

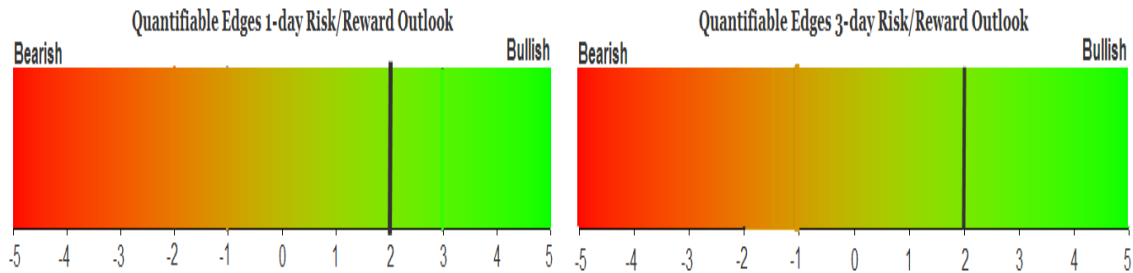
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 30, 2014

Volume 7 Issue 247

Market Overview



Signals Overview

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

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on a Monday) suggests a pullback.
- The persistently low 3/10 Offset HV near a high price level has led to short-term rallies most often over the years.

Short-term Outlook

The Bottom Line

Similar to last night overall evidence is still pointing higher. But with the market already at new highs (again) short-term potential reward seems limited and risks are increasing with each new high day. I am not looking to take on more exposure right here.

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 30, 2014	3/10 Offset HV < 0.3 for 4 days	1-4 days	Bullish			
December 30, 2014	SPX 50-high VIX up Mon	1-2 days	Bearish			
December 29, 2014	SPY unfilled gap breakout	1-5 days	Bullish	1.60%	-1.00%	-1.90%
December 26, 2014	SPY gap up partial reversal 2 days	1-5 days	Bullish			
December 26, 2014	5 up to 50-high then down 1 day	1-4 days	Bullish			
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%
Active - Long Term						
December 26, 2014	5 up to 50-high then down 1 day	1-10 days	Bullish			
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			

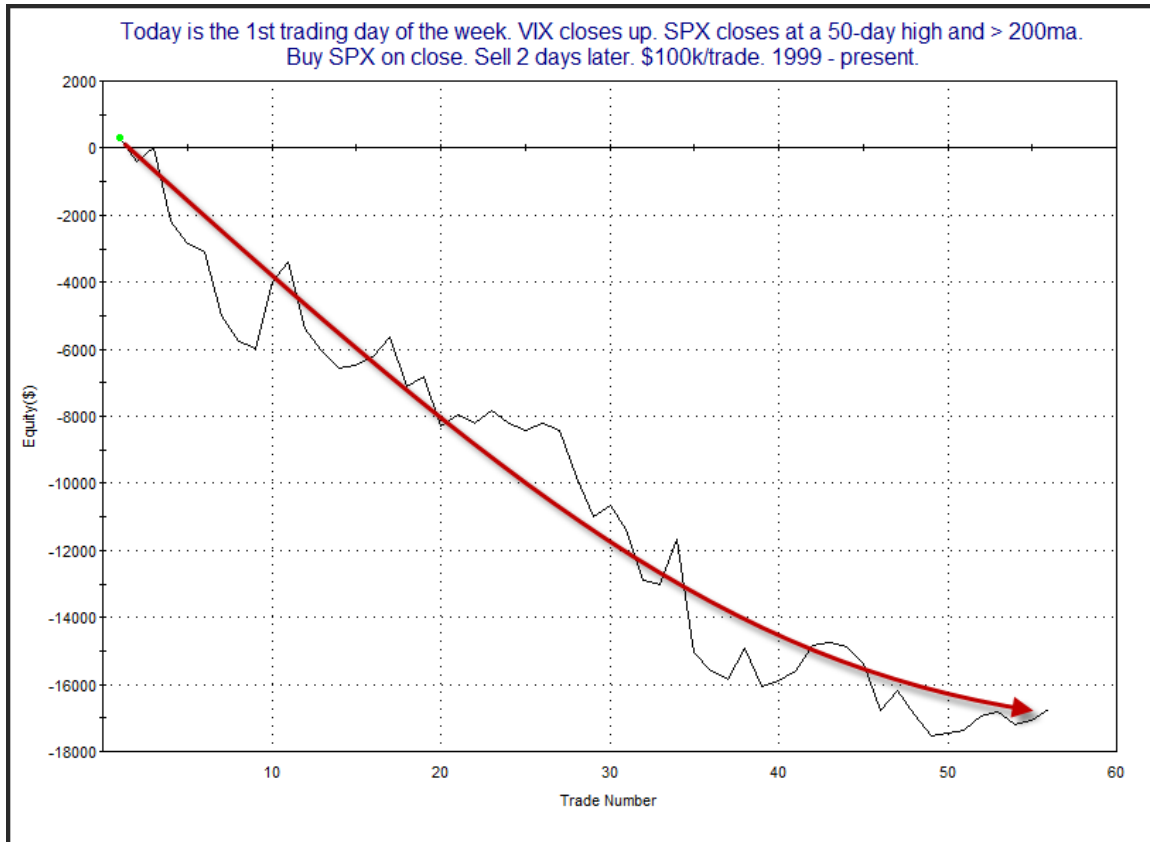
The Evidence

Trading remained quiet on Monday. Stocks kept in a tight range and finished mixed. The SPX rose 0.1%, the NASDAQ closed up 0.05 points, and the Russell 2000 gained 0.3%. Breadth was positive as the NYSE Up Issues % came in at 53%% and the Up Volume % was 58%. Total NYSE volume was again light, but was higher than Friday.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 8/26/14 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closes up. SPX closes at a 50-day high and > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-8,761.37	51	25	26	49.02	1,081.64	3,260.25	-1,377.01	-5,048.68	0.79	0.76	-171.79
4	-5,108.40	56	27	29	48.21	966.69	2,953.65	-1,076.17	-4,271.52	0.90	0.84	-91.22
3	-9,127.46	56	24	32	42.86	794.38	2,641.80	-881.02	-3,887.84	0.90	0.68	-162.99
2	-16,714.67	56	25	31	44.64	443.03	1,981.72	-896.46	-3,372.16	0.49	0.40	-298.48
1	-7,086.97	56	21	35	37.50	328.47	769.70	-399.57	-1,580.04	0.82	0.49	-126.55

Results here appear squarely bearish. Below is a profit curve that assumes a 2-day exit strategy.



The line has flattened out a little bit lately, but it still appears to be heading lower. We saw a similar study last night as well. I have replaced the study from last night with this one on the Active List.

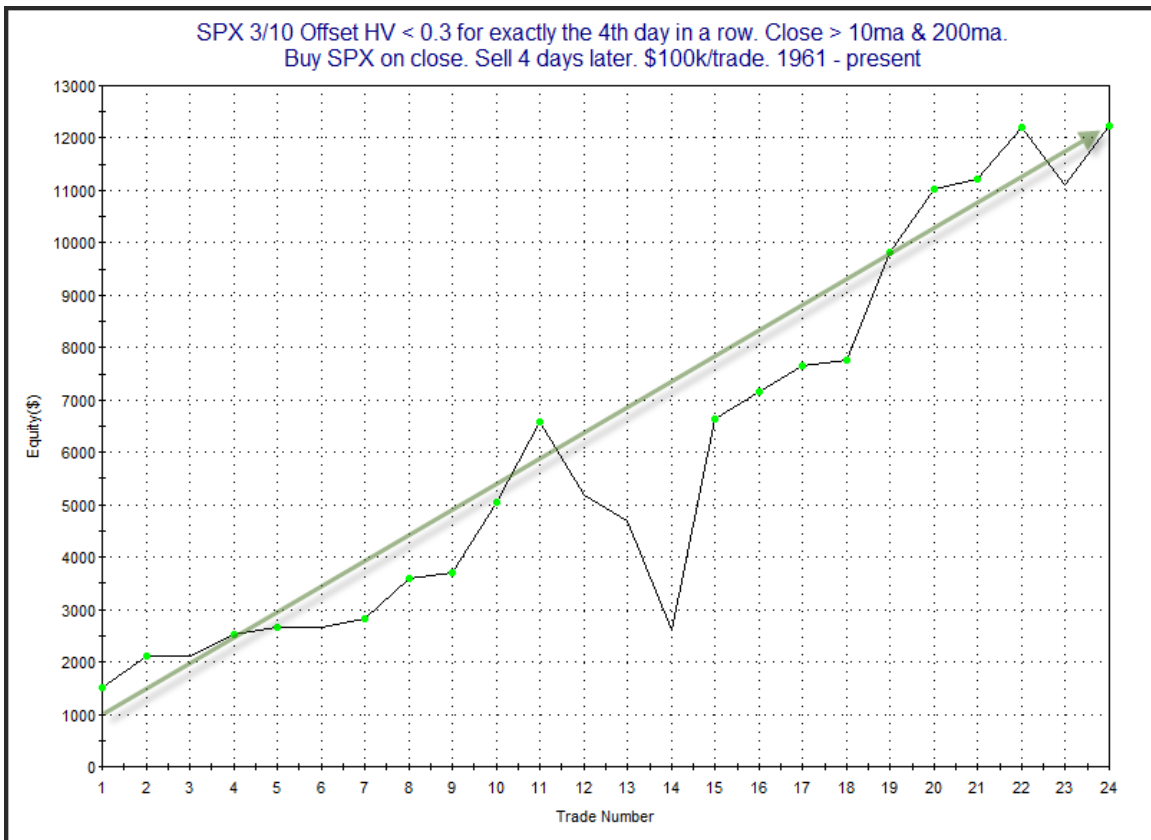
The 3/10 Offset HV indicator for SPX has shown very low readings over the last few days. Historically a very low reading has commonly been followed by an expansion in volatility. I've discussed this indicator and this tendency in the Subscriber Letter many times over the years. Traders that would like to learn more about it may check out the Quantifiable Edges ORBs study on [the Special Reports page in the Downloads area](#).

It's very rare to see low 3/10 Offset HV readings occur for 4 days in a row. I did study similar conditions in the 1/22/13 Subscriber Letter. I have updated that study below.

SPX 3/10 Offset HV < 0.3 for exactly the 4th day in a row. Close > 10ma & 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 1961 - present

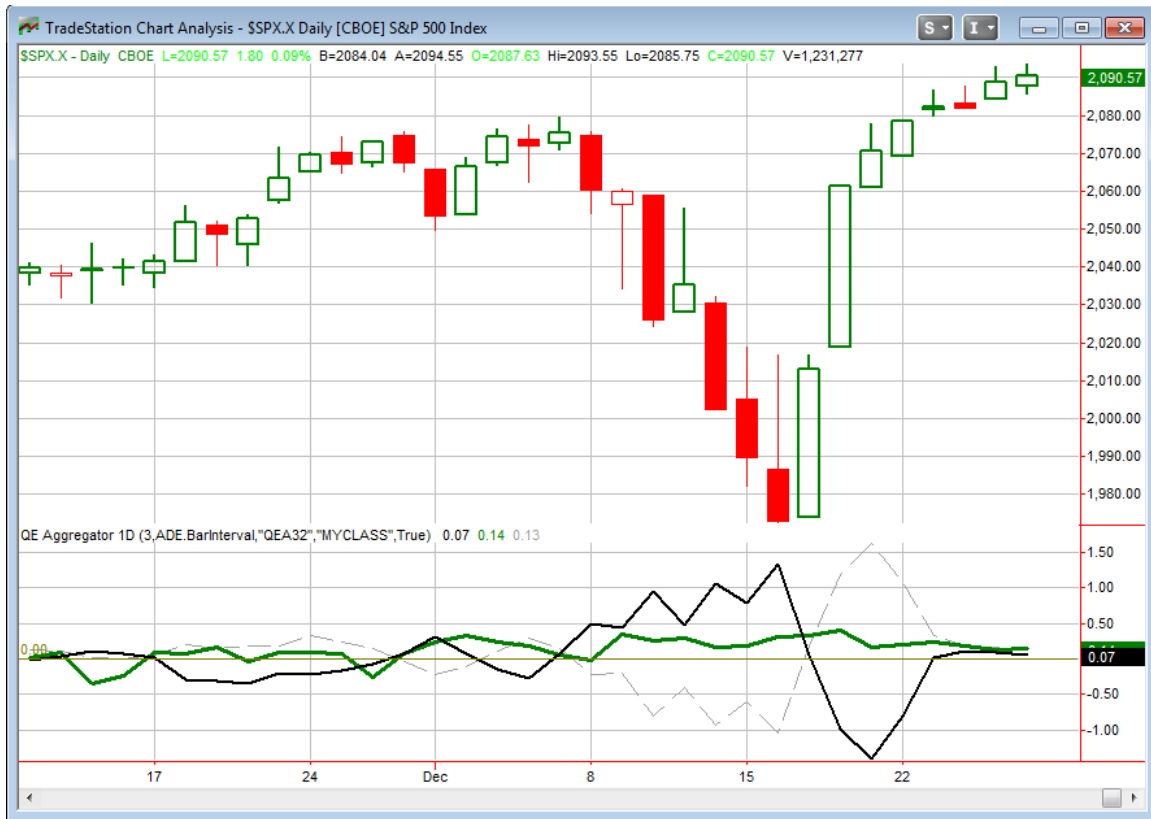
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	12,787.97	24	18	6	75.00	1,153.27	3,131.52	-1,328.48	-3,082.28	0.87	2.60	532.83
4	12,243.29	24	19	4	79.17	911.55	4,018.24	-1,269.06	-2,088.32	0.72	3.41	510.14
3	6,359.50	24	15	9	62.50	877.65	3,405.76	-756.14	-2,168.64	1.16	1.93	264.98
2	1,649.56	24	15	9	62.50	497.12	2,681.92	-645.26	-1,602.76	0.77	1.28	68.73
1	1,359.90	24	15	9	62.50	322.18	1,187.84	-385.87	-1,040.40	0.83	1.39	56.66

With the market trading above both its 10ma and 200ma such consistently low 3/10 Offset HV readings have been followed by an upside expansion very often. Below is a profit curve of all the instances using a 4-day exit strategy.



This study has shown strong upside consistency. Oddly, it went from 1996 – 2009 without any instances. But since the beginning of 2010 this marks the 6th instance. I decided to include it among the active studies.

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



The mix of studies tonight kept the Aggregator Line above 0. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line again stayed slightly above 0. The positive Differential Line reading means the SPX is considered a little oversold versus recent expectations. It is unusual to have SPX considered “oversold” while closing at a new high. It really just means that the gains over the last few days were not as strong as the studies indicated they could be. 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 remained long 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 2094.79 on Tuesday. That is just 0.2% above Monday’s close. So for SPX to move from "oversold versus expectations" to overbought it is going to need to close up just 0.2% or more on Tuesday.

My outlook is basically identical to last night. As I wrote then...

While net expectations remain solidly bullish, evidence was mixed tonight. And with SPX at new highs again, I'd prefer to see it pull back a bit before entering new positions. ...Seasonality remains positive, but that won't last much longer. At this point I think I will step back for a day...I feel the continued run-up at new highs has hurt potential reward and also increases risk a bit. So I will wait for a more appealing entry opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/29 – bullish

The intermediate-term outlook was last updated in the 12/29 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
XIV(1/2)	12/10/2014	\$37.21	\$34.80	-6.48%		sell @ \$35.00 limit
XIV(1/2)	12/11/2014	\$34.03	\$34.80	2.26%		Aggressive VIX

The Aggressive VIX system is still 100% long. But contango just isn't that strong right now(3.86% between month 1 and 2), and with SPX extended up and the VIX still more than 10% below its 10ma, a mean reversion could easily punish the XIV position. With the edge reduced I will look to reduce the position as well. So I will take off 1 lot on Tuesday if I can get filled at \$35.00 or better.

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