

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 30, 2016

Volume 9 Issue 253

Market Overview



Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Long	100% Long XIV	Flat

Tonight's Research Points

- The strong breadth on a day the SPX declines bodes well for the next day.
- 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

Expectations are bullish and reward/risk appears favorable. I am partially long and looking to take advantage of a bounce.

The Evidence

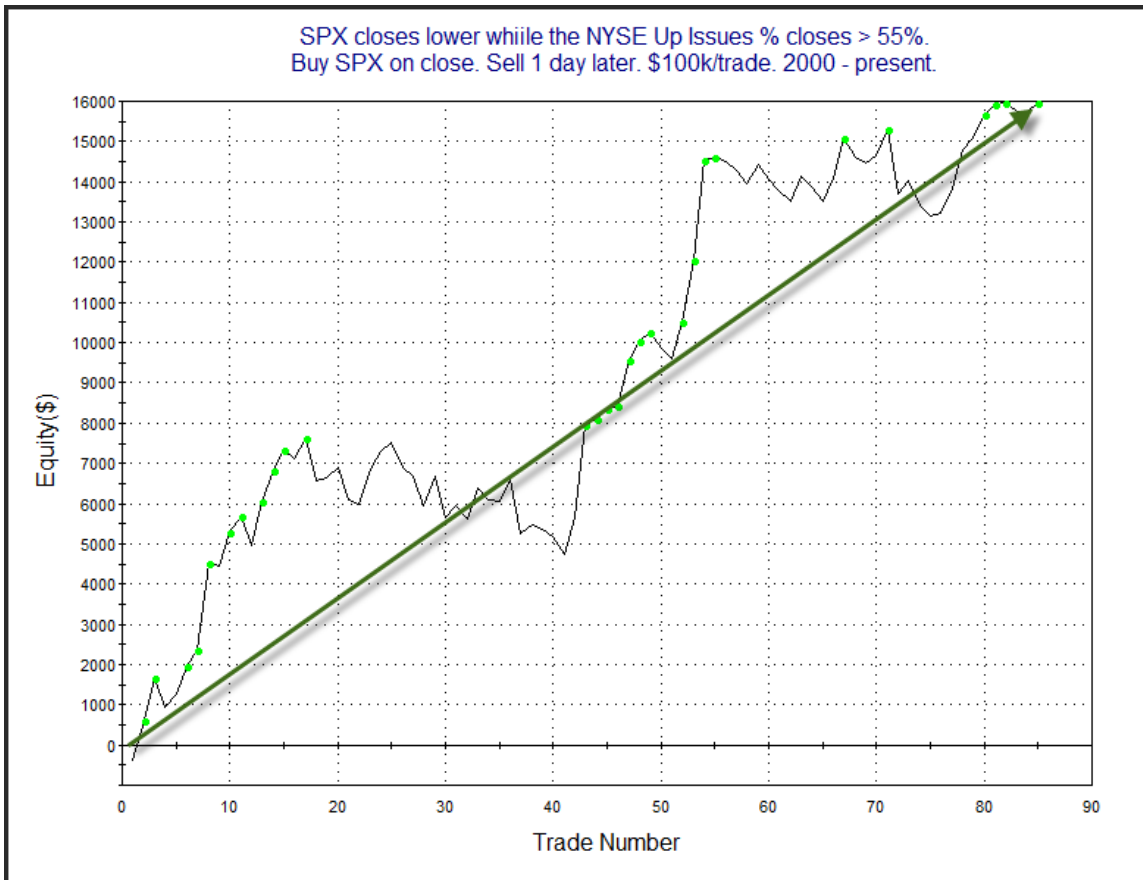
Thursday was mixed and mild. SPX posted a loss of 0.03%, the NASDAQ fell 0.1%, and the Russell 2000 rose 0.2%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 53%. NYSE volume declined a little from Wednesday's level.

There were a few notables worth discussion from the Quantifinder. The study below last appeared in the 12/19/16 letter, and I did find it worth another look. It considered the fact that despite the selloff in the SPX, breadth was fairly strong.

SPX closes lower while the NYSE Up Issues % closes > 55%.
Buy SPX on close. Sell 1 day later. \$100k/trade. 2000 - present.

TradeStation Performance Summary				Expand
All Trades				
Total Net Profit	\$15,954.41	Profit Factor	2.02	
Gross Profit	\$31,590.27	Gross Loss	(\$15,635.86)	
Total Number of Trades	85	Percent Profitable	58.82%	
Winning Trades	50	Losing Trades	35	
Even Trades	0			
Avg. Trade Net Profit	\$187.70	Ratio Avg. Win:Avg. Loss	1.41	
Avg. Winning Trade	\$631.81	Avg. Losing Trade	(\$446.74)	
Largest Winning Trade	\$2,484.00	Largest Losing Trade	(\$1,616.64)	

The numbers suggest a bullish edge. Below is the 1-day profit curve.



Definitely choppy, and not always consistent. But it has made its way from lower left to upper right and is again near new highs. I felt this study was worth some consideration and have included it on the Active List for tonight.

In a study I last showed in the 12/31/15 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 - 2015.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$4,360.31)	Profit Factor	0.12
Gross Profit	\$612.98	Gross Loss	(\$4,973.29)
Total Number of Trades	18	Percent Profitable	16.67%
Winning Trades	3	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$242.24)	Ratio Avg. Win:Avg. Loss	0.62
Avg. Winning Trade	\$204.33	Avg. Losing Trade	(\$331.55)
Largest Winning Trade	\$415.36	Largest Losing Trade	(\$654.48)

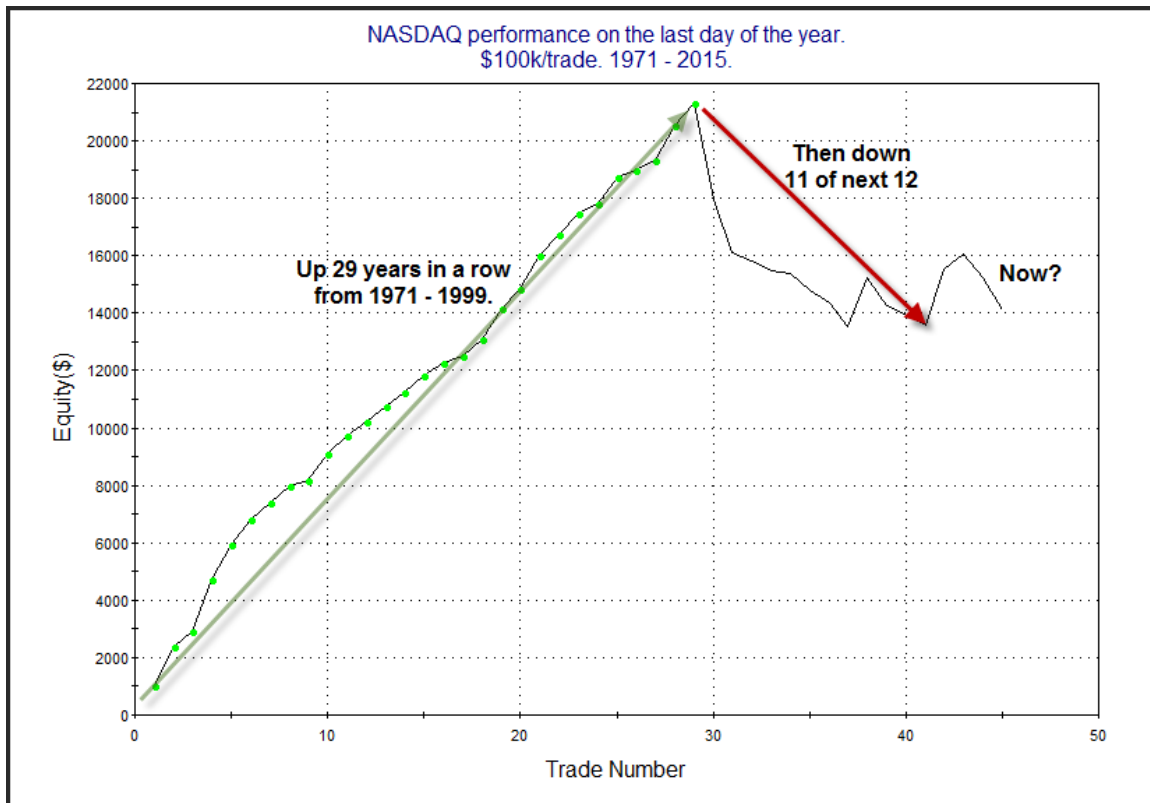
The numbers here are very strong. The average trade has seen SPY drop over 0.2%, and the average losing trade has seen it close down 0.33%. That's a sizable move for a 15-minute period. Below is a list of all the instances.

SPY performance in the last 15 minutes of the YEAR.
\$100k/trade. 1998 - 2015.

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	\$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)
12/31/2015 15:45	Buy	\$204.58	-0.32%	\$68.32
12/31/2015 16:00	Sell	\$203.92		(\$346.48)

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 4 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. 2017 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 9 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. 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 2016...which is also the same as the last study from 2015. There I wondered whether being down on the day leading into that last 15 minutes mattered. Results are updated below.

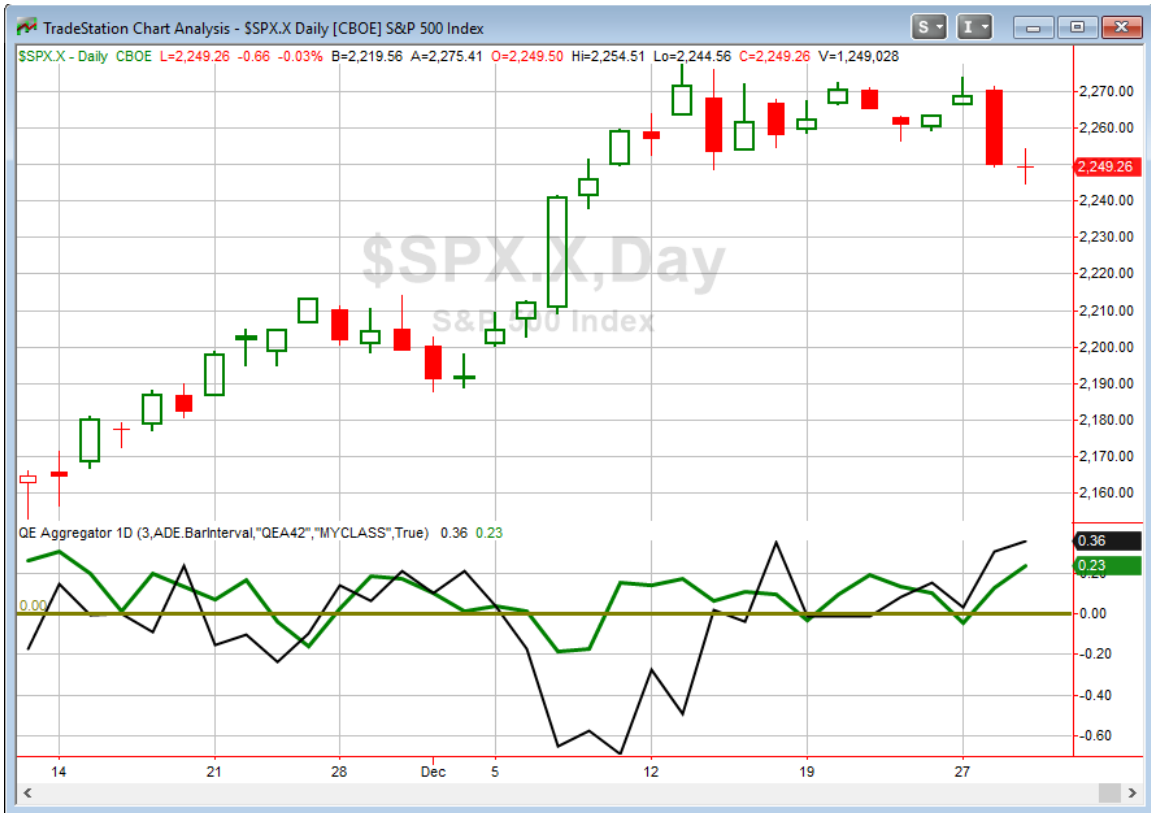
Buy SPY at 3:45 on the last trading day of the year if it is trading below the close of the day before. Sell at 4pm EST. \$100k/trade. 1998 - 2015.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$3,228.81)	Profit Factor	0.00
Gross Profit	\$0.00	Gross Loss	(\$3,228.81)
Total Number of Trades	9	Percent Profitable	0.00%
Winning Trades	0	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	(\$358.76)	Ratio Avg. Win:Avg. Loss	0.00
Avg. Winning Trade	\$0.00	Avg. Losing Trade	(\$358.76)
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 - 2015.				
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 Friday.

I have updated the Aggregator chart below.



With tonight's studies considered the green Aggregator Line remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line also held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to remain bullish on Friday. Of course this could change if new bearish evidence emerges. The Differential Pivot will be 2273.07 on Friday. That is 1.1% above Thursday's close. So SPX will need to close up at least 1.1% to move from oversold to overbought versus expectations.

The Aggregator is again bullish, but 1-day expectations are just barely positive. And tonight's studies certainly suggest that the end of the day on Friday could see some selling. So while I believe there is a good chance the market bounces, and I currently have some long index exposure to take advantage of a potential bounce, I won't be looking to add to that long index exposure on Friday. But GM did see a 2nd Catapult trigger, so I will attempt to add a little bit of exposure that way.

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

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

GM @ \$35.15 – bought 1/3 @ limit

New

GM @ \$35.14 – buy 1/3 @ limit

Broad Market Large Cap CBI – 2(GM-2)

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.

GM – buy 1/3 Catapult position @ \$35.14 limit. This is from the Catapult section above. It is the 2nd of 3 possible lots for GM.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>MDT(1/3)</i>	<i>12/22/2016</i>	<i>\$71.50</i>	<i>\$71.73</i>	<i>0.32%</i>		<i>sold on open</i>
GM(1/3)	12/29/2016	\$35.15	\$35.14	-0.03%		bought @ Limit
SPY(1/4)	12/29/2016	\$224.40	\$224.35	-0.02%		bought @ Limit

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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