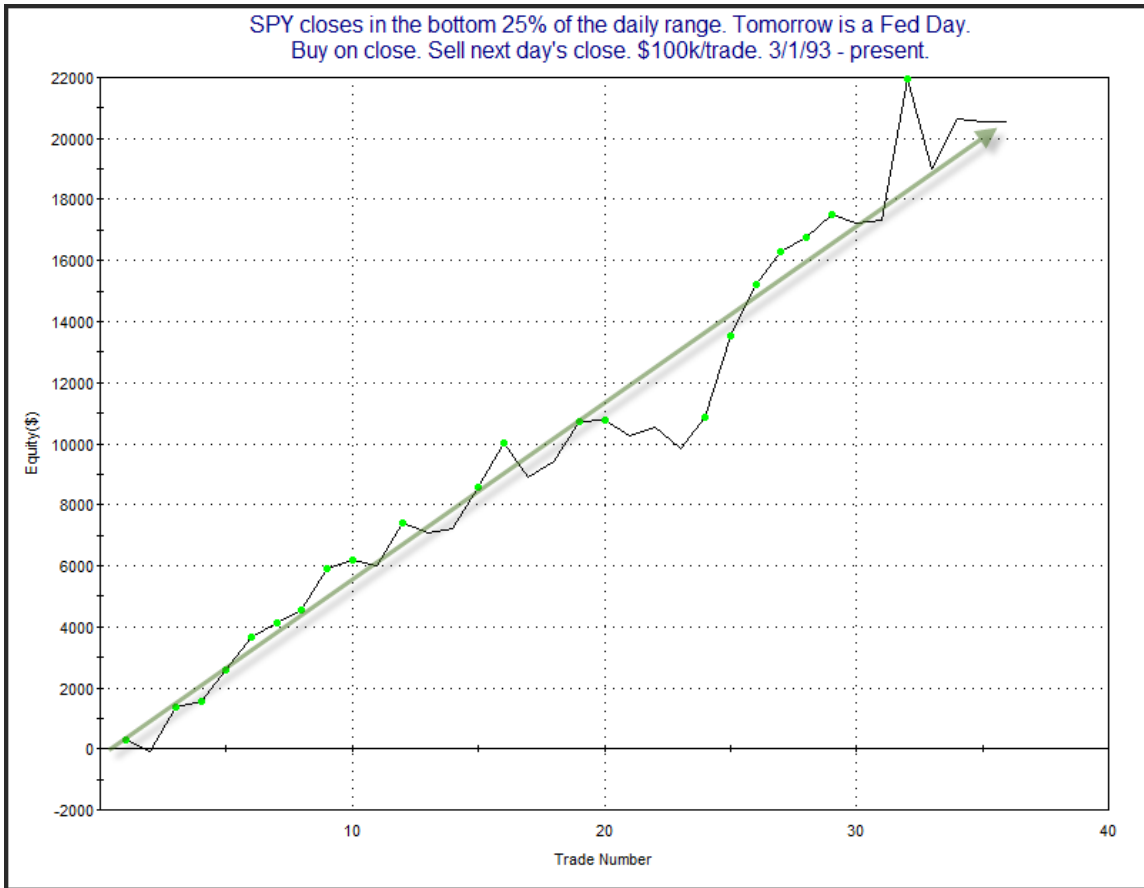
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.39%	\$1,889.40
01/03/97	Sell	\$748.03		(\$3,806.94)
04/03/97	Buy	\$750.32	6.43%	\$7,156.73
05/01/97	Sell	\$798.53		(\$2,231.74)
08/15/97	Buy	\$900.81	2.10%	\$4,391.16
09/15/97	Sell	\$919.77		(\$829.17)
08/28/98	Buy	\$1,027.25	2.09%	\$3,768.45
09/28/98	Sell	\$1,048.70		(\$8,463.25)
09/18/01	Buy	\$1,032.74	6.27%	\$6,616.32
10/16/01	Sell	\$1,097.54		(\$8,447.04)
07/18/02	Buy	\$881.56	5.52%	\$5,845.49
08/15/02	Sell	\$930.25		(\$11,964.44)
02/02/04	Buy	\$1,135.26	1.22%	\$2,087.36
03/02/04	Sell	\$1,149.10		(\$952.16)
04/18/05	Buy	\$1,145.98	1.72%	\$2,861.43
05/16/05	Sell	\$1,165.69		(\$855.21)
03/05/07	Buy	\$1,374.12	3.67%	\$4,663.44
04/02/07	Sell	\$1,424.55		(\$730.08)
01/22/08	Buy	\$1,310.51	3.78%	\$6,498.76
02/20/08	Sell	\$1,360.02		(\$3,074.96)
03/07/08	Buy	\$1,293.37	6.12%	\$7,189.49
04/07/08	Sell	\$1,372.53		(\$2,802.03)
07/02/08	Buy	\$1,261.53	0.46%	\$2,341.56
07/31/08	Sell	\$1,267.38		(\$4,826.11)
10/07/08	Buy	\$996.23	0.96%	\$4,808.00
11/04/08	Sell	\$1,005.75		(\$15,643.00)
11/20/08	Buy	\$752.44	18.00%	\$21,966.12
12/19/08	Sell	\$887.88		(\$1,453.32)
03/02/09	Buy	\$700.82	12.37%	\$18,762.46
03/30/09	Sell	\$787.53		(\$4,832.26)
05/20/10	Buy	\$1,071.59	4.29%	\$4,596.06
06/18/10	Sell	\$1,117.51		(\$2,865.33)
06/29/10	Buy	\$1,041.24	6.23%	\$7,652.16
07/28/10	Sell	\$1,106.13		(\$2,911.68)
08/08/11	Buy	\$1,119.46	4.09%	\$9,901.25
09/06/11	Sell	\$1,165.24		(\$1,594.88)
05/18/12	Buy	\$1,295.22	3.83%	\$4,081.00
06/18/12	Sell	\$1,344.78		(\$2,192.96)
11/16/12	Buy	\$1,359.88	5.18%	\$5,745.83
12/17/12	Sell	\$1,430.36		\$0.00
08/01/14	Buy	\$1,925.15	4.06%	\$4,074.39
08/29/14	Sell	\$2,003.37		(\$1,038.87)
10/13/14	Buy	\$1,874.74	8.72%	\$8,689.88
11/10/14	Sell	\$2,038.26		(\$2,866.24)

This will be added to the intermediate-term active list.

Last night I also discussed that Wednesday is a Fed Day, and Fed Day bullishness has been especially strong when the day before the Fed Day finishes poorly. Below is the study from last night letter that illustrates this.

SPY closes in the bottom 25% of the daily range. Tomorrow is a Fed Day. Buy on close. Sell Fed Day close. \$100k/trade. 3/1/93 - present.			
TradeStation Performance Summary			Collapse 
All Trades			
Total Net Profit	\$20,567.48	Profit Factor	4.08
Gross Profit	\$27,250.17	Gross Loss	(\$6,682.69)
Total Number of Trades	36	Percent Profitable	75.00%
Winning Trades	27	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$571.32	Ratio Avg. Win:Avg. Loss	1.36
Avg. Winning Trade	\$1,009.27	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

The numbers are very strong. I thought tonight I would also share the profit curve.



The curve appears pretty strong and steady, and serves to confirm the upside edge.

But on Tuesday and even more interesting Fed Day-related study emerge. It examined other times that SPX was in a long-term uptrend, but closed down for at least the third day in a row going into the Fed Day. I last showed this study in the 3/20/13 subscriber letter, and have updated the results below.

SPX closes down for at least the 3rd day in a row, but > 200ma. Tomorrow is a Fed Day.
Buy SPX on close. Sell X days later. \$100k/trade. 1982 - present.

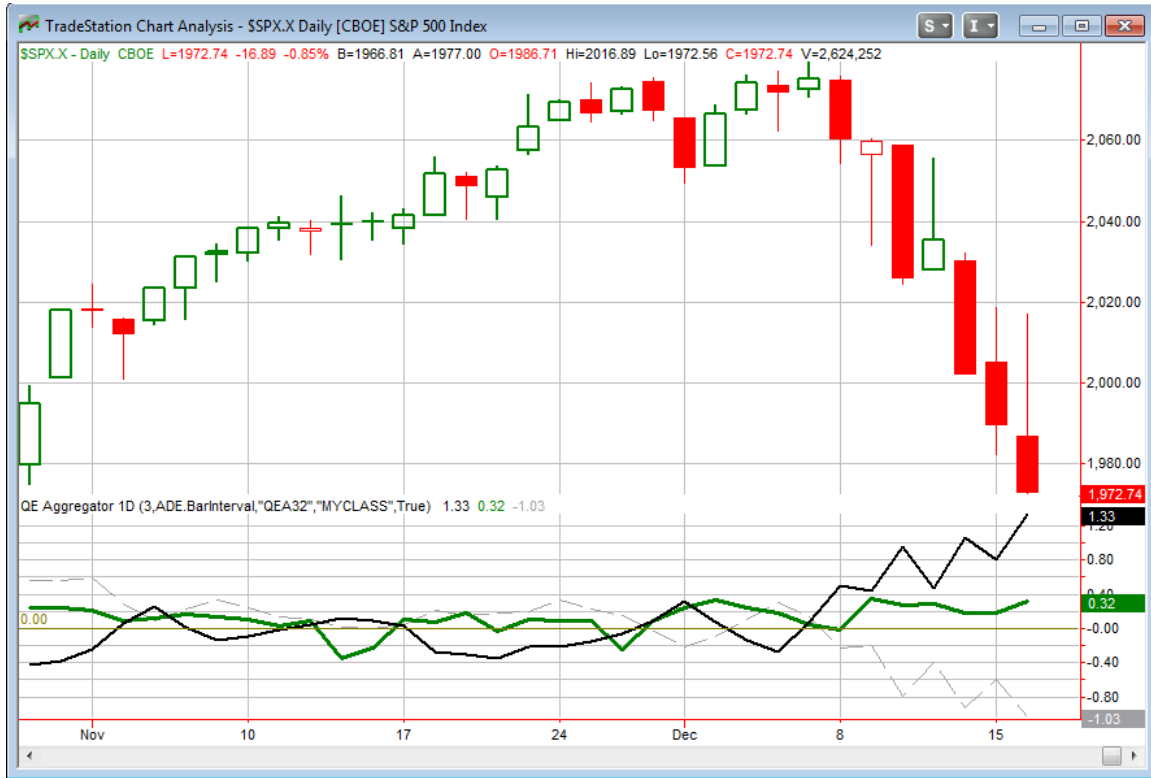
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: /Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	21,982.67	16	13	3	81.25	2,165.63	4,608.35	-2,056.86	-3,270.96	1.05	4.56	1,373.92
4	23,029.64	16	14	2	87.50	1,810.07	4,690.50	-1,155.67	-1,433.11	1.57	10.96	1,439.35
3	23,845.20	16	16	0	100.00	1,490.33	3,940.55	0.00	0.00	100.00	100.00	1,490.33
2	14,922.16	16	12	4	75.00	1,296.14	3,744.45	-157.87	-243.60	8.21	24.63	932.64
1	8,156.27	16	13	3	81.25	721.31	1,852.38	-406.90	-462.09	1.77	7.68	509.77

All of the 16 instances saw the market higher 3 days later. These are some very encouraging numbers for the bulls. Below is the list of instances.

SPX closes down for at least the 3rd day in a row, but > 200ma. Tomorrow is a Fed Day. Buy SPX on close. Sell 3 days later. \$100k/trade. 1982 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/16/82	Buy	\$135.41	1.19%	\$3,217.68
11/19/82	Sell	\$137.02		\$0.00
10/03/83	Buy	\$165.80	2.70%	\$3,069.27
10/06/83	Sell	\$170.27		(\$615.06)
07/08/86	Buy	\$241.58	0.26%	\$780.57
07/11/86	Sell	\$242.22		(\$792.96)
02/10/87	Buy	\$275.07	1.68%	\$2,116.29
02/13/87	Sell	\$279.69		(\$431.97)
12/18/89	Buy	\$343.68	0.32%	\$391.50
12/21/89	Sell	\$344.78		(\$1,177.40)
08/19/91	Buy	\$376.46	3.95%	\$4,110.15
08/22/91	Sell	\$391.33		\$0.00
11/04/91	Buy	\$390.27	0.88%	\$880.64
11/07/91	Sell	\$393.71		(\$688.64)
07/06/93	Buy	\$441.43	1.52%	\$1,697.26
07/09/93	Sell	\$448.13		(\$6.78)
09/20/93	Buy	\$455.05	0.59%	\$797.16
09/23/93	Sell	\$457.74		(\$1,186.98)
11/14/95	Buy	\$589.29	1.83%	\$1,833.65
11/17/95	Sell	\$600.07		(\$157.17)
12/18/95	Buy	\$606.82	0.60%	\$1,221.80
12/21/95	Sell	\$610.49		(\$290.28)
12/16/96	Buy	\$720.99	3.44%	\$3,459.66
12/19/96	Sell	\$745.77		(\$593.40)
03/30/98	Buy	\$1,093.60	2.41%	\$2,494.31
04/02/98	Sell	\$1,120.01		(\$4.55)
05/18/98	Buy	\$1,105.82	0.80%	\$1,676.70
05/21/98	Sell	\$1,114.64		\$0.00
08/08/05	Buy	\$1,223.13	1.20%	\$1,584.36
08/11/05	Sell	\$1,237.81		\$0.00
03/19/13	Buy	\$1,548.34	0.55%	\$846.08
03/22/13	Sell	\$1,556.89		(\$306.56)

One possible concern is that there have only been 2 instances in the last 15 years. The setup has certainly been potent over a long period of time. But I am less enthused about it than I would be if all these instances would have taken place over the last 10 years. Still, with an undefeated record I think it is worth consideration. And combined with the other Fed Day study, we seem to have ample evidence of a bullish inclination.

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



With tonight's studies 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 is stretched extremely far 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 Wednesday. This is highly unlikely to change. The Differential Pivot will be 2016.39 on Wednesday. This is a whopping 2.2% above Tuesday's close. That size gain is unlikely to occur on Wednesday. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

There are an awful lot of things pointing towards a short-term bounce. These include sentiment, price action, seasonality, and oversold breadth. Extremely oversold markets can always get more extremely oversold, but we are at a point now where the probability

of a strong bounce seems much higher than the probability of strong additional selling. I am fully loaded on my index holdings at the moment. I will look to continue to add individual stock exposure through Catapult positions. Those are all listed down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/15 – somewhat bullish

The intermediate-term outlook was last updated in the 12/15 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)

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

FCX @ \$21.78 (buy 1/3 @ limit)

PFE @ \$30.95 (buy 1/3 @ limit)

ABBV @ \$65.27 (buy 1/3 @ limit)

FCX @ \$21.03 (buy 1/3 @ limit) – final lot

PFE @ \$30.86 (buy 1/3 @ limit) – 2nd lot

WMB @ \$42.14 (buy 1/3 @ limit)

New

PFE @ \$30.67 (buy 1/3 @ limit) – final lot

WMB @ \$42.14 (buy 1/3 @ limit) - 2nd lot

NKE @ \$93.21 (buy 1/3 @ limit)

MDLZ @ \$36.02 (buy 1/3 @ limit)

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 12/7(F, FCX-3, PFE-3, ABBV, WMB-2, NKE, MDLZ)

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.

PFE – buy 1/3 Catapult position @ \$30.67 LIMIT. From the Catapult section above. This is the final possible lot for this Catapult trade.

WMB – buy 1/3 Catapult position @ \$41.84 LIMIT. From the Catapult section above. This is the 2nd of 3 possible lots for this Catapult trade.

NKE – buy 1/3 Catapult position @ \$93.21 LIMIT. From the Catapult section above. This is the 1st of 3 possible lot for this Catapult trade.

MDLZ – buy 1/3 Catapult position @ \$36.02 LIMIT. From the Catapult section above. This is the 2nd of 3 possible lots for this Catapult trade.

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	\$197.91	-3.89%		Aggregator
XIV(1/2)	12/10/2014	\$37.21	\$29.32	-21.20%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$29.32	-13.84%		Aggressive VIX
F(1/3)	12/11/2014	\$15.16	\$14.09	-7.06%		Catapult
FCX(1/3)	12/12/2014	\$22.98	\$21.19	-7.79%		Catapult
FCX(1/3)	12/15/2014	\$21.78	\$21.19	-2.71%		Catapult
PFE(1/)	12/15/2014	\$30.95	\$30.67	-0.90%		Catapult
ABBV(1/3)	12/15/2014	\$65.27	\$65.25	-0.03%		Catapult
SPY(1/4)	12/15/2014	\$200.89	\$197.91	-1.48%		Aggregator
SPY(1/4)	12/16/2014	\$198.58	\$197.91	-0.34%		Aggregator
SPY(1/4)	12/16/2014	\$197.91	\$197.91	0.00%		Aggregator
FCX(1/3)	12/16/2014	\$21.03	\$21.19	0.76%		Catapult
PFE(1/)	12/16/2014	\$30.83	\$30.67	-0.52%		Catapult
WMB(1/3)	12/16/2014	\$41.36	\$41.84	1.16%		Catapult

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