

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 9, 2015

Volume 8 Issue 6

Market Overview



Signals Overview

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

Tonight's Research Points

- Employment days have done very well since August of 2012.

Short-term Outlook

The Bottom Line

Evidence still points up but the last 2 days have turned the market overbought. So I am neutral and mostly sidelined.

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						
January 9, 2015	Employment Day hot streak	1 day	Bullish			
January 8, 2015	Unfill gap up from 10-low	1-4 days	Bullish	1.90%	-1.20%	-2.30%
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 9, 2014	Hindenburg Omens	1-35 days	Bearish			
November 3, 2014	Best 6 Months	6 months	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
February 1, 2012	Golden Cross	int term	Bullish			
Dropped Tonight						
January 7, 2015	SPX down 5 days but > 20-day low	1-2 days	Bullish			
January 7, 2015	VIX 25% > 10ma	1-2 days	Bullish			
January 6, 2015	3 Lower High, Low, Close on Monday	1-3 days	Bullish			
January 6, 2015	4 Days Down. Today's drop biggest	1-3 days	Bullish			

The Evidence

Wednesday's bounce accelerated on Thursday with strong gains all around. The SPX and NASDAQ each rallied 1.8%, while the Russell 2000 gained 1.7%. Breadth was strongly positive as the NYSE Up Issues % came in at 76% and the Up Volume % was 84%. Total NYSE volume declined for the 2nd day in a row.

Another bit of information to consider for Friday is that the BLS is due to release the employment report at 8:30am EST. This report tends to be the most highly watched monthly economic report, and it will often be followed by a strong market reaction. In the last 2.5 years or so, this reaction has been consistently bullish. On the Overnight Edges blog on Thursday I showed the overnight implications of the report. Below are the results since August 2012 measuring from the close before the Employment Day to the close of the Employment Day.

Tomorrow is an Employment Day.
Buy SPY on close. Sell next day's close. \$100k/trade. 8/2012 - present.

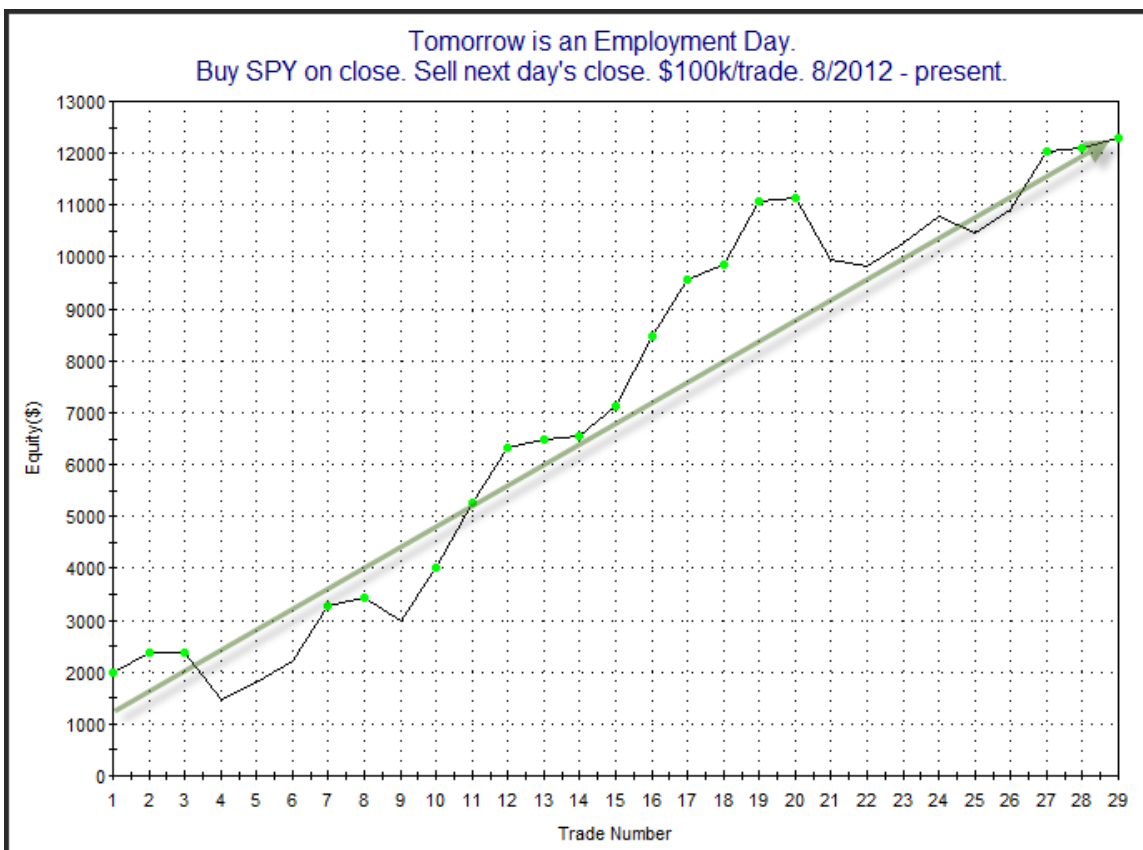
TradeStation Performance Summary

Collapse ^

All Trades

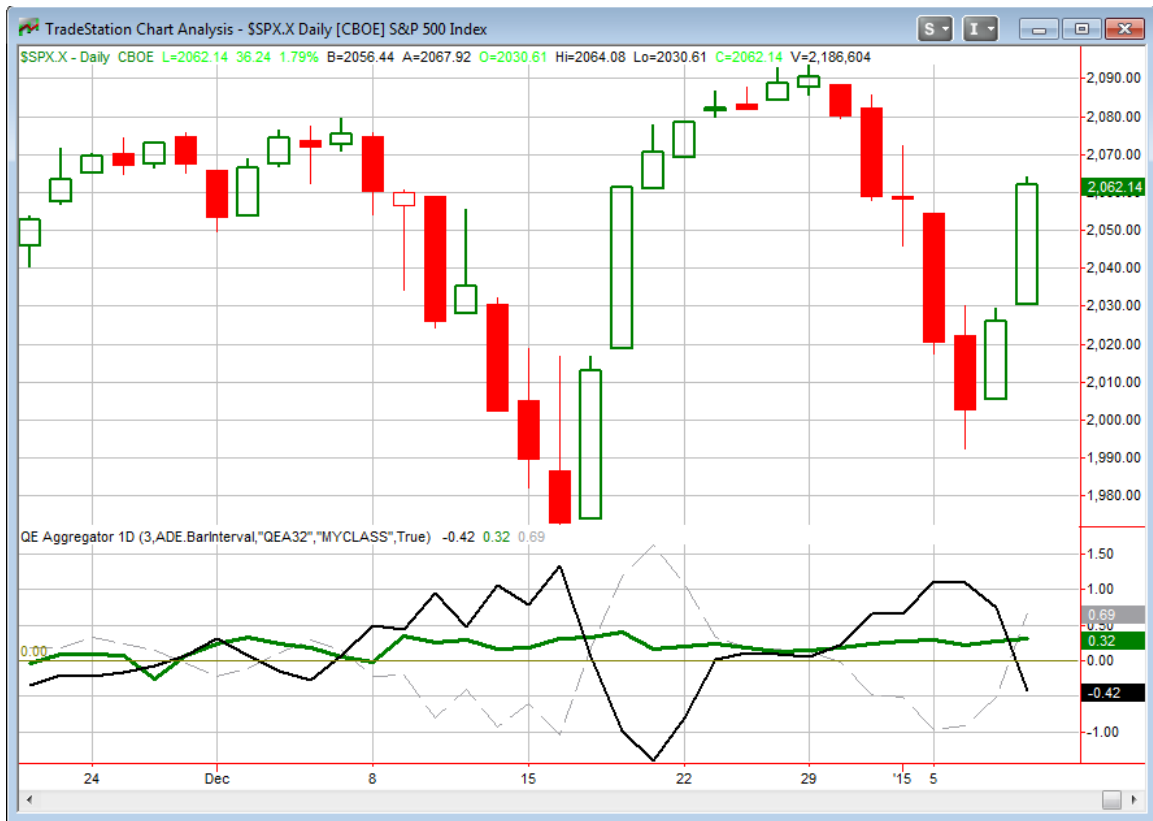
Total Net Profit	\$12,278.47	Profit Factor	5.14
Gross Profit	\$15,241.16	Gross Loss	(\$2,962.69)
Total Number of Trades	29	Percent Profitable	82.76%
Winning Trades	24	Losing Trades	5
Even Trades	0		
Avg. Trade Net Profit	\$423.40	Ratio Avg. Win:Avg. Loss	1.07
Avg. Winning Trade	\$635.05	Avg. Losing Trade	(\$592.54)
Largest Winning Trade	\$1,981.01	Largest Losing Trade	(\$1,181.90)

It has really been a hot streak since the summer of 2012. This is not the kind of edge that I would expect to last forever. There have been both bullish and bearish streaks like this with regards to employment days over the years. But it is certainly something to be aware of and to take into account for as long as the hot-streak lasts. Below is a profit curve.



After a brief dip last Spring the edge quickly reasserted itself.

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



With tonight's study included the Aggregator Line again remained 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 has taken a dive and is now squarely below 0. The negative Differential Line reading means the SPX is considered overbought versus recent expectations. So expectations are positive but the SPX is now 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. Of course that could change if new bearish evidence emerges. The Differential Pivot will be 2017.29 on Friday. That is a whopping 2.2% below Thursday's close. In other words, SPX would need to close down at least 2.2% on Friday to move from overbought to

oversold. That's quite unlikely to happen in just 1 day. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

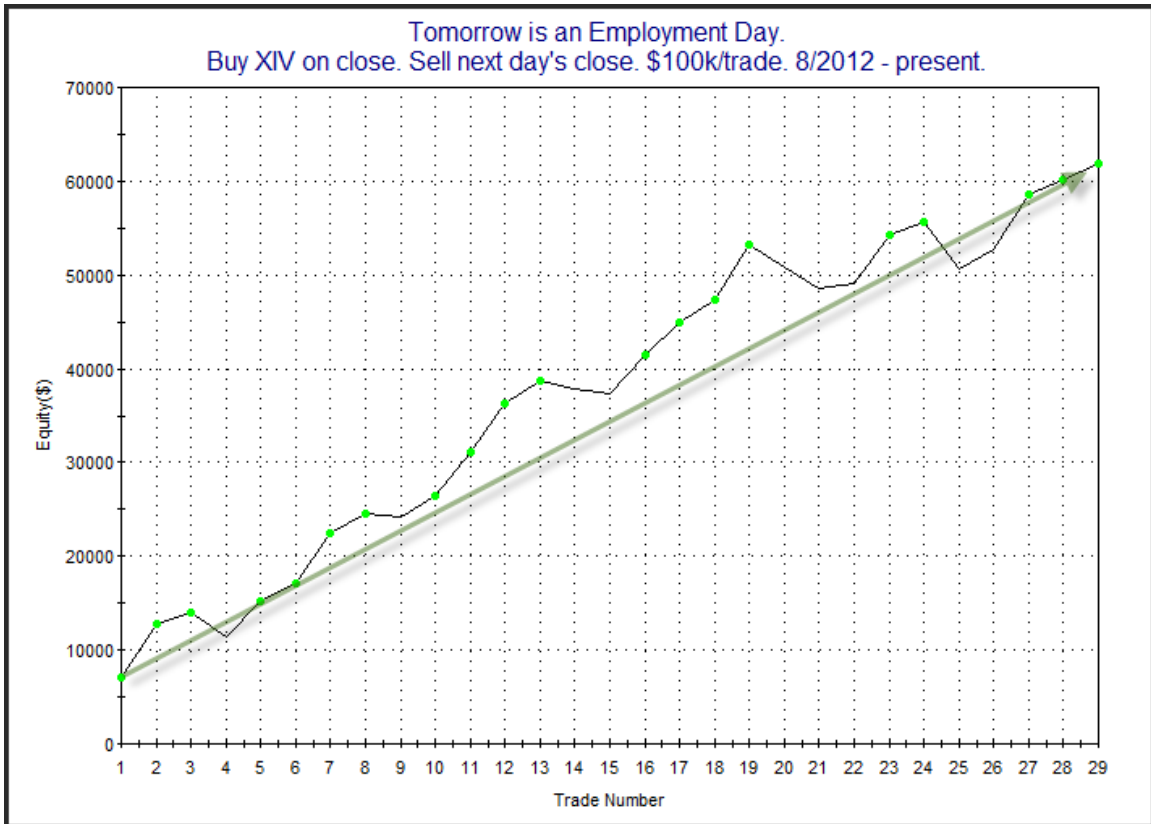
The strong move up the last couple of days led me to take profits on all my index and Catapult exposure on Thursday. (Gold subscribers should have received an intraday update indicating this.) Though there still may be some immediate upside left in this bounce, SPX has quickly moved from oversold to overbought. This has the Aggregator neutral, and it has me basically neutral as well. So I was happy to book some profits in the SPY and Catapult trades and now it is time to wait for the next favorable risk/reward setup to emerge.

I do still hold my Aggressive VIX system exposure in XIV, but I will be looking to reduce that on Friday if it rallies a bit. I did not want to sell that ahead of the employment report. The VIX is effectively a gauge of fear and uncertainty. The employment report and other large economic announcements (like Fed Days) create uncertainty and anxiety as they are approached. But once the report is released, then that uncertainty is gone. New fears might emerge based on what the report says, but the fear of the unknown is no longer there. This removal of fear often causes the VIX and VIX futures to decline, which has a positive impact on XIV prices. To see just how large the impact is compared to SPX, I reproduced the Employment Day study from above and replaced SPY with XIV. Results are below.

Tomorrow is an Employment Day.
Buy XIV on close. Sell next day's close. \$100k/trade. 8/2012 - present.

TradeStation Performance Summary Collapse ▲			
All Trades			
Total Net Profit	\$61,875.76	Profit Factor	5.53
Gross Profit	\$75,520.05	Gross Loss	(\$13,644.29)
Total Number of Trades	29	Percent Profitable	75.86%
Winning Trades	22	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$2,133.65	Ratio Avg. Win:Avg. Loss	1.76
Avg. Winning Trade	\$3,432.73	Avg. Losing Trade	(\$1,949.18)
Largest Winning Trade	\$7,108.43	Largest Losing Trade	(\$4,981.68)

The "Percent Profitable" is not quite as strong, but the average trade is much higher. SPY gained an average of 0.4% on Employment Days during the same time period. Meanwhile, XIV has average over 2.1% - over 5x the SPY number! And the average winning trade has been over 3.4%! Below is a profit curve to see how it has played out over time.



This profit curve looks as strong as steady as SPY's.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/5 – 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	\$31.57	-15.16%		sell on close >= \$32.20
XIV(1/2)	12/11/2014	\$34.03	\$31.57	-7.23%		Aggressive VIX
SPY(1/4)	12/31/2014	\$205.54	\$205.90	0.18%		sold on close
SPY(1/4)	1/5/2015	\$204.17	\$205.90	0.85%		sold on close
SPY(1/4)	1/6/2015	\$199.82	\$205.90	3.04%		sold on close
ALL(1/3)	1/6/2015	\$68.73	\$71.15	3.52%		sold on close
CVS(1/3)	1/6/2015	\$94.16	\$96.87	2.88%		sold on open
COST(1/3)	1/6/2015	\$140.00	\$145.56	3.97%		sold on open

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