

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 18, 2014

Volume 7 Issue 240

Market Overview



Signals Overview

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

Tonight's Research Points

- A bounce from a 20-day low to a 4-day high has often been an initiation of further gains.
- Extremely high volume on an up day suggests bullish implications.
- Wednesday's unfilled gap up along with it being an inside day suggests a 1-day bearish edge for Thursday.

Short-term Outlook

The Bottom Line

The bounce looks good so far. There could be a pause or a pullback in the next day or so, but after that odds seem to suggest more upside.

Summary of Recent Active Studies (see Letters from listed dates for details) - not updated

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 > 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			
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

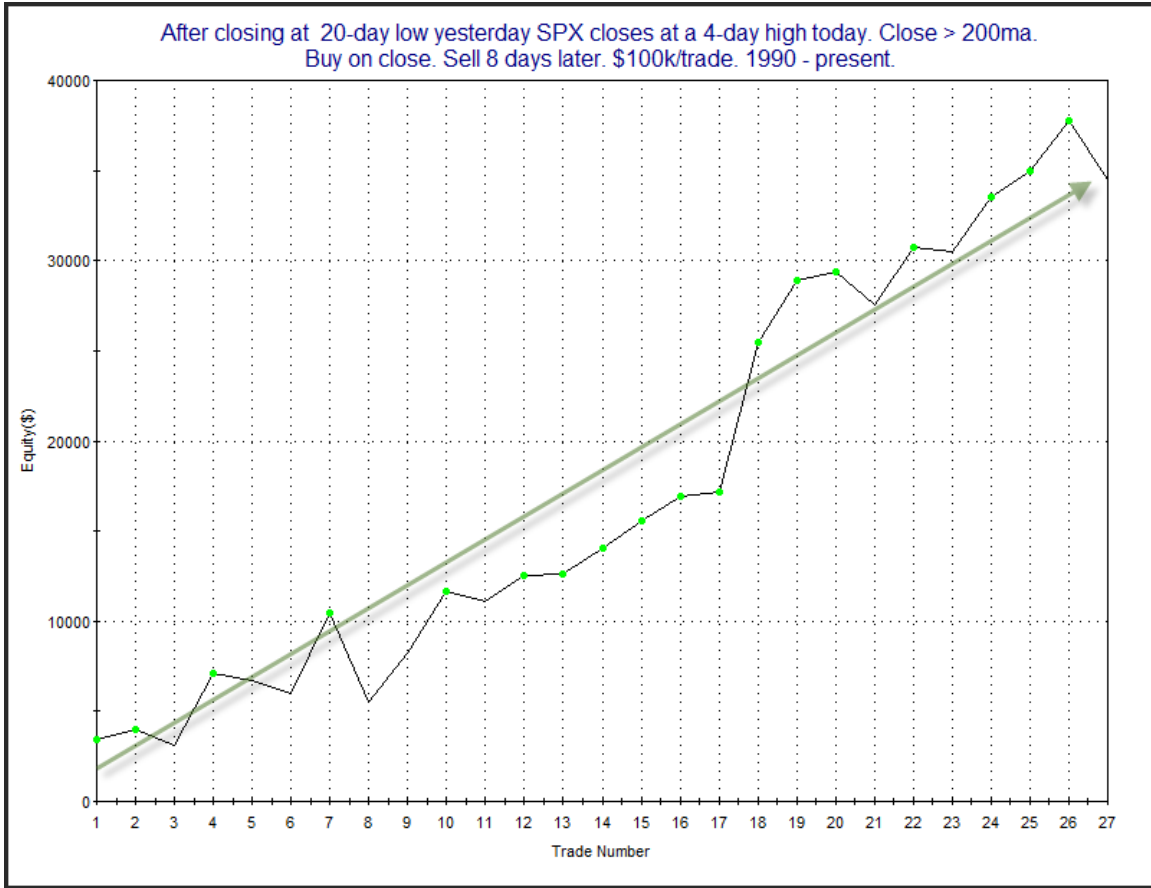
After many failed attempts, the market finally put in a strong day up on Wednesday. The SPX rallied 2.0%, the NASDAQ rose 2.1%, and the Russell 2000 gained 3.1%. Breadth was extremely positive as the NYSE Up Issues % came in at 87% and the Up Volume % was 95%. Total NYSE volume hit the highest level since October.

Wednesday was a strong enough move that we saw SPX go from closing at a 20-day low on Tuesday to closing at a 4-day high on Wednesday. In the 10/9/14 letter I looked at other times in which the market put in a strong thrust off a 20-day low. There I required a close of at least a 4-day high. I have updated the results below.

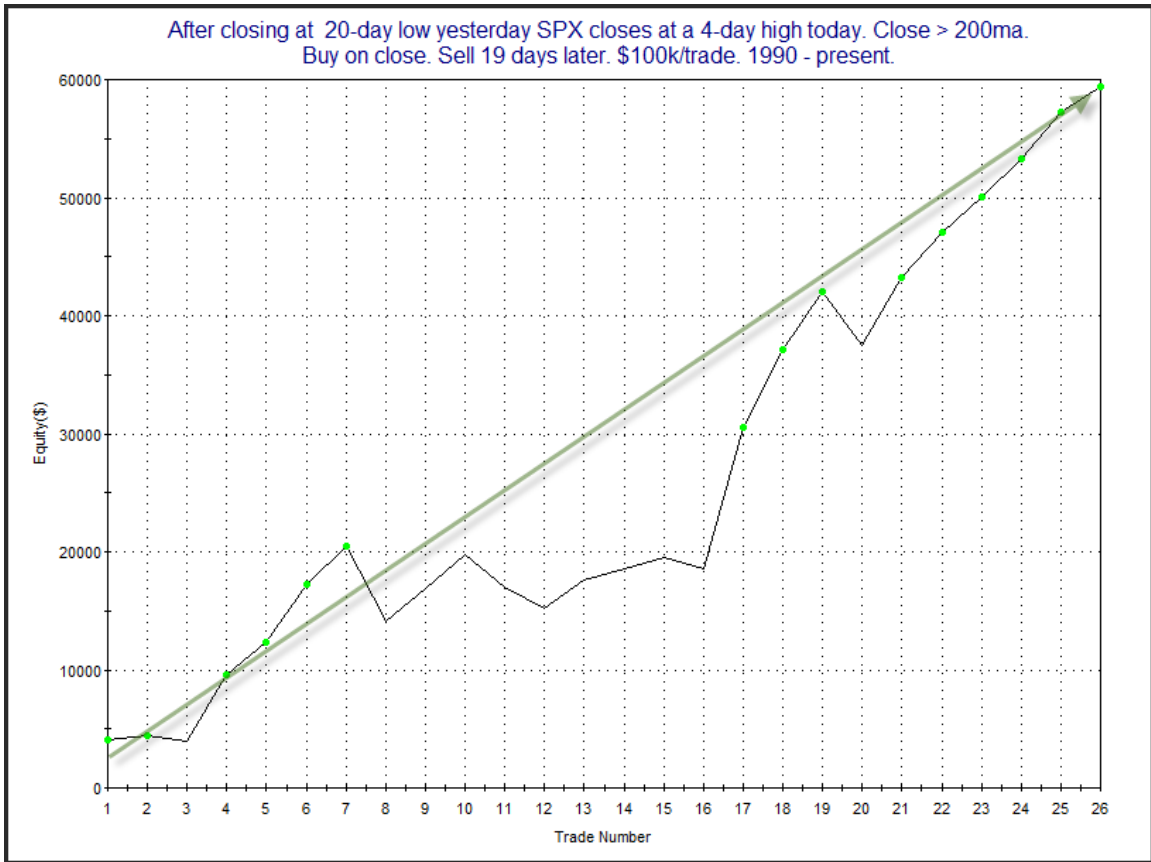
After closing at 20-day low yesterday SPX closes at a 4-day high today. Close > 200ma.
Buy on close. Sell X days later. \$100k/trade. 1990 - present.

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: ProfitFactor	All: Avg Trade
20	59,172.79	26	21	5	80.77	3,620.81	11,665.50	-3,372.85	-6,379.08	1.07	4.51	2,275.88
19	59,351.44	26	20	6	76.92	3,810.99	12,037.30	-2,811.38	-6,347.80	1.36	4.52	2,282.75
18	52,585.22	27	22	5	81.48	3,056.18	10,563.30	-2,930.13	-4,148.97	1.04	4.59	1,947.60
17	51,186.09	27	21	6	77.78	3,190.55	11,183.70	-2,635.90	-4,247.96	1.21	4.24	1,895.78
16	48,356.67	27	20	7	74.07	3,142.46	11,506.00	-2,070.35	-4,320.78	1.52	4.34	1,790.99
15	45,466.19	27	19	8	70.37	3,149.41	11,173.80	-1,796.58	-4,723.96	1.75	4.16	1,683.93
14	43,177.33	27	21	6	77.78	2,839.46	9,507.30	-2,741.90	-7,897.52	1.04	3.62	1,599.16
13	37,962.95	27	20	7	74.07	2,688.96	9,427.00	-2,259.47	-7,363.04	1.19	3.40	1,406.04
12	37,912.03	27	19	8	70.37	2,709.82	8,151.00	-1,696.81	-5,686.84	1.60	3.79	1,404.15
11	43,238.55	27	21	6	77.78	2,595.14	8,642.70	-1,876.57	-5,722.20	1.38	4.84	1,601.43
10	37,559.29	27	20	7	74.07	2,619.93	8,924.30	-2,119.89	-8,745.48	1.24	3.53	1,391.08
9	36,660.91	27	19	8	70.37	2,516.85	8,603.10	-1,394.91	-6,371.60	1.80	4.29	1,357.81
8	34,502.48	27	19	8	70.37	2,489.08	8,276.40	-1,598.74	-4,917.08	1.56	3.70	1,277.87
7	23,222.86	27	18	9	66.67	2,238.43	5,832.20	-1,896.53	-4,106.50	1.18	2.36	860.11
6	19,039.74	27	16	11	59.26	2,210.71	5,888.30	-1,484.69	-5,306.50	1.49	2.17	705.18
5	16,168.36	27	16	11	59.26	1,940.18	5,508.80	-1,352.22	-5,320.00	1.43	2.09	598.83
4	15,227.15	27	18	9	66.67	1,666.96	4,326.30	-1,642.01	-4,559.50	1.02	2.03	563.97
3	12,070.12	27	18	9	66.67	1,462.13	4,365.90	-1,583.14	-4,707.50	0.92	1.85	447.04
2	9,838.43	28	20	8	71.43	1,065.54	3,479.30	-1,434.04	-3,138.00	0.74	1.86	351.37
1	-865.35	28	13	15	46.43	686.57	2,536.10	-652.72	-2,034.00	1.05	0.91	-30.91

Day 1 is a bit iffy, but after that there appears to be a strong and consistent edge over the next 4 weeks. This suggests a good chance that Wednesday's rally was the beginning of a continued move higher. I produced profit curves for the 8-day and 19-day holding periods highlighted above. First, the 8 day...



The strong, steady upslope for the 8-day period is impressive and serves as confirmation of the upside edge. Now the 19-day curve.



This one is a little choppier, but it sure has been strong lately, with 9 of the last 10 instances all closing higher. In the 10/9/14 letter I also looked at bounces that did *not* reach 4-day highs the 1st day. I have updated that table below as well.

After closing at 20-day low yesterday SPX closes up but < a 4-day high today. Close > 200ma.
Buy 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: ProfitFactor	All: Avg Trade
20	115,842.35	80	58	22	72.50	3,348.44	12,927.20	-3,562.14	-10,746.40	0.94	2.48	1,448.03
19	105,375.08	80	57	23	71.25	3,185.18	13,564.52	-3,312.17	-12,375.24	0.96	2.38	1,317.19
18	104,566.02	81	57	24	70.37	3,307.65	13,895.61	-3,498.75	-13,625.69	0.95	2.25	1,290.94
17	92,111.63	82	56	26	68.29	3,181.87	13,554.35	-3,310.50	-13,440.60	0.96	2.07	1,123.31
16	97,084.34	83	56	27	67.47	3,135.89	11,842.40	-2,908.35	-13,462.64	1.08	2.24	1,169.69
15	91,947.84	84	54	30	64.29	3,119.22	11,759.91	-2,549.67	-12,161.52	1.22	2.20	1,094.62
14	86,479.38	84	57	27	67.86	2,749.31	10,449.11	-2,601.15	-8,116.04	1.06	2.23	1,029.52
13	78,065.35	88	56	32	63.64	2,898.24	10,954.22	-2,632.38	-9,329.72	1.10	1.93	887.11
12	70,756.27	91	57	34	62.64	2,772.49	11,243.50	-2,566.93	-8,570.72	1.08	1.81	777.54
11	78,484.71	93	62	31	66.67	2,554.21	10,913.54	-2,576.65	-9,261.36	0.99	1.98	843.92
10	85,743.49	95	61	34	64.21	2,564.77	10,577.93	-2,079.62	-9,730.28	1.23	2.21	902.56
9	87,515.02	97	65	32	67.01	2,491.47	8,067.07	-2,325.96	-13,673.16	1.07	2.18	902.22
8	105,215.88	104	70	34	67.31	2,419.01	8,124.70	-1,885.73	-9,738.64	1.28	2.64	1,011.69
7	104,289.80	107	76	31	71.03	2,236.84	7,734.85	-2,119.67	-13,771.96	1.06	2.59	974.67
6	106,954.63	111	81	30	72.97	2,047.18	7,272.06	-1,962.23	-7,698.04	1.04	2.82	963.56
5	91,225.82	114	79	35	69.30	1,972.76	7,070.28	-1,846.35	-7,645.60	1.07	2.41	800.23
4	87,291.23	124	84	40	67.74	1,586.58	5,650.00	-1,149.54	-4,671.04	1.38	2.90	703.96
3	61,976.96	138	91	47	65.94	1,239.40	4,080.98	-1,081.03	-3,602.40	1.15	2.22	449.11
2	49,952.81	156	93	63	59.62	1,142.56	4,809.66	-893.74	-4,674.15	1.28	1.89	320.21
1	42,541.73	217	134	83	61.75	820.60	5,117.46	-812.27	-3,588.48	1.01	1.63	196.04

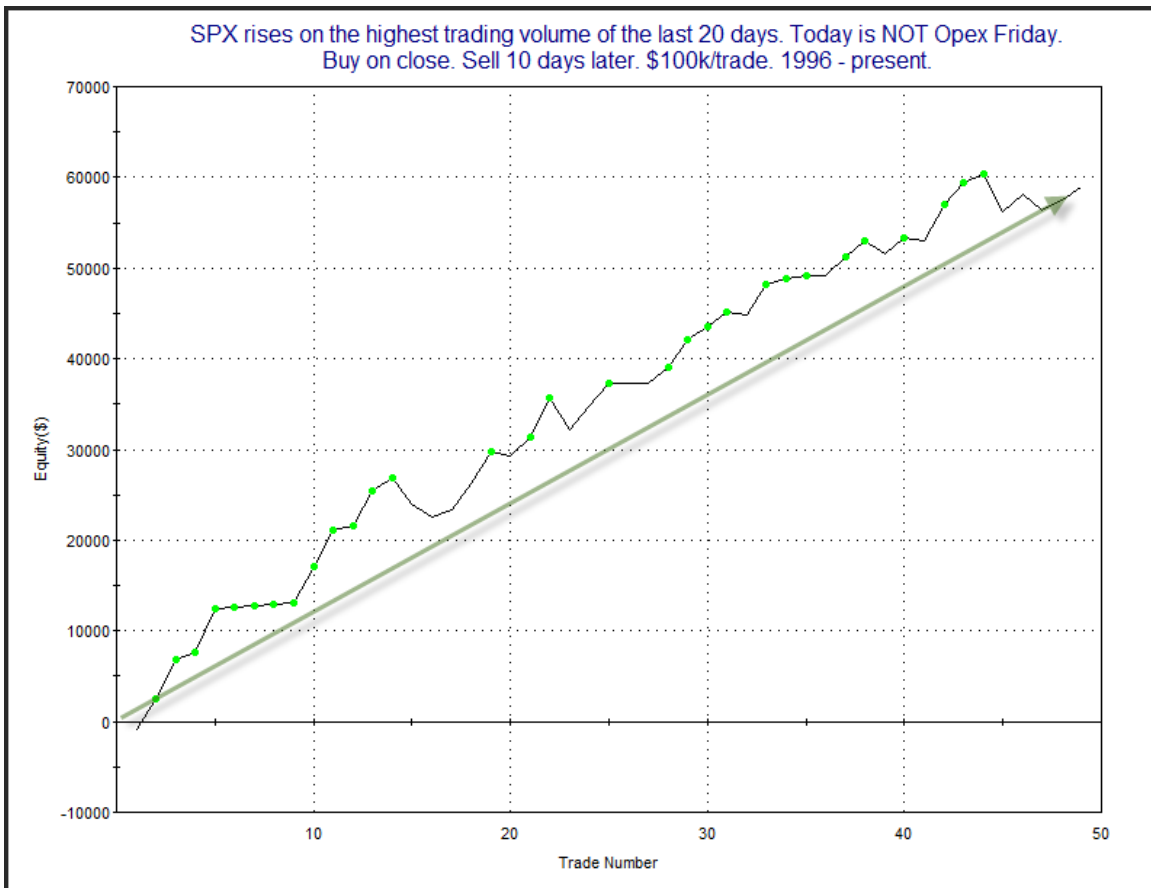
Results here are pretty good and also seem to favor more upside. But if you compare the “Avg Trade” column on the far right you’ll find that from Day 2 – Day 19 the Avg Trade here was about *one-half to two-thirds* the Avg Trade when the 1st day jumped SPX up to a 4-day high. Overall, the 1st study above appears worthy of both the short and intermediate-term Active Lists.

The high volume provided an interesting bit of evidence. When the market has risen on extremely high volume on a day other than op-ex Friday, that has typically been a good sign. Below is a study last shown in the 4/29/14 subscriber letter that demonstrates this.

**SPX rises on the highest trading volume of the last 20 days. Today is NOT Opex Friday.
Buy on close. Sell X days later. \$100k/trade. 1996 - 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	58,901.90	49	36	13	73.47	2,113.09	4,885.00	-1,320.71	-4,242.42	1.60	4.43	1,202.08
9	50,892.31	49	36	13	73.47	1,964.44	5,451.25	-1,525.21	-5,429.38	1.29	3.57	1,038.62
8	47,453.13	49	38	11	77.55	1,798.78	4,174.09	-1,900.05	-5,492.28	0.95	3.27	968.43
7	37,176.84	51	37	14	72.55	1,763.76	4,869.18	-2,005.88	-5,526.30	0.88	2.32	728.96
6	35,483.43	54	36	18	66.67	1,806.70	5,552.91	-1,642.11	-4,857.36	1.10	2.20	657.10
5	24,750.18	54	36	18	66.67	1,519.84	4,683.84	-1,664.68	-4,459.24	0.91	1.83	458.34
4	21,141.32	57	36	21	63.16	1,362.57	4,518.75	-1,329.11	-4,368.22	1.03	1.76	370.90
3	13,306.44	59	38	21	64.41	1,087.89	3,120.75	-1,334.92	-3,332.96	0.81	1.47	225.53
2	3,768.64	60	36	24	60.00	791.34	1,998.39	-1,029.98	-3,844.10	0.77	1.15	62.81
1	6,949.76	73	42	31	57.53	592.45	1,606.89	-578.49	-2,302.95	1.02	1.39	95.20

The statistics appear to suggest a solid bullish edge over the next couple of weeks. Below is an equity curve using a 10-day exit strategy that shows how the edge has played out over time.



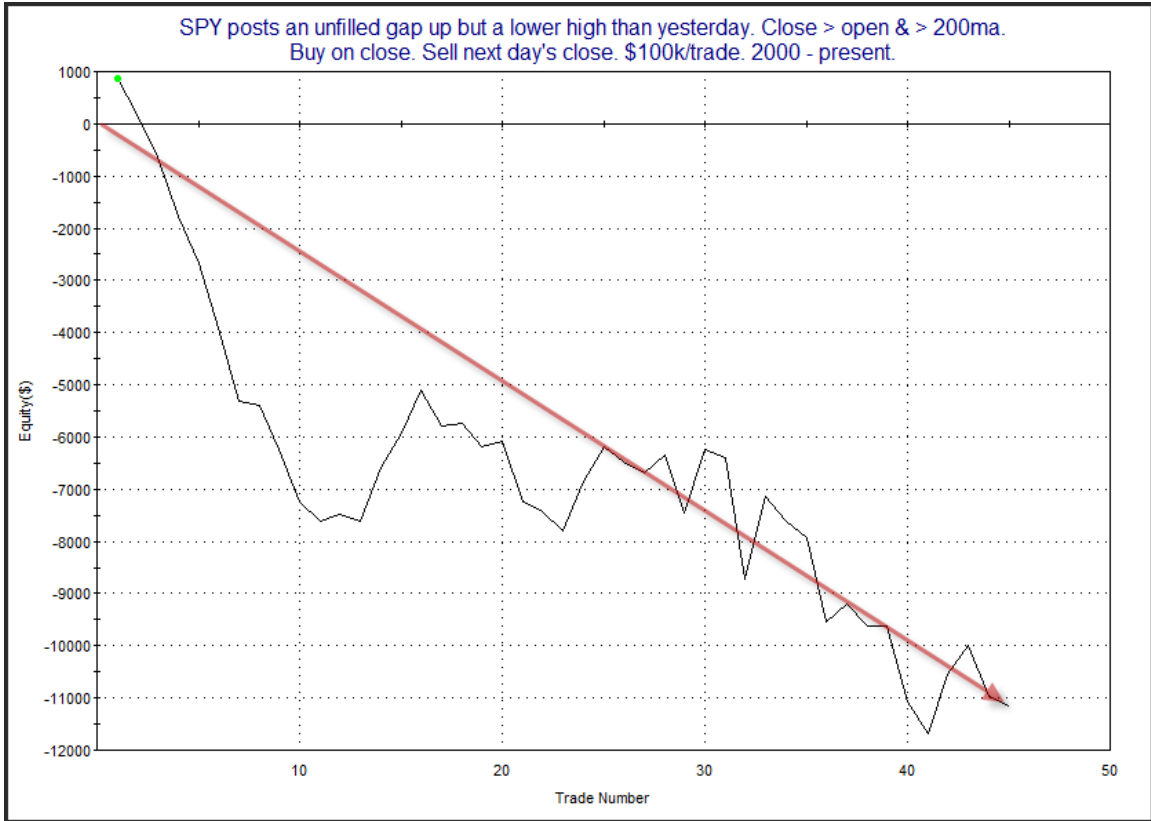
Recent instances have struggled a little but overall the upside edge still appears to be intact. I found the study compelling enough to include it on the intermediate-term Active List.

But while the thrust looked good from the intermediate-term standpoint, the 1-day implication actually appeared bearish. The study below was the most compelling one among a few similar ones that triggered. It was last seen in the 9/29/14 Letter. It looks at days like Wednesday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results below.

SPY posts an unfilled gap up but a lower high than yesterday. Close > open & > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$11,399.84)	Profit Factor	0.48
Gross Profit	\$10,487.25	Gross Loss	(\$21,887.09)
Total Number of Trades	47	Percent Profitable	31.91%
Winning Trades	15	Losing Trades	31
Even Trades	1		
Avg. Trade Net Profit	(\$242.55)	Ratio Avg. Win:Avg. Loss	0.99
Avg. Winning Trade	\$699.15	Avg. Losing Trade	(\$706.04)
Largest Winning Trade	\$1,600.62	Largest Losing Trade	(\$2,348.90)

Implications here appear somewhat bearish. I'd also note that 42 of 47 instances (89%) closed below the entry price at some point in the next week. Below is a profit curve that shows how the downside edge has played out over time.



This is not an ideal profit curve but it still appears to suggest a downside edge. But some other Quantifinder studies suggested that perhaps the edge might not be as strong when SPY is coming off a 20-day low. So as I did on 9/29, I also added that filter tonight.

After closing at a 20-day low yesterday, SPY posts an unfilled gap up but a lower high.
Close > open & > 200ma. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.

TradeStation Performance Summary Collapse ^			
All Trades			
Total Net Profit	(\$3,876.57)	Profit Factor	0.37
Gross Profit	\$2,248.47	Gross Loss	(\$6,125.04)
Total Number of Trades	12	Percent Profitable	16.67%
Winning Trades	2	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	(\$323.05)	Ratio Avg. Win:Avg. Loss	1.84
Avg. Winning Trade	\$1,124.23	Avg. Losing Trade	(\$612.50)
Largest Winning Trade	\$1,209.12	Largest Losing Trade	(\$1,225.44)

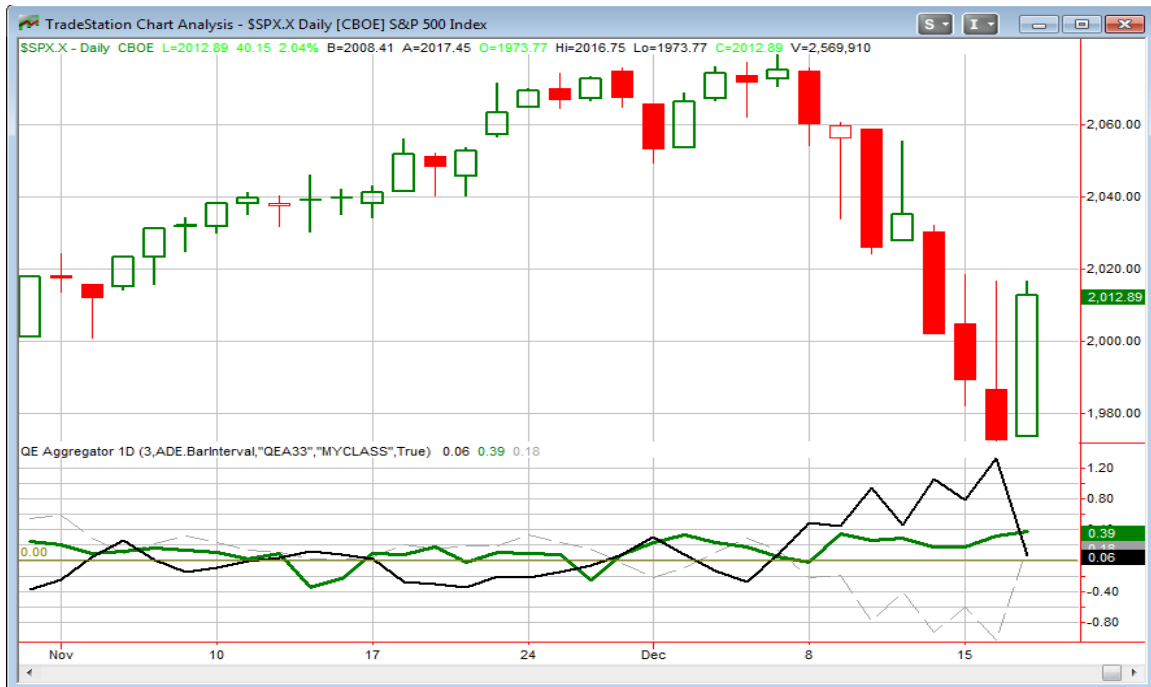
Instances are low but the results are even more bearish. This suggests that Tuesday's 20-day low does not lessen the first setup above. For those that would like more details, I have listed all 12 instances below.

After closing at a 20-day low yesterday, SPY posts an unfilled gap up but a lower high. Close > open & > 200ma. Buy on close. Sell next day's close. \$100k/trade. 2000 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
09/19/00	Buy	\$146.08	(0.81%)	\$0.00
09/20/00	Sell	\$144.89		(\$1,997.28)
03/12/04	Buy	\$112.58	(1.23%)	\$0.00
03/15/04	Sell	\$111.20		(\$1,491.84)
05/03/04	Buy	\$112.15	(0.08%)	\$989.01
05/04/04	Sell	\$112.06		(\$436.59)
01/06/05	Buy	\$118.61	(0.14%)	\$522.66
01/07/05	Sell	\$118.44		(\$404.64)
01/14/05	Buy	\$118.24	1.04%	\$1,166.10
01/18/05	Sell	\$119.47		(\$245.05)
08/25/05	Buy	\$121.59	(0.68%)	\$0.00
08/26/05	Sell	\$120.76		(\$748.02)
02/28/07	Buy	\$140.93	(0.30%)	\$226.88
03/01/07	Sell	\$140.51		(\$2,041.92)
07/30/07	Buy	\$147.38	(1.13%)	\$1,410.24
07/31/07	Sell	\$145.72		(\$1,586.52)
02/01/10	Buy	\$109.06	1.21%	\$1,401.48
02/02/10	Sell	\$110.38		(\$164.88)
08/20/13	Buy	\$165.58	(0.62%)	\$271.35
08/21/13	Sell	\$164.56		(\$838.17)
01/28/14	Buy	\$179.07	(0.96%)	\$0.00
01/29/14	Sell	\$177.35		(\$1,222.02)
09/26/14	Buy	\$197.90	(0.18%)	\$0.00
09/29/14	Sell	\$197.54		(\$934.25)

No red flags here.

Overall the evidence I saw tonight suggested that Wednesday's strong move looked like a positive sign for the next few weeks. But the next 1-2 days are not as clear.

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 took a dive but still closed just above 0. The positive Differential Line reading means the SPX is still 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. This is highly unlikely to change. The Differential Pivot will be *inverted at 2001.97* on Thursday. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close down over 0.5% in order to remain "oversold". Otherwise it will be considered "overbought" vs recent expectations as of Thursday's close.

I generally view inverted pivots as a good time to look to take profits. That is because the Aggregator signal will no longer be bullish as of Thursday's close if SPX closes flat or even down a little bit. So I might as well take some profits while they are available. But with the CBI spike, Wednesday's high volume, the strong thrust higher, and other evidence we have seen in the last several days, I believe there is a strong chance that this bounce should have quite a bit further to go. So I will only be looking to exit part of my index position on Thursday. I will still look to hold more of it for further gains, and will likely maintain a portion at least until the CBI returns to neutral (3 or lower).

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)

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

WMB @ \$41.84 (buy 1/3 @ limit) - Not filled. Cancel order for time being.

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

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

New

FDX @ \$167.78 (buy 1/3 @ limit)

MDLZ @ \$36.00 (buy 1/3 @ limit) -2nd lot

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 14/8(F, FCX-3, PFE-3, ABBV, WMB-2, NKE, MDLZ-2, FDX)

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.

FDX – buy 1/3 Catapult position @ \$167.78 LIMIT. From the Catapult section above. This is the 1st of 3 possible lots for this Catapult trade.

MDLZ – buy 1/3 Catapult position @ \$36.00 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	\$201.79	-2.00%		Aggregator
XIV(1/2)	12/10/2014	\$37.21	\$31.99	-14.03%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$31.99	-5.99%		Aggressive VIX
F(1/3)	12/11/2014	\$15.16	\$14.45	-4.68%		Catapult
FCX(1/3)	12/12/2014	\$22.98	\$22.13	-3.70%		Catapult
FCX(1/3)	12/15/2014	\$21.78	\$22.13	1.61%		Catapult
PFE(1/)	12/15/2014	\$30.95	\$31.12	0.55%		Catapult
ABBV(1/3)	12/15/2014	\$65.27	\$66.57	1.99%		Catapult
SPY(1/4)	12/15/2014	\$200.89	\$201.79	0.45%		Aggregator
SPY(1/4)	12/16/2014	\$198.58	\$201.79	1.62%		Aggregator
SPY(1/4)	12/16/2014	\$197.91	\$201.79	1.96%		Aggregator
FCX(1/3)	12/16/2014	\$21.03	\$22.13	5.23%		Catapult
PFE(1/3)	12/16/2014	\$30.83	\$31.12	0.94%		Catapult
WMB(1/3)	12/16/2014	\$41.36	\$43.63	5.49%		Catapult
PFE(1/3)	12/17/2014	\$30.67	\$31.12	1.47%		Catapult
NKE(1/3)	12/17/2014	\$93.21	\$94.50	1.38%		Catapult
MDLZ(1/3)	12/17/2014	\$36.02	\$36.00	-0.06%		Catapult

I will look to sell 1 lot of SPY @ \$202.00 limit. If not filled by the close, I will exit on close \geq \$201.00.

I will look to sell a 2nd lot on a close \geq \$201.50.

I will look to hold the remaining 2 lots of SPY for a further bounce.

Several Catapults are quite close to triggering exits. These include FCX, ABBV, PFE, & WMB. If they hit intraday targets in the morning I will likely send an update that establishes a stop for them, and I may take at least some profits on these at the close on Thursday rather than wait for Friday's open. But that will all be covered in the intraday update if I note some exit triggers being hit.

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