

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 22, 2016

Volume 9 Issue 248

Market Overview



Signals Overview

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

Tonight's Research Points

- Over the next several days seasonality is set to be especially strong.
- A new Catapult signal triggered.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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 22, 2016	Twas 3 Nights Before Christmas	1-8 days	Bullish			
December 21, 2016	SPY up 2 < 3 ago	1-2 days	Bullish			
Active - Long Term						
December 16, 2016	Russell strong after Dec opex Thurs	1-10 days	Bullish			
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			

The Evidence

Wednesday was a pullback day. SPX posted a loss of 0.25%, the NASDAQ fell 0.23%, and the Russell 2000 dropped 0.63%. Breadth was negative as the NYSE Up Issues % was 46% and the Up Volume % came in at 35%. NYSE volume was light and the intraday range was tight.

The study below is the “Twas 3 Nights Before Christmas” study, and I have shown it each year in the letter. It triggered as of Wednesday’s close. I show here how it has performed for a few of the major indices. First...SPX.

Buy SPX at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	29,865.07	29	21	8	72.41	2,446.70	7,830.30	-2,689.46	-4,698.12	0.91	2.39	1,029.83
9	38,140.72	29	20	9	68.97	2,822.05	7,974.78	-2,033.37	-3,644.64	1.39	3.08	1,315.20
8	45,518.74	29	21	8	72.41	2,612.43	8,333.40	-1,167.78	-2,782.08	2.24	5.87	1,569.61
7	35,984.43	29	20	9	68.97	2,214.03	7,796.76	-921.81	-1,580.04	2.40	5.34	1,240.84
6	25,214.67	29	19	10	65.52	1,802.67	7,752.90	-903.61	-1,768.23	1.99	3.79	869.47
5	31,227.37	29	23	6	79.31	1,658.62	7,247.22	-1,153.50	-2,846.94	1.44	5.51	1,076.81
4	22,860.28	29	20	9	68.97	1,543.54	5,070.22	-890.06	-2,258.85	1.73	3.85	788.29
3	19,371.47	29	20	9	68.97	1,334.81	4,592.40	-813.86	-1,794.00	1.64	3.64	667.98
2	17,604.24	29	22	7	75.86	1,036.87	3,257.17	-743.84	-2,185.04	1.39	4.38	607.04
1	11,237.17	29	22	7	75.86	715.94	2,523.24	-644.79	-1,518.40	1.11	3.49	387.49

27 of 29 instances (93%) closed above the entry price at some point in the next 5 trading days.

The stats all appear quite strong. I would note the “Max Losing Trade” column shows very mild numbers from days 1-8, with no decline reaching 3%.

But as I discussed last week, smallcaps rule this time of year. So let's examine some other indices. First let's look at the Russell 2000.

Buy Russell 2000 at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	55,376.64	29	23	6	79.31	3,346.71	11,169.90	-3,599.63	-6,361.44	0.93	3.56	1,909.54
9	61,614.53	29	22	7	75.86	3,619.62	10,353.42	-2,573.88	-5,973.50	1.41	4.42	2,124.64
8	70,953.79	29	24	5	82.76	3,297.71	9,130.50	-1,638.24	-2,948.40	2.01	9.66	2,446.68
7	62,109.54	29	25	4	86.21	2,701.00	7,189.56	-1,353.86	-2,529.09	2.00	12.47	2,141.71
6	59,122.48	29	23	6	79.31	2,689.15	8,941.50	-454.68	-977.82	5.91	22.67	2,038.71
5	50,998.49	29	24	5	82.76	2,293.98	11,299.50	-811.39	-2,385.63	2.83	13.57	1,758.57
4	35,960.33	29	22	7	75.86	1,908.48	7,987.50	-860.89	-1,845.90	2.22	6.97	1,240.01
3	31,296.49	29	24	5	82.76	1,426.16	5,136.75	-586.29	-1,591.20	2.43	11.68	1,079.19
2	25,584.20	29	22	7	75.86	1,320.44	4,317.75	-495.08	-930.30	2.67	8.38	882.21
1	14,556.04	29	23	6	79.31	756.21	2,299.70	-472.78	-1,354.50	1.60	6.13	501.93

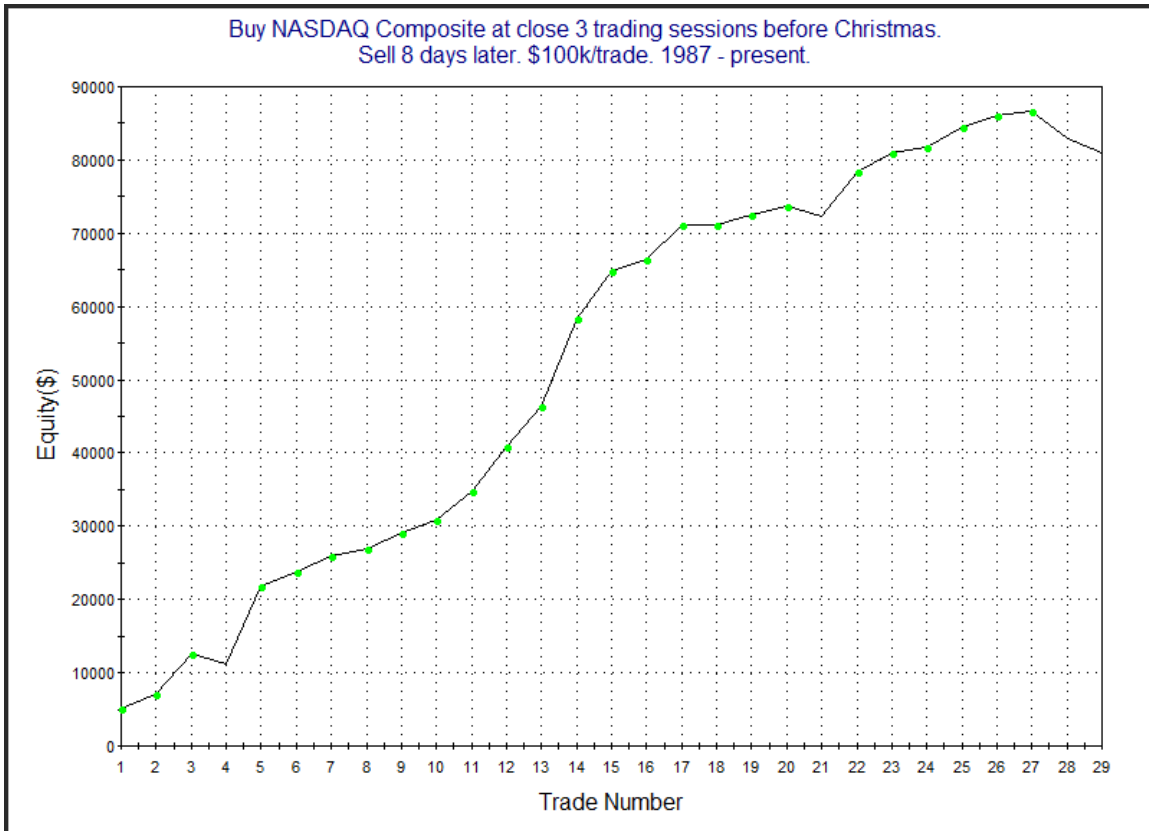
All 29 instances closed above the entry price at some point in the next 4 trading days.

Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

Buy NASDAQ Composite at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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	67,829.79	29	23	6	79.31	3,770.26	12,374.58	-3,147.70	-5,921.92	1.20	4.59	2,338.96
9	74,410.65	29	23	6	79.31	3,860.64	11,558.04	-2,397.34	-5,039.77	1.61	6.17	2,565.88
8	80,878.69	29	25	4	86.21	3,577.41	11,915.40	-2,139.15	-3,773.60	1.67	10.45	2,788.92
7	49,826.85	29	20	9	68.97	3,025.85	9,428.34	-1,187.79	-2,577.00	2.55	5.66	1,718.17
6	46,868.31	29	23	6	79.31	2,295.41	9,407.88	-987.70	-2,010.42	2.32	8.91	1,616.15
5	45,385.26	29	21	8	72.41	2,473.88	9,436.56	-820.77	-2,882.56	3.01	7.91	1,565.01
4	35,335.52	29	21	8	72.41	1,959.61	8,665.86	-727.03	-2,063.36	2.70	7.08	1,218.47
3	31,483.17	29	22	7	75.86	1,645.95	6,748.14	-675.40	-1,927.36	2.44	7.66	1,085.63
2	28,901.34	29	23	6	79.31	1,475.61	7,726.74	-839.60	-2,114.45	1.76	6.74	996.60
1	15,497.01	29	23	6	79.31	872.95	2,423.79	-763.47	-1,439.75	1.14	4.38	534.38

1986 was the only time the NASDAQ failed to close above the entry price at some point in the next 5 days since its inception in 1971 .

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week. Below is the 8-day profit curve.



The curve is impressive despite the mild pullback the last couple of years.

Lastly, let's look at the NDX.

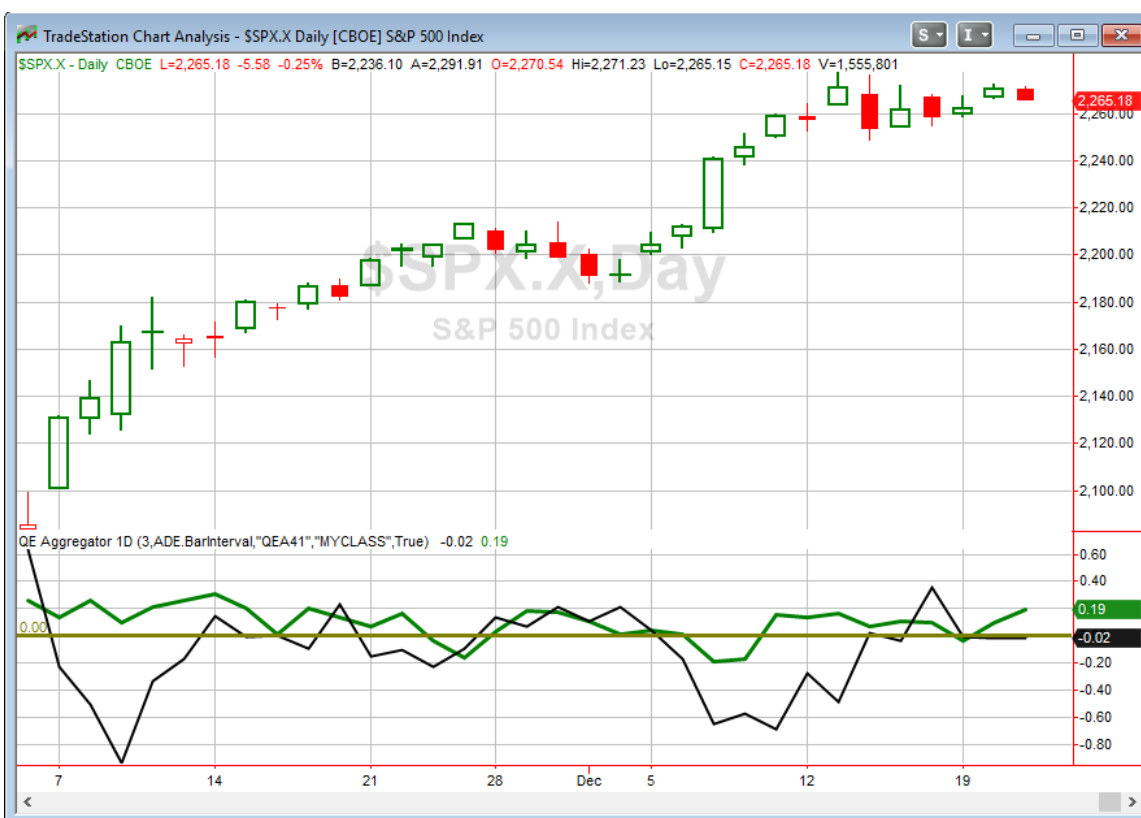
Buy NDX at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - present.

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	68,542.05	29	22	7	75.86	4,132.66	14,811.16	-3,196.65	-5,954.34	1.29	4.06	2,363.52
9	79,139.62	29	22	7	75.86	4,388.66	13,881.66	-2,487.28	-5,095.68	1.76	5.55	2,728.95
8	87,829.43	29	24	5	82.76	4,034.99	14,312.70	-1,802.05	-3,052.33	2.24	10.75	3,028.60
7	53,372.16	29	20	9	68.97	3,311.65	12,688.52	-1,428.99	-3,669.30	2.32	5.15	1,840.42
6	42,641.22	29	21	8	72.41	2,529.71	11,843.52	-1,310.34	-2,893.94	1.93	5.07	1,470.39
5	50,378.83	29	21	8	72.41	2,868.86	11,443.50	-1,233.40	-3,226.03	2.33	6.11	1,737.20
4	39,947.54	29	21	8	72.41	2,303.68	11,245.05	-1,053.71	-2,242.57	2.19	5.74	1,377.50
3	34,684.15	29	20	9	68.97	2,166.85	8,742.60	-961.42	-2,203.20	2.25	5.01	1,196.01
2	32,007.12	29	22	7	75.86	1,803.95	10,167.30	-1,097.11	-3,741.36	1.64	5.17	1,103.69
1	18,464.58	29	22	7	75.86	1,127.66	2,863.84	-906.28	-2,662.20	1.24	3.91	636.71

27 of 29 instances (93%) closed above the entry price at some point in the next 5 trading days.

Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

I have updated the Aggregator chart below.



With tonight's study considered the green Aggregator Line moved 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 held 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 active studies, expectations are set to remain bullish on Thursday. Of course this could easily change if new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2266.41 on Thursday. That is 0.1% above Wednesday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case SPX is going to need to close up a little over 1 point in order to remain overbought. Otherwise it will change to "oversold" as of Thursday's close.

Once again the Aggregator is neutral. And once again I am not seeing good reason to take on new index exposure. I will note that there was one Catapult that triggered and I will look to take advantage of that.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/19 – bullish

Catapult and Capitulative Breadth Statistics

[*Catapult & CBI Presentation Link*](#)

Open Catapult Triggers

New

MDT @ \$71.58 – buy 1/3 @ limit

Broad Market Large Cap CBI – 1(MDT)

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.

MDT – Buy 1/3 Catapult position @ \$71.58 LIMIT. From the Catapult section above, this is the 1st of 3 possible lots of MDT.

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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