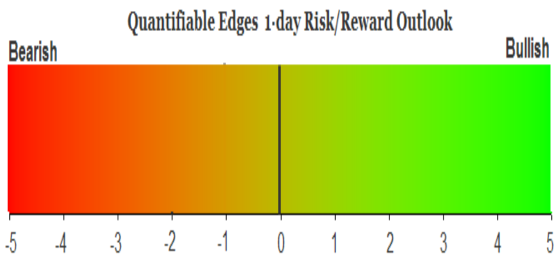
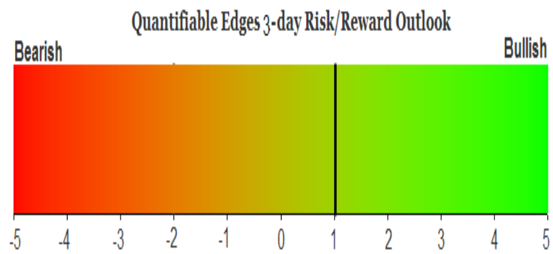
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 16, 2016 Volume 9 Issue 244

Market Overview





Signals Overview

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

Tonight's Research Points

- Thursday's unfilled gap up along with it being an inside day suggests a 1-day bearish edge for Friday.
- Strong Russell 2000 seasonality is now kicking in.

Short-term Outlook

The Bottom Line

Friday's outlook is neutral, but there is a decent chance the outlook will shift back to bullish after that. Seems like a good time to let my open long position ride.

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Summary of Recent Active Studies (see Letters from listed dates for details) – list not updated tonight

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

Thursday saw the market bounce back some from Wednesday's selling. The SPX gained 0.4%, the NASDAQ also rose 0.4%, and the Russell 2000 rallied 0.8%. Breadth was positive as the NYSE Up Issues % was 55% and the Up Volume % came in at 60%. NYSE volume pulled back a little from Thursday's level.

There were a few studies tonight that are worth discussion. The first one below was last seen in the 10/6/16 Letter. It looks at days like Thursday where the market gaps higher, never fills, and moves higher from open to close without making a higher high. I've updated the results below.

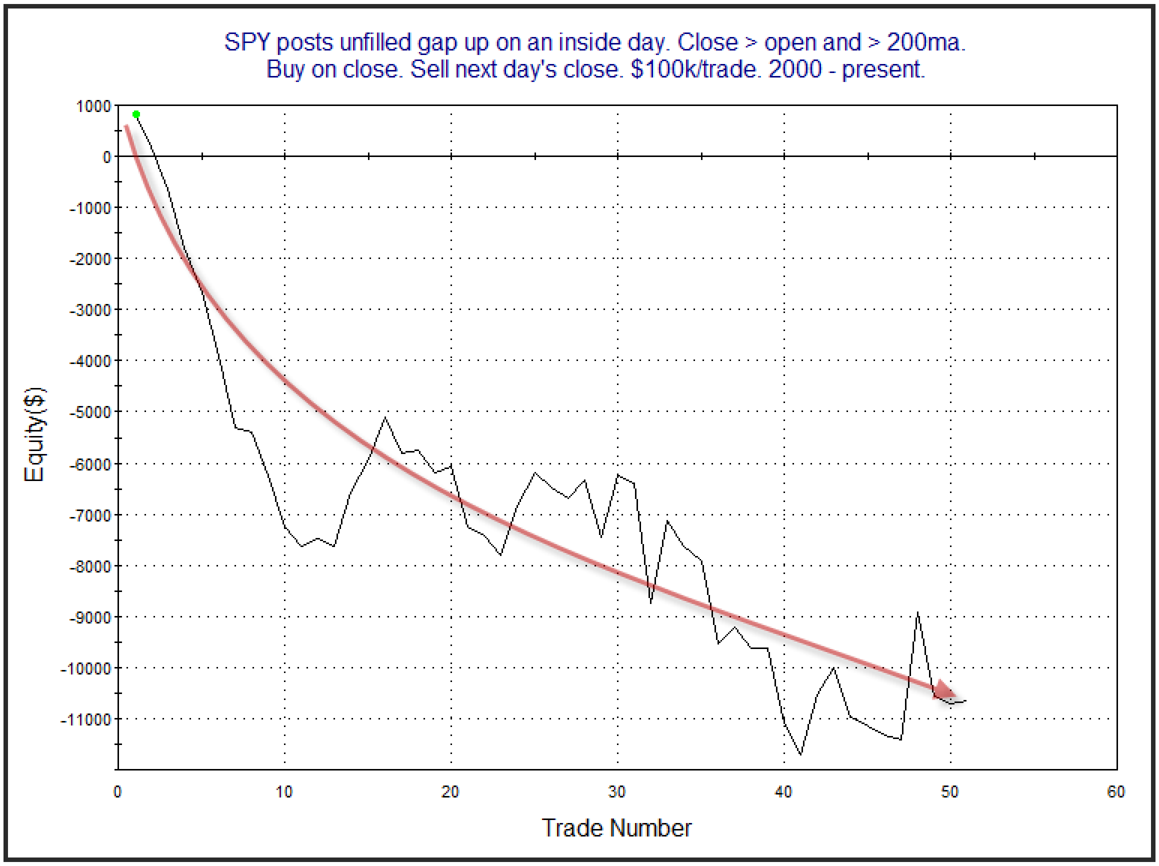
SPY posts unfilled gap up on an inside day. Close > open and > 200ma.
Buy on close. Sell next day's close. $100k/trade. 2000 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	($10,643.88)	Profit Factor	0.55
Gross Profit	$13,026.75	Gross Loss	($23,670.63)
Total Number of Trades	51	Percent Profitable	33.33%
Winning Trades	17	Losing Trades	33
Even Trades	1		
Avg. Trade Net Profit	($208.70)	Ratio Avg. Win:Avg. Loss	1.07
Avg. Winning Trade	$766.28	Avg. Losing Trade	($717.29)
Largest Winning Trade	$2,470.05	Largest Losing Trade	($2,348.90)

Implications here appear somewhat bearish. I'd also note that 45 of 51 instances (88%) closed below the entry price at some point in the next week. Below is a profit curve that shows how the downside edge has played out over time.



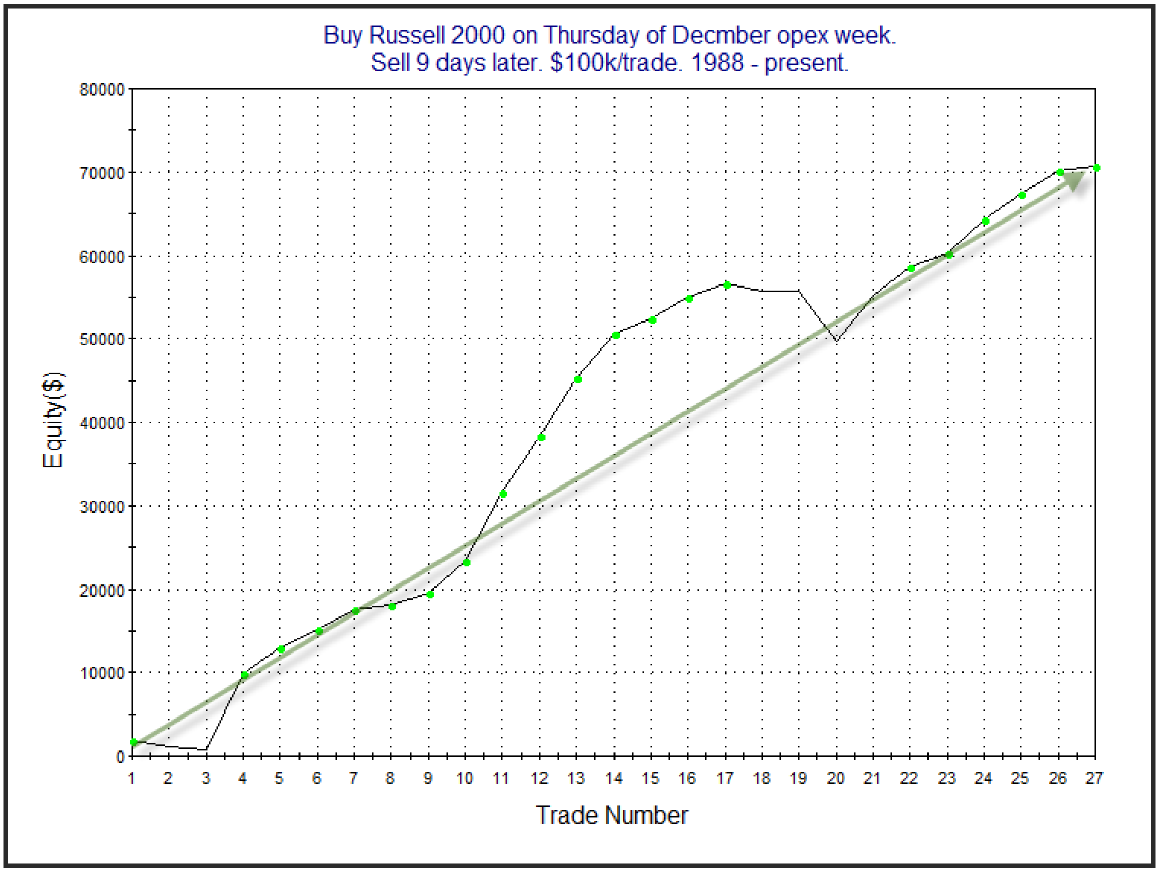
This is not an ideal profit curve but it still appears to suggest a downside edge.

Next is a study I last showed in the 12/18/15 subscriber letter that looks at buying the Russell 2000 on opex Thursday in December and holding for up to 2 weeks.

Buy Russell 2000 on Thursday of Decmber opex week.
Sell X days later. $100k/trade. 1988 - 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	73,643.76	27	22	5	81.48	3,846.71	10,279.71	-2,196.75	-5,643.30	1.75	7.70	2,727.55
9	70,688.45	27	23	4	85.19	3,418.68	9,009.63	-1,985.28	-5,973.50	1.72	9.90	2,618.09
8	60,403.06	27	23	4	85.19	2,828.34	7,115.85	-1,162.20	-2,948.40	2.43	13.99	2,237.15
7	52,476.49	27	22	5	81.48	2,609.65	7,790.58	-987.18	-1,809.60	2.64	11.63	1,943.57
6	40,291.77	27	20	7	74.07	2,343.23	6,599.88	-938.98	-2,720.64	2.50	7.13	1,492.29
5	29,072.74	27	19	8	70.37	2,075.77	4,892.25	-1,295.86	-3,194.64	1.60	3.80	1,076.77
4	21,904.97	27	18	9	66.67	1,947.37	4,413.75	-1,460.86	-3,892.32	1.33	2.67	811.30
3	18,646.66	27	17	10	62.96	1,850.57	3,814.20	-1,281.31	-2,650.68	1.44	2.46	690.62
2	9,637.18	27	16	11	59.26	1,370.25	3,495.70	-1,116.99	-2,810.39	1.23	1.78	356.93
1	11,488.64	27	16	11	59.26	918.13	2,299.70	-291.04	-816.48	3.15	4.59	425.51

Results here are outstanding. But a look at the max loss column shows you that it has not been without risk. Below is an equity curve that assumes a 9-day exit strategy.



In 2005 and 2007 the Russell saw declines, but the last 8 years have all been higher, keeping the curve right on track.

I have updated the Aggregator chart below.

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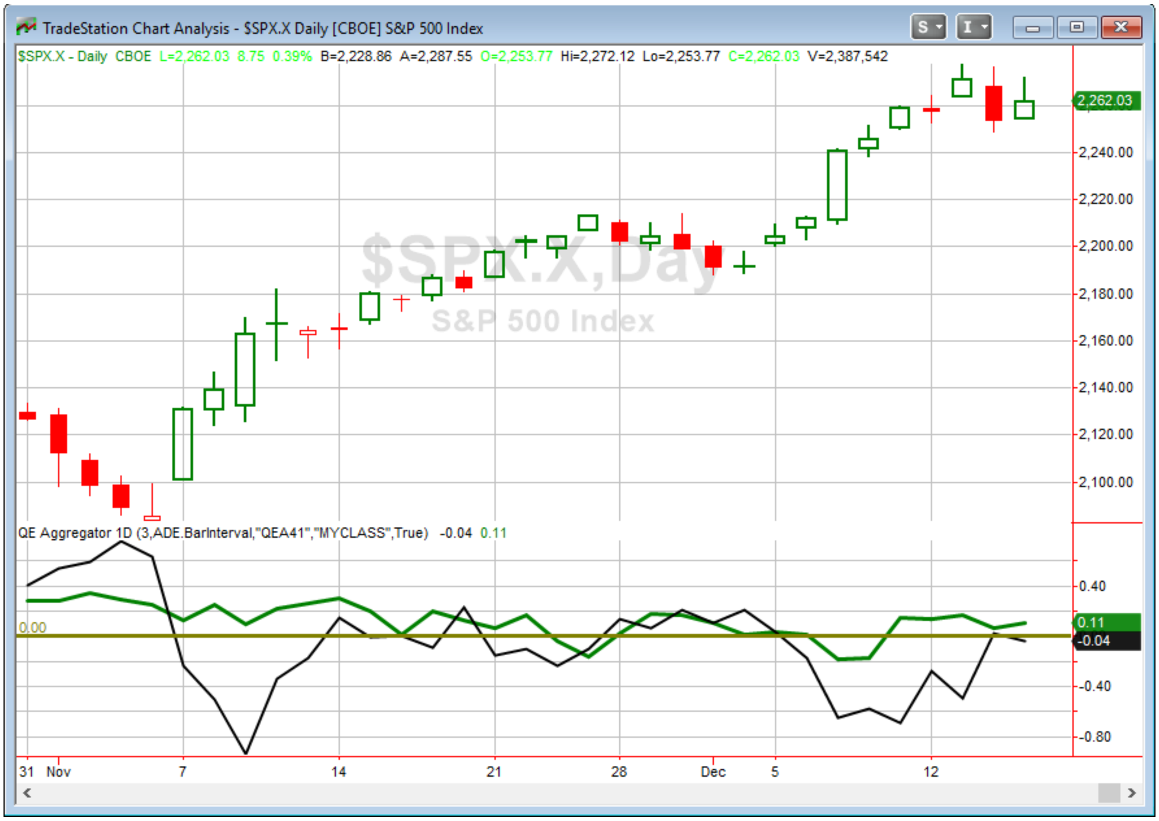

With tonight's studies considered the green Aggregator Line held above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile the black Differential Line dipped slightly below 0. The negative Differential Line reading means SPX is overbought 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 turned flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Friday. Of course, this could change if new bearish evidence emerges. The Differential Pivot will be *highly inverted at* 2281.99 on Friday. That is 0.9% *above* Thursday'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 at least 0.9% in order to remain overbought versus expectations. Anything short of that and SPX will be considered oversold as of Friday's close.

So while the Aggregator formation is neutral, it appears primed to turn back to bullish as of Friday's close. I already have a small amount of index exposure in IWM. I am also encouraged by tonight's strong seasonal study for the Russell 2000 (IWM). While I am not inclined to take on new positions Friday with the Aggregator neutral, I am willing to let my current position ride, in anticipation of further upside.

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
IWM(1/4)	12/15/2016	$135.15	$136.16	0.75%		Aggregator

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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