

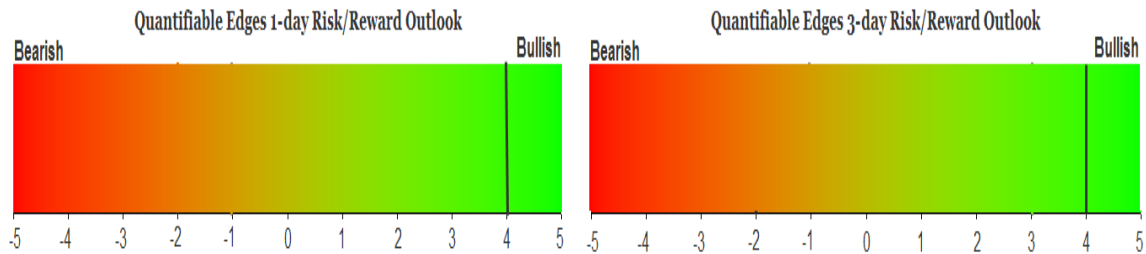
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 14, 2015

Volume 8 Issue 240

Market Overview



Signals Overview

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

Tonight's Research Points

- Seasonality looks very bullish this week.
- Strong moves down on Fridays have led to reliable bounces over the next several days.
- When SPY has consistently closed in the lower end of its daily range for at least five days, that has typically been followed by a move up the next day.

Short-term Outlook

The Bottom Line

Strong evidence emerged and the market is very oversold. I like the long side and will look to up my exposure.

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 14, 2015	Opex Week in Decmber next. SP<10ma	1-6 days	Bullish			
December 14, 2015	Bottom 1/2 range 5 days	1 day	Bullish			
December 14, 2015	Fri drop 1.5x 20ATR	1-6 days	Bullish			
December 14, 2015	VIX 35%>10ma	1 day	Bullish			
December 11, 2015	Inside day < 200ma	1-6 days	Bearish			
December 10, 2015	3 days dn. 3/10 Offset HV < 0.25	1-3 days	Bullish			
Active - Long Term						
December 14, 2015	Santa Rally	Nov-Apr	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						
December 9, 2015	Up Issue % < 33.3% 2 days in row	1-2 days	Bullish			

The Evidence

The market got slammed on Friday. The SPX finished down 1.9%, the NASDAQ sank 2.1%, and the Russell 2000 dropped 2.2%. Breadth was strongly negative as the NYSE Up Issues % came in at 11% and the Up Volume % was 7.5%. Total NYSE volume rose some from Thursday's level.

There is a lot of short-term evidence to examine tonight. For one, the stock market is now entering a very strong seasonal period. We actually have numerous seasonal studies set to kick in this week.

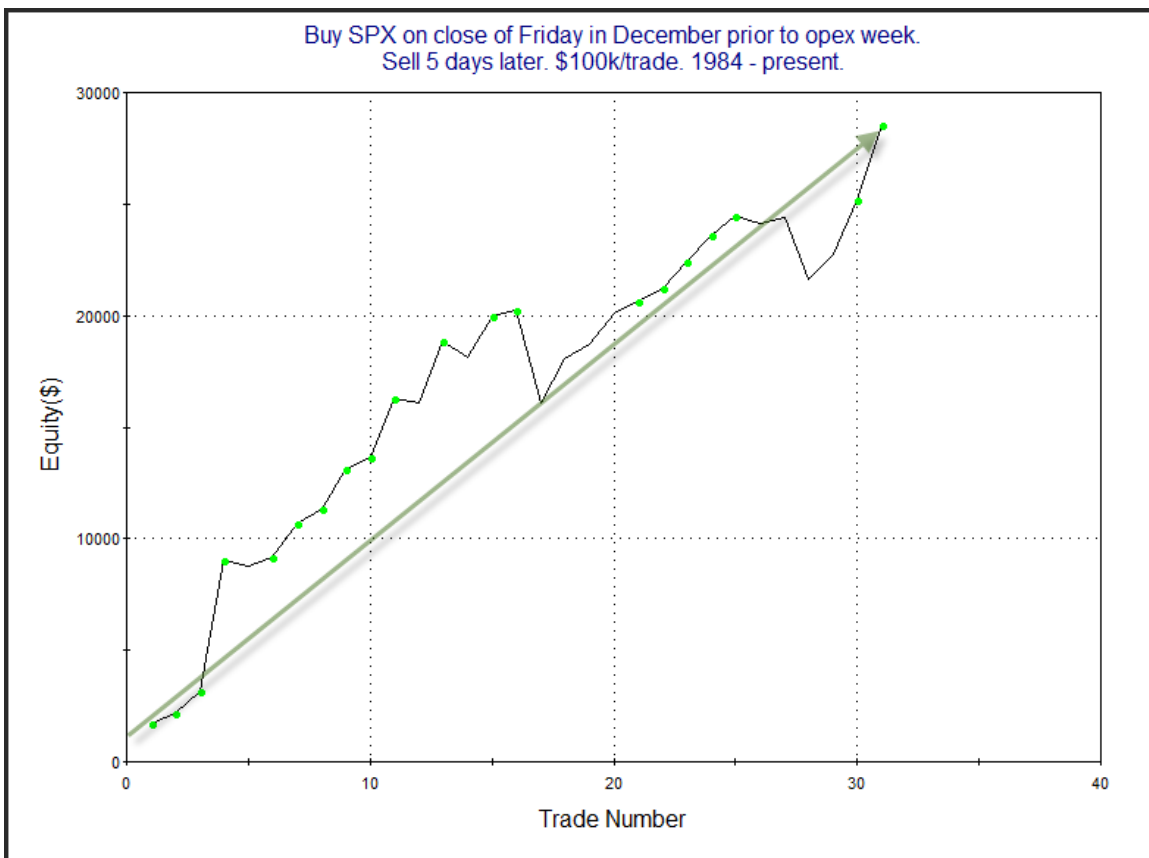
Over several time horizons op-ex week in December has been the most bullish week of the year for the SPX. The positive seasonality actually has persisted for up to 3 weeks. I demonstrated this most recently in the 12/15/14 letter. There I looked back to 1984, which was the first year that SPX options traded. I've updated that study below to include last year's stats.

Buy SPX on close of Friday in December prior to opex week.
Sell X days later. \$100k/trade. 1984 - present.

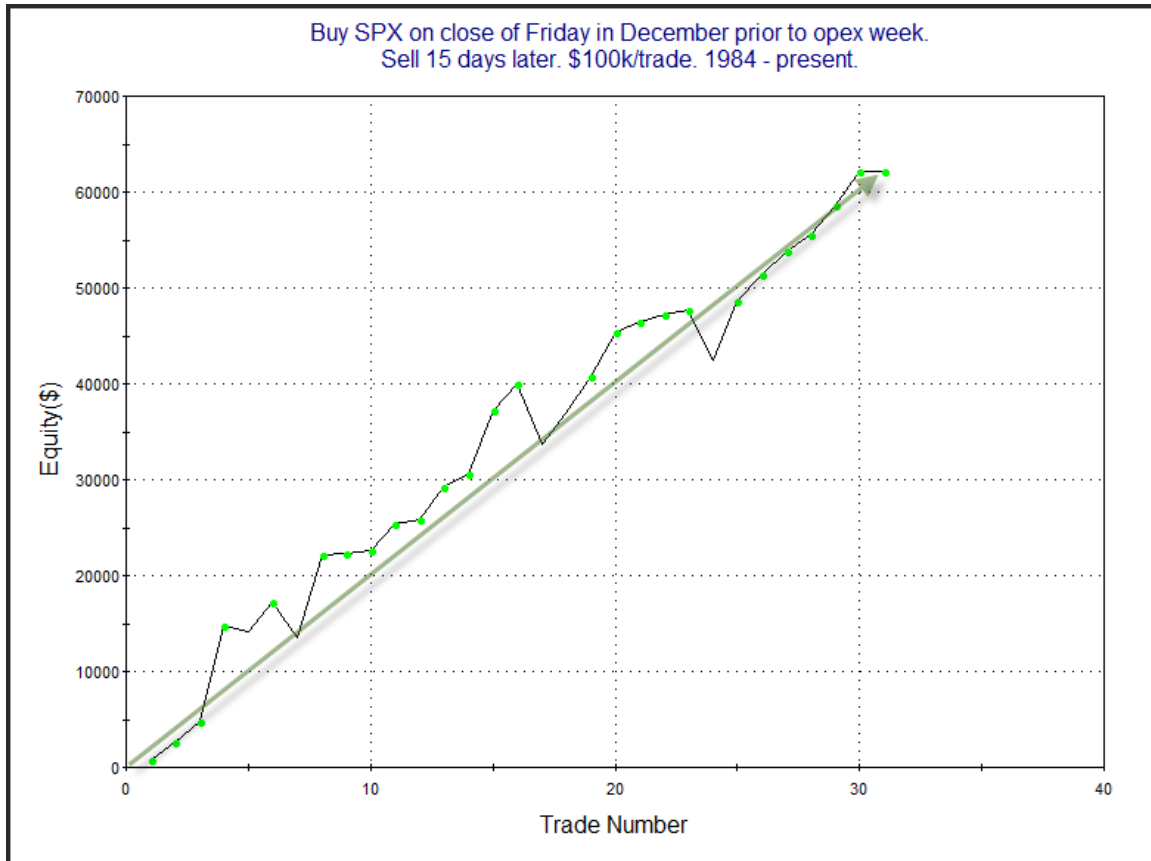
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	62,178.07	31	27	4	87.10	2,889.70	9,879.20	-3,960.98	-6,297.71	0.73	4.92	2,005.74
14	59,946.88	31	26	5	83.87	2,755.52	8,742.88	-2,339.35	-3,579.92	1.18	6.13	1,933.77
13	56,415.81	31	25	6	80.65	2,636.06	9,068.80	-1,580.96	-3,830.44	1.67	6.95	1,819.86
12	51,275.60	31	23	8	74.19	2,627.46	8,528.00	-1,144.49	-2,965.26	2.30	6.60	1,654.05
11	49,171.49	31	22	9	70.97	2,668.31	8,483.80	-1,059.03	-3,966.09	2.52	6.16	1,586.18
10	45,208.77	31	24	7	77.42	2,270.29	7,974.20	-1,325.44	-4,640.61	1.71	5.87	1,458.35
9	38,134.84	31	20	11	64.52	2,633.64	7,080.80	-1,321.63	-6,909.45	1.99	3.62	1,230.16
8	32,568.62	31	23	8	74.19	2,157.48	7,564.16	-2,131.69	-7,650.40	1.01	2.91	1,050.60
7	30,751.85	31	23	8	74.19	1,926.15	6,198.88	-1,693.70	-4,669.81	1.14	3.27	992.00
6	28,802.62	31	25	6	80.65	1,634.71	6,025.04	-2,010.88	-3,937.36	0.81	3.39	929.12
5	28,528.05	31	25	6	80.65	1,480.13	5,868.16	-1,412.53	-4,176.33	1.05	4.37	920.26
4	17,997.04	31	21	10	67.74	1,294.90	3,243.60	-919.58	-3,115.76	1.41	2.96	580.55
3	19,088.81	31	20	11	64.52	1,359.09	5,410.24	-735.72	-3,426.23	1.85	3.36	615.77
2	16,952.41	31	21	10	67.74	1,162.25	3,779.85	-745.48	-2,327.34	1.56	3.27	546.85
1	5,537.82	31	18	13	58.06	830.86	2,912.88	-724.44	-2,147.10	1.15	1.59	178.64

The only 2 instances that failed to close above the entry price at some point during opex week occurred in 1988 and 2011. Both did so within 10 trading days.

The stats here are extremely strong. Below is an equity curve using a 5-day holding period.



2011 was a bad year, but the curve has quickly recovered and made new highs in the last few years. Next is a look at the 15-day curve.



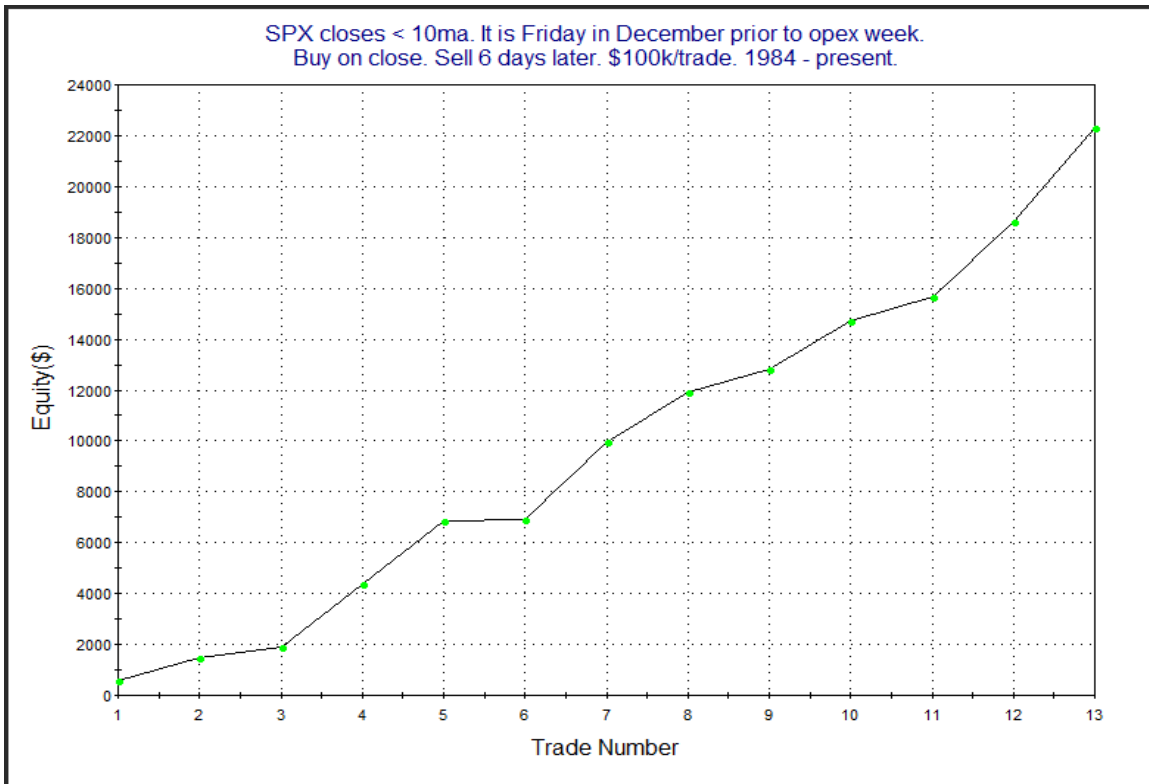
They don't get much better looking than that.

With the market now in a pullback I also examined the 10ma as a filter, as I did in the 12/15/14 letter. Below are results showing years like now when SPX has closed under its 10-day moving average.

SPX closes < 10ma. It is Friday in December prior to opex week.
Buy on close. Sell X days later. \$100k/trade. 1984 - 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
6	22,329.29	13	13	0	100.00	1,717.64	3,734.29	0.00	0.00	100.00	100.00	1,717.64
5	20,229.43	13	12	1	92.31	1,743.07	3,347.68	-687.44	-687.44	2.54	30.43	1,556.11
4	13,506.69	13	9	4	69.23	1,664.88	2,886.10	-369.30	-585.76	4.51	10.14	1,038.98
3	9,299.88	13	10	3	76.92	1,114.69	2,357.61	-615.66	-1,017.28	1.81	6.04	715.38
2	7,040.11	13	8	5	61.54	1,277.90	2,324.70	-636.61	-1,449.91	2.01	3.21	541.55
1	1,916.09	13	8	5	61.54	934.53	2,343.04	-1,112.03	-2,147.10	0.84	1.34	147.39

These stats look even better. Below is a profit curve that assumes a 6-day exit.



Oversold going into a strong seasonal period is often a good setup. December opex week appears to be a solid example of this.

In past years I discussed the January Effect, which is a tendency that I believe was first published in the Stock Traders Almanac. It suggests that from mid-December into early January smallcap stocks tend to outperform largecaps. My past research has looked back to 1988 and used the Russell 2000 versus the SPX. I found that the bulk of this tendency

was realized in the end of December and the 1st day of January. I measured from the 15th of December (or the 1st trading day afterwards if the 15th was a weekend) through the 1st trading day in January. This tendency has remained strong. Since 1988 we have now seen the Russell outperform 22 of 27 years, or 81% of the time. And years of outperformance have greatly outsized years when the Russell underperformed. Gains in the years of outperformance have totaled 40.47%, while the 5 years of underperformance have only total 5.15% in losses. That's nearly 8 to 1. And the only losing year to post a loss of greater than 1% was 1991 when the SPX outperformed the Russell by 2.82%. Below is a table that breaks it all down by year.

	Dec 15 - 1st Trading Day of Jan		
	<i>SPX</i>	<i>Rut</i>	<i>RUT - SPX</i>
<i>Year</i>	<i>% Return</i>	<i>% Return</i>	<i>% Difference</i>
1988	0.38%	2.53%	2.15%
1989	2.73%	2.08%	-0.65%
1990	0.13%	1.96%	1.83%
1991	8.53%	5.71%	-2.82%
1992	0.65%	2.83%	2.18%
1993	0.78%	2.68%	1.90%
1994	0.83%	2.50%	1.67%
1995	0.71%	2.06%	1.35%
1996	2.22%	2.42%	0.20%
1997	1.21%	3.75%	2.54%
1998	5.61%	8.60%	2.99%
1999	2.96%	7.61%	4.65%
2000	-2.21%	0.97%	3.18%
2001	1.79%	1.51%	-0.28%
2002	-0.15%	-0.59%	-0.44%
2003	3.79%	4.78%	0.99%
2004	-0.30%	-1.26%	-0.96%
2005	-0.17%	-0.10%	0.07%
2006	-0.74%	-0.68%	0.06%
2007	0.09%	1.94%	1.85%
2008	7.28%	11.65%	4.37%
2009	2.26%	5.53%	3.27%
2010	2.97%	3.89%	0.92%
2011	5.04%	5.08%	0.04%
2012	2.24%	4.60%	2.36%
2013	2.54%	2.76%	0.22%
2014	3.45%	5.13%	1.68%

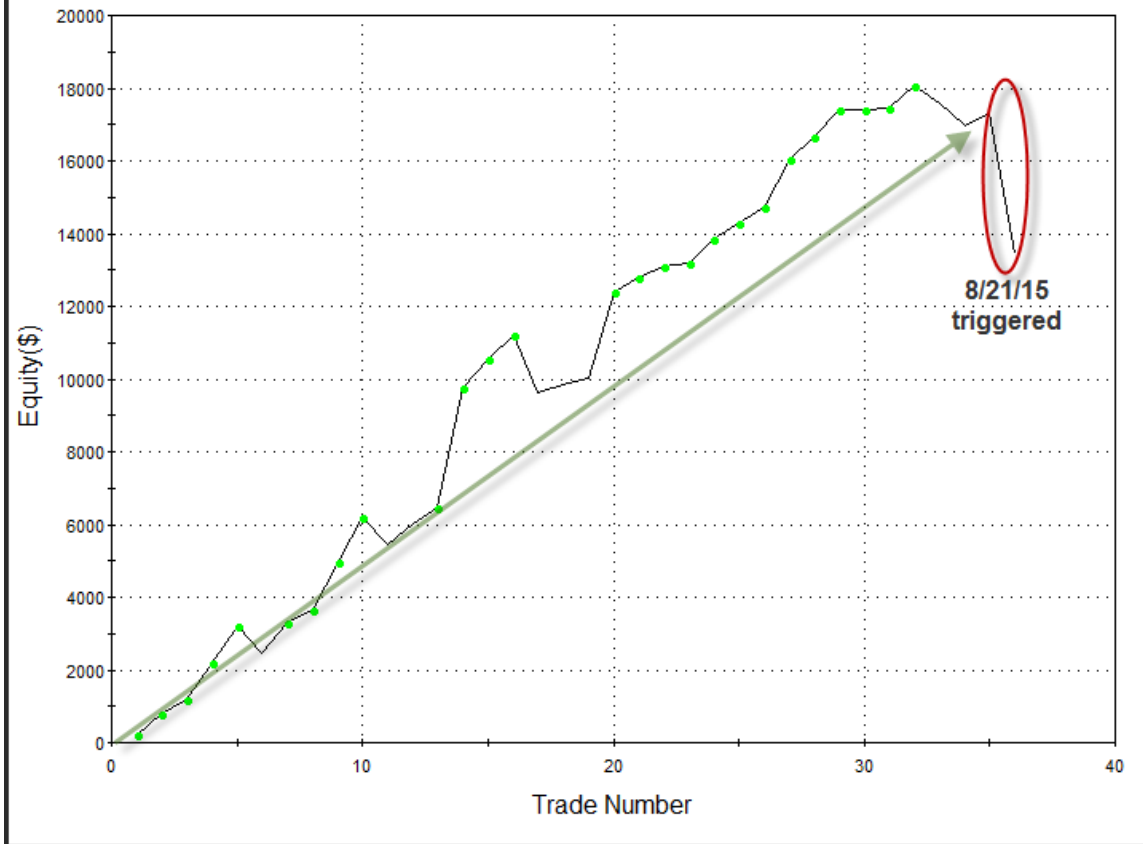
Bottom line from a seasonality standpoint is that there should be some strong winds at the markets' back through the end of the year. Traders could look to take advantage of this a number of ways. Going forward I may consider using IWM (the Russell 2000 etf) instead of SPY for some long index trades to take advantage of the probable Russell outperformance.

Another very compelling study that appeared in the Quantifinder examined large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by many traders that are active today. There was a strong selloff on Friday and then all hell broke loose on Monday. But since then strong Friday selloffs have commonly been followed by bounces on Mondays. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, the tendency to bounce has been very strong. The study below looks at strong drops on Fridays and was last discussed in the 8/24/15 subscriber letter.

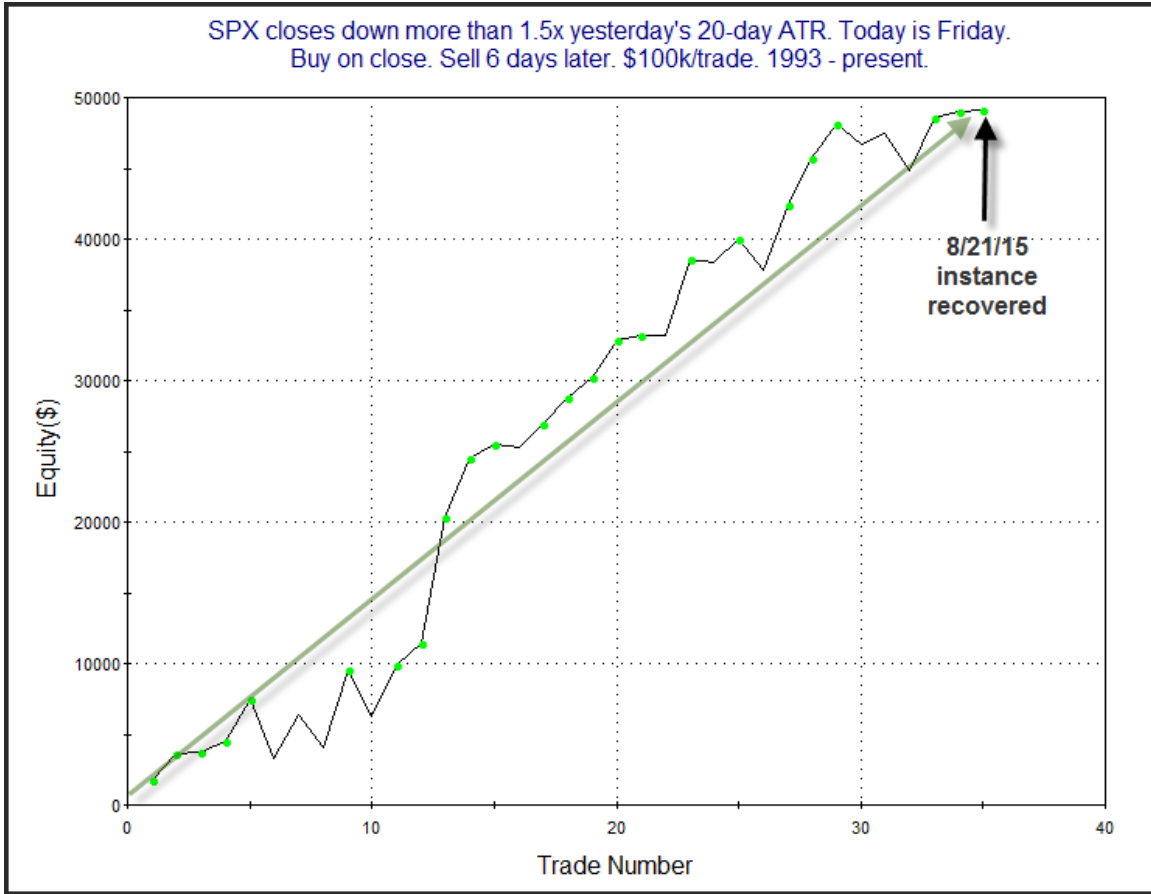
SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	33,618.45	35	22	13	62.86	3,004.40	9,241.60	-2,498.34	-6,049.40	1.20	2.04	960.53
9	36,264.77	35	22	13	62.86	2,837.37	7,602.40	-2,012.11	-5,483.80	1.41	2.39	1,036.14
8	42,480.20	35	23	12	65.71	2,803.22	7,949.70	-1,832.82	-3,550.72	1.53	2.93	1,213.72
7	39,540.09	35	22	13	62.86	2,860.43	7,662.81	-1,799.17	-4,599.52	1.59	2.69	1,129.72
6	49,067.94	35	26	9	74.29	2,523.89	8,870.96	-1,839.24	-4,202.80	1.37	3.96	1,401.94
5	35,792.49	36	25	11	69.44	2,238.38	5,393.97	-1,833.36	-6,368.04	1.22	2.77	994.24
4	26,744.64	36	24	12	66.67	1,855.70	5,731.96	-1,482.68	-4,917.36	1.25	2.50	742.91
3	21,881.87	36	22	14	61.11	1,771.10	5,215.85	-1,220.17	-3,492.36	1.45	2.28	607.83
2	13,416.13	36	23	13	63.89	1,394.69	6,245.15	-1,435.51	-5,163.50	0.97	1.72	372.67
1	13,455.30	36	30	6	83.33	717.86	3,322.23	-1,346.76	-3,884.00	0.53	2.67	373.76

The numbers here are all very impressive and suggest a strong bullish bias. I decided to look at the 1-day and 6-day returns in a little more detail. First, below is the profit curve for a 1-day holding period.

SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday.
Buy on close. Sell 1 day later. \$100k/trade. 1993 - present.



The Monday inclination has been strong, but the last instance got smacked. Let's also look at the 6-day curve though.



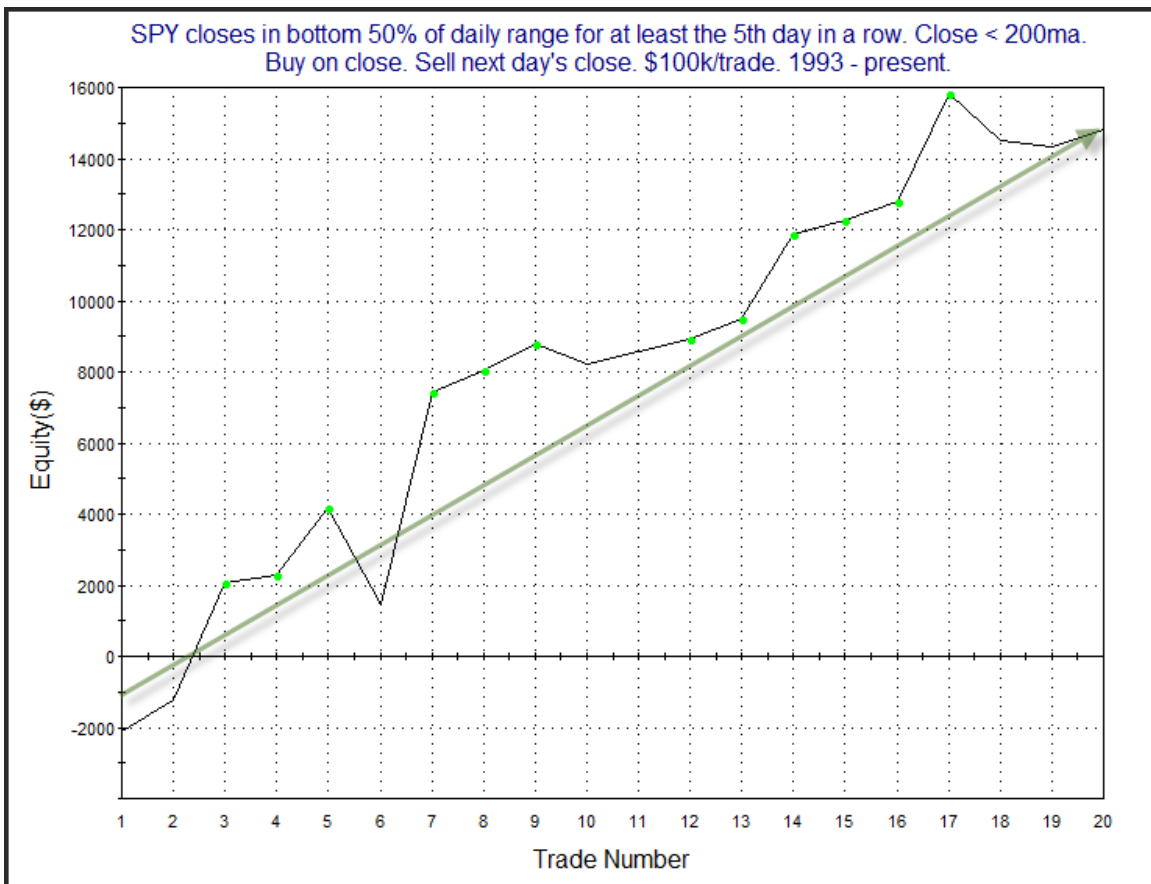
The results here are impressive. And that big 1-day loser in August turned into yet another win for the 6-day holding period. This certainly seems to be a study worth taking under consideration.

The weak close triggered the study below. It examines consistent closes in the lower half of the daily range. Friday was the 5th day in a row that SPY closed in the lower half of its daily range. Results below are updated and consider other instances where there have been numerous low closes and SPY has also been below its 200ma.

SPY closes in bottom 50% of daily range for at least the 5th day in a row. Close < 200ma.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$14,811.59	Profit Factor	3.15	
Gross Profit	\$21,699.12	Gross Loss	(\$6,887.53)	
Total Number of Trades	20	Percent Profitable	75.00%	
Winning Trades	15	Losing Trades	5	
Even Trades	0			
Avg. Trade Net Profit	\$740.58	Ratio Avg. Win:Avg. Loss	1.05	
Avg. Winning Trade	\$1,446.61	Avg. Losing Trade	(\$1,377.51)	
Largest Winning Trade	\$5,962.50	Largest Losing Trade	(\$2,736.00)	

The numbers here remain strong. Below is a profit curve to see how the edge has played out over time.

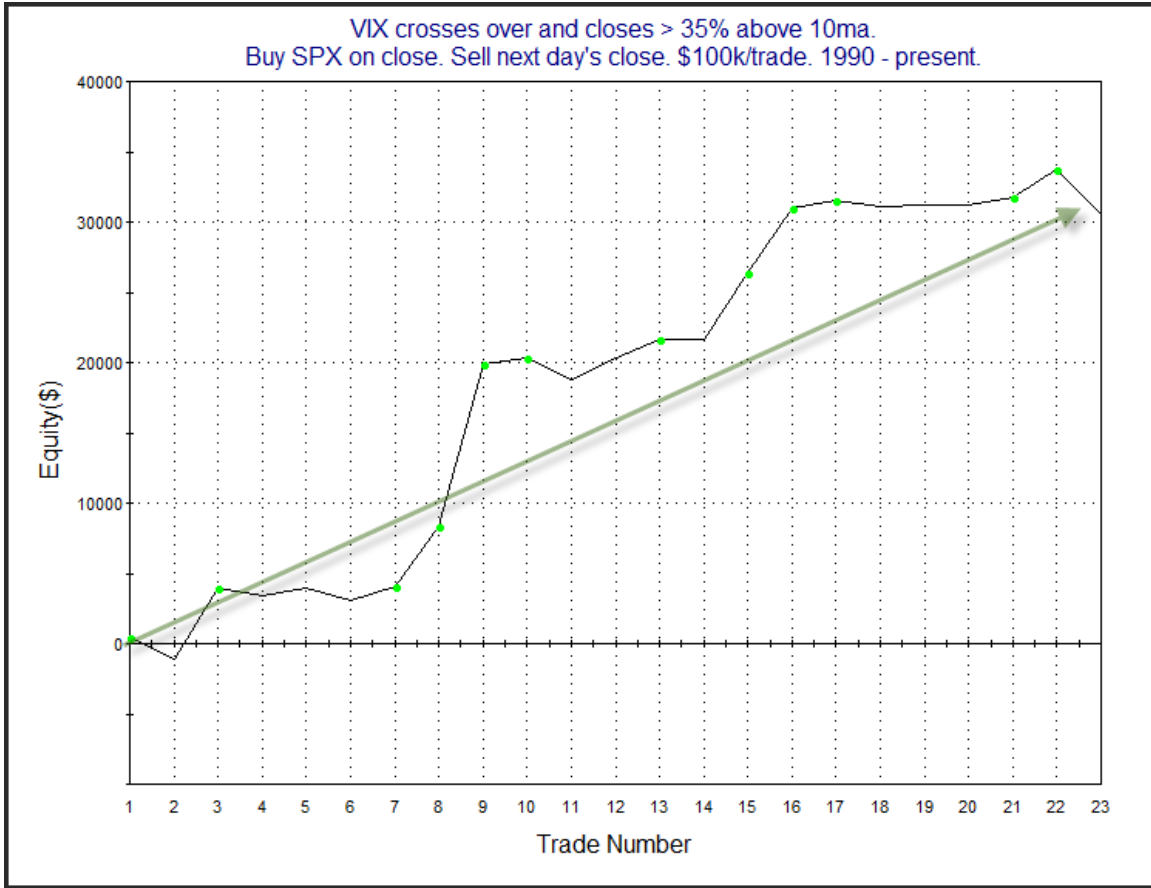


That is a fairly steady curve and it suggests an upside edge

The VIX has been spiking, and that continued on Friday, suggesting fear is reaching a level where a reversal is likely. In fact, it closed 38% above the 10ma. The study below was from the 8/21/15 subscriber letter. It examines spikes of at least 35% above the 10ma. Results are updated.

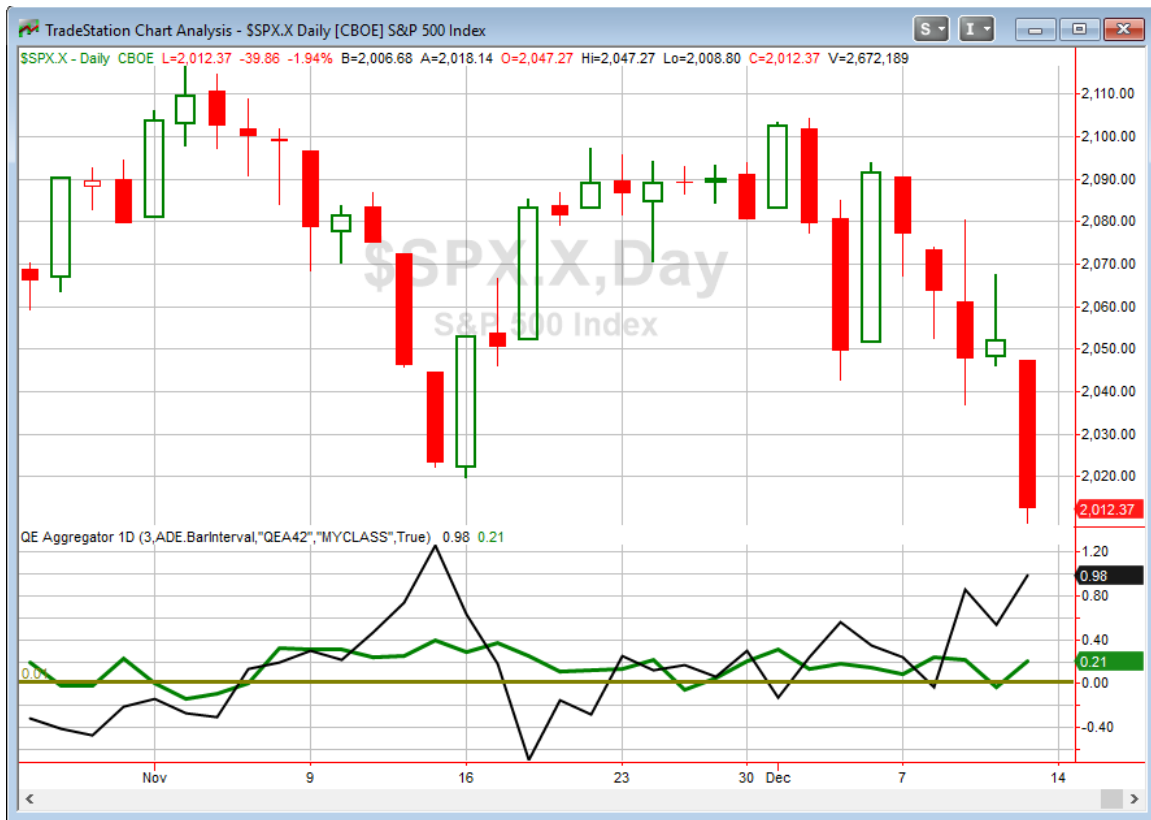
VIX crosses over and closes > 35% above 10ma. Buy SPX on close. Sell next day's close. \$100k/trade. 1990 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$30,537.67	Profit Factor	4.69
Gross Profit	\$38,822.65	Gross Loss	(\$8,284.98)
Total Number of Trades	23	Percent Profitable	69.57%
Winning Trades	16	Losing Trades	7
Even Trades	0		
Avg. Trade Net Profit	\$1,327.72	Ratio Avg. Win:Avg. Loss	2.05
Avg. Winning Trade	\$2,426.42	Avg. Losing Trade	(\$1,183.57)
Largest Winning Trade	\$11,558.43	Largest Losing Trade	(\$3,177.16)

Numbers here are also impressive. Below is the profit curve.



So the spiking VIX also seems to favor the bulls. I have added all this new evidence to the Active List.

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



With tonight's studies being considered the green Aggregator Line jumped back up above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line moved higher 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 turned long at the close.

Based on the current studies, evidence is set to remain positive on Monday. This could change if very strong bearish evidence emerges. The Differential Pivot will be 2057.71 on Monday. That is 2.25% above Friday's close. So for SPX to move from oversold to overbought on Monday it is going to need to close up at least 2.25%. That is highly unlikely for a 1-day gain. A more likely scenario to work off the oversold condition would be a multi-day rally or consolidation.

Evidence is strong from both a price action and seasonality standpoint. Oversold into a strong seasonal period often makes for a good setup, and that appears to be the case here. And there is plenty of room to the upside before SPX would get overbought. This helps improve potential reward/risk. I have a small long position already. I will be looking to increase it on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/14 –slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *There were no changes this week and the combo systems are all still positive.*

This past week was dominated by selling, and the SPX suffered its worst week since the summer. Unfortunately, it has been a very hectic weekend for me. So I need to skip the Fed analysis and keep the intermediate-term outlook very brief.

Intermediate-term indications remain split. Intermediate-term is now very favorable and the NASDAQ is still leading, so the Market Timing Course indicators are mostly bullish. The bears can point to the FTD study from a while back, the questionable Fed support, and the old breadth divergence study. None of these appear strongly bearish on their own. Overall, I still think evidence tilts moderately in favor of the bulls. For now I remain slightly bullish. I will be marginally more aggressive with long trades than shorts, but I am willing to trade both sides of the market if good short-term setups emerge.

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)
- KMI – 1/3 @ \$15.72 (not filled – cancel for now)

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.

SPY – buy ¼ index position @ \$201.88 limit. Based on the short-term section above, I will be looking to add long exposure if I can get a decent fill.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KMI(1/3)	12/7/2015	\$15.66	\$16.66	6.39%		Catapult
KMI(1/3)	12/8/2015	\$15.29	\$16.66	8.96%		Catapult
SPY(1/4)	12/10/2015	\$205.34	\$201.88	-1.69%		sell @ \$205.75 LIMIT

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