

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 17, 2015

Volume 8 Issue 243

Market Overview



Signals Overview

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

Tonight's Research Points

- Fed rate hike cycles have been rare in the last 25 years, but their behavior has been consistent.

Short-term Outlook

The Bottom Line

Evidence still points higher but the market is strongly overbought. I am not inclined to add new positions until better reward/risk appears.

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 16, 2015	2 days up from 20-low but < 3 ago	1-2 days	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			
Active - Long Term						
December 14, 2015	Santa Rally	thru Jan 2	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

Wednesday was a strong rally day. The SPX, NASDAQ and Russell 2000 all gained about 1.5%. Breadth was squarely positive as the NYSE Up Issues % came in at 80% and the Up Volume % was 82%. Total NYSE volume rose some from Monday's level.

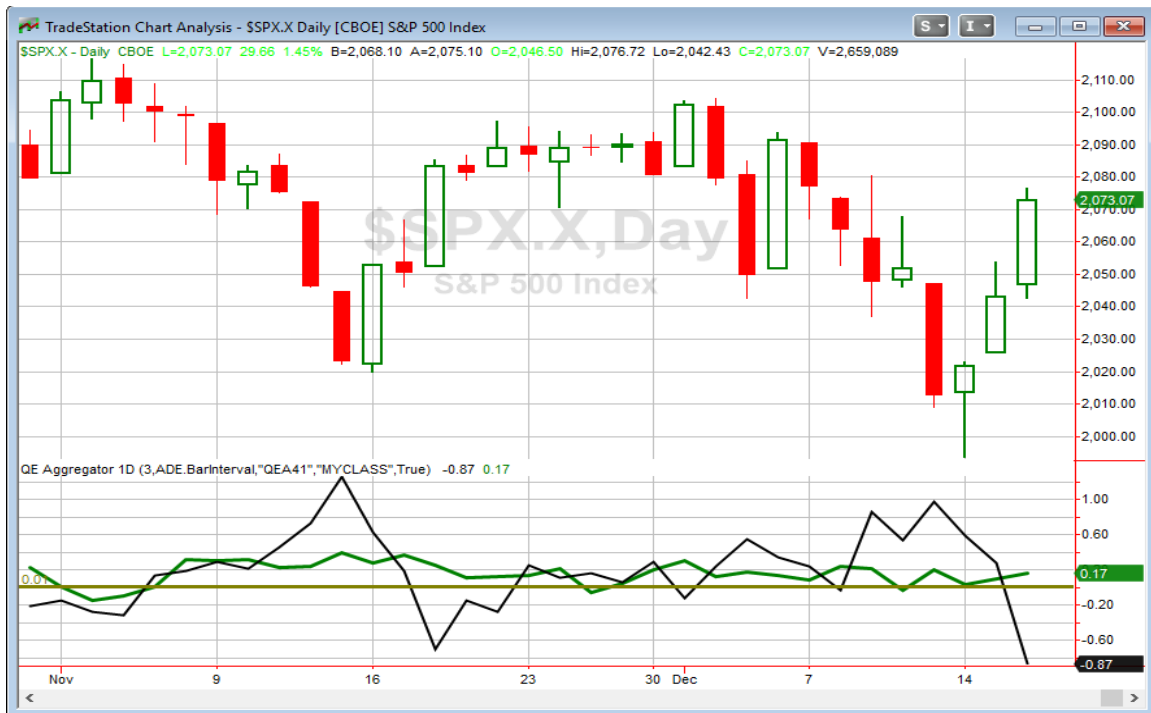
The strong gains came with the Fed announcing Wednesday that they will begin raising rates for the 1st time in 11 years. This is something many traders have feared for a long time. But is the fear overdone? Perhaps. Since 1990 there have only been 4 other cycles of rate hikes. I decided to measure SPX performance from the start of those cycles. I found that one month later the stock market was trading lower every time. But one year later it was higher every time. Individual returns (based on \$100k/trade) can be found in the table below.

Rate Hike Cycle Begins	After One Month (21 trading days)		After One Year (252 trading days)	
Date/Time	% Profit	Run-up Drawdown	% Profit	Run-up Drawdown
2/4/1994	-0.84%	\$1,127.84 (\$2,573.68)	2.41%	\$2,573.68 (\$7,197.40)
3/25/1997	-2.27%	\$733.32 (\$6,996.78)	39.66%	\$40,824.00 (\$6,996.78)
6/30/1999	-3.22%	\$3,404.16 (\$3,194.64)	5.97%	\$12,960.72 (\$10,022.40)
6/30/2004	-3.42%	\$3.48 (\$5,392.26)	5.18%	\$7,686.45 (\$6,963.48)

Of course it is dangerous to draw conclusions from just 4 instances, but I thought it was interesting and somewhat noteworthy nonetheless.

Despite the overall strong gains there were no studies that suggested a strong short-term edge. So nothing new is being added to the Active List tonight.

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



With no new studies being added tonight 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 took a nosedive down below zero. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is 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 Thursday. This could change if strong bearish evidence emerges. The Differential Pivot will be 2025.49 on Thursday. That is a whopping 2.3% below Wednesday's close. So SPX would need to lose down at least 2.3% to move from overbought to oversold on Thursday. That's unlikely for 1 day. A more likely scenario for working off the overbought condition is a multi-day decline or consolidation.

So overall evidence is still pointing higher, but the market is strongly short-term overbought. This leaves the Aggregator neutral. I am also. After having taken profits on my SPY index positions at the open on Wednesday morning I am flat index positions and awaiting the next favorable risk/reward opportunity to emerge before putting capital back to work.

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	\$15.94	1.79%		Catapult
KMI(1/3)	12/8/2015	\$15.29	\$15.94	4.25%		Catapult
SPY(1/4)	12/10/2015	\$205.34	\$206.37	0.50%		sold on open
SPY(1/4)	12/15/2015	\$201.88	\$206.37	2.22%		sold on open

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