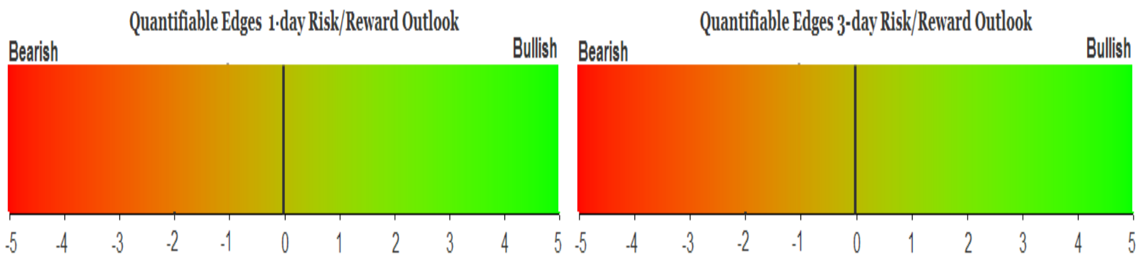
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 22, 2017 Volume 10 Issue 119

Market Overview



Signals Overview

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

Tonight's Research Points

- We have seen a cluster of Hindenburg Omen triggers in the last several days. This can be a bearish indication for the intermediate-term.

Short-term Outlook
The Bottom Line

The song remains the same. The Aggregator remains neutral. Expectations after Thursday are somewhat up in the air. I do not have a strong directional bias.

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The Evidence

Wednesday was a mixed day for the market. The SPX fell 0.1%, the NASDAQ rallied 0.7%, and the Russell 2000 lost 0.3%. Breadth was negative as the NYSE Up Issues % was 36% and the Up Volume % came in at 31%. NYSE volume rose a little from Tuesday's level.

One notable is that there have been 4 Hindenburg Omen signals that triggered this past week. I discussed the Hindenburg Omen in detail in the 12/8/14 letter, and have updated the research and my thoughts below.

The Hindenburg Omen was created by Jim Miekka in 1995. It looks to identify times when there is a split market developing, which could signal trouble ahead. Friday marked the 6th recent Hindenburg Omen signal. Note, there have been some discrepancy in the rules over the years. To get larger sample sizes, I have used the less-strict rules in my testing. The rules I use are below.

1. The daily number of NYSE new 52 week highs and the daily number of new 52 week lows are both greater than or equal to 2.8 percent (typically about 84) of the sum of NYSE issues that advance or decline that day (typically, around 3000). The original version of the indicator used 2.2%. When I originally researched the Hindenburg Omens a few years ago, 2.2% was the number I used, and it is the number I again use in the studies below. (Two side notes: 1) If I use 2.8% rather than 2.2% there have only been 6 instances since 1980 where there has been a cluster of 3 or more triggers. Five saw lower prices ahead, but this does not give us a sample size that is really workable. 2) Over time I have also seen published different places levels of 2.4% and 2.5%, so there is often some confusion over this requirement.)
2. The NYSE index is greater in value than it was 50 trading days ago. Originally, this was expressed as a rising 10 week moving average, but the new rule is more relevant to the daily data used to look at new highs and lows.
3. The McClellan Oscillator is negative on the same day.
4. New 52 week highs cannot be more than twice the new 52 week lows (though new 52 week lows may be more than double new highs).

It is generally viewed that a single Hindenburg Omen signal is not a reliable indication of a market top, but that numerous signals provide a more reliable indication of danger. This is something I explored in the past and updated today. So let's look at some numbers. This first table shows results of entering the market when the 1st signal triggers.

Buy SPX when 1st Hindenburg Omen Trigger.s
Sell X days later. $100k/trade. 1980 - 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
100	31,473.63	28	17	11	60.71	6,093.19	13,171.60	-6,555.51	-19,079.85	0.93	1.44	1,124.06
95	31,368.13	29	18	11	62.07	5,939.99	17,946.48	-6,868.34	-22,416.88	0.86	1.42	1,081.66
90	12,900.64	30	16	14	53.33	6,195.40	15,961.92	-6,158.98	-20,572.65	1.01	1.15	430.02
85	24,699.70	31	18	13	58.06	6,456.37	16,670.24	-7,039.61	-21,465.22	0.92	1.27	796.76
80	9,223.68	31	17	14	54.84	6,469.55	16,583.84	-7,197.05	-21,552.30	0.90	1.09	297.54
75	3,549.25	31	17	14	54.84	6,045.49	14,501.70	-7,087.43	-22,917.59	0.85	1.04	114.49
70	3,891.81	31	16	15	51.61	6,949.42	17,714.32	-7,153.26	-20,289.64	0.97	1.04	125.54
65	-9,703.47	31	16	15	51.61	6,292.11	16,609.84	-7,358.48	-21,508.76	0.86	0.91	-313.02
60	-26,336.12	31	15	16	48.39	5,869.92	17,197.44	-7,149.06	-24,323.31	0.82	0.77	-849.55
55	-46,415.54	32	16	16	50.00	5,011.53	14,306.24	-7,912.50	-27,246.71	0.63	0.63	-1,450.49
50	-25,718.43	32	15	17	46.88	5,377.12	14,509.04	-6,257.37	-29,846.67	0.86	0.76	-803.70
45	-12,952.68	33	18	15	54.55	4,480.34	13,151.98	-6,239.92	-23,971.88	0.72	0.86	-392.51
40	-21,464.91	33	15	18	45.45	5,132.51	12,520.58	-5,469.59	-23,520.93	0.94	0.78	-650.45
35	-17,306.98	35	18	17	51.43	4,407.86	12,021.20	-5,685.21	-24,659.19	0.78	0.82	-494.49
30	-15,657.78	37	19	18	51.35	3,970.08	9,855.58	-5,060.52	-22,460.42	0.78	0.83	-423.18
25	-12,623.58	39	20	19	51.28	4,078.02	9,781.64	-4,957.05	-27,340.01	0.82	0.87	-323.68
20	-13,570.60	40	22	18	55.00	3,245.74	9,257.67	-4,720.94	-19,533.91	0.69	0.84	-339.27
15	5,658.38	44	22	22	50.00	2,650.20	9,103.68	-2,393.00	-8,166.80	1.11	1.11	128.60
10	-11,129.00	50	24	26	48.00	2,092.40	9,012.33	-2,359.49	-7,899.90	0.89	0.82	-222.58
5	-21,049.09	64	26	38	40.63	1,456.24	4,926.56	-1,550.30	-5,775.12	0.94	0.64	-328.89

The numbers here certainly aren't encouraging for the bull case, but they don't appear to be terribly dire either.

Let's now look at results if instead of entering after the 1st trigger, you purchase only if the trigger is at least the 2nd one in a 30-day period, which is a common time-period that Hindenburg watchers look for.

Buy SPX when 2nd Hindenburg Omen Triggers. Sell X days later. $100k/trade. 1980 - 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
100	38,472.62	17	12	5	70.59	6,322.11	17,883.98	-7,478.53	-18,879.12	0.85	2.03	2,263.10
95	36,142.25	18	13	5	72.22	6,114.93	17,605.78	-8,670.38	-21,212.88	0.71	1.83	2,007.90
90	33,643.95	18	14	4	77.78	5,236.48	20,476.59	-9,916.68	-20,011.68	0.53	1.85	1,869.11
85	15,106.48	20	11	9	55.00	6,729.03	20,455.19	-6,545.87	-21,883.68	1.03	1.26	755.32
80	10,251.11	20	12	8	60.00	5,618.25	18,961.47	-7,145.99	-21,961.68	0.79	1.18	512.56
75	12,533.60	20	12	8	60.00	6,338.25	17,861.51	-7,940.67	-23,181.60	0.80	1.20	626.68
70	4,734.53	20	13	7	65.00	5,523.98	21,700.67	-9,582.46	-19,060.08	0.58	1.07	236.73
65	-18,435.17	20	11	9	55.00	5,575.53	20,504.41	-8,862.89	-23,131.68	0.63	0.77	-921.76
60	-12,751.53	20	11	9	55.00	5,133.80	19,457.95	-7,691.48	-22,011.60	0.67	0.82	-637.58
55	-26,226.76	21	12	9	57.14	4,359.69	18,625.49	-8,727.00	-26,329.68	0.50	0.67	-1,248.89
50	-19,549.91	22	12	10	54.55	4,816.23	17,961.02	-7,734.46	-29,889.60	0.62	0.75	-888.63
45	-15,184.16	23	11	12	47.83	4,681.80	16,345.32	-5,557.00	-24,766.56	0.84	0.77	-660.18
40	-19,548.54	23	10	13	43.48	4,891.91	14,615.13	-5,266.74	-24,853.92	0.93	0.71	-849.94
35	-17,534.73	23	11	12	47.83	4,202.91	13,303.31	-5,313.90	-22,211.28	0.79	0.73	-762.38
30	-22,439.68	23	12	11	52.17	3,566.16	11,007.09	-5,930.33	-20,354.88	0.60	0.66	-975.64
25	-27,624.61	26	14	12	53.85	3,391.45	10,173.56	-6,258.74	-23,381.28	0.54	0.63	-1,062.48
20	-34,768.67	27	11	16	40.74	2,895.24	8,886.35	-4,163.52	-22,295.52	0.70	0.48	-1,287.73
15	-5,713.09	29	14	15	48.28	2,115.26	8,305.02	-2,355.11	-6,748.56	0.90	0.84	-197.00
10	-14,819.13	35	11	24	31.43	2,427.68	9,247.23	-1,730.15	-5,748.21	1.40	0.64	-423.40
5	-4,752.01	46	18	28	39.13	1,810.13	6,245.73	-1,333.37	-4,179.84	1.36	0.87	-103.30

Some of these numbers look a little worse, but you'd probably need to squint to notice. I next checked instances that triggered a 3rd signal in a 30-day period.

Buy SPX when 3rd Hindenburg Omen Triggers. Sell X days later. $100k/trade. 1980 - 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
100	31,138.79	13	9	4	69.23	5,765.68	18,512.90	-5,188.08	-16,085.07	1.11	2.50	2,395.29
95	21,214.83	13	8	5	61.54	5,754.40	16,070.66	-4,964.07	-16,770.54	1.16	1.85	1,631.91
90	5,683.93	13	7	6	53.85	6,087.13	18,595.58	-6,154.33	-19,277.67	0.99	1.15	437.23
85	11,731.12	13	8	5	61.54	6,007.66	18,884.96	-7,266.03	-21,362.25	0.83	1.32	902.39
80	-8,997.45	14	6	8	42.86	6,763.52	16,528.58	-6,197.32	-19,449.82	1.09	0.82	-642.67
75	-1,909.11	14	6	8	42.86	8,727.81	18,289.24	-6,784.49	-22,758.23	1.29	0.96	-136.36
70	-13,254.54	14	7	7	50.00	6,310.69	19,119.22	-8,204.19	-21,021.08	0.77	0.77	-946.75
65	-27,793.37	14	5	9	35.71	6,294.11	17,909.76	-6,584.88	-23,731.66	0.96	0.53	-1,985.24
60	-26,171.42	14	6	7	42.86	4,593.54	17,209.10	-7,676.10	-22,576.69	0.60	0.51	-1,869.39
55	-27,006.77	14	5	9	35.71	6,021.56	17,905.52	-6,346.06	-20,673.65	0.95	0.53	-1,929.06
50	-18,631.49	15	6	9	40.00	5,842.99	17,255.74	-5,965.49	-22,263.69	0.98	0.65	-1,242.10
45	-28,293.19	15	6	9	40.00	4,708.08	15,507.80	-6,282.41	-25,143.29	0.75	0.50	-1,886.21
40	-37,098.17	15	5	10	33.33	4,942.25	13,700.50	-6,180.94	-26,846.01	0.80	0.40	-2,473.21
35	-32,910.92	15	3	12	20.00	6,823.64	11,461.78	-4,448.49	-22,795.79	1.53	0.38	-2,194.06
30	-31,305.64	16	8	8	50.00	3,666.89	10,991.14	-7,580.09	-23,844.34	0.48	0.48	-1,956.60
25	-37,837.16	18	8	10	44.44	3,513.28	9,841.04	-6,594.34	-25,105.73	0.53	0.43	-2,102.06
20	-38,827.03	18	7	11	38.89	3,215.60	8,458.80	-5,576.02	-21,406.07	0.58	0.37	-2,157.06
15	-34,372.96	20	9	11	45.00	2,586.88	7,078.68	-5,241.35	-26,924.26	0.49	0.40	-1,718.65
10	-43,053.85	23	8	15	34.78	1,632.83	3,400.10	-3,741.10	-25,784.94	0.44	0.23	-1,871.91
5	-12,342.24	30	11	19	36.67	1,275.09	4,174.28	-1,387.80	-3,509.22	0.92	0.53	-411.41

Between 35 and 55 days out there appears to be somewhat weak returns on a small sample size.

I also updated the stats when 4 signals occur.

Buy SPX when 4th Hindenburg Omen Triggers.
Sell X days later. $100k/trade. 1980 - present.

QE Hindenburg2 daysin	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
100	17,667.47	9	7	2	77.78	3,498.10	7,362.09	-3,409.63	-3,671.20	1.03	3.59	1,963.05
95	13,368.95	9	5	4	55.56	4,775.58	6,207.97	-2,627.24	-4,635.15	1.82	2.27	1,485.44
90	4,008.19	9	4	5	44.44	3,531.89	5,450.48	-2,023.87	-6,882.20	1.75	1.40	445.35
85	10,183.26	9	5	4	55.56	4,030.32	7,141.18	-2,492.08	-6,553.95	1.62	2.02	1,131.47
80	5,508.05	9	4	5	44.44	4,221.61	7,248.39	-2,275.68	-6,169.80	1.86	1.48	612.01
75	-408.15	10	4	6	40.00	5,234.61	8,515.03	-3,557.76	-9,034.35	1.47	0.98	-40.82
70	-1,794.06	10	6	4	60.00	2,614.22	5,115.04	-4,369.85	-9,322.50	0.60	0.90	-179.41
65	-23,784.18	10	3	7	30.00	1,952.18	4,280.64	-4,234.39	-10,467.60	0.46	0.20	-2,378.42
60	-25,129.96	10	5	5	50.00	1,426.49	4,358.48	-6,452.49	-11,602.80	0.22	0.22	-2,513.00
55	-23,239.93	10	4	6	40.00	2,245.27	5,385.52	-5,370.17	-8,851.04	0.42	0.28	-2,323.99
50	-22,996.90	11	5	6	45.45	2,550.91	3,934.12	-5,958.57	-9,484.48	0.43	0.36	-2,090.63
45	-27,763.19	11	3	8	27.27	2,821.99	3,730.16	-4,528.65	-14,483.52	0.62	0.23	-2,523.93
40	-25,515.97	11	3	8	27.27	2,665.81	3,315.35	-4,189.17	-11,881.28	0.64	0.24	-2,319.63
35	-43,346.47	11	2	9	18.18	2,112.64	3,328.16	-5,285.75	-14,149.68	0.40	0.09	-3,940.59
30	-25,009.67	12	5	7	41.67	2,329.77	5,262.60	-5,236.93	-13,730.24	0.44	0.32	-2,084.14
25	-23,279.29	13	6	7	46.15	2,555.45	6,253.80	-5,516.00	-12,334.96	0.46	0.40	-1,790.71
20	-23,741.25	13	3	10	23.08	3,445.45	4,796.40	-3,407.76	-9,664.24	1.01	0.30	-1,826.25
15	-15,277.21	13	5	8	38.46	2,432.10	4,301.89	-3,429.71	-8,405.92	0.71	0.44	-1,175.17
10	-13,905.15	17	6	11	35.29	1,538.77	2,854.88	-2,103.44	-6,566.95	0.73	0.40	-817.95
5	-17,636.10	19	4	15	21.05	1,686.77	2,929.92	-1,625.55	-4,884.75	1.04	0.28	-928.22

There are only 11 instances when looking out 35-50 days, but with 9 of them being down 35 days later these results warrant closer investigation. Below are the individual instances.

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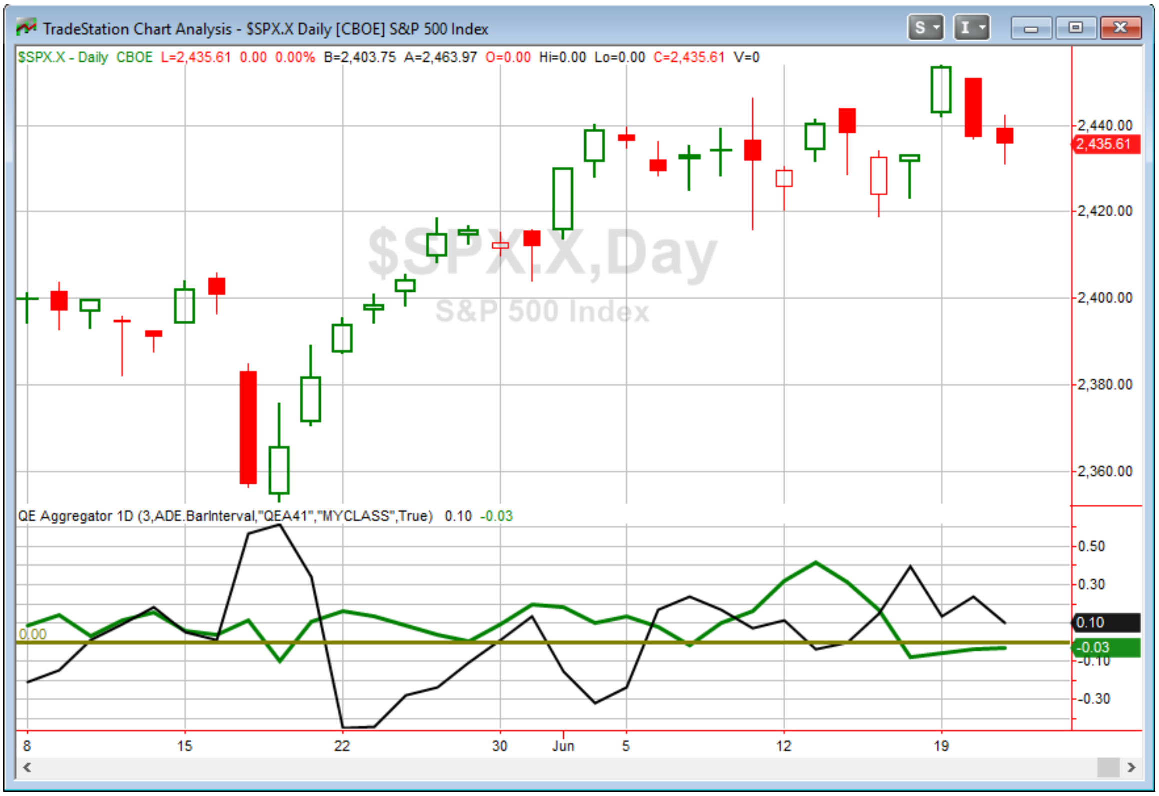
Buy SPX when 4th Hindenburg Omen Triggers. Sell 35 days later. $100k/trade. 1980 - present.				
Date/Time	**Signal**	**Price**	**% Profit**	**Run-up Drawdown**
2/14/1980	Buy	$116.72	-14.16%	$1,010.08
4/7/1980	Sell	$100.19		($19,251.44)
7/24/1986	Buy	$237.94	-3.06%	$6,846.00
9/12/1986	Sell	$230.66		($3,864.00)
12/8/1999	Buy	$1,403.88	-3.11%	$5,262.52
1/28/2000	Sell	$1,360.16		($3,385.28)
4/24/2006	Buy	$1,308.11	-6.45%	$1,412.84
6/13/2006	Sell	$1,223.69		($6,504.84)
7/20/2007	Buy	$1,534.10	-5.37%	$853.45
9/10/2007	Sell	$1,451.70		($10,627.50)
10/25/2007	Buy	$1,514.39	-3.07%	$2,532.42
12/14/2007	Sell	$1,467.95		($7,147.14)
6/4/2013	Buy	$1,631.38	3.34%	$4,111.40
7/24/2013	Sell	$1,685.94		($4,334.05)
8/9/2013	Buy	$1,691.42	-0.58%	$2,267.96
9/30/2013	Sell	$1,681.55		($3,773.05)
12/17/2013	Buy	$1,781.00	0.90%	$3,911.04
2/7/2014	Sell	$1,797.02		($2,412.48)
12/5/2014	Buy	$2,075.37	-3.53%	$872.64
1/28/2015	Sell	$2,002.16		($4,934.88)
7/21/2015	Buy	$2,119.21	-8.36%	$0.00
9/9/2015	Sell	$1,942.04		($11,853.40)

The last couple of instances have seen some fairly sizable drops. And the average drawdown for the 11 is about 2.7x the size of the average run-up. So the numbers seem to favor the bears. In my opinion the setup does not appear as menacing as the name might suggest, but there has been enough market damage following these signals that it is probably worth remaining cognizant of it. I have therefore listed it on the Intermediate-term Active List.

I would also note that Tom McClellan wrote an interesting piece on the history of the indicator a while back. You may find a link to that write-up below.

http://www.mcoscillator.com/learning_center/kb/special_market_reports/hindenburg_omen_signaled_but_also_not/

I have updated the Aggregator chart below.



With tonight's studies to consider the green Aggregator line remained below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain bearish on Thursday. Of course this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2454.22 on Thursday. That is 0.8% above Wednesday's close. So SPX would need to close up 0.8% on Thursday in order to move from oversold to overbought versus expectations.

Wednesday's action again did nothing to change my outlook. I am still not seeing a good reason to get involved. The Aggregator remains neutral, and so do I. I'll continue to stand aside and wait for a better opportunity to emerge.

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Intermediate-term Outlook (2 weeks – 2 months) – updated 6/19 –neutral

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

Current Open Trade Ideas

None

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