

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 19, 2014

Volume 7 Issue 241

Market Overview



Signals Overview

| Aggregator | Aggressive VIX | QE Buy Pwr Swing |
|------------|----------------|------------------|
| Flat | 50% Long XIV | Flat |

Tonight's Research Points

- Strong Russell 2000 seasonality is now kicking in.
- Opex Friday has been bearish from open until noon when the S&P 500 has been above its 200ma since 2003.

Short-term Outlook

The Bottom Line

After 2 very strong days of bouncing the market is now overbought. Evidence still favors the bulls, but this looks like a good time to take profits on many positions.

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 18, 2014 | 20-low to 4-high | 1 day | Bearish | | | |
| 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 | Dn 1.5% 2x in 5 days | 1-7 days | Bullish | 3.50% | -1.90% | -4.40% |
| Active - Long Term | | | | | | |
| December 19, 2014 | Russell strong after Dec opex | 1-10 days | Bullish | | | |
| December 18, 2014 | 20-high volume on up day. Not opex | 1-10 days | Bullish | | | |
| December 18, 2014 | 20-low to 4-high | 1-19 days | Bullish | | | |
| 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 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 18, 2014 | Unfilled gap up. Inside day | 1 day | Bearish | | | |
| December 17, 2014 | 3 days lower into Fed Day | 1-3 days | Bullish | | | |
| December 17, 2014 | CBI >= 10. SPX > 200ma. | 1-4 days | Bullish | | | |
| December 5, 2014 | 10-high outside day w/ down close > 200 | 1-11 days | Bullish | 2.00% | -2.00% | -4.20% |
| December 15, 2014 | Big drop on Friday | 1-6 days | Bullish | 2.50% | -1.70% | -3.70% |
| December 15, 2014 | Oversold into Most Wonderful Wed | 1-6 days | Bullish | 2.35% | -1.10% | -2.10% |

The Evidence

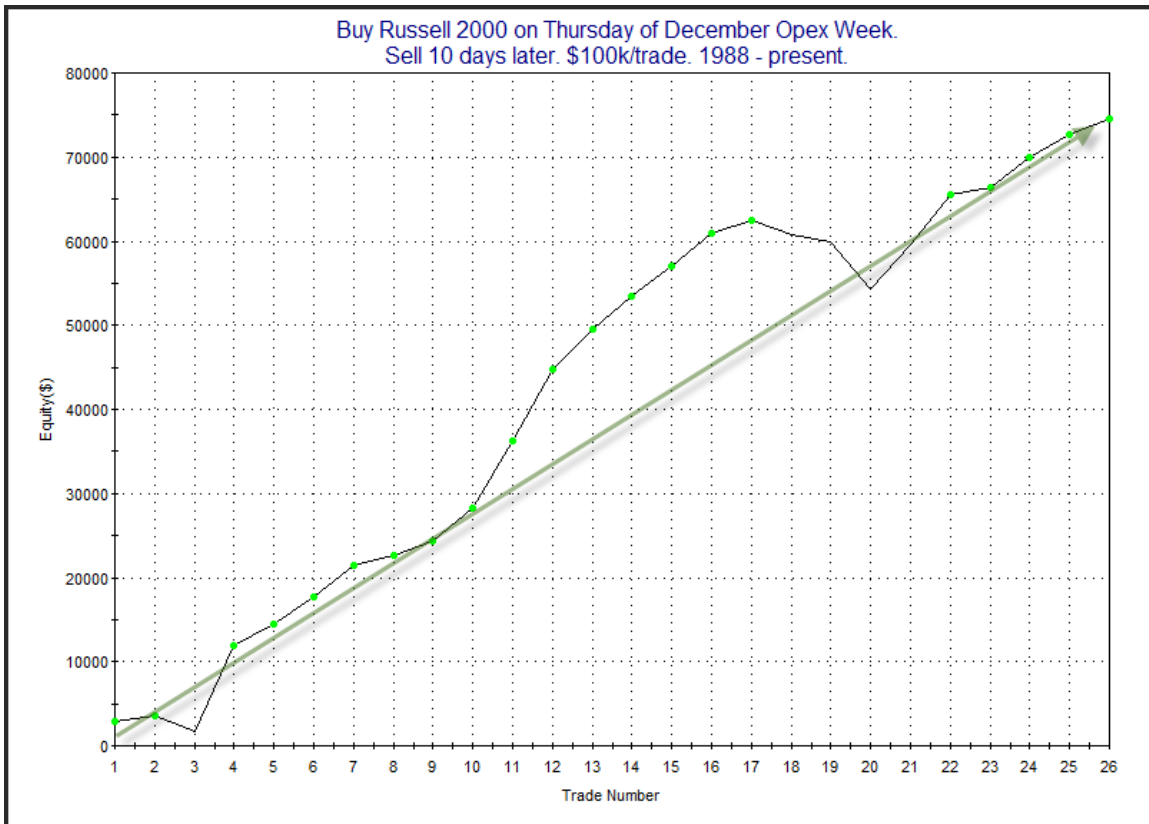
Thursday saw the bounce continue in a big way. The SPX rallied 2.4%, the NASDAQ rose 2.2%, and the Russell 2000 gained 1.5%. Breadth was extremely positive as the NYSE Up Issues % came in at 81% and the Up Volume % was 90%. Total NYSE volume declined some from Wednesday's level.

From a price action standpoint, nothing emerges with a strong and consistent edge. Seasonality did not disappoint though. Below is a study I last showed in the 12/20/13 subscriber letter that looks at buying opex Thursday in December and holding for up to 2 weeks.

Buy Russell 2000 on Thursday of December Opex Week.
Sell X days later. \$100k/trade. 1988 - present.

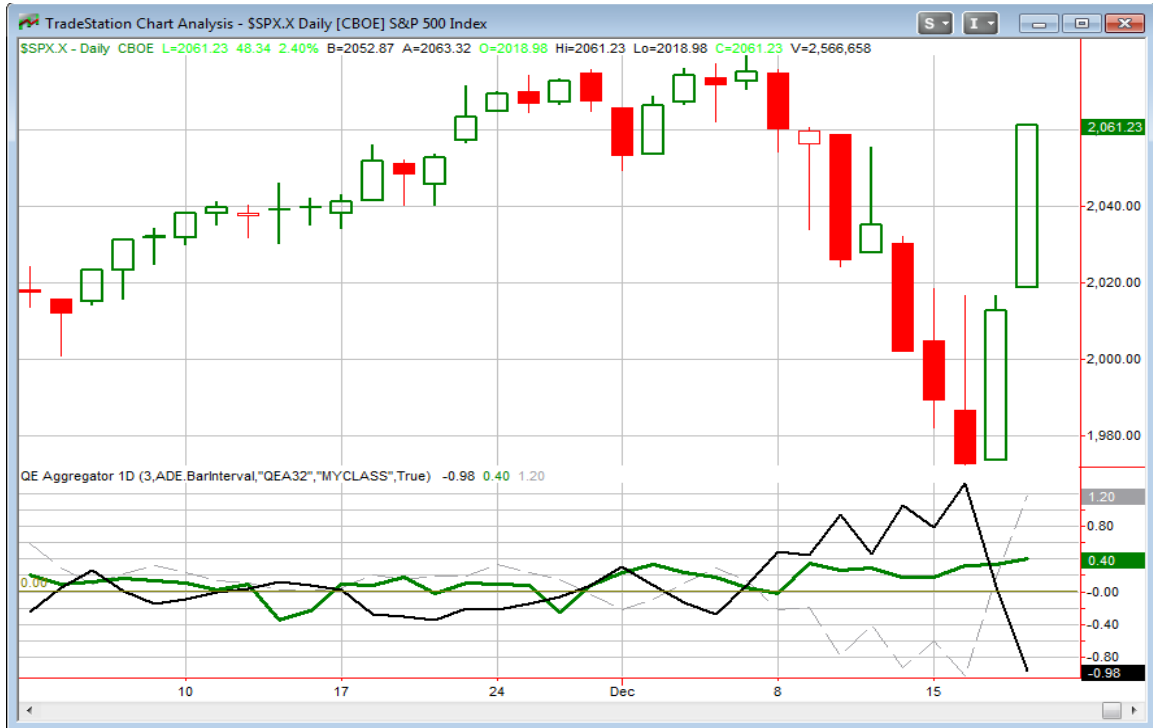
| X Days | All: Net Profit | All: Total Trades | All: Winning Trades | All: Losing Trades | All: % Profitable | All: Avg Winning Trade | All: Max Winning Trade | All: Avg Losing Trade | All: Max Losing Trade | All: Win/Loss Ratio | All: ProfitFactor | All: Avg Trade |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 10 | 74,540.99 | 26 | 22 | 4 | 84.62 | 3,846.71 | 10,279.71 | -2,521.64 | -5,643.30 | 1.53 | 8.39 | 2,866.96 |
| 9 | 70,137.33 | 26 | 22 | 4 | 84.62 | 3,549.02 | 9,009.63 | -1,985.28 | -5,973.50 | 1.79 | 9.83 | 2,697.59 |
| 8 | 59,362.24 | 26 | 22 | 4 | 84.62 | 2,909.59 | 7,115.85 | -1,162.20 | -2,948.40 | 2.50 | 13.77 | 2,283.16 |
| 7 | 50,742.62 | 26 | 21 | 5 | 80.77 | 2,651.36 | 7,790.58 | -987.18 | -1,809.60 | 2.69 | 11.28 | 1,951.64 |
| 6 | 38,054.92 | 26 | 19 | 7 | 73.08 | 2,348.83 | 6,599.88 | -938.98 | -2,720.64 | 2.50 | 6.79 | 1,463.65 |
| 5 | 27,159.59 | 26 | 18 | 8 | 69.23 | 2,084.81 | 4,892.25 | -1,295.86 | -3,194.64 | 1.61 | 3.62 | 1,044.60 |
| 4 | 20,690.68 | 26 | 17 | 9 | 65.38 | 1,990.49 | 4,413.75 | -1,460.86 | -3,892.32 | 1.36 | 2.57 | 795.80 |
| 3 | 17,793.42 | 26 | 16 | 10 | 61.54 | 1,912.91 | 3,814.20 | -1,281.31 | -2,650.68 | 1.49 | 2.39 | 684.36 |
| 2 | 8,832.08 | 26 | 15 | 11 | 57.69 | 1,407.93 | 3,495.70 | -1,116.99 | -2,810.39 | 1.26 | 1.72 | 339.70 |
| 1 | 11,174.90 | 26 | 15 | 11 | 57.69 | 958.42 | 2,299.70 | -291.04 | -816.48 | 3.29 | 4.49 | 429.80 |

Results here are outstanding. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 10-day exit strategy.



In 2005, 2006, and 2007 the Russell saw declines, but the last 6 years have all been higher, keeping the curve right on track.

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



The green Aggregator Line again 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 down way below 0. The negative Differential Line reading means the SPX is considered overbought versus recent expectations. So expectations are positive but the SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. It would take very strong bearish evidence to change this. The Differential Pivot will be 1983.63 on Friday. That is 3.7% below Thursday's close. So for SPX to move from overbought back to oversold on Friday it is going to need to close down at least 3.7%!

The rocket-launch of a bounce the last 2 days caused a number of bullish studies to reach their targets. So while no bearish evidence emerged, there were a number of bullish studies that dropped from the list. Especially of note is that the CBI has dropped from 14 all the way down to 3. Three is considered neutral. And the Aggregator is neutral. And I am fairly neutral as well. This means I will be looking to take profits on a large number

of my positions at the open on Friday. One reason I am looking to sell at the open rather than later in the day can be found in the “Additional Daytrading Study” below.

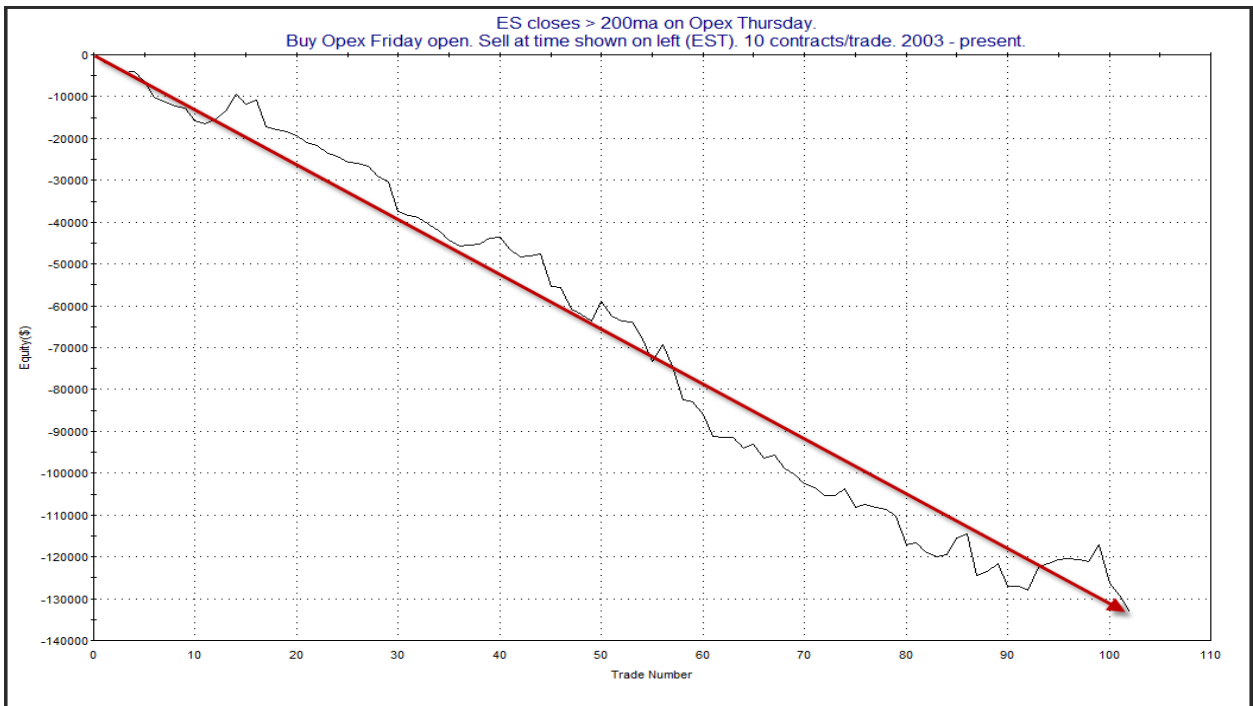
Additional Daytrading Study

A few times in the past I have shown the bearish tendency that ES has exhibited to selloff between the open and the close on opex Friday. Below is a study showing results of purchasing ES at the open and then exiting at different times during the day. All results are updated.

ES closes > 200ma on Opex Thursday.
Buy Opex Friday open. Sell at time shown on left (EST). 10 contracts/trade. 2003 - present.

| OE Op-Ex Fri Intra Short2: timeofday | 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 |
|---|-----------------|----------------------|------------------------|-----------------------|----------------------|------------------------------|------------------------------|-----------------------------|-----------------------------|---------------------------|----------------------|-------------------|
| 1,600 | -135,000.00 | 102 | 41 | 58 | 40.20 | 2,003.05 | 6,875.00 | -3,743.53 | -16,125.00 | 0.54 | 0.38 | -1,323.53 |
| 1,500 | -141,125.00 | 102 | 33 | 66 | 32.35 | 1,886.36 | 6,250.00 | -3,081.44 | -11,625.00 | 0.61 | 0.31 | -1,383.58 |
| 1,400 | -141,500.00 | 102 | 28 | 68 | 27.45 | 1,696.43 | 6,375.00 | -2,779.41 | -10,750.00 | 0.61 | 0.25 | -1,387.25 |
| 1,300 | -135,250.00 | 102 | 29 | 72 | 28.43 | 1,599.14 | 5,500.00 | -2,522.57 | -10,000.00 | 0.63 | 0.26 | -1,325.98 |
| 1,200 | -133,125.00 | 102 | 28 | 74 | 27.45 | 1,575.89 | 5,375.00 | -2,395.27 | -9,750.00 | 0.66 | 0.25 | -1,305.15 |
| 1,100 | -94,750.00 | 102 | 34 | 66 | 33.33 | 1,308.82 | 4,125.00 | -2,109.85 | -7,625.00 | 0.62 | 0.32 | -928.92 |
| 1,000 | -68,875.00 | 102 | 27 | 73 | 26.47 | 768.52 | 3,250.00 | -1,227.74 | -3,625.00 | 0.63 | 0.23 | -675.25 |

As you can see, the bearish implications primarily play themselves out during the morning. Below is a profit curve that assumes the trade is sold at noon each time.



The downward slope has been in effect and fairly steady for a long time. So caution seems warranted on the long side if you are daytrading Friday.

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

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

FDX @ \$167.78 (buy 1/3 @ limit) - Not filled. Cancel order for time being

MDLZ @ \$36.00(buy 1/3 @ limit) - Not filled. Cancel order for time being

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 3/2(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.

None tonight

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|-----------------|-------------------|-----------------|-----------------|---------------|------|-----------------------------|
| SPY(1/4) | 12/10/2014 | \$205.91 | \$204.74 | -0.57% | | sold on open |
| XIV(1/2) | 12/10/2014 | \$37.21 | \$33.05 | -11.18% | | Aggressive VIX |
| XIV(1/2) | 12/11/2014 | \$34.03 | \$33.05 | -2.88% | | Aggressive VIX |
| F(1/3) | 12/11/2014 | \$15.16 | \$14.81 | -2.31% | | sell on open |
| FCX(1/3) | 12/12/2014 | \$22.98 | \$22.24 | -3.22% | | stopped out intraday |
| FCX(1/3) | 12/15/2014 | \$21.78 | \$22.24 | 2.11% | | stopped out intraday |
| PFE(1/) | 12/15/2014 | \$30.95 | \$31.97 | 3.30% | | sell on open |
| ABBV(1/3) | 12/15/2014 | \$65.27 | \$67.92 | 4.06% | | sell on open |
| SPY(1/4) | 12/15/2014 | \$200.89 | \$203.99 | 1.54% | | stopped out intraday |
| SPY(1/4) | 12/16/2014 | \$198.58 | \$206.78 | 4.13% | | sell on open |
| SPY(1/4) | 12/16/2014 | \$197.91 | \$206.78 | 4.48% | | sell on open |
| FCX(1/3) | 12/16/2014 | \$21.03 | \$22.24 | 5.75% | | stopped out intraday |
| PFE(1/3) | 12/16/2014 | \$30.83 | \$31.97 | 3.70% | | sell on open |
| WMB(1/3) | 12/16/2014 | \$41.36 | \$44.49 | 7.57% | | stopped out intraday |
| PFE(1/3) | 12/17/2014 | \$30.67 | \$31.97 | 4.24% | | sell on open |
| NKE(1/3) | 12/17/2014 | \$93.21 | \$97.08 | 4.15% | | sell on open |
| MDLZ(1/3) | 12/17/2014 | \$36.02 | \$36.58 | 1.55% | | Catapult |
| | | | | | | |
| | | | | | | |

MDLZ has not yet triggered a Catapult exit, so I will hold on to that until it does.

I am also looking to hold on to my XIV a little longer. I showed above that this time of year has been bullish for the Russell 2000. It has been even more so for XIV. I looked at VXX (the inverse of XIV) going back to 2005. I found over the last 9 years VXX has declined from the close of Dec Opex Thursday until the close 7,8, & 10 days later 9 out of 9 times. And looking out 10 days the avg VXX decline was nearly 7%. Additionally, in 4 of the 9 years VXX declined over 8.5% over the next 10 days.

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.