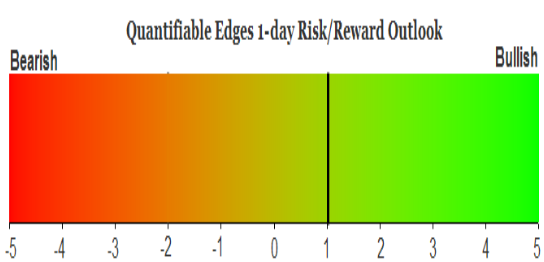
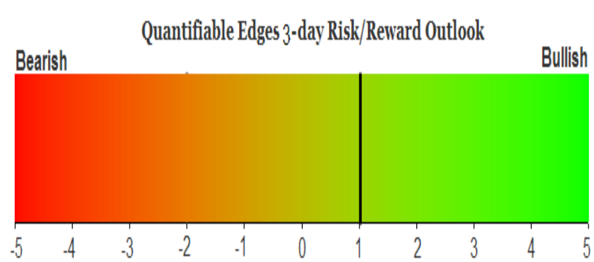
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 31, 2015 Volume 8 Issue 252

Market Overview





Signals Overview

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

Tonight's Research Points

- The last day of the year used to be bullish, but the edge changed at the turn of the century.
- The last 15 minutes of the year have often been bearish – especially when the market is already down on the day at 3:45pm EST.

Short-term Outlook
The Bottom Line

Evidence is bullish, but the market is still relatively overbought. This leaves the Aggregator neutral. But with SPX only slightly overbought, I am a leaning a little bullish.

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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 30, 2015	1% gain between Christmas & New Year	1-2 days	Bullish			
December 24, 2015	QE Buying Power Short	1-6 days	Bearish			
December 24, 2015	Up 2% frm 3 ago. 3/10 HV < 0.25	1-6 days	Bullish	1.95%	-1.20%	-2.50%
December 23, 2015	Twas 3 Nights Before Christmas	1-8 days	Bullish			
Active - Long Term						
December 24, 2015	Up 3 days. 90% up vol today	1-14 days	Bullish	3.40%	-2.15%	-3.80%
December 24, 2015	Up 2% frm 3 ago. 3/10 HV < 0.25	1-19 days	Bullish	4.50%	-1.80%	-3.60%
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			

The Evidence

Wednesday the market suffered some selling. The SPX sank 0.7%, the NASDAQ fell 0.8% and the Russell 2000 dropped 0.9%. Breadth was strongly negative as the NYSE Up Issues % came in at 30% and the Up Volume % was 12%. Total NYSE volume was again very light and that is not likely to change until 2016.

In a study I last showed in the 12/31/14 letter I found the returns in the last 15 minutes of the year to be especially interesting. I have updated that study below.

SPY performance in the last 15 minutes of the YEAR.
$100k/trade. 1998 - 2014.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($4,038.23)	Profit Factor	0.13
Gross Profit	$612.98	Gross Loss	($4,651.21)
Total Number of Trades	17	Percent Profitable	17.65%
Winning Trades	3	Losing Trades	14
Even Trades	0		
Avg. Trade Net Profit	($237.54)	Ratio Avg. Win:Avg. Loss	0.62
Avg. Winning Trade	$204.33	Avg. Losing Trade	($332.23)
Largest Winning Trade	$415.36	Largest Losing Trade	($654.48)

The numbers here are very strong. The average trade has seen SPY drop over 0.2%, and the average losing trade has seen it close down 0.33%. That's a sizable move for a 15-minute period. Below is a list of all the instances.

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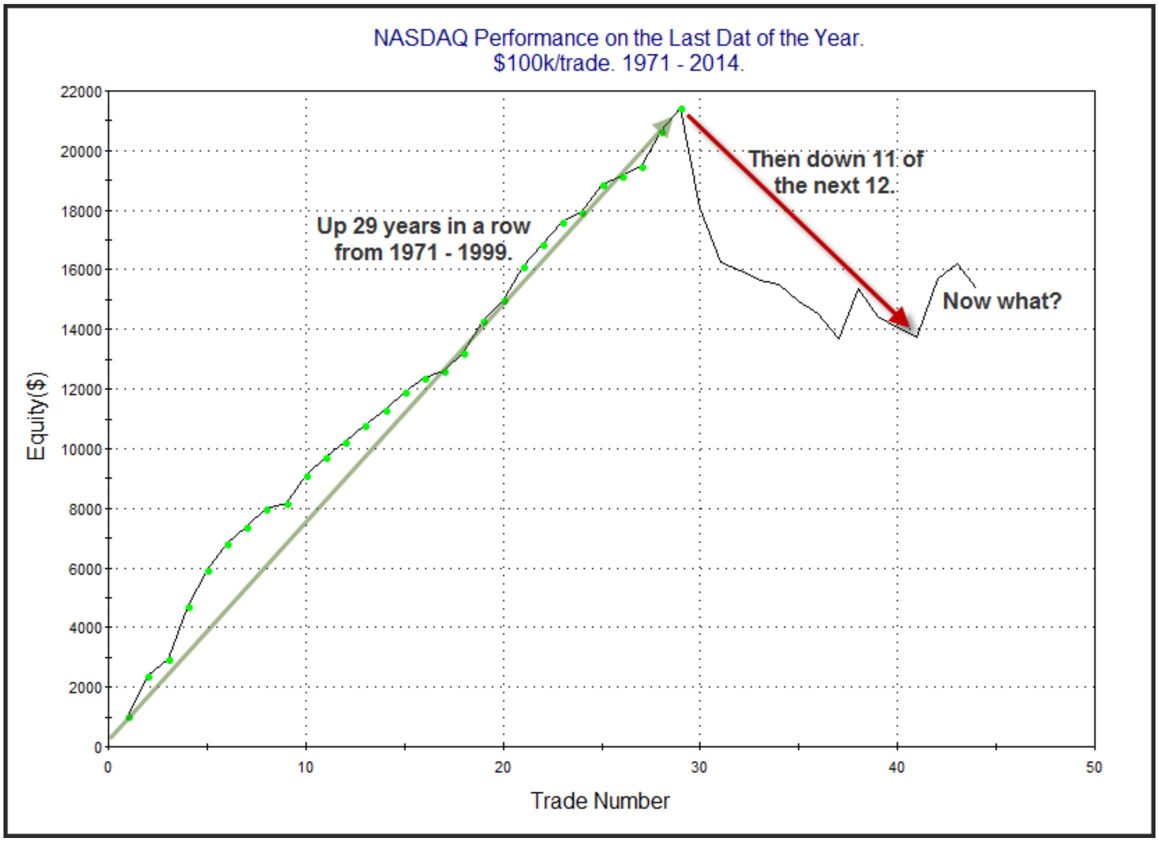
SPY performance in the last 15 minutes of the YEAR.
$100k/trade. 1998 - 2014.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/31/1998 15:45	Buy	$123.69	-0.65%	$153.52
12/31/1998 16:00	Sell	$122.88		($808.00)
12/31/1999 12:45	Buy#2	$147.31	-0.21%	$67.80
12/31/1999 13:00	Sell	$147.00		($318.66)
12/29/2000 15:45	Buy	$132.47	-0.17%	$22.62
12/29/2000 16:00	Sell	$132.25		($444.86)
12/31/2001 15:45	Buy	$115.58	-0.60%	$8.65
12/31/2001 16:00	Sell	$114.89		($631.45)
12/31/2002 15:45	Buy	$88.11	0.06%	$90.72
12/31/2002 16:00	Sell	$88.16		($181.44)
12/31/2003 15:45	Buy	$111.45	-0.27%	$26.91
12/31/2003 16:00	Sell	$111.15		($269.10)
12/31/2004 15:45	Buy	$121.28	-0.20%	$8.24
12/31/2004 16:00	Sell	$121.04		($206.00)
12/30/2005 15:45	Buy	$125.03	-0.34%	$23.97
12/30/2005 16:00	Sell	$124.60		($375.53)
12/29/2006 15:45	Buy	$141.91	-0.29%	$49.28
12/29/2006 16:00	Sell	$141.50		($295.68)
12/31/2007 15:45	Buy	$147.04	-0.42%	$6.80
12/31/2007 16:00	Sell	$146.42		($462.40)
12/31/2008 15:45	Buy	$90.59	-0.40%	$77.21
12/31/2008 16:00	Sell	$90.23		($606.65)
12/31/2009 15:45	Buy	$111.96	-0.46%	$8.93
12/31/2009 16:00	Sell	$111.44		($473.29)
12/31/2010 15:45	Buy	$125.81	-0.02%	$7.94
12/31/2010 16:00	Sell	$125.79		($230.26)
12/30/2011 15:45	Buy	$126.00	-0.33%	$0.00
12/30/2011 16:00	Sell	$125.59		($325.13)
12/31/2012 15:45	Buy	$141.87	0.42%	$485.76
12/31/2012 16:00	Sell	$142.46		($7.04)
12/31/2013 15:45	Buy	$184.30	0.14%	$205.96
12/31/2013 16:00	Sell	$184.56		($10.84)
12/31/2014 15:45	Buy	$206.14	-0.30%	$4.85
12/31/2014 16:00	Sell	$205.52		($363.75)

2012 & 2013 bucked the trend and closed up. Prior to that the results were extremely bearish.

In the 12/31/14 letter I also showed that while the last day of the year used to be a bullish day for the market it seems to have changed since the turn of the century. I looked at performance across a number of indices and found the tendencies to be fairly consistent. Below is an equity curve for the NASDAQ Composite on the last day of the year. Its results stood out the most.



Closing up 29 years in a row is fairly astounding. Just as astounding is the abrupt reversal and move lower for 11 of the next 12 years. And with the last 3 years mixed there is much doubt about where the edge may lie. At this point a seasonal bet either way appears dangerous. I have no good explanation for why such a formerly consistent edge changed, but it did.

The Nasdaq study is a great reminder though. The market is constantly changing and evolving. 2016 is just a few trading hours away. I'm not sure what it has in store for us, but I know it will play out in its own unique pattern. We will see clues along the way, and many of the truisms we've identified through studies over the last 8 years at Quantifiable Edges will continue to work. But some may flounder. And when something stops working, like the "last day of year bullishness" above, then I will do my best to recognize it early. Examining edges is more than just running numbers. The profit curves are so vital. And as I've done this more and more over the last several years I have seen this point driven home time and again through my research. This is why I so often take the time to show the profits curves in the subscriber letter.

Now for the last study of 2015…which is also the same as the last study from 2014. There I wondered whether being down on the day leading into that last 15 minutes mattered. Results are updated below.

Buy SPY at 3:45 on the last trading day of the year if it is trading below the close of the day before. Sell at 4pm EST. $100k/trade. 1998 - 2014.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($2,906.73)	Profit Factor	0.00
Gross Profit	$0.00	Gross Loss	($2,906.73)
Total Number of Trades	8	Percent Profitable	0.00%
Winning Trades	0	Losing Trades	8
Even Trades	0		
Avg. Trade Net Profit	($363.34)	Ratio Avg. Win:Avg. Loss	0.00
Avg. Winning Trade	$0.00	Avg. Losing Trade	($363.34)
Largest Winning Trade	$0.00	Largest Losing Trade	($596.85)

Instances are low but results are certainly lopsided. Every instance closed down and the average 15-minute loss was nearly 0.4%. I thought this deserved a closer look. Below I have listed all the instances.

Buy SPY at 3:45 on the last trading day of the year if it is trading below the close of the day before. Sell at 4pm EST. $100k/trade. 1998 - 2014.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
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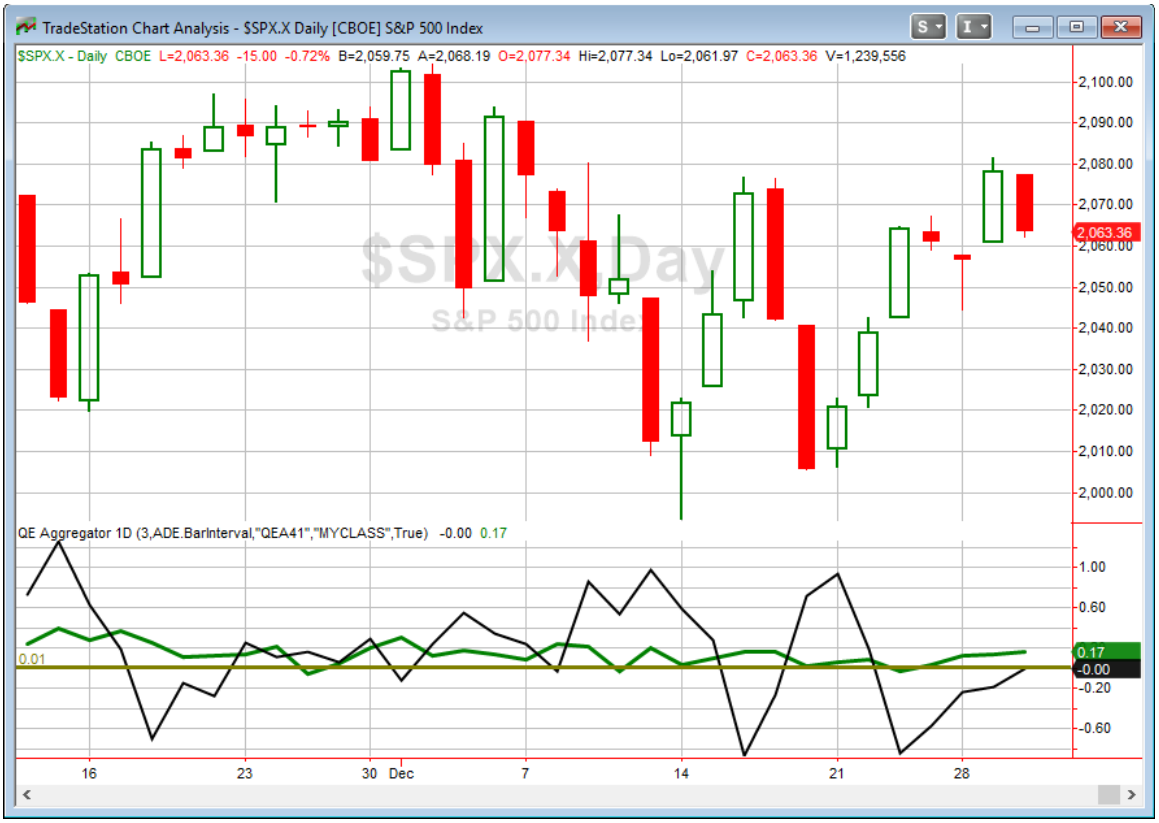
That is a steady stream of strong selloffs and perhaps something to consider as we approach the close on Wednesday.

I have updated the Aggregator chart below.



Tonight the green Aggregator Line moved a little further 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 just barely 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 stayed flat at the close.

Based on the current studies, evidence is set to remain positive on Thursday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2059.32 on Thursday. That is 0.2% below Wednesday's close. So for SPX to move from overbought to oversold versus expectations on Thursday it will only need to close down 0.2%.

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Overall I believe there is a bit of an upside edge over the next few days. But as we see above the end of the year can get scary. To get me interested in taking on long exposure I would like to see a scare. I would also like to see the market close in the lower part of its short-term range. So I will only be a buyer on Thursday if we see a sizable selloff and a weak close. Otherwise, I will wait until 2016 to take on my next trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/28 – bullish

The intermediate-term outlook was last updated in the 12/28/15 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.

SPY – buy @ $204.00 LIMIT ON CLOSE IF IT ALSO CLOSES IN BOTTOM 25% OF INTRADAY RANGE. Based on the short-term outlook above, I will look to get long on a big move down and a weak close. But anything short of that and I will wait until Monday to consider new positions.

Current Open Trade Ideas

None.