

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 1, 2015

Volume 8 Issue 231

Market Overview



Signals Overview

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

Tonight's Research Points

- When the month has closed weakly it has often led to a strong rebound the next day.
- SPY's big outside day reversal pattern suggests a short-term upside edge.

Short-term Outlook

The Bottom Line

Evidence has turned more bullish and the market has become more oversold. There appears to be an upside edge and we are nearing the point where I think it will be strong enough to trade.

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 1, 2015	Outside last 2 days and lowest close 3	1-5 days	Bullish	2.10%	-1.30%	-2.70%
December 1, 2015	Close in bottom 1/2 of range end of mth	1 day	Bullish			
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			
Dropped Tonight						
November 27, 2015	Low volume Thanksgiving Wed	1-2 days	Bearish	-1.70%	0.40%	0.90%

The Evidence

Monday saw the market pull back a bit. The SPX fell 0.5%, the NASDAQ dropped 0.4%, and the Russell 2000 also lost 0.4%. Breadth was negative as the NYSE Up Issues % came in at 44% and the Up Volume % was 34%. Total NYSE volume came in at the highest level in about a month.

With Tuesday being the first trading day of December a number of seasonality-related studies triggered. I've shown a few times that the 1st of the month bullishness has primarily played out during uptrends. In the 11/2/15 Letter I examined all 1st days of the month when SPY was above its 200ma. I broke them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the top half of its range on the last day of the month.

SPY closes > 200ma. It closes in the top half of its intraday range. It is the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary				Collapse
All Trades				
Total Net Profit	\$3,109.24	Profit Factor		1.11
Gross Profit	\$32,005.51	Gross Loss	(\$28,896.27)	
Total Number of Trades	73	Percent Profitable		50.68%
Winning Trades	37	Losing Trades		36
Even Trades	0			
Avg. Trade Net Profit	\$42.59	Ratio Avg. Win:Avg. Loss		1.08
Avg. Winning Trade	\$865.01	Avg. Losing Trade	(\$802.67)	
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)	

The numbers here don't suggest any substantial edge. Below is the profit curve.



This paints an even bleaker picture.

But now let's look at the stats when SPY closed in the bottom half of its daily range, like Monday. (Stats are updated.)

SPY closes > 200ma. It closes in the bottom half of its intraday range. It is the last trading day of the month. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$64,508.66	Profit Factor	9.99
Gross Profit	\$71,683.27	Gross Loss	(\$7,174.61)
Total Number of Trades	98	Percent Profitable	80.61%
Winning Trades	79	Losing Trades	19
Even Trades	0		
Avg. Trade Net Profit	\$658.25	Ratio Avg. Win:Avg. Loss	2.40
Avg. Winning Trade	\$907.38	Avg. Losing Trade	(\$377.61)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are very strong. Gains blow away losses in every category. Gross gains are nearly 10x the size of gross losses. That's an impressive stat when you are looking at a sample size of 98 instances. And the profit curve...



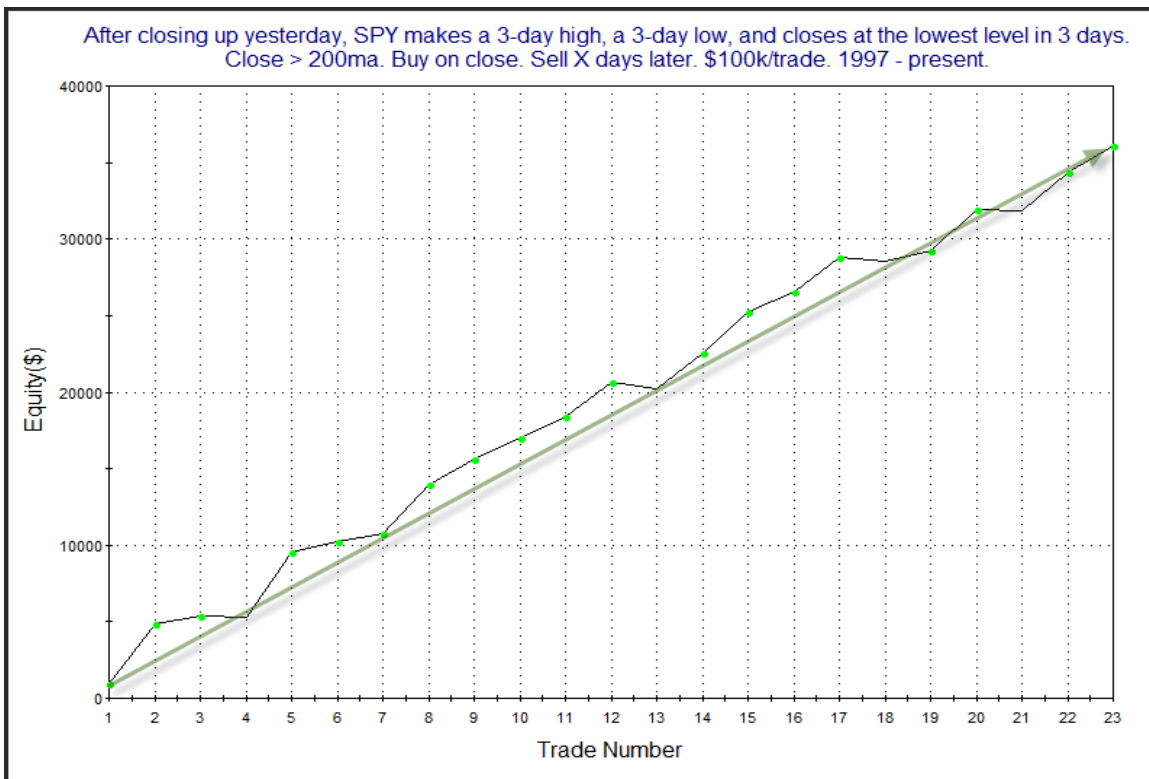
That is an impressive looking profit curve as well.

The study below was last shown in the 4/11/14 subscriber letter. It looks for a reversal day to engulf both of the last two days, close at a three-day low, and still be above the 200ma. All results are updated.

After closing up yesterday, SPY makes a 3-day high, a 3-day low, and closes at the lowest level in 3 days.
 Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1997 - present.

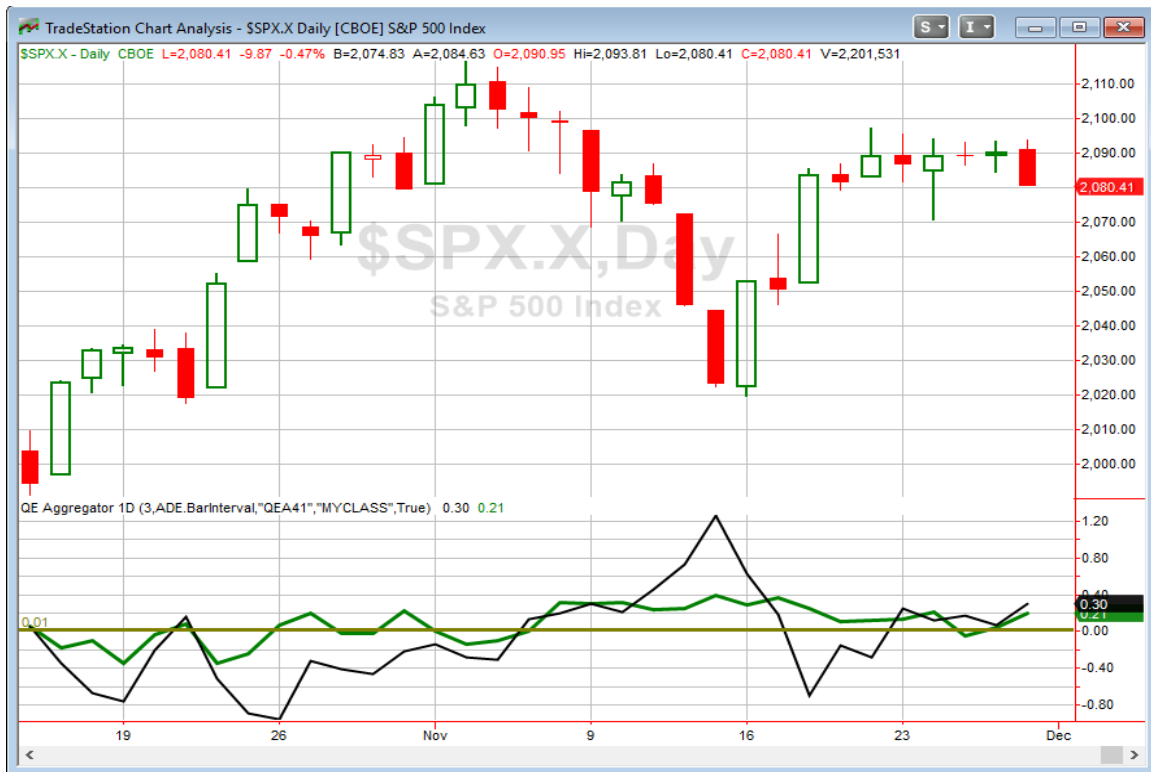
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	41,621.27	22	17	5	77.27	2,769.01	6,438.74	-1,090.39	-1,926.40	2.54	8.63	1,891.88
9	40,179.26	23	18	5	78.26	2,652.34	6,845.74	-1,512.57	-3,430.00	1.75	6.31	1,746.92
8	32,929.94	23	16	6	69.57	2,699.10	5,456.88	-1,709.28	-7,031.50	1.58	4.21	1,431.74
7	38,814.12	23	16	7	69.57	2,863.86	6,365.48	-1,001.08	-1,635.06	2.86	6.54	1,687.57
6	39,236.40	23	18	5	78.26	2,357.23	5,193.32	-638.73	-1,492.96	3.69	13.29	1,705.93
5	36,085.84	23	19	4	82.61	1,947.18	4,273.50	-227.66	-489.14	8.55	40.63	1,568.95
4	21,909.88	23	16	7	69.57	1,734.21	4,533.98	-833.92	-2,123.52	2.08	4.75	952.60
3	9,006.06	23	15	8	65.22	1,506.69	3,903.34	-1,699.28	-3,393.78	0.89	1.66	391.57
2	5,455.33	23	13	10	56.52	1,430.79	3,244.78	-1,314.49	-3,737.28	1.09	1.42	237.19
1	577.92	23	14	9	60.87	677.25	2,359.84	-989.28	-3,909.03	0.68	1.06	25.13

After the first three days or so, there appears to be a strong and consistent upside edge. Below is a profit curve that assumes a 5-day holding period.



Equity curves don't get much straighter than this. It appears to be a nice confirmation of the bullish suggestion by the stats table.

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



With tonight's studies factored in the green Aggregator Line moved further above zero. 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 Tuesday. Of course this could change if more bearish evidence emerges. The Differential Pivot will be 2095.12 on Tuesday. That is 0.7% above Monday's close. So SPX would need to close up at least 0.7% in order to move from oversold to overbought.

Some more bullish evidence has emerged and the market is now more oversold than it was previously. But as you can see SPX has just moved down to the lower end of its 6-7 day trading range. It is still above the 10-day moving average. It will close below that line on just about any down close on Tuesday. There does appear to be some room to the upside before the market would become overbought. But the degree of "oversold" is still minimal. It has only been a brief consolidation followed by a 1-day drop of 0.5%. I'd like to see a bit more of a pullback before taking on long exposure. So rather than jump in with both

feet, I will look to enter at the close on Tuesday if SPY closes lower. Details are in the Trade Ideas section down below.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/30 –slightly bullish

The intermediate-term outlook was last updated in the 11/30/14 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 @ \$208.68 LIMIT ON CLOSE. Based on the short-term section above, I will look to get long SPY if it closes down on Tuesday.

Current Open Trade Ideas

None

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