

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 22, 2014

Volume 7 Issue 242

Market Overview



Signals Overview

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

Tonight's Research Points

- The QE Buying Power Swing System is now short for the 2nd time since QE ended.
- When the VIX moves from 10% above the 10ma to 10% below the 10ma in less than a week it has been typically followed by gains.
- Breadth, volume, price action, Fed liquidity, and seasonality all provided bullish intermediate-term indications this past week

Short-term Outlook

The Bottom Line

The strong bounce has caused most bullish short-term studies to reach their targets. But a new study emerged Friday suggesting further rallying is likely. At the same time, the market is more overbought than it has been in a long time. So I am not keen on taking on new positions until it pulls back a little.

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 22, 2014	VIX 10% Above MA to 10% Below	1-8 days	Bullish	2.60%	-1.00%	-2.00%
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	20-low to 4-high	1-8 days	Bullish	2.30%	-1.50%	-3.20%
December 16, 2014	SPY close bottom 25% 4 days in row	1-5 days	Bullish	3.40%	-1.60%	-3.10%
December 15, 2014	Dn 1.5% 2x in 5 days	1-7 days	Bullish	3.50%	-1.90%	-4.40%

The Evidence

The bounce continued on Friday and SPX actually came close to new highs. Final numbers saw the SPX gain 0.5%, the NASDAQ rise 0.4%, and the Russell 2000 rally 0.3%. Breadth was positive as the NYSE Up Issues % came in at 64% and the Up Volume % was 67%. Total NYSE volume spiked way up as it typically does on Opex Friday.

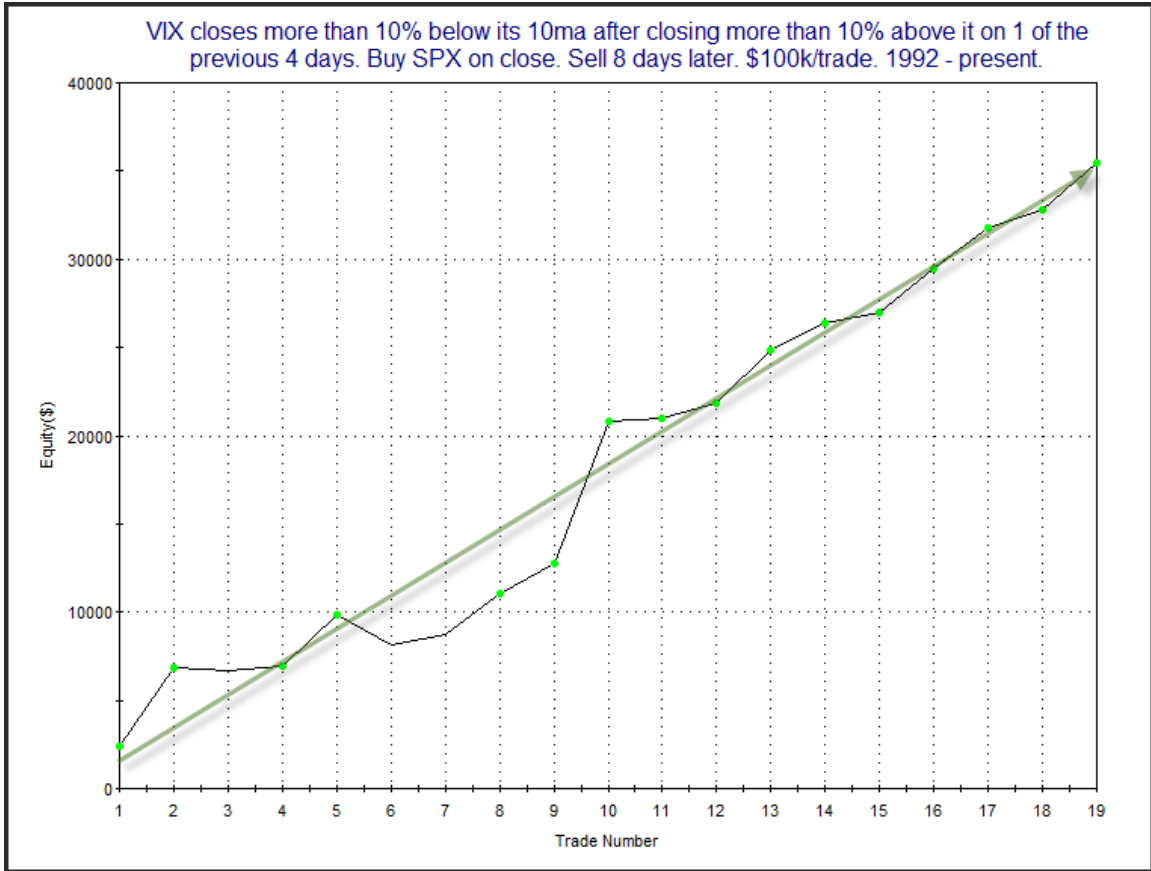
After reaching a high over 25 on Tuesday the VIX closed Friday at 16.49. The Quantifinder study below considered the sharp drop in the VIX over the last few days after a sharp rise the previous few. It was last seen in the 4/21/14 subscriber letter. The results are updated.

VIX closes more than 10% below its 10ma after closing more than 10% above it on 1 of the previous 4 days. Buy SPX on close. Sell X days later. \$100k/trade. 1992 - 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	33,978.98	19	16	3	84.21	2,575.93	8,115.80	-2,411.98	-3,412.50	1.07	5.70	1,788.37
9	33,926.41	19	15	4	78.95	2,439.11	8,397.40	-665.05	-2,173.08	3.67	13.75	1,785.60
8	35,439.64	19	17	2	89.47	2,197.99	8,076.20	-963.09	-1,733.94	2.28	19.40	1,865.24
7	32,956.29	19	16	3	84.21	2,221.27	7,749.50	-861.37	-1,872.78	2.58	13.75	1,734.54
6	29,051.35	19	14	5	73.68	2,292.90	5,305.30	-609.84	-1,280.71	3.76	10.53	1,529.02
5	26,347.25	19	13	6	68.42	2,305.80	5,361.40	-604.70	-1,159.86	3.81	8.26	1,386.70
4	16,628.61	19	15	4	78.95	1,479.80	4,981.90	-1,392.11	-2,303.32	1.06	3.99	875.19
3	9,563.75	20	13	7	65.00	1,165.14	3,799.40	-797.58	-1,683.22	1.46	2.71	478.19
2	7,320.13	20	11	9	55.00	1,167.27	3,839.00	-613.31	-1,767.90	1.90	2.33	366.01
1	6,362.06	20	12	8	60.00	780.09	2,952.40	-374.88	-1,582.62	2.08	3.12	318.10

All 20 instances closed above the entry price at some point in the next 4 days.

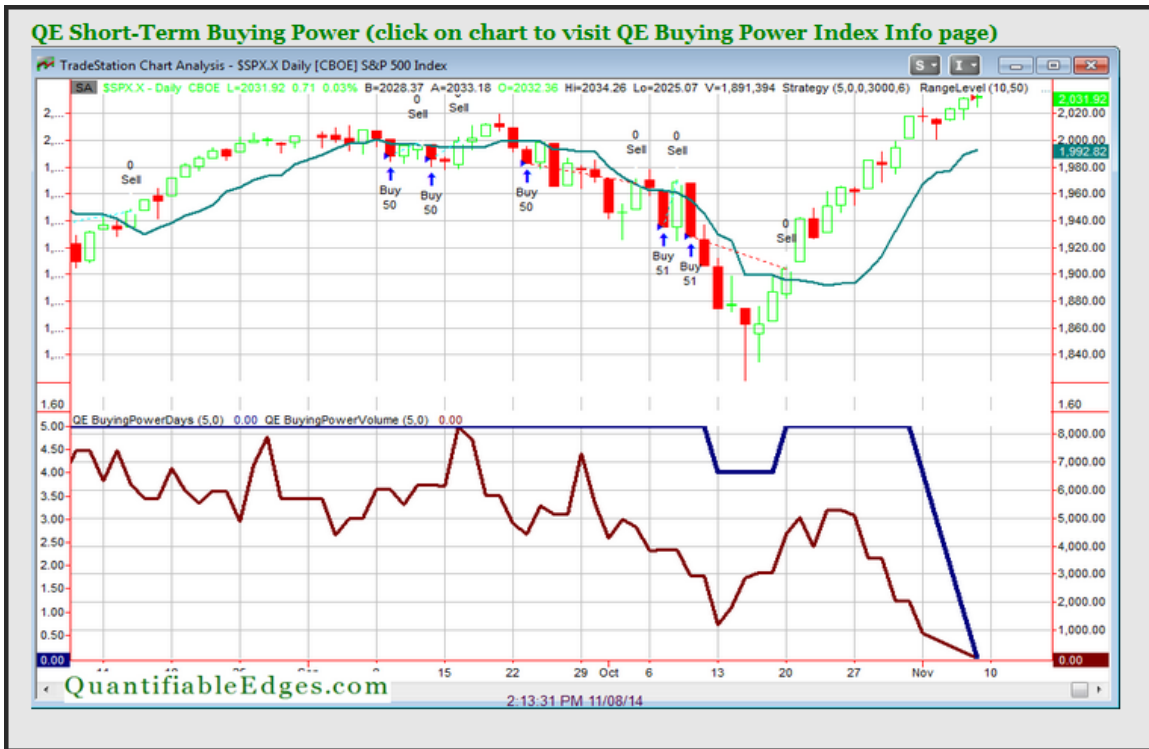
The market condition that would typically accompany such VIX movement is one where you see a strong rebound from a sharp decline during a long-term uptrend, which is what we are currently looking at. Results over the first 2-3 days are not terribly consistent, but once you get out beyond that the bounce becomes more reliable and more powerful. Below I have provided the profit curve assuming an 8 day holding period.



This curve appears very strong and steady, and seems to support the idea of an upside edge. I have included this study on the Active List tonight.

I should also note that the QE Buying Power System triggered a short signal after Thursday's close near the upper part of the recent range. This is the 3rd short signal since the Fed ended the most recent QE program at the end of October. I did a detailed write-up of my thoughts in the 11/10/14 letter. My opinion since then has not changed any. So I copied below my notes from that letter.

Perhaps the most interesting chart on the charts page right now is the one that shows the QE Short-Term Buying Power Index. This chart essentially tracks recent Fed activity. For the last 22 months the QE Buying Power Index was locked at either four or five. This meant the QE Short Term Buying Power Swing System was only looking to buy pullbacks. But with the Fed's QE program now ended, the QE Buying Power Index will now be locked at zero for the foreseeable future. This can be seen in the chart below. So the system is no longer going to be looking to buy pullbacks. Rather, it will be looking to short overbought readings.



With the index now at zero, instead of five, the system is no longer going to be looking to buy pullbacks. Rather, it will be looking to short overbought readings. And on Friday, with SPX at a high, and the Buying Power Index hitting zero, the first short signal in a long time triggered.

The performance table below shows the hypothetical result of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index ≤ 0 and the SPX closes in the top 20% of its 10-day range.)

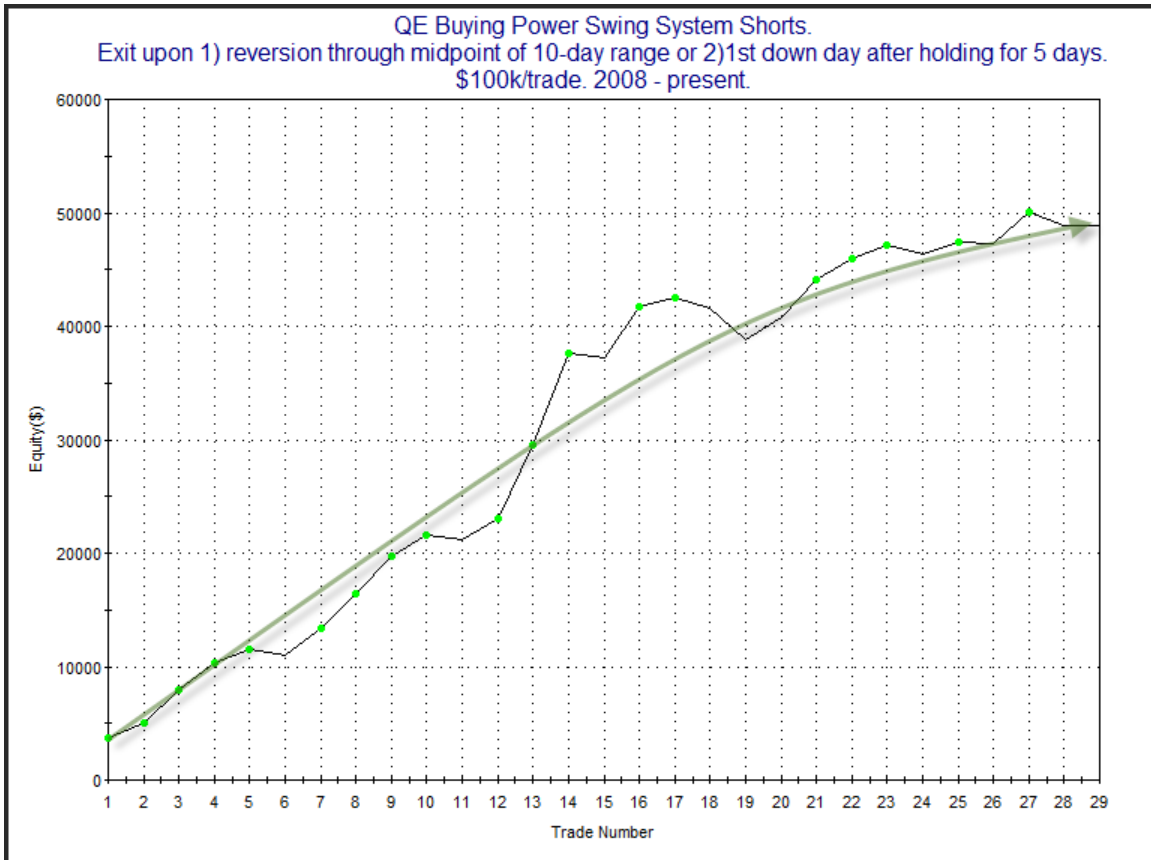
QE Buying Power Swing System Shorts.			
Exit upon reversion through midpoint of 10-day range. \$100k/trade. 2008 - present.			
TradeStation Performance Summary			Collapse \wedge
All Trades			
Total Net Profit	\$39,637.38	Profit Factor	3.33
Gross Profit	\$56,623.30	Gross Loss	(\$16,985.92)
Total Number of Trades	29	Percent Profitable	75.86%
Winning Trades	22	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$1,366.81	Ratio Avg. Win:Avg. Loss	1.06
Avg. Winning Trade	\$2,573.79	Avg. Losing Trade	(\$2,426.56)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$8,003.49)

Results here are strong. With short systems there is an adjustment I sometimes make to protect against getting run over by a strong and persistent rally. I do this because the market tends to stay overbought for extended periods more often than it tends to stay oversold for extended periods. For instance, earlier I discussed that since 1997, this is now the 6th time that the market has gone 16 days without closing below its 5ma. Over that same time period it has managed to go 16 days without a close above the 5ma only 1 time. Additionally, lengthy oversold stretches tend to reverse sharply, often helped by short covering, which launches the market quickly higher. (Think about the Quantifiable Edges Catapult System trades for instance.) Overbought reversals are not typically as sharp and violent. So the reversal may not make you back your unrealized losses as easily.

So adjustments that can be employed for short trades would be to either 1) demand less of a pullback to trigger an exit, or 2) give it a few days to revert, and then quickly tighten the exit criteria if it continues to run against you. I prefer #2, since that give you an opportunity for a more sizable win if you time the entry right. The table below shows results based on giving the reversion X days to work

QE Buying Power Swing System Shorts. Exit upon 1) reversion through midpoint of 10-day range or 2) 1st down day after holding for X days. \$100k/trade. 2008 - 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	34,670.42	29	21	8	72.41	2,678.15	8,004.64	-2,696.33	-4,186.56	0.99	2.61	1,195.53
9	36,642.20	29	21	8	72.41	2,678.15	8,004.64	-2,449.86	-4,186.56	1.09	2.87	1,263.52
8	42,620.85	29	23	6	79.31	2,470.71	8,004.64	-2,367.60	-4,186.56	1.04	4.00	1,469.68
7	42,608.94	29	22	7	75.86	2,520.37	8,004.64	-1,834.16	-2,852.25	1.37	4.32	1,469.27
6	40,876.53	29	19	10	65.52	2,869.28	8,004.64	-1,363.98	-2,852.25	2.10	4.00	1,409.54
5	48,831.49	29	20	9	68.97	2,786.56	8,004.64	-766.63	-2,776.80	3.63	8.08	1,683.84
4	41,985.68	29	19	10	65.52	2,706.48	8,004.64	-943.75	-2,776.80	2.87	5.45	1,447.78
3	26,656.79	29	19	10	65.52	1,999.74	8,004.64	-1,133.83	-2,044.02	1.76	3.35	919.20
2	26,164.39	29	19	10	65.52	1,930.12	8,004.64	-1,050.78	-2,044.02	1.84	3.49	902.22
1	26,937.66	29	22	7	75.86	1,537.86	8,004.64	-985.03	-1,835.47	1.56	4.91	928.88

Using the time exit adjustment the stats improve nicely between days 4-8. Five days shows the optimal stats here, and a week is typically about right with what I have seen in the past. I often give short systems about 5-6 days to reach their targets before tightening in this manner, so I'll use 5 days here. Below is a look at profit curve assuming the tightening begins on day five.



The strong steady upslope serves as a nice confirmation.

Of course the QE Buying Power Index Swing System does not consider seasonality or long-term trend. As exhibited by the QE Market Timing Indicators as shown in the intermediate-term section below, both seasonality and trend are strong right now. So I wondered how a short selling approach similar to the QE Buying Power Swing System would have worked if we ignored the Buying Power Index and substituted fully bullish seasonality and price action indicators from the QE Market Timing Course. Since 2008 there have only been seven instances. So I ran the test back to 2003. Those results are below.

Sell short if SPX closes in top 20% of 10-day range and all QE Market Timing Course signals are bullish. Exit upon 1) reversion through midpoint of 10-day range or 2) 1st down day after holding for 5 days. \$100k/trade. 2003 - present.

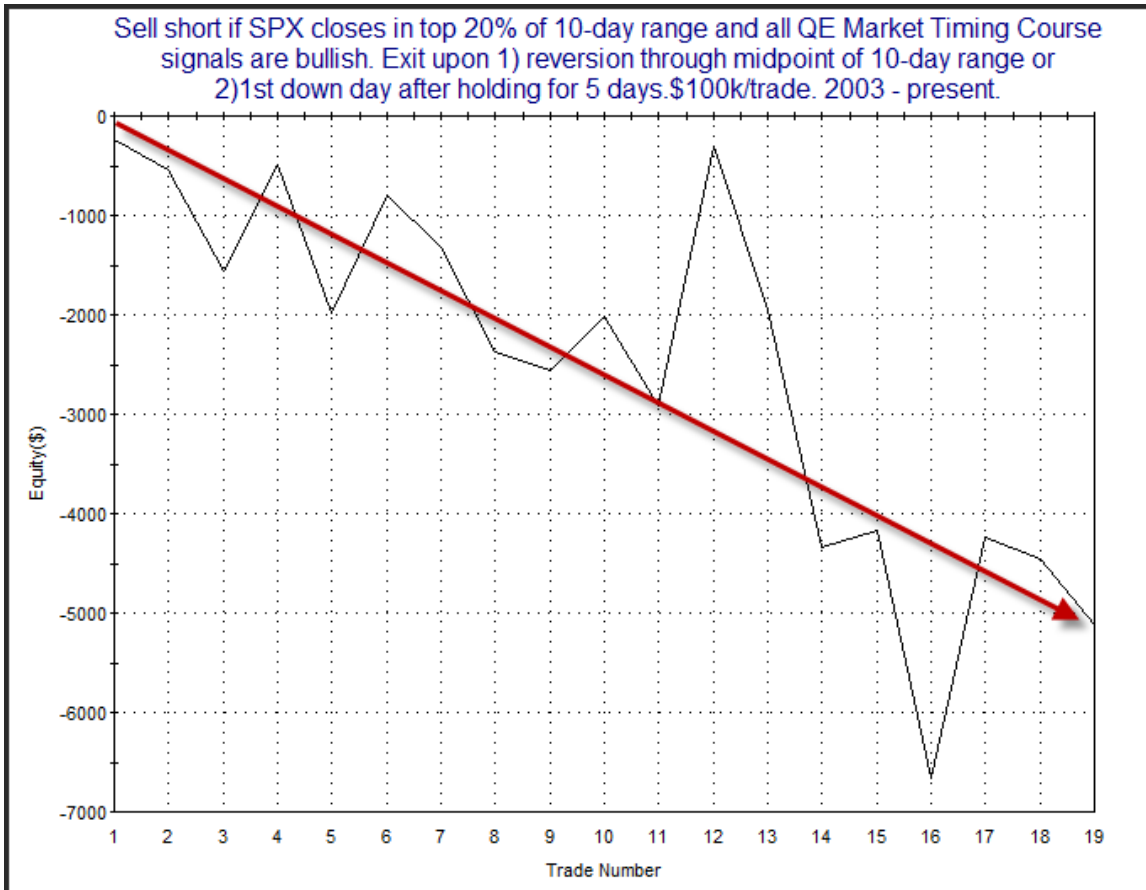
TradeStation Performance Summary

[Collapse ^](#)

All Trades

Total Net Profit	(\$5,113.84)	Profit Factor	0.61
Gross Profit	\$8,018.08	Gross Loss	(\$13,131.92)
Total Number of Trades	19	Percent Profitable	31.58%
Winning Trades	6	Losing Trades	13
Even Trades	0		
Avg. Trade Net Profit	(\$269.15)	Ratio Avg. Win:Avg. Loss	1.32
Avg. Winning Trade	\$1,336.35	Avg. Losing Trade	(\$1,010.15)
Largest Winning Trade	\$2,617.60	Largest Losing Trade	(\$2,494.80)

As you can see, trying to short an overbought market with seasonality and trend strongly against you would have been a losing approach over the last 11 years. Let's take a look at the profit curve to see how it has played out.



This seems to confirm the difficulty in trying to short strongly trending markets during strongly bullish seasonal periods.

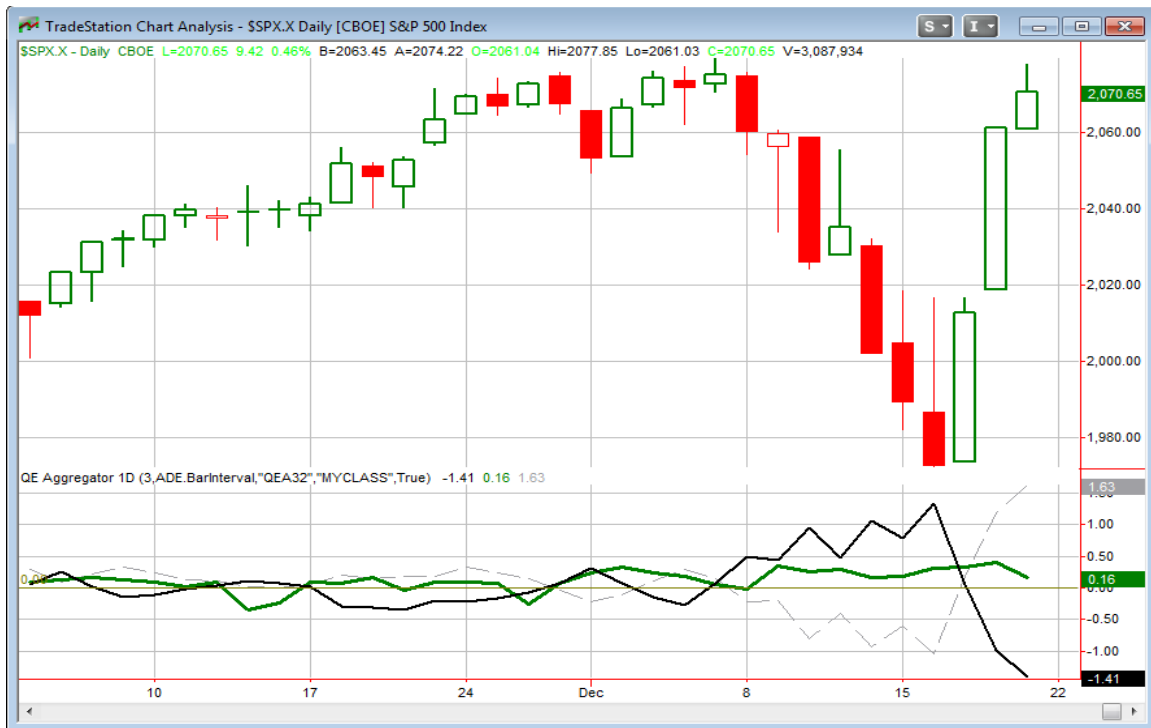
This leaves us with a bit of a conundrum. Will the weak liquidity win out, or will trend and seasonality prevail? If liquidity does begin to exert its influence here, then it will probably not take long for one, or both, of the price action indicators to come out of their bullish posture.

I intend to watch this closely. For the time being, I am not including the QE Buying Power short signals in the Aggregator calculation. That will quickly change if it appears to be fruitful in this environment.

Since I wrote this the 2 QE Buying Power short signals that triggered resulted in 1 loser and 1 winner (with the loser being slightly larger). I am still inclined to keep a close eye, but not yet include it in the Aggregator.

So tonight we have the one VIX-based study making it onto the Short-Term Active List. It is also worth noting that this study is now alone on the short-term list. All the other studies that were active met their targets over the last 2 days and have been removed. This sometimes happens when bounces are especially strong – and this one was.

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



With tonight's bullish study the Aggregator Line again held 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 now farther below 0 than it has been in a long time. The negative Differential Line reading means the SPX is extremely overbought versus recent expectations. So expectations are positive but the SPX is very 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Monday. But with only 1 study currently on the Short-Term Active List, new bearish evidence could sway expectations negative. The Differential Pivot will be 2028.64 on Monday. That is 2.0% below Friday's close. It's pretty unlikely that we would see a one-day selloff that strong during what will likely be slow Christmas-week action. So it will probably take a multi-day pullback or consolidation to work off the overbought condition.

The market is too overbought for me to consider putting on new short-term positions here. We may get a pullback, but with seasonal strength and current momentum, we may not. If we do get a multi-day pullback here in the next few days, I will almost certainly become a buyer. But until that time, evidence appears too strong to short against, and the market is too overbought to buy into. I'll wait for that to change before adding new exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/22 – bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.)

After declining 3.5% during the 2nd week in December, the SPX rebounded this week and posted a 3.4% gain, which very nearly brought it to new highs. Despite selling off Monday and Tuesday, “[The Most Wonderful Week of the Year](#)” did not disappoint. The Wednesday to Friday rally was very strong and indications so far suggest a continuation is likely. And it wasn’t just short-term evidence that emerged. We saw a number of intermediate-term studies suggesting further upside as well.

On Tuesday the Quantifiable Edges Capitulative Breadth Indicator (CBI) hit 12. That triggered the study below, which I have copied from Tuesday night’s letter.

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.

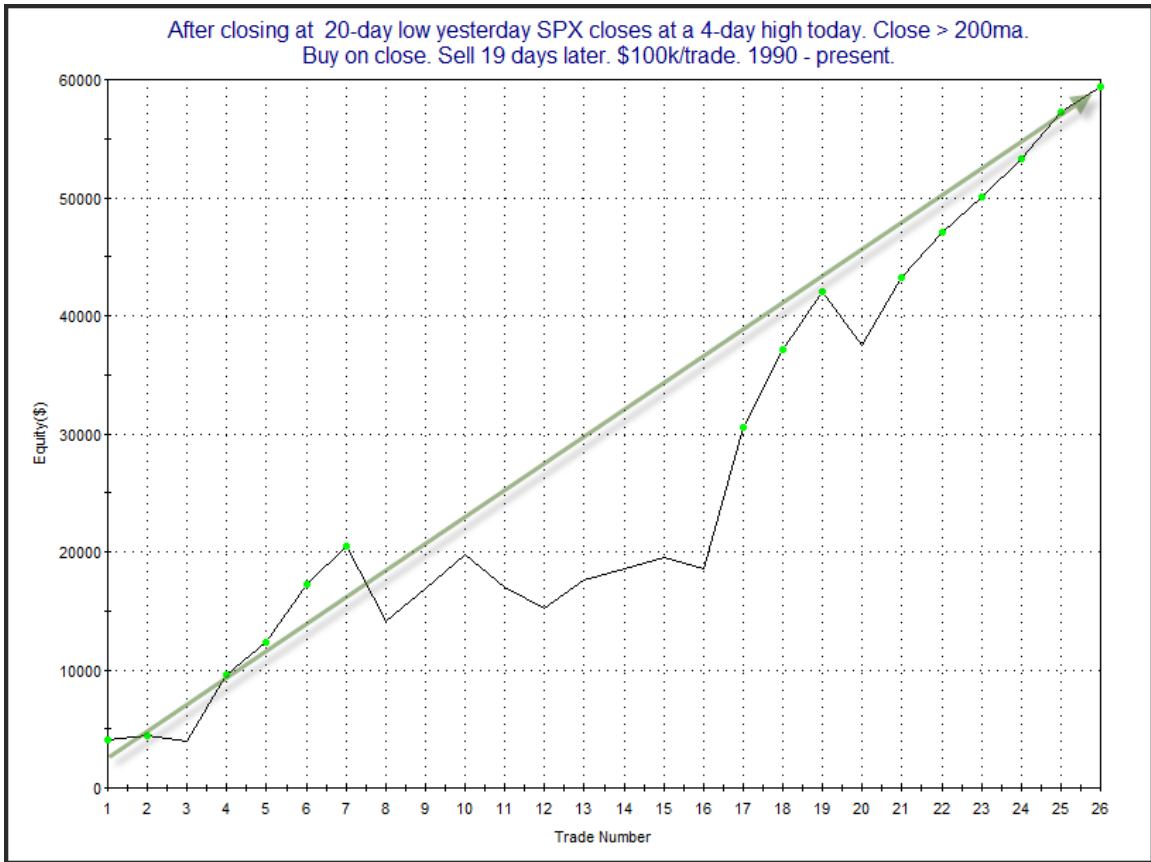
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/04/96	Buy	\$745.10	0.39%	\$1,889.40
01/03/97	Sell	\$748.03		(\$3,806.94)
04/03/97	Buy	\$750.32	6.43%	\$7,156.73
05/01/97	Sell	\$798.53		(\$2,231.74)
08/15/97	Buy	\$900.81	2.10%	\$4,391.16
09/15/97	Sell	\$919.77		(\$829.17)
08/28/98	Buy	\$1,027.25	2.09%	\$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)

Wednesday's rebound also generated some studies with intermediate-term implications. The first one looked at sharp moves off an intermediate-term low. I have copied it below.

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... 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.

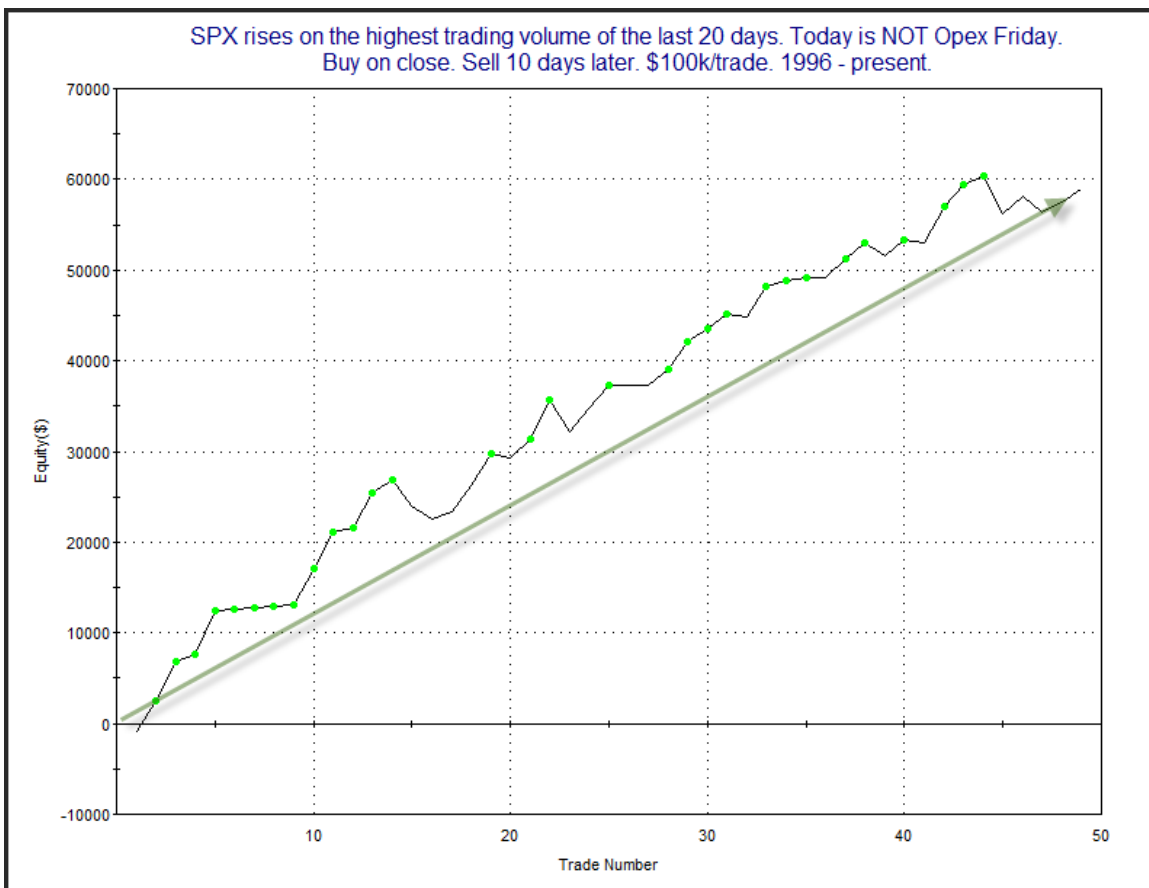
Wednesday's volume also gave a bullish hint. This can be seen in the next study.

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.



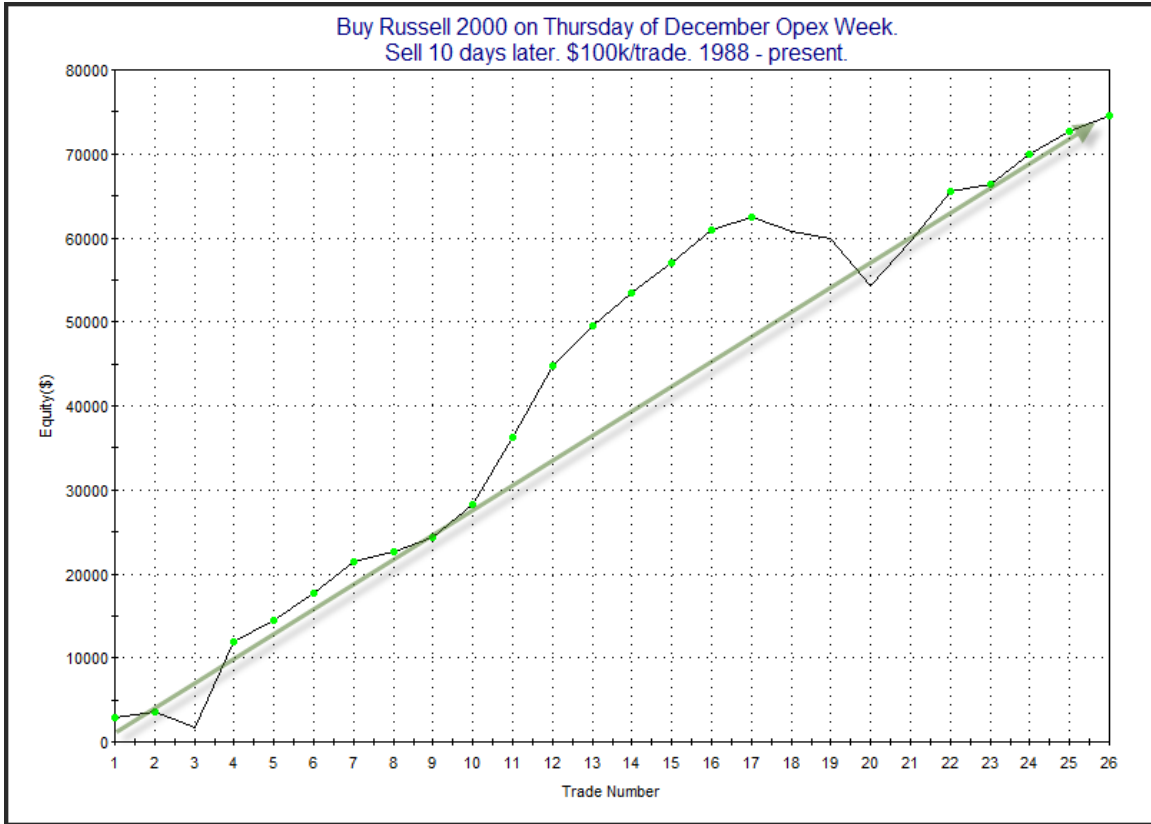
Recent instances have struggled a little but overall the upside edge still appears to be intact. I found the study compelling enough to include it on the intermediate-term Active List.

In the December 19th letter I showed a seasonality study with bullish implications.

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.

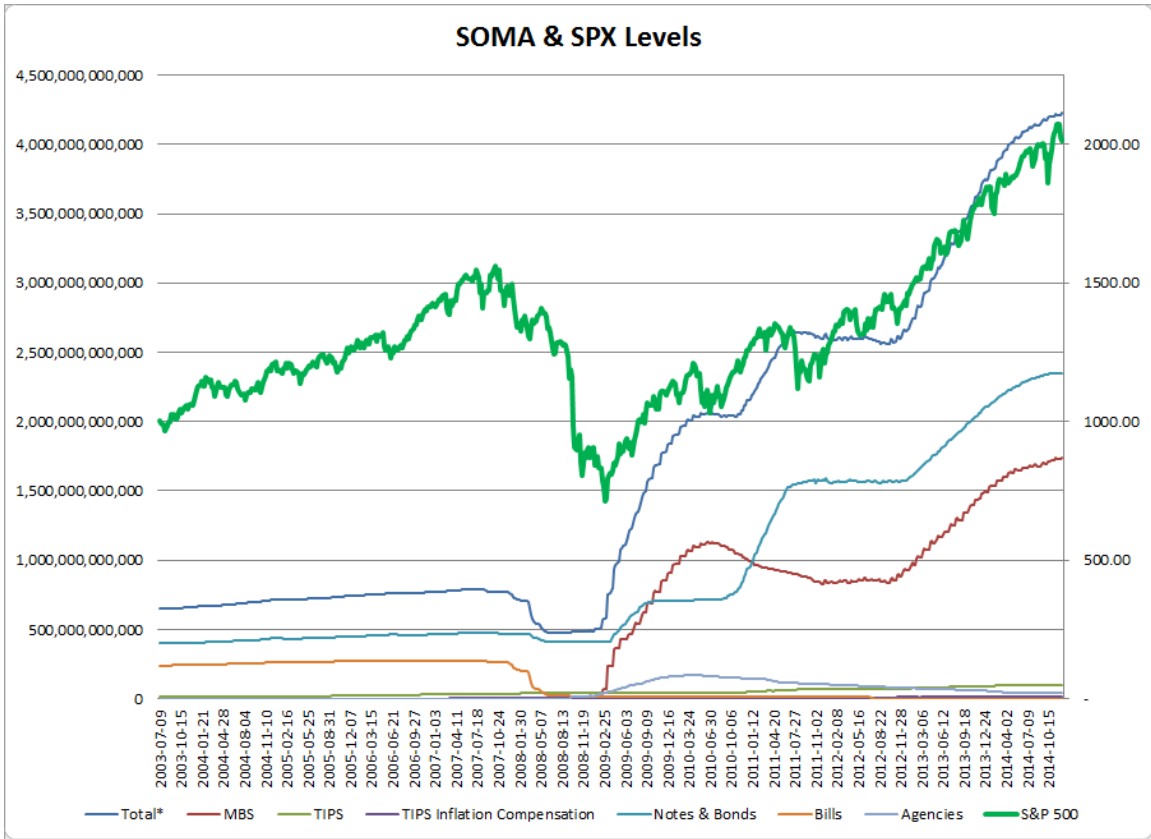
Buy Russell 2000 on Thursday of December Opex Week. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	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.

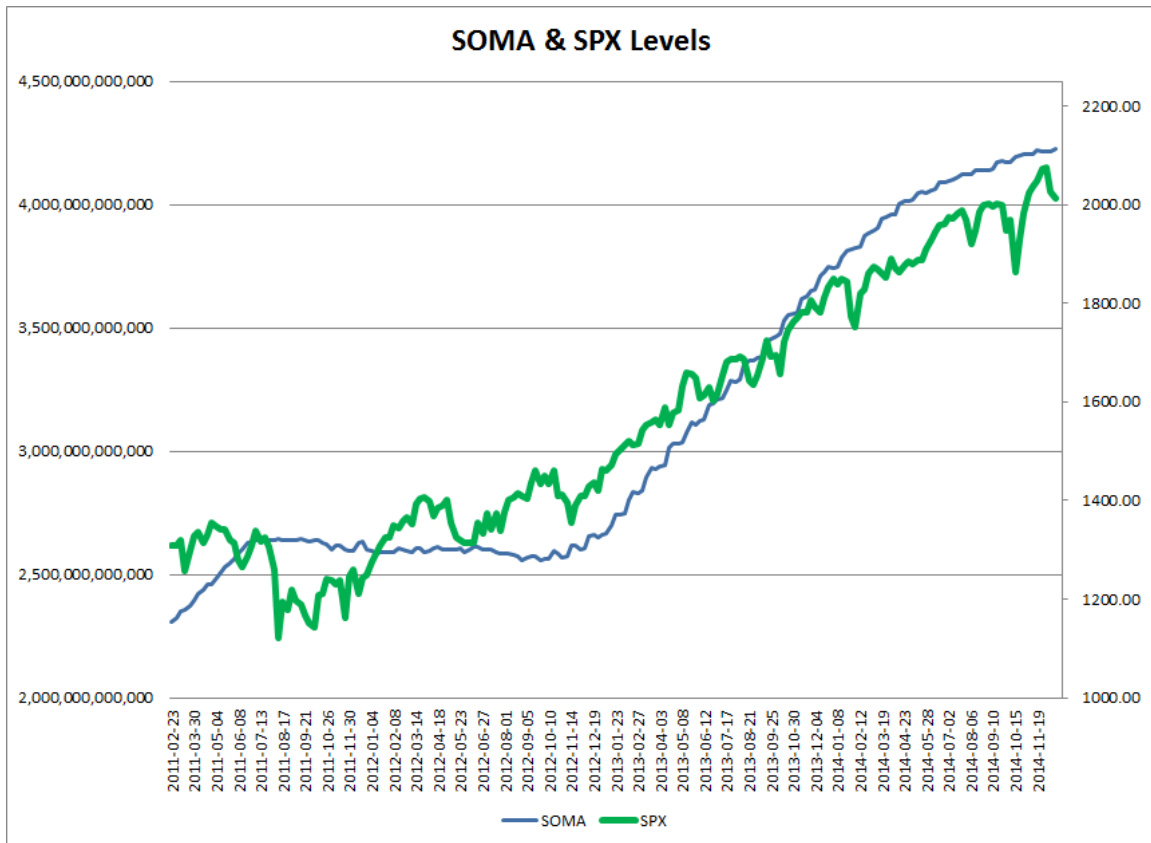


In 2005, 2006, and 2007 the Russell saw declines, but the last 6 years have all been higher, keeping the curve right on track.

As I have now begun to do, I have updated our Fed SOMA charts below. While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the POMO indicators did. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



And now the zoomed-in view (2011 – present).



It is tough to distinguish, but SOMA totals reached a new high this past week. The rise is not nearly as pronounced as it was earlier this year, but SOMA continues to inch up. And so far it seems that has provided enough support to allow the rally to continue. The market has continually struggled over the years whenever the SOMA has not been increasing. So I will continue to watch the Total Assets line closely to see whether it begins to roll over and head south, or whether reinvestments can keep it afloat a while longer.

I have upped my outlook from “somewhat bullish” to “bullish” and will probably keep it there through the New Year. Just this past week we saw bullish intermediate-term indications based on 1) breadth (the CBI), 2) price action (thrust off the lows), 3) volume, and 4) seasonality. New highs in the SOMA are also somewhat encouraging. And we can add all this new evidence to things like the Market Timing Course long-term indicators, which are all currently bullish. Bears are banking on the new high divergence we are seeing as outlined in the Study of Tops, as well as the reduced Fed support. With all the bulls now have in their favor, I doubt the bears will be able to make a strong play before the end of the year. I will continue to focus my short-term trading on the long side for the time being.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

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

Catapult for ETF's Trades

None

Broad Market Large Cap CBI – 1(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
XIV(1/2)	12/10/2014	\$37.21	\$33.22	-10.72%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$33.22	-2.38%		Aggressive VIX
F(1/3)	12/11/2014	\$15.16	\$14.79	-2.44%		sold on open
PFE(1/)	12/15/2014	\$30.95	\$31.91	3.10%		sold on open
ABBV(1/3)	12/15/2014	\$65.27	\$67.69	3.71%		sold on open
SPY(1/4)	12/16/2014	\$198.58	\$207.56	4.52%		sold on open*
SPY(1/4)	12/16/2014	\$197.91	\$207.56	4.88%		sold on open*
PFE(1/3)	12/16/2014	\$30.83	\$31.91	3.50%		sold on open
PFE(1/3)	12/17/2014	\$30.67	\$31.91	4.04%		sold on open
NKE(1/3)	12/17/2014	\$93.21	\$95.50	2.46%		sold on open
MDLZ(1/3)	12/17/2014	\$36.02	\$37.30	3.55%		sell on open
*SPY prices include \$1.13492 dividend payable to holders						

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.