

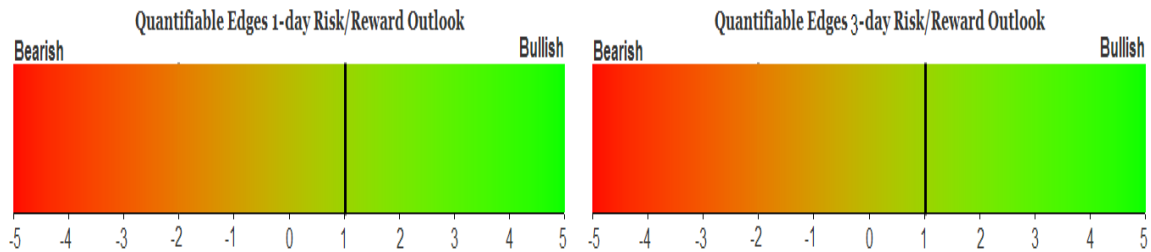
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 9, 2015

Volume 8 Issue 237

Market Overview



Signals Overview

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

Tonight's Research Points

- 2 days of broad selling have the market setup to bounce

Short-term Outlook

The Bottom Line

Evidence is leaning bullish but the SPX is no longer considered oversold. I believe there may be a mild upside edge, but it is not strong enough that I am looking to bet on it just yet.

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 9, 2015	Up Issue % < 33.3% 2 days in row	1-2 days	Bullish			
December 3, 2015	5-day low bottom 10% of range	1-5 days	Bullish			
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			

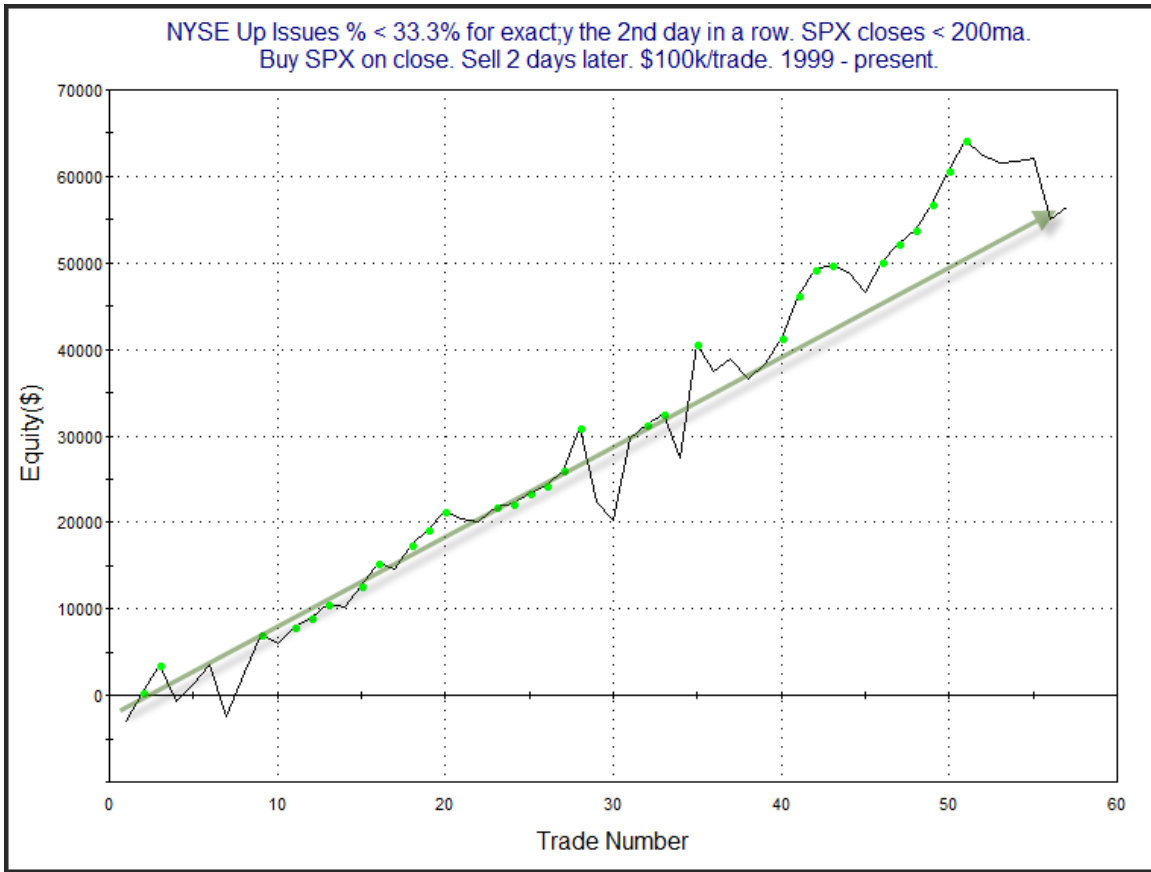
The Evidence

Most of the major indies suffered more selling on Tuesday. The SPX declined 0.7%, the NASDAQ lost 0.1%, and the Russell 2000 fell 0.4%. Breadth was negative as the NYSE Up Issues % came in at 32% and the Up Volume % was 27%. Total NYSE volume rose some from Monday's level.

Tuesday was the 2nd day in a row of lopsided negative breadth. Tuesday also crossed under and closed below the 200ma. This brought about the following study, which we last saw just a few days ago in the 12/4/15 letter. Results are again updated.

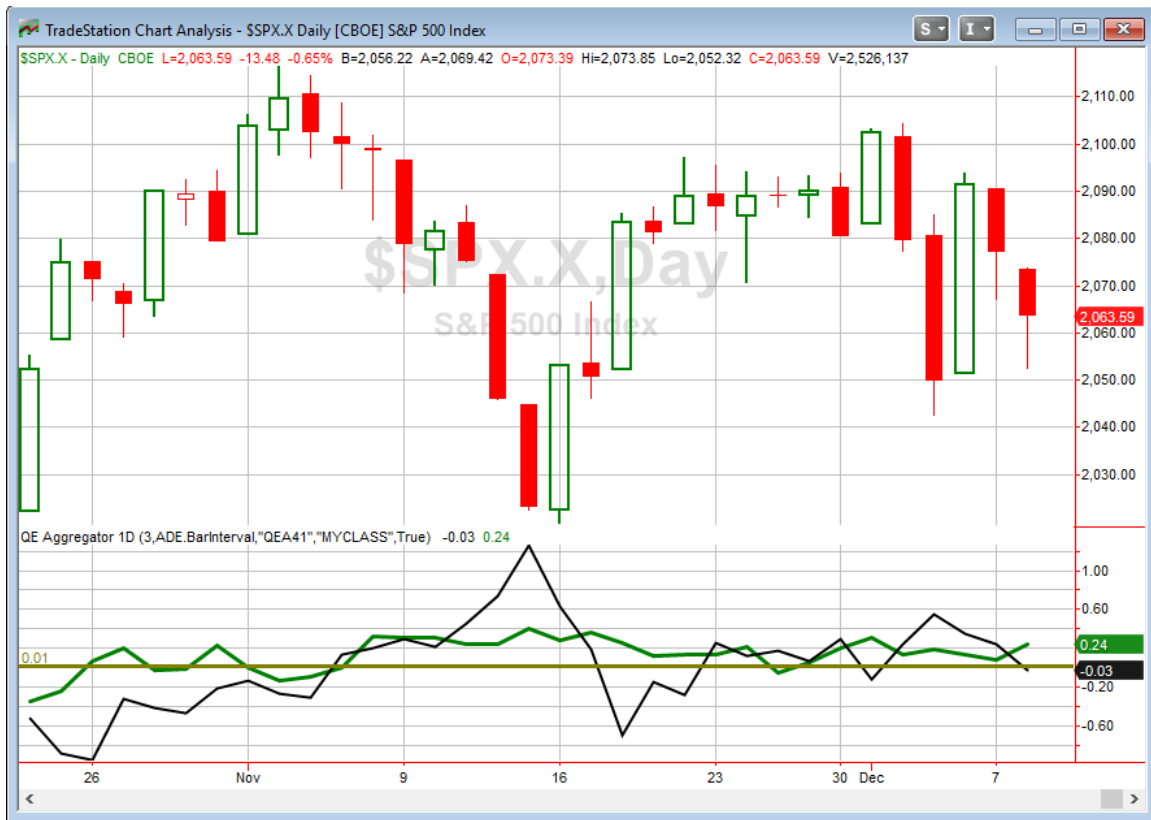
NYSE Up Issues % < 33.3% for exact;y the 2nd day in a row. SPX closes < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	63,002.36	49	34	15	69.39	3,163.89	8,609.40	-2,971.34	-9,314.08	1.06	2.41	1,285.76
4	36,142.63	53	31	22	58.49	3,117.98	8,810.76	-2,750.67	-6,869.52	1.13	1.60	681.94
3	44,006.32	57	34	23	59.65	3,450.15	13,853.40	-3,186.90	-11,502.27	1.08	1.60	772.04
2	56,410.30	57	39	18	68.42	2,745.88	13,116.84	-2,815.50	-8,631.00	0.98	2.11	989.65
1	40,879.46	57	36	21	63.16	1,953.83	10,716.03	-1,402.79	-6,633.36	1.39	2.39	717.18
53 of 57 instances (93%) closed above the entry price at some point in the next week.												

For the considerable sample size and low number of criteria these results are astonishingly consistent. The stat at the bottom of the table is what seems most striking. Below is an equity curve using a 2-day exit.



Despite the “downtrend” filter this setup has generated some impressive returns. It could be worth keeping in mind though that SPX barely qualified for this study. It closed less than 1 point below its 200ma, and the Up Issues % was just slightly under the required 33.3%. Still, I believe this study is worth consideration on the Active List.

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



With tonight's study being considered the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dipped below zero. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is now short-term 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 studies, evidence is set to remain positive on Wednesday. This could easily change if new bearish evidence emerges. The Differential Pivot will be *inverted at* 2100.82 on Wednesday. That 1.8% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close up at least 1.8% on Wednesday in order to remain overbought versus expectations. Anything less than that and SPX will change to being considered "oversold" versus recent expectations.

Evidence suggests we could get a pop here in the next couple of days. The market will almost certainly be in an "oversold" state at Wednesday's close, but it is not there just yet. I am a little tempted to put in a limit order if SPY closes down again on Wednesday. But with evidence fairly light so far I will wait one more day to see what emerges before making that commitment.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/7 –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

KMI – 1/3 @ \$16.82 (bought @ limit)

KMI – 1/3 @ \$16.42 (bought @ limit)

New

KMI – 1/3 @ \$15.72 (buy @ limit)

Broad Market Large Cap CBI – 3(KMI)

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.

KMI – buy 1/3 Catapult position @ \$15.72 LIMIT. From the Catapult section above, this would be the last of 3 possible lots for KMI.

Though they have done well over time, Catapults tend to be quite volatile and are traded without initial stops. Those new to Catapults should examine the information on the [Catapult System page](#).

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KMI(1/3)	12/7/2015	\$15.66	\$15.72	0.38%		Catapult
KMI(1/3)	12/8/2015	\$15.29	\$15.72	2.81%		bought on open

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