

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 14, 2016

Volume 9 Issue 242

Market Overview



Signals Overview

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

Tonight's Research Points

- While Wednesday is a Fed Day, the setup appears less bullish than most Fed Days.

Short-term Outlook

The Bottom Line

Evidence is bullish, but the market is still short-term overbought. This has me neutral and awaiting a more favorable reward/risk opportunity.

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 13, 2016	Higher Hi, Lo, Cl 3x. Dn cls but hi lo up	1-4 days	Bullish	1.40%	-0.70%	-1.50%
December 12, 2016	Dec opex	1-5 days	Bullish	2.00%	-1.10%	-2.20%
Active - Long Term						
December 12, 2016	Dec opex	1-15 days	Bullish	3.60%	-1.70%	-3.50%
December 12, 2016	RSI(2) crosses over 99. Close > 200ma	1-15 days	Bullish	2.30%	-1.40%	-2.70%
December 1, 2016	20-high then poor close	1-10 days	Bullish			
November 11, 2016	SPX 20-high. NDX biggest drop in 20.	1-50 days	Bullish			
April 26, 2016	Golden Cross	int term	Bullish			
November 3, 2014	Quantitative Easing Ends	int term	Bearish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			
Dropped Tonight						
December 8, 2016	SPX 50-high. VIX up 2.5% +	1-4 days	Bearish	-1.50%	0.70%	1.40%

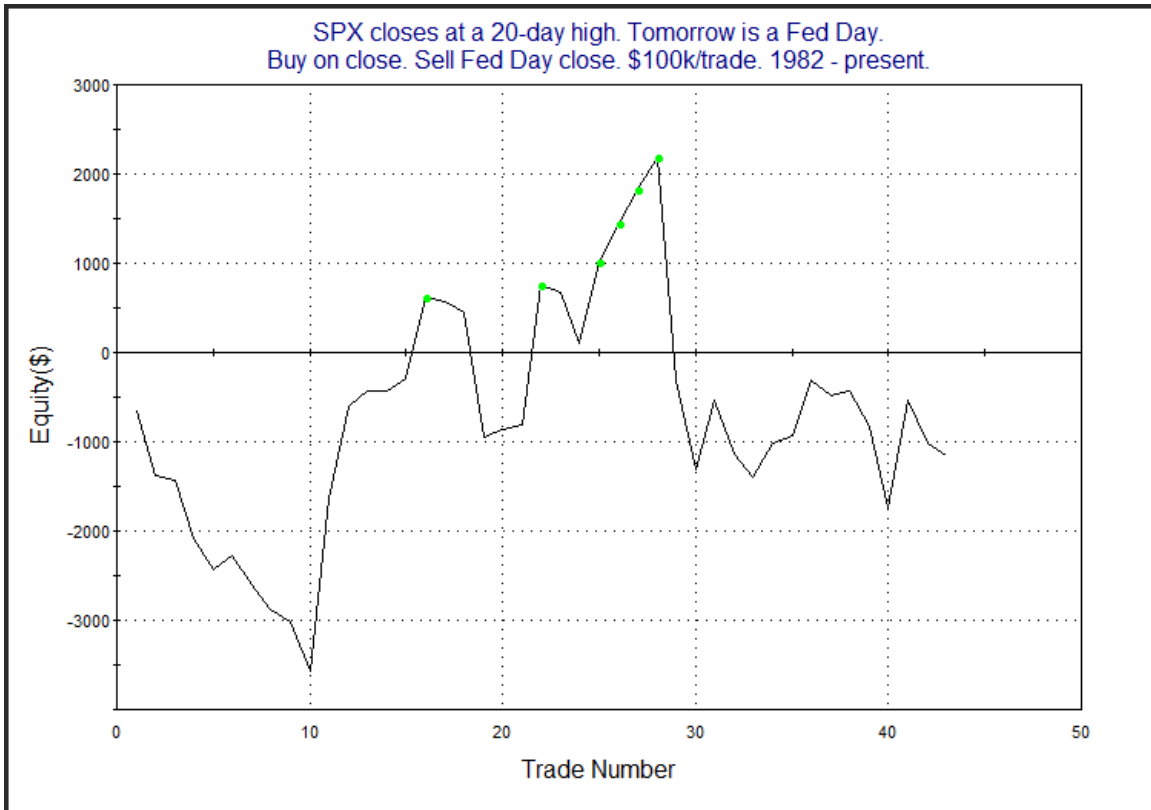
The Evidence

Tuesday was more new highs for the market. The SPX rose 0.65%, the NASDAQ gained 0.95%, and the Russell 2000 climbed 0.03%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 64%. NYSE volume sank some from Monday's level.

Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. I have documented this tendency in great detail over the years, with the most complete documentation coming in [The Quantifiable Edges Guide to Fed Days](#). Based on what the market did today, this does not seem to be the most favorable Fed Day setup. A big reason for this is that SPX closed at a 20-day high on Tuesday. Fed Day bullishness has often occurred when a Fed announcement has helped to alleviate market stress. When the market closes at a 20-day high, it typically means there isn't a lot of worry present. Under these circumstances, the upside inclination has also not been present. I last showed this in the 12/12/12 subscriber letter, and have updated the study below.

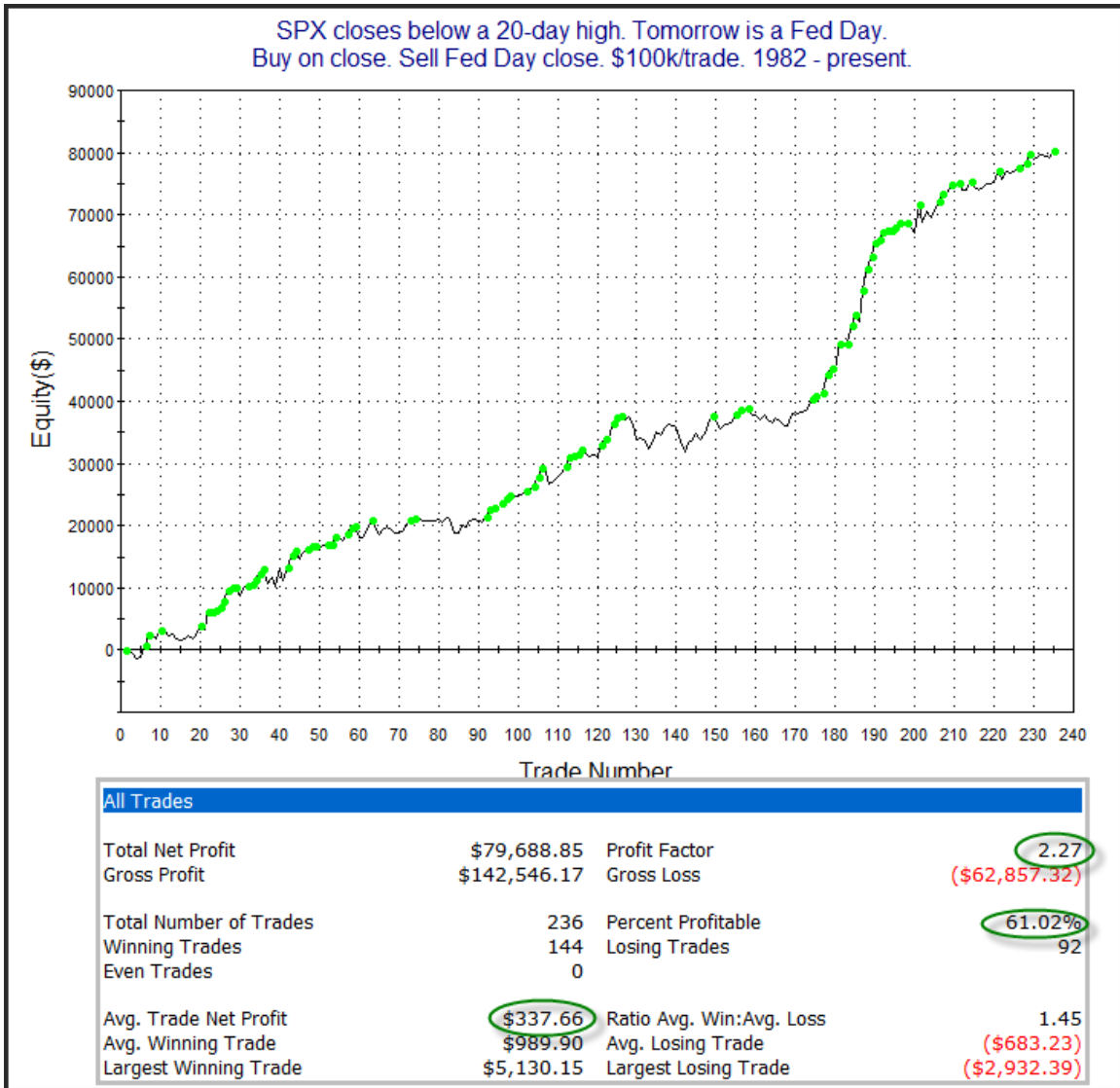
SPX closes at a 20-day high. Tomorrow is a Fed Day.
Buy on close. Sell Fed Day close. \$100k/trade. 1982 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$1,161.93)	Profit Factor	0.91	
Gross Profit	\$11,247.63	Gross Loss	(\$12,409.56)	
Total Number of Trades	43	Percent Profitable	44.19%	
Winning Trades	19	Losing Trades	24	
Even Trades	0			
Avg. Trade Net Profit	(\$27.02)	Ratio Avg. Win:Avg. Loss	1.14	
Avg. Winning Trade	\$591.98	Avg. Losing Trade	(\$517.07)	
Largest Winning Trade	\$1,934.04	Largest Losing Trade	(\$2,492.10)	



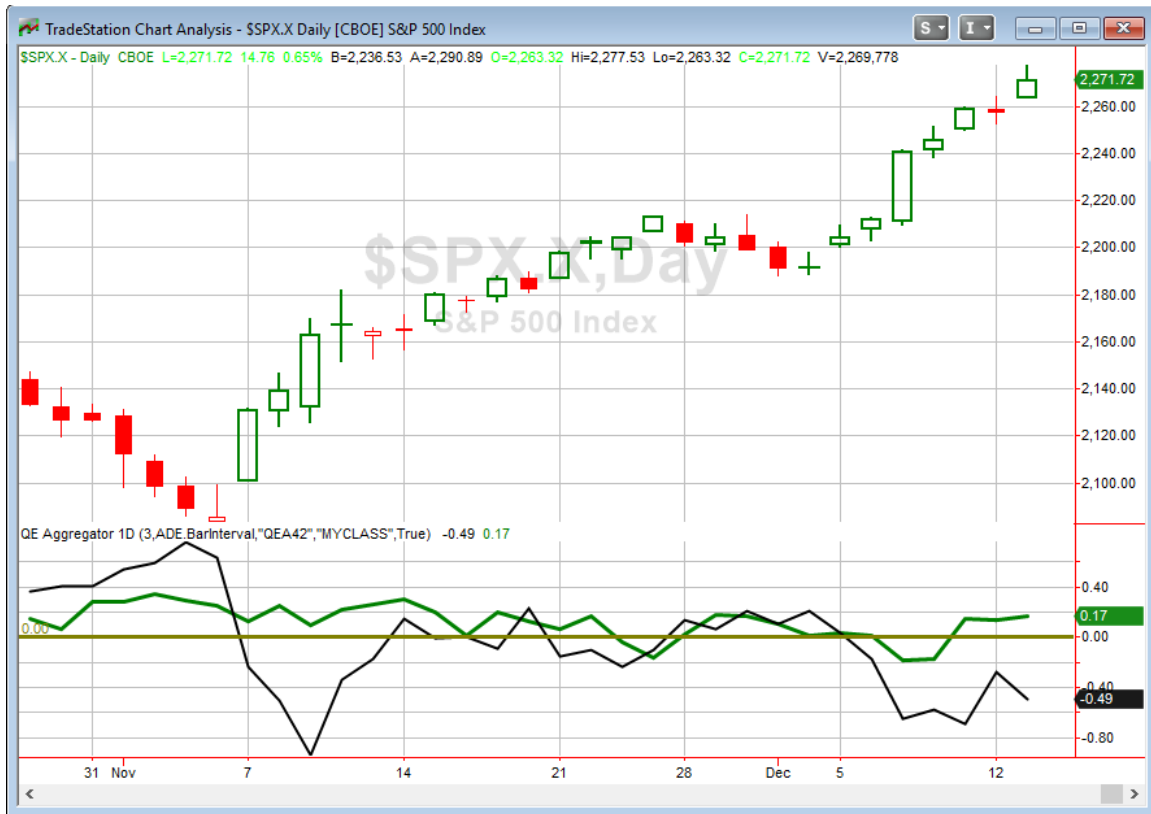
Neither the stats table nor the profit curve suggest any consistency or tradable edge.

As a comparison, here is a profit curve of all Fed Days when SPX did NOT close at a 20-day high the day before.



Unfortunately for the bulls, this is not the situation we find the market in this time.

I have updated the Aggregator chart below.



With nothing substantial to add 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 is still below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Wednesday. Of course, this could change if new bearish evidence emerges. The Differential Pivot will be 2254.81 on Wednesday. That is 0.7% below Tuesday's close. So SPX would need to close down at least 0.7% on Wednesday in order to move from overbought to oversold versus expectations.

Despite recent bullish evidence and the fact that Wednesday is a Fed Day, the market still remains too overbought for my interest. I am waiting for a pullback to provide a more favorable reward/risk scenario in which to enter new positions.

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

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

None

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

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