

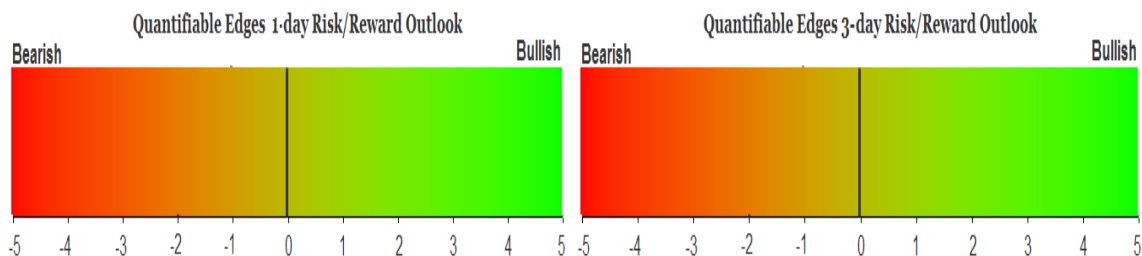
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 30, 2017

Volume 10 Issue 231

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>
<b>Flat</b>	<b>50% Long XIV</b>

## Tonight's Research Points

- The SPY gap and reversal on Wednesday after an unfilled gap up on Tuesday suggests an upside edge for Thursday.
- When an overbought market has pulled back as little as it did Wednesday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.
- SPX new high on a day the NDX suffers a huge decline in unusual – but has led to positive intermediate-term results in the past,

## *Short-term Outlook*

### *The Bottom Line*

Evidence is pointing higher, but SPX is overbought. This leaves me overall neutral.

*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>						
November 30, 2017	SPX down. RSI2 > 90.	1-2 days	Bullish			
November 30, 2017	Unfill up. Up then down. Close > 200	1 day	Bullish			
<b>Active - Long Term</b>						
November 30, 2017	SPX 50-intraday high. NDX big down 50	1-50 days	Bullish			
November 29, 2017	SPX breaks 50-day Upper Bollinger Band	1-50 days	Bullish	4.85%	-4.10%	-7.80%
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 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			
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

**The Evidence**

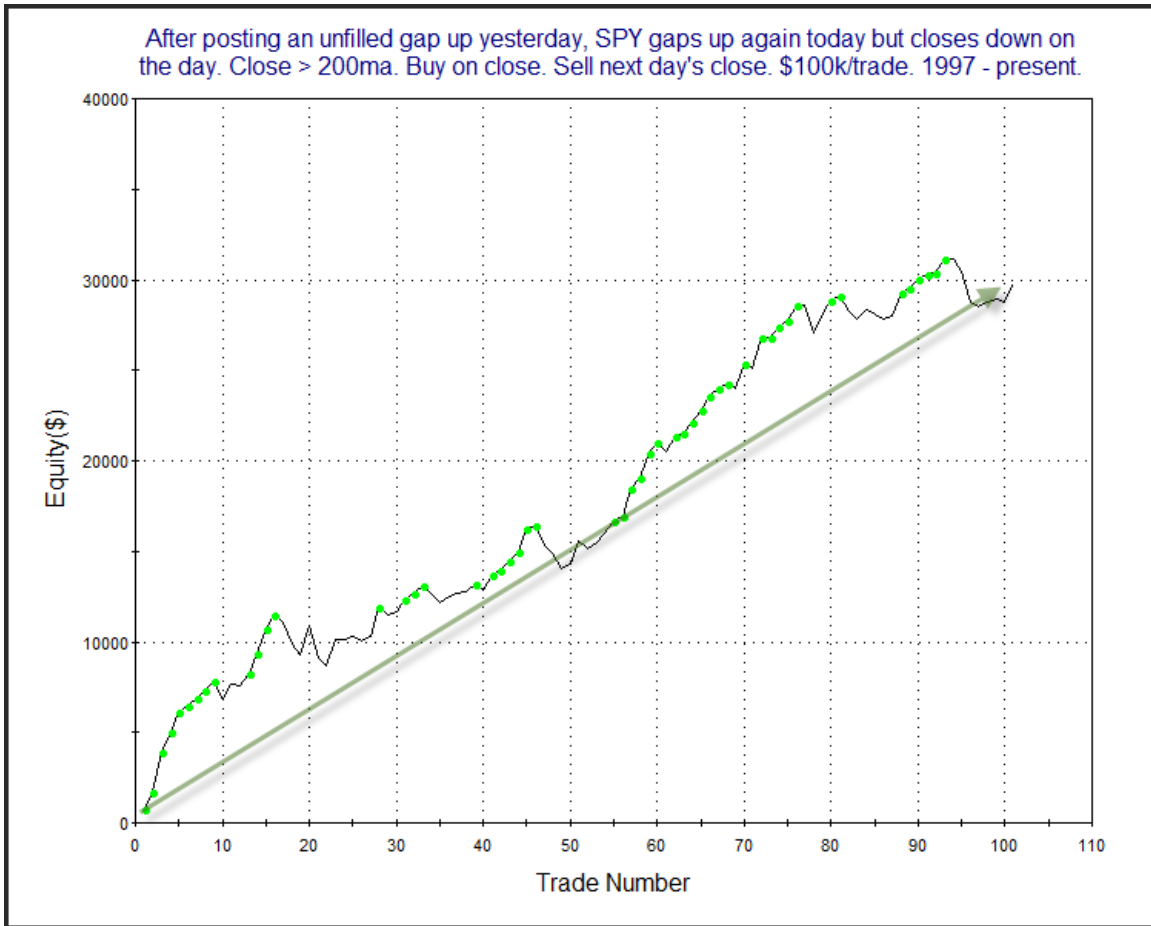
Wednesday was a mixed day for the market. The SPX lost 0.04%, the NASDAQ dropped 1.3%, and the Russell 2000 rose 0.4%. Breadth was also mixed as the NYSE Up Issues % was 49% and the Up Volume % came in at 62%. NYSE volume rose from Tuesday's level.

SPY gapped up and closed lower Wednesday after leaving an unfilled up gap on Tuesday. Just 2 days ago in the 9/28/17 letter I examined similar price action in SPY with regards to how it gapped and finished. I found that gains had been pretty consistent the next day after similar action. The study is updated below.

After posting an unfilled gap up yesterday, SPY gaps up again today but closes down on the day. Close > 200ma. Buy on close. Sell next day's close. \$100k/trade. 1997 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$29,800.42	Profit Factor		2.71
Gross Profit	\$47,267.07	Gross Loss	(\$17,466.65)	
Total Number of Trades	101	Percent Profitable		69.31%
Winning Trades	70	Losing Trades		31
Even Trades	0			
Avg. Trade Net Profit	\$295.05	Ratio Avg. Win:Avg. Loss		1.20
Avg. Winning Trade	\$675.24	Avg. Losing Trade	(\$563.44)	
Largest Winning Trade	\$2,194.38	Largest Losing Trade	(\$1,772.16)	

The numbers here all look solidly bullish. Below is the profit curve.



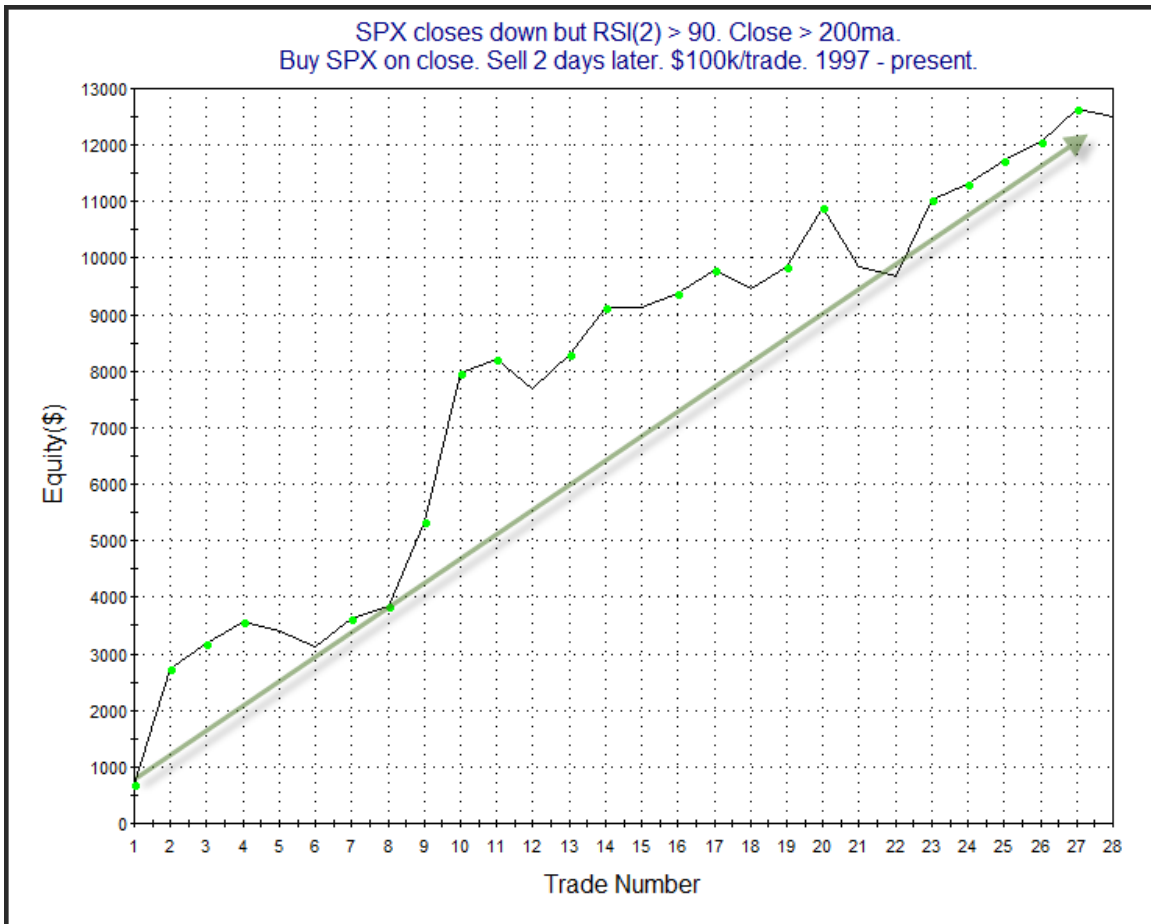
Despite the recent dip, the strong, long-term upslope is fairly encouraging. Based on the action of the last 2 days, it appears an up day on Friday is fairly likely. I have included this study on the Active List tonight.

The recent move higher has many oscillators strongly overbought short-term. With such a small SPX decline on Monday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a very sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Wednesday. It triggered the study below from the 7/21/17 letter, which I have updated.

SPX closes down but RSI(2) > 90. Close > 200ma.  
Buy SPX on close. Sell X days later. \$100k/trade. 1997 - 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	5,090.20	25	11	14	44.00	1,390.51	4,121.28	-728.96	-2,008.73	1.91	1.50	203.61
4	6,690.46	26	14	12	53.85	1,087.73	3,806.46	-711.48	-1,717.70	1.53	1.78	257.33
3	12,910.68	28	17	11	60.71	1,006.00	2,923.44	-381.03	-1,123.50	2.64	4.08	461.10
2	12,502.34	28	20	8	71.43	757.08	2,619.76	-329.91	-1,054.68	2.29	5.74	446.51
1	5,773.81	28	19	9	67.86	456.92	2,310.88	-323.07	-704.76	1.41	2.99	206.21

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



The profit curve shows a strong upslope. I have added this study to the Active List.

It was also interesting that the new intraday high Wednesday for SPX came on a day when NDX had its worst day since August. In the 4/7/14 letter I looked at other instances of a 50-day high for SPX and the biggest drop in 50-days for NDX. Here's an updated results table.

SPX makes 50-day intraday high while NDX suffers biggest drop in 50 days. Buy SPX on close. Sell X days later. \$100k/trade. 1985 - 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	28,782.10	6	6	0	100.00	4,797.02	7,027.70	0.00	0.00	100.00	100.00	4,797.02
45	32,734.14	6	6	0	100.00	5,455.69	8,469.20	0.00	0.00	100.00	100.00	5,455.69
40	28,709.35	6	6	0	100.00	4,784.89	7,063.20	0.00	0.00	100.00	100.00	4,784.89
35	20,237.34	6	6	0	100.00	3,372.89	4,761.18	0.00	0.00	100.00	100.00	3,372.89
30	15,581.11	6	6	0	100.00	2,596.85	4,205.52	0.00	0.00	100.00	100.00	2,596.85
25	10,722.00	6	5	1	83.33	2,278.21	3,447.18	-669.06	-669.06	3.41	17.03	1,787.00
20	6,195.63	6	4	2	66.67	2,110.12	3,968.64	-1,122.43	-1,373.76	1.88	3.76	1,032.61
15	9,277.10	6	6	0	100.00	1,546.18	5,200.26	0.00	0.00	100.00	100.00	1,546.18
10	6,034.24	6	4	2	66.67	1,560.28	4,119.18	-103.44	-160.38	15.08	30.17	1,005.71
5	1,033.76	6	4	2	66.67	1,173.41	2,693.34	-1,829.93	-2,618.20	0.64	1.28	172.29

Too few occurrences to put a lot of confidence in an edge. But here is a look at the individual instances.

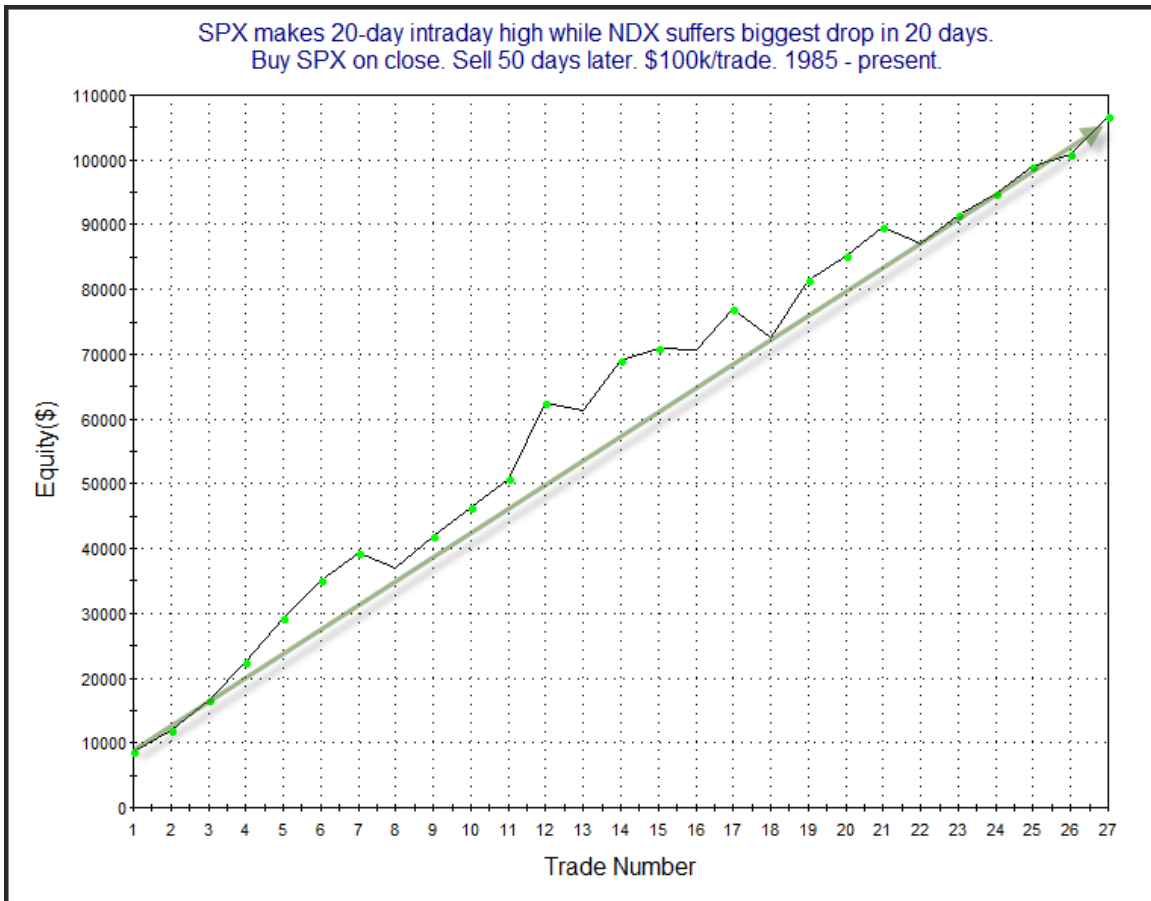
SPX makes 50-day intraday high while NDX suffers biggest drop in 50 days. Buy SPX on close. Sell 50 days later. \$100k/trade. 1985 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
6/5/1989	Buy	\$322.03	7.04%	\$9,033.40
8/15/1989	Sell	\$344.70		(\$2,374.60)
3/29/1995	Buy	\$503.13	4.93%	\$6,850.80
6/9/1995	Sell	\$527.94		(\$1,471.14)
12/14/1995	Buy	\$616.92	4.51%	\$7,664.22
2/28/1996	Sell	\$644.75		(\$3,180.06)
1/28/2011	Buy	\$1,276.34	3.77%	\$5,282.94
4/11/2011	Sell	\$1,324.46		(\$2,128.62)
1/24/2013	Buy	\$1,494.82	4.57%	\$5,203.44
4/8/2013	Sell	\$1,563.07		(\$647.46)
4/4/2014	Buy	\$1,865.09	4.12%	\$4,794.38
6/17/2014	Sell	\$1,941.99		(\$2,688.69)

Results are fairly impressive. I note that every instance had a run-up of at least 4.8%, and the largest drawdown was under 3.2%. To get a good number of instances I loosened the criteria a bit.

SPX makes 20-day intraday high while NDX suffers biggest drop in 20 days.  
Buy SPX on close. Sell X days later. \$100k/trade. 1985 - present.

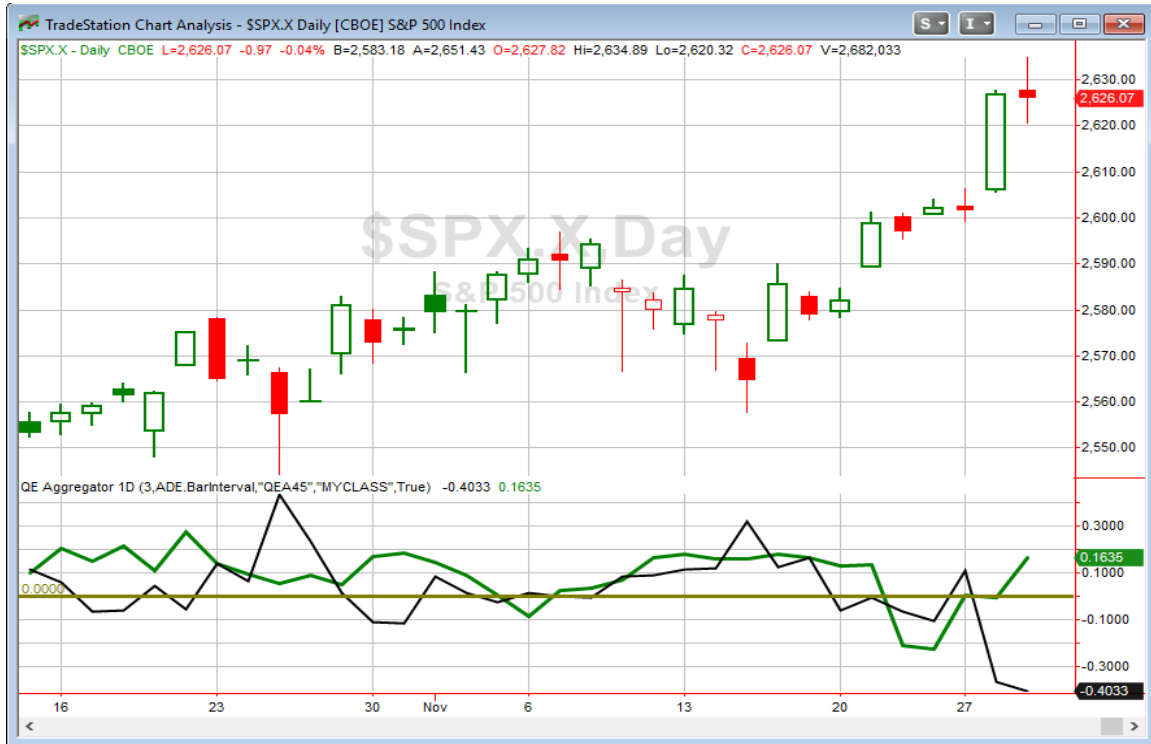
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
50	106,799.87	27	22	5	81.48	5,343.85	11,736.48	-2,152.97	-4,474.24	2.48	10.92	3,955.55
45	90,850.07	27	21	6	77.78	5,144.67	13,076.25	-2,864.66	-5,533.44	1.80	6.29	3,364.82
40	68,810.53	28	21	7	75.00	4,380.45	9,682.40	-3,311.29	-9,804.11	1.32	3.97	2,457.52
35	60,823.99	29	20	9	68.97	4,359.16	8,919.96	-2,928.81	-5,508.07	1.49	3.31	2,097.38
30	53,688.38	29	21	8	72.41	4,190.69	9,146.60	-4,289.51	-9,849.67	0.98	2.56	1,851.32
25	47,897.71	31	22	9	70.97	3,640.88	7,045.95	-3,577.97	-9,670.78	1.02	2.49	1,545.09
20	41,857.60	31	22	9	70.97	2,877.53	7,296.33	-2,383.13	-5,098.24	1.21	2.95	1,350.25
15	39,189.25	31	23	8	74.19	2,292.43	7,393.84	-1,692.07	-3,229.81	1.35	3.90	1,264.17
10	26,397.16	32	22	10	68.75	1,590.15	4,119.18	-858.62	-2,561.28	1.85	4.07	824.91
5	13,978.70	33	19	14	57.58	1,326.40	4,189.92	-801.64	-2,618.20	1.65	2.25	423.60

Results here appear pretty strong. Below is a profit curve for the 50-day holding period.



The strong, steady upslope is quite impressive, and serves as confirmation of the apparent upside edge.

I have updated the Aggregator chart below.



With tonight's studies considered, the green Aggregator Line jumped back above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line remained 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 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active list, expectations are slated to remain bullish on Thursday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2589.91 on Thursday. That is 1.4% below Wednesday's close. So SPX would need to close down a sizable 1.4% on Thursday in order to flip from overbought to oversold versus expectations. A drop that large seems unlikely. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So evidence is pointing higher. But positive expectations and an overbought SPX serve as a poor reward/risk combination. Like the Aggregator, I am neutral. I will continue to wait for a more favorable entry opportunity.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 11/27– somewhat bullish**

The intermediate-term outlook was last updated in the 11/27 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**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
<i>UTX(1/3)</i>	<i>11/14/2017</i>	<i>\$117.07</i>	<i>\$117.84</i>	<i>0.66%</i>		<i>sold on open</i>
<i>AIG(1/3)</i>	<i>11/28/2017</i>	<i>\$58.76</i>	<i>\$60.14</i>	<i>2.35%</i>		<i>sold on open</i>

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