

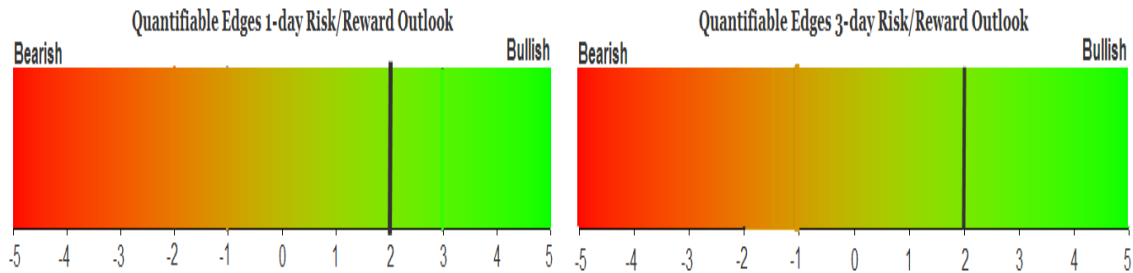
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 24, 2014

Volume 7 Issue 244

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr Swing
Long	100% 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 looks strong, seasonality remains strong, and SPX is no longer "overbought versus expectations". I believe there is a bit of an upside edge, and I will look to take advantage of it if Wednesday 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
<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**

Tuesday was mixed and moderate for the major indices. The SPX rose just under 0.2%, the NASDAQ fell 0.3%, and the Russell 2000 gained 0.05%. Breadth was strong as the NYSE Up Issues % came in at 64% and the Up Volume % was 69%. Total NYSE volume was very light, as you would expect this week. Wednesday will likely be even lighter

Nothing of consequence triggered in the Quantifinder. There were a lot of studies that triggered, but they were primarily related to low volume. And as I mentioned last night, volume-related studies are useless this week.

I've noted a number of ways that we are in a very strong seasonal period, and will be through the first couple days of 2015. But with the market now making fresh 50-day highs, I wondered whether that might make further advances less likely over the next week or so. The study below examines other times since 1960 that SPX made a 50-day high on one of the last three trading days leading up to Christmas.

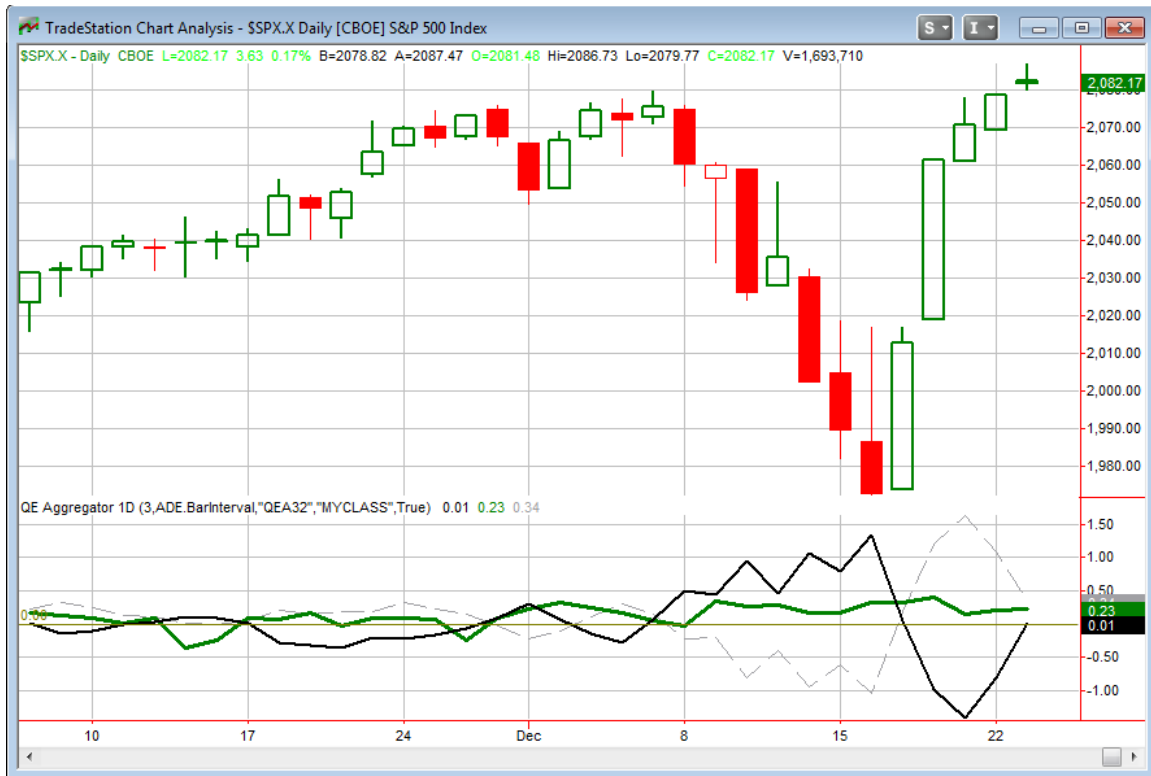
SPX closes at a 50-day high on any of the 3 trading days just before Christmas. Buy on close. Sell X days later. \$100k/trade. 1960 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	14,543.57	12	11	1	91.67	1,364.28	4,482.50	-463.54	-463.54	2.94	32.38	1,211.96
4	14,723.25	12	11	1	91.67	1,421.66	4,440.00	-915.04	-915.04	1.55	17.09	1,226.94
3	10,279.84	12	9	3	75.00	1,356.46	3,950.00	-642.76	-1,041.46	2.11	6.33	856.65
2	7,320.56	15	9	6	60.00	1,030.63	1,884.10	-325.85	-1,040.92	3.16	4.74	488.04
1	6,194.92	23	15	8	65.22	578.75	2,073.34	-310.79	-608.84	1.86	3.49	269.34

Numbers here look extremely strong. Eleven out of the twelve instances were higher both four and five days later. This suggests a bullish inclination. Below is a list of all instances assuming a five day hold.

SPX closes at a 50-day high on any of the 3 trading days just before Christmas. Buy on close. Sell 5 days later. \$100k/trade. 1960 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/21/60	Buy	\$57.55	0.87%	\$868.50
12/29/60	Sell	\$58.05		(\$277.92)
12/24/70	Buy	\$90.61	0.60%	\$2,625.14
01/04/71	Sell	\$91.15		(\$363.99)
12/21/71	Buy	\$101.80	0.40%	\$402.62
12/29/71	Sell	\$102.21		(\$1,040.92)
12/21/90	Buy	\$331.75	(0.46%)	\$0.00
12/31/90	Sell	\$330.21		(\$1,360.52)
12/24/91	Buy	\$399.33	4.49%	\$4,747.50
01/02/92	Sell	\$417.26		(\$5.00)
12/22/98	Buy	\$1,203.56	2.36%	\$3,432.88
12/30/98	Sell	\$1,231.92		\$0.00
12/21/99	Buy	\$1,433.43	2.09%	\$2,348.76
12/29/99	Sell	\$1,463.46		(\$302.22)
12/22/03	Buy	\$1,092.94	1.53%	\$1,529.71
12/30/03	Sell	\$1,109.64		(\$110.11)
12/22/04	Buy	\$1,209.57	0.33%	\$565.80
12/30/04	Sell	\$1,213.55		(\$381.30)
12/22/09	Buy	\$1,118.02	0.75%	\$1,100.04
12/30/09	Sell	\$1,126.42		(\$179.78)
12/21/10	Buy	\$1,254.60	0.41%	\$632.00
12/29/10	Sell	\$1,259.78		(\$246.48)
12/20/13	Buy	\$1,818.31	1.25%	\$1,435.32
12/30/13	Sell	\$1,841.07		\$0.00

The only loser was in 1990. The 8 instances since then have not only gone on to produce gains over the next five days, none of them pulled back even as much as 0.4% from the entry price at any time during the next five days. It appears momentum this time of year has been a plus, and rallies have almost always continued higher. I did not include this study in the Aggregator tonight, simply because it is really just a subset of the "Twas 3 Nights Before Christmas" study that I showed last night.

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



With no new studies making the Active List tonight 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 rose to just barely above 0. The positive Differential Line reading means the SPX is now considered slightly 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 turned long at the close.

Based on the current active studies, expectations are set to remain bullish on Wednesday. Of course this could change if strong bearish evidence emerges. The Differential Pivot will be 2089.23 on Wednesday. That is 0.3% above Tuesday's close. So for SPX to move from "oversold versus expectations" back to overbought it is going to need to close up at least 0.3% on Wednesday.

So the Aggregator is bullish. It certainly seems odd that SPX could be considered "oversold" while at all-time highs, but we need to keep in mind that this is a relative measure, and that price action, seasonality, and other recent evidence suggested the move had the potential to be even strong than it has been. I still have some exposure with XIV. I am not terribly inclined to rush into index positions here without some pullback. I won't require much of one. But rather than look to trade SPY, I will focus on QQQ for Wednesday. QQQ actually closed down on Tuesday. It also has a few \$\$ to go before it

surpasses its early-December highs. So it does not appear over-extended here. Additionally, as I showed last night, QQQ has had the highest average returns over the 8-day seasonal period that began at Monday's close. So if a pullback occurs Wednesday I may look to get long a little QQQ at the close. Details are in the Trade Ideas section down below.

***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.*

**QQQ – buy ¼ index position @ \$104.00 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to start scaling in to QQQ if it closes down a bit on Wednesday.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/10/2014	\$37.21	\$34.88	-6.26%		Aggressive VIX
XIV(1/2)	12/11/2014	\$34.03	\$34.88	2.50%		Aggressive VIX

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