

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 8, 2016

Volume 9 Issue 238

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX	QE Buy Pwr / SOMA Swing
Short	100% Short SPY	Flat

## Tonight's Research Points

- The sizable move up in the VIX with SPX hitting a new high suggests bearish implications for the next 1-2 days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is suggesting a downside edge. But evidence is not compelling enough for me to attempt a short-term counter trend trade.

*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
<b>Active - Short Term</b>						
December 8, 2016	SPX 50-high. VIX up 2.5% +	1-4 days	Bearish	-1.50%	0.70%	1.40%
<b>Active - Long Term</b>						
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			
November 8, 2016	20 low yesterday. 4 high today.	1-20 days	Bullish	3.80%	-2.10%	-4.50%
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			
<b>Dropped Tonight</b>						
December 5, 2016	SPX up. VIX up on Friday.	1-3 days	Bearish			
December 1, 2016	Bottom 10% range, 5-day low	1-5 days	Bullish			

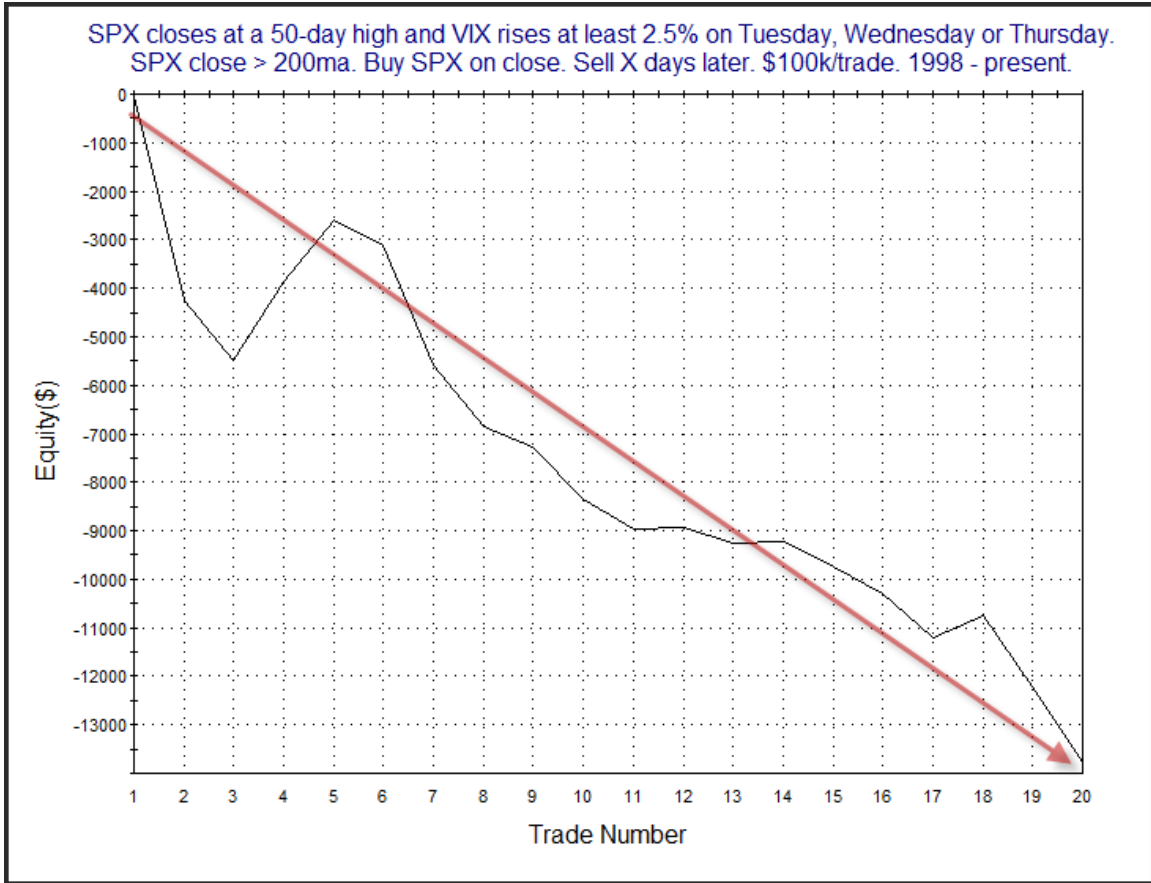
**The Evidence**

Wednesday was a rally day with several indices making new all time highs. The SPX rose 1.3%, the NASDAQ gained 1.1%, and the Russell 2000 rallied 0.9%. Breadth was positive as the NYSE Up Issues % was 75% and the Up Volume % came in at 78%. NYSE volume rose some from Tuesday's level.

There were a few studies related to VIX action that appeared in the Quantifinder. The one below was the most compelling. It last appeared in the 7/25/14 letter. New readers may wonder why I use a day-of-week filter with this study. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. This particular study looks at large mid-week rises in the VIX during times the SPX is closing at a 50-day high. All results are updated.

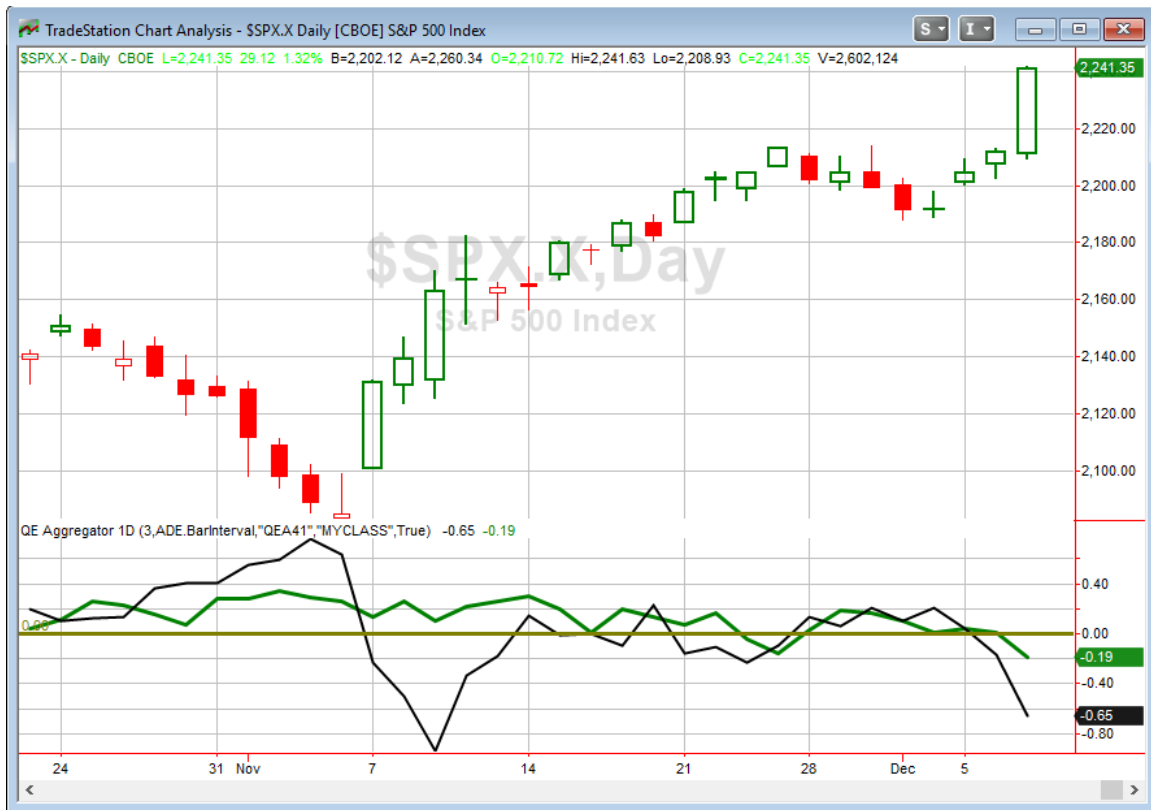
SPX closes at a 50-day high and VIX rises at least 2.5% on Tuesday, Wednesday or Thursday. SPX close > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,334.69	20	7	13	35.00	847.66	2,108.40	-1,405.26	-4,149.36	0.60	0.32	-616.73
4	-13,775.15	20	5	15	25.00	677.71	1,629.60	-1,144.25	-4,240.48	0.59	0.20	-688.76
3	-11,134.77	20	7	13	35.00	553.18	1,271.55	-1,154.39	-4,423.40	0.48	0.26	-556.74
2	-7,791.71	20	3	17	15.00	557.21	1,192.71	-556.67	-1,461.48	1.00	0.18	-389.59
1	-2,779.55	23	11	12	47.83	264.41	1,108.05	-474.00	-1,008.70	0.56	0.51	-120.85
<b>100% of instances closed below the entry price at some point in the next 4 days.</b>												

The numbers are quite lopsided. Below is a profit curve assuming a 4-day exit strategy.



Nice, steady decline. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.



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

Based on the current list of active studies, expectations are set to remain negative on Thursday. Of course, this could change if new bullish evidence emerges. The Differential Pivot will be 2207.63 on Thursday. That 1.5% below Wednesday's close. So SPX would need to close down at least 1.5% on Thursday in order to move from overbought to oversold versus expectations. That is a sizable 1-day drop. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So there appears to be a short-term bearish edge to the market. Of course this is counter to both the larger trend and the intermediate-term outlook. So it carries a bit more risk than a trade in the direction of the larger trend. I will take counter-trend trades, but I am not inclined to do so right here, for two reasons. One is that evidence is a little light with just the one short-term study. Also, we are just now entering a SOMA expansion week, when bulls will have positive liquidity to aid them. So bears will not only have the trend and

intermediate-term expectations against them, but will also be battling a liquidity headwind. That's too much for me to get excited about a trade when confirming evidence is lacking. So while more aggressive traders could consider a possible short position to take advantage of the downside edge, I will remain flat for the time being.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 12/5– somewhat 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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