

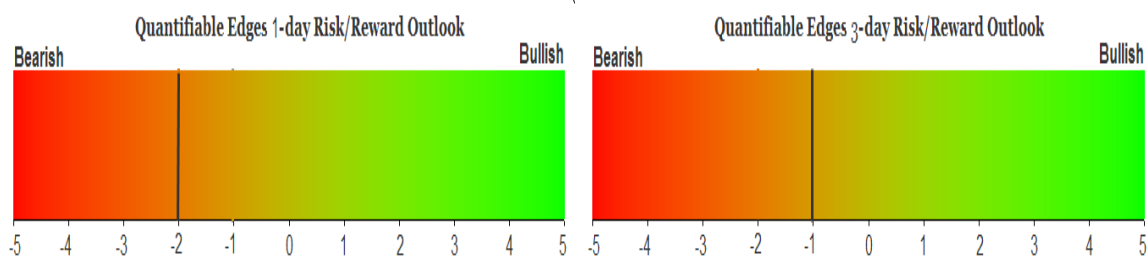
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 24, 2015

Volume 8 Issue 248

Market Overview



Signals Overview

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

Tonight's Research Points

- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.
- Wednesday's strong breadth along with the 3-day rally appears to contain bullish implications over the next few weeks.
- SPY's low range on the 3rd day of the rally suggest a brief downside edge.
- The QE Buying Power Swing System triggered short.

Short-term Outlook

The Bottom Line

The market is now overbought and expectations have turned bearish but they are not slated to remain bearish beyond Thursday. So any downside edge appears brief. I am more neutral than bearish.

Summary of Recent Active Studies (see Letters from listed dates for details)- not updated tonight

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
December 23, 2015	Twas 3 Nights Before Christmas	1-8 days	Bullish			
December 21, 2015	Up 2 from 20-low < 3 ago	1-2 days	Bearish			
December 21, 2015	Gap -n- crap to bottom of 2-week range	1-5 days	Bullish			
Active - Long Term						
December 22, 2015	Golden Cross	int term	Bullish			
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			
Dropped Tonight						
December 21, 2015	SPX < Bollinger Band. VIX not stretched	1-2 days	Bearish			

The Evidence

Wednesday was the 3rd strong day in a row for the market. The SPX gained 1.2%, the NASDAQ rose 0.9% and the Russell 2000 rallied 1.3%. Breadth was extremely positive as the NYSE Up Issues % came in at 85% and the Up Volume % was 93%. Total NYSE volume was again light and it probably will be for the rest of the year.

The strong move on Wednesday led to a mix of studies. Let's first look at the ones with bullish implications.

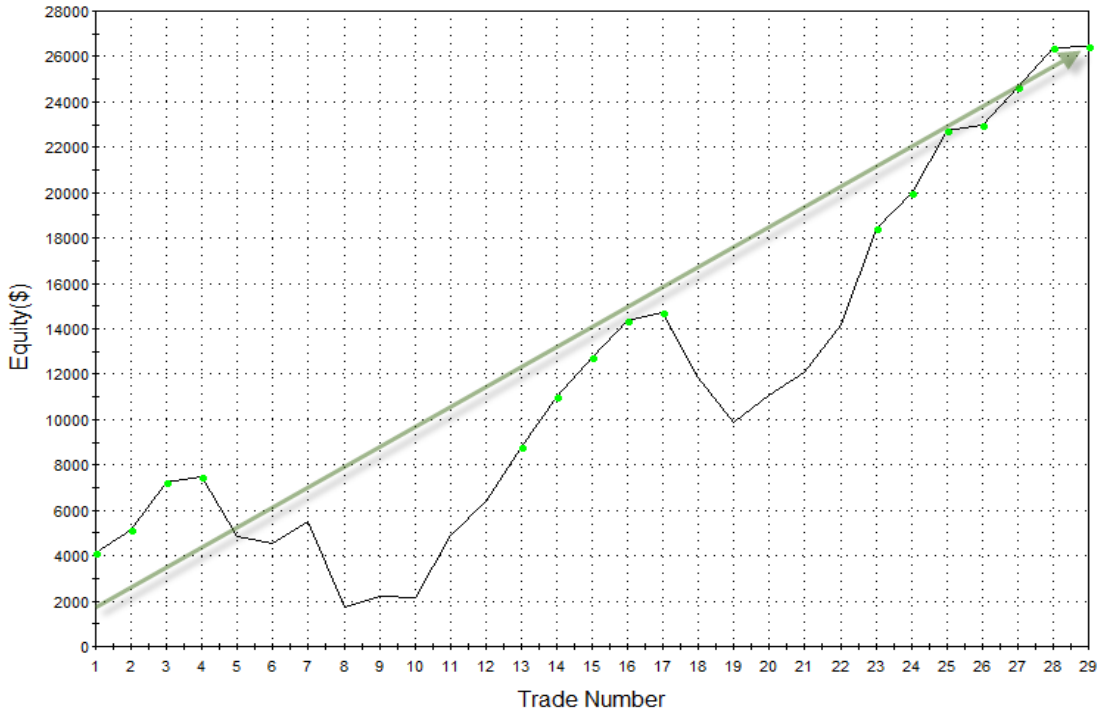
On Wednesday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. This triggered the study below, which I last discussed in the 4/24/13 letter.

SPX closes more than 2% above its close of 3 days ago and > 200ma.
 Its 3/10 Offset HV is <= 0.25. Buy on close. Sell X days later. \$100k/trade. 1988 - present.

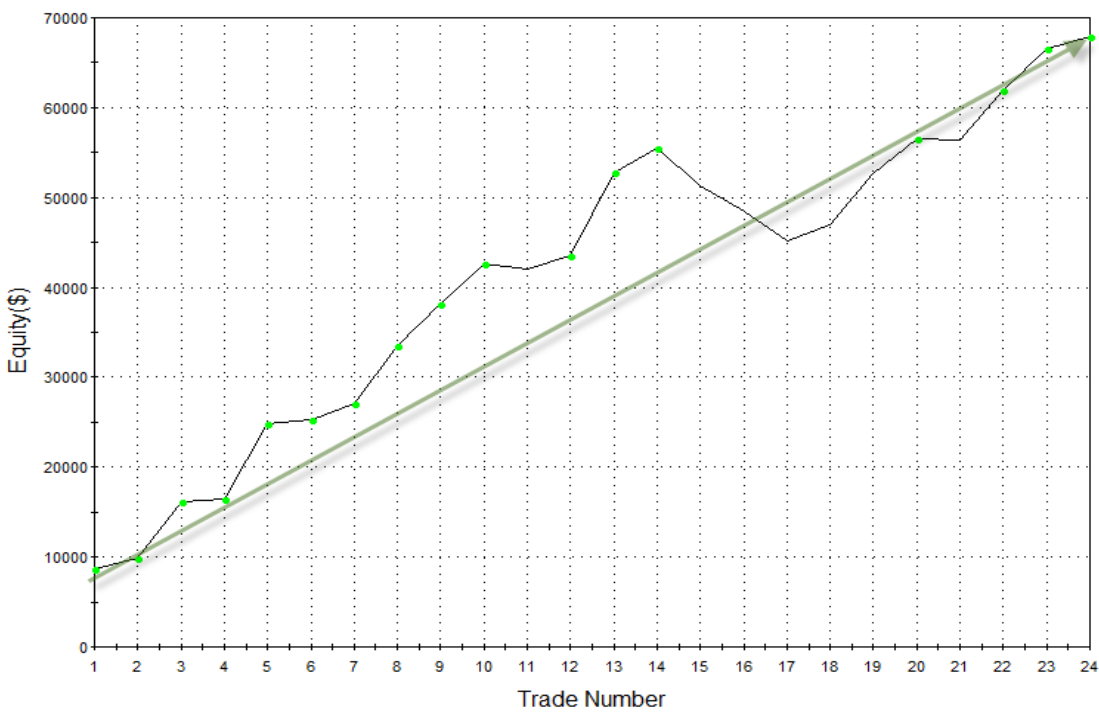
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
20	63,861.89	24	19	5	79.17	4,158.65	9,311.76	-3,030.50	-6,635.95	1.37	5.21	2,660.91
19	67,938.40	24	19	5	79.17	4,160.96	9,258.48	-2,223.95	-4,276.35	1.87	7.11	2,830.77
18	65,294.84	25	20	5	80.00	3,904.33	10,412.64	-2,558.34	-3,726.38	1.53	6.10	2,611.79
17	52,908.18	25	19	6	76.00	3,644.71	10,683.36	-2,723.54	-5,009.90	1.34	4.24	2,116.33
16	53,206.42	25	18	7	72.00	3,815.41	10,667.52	-2,210.13	-6,108.95	1.73	4.44	2,128.26
15	52,905.74	25	18	7	72.00	3,593.61	8,742.96	-1,682.74	-3,353.25	2.14	5.49	2,116.23
14	51,217.91	26	20	6	76.92	3,070.13	8,253.36	-1,697.43	-3,334.55	1.81	6.03	1,969.92
13	47,814.50	26	19	7	73.08	2,961.62	6,434.62	-1,208.05	-3,430.60	2.45	6.65	1,839.02
12	45,828.04	26	20	6	76.92	2,682.08	6,140.16	-1,302.25	-3,768.05	2.06	6.87	1,762.62
11	40,595.02	26	20	6	76.92	2,512.18	5,708.16	-1,608.10	-4,522.00	1.56	5.21	1,561.35
10	38,849.01	27	21	6	77.78	2,300.82	5,768.50	-1,578.04	-3,819.05	1.46	5.10	1,438.85
9	31,697.56	27	18	9	66.67	2,300.50	5,859.48	-1,079.05	-2,858.55	2.13	4.26	1,173.98
8	18,919.93	27	20	7	74.07	1,512.46	4,162.27	-1,618.46	-3,819.90	0.93	2.67	700.74
7	20,060.37	28	21	7	75.00	1,506.01	3,983.52	-1,652.26	-4,227.28	0.91	2.73	716.44
6	26,438.84	29	23	6	79.31	1,653.99	4,206.89	-1,933.84	-3,782.08	0.86	3.28	911.68
5	23,151.84	29	23	6	79.31	1,530.40	3,481.56	-2,007.90	-2,842.40	0.76	2.92	798.34
4	20,909.56	29	21	8	72.41	1,576.05	2,616.60	-1,523.43	-2,910.70	1.03	2.72	721.02
3	13,620.73	29	21	8	72.41	1,284.60	2,315.72	-1,669.48	-3,701.10	0.77	2.02	469.68
2	15,381.11	30	21	9	70.00	1,030.09	2,451.76	-694.52	-1,675.86	1.48	3.46	512.70
1	1,750.67	32	16	16	50.00	602.54	1,857.24	-493.12	-1,515.80	1.22	1.22	54.71

The numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. That scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below are curves assuming 6-day and 19-day holding periods.

SPX closes more than 2% above its close of 3 days ago and > 200ma.
 Its 3/10 Offset HV is <= 0.25. Buy on close. Sell 6 days later. 1988 - present.



SPX closes more than 2% above its close of 3 days ago and > 200ma.
 Its 3/10 Offset HV is <= 0.25. Buy on close. Sell 19 days later. 1988 - present.

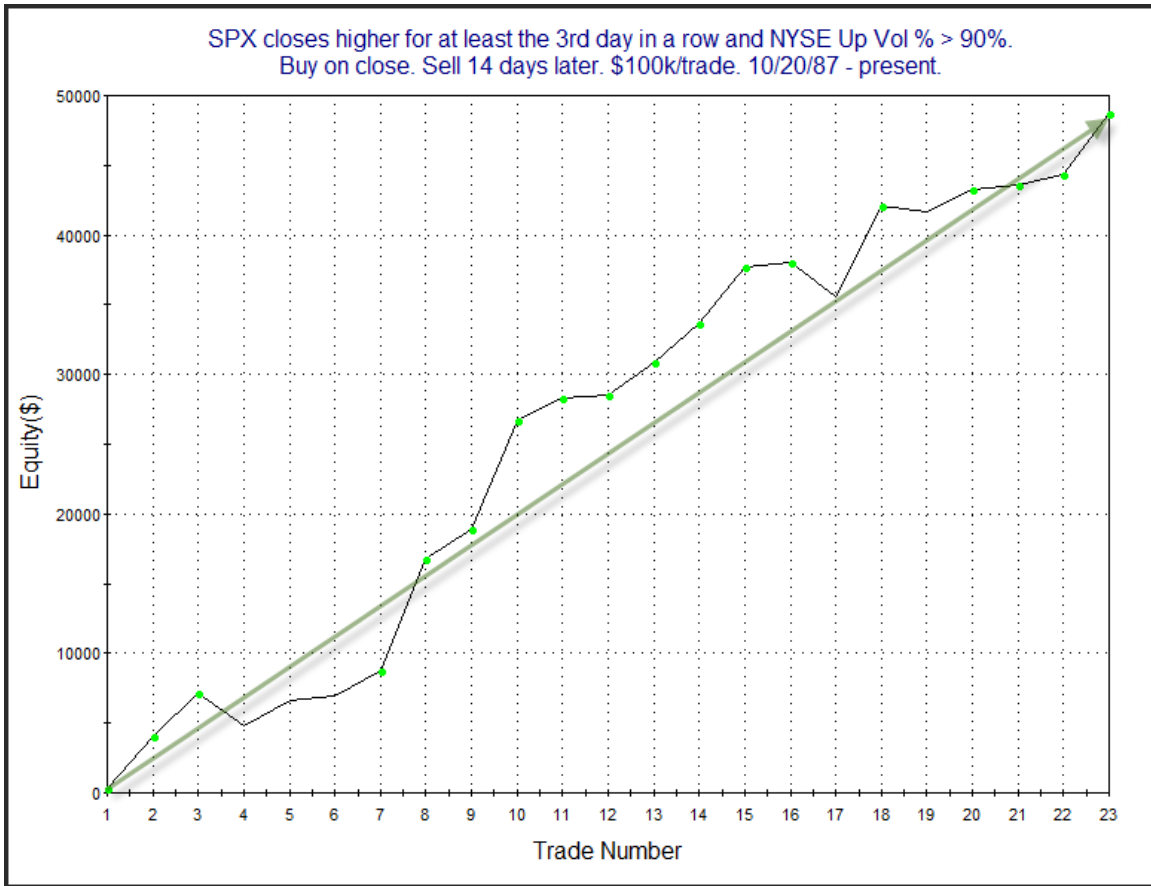


Both of these curves look pretty solid. I have added this study to both the short and long-term active lists.

The extremely high Up Volume % of 93% is also notable. The next study looked at other times the SPX rose for at least 3 days in a row and the NYSE Up Volume % came in > 90%. It was last seen in the 11/26/12 letter. I have updated the results below.

SPX closes higher for at least the 3rd day in a row and NYSE Up Vol % > 90%. Buy on close. Sell X days later. \$100k/trade. 10/20/87 - 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
20	49,716.35	22	15	7	68.18	4,508.38	14,074.06	-2,558.48	-5,866.30	1.76	3.78	2,259.83
19	39,564.35	22	16	6	72.73	3,673.48	9,897.86	-3,201.89	-7,086.20	1.15	3.06	1,798.38
18	42,522.18	22	17	5	77.27	3,424.51	8,619.73	-3,138.90	-4,913.70	1.09	3.71	1,932.83
17	52,578.82	22	17	5	77.27	3,810.19	11,270.42	-2,438.89	-5,553.90	1.56	5.31	2,389.95
16	51,931.43	22	18	4	81.82	3,382.85	12,204.08	-2,239.97	-6,770.50	1.51	6.80	2,360.52
15	50,093.77	23	17	6	73.91	3,600.61	11,124.12	-1,852.76	-5,239.30	1.94	5.51	2,177.99
14	48,746.66	23	20	3	86.96	2,705.93	8,025.22	-1,790.62	-2,533.16	1.51	10.07	2,119.42
13	36,129.85	24	18	6	75.00	2,433.28	7,484.65	-1,278.19	-3,373.70	1.90	5.71	1,505.41
12	34,843.47	24	19	5	79.17	2,271.43	7,583.70	-1,662.73	-2,355.10	1.37	5.19	1,451.81
11	31,190.83	24	16	8	66.67	2,401.27	8,671.60	-903.69	-2,496.80	2.66	5.31	1,299.62
10	33,619.01	24	18	6	75.00	2,524.02	10,921.96	-1,968.89	-2,811.20	1.28	3.85	1,400.79
9	31,260.04	24	18	6	75.00	2,252.67	8,397.62	-1,547.99	-2,298.27	1.46	4.37	1,302.50
8	24,171.45	24	18	6	75.00	2,064.72	7,394.80	-2,165.58	-3,753.26	0.95	2.86	1,007.14
7	26,790.56	24	16	8	66.67	2,220.72	9,599.94	-1,092.62	-2,724.73	2.03	4.06	1,116.27
6	19,205.55	24	16	8	66.67	1,968.70	5,066.85	-1,536.70	-3,497.62	1.28	2.56	800.23
5	15,186.48	24	18	6	75.00	1,692.12	4,428.90	-2,545.27	-6,695.61	0.66	1.99	632.77
4	14,515.09	24	19	5	79.17	1,413.95	5,800.13	-2,470.00	-6,719.68	0.57	2.18	604.80
3	3,920.80	24	16	8	66.67	1,260.46	3,641.54	-2,030.82	-5,298.72	0.62	1.24	163.37
2	5,361.18	24	18	6	75.00	873.14	4,479.84	-1,725.88	-8,004.64	0.51	1.52	223.38
1	4,547.51	24	9	15	37.50	961.74	2,860.08	-273.88	-1,140.30	3.51	2.11	189.48

We see mild results short-term but strong ones when you look out about 3 weeks. Below is an equity curve assuming a 14-day holding period.



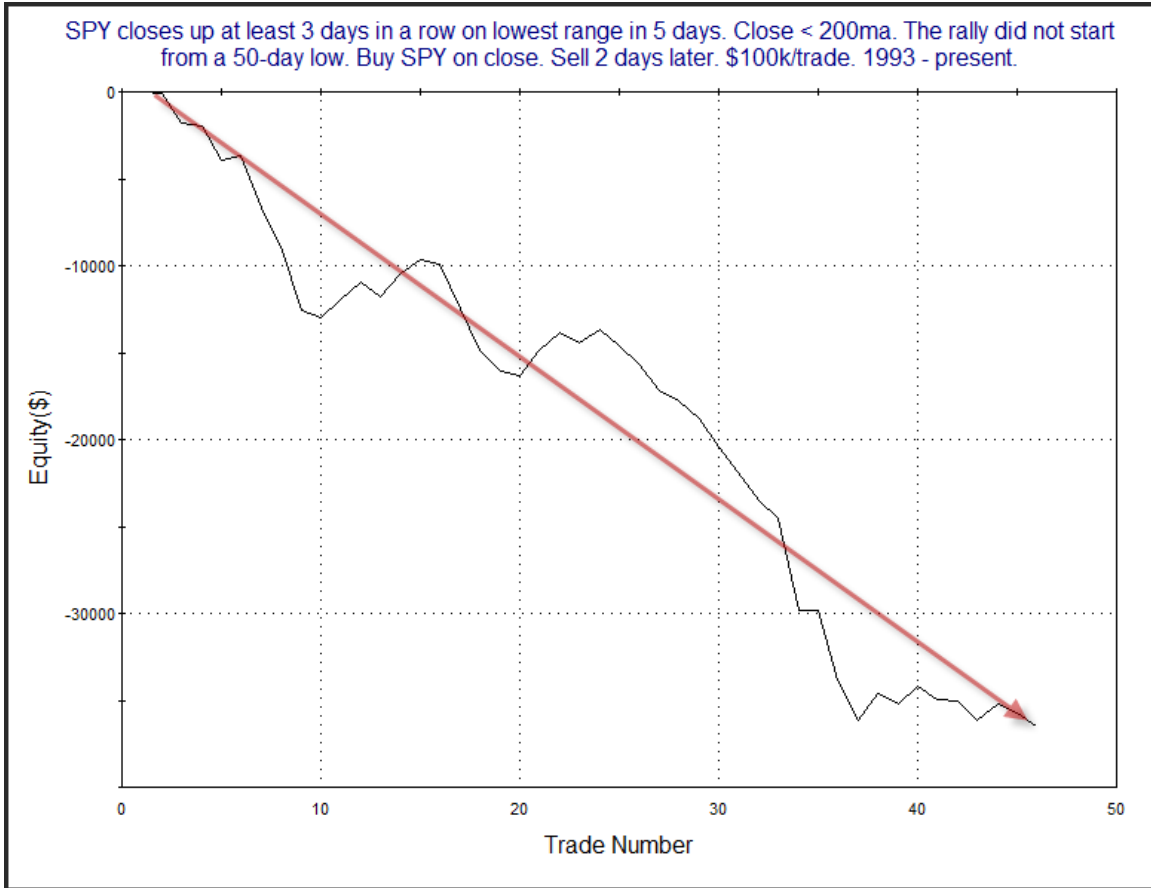
It appears Wednesday's strong breadth is a positive sign for the intermediate-term. I have listed it as a factor on the Active Studies list.

But not everything from Wednesday looked bullish. I have not featured this next study since a blog post on 11/26/08, but the results were compelling enough that it seemed worth review. It looked at low range days when the market moved up for three days in a row.

SPY closes up at least 3 days in a row on lowest range in 5 days. Close < 200ma. The rally did not start from a 50-day low. Buy SPY 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
5	-43,275.59	46	22	23	47.83	1,256.03	3,702.72	-3,082.97	-9,046.24	0.41	0.39	-940.77
4	-43,888.08	46	19	27	41.30	1,295.23	3,045.60	-2,536.95	-7,118.52	0.51	0.36	-954.09
3	-37,034.60	46	16	30	34.78	1,246.84	2,774.88	-1,899.47	-6,431.25	0.66	0.35	-805.10
2	-36,479.83	46	12	34	26.09	944.76	1,574.20	-1,406.38	-5,350.20	0.67	0.24	-793.04
1	-14,815.44	47	18	29	38.30	1,060.85	3,395.70	-1,169.34	-8,857.80	0.91	0.56	-315.22

Two days later there has been a propensity for the market to close lower. Below is a look at the equity curve.



The persistent downslope suggest the bearish edge is for real. I have also included this study on the Active List tonight.

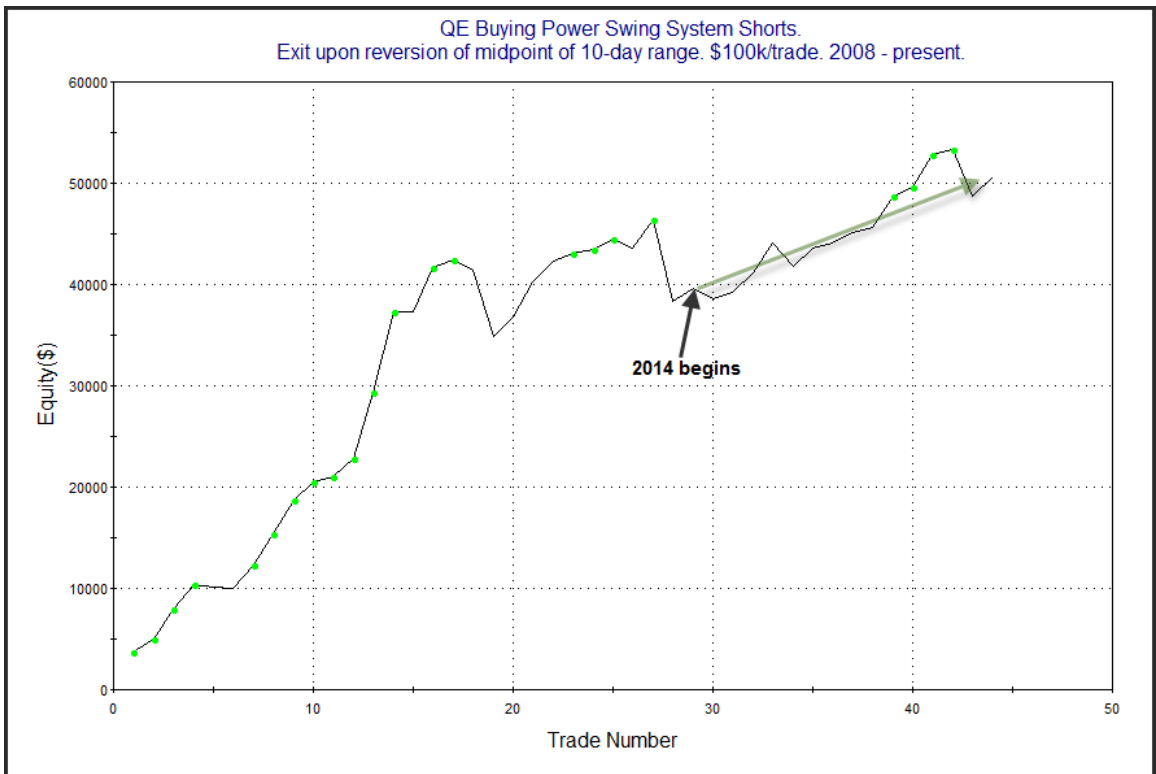
It is also notable that the QE Buying Power Swing System triggered short on Wednesday. The performance table below shows updated hypothetical results of having taken all short signals since 2008, and then exiting upon a reversion to the lower half of the recent range. (A short signal simply requires the QE Buying Power Index ≤ 0 and the SPX closes in the top 20% of its 10-day range.) With no active Fed QE purchase plans currently the Buying Power Index has been locked at 0 since early November 2014.

QE Buying Power Swing System Shorts.
Exit upon reversion of midpoint of 10-day range. \$100k/trade. 2008 - present.

TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	\$50,605.49	Profit Factor	3.03
Gross Profit	\$75,550.39	Gross Loss	(\$24,944.90)
Total Number of Trades	44	Percent Profitable	77.27%
Winning Trades	34	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	\$1,150.12	Ratio Avg. Win:Avg. Loss	0.89
Avg. Winning Trade	\$2,222.07	Avg. Losing Trade	(\$2,494.49)
Largest Winning Trade	\$8,004.64	Largest Losing Trade	(\$8,003.49)

Results here are strong.

Below is a look at the profit curve, with a demarcation where QE3 ended and the 2014 & 2015 trades began.

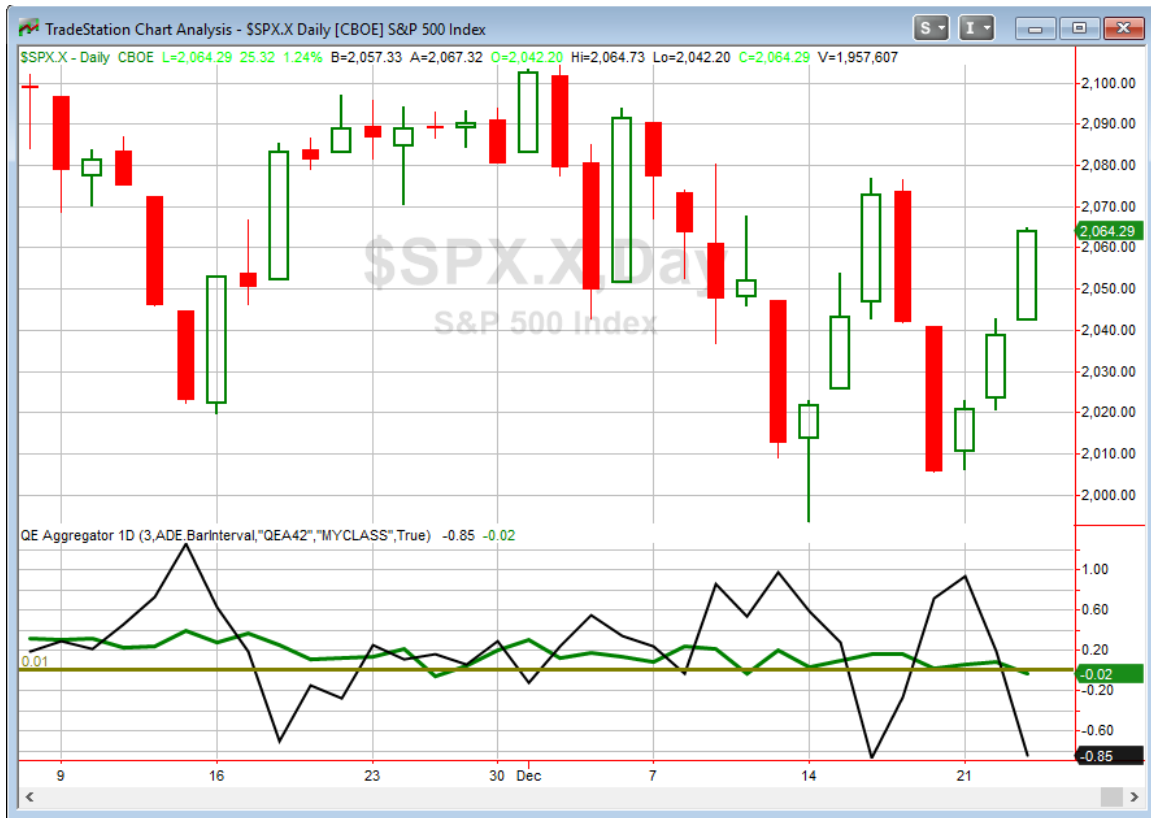


Not as steep as it was during bear market environments, but still nice results for the shorts. Below is the list of individual triggers.

QE Buying Power Swing System Shorts. Exit upon reversion of midpoint of 10-day range. \$100k/trade. 2014 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/7/2014	Short	\$2,031.92	-1.06%	\$85.75
12/1/2014	Cover	\$2,053.44		(\$2,148.16)
12/3/2014	Short	\$2,074.33	0.68%	\$962.88
12/8/2014	Cover	\$2,060.31		(\$246.72)
12/18/2014	Short	\$2,061.23	1.97%	\$2,106.72
1/5/2015	Cover	\$2,020.58		(\$1,551.36)
1/22/2015	Short	\$2,063.15	2.96%	\$2,959.68
1/28/2015	Cover	\$2,002.16		\$0.00
2/3/2015	Short	\$2,050.03	-2.37%	\$638.88
3/4/2015	Cover	\$2,098.53		(\$3,338.88)
3/18/2015	Short	\$2,099.42	1.83%	\$1,803.39
3/25/2015	Cover	\$2,061.05		(\$725.68)
4/9/2015	Short	\$2,091.18	0.48%	\$884.07
4/17/2015	Cover	\$2,081.18		(\$974.31)
4/22/2015	Short	\$2,107.96	1.07%	\$1,427.39
4/30/2015	Cover	\$2,085.51		(\$844.12)
5/8/2015	Short	\$2,116.10	0.56%	\$1,434.91
5/26/2015	Cover	\$2,104.20		(\$875.14)
6/18/2015	Short	\$2,121.24	3.00%	\$3,036.20
6/29/2015	Cover	\$2,057.64		(\$405.61)
7/13/2015	Short	\$2,099.60	0.95%	\$1,057.97
7/24/2015	Cover	\$2,079.65		(\$1,561.34)
8/17/2015	Short	\$2,102.44	3.17%	\$3,135.37
8/20/2015	Cover	\$2,035.73		(\$48.41)
9/8/2015	Short	\$1,969.41	0.58%	\$1,611.00
9/18/2015	Cover	\$1,958.08		(\$2,572.50)
10/5/2015	Short	\$1,987.05	-4.61%	\$753.00
11/9/2015	Cover	\$2,078.58		(\$6,471.50)
11/20/2015	Short	\$2,089.17	1.89%	\$2,200.54
12/3/2015	Cover	\$2,049.62		(\$709.70)

October was the first trade that went very strong against the short position. The trades overall have done quite well. I still believe the system signals deserve some consideration within the Active List.

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



With tonight's studies being considered the green Aggregator Line fell just a little below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile the black Differential Line dove down way below zero. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is short-term overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal turned short at the close.

Based on the current studies, evidence is set to turn positive on Thursday. This could change if more bearish evidence emerges. The Differential Pivot will be 2025.78 on Thursday. That is 1.8% below Wednesday's close. So for SPX to turn oversold on Thursday it will need to close down at least 1.8%. That's pretty unlikely. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

So the Aggregator is suggesting a bearish edge. But the bearish outlook is only set up to last one day. I don't often look to try and profit from such short-term opportunities in the subscriber letter. More nimble traders could look to take advantage of the apparent downside edge. I'll wait for a more compelling opportunity to emerge before taking on new exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/21 –slightly bullish

The intermediate-term outlook was last updated in the 12/21/15 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

None

Broad Market Large Cap CBI – 0

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	\$15.57	-0.57%		<i>sold on open</i>
KMI(1/3)	12/8/2015	\$15.29	\$15.57	1.83%		<i>sold on open</i>

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