

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 20, 2017

Volume 10 Issue 224

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- Thanksgiving week has been seasonally bullish
- Strong breadth near a short-term high and a down close suggest short-term bullish implications.
- The SOMA actually INCREASED this past week.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but there is an inverted pivot, so further gains on Monday will result in an overbought market. I am long and looking to take profits if I can get a favorable exit.

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						
November 20, 2017	5-day high then down on ++ breadth	1-3 days	Bullish			
November 17, 2017	Unfilled gap dn 2x. 5-low > 200ma.	1-6 days	Bullish			
November 17, 2017	VIX up big to 50-day high	1-4 days	Bullish			
November 15, 2017	1st 10-low in 30 days	1-6 days	Bullish	2.30%	-1.40%	-3.10%
November 13, 2017	CBI >= 7. SPX < 10ma and > 200ma	1-6 days	Bullish			
Active - Long Term						
November 15, 2017	1st 10-low in 30 days	1-10 days	Bullish	3.10%	-1.90%	-4.30%
November 14, 2017	SPX top 25% 20day rng. RUT bottom 25	1-40 days	Bullish	5.60%	-2.80%	-5.50%
November 13, 2017	Hindenburg Omen Cluster	1-35 days	Bearish			
November 10, 2017	1st 5-low in 10 days. 20-high yesterday	1-11 days	Bullish			
November 8, 2017	5 higher 50-day, 1 day down	1-10 days	Bullish			
October 24, 2017	SPX 20-high. NDX big drop	1-50 days	Bullish	6.30%	-2.80%	-5.50%
October 2, 2017	SOMA reduction begins	int term	Bearish			
September 19, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

The Evidence

Friday was a mixed day for the indices. The SPX lost 0.3%, and the NASDAQ gained fell 0.2%, while the Russell 2000 rose 0.4%. Breadth was positive as the NYSE Up Issues % was 62.8% and the Up Volume % came in at 62.7%. NYSE volume rose a little from Thursday's level.

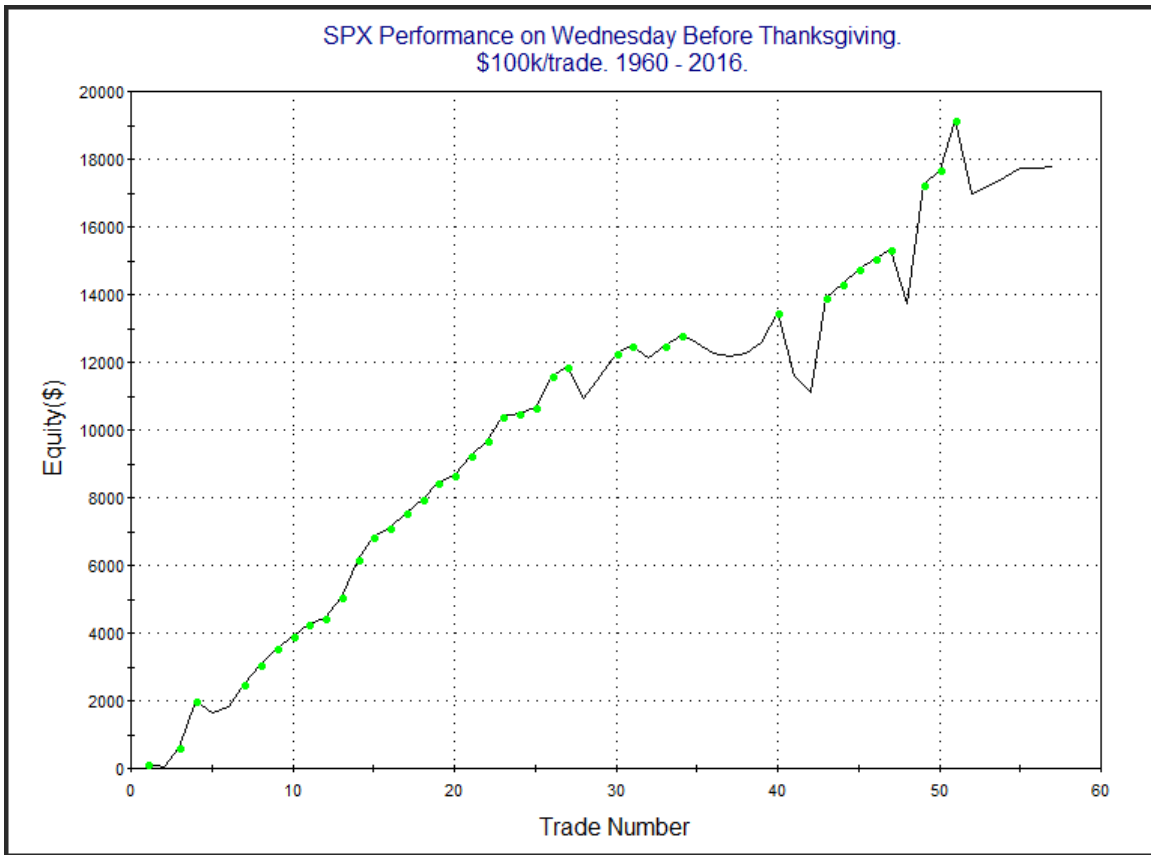
Thanksgiving week has shown some strong seasonal tendencies over the years. This is something I last showed in the 11/21/16 subscriber letter. I have re-run those studies and updated them below.

This first one breaks down performance during Thanksgiving week by day.

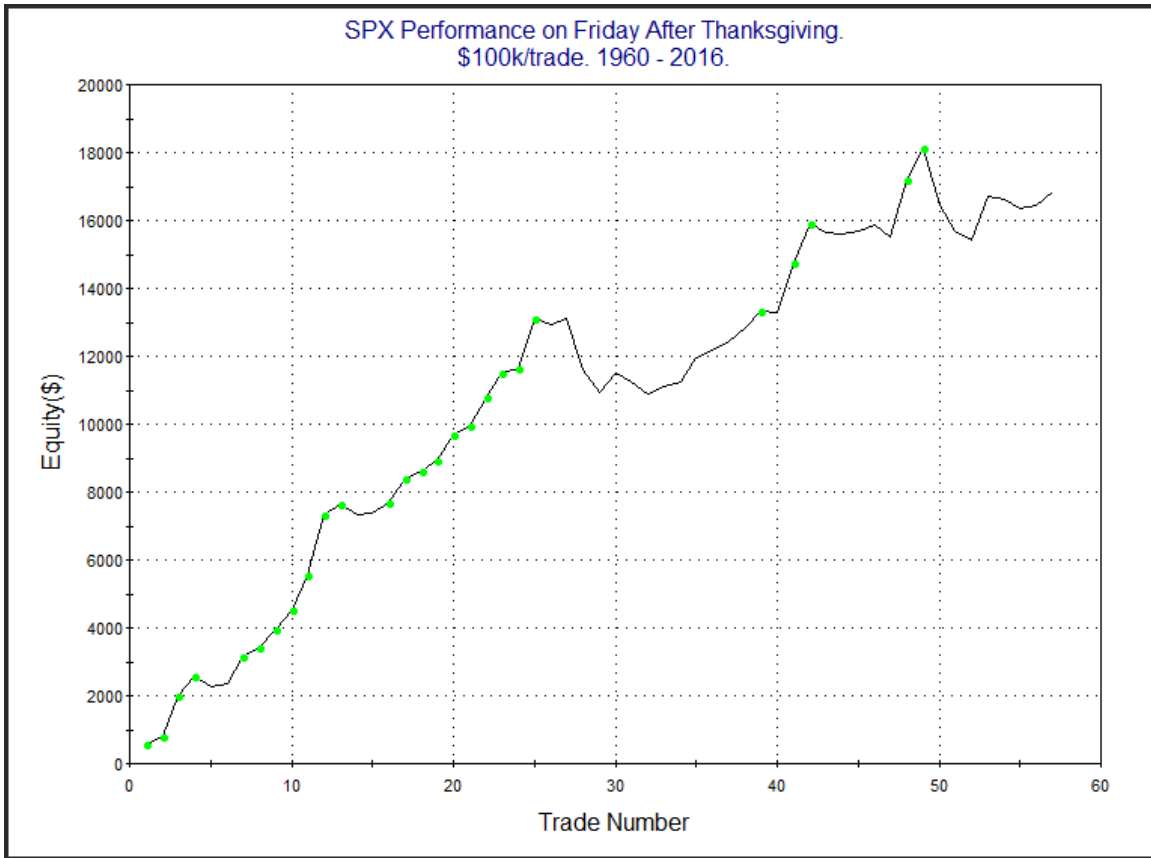
Thanksgiving Week Performance Broken Down By Day Of Week. Based on \$100k/trade in SPX. 1960 - 2016.												
Day	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
Mon Aft	-21,094.83	57	20	37	35.09	910.18	2,913.68	-1,062.12	-8,883.33	0.86	0.46	-370.08
Fri	16,832.13	57	41	16	71.93	591.95	1,782.27	-464.87	-1,721.70	1.27	3.26	295.30
Wed	17,792.97	57	45	12	78.95	584.62	3,513.64	-709.59	-2,205.00	0.82	3.09	312.16
Tues	2,492.32	57	34	23	59.65	555.64	1,581.95	-713.02	-2,093.99	0.78	1.15	43.72
Mon	3,296.10	57	26	31	45.61	1,063.18	6,420.72	-785.38	-3,049.54	1.35	1.14	57.83

Monday and Tuesday don't show anything suggesting an edge. Wednesday and Friday, on the other hand, appear to be strongly bullish. And the Monday after Thanksgiving appears

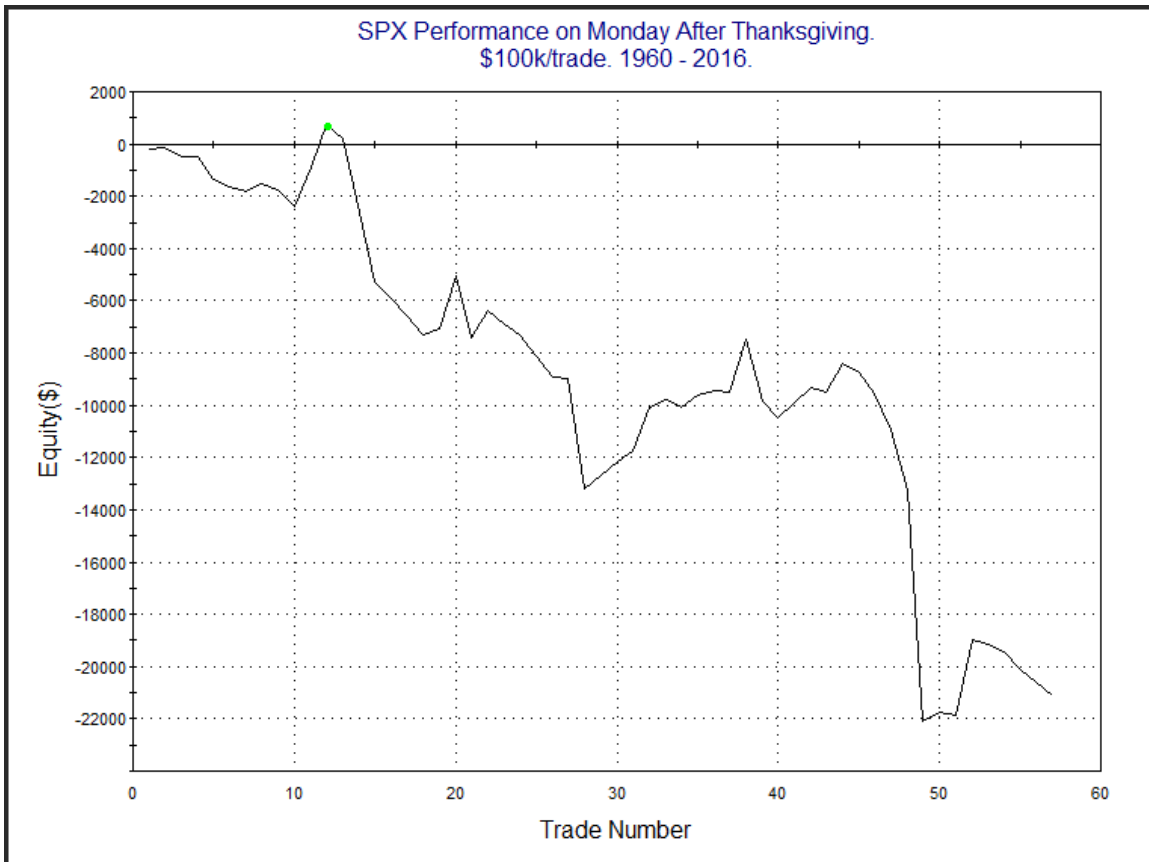
to exhibit a possible bearish edge. But before we jump to conclusions, let's examine the profit curves for Wednesday, Friday, and the following Monday. First below is Wednesday.



This curve looks to be strong. While there were a few bad Wednesdays, they were overwhelmed by the good ones. The next chart looks at Fridays after Thanksgiving.



This curve doesn't appear quite as strong as the Wednesday curve. Still, the general upslope still appears to be intact. To me it appears both Wednesday and Friday contain a seasonal upside edge. Now let's look at what has happened on the Monday after Thanksgiving.



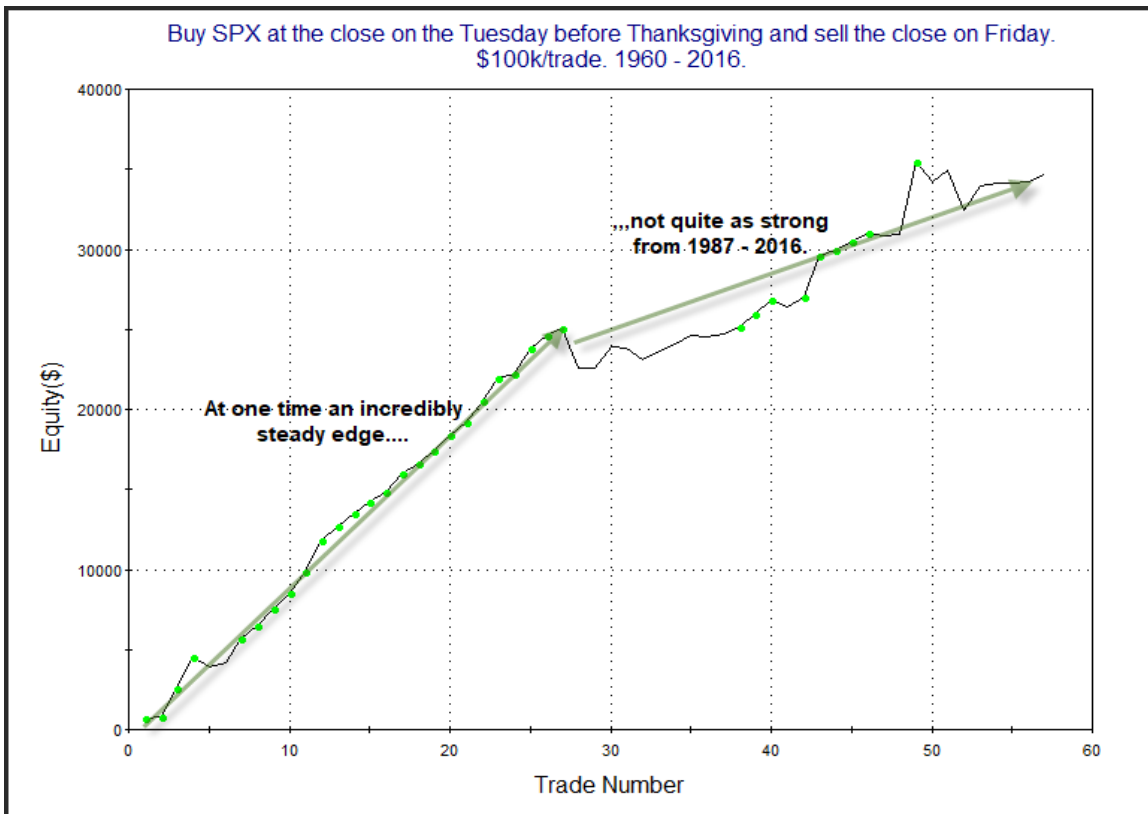
The numbers from the results table were extremely negative, but as you can see the downside edge has not been steady at all. While the trend has been down pretty much the entire time, a large portion of the downside move is thanks to a 9% drop in 2008. This suggests a seasonal downside edge does exist, but it is perhaps not as strong as the raw numbers would suggest.

With Wednesday and Friday both showing seasonal strength an obvious play would be to buy on Tuesday's close, and then sell at Friday's close. This strategy was first suggested by Yale Hirsch many years ago. I looked at it the last few years and have updated the results again below.

Buy SPX at the close on the Tuesday before Thanksgiving and sell the close on Friday.
\$100k/trade. 1960 - 2016.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$34,692.57	Profit Factor	5.21
Gross Profit	\$42,929.59	Gross Loss	(\$8,237.02)
Total Number of Trades	57	Percent Profitable	84.21%
Winning Trades	48	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$608.64	Ratio Avg. Win:Avg. Loss	0.98
Avg. Winning Trade	\$894.37	Avg. Losing Trade	(\$915.22)
Largest Winning Trade	\$4,506.60	Largest Losing Trade	(\$2,467.08)

As you can see the numbers are extremely strong. Below is an equity curve.



From 1960 through 1986 this trade would've worked fantastically. There was only one year during this period when it would have failed to make money. From 1987 to the present it has continued to do well, but not to the same degree as it had before. There have in fact

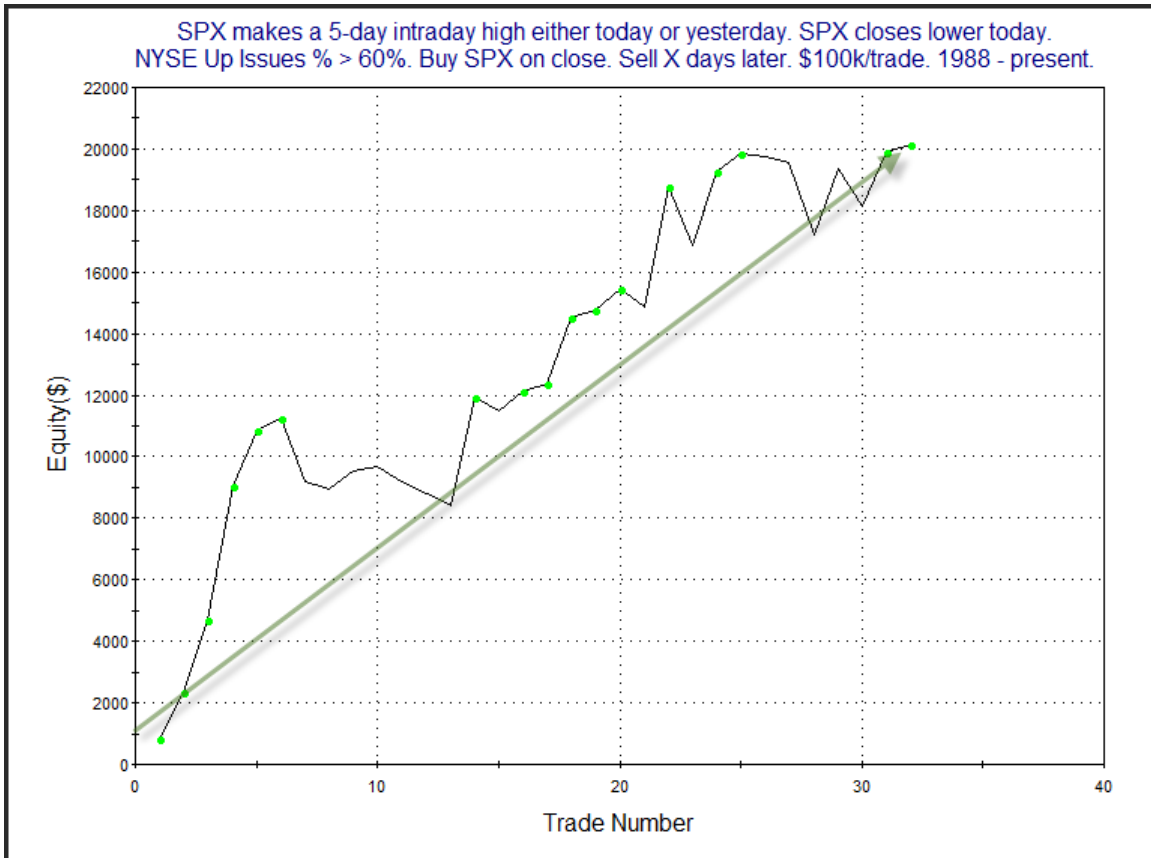
been seven losing years over this time period. Still, the curve looks nicely positive and traders could consider a trade along these lines if other indicators also seem to be lining up.

I will also note that there has been a vast difference in performance during recent times depending on how the market moved leading up to Wednesday. To examine this, I used SPY instead of SPX, because SPY has better intraday data. Since 1993, I found that years in which SPY closed in the top half of its intraday range on Thanksgiving Tuesday posted a 8-5 record from Tuesday's close to Friday's close. When SPY closed in the bottom half of its range on Tuesday the performance over Wednesday to Friday was 10-1. And the average instance posted a 0.8% gain these years versus a 0.1% average gain the other years. So Tuesday's action appears worth watching as we approach this potentially seasonally bullish period.

Another study with interesting results that appeared was from way back in the 6/15/10 letter. It examined other times the market made a recent short-term high, then pulled back but the breadth remained squarely positive. Results are updated below.

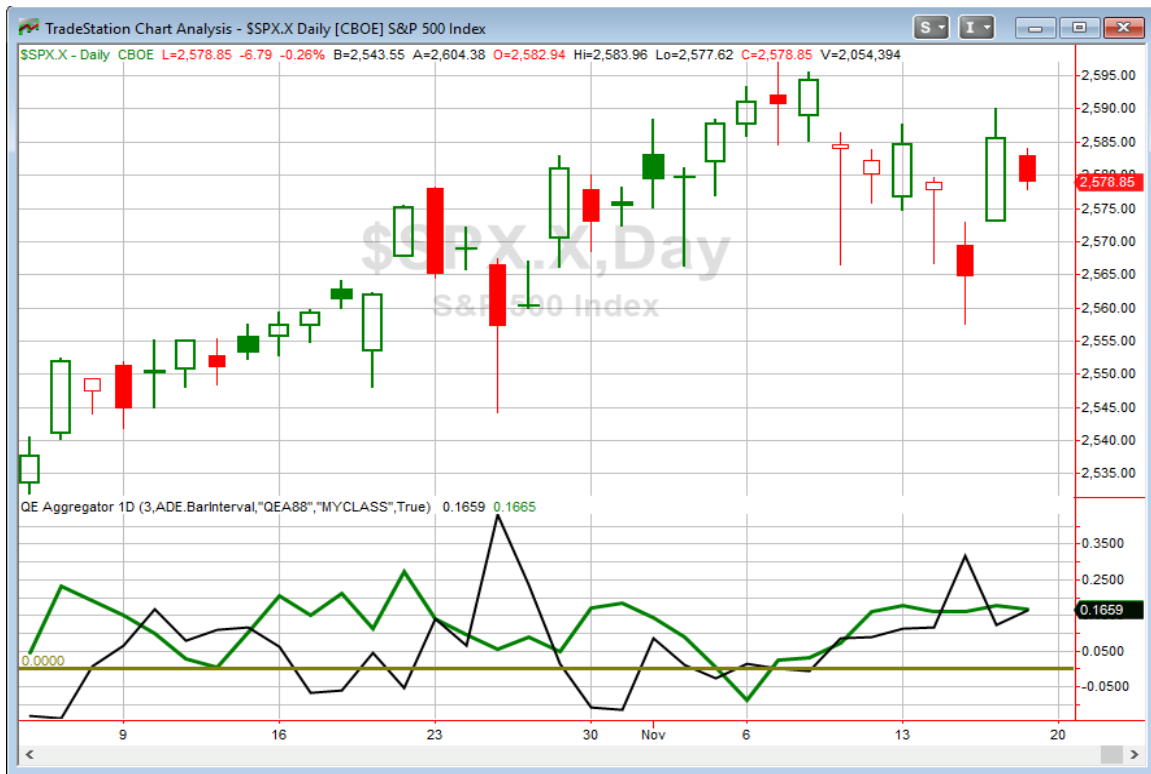
SPX makes a 5-day intraday high either today or yesterday. SPX closes lower today. NYSE Up Issues % > 60%. Buy SPX on close. Sell X days later. \$100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	1,675.61	31	17	14	54.84	1,507.80	3,714.66	-1,711.22	-6,119.33	0.88	1.07	54.05
4	17,312.11	32	17	15	53.13	2,098.26	8,095.62	-1,223.88	-3,969.70	1.71	1.94	541.00
3	20,158.76	32	20	12	62.50	1,522.96	4,370.82	-858.37	-2,373.00	1.77	2.96	629.96
2	15,138.15	32	21	11	65.63	1,235.79	4,136.62	-983.03	-2,625.30	1.26	2.40	473.07
1	11,746.13	32	16	16	50.00	1,084.67	2,568.00	-350.54	-1,606.00	3.09	3.09	367.07

This suggests a possible upside edge over the next few days. Below is a look at the 3-day profit curve.



Certainly choppy, but it has moved from lower left to upper right and again made new highs on the last couple of instances. I have decided this study is worth some consideration and have included it on the Active List.

I have updated the Aggregator chart below.



With tonight's studies being 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 also remained 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 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are slated to remain positive on Monday. With all the short-term evidence bullish, it would take some very compelling bearish studies to change this. The Differential Pivot will be *inverted at 2577.41* on Monday. That is 0.1% *below* Friday's close. An inverted pivot means that the Differential Line will cross through 0 if SPX closes flat. In this case, SPX will need to close down 0.1% in order to remain oversold. Any flat or up close and it will turn overbought.

I often view inverted pivots as opportune times to take profits. This is because additional reward is limited (since any day with a gain or slight loss will result in the signal turning off). But in this case I will note that a flat close will also likely lead to an inverted pivot on Monday. This can sometimes happen in choppy, back and forth markets. So I may exit my SPY position on Monday, but only if I can get a favorable fill with either a gap up or a positive close.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/20– somewhat bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

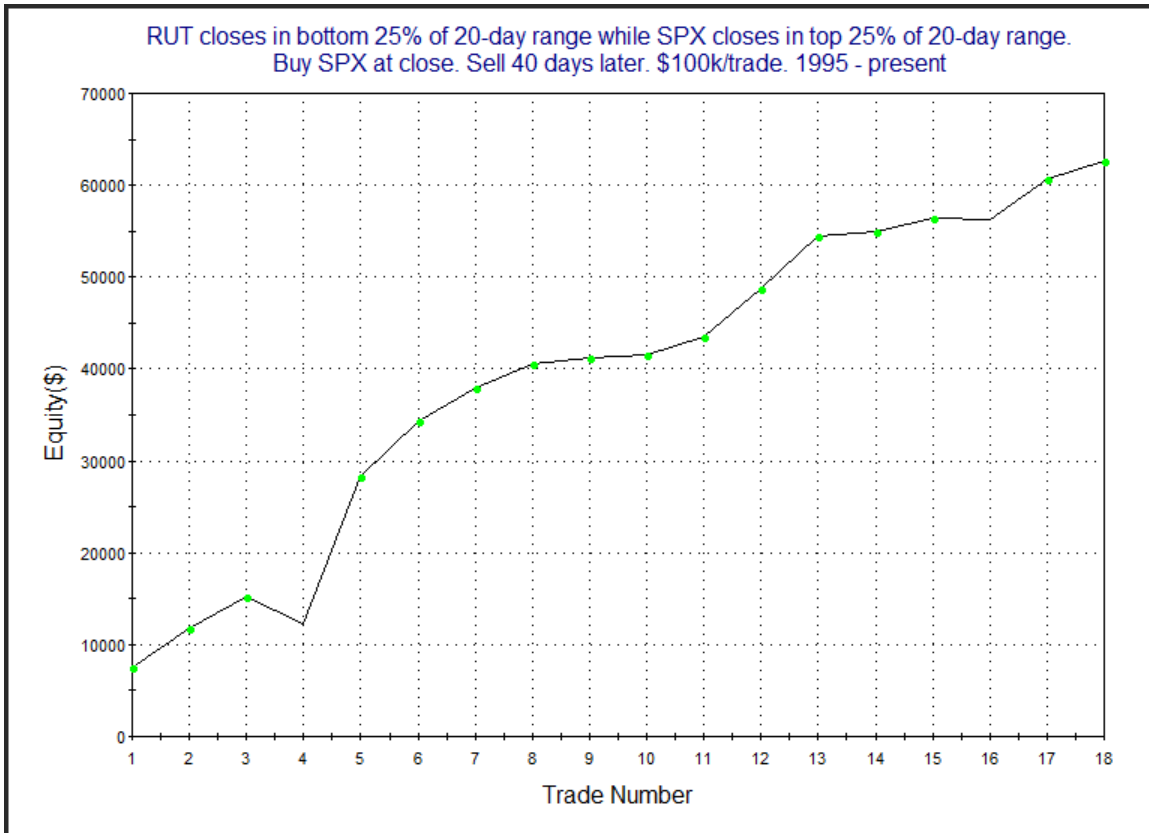
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week all 3 Combo Systems are “Long”.*

New highs were made this week for the NASDAQ, but not the SPX. And it was the 2nd week in a row that SPX closed lower – although it did not close lower by a lot. Still, the long-term trend certainly appears up. There were a couple of studies that emerged this week with potential bullish intermediate-term implications. The 1st one was from Monday night’s letter. I have copied it below.

One observation I found interesting is that the Russell 2000 is near 1-month lows while SPX is near 1-month highs. I decided to examine other similar instances.

RUT closes in bottom 25% of 20-day range while SPX closes in top 25% of 20-day range. Buy SPX at close. Sell X days later. \$100k/trade. 1995 - 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
50	53,273.58	16	11	5	68.75	5,575.41	17,360.82	-1,611.18	-2,450.72	3.46	7.61	3,329.60
45	55,826.33	17	13	4	76.47	5,174.33	15,231.03	-2,859.98	-5,633.12	1.81	5.88	3,283.90
40	62,582.90	18	16	2	88.89	4,109.36	15,916.02	-1,583.41	-2,953.44	2.60	20.76	3,476.83
35	53,162.23	18	14	4	77.78	4,346.38	15,668.34	-1,921.77	-3,769.92	2.26	7.92	2,953.46
30	56,691.34	18	16	2	88.89	3,587.73	11,907.99	-356.13	-707.88	10.07	80.59	3,149.52
25	42,336.15	18	14	4	77.78	3,271.14	9,355.08	-864.96	-2,245.18	3.78	13.24	2,352.01
20	31,893.05	18	13	5	72.22	3,450.85	9,900.75	-2,593.61	-6,058.36	1.33	3.46	1,771.84
15	30,884.97	18	14	4	77.78	2,957.57	7,779.99	-2,630.26	-5,109.23	1.12	3.94	1,715.83
10	21,256.11	22	15	7	68.18	2,387.93	8,346.30	-2,080.40	-6,893.04	1.15	2.46	966.19
5	13,534.87	23	10	13	43.48	2,666.78	7,383.96	-1,010.22	-2,806.44	2.64	2.03	588.47

It appears the lagging RUT in similar circumstances has not been a drag going forward, and that SPX has continued to flourish. Below is a look at a profit curve with a 40-day holding period.



The strong, steady upslope serves as some confirmation of the upside edge. I also checked to see how the Russell 2000 did going forward.

RUT closes in bottom 25% of 20-day range while SPX closes in top 25% of 20-day range.
Buy RUT at close. Sell X days later. \$100k/trade. 1995 - 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
50	24,468.61	16	11	5	68.75	5,614.89	18,203.13	-7,459.03	-13,291.46	0.75	1.66	1,529.29
45	29,207.91	17	12	5	70.59	5,115.75	17,231.94	-6,436.23	-16,401.84	0.79	1.91	1,718.11
40	51,154.69	18	12	6	66.67	5,621.63	16,988.40	-2,717.48	-7,866.04	2.07	4.14	2,841.93
35	40,458.16	18	13	5	72.22	4,855.94	16,765.65	-4,533.82	-10,617.88	1.07	2.78	2,247.68
30	48,301.77	18	12	6	66.67	5,404.87	15,209.37	-2,759.44	-7,982.52	1.96	3.92	2,683.43
25	28,253.13	18	11	7	61.11	4,587.15	14,012.46	-3,172.22	-10,952.76	1.45	2.27	1,569.62
20	15,023.55	18	12	6	66.67	4,150.38	12,067.11	-5,796.83	-16,370.90	0.72	1.43	834.64
15	17,743.42	18	11	7	61.11	4,173.88	11,066.88	-4,024.19	-8,143.20	1.04	1.63	985.75
10	-1,358.75	22	10	12	45.45	3,597.98	8,215.02	-3,111.55	-10,958.54	1.16	0.96	-61.76
5	3,515.80	23	12	11	52.17	2,347.89	7,817.04	-2,241.71	-4,524.56	1.05	1.14	152.86

Numbers here also favor the long side. But the performance does not appear as impressive as for SPX. I have added the SPX version of this study to the intermediate-term active list.

There was also an intermediate-term study that appeared in Tuesday night's letter...

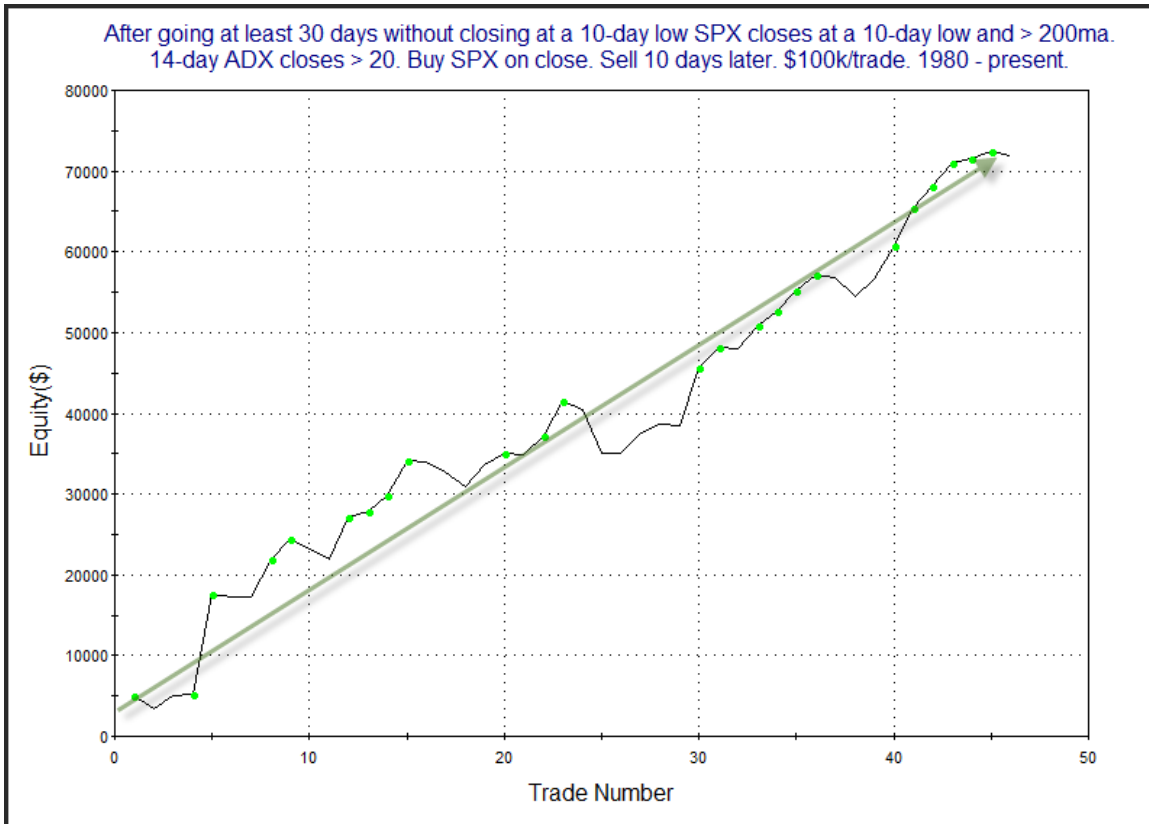
Notable about the low close on Tuesday is that it was the 1st 10-day low close since 8/18/17. Before today SPX had gone a whopping 60 trading days without posting a 10-day low. That is a long time. Historically the 1st pullback to a 10-day low after a long time without one has provided a solid upside edge. In the 3/9/17 letter I also found that the edge is more prevalent when SPX has been trending than when it has been chopping sideways for an extended period. In that letter I used ADX to determine trend strength. I found that a reading of 20 or higher seemed to be a decent filter. Updated results are below with that filter included.

After going at least 30 days without closing at a 10-day low SPX closes at a 10-day low and > 200ma. 14-day ADX closes > 20. Buy SPX on close. 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
10	71,886.62	46	31	15	67.39	2,902.08	12,395.76	-1,205.20	-5,362.24	2.41	4.98	1,562.75
9	69,974.77	46	34	12	73.91	2,533.20	10,529.82	-1,346.17	-3,753.36	1.88	5.33	1,521.19
8	67,013.00	46	36	10	78.26	2,344.05	10,554.48	-1,737.27	-6,117.72	1.35	4.86	1,456.80
7	48,137.55	46	33	13	71.74	2,292.98	7,743.24	-2,117.75	-8,141.12	1.08	2.75	1,046.47
6	48,959.65	46	35	11	76.09	1,919.16	5,893.74	-1,655.54	-4,111.40	1.16	3.69	1,064.34
5	42,214.38	46	32	14	69.57	1,849.02	4,608.35	-1,211.02	-3,502.11	1.53	3.49	917.70
4	40,114.87	46	36	10	78.26	1,552.86	4,690.50	-1,578.80	-2,616.60	0.98	3.54	872.06
3	19,281.89	46	32	14	69.57	1,186.90	3,940.55	-1,335.64	-4,464.88	0.89	2.03	419.17
2	9,522.91	46	29	17	63.04	1,008.44	3,744.45	-1,160.10	-7,559.56	0.87	1.48	207.02
1	6,607.29	46	28	18	60.87	679.76	2,287.60	-690.34	-1,922.40	0.98	1.53	143.64

44 of 46 instances (96%) closed above the entry price at some point in the next week.

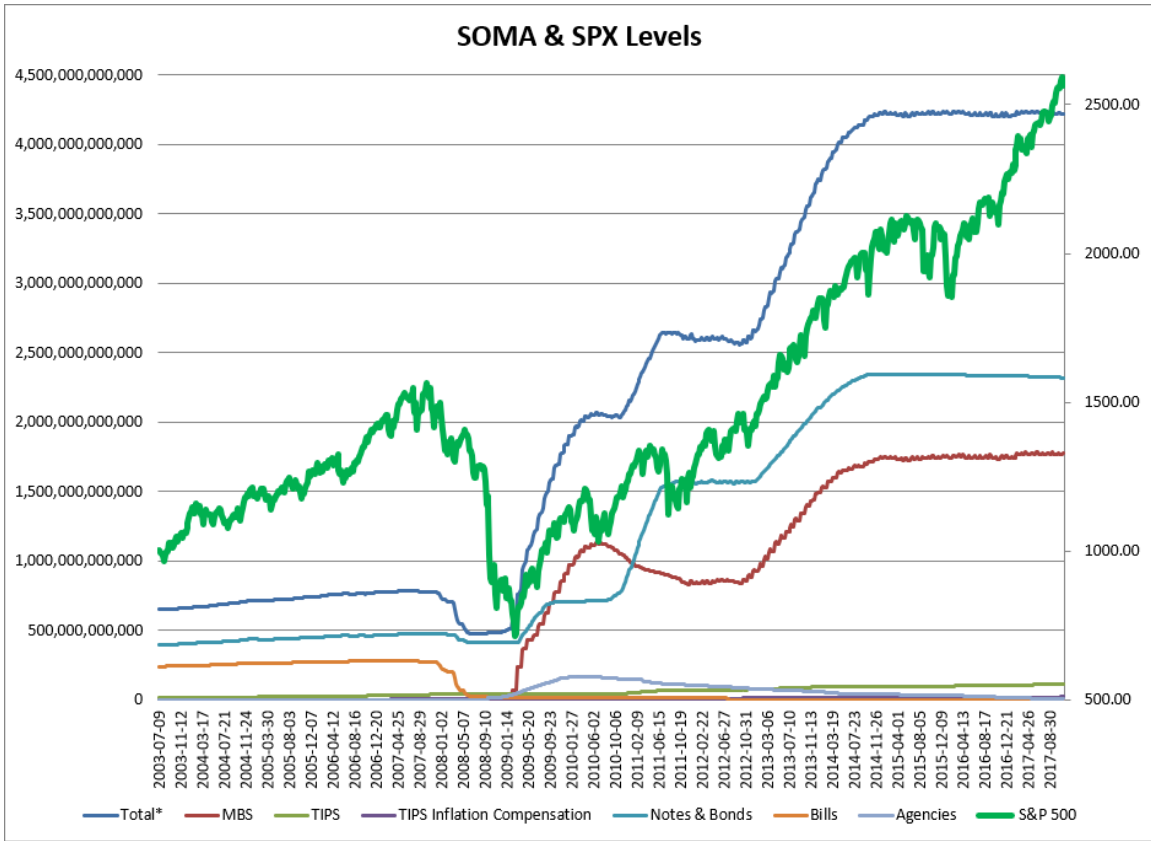
The numbers here are quite good, suggesting a short-term upside edge...and here is the 10-day.



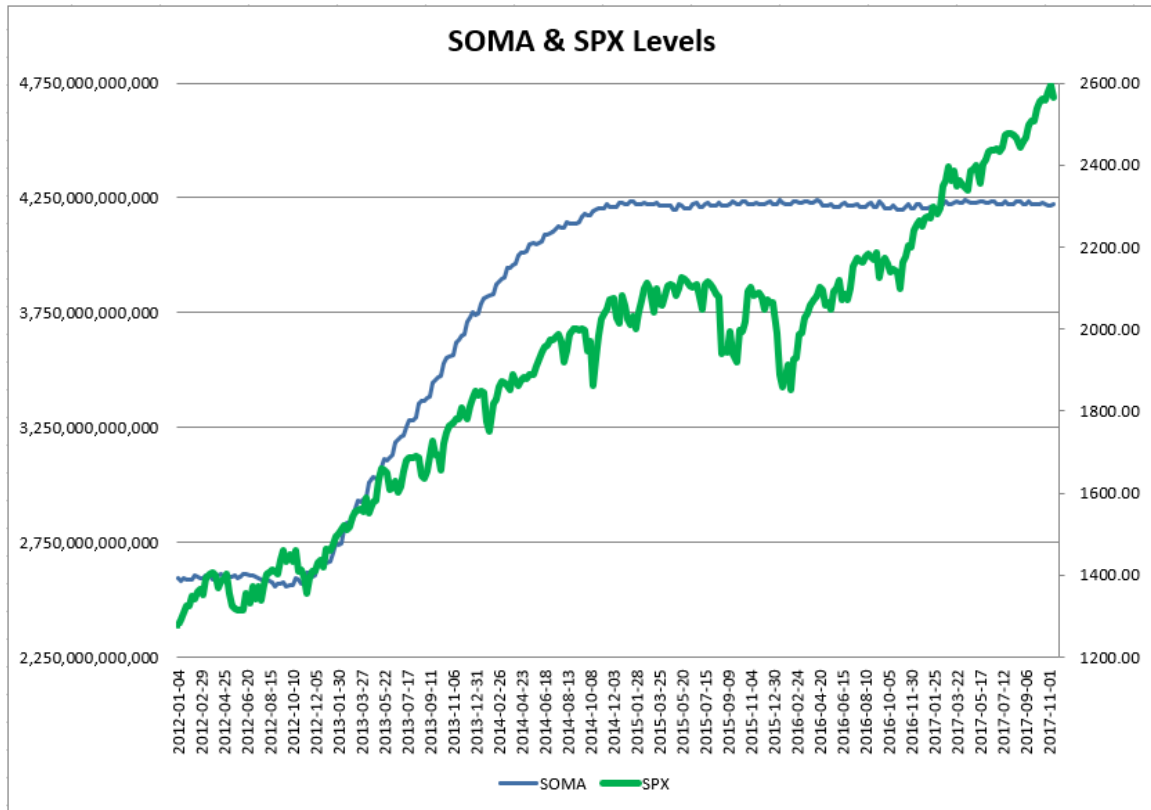
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities in the open market and increasing the size of its account. When the account has declined, the market has struggled. The obvious takeaway has been “don’t fight the Fed”. As far as intermediate-term indicators go, this has been as good as anything in recent years.

While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the old Quantifiable Edges POMO indicators did. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



And now the zoomed-in view (2012 – present).



The Fed's SOMA this past week (Wednesday to Wednesday) managed to *rise* 0.04%. This is despite the announced Fed policy of a \$10 billion / month reduction in the SOMA. But October only saw a decline of \$3.5 billion, and November so far has seen the SOMA RISE \$1.7 billion. Historically, and through many policy periods, the market has performed better when the SOMA was expanding, and struggled when it has contracted. For some reason, the new policy has not yet seemed to kick in completely. Things may worsen if/when it does. I'll continue to monitor actual flows. As I have stated repeatedly, a steady shrinking of the SOMA could create a headwind for the bulls.

Evidence still appears to be somewhat favoring the bulls. There were a couple of new bullish intermediate-term studies that emerged this week. Additionally, the NASDAQ continues to lead, the trend is clearly up, and all 3 Market Timing Course Combo Systems are "long". On the downside, the Hindenburg Omen signals are a potential warning. Fed policy, and its implications, remain my biggest concern. But to this point there is no SOMA reduction as was promised. There are also no signs of a market correction starting just yet. My outlook is again somewhat bullish. I will therefore be a bit more aggressive with long trades and a bit more conservative when considering short trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

MON @ \$119.87 (bought 1/3 @ limit)

MON @ \$117.34 (bought 1/3 @ limit)

AXP @ \$93.52 (bought 1/3 @ limit)

UTX @ \$117.07 (bought 1/3 @ limit)

COP @ \$51.23(bought 1/3 @ limit)

MET @ \$52.00 (bought 1/3 @ limit)

COP @ \$50.49 (bought 1/3 @ limit)

EMR @ \$59.59 (bought 1/3 @ limit)

COP @ \$50.22 (bought 1/3 @ limit)

EMR @ \$59.02 (bought 1/3 @ limit)

Broad Market Large Cap CBI – 10(MON-2, AXP, UTX, COP-3, MET, EMR-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.

None tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
MON(1/3)	11/6/2017	\$119.87	\$118.33	-1.28%		Catapult
MON(1/3)	11/10/2017	\$117.02	\$118.33	1.12%		Catapult
AXP(1/3)	11/13/2017	\$93.00	\$93.69	0.74%		Catapult
SPY(1/4)	11/13/2017	\$257.31	\$257.86	0.21%		see note below
UTX(1/3)	11/14/2017	\$117.07	\$116.53	-0.46%		Catapult
COP(1/3)	11/15/2017	\$50.74	\$50.13	-1.20%		Catapult
MET(1/3)	11/15/2017	\$51.50	\$51.65	0.29%		Catapult
COP(1/3)	11/16/2017	\$50.40	\$50.13	-0.54%		Catapult
EMR(1/3)	11/16/2017	\$58.05	\$59.85	3.10%		Catapult
COP(1/3)	11/17/2017	\$50.22	\$50.13	-0.18%		Catapult
EMR(1/3)	11/17/2017	\$58.86	\$59.85	1.68%		Catapult

I will look to exit SPY if it opens \geq \$257.87. If it does NOT gap up, then I will cancel that order and look to sell at \$257.87 LIMIT ON CLOSE.

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