

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 23, 2014

Volume 7 Issue 243

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Over the next several days seasonality is set to be especially strong.
- Monday's breakout to a new high in SPX is not as clearly indicative as I would like to see.

## *Short-term Outlook*

### *The Bottom Line*

The rally continued and more bullish evidence emerged. Overbought with positive expectations has the Aggregator neutral. I generally am as well.

**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 23, 2014	Twas 3 Nights Before Christmas	1-8 days	Bullish	2.70%	-1.00%	-2.00%
December 22, 2014	VIX 10% Above MA to 10% Below	1-8 days	Bullish	2.60%	-1.00%	-2.00%
<b>Active - Long Term</b>						
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			

**The Evidence**

The market moved higher on quiet trading Monday. Final numbers saw the SPX gain 0.4%, the NASDAQ rise 0.3%, and the Russell 2000 rally 0.5%. Breadth was positive as the NYSE Up Issues % came in at 57% and the Up Volume % was 55%. Total NYSE volume was holiday-week light.

The study below is the “Twas 3 Nights Before Christmas” study, and I have shown it each year in the letter. It triggered as of Monday’s close. I show here how it has performed for a few of the major indices. First...SPX.

Buy SPX at close 3 trading session before Christmas. Sell X days later. \$100k/trade. 1987 - 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	37,089.91	27	21	6	77.78	2,446.70	7,830.30	-2,381.80	-4,436.38	1.03	3.60	1,373.70
9	44,172.15	27	20	7	74.07	2,822.05	7,974.78	-1,752.70	-3,298.00	1.61	4.60	1,636.01
8	49,391.56	27	21	6	77.78	2,612.43	8,333.40	-911.57	-2,482.44	2.87	10.03	1,829.32
7	38,249.94	27	20	7	74.07	2,214.03	7,796.76	-861.54	-1,580.04	2.57	7.34	1,416.66
6	25,913.86	27	18	9	66.67	1,889.29	7,752.90	-899.26	-1,768.23	2.10	4.20	959.77
5	29,945.38	27	21	6	77.78	1,755.54	7,247.22	-1,153.50	-2,846.94	1.52	5.33	1,109.09
4	20,352.73	27	18	9	66.67	1,575.74	5,070.22	-890.06	-2,258.85	1.77	3.54	753.80
3	18,021.46	27	18	9	66.67	1,408.12	4,592.40	-813.86	-1,794.00	1.73	3.46	667.46
2	16,364.94	27	20	7	74.07	1,078.59	3,257.17	-743.84	-2,185.04	1.45	4.14	606.11
1	9,822.25	27	20	7	74.07	716.79	2,523.24	-644.79	-1,518.40	1.11	3.18	363.79

**25 of 27 instances (93%) closed above the entry price at some point in the next 5 trading days.**

The stats all appear quite strong. I would note the “Max Losing Trade” column shows very mild numbers from days 1-8, with no decline reaching 3%.

But as I discussed last week, smallcaps rule this time of year. So let’s examine some other indices. First let’s look at the Russell 2000.

**Buy Russell 2000 at close 3 trading session before Christmas.  
Sell X days later. \$100k/trade. 1987 - 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	63,886.95	27	23	4	85.19	3,346.71	11,169.90	-3,271.87	-5,643.30	1.02	5.88	2,366.18
9	68,749.02	27	22	5	81.48	3,619.62	10,353.42	-2,176.53	-5,973.50	1.66	7.32	2,546.26
8	75,026.87	27	24	3	88.89	3,297.71	9,130.50	-1,372.71	-2,948.40	2.40	19.22	2,778.77
7	64,892.61	27	25	2	92.59	2,701.00	7,189.56	-1,316.19	-1,809.60	2.05	25.65	2,403.43
6	59,043.36	27	22	5	81.48	2,800.67	8,941.50	-514.30	-977.82	5.45	23.96	2,186.79
5	49,030.08	27	22	5	81.48	2,413.05	11,299.50	-811.39	-2,385.63	2.97	13.09	1,815.93
4	32,542.37	27	20	7	74.07	1,928.43	7,987.50	-860.89	-1,845.90	2.24	6.40	1,205.27
3	29,273.20	27	22	5	81.48	1,463.85	5,136.75	-586.29	-1,591.20	2.50	10.99	1,084.19
2	23,689.92	27	20	7	74.07	1,357.77	4,317.75	-495.08	-930.30	2.74	7.84	877.40
1	13,191.59	27	21	6	77.78	763.25	2,299.70	-472.78	-1,354.50	1.61	5.65	488.58

**All 27 instances closed above the entry price at some point in the next 4 trading days.**

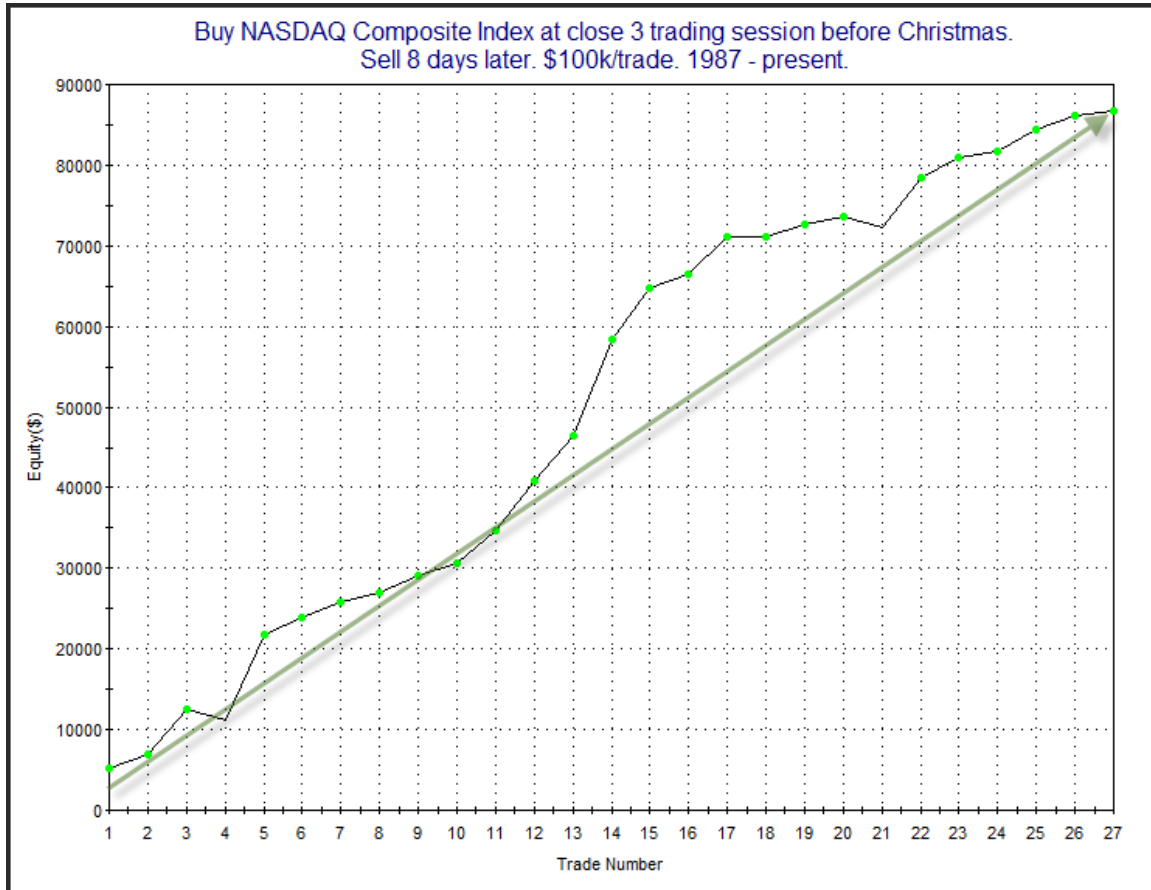
Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

**Buy NASDAQ Composite Index at close 3 trading session before Christmas.  
Sell X days later. \$100k/trade. 1987 - 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	74,660.92	27	23	4	85.19	3,769.99	12,374.58	-3,012.24	-5,231.80	1.25	7.20	2,765.22
9	80,174.06	27	23	4	85.19	3,860.29	11,558.04	-2,153.16	-5,039.77	1.79	10.31	2,969.41
8	86,709.99	27	25	2	92.59	3,576.25	11,915.40	-1,348.19	-1,412.66	2.65	33.16	3,211.48
7	54,244.53	27	20	7	74.07	3,024.90	9,428.34	-893.34	-2,010.42	3.39	9.67	2,009.06
6	47,832.51	27	22	5	81.48	2,393.93	9,407.88	-966.79	-2,010.42	2.48	10.90	1,771.57
5	45,035.62	27	20	7	74.07	2,534.72	9,436.56	-808.39	-2,882.56	3.14	8.96	1,667.99
4	33,363.62	27	20	7	74.07	1,955.22	8,665.86	-820.12	-2,063.36	2.38	6.81	1,235.69
3	30,208.05	27	20	7	74.07	1,746.79	6,748.14	-675.40	-1,927.36	2.59	7.39	1,118.82
2	27,486.63	27	21	6	77.78	1,548.77	7,726.74	-839.60	-2,114.45	1.84	6.46	1,018.02
1	14,626.33	27	22	5	81.48	858.51	2,423.79	-852.16	-1,439.75	1.01	4.43	541.72

**Since NASDAQ inception in 1971 the only that the NASDAQ failed to close above the entry price at some point in the next 5 trading days was 1986.**

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week. Below is the 8-day profit curve.



The curve is as impressive as the stats.

Lastly, let's look at the NDX.

**Buy NASDAQ 100 at close 3 trading session before Christmas.  
Sell X days later. \$100k/trade. 1987 - 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	77,570.80	27	22	5	81.48	4,132.66	14,811.16	-2,669.56	-5,387.52	1.55	6.81	2,872.99
9	86,395.61	27	22	5	81.48	4,388.66	13,881.66	-2,030.99	-5,095.68	2.16	9.51	3,199.84
8	93,088.44	27	24	3	88.89	4,034.99	14,312.70	-1,250.41	-2,534.56	3.23	25.82	3,447.72
7	56,750.45	27	20	7	74.07	3,311.65	12,688.52	-1,354.66	-3,669.30	2.44	6.98	2,101.87
6	43,876.98	27	20	7	74.07	2,651.99	11,843.52	-1,308.97	-2,893.94	2.03	5.79	1,625.07
5	49,321.44	27	20	7	74.07	2,946.41	11,443.50	-1,372.41	-3,226.03	2.15	6.13	1,826.72
4	37,373.01	27	19	8	70.37	2,410.67	11,245.05	-1,053.71	-2,242.57	2.29	5.43	1,384.19
3	33,540.60	27	18	9	66.67	2,344.08	8,742.60	-961.42	-2,203.20	2.44	4.88	1,242.24
2	31,546.52	27	21	6	77.78	1,856.34	10,167.30	-1,239.44	-3,741.36	1.50	5.24	1,168.39
1	18,053.17	27	21	6	77.78	1,146.03	2,863.84	-1,002.24	-2,662.20	1.14	4.00	668.64

**25 of 27 instances (93%) closed above the entry price  
at some point in the next 5 trading days.**

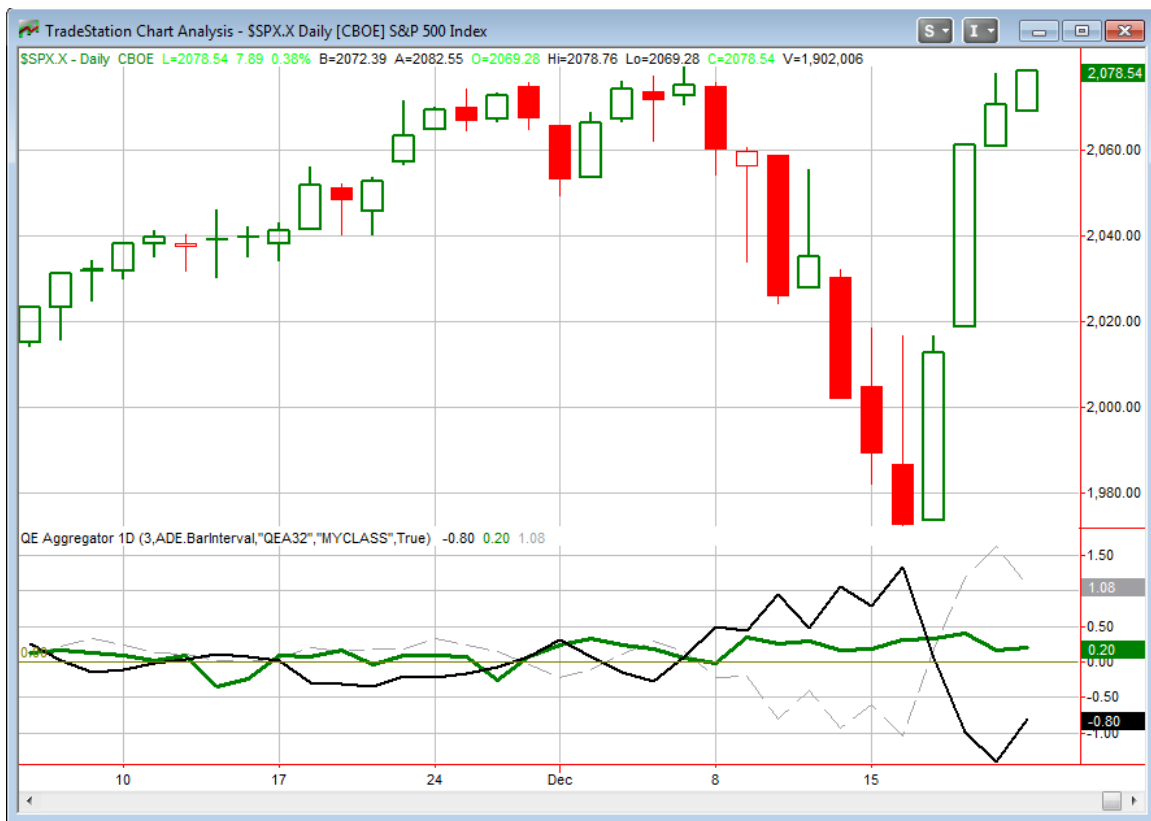
Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

There were also several studies in the Quantifinder related to the new high breakout in the SPX. Several of these considered the low volume. Many of the volume-related breakout studies show better returns when volume came in at a low level. Low volume is not “abnormal” volume. Rather it is simply that there are more folks taking vacation and less trading occurs. We will likely see more extreme volume days this week and next. As I have done in the past, I will be filtering out all volume studies from now until the New Year.

Even without the volume filter, fresh breakouts to new highs can lead to follow through over the next several days. But I closely examined an old study from 2010 that looked at times the breakout came while SPX rose for at least the 3<sup>rd</sup> day in a row. While the long-term (1970 - ) for that setup looked pretty good, it has struggled since around 2002. In fact, over the next 1-5 days returns were very mildly negative. Between this and the holiday volume issue, I simply decided that the current breakout was not generating an edge compelling enough to take under consideration.

So I simply added the “Twas 3 Nights Before Christmas” study to the Active List tonight.

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 still far below 0. The negative Differential Line reading means the SPX is strongly 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain bullish on Tuesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be *inverted at 2083.04* on Tuesday. That is 0.2% *above* Monday's close. 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 up at least 0.2% in order to remain "overbought". Anything less than that and it will be considered "oversold versus expectations".

The studies call for more upside. And even if bearish evidence emerges, it is highly unlikely I would look to short during such a strong seasonal period while my

intermediate-term outlook is outright bullish. The bearish evidence would have to be extremely compelling, and that seems highly unlikely during a slow holiday market.

It is not going to take much in order for the market to turn “oversold”. In fact, anything flat, down, or even slightly up on Tuesday would do it. If I am going to take on new long exposure, I would prefer a bit of a pullback on a price basis, perhaps towards the mid-point of the short-term range at least.

None of these scenarios are playing out yet. At this point the market is overbought and expectations are higher. The Aggregator is neutral and so am I. I’ll re-evaluate tomorrow night as I always do, and if something changes by then, I may consider taking on new exposure. For now it is just “wait and see”.

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

The intermediate-term outlook was last updated in the 12/22 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***

*None*

***Catapult for ETF’s Trades***

*None*

***Broad Market Large Cap CBI – 0***

### **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**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
XIV(1/2)	12/10/2014	\$37.21	\$34.91	-6.18%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$34.91	2.59%		Aggressive VIX
<b>MDLZ(1/3)</b>	<b>12/17/2014</b>	<b>\$36.02</b>	<b>\$37.39</b>	<b>3.80%</b>		<b><i>sold on open</i></b>

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