

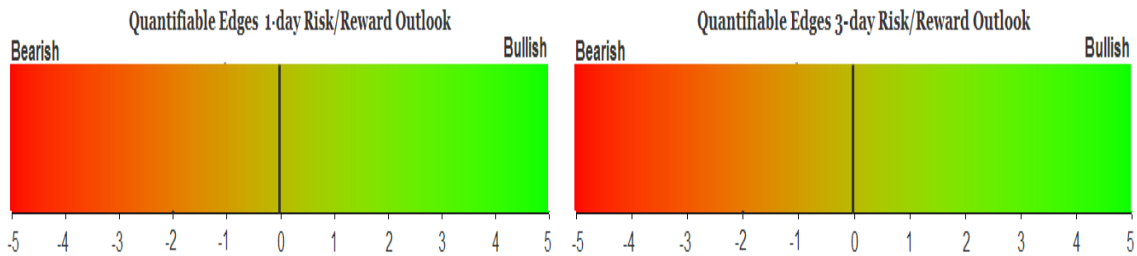
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 18, 2015

Volume 8 Issue 244

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>	<b>QE Buy Pwr Swing</b>
Flat	50% Long XIV	Flat

## Tonight's Research Points

- Strong Russell 2000 seasonality is now kicking in.

## *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
<b>Active - Short Term</b>						
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			
<b>Active - Long Term</b>						
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			

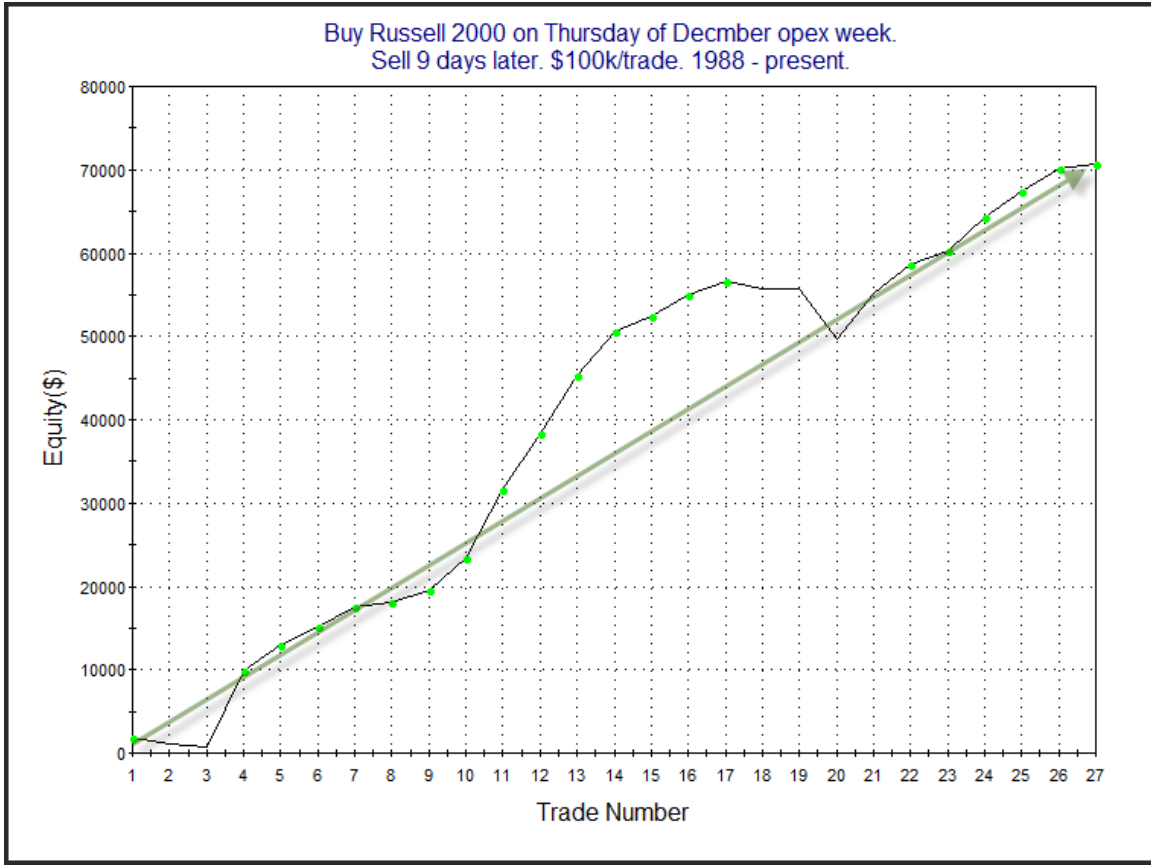
**The Evidence**

Wednesday's feel-good rally was squashed on Thursday. The SPX lost 1.5%, the NASDAQ fell 1.4% and the Russell 2000 declined 1.2%. Breadth was squarely negative as the NYSE Up Issues % came in at 36% and the Up Volume % was 13%. Total NYSE volume declined some from Wednesday's level.

Despite the sizable drops, from a price action standpoint, nothing emerged with a strong and consistent edge. Seasonality did not disappoint though. Below is a study I last showed in the 12/19/14 subscriber letter that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

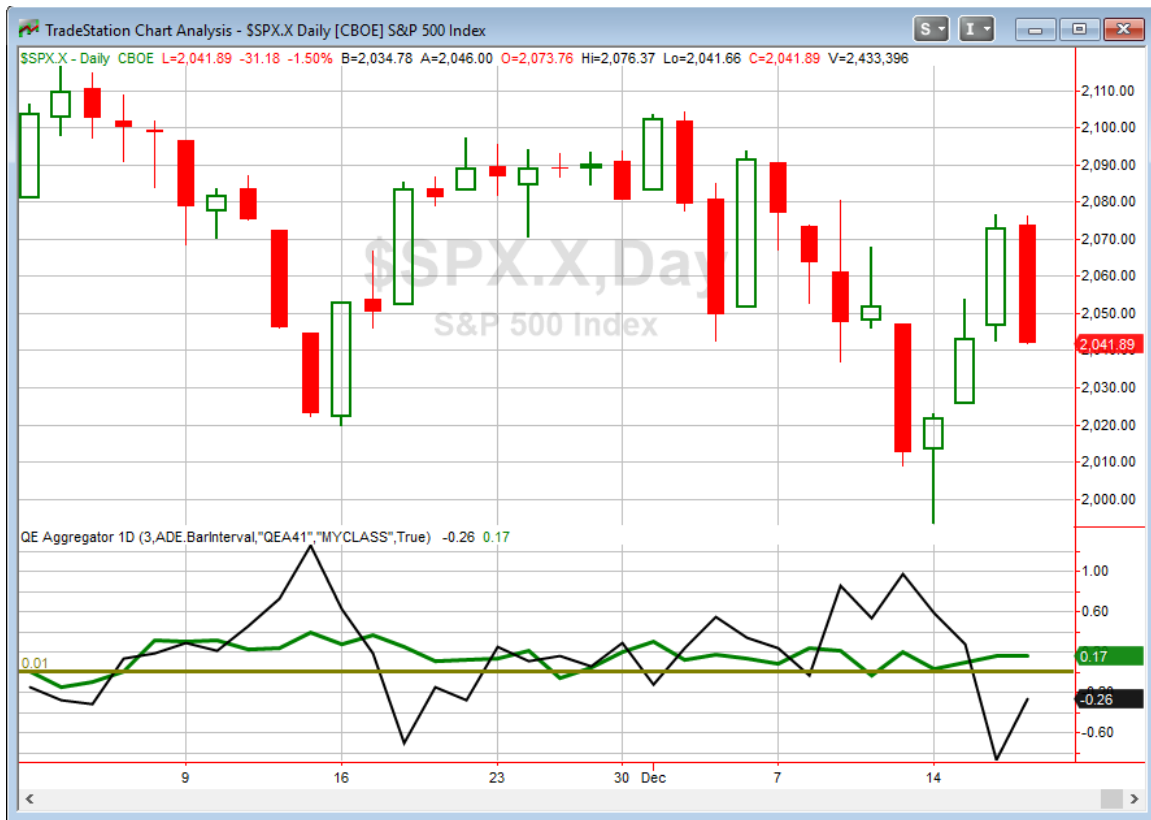
Buy Russell 2000 on Thursday of Decmber opex week. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	73,643.76	27	22	5	81.48	3,846.71	10,279.71	-2,196.75	-5,643.30	1.75	7.70	2,727.55
9	70,688.45	27	23	4	85.19	3,418.68	9,009.63	-1,985.28	-5,973.50	1.72	9.90	2,618.09
8	60,403.06	27	23	4	85.19	2,828.34	7,115.85	-1,162.20	-2,948.40	2.43	13.99	2,237.15
7	52,476.49	27	22	5	81.48	2,609.65	7,790.58	-987.18	-1,809.60	2.64	11.63	1,943.57
6	40,291.77	27	20	7	74.07	2,343.23	6,599.88	-938.98	-2,720.64	2.50	7.13	1,492.29
5	29,072.74	27	19	8	70.37	2,075.77	4,892.25	-1,295.86	-3,194.64	1.60	3.80	1,076.77
4	21,904.97	27	18	9	66.67	1,947.37	4,413.75	-1,460.86	-3,892.32	1.33	2.67	811.30
3	18,646.66	27	17	10	62.96	1,850.57	3,814.20	-1,281.31	-2,650.68	1.44	2.46	690.62
2	9,637.18	27	16	11	59.26	1,370.25	3,495.70	-1,116.99	-2,810.39	1.23	1.78	356.93
1	11,488.64	27	16	11	59.26	918.13	2,299.70	-291.04	-816.48	3.15	4.59	425.51

Results here are outstanding. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.



In 2005 and 2007 the Russell saw declines, but the last 7 years have all been higher, keeping the curve right on track.

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



Once again 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 remained 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 Friday. This could change if more bearish evidence emerges. The Differential Pivot will be *inverted at* 2049.94 on Friday. That is 0.4% above Thursday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case it will take a rise of at least 0.4% for SPX to remain overbought. Anything less than that and it will be considered "oversold" versus recent expectations.

So the big drop on Thursday did little to change my outlook. There still appears to be some evidence suggesting a short-term rally. But with the market short-term overbought versus expectations, reward/risk does not appear strong. I will give it another day before considering new positions.

**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	\$15.37	-1.85%		Catapult
KMI(1/3)	12/8/2015	\$15.29	\$15.37	0.52%		Catapult

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