

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 25, 2015

Volume 8 Issue 228

Market Overview



Signals Overview

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

Tonight's Research Points

- The gap down and reversal to a 10-day high hinted at a pullback over the next couple of days.
- The Wednesday before Thanksgiving has been incredibly bullish when the market has been in a long-term uptrend.

Short-term Outlook

The Bottom Line

Evidence favors the long side, the market is not very overbought.

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						
November 25, 2015	Thanksgiving Wed > 200ma	1 day	Bullish			
November 25, 2015	Gap and reverse 2x	1-2 days	Bearish			
November 23, 2015	VIX 10% above 10ma to 10% below	1-8 days	Bullish	2.40%	-1.10%	-2.20%
Active - Long Term						
November 10, 2015	1st close < 10ma in 25 days	1-20 days	Bullish			
November 2, 2015	Best 6 months	Nov-Apr	Bullish			
October 26, 2015	NASDAQ leading SPX	int term	Bullish			
September 9, 2015	FTD on mild breadth & volume	int term	Bearish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

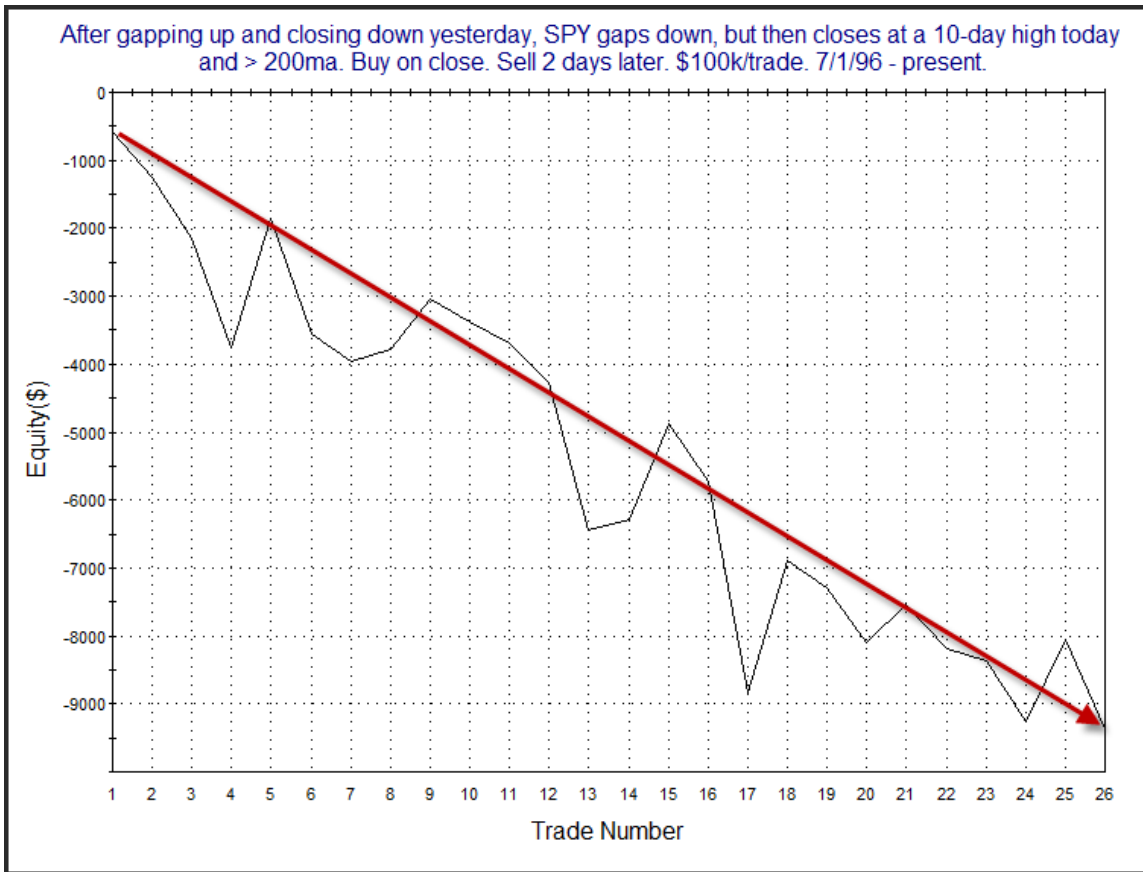
The Evidence

Despite a rough open Tuesday saw most major indices close higher. The SPX gained 0.1%, the NASDAQ rose a mere 0.01%, and the Russell 2000 rallied 0.7%. Breadth was positive as the NYSE Up Issues % came in at 60% and the Up Volume % was 69%. Total NYSE volume rose from Monday’s level.

While the market managing to recover from a gap down and closing at a new high may seem like a positive, the study below saw Thursday’s “gap and reverse” as a potential negative. The study was last seen in the 10/31/14 Subscriber Letter. I have updated the results.

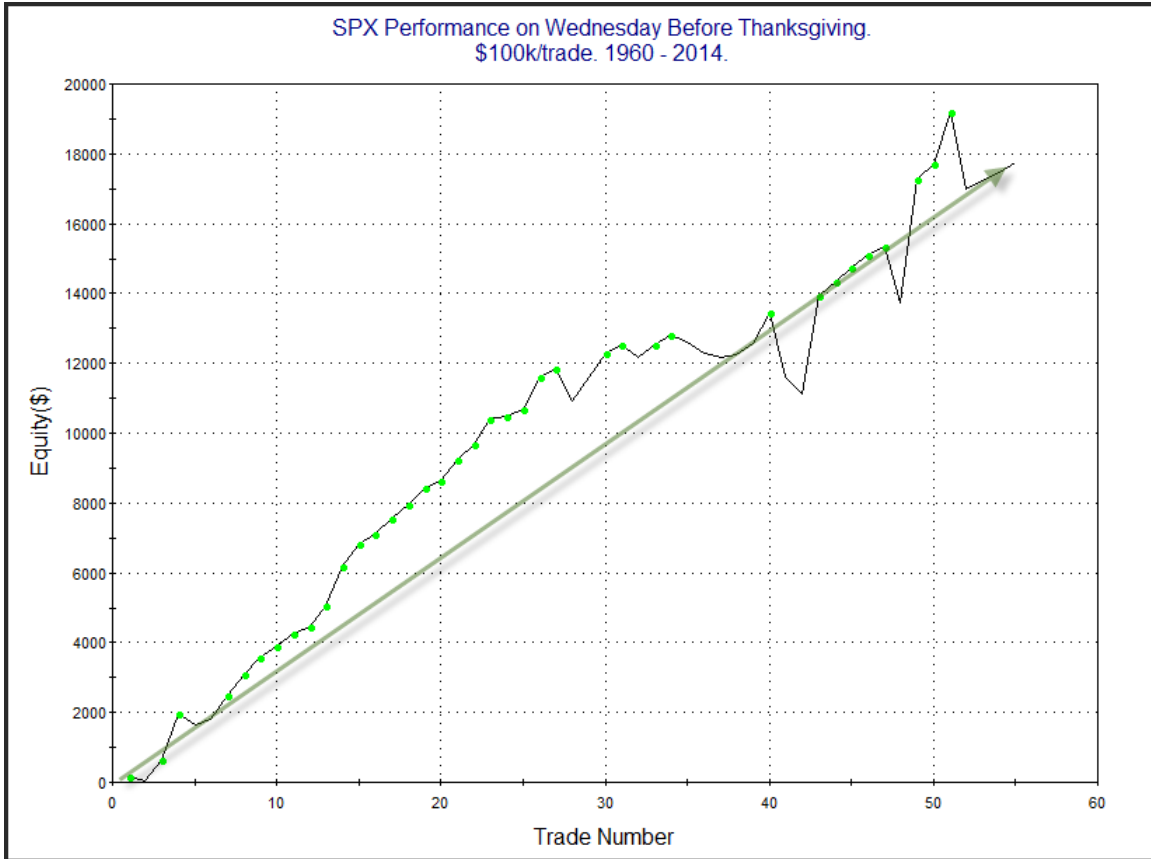
After gapping up and closing down yesterday, SPY gaps down, but then closes at a 10-day high today and > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/96 - present.													
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade	
5	-13,724.28	25	11	14	44.00	1,080.06	1,888.77	-1,828.92	-6,714.00	0.59	0.46	-548.97	
4	-14,173.42	25	10	15	40.00	966.59	1,803.51	-1,589.29	-4,267.12	0.61	0.41	-566.94	
3	-8,669.19	26	12	14	46.15	905.83	2,657.93	-1,395.65	-4,244.74	0.65	0.56	-333.43	
2	-9,370.21	26	8	18	30.77	1,006.91	1,935.96	-968.08	-3,107.14	1.04	0.46	-360.39	
1	-1,959.98	26	11	15	42.31	575.78	2,409.00	-552.91	-1,388.76	1.04	0.76	-75.38	

The numbers here look somewhat bearish, with much of the damage being done by day 2. I also produced a profit curve assuming a 2-day holding period.



There is a bit of chop in this curve but the overall slope seems good enough to warrant consideration. I included this study on the Short-Term Active List.

Wednesday before Thanksgiving did appear in the Quantifinder. As a quick reminder, here is the chart of all Wednesdays before Thanksgiving since 1960, as shown in Sunday night's letter just 2 days ago.

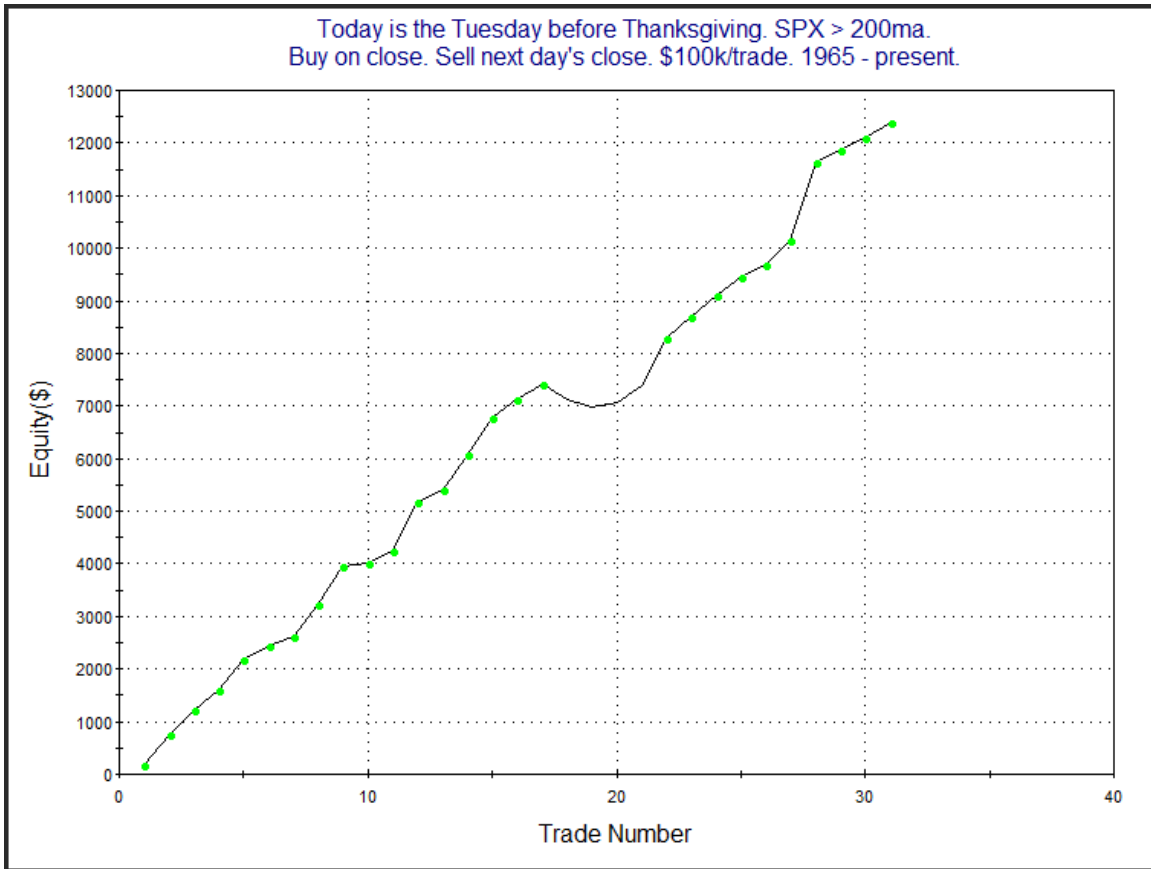


As I discussed on Sunday, there appears to be a solid upside seasonal edge. In the 11/25/14 letter I broke it down further. I examined all such days when the SPX closed above its 200ma. Below I have updated those results.

Today is the Tuesday before Thanksgiving. SPX > 200ma.
Buy on close. Sell next day's close. \$100k/trade. 1965 - present.

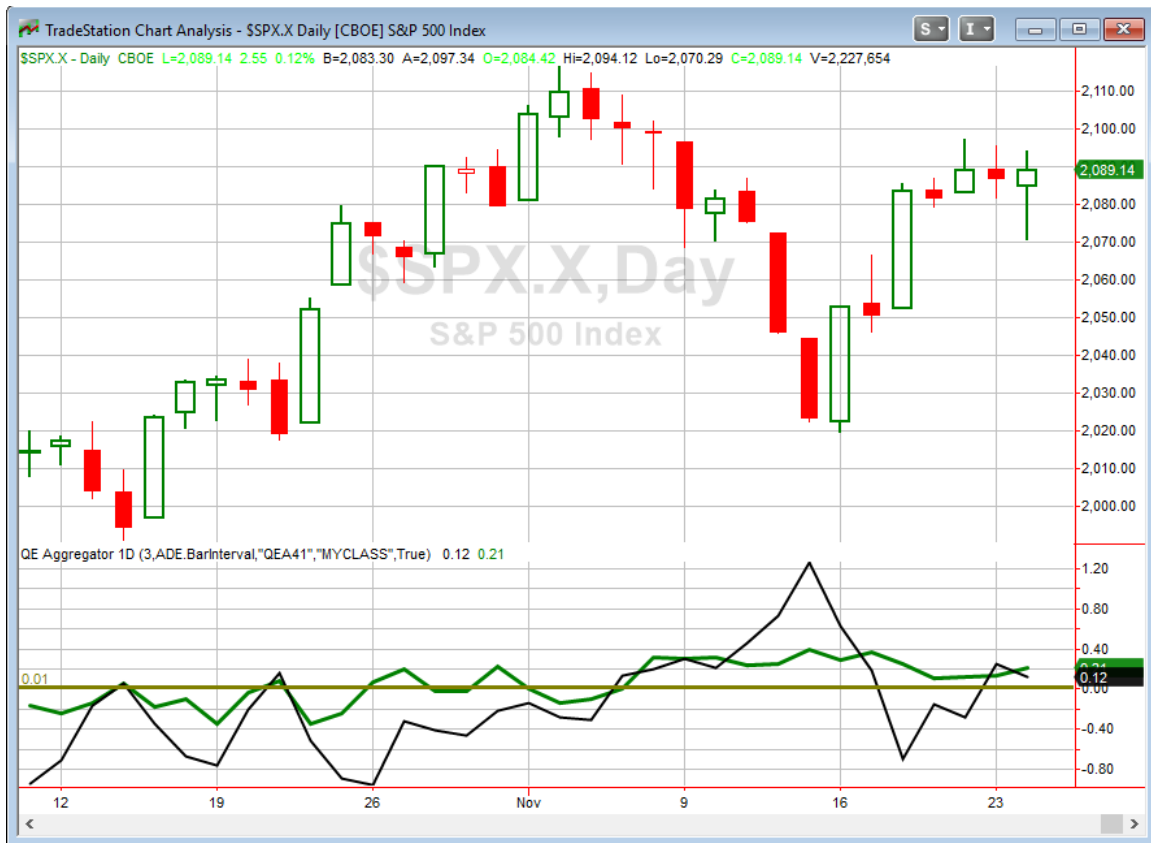
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$12,376.94	Profit Factor	29.34
Gross Profit	\$12,813.74	Gross Loss	(\$436.80)
Total Number of Trades	31	Percent Profitable	93.55%
Winning Trades	29	Losing Trades	2
Even Trades	0		
Avg. Trade Net Profit	\$399.26	Ratio Avg. Win:Avg. Loss	2.02
Avg. Winning Trade	\$441.85	Avg. Losing Trade	(\$218.40)
Largest Winning Trade	\$1,480.08	Largest Losing Trade	(\$308.76)
Max. Consecutive Winning Trades	17	Max. Consecutive Losing Trades	2

These results appear very impressive. Below is a profit curve.



Interestingly, the 2 losers happened right in a row, in '95 and '96. Since then there have been 12 winners in a row. It has not gotten much better from a seasonality standpoint than the day before Thanksgiving when the market has been locked in an uptrend.

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



With tonight's studies taken into account the green 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 also remained above zero. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is short-term oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current studies, evidence is set to remain positive on Wednesday. Of course this could change if compelling bearish evidence emerges. The Differential Pivot will be 2099.50 on Wednesday. That is 0.5% above Tuesday's close. So SPX would need to close up at least 0.5% in order to move from oversold to overbought.

Evidence is now a little mixed. But the strength of the seasonal evidence is very compelling and the VIX study from Sunday night is also compelling. With the Aggregator bullish I am inclined to go a for quick long trade if I can get a favorable fill on Wednesday. I am going to keep it light, though. It is rare that I would take a trade when the market is already at a 10-day high, but I hope to be in and out of this one fairly quickly. Details are in the trade ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/23 –slightly bullish

The intermediate-term outlook was last updated in the 11/23 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

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.

SPY – buy ¼ index position at \$209.25 LIMIT. Based on the short-term outlook above, I will take on a small amount of long exposure if I can get filled a little below Tuesday's close. *If filled, I will look to sell this position on close if SPX closes \geq 2099.50 (the Differential Pivot).*

Current Open Trade Ideas

None

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