

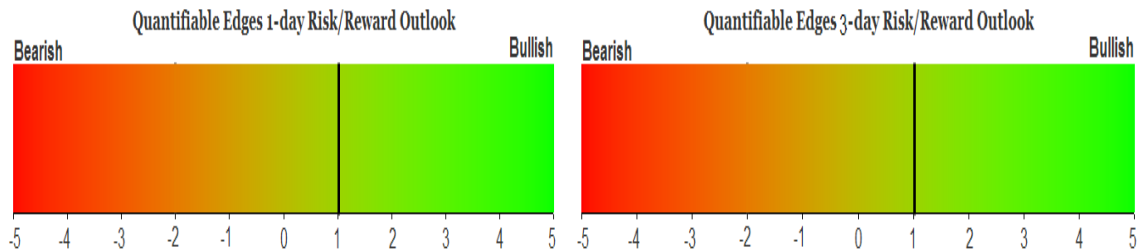
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 16, 2015

Volume 8 Issue 242

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- Fed days are often bullish.
- The weak bounce over the last 2 days suggests a bearish edge.

## *Short-term Outlook*

### *The Bottom Line*

There still appears to be a bullish edge but SPX is approaching “overbought” rapidly. I am long but looking to take profits ahead of the 2pm Fed announcement.

**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
<b>Active - Short Term</b>						
December 15, 2015	SPX up. NYSE Up Issues < 33.3%	1 day	Bearish			
December 14, 2015	Opex Week in Decmber next. SP<10ma	1-6 days	Bullish			
December 14, 2015	Fri drop 1.5x 20ATR	1-6 days	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			
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight</b>						
December 14, 2015	Bottom 1/2 range 5 days	1 day	Bullish			
December 14, 2015	VIX 35%>10ma	1 day	Bullish			

**The Evidence**

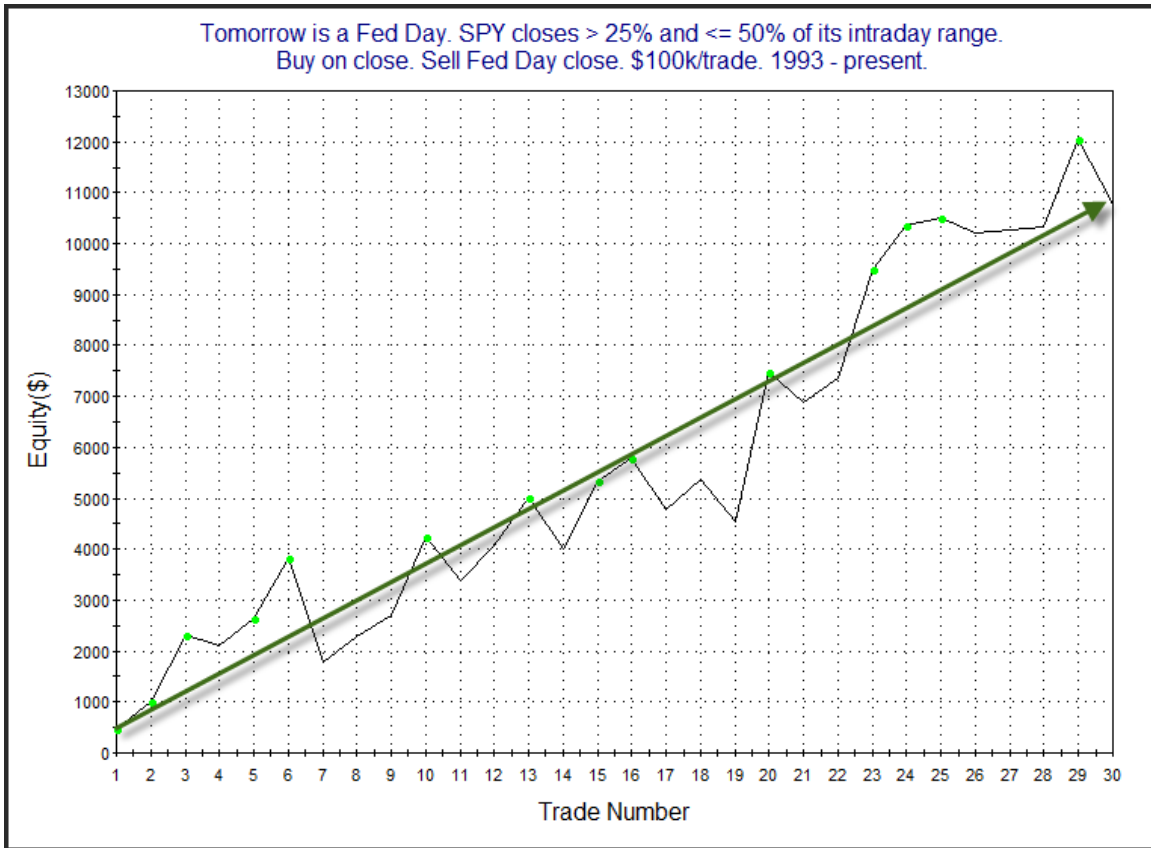
The market opened with a sizable gap up Tuesday morning and added to those gains during the day. The SPX finished up 1.1%, and the NASDAQ rose 0.9%, and the Russell 2000 rallied 1.4%. Breadth was squarely positive as the NYSE Up Issues % came in at 78% and the Up Volume % was 82%. Total NYSE volume dipped from Monday's level.

One notable for Wednesday is that it is a Fed Day. A number of times in the past I have broken down the Fed Day edge by examining where in the daily range SPY closed the day before. I have used 4 quartiles. The results have shown that the lower the close, the more substantial the upside edge for the Fed Day. On Tuesday SPY closed about 1/3 up in its daily range. The stats below are updated from the 1/27/15 letter and examine instances like Tuesday where SPY closed in the 3<sup>rd</sup> quartile.

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of its intraday range.  
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$10,762.10	Profit Factor	2.32	
Gross Profit	\$18,895.86	Gross Loss	(\$8,133.76)	
Total Number of Trades	30	Percent Profitable	70.00%	
Winning Trades	21	Losing Trades	9	
Even Trades	0			
Avg. Trade Net Profit	\$358.74	Ratio Avg. Win:Avg. Loss	1.00	
Avg. Winning Trade	\$899.80	Avg. Losing Trade	(\$903.75)	
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)	

There seems to be a strong upside edge. Here is a look at the profit curve.



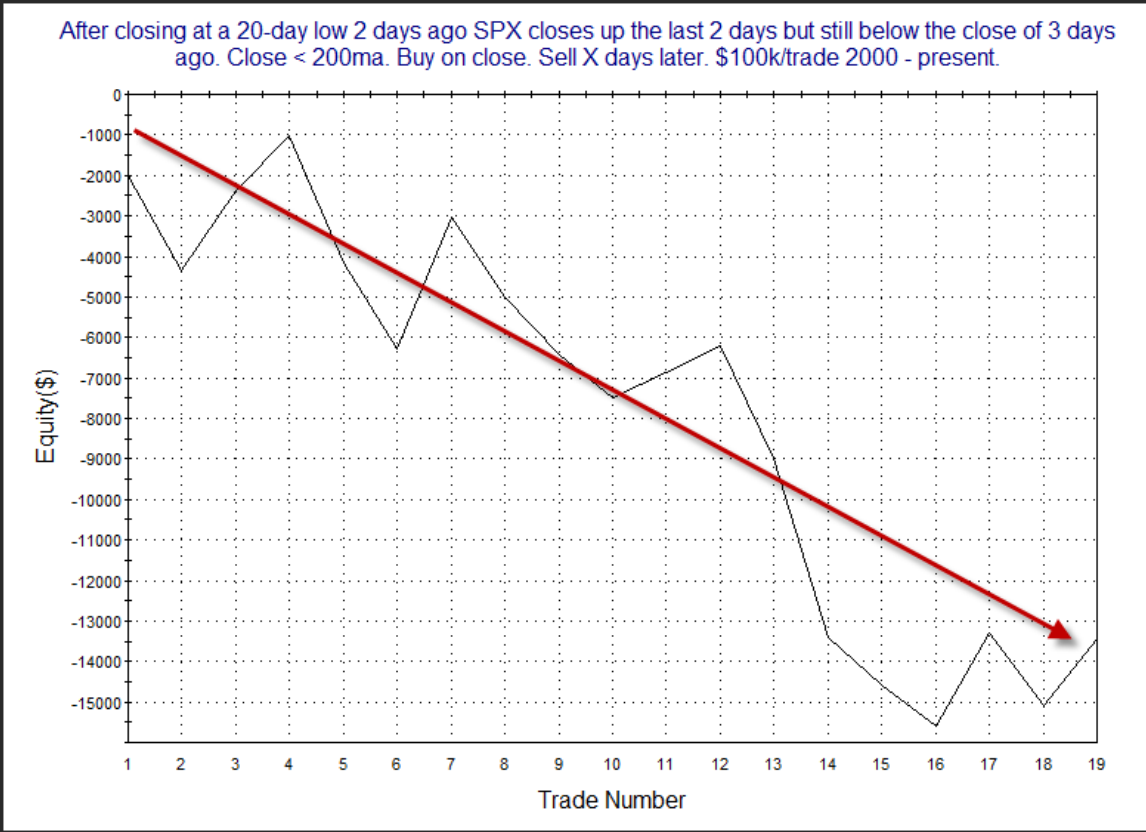
The last instance (1/27/15) got whacked. But the upslope still appears impressive and the study is worth consideration.

In the 10/1/15 letter I looked at scenarios where the SPX bounced from 20-day lows over a 2-day period but failed to make up for the losses of the day just previous to the 2-day bounce. I filtered this study by the 200ma. It triggered again today and I have updated it below.

After closing at a 20-day low 2 days ago SPX closes up the last 2 days but still below the close of 3 days ago. Close < 200ma. Buy on close. Sell X days later. \$100k/trade 2000 - present.

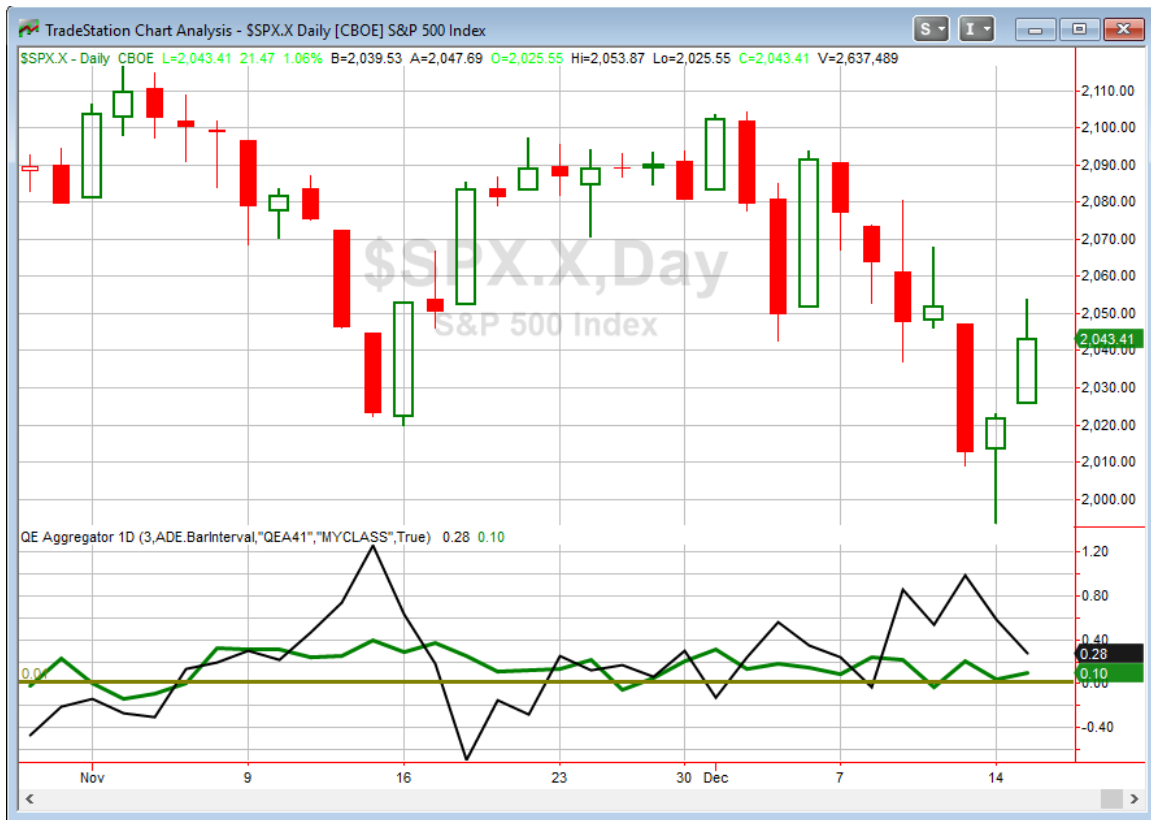
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,097.73	18	9	9	50.00	2,149.35	4,138.50	-3,493.54	-7,353.33	0.62	0.62	-672.10
4	-7,498.48	18	9	9	50.00	1,889.17	4,871.43	-2,722.33	-4,944.54	0.69	0.69	-416.58
3	-8,710.83	19	6	13	31.58	2,404.58	5,558.47	-1,779.87	-3,535.84	1.35	0.62	-458.46
2	-13,450.37	19	7	12	36.84	1,681.01	3,251.01	-2,101.45	-4,424.00	0.80	0.47	-707.91
1	-5,900.11	19	8	11	42.11	1,523.90	3,863.25	-1,644.67	-5,253.30	0.93	0.67	-310.53

The setup appears to suggest a bearish edge. I have included below a 2-day equity curve.



The downslope here is fairly persistent despite the choppiness. This seems to support the suggestion of a bearish edge.

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



With tonight's studies being considered the green Aggregator Line held a little 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 Wednesday. This could change if strong bearish evidence emerges. The Differential Pivot will be *inverted at 2020.03* on Wednesday. That is 1.1% *below* Tuesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX will need to close down at least 1.1% in order to remain oversold. Anything less than that large of a decline will leave SPX "overbought" versus recent expectations.

I generally view inverted pivots as opportune times to take profits if they are available to me. This is because the edge is only likely to last 1 day. At the end of the day tomorrow the Aggregator will be either neutral or bearish unless there is a substantial selloff. So there is only 1 day to add to current profits. And with a Fed announcement due tomorrow the market could react violently. So risk is elevated despite the typical bullish tendency of Fed Days. Therefore, I intend to exit my SPY positions if I can get a decent fill.

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

The intermediate-term outlook was last updated in the 12/14 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)

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.*

**None tonight**

**Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KMI(1/3)	12/7/2015	\$15.66	\$15.84	1.15%		Catapult
KMI(1/3)	12/8/2015	\$15.29	\$15.84	3.60%		Catapult
SPY(1/4)	12/10/2015	\$205.34	\$205.03	-0.15%		look to exit as per below
SPY(1/4)	12/15/2015	\$201.88	\$205.03	1.56%		look to exit as per below

*I will sell 1 lot of SPY at a \$204.25 limit. (Almost assuring me of an exit at the open.)*

*The 2<sup>nd</sup> lot I will look to sell for \$205.00 limit. (Unfilled down gaps on Fed Day are very rare.) If not sold by 1:30pm EST I will lower limit price to \$204.00.*

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