

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 1, 2017

Volume 10 Issue 232

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- Ending the month at a high has often led to more highs early in the next month.
- The sizable move up in the VIX with SPX hitting a new high suggests bearish implications for the next few days.

Short-term Outlook

The Bottom Line

Evidence is mixed but leaning higher, and SPX is overbought. This again 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
Active - Short Term						
December 1, 2017	VIX up 2.5%. SPX 50-day high.	1-5 days	Bearish			
December 1, 2017	SPY closes month at high of month	1-5 days	Bullish			
November 30, 2017	SPX down. RSI2 > 90.	1-2 days	Bullish			
Active - Long Term						
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			

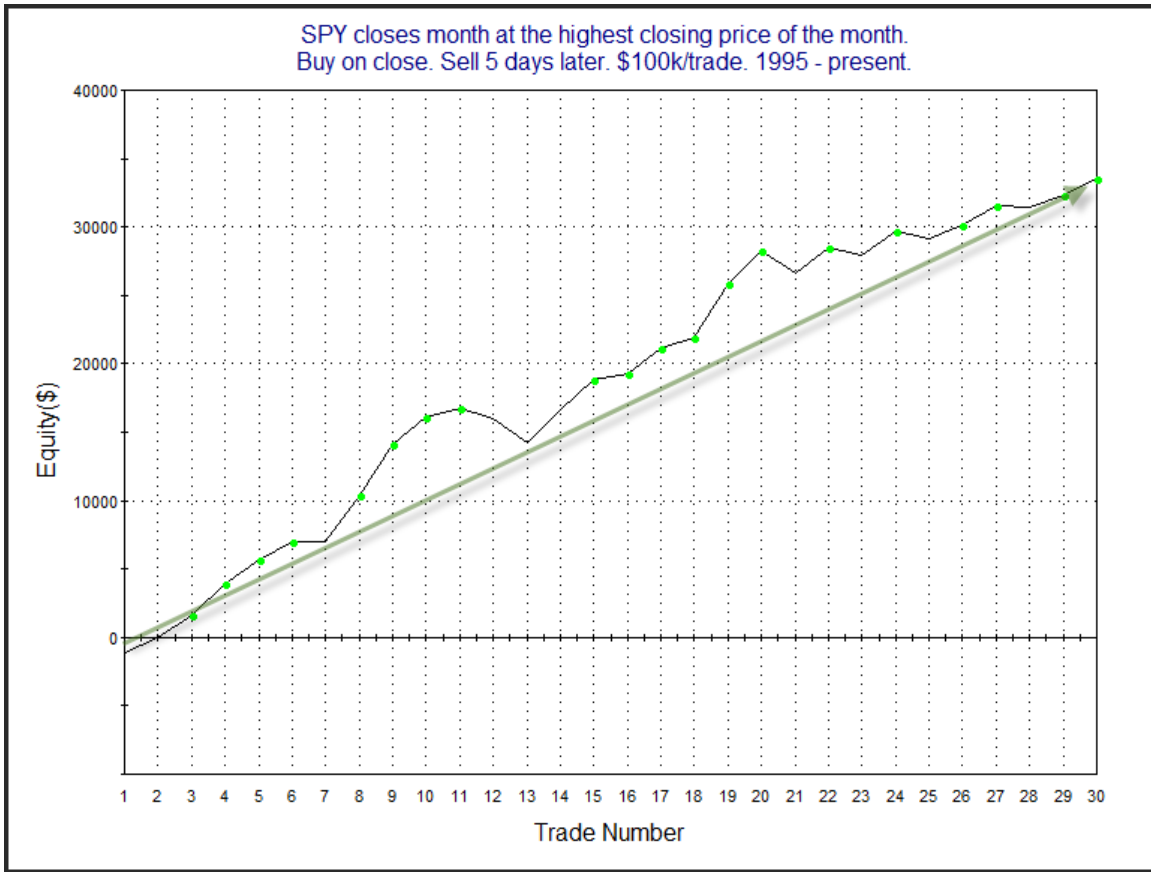
The Evidence

Thursday was a good day for the market, with several indices again making new highs. The SPX gained 0.8%, the NASDAQ rose 0.7%, and the Russell 2000 closed up 0.1%. Breadth was positive as the NYSE Up Issues % was 57% and the Up Volume % came in at 58%. NYSE volume rose to the highest level in over a month.

Turn of the month often triggers some seasonal studies. This one examined other times SPY closed at its highest level of the month on the last day of the month. It was last seen in the 10/2/14 letter. Results suggested strong end of month momentum has typically carried through into the following month. I have updated the results below.

SPY closes month at the highest closing price of the month. Buy on 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
5	33,581.52	30	22	7	73.33	1,821.34	3,931.92	-926.85	-1,659.68	1.97	6.18	1,119.38
4	27,973.86	30	21	9	70.00	1,824.89	5,394.96	-1,149.88	-4,338.40	1.59	3.70	932.46
3	16,939.13	30	20	10	66.67	1,461.41	4,105.92	-1,228.90	-4,678.40	1.19	2.38	564.64
2	11,138.29	30	17	13	56.67	1,310.01	3,954.78	-856.30	-4,848.40	1.53	2.00	371.28
1	4,963.72	30	16	14	53.33	790.94	1,850.94	-549.38	-1,049.76	1.44	1.65	165.46

The numbers across the board are quite compelling. Below is an equity curve showing results assuming a 5-day holding period.



The steady upslope supports the bullish hypothesis suggested by the stats table.

But the next study, also from the 10/2/17 letter throws a little cold water on day 1. It looked at all 1st days of the month and broke them down by whether the previous day closed in the top or bottom half of the daily range. First let's look at times the market closed in the bottom half of its range on the last day of the month.

It is the last trading day of the month. SPY closes > 200ma and in the bottom half of its intraday range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

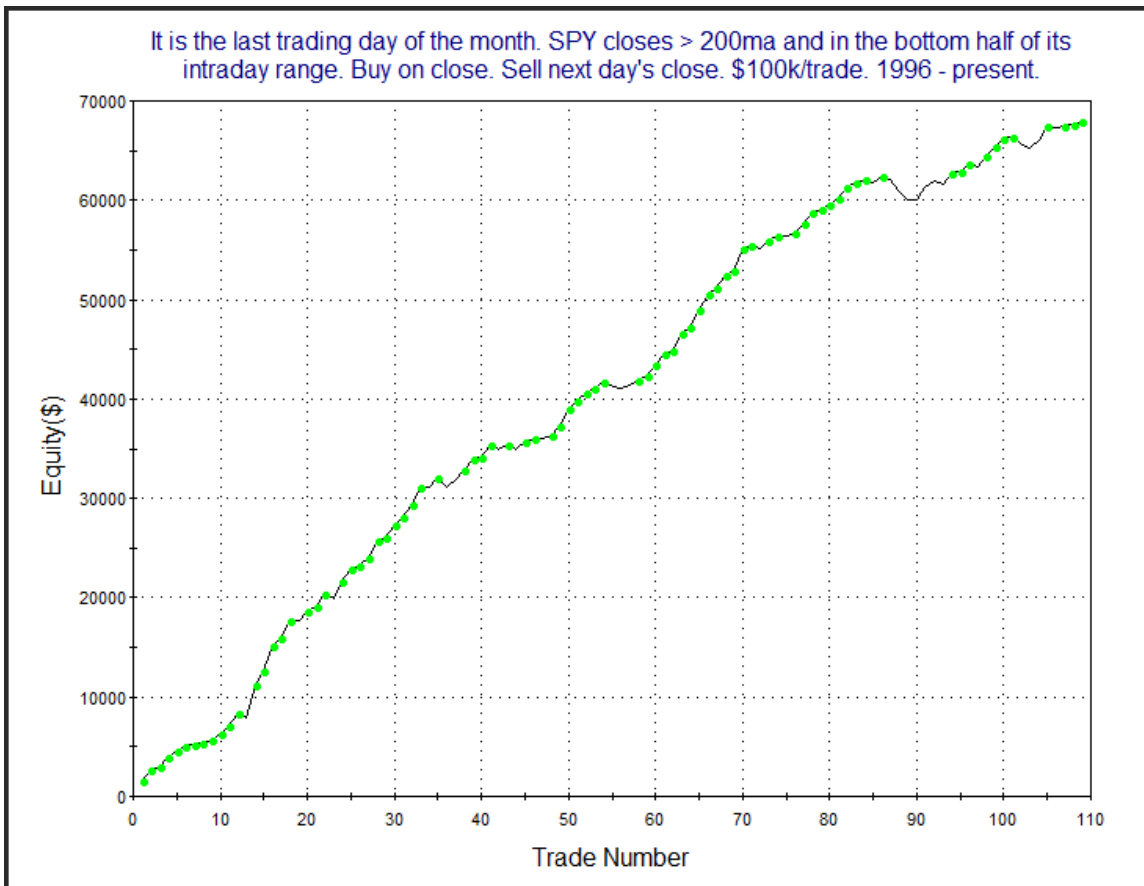
TradeStation Performance Summary

Expand ▾

All Trades

Total Net Profit	\$67,887.65	Profit Factor	9.04
Gross Profit	\$76,326.83	Gross Loss	(\$8,439.18)
Total Number of Trades	109	Percent Profitable	79.82%
Winning Trades	87	Losing Trades	22
Even Trades	0		
Avg. Trade Net Profit	\$622.82	Ratio Avg. Win:Avg. Loss	2.29
Avg. Winning Trade	\$877.32	Avg. Losing Trade	(\$383.60)
Largest Winning Trade	\$3,295.88	Largest Losing Trade	(\$1,353.69)

The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 9x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 109 instances. Below is a profit curve.

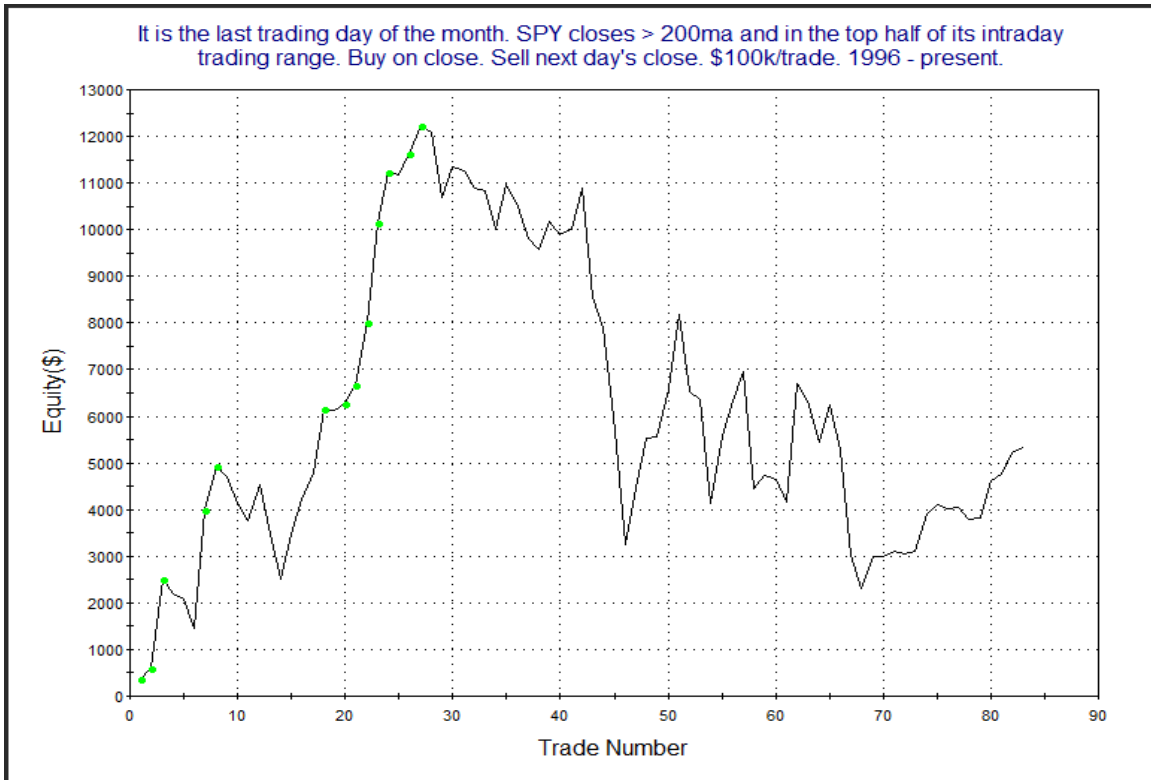


The long and persistent upslope is impressive, and serves to confirm the numbers. But SPY closed in the upper half of its range on Friday. So let's look at the implications of that finish.

It is the last trading day of the month. SPY closes > 200ma and in the top half of its intraday trading range. Buy on close. Sell next day's close. \$100k/trade. 1996 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$5,335.97	Profit Factor	1.18
Gross Profit	\$34,555.28	Gross Loss	(\$29,219.31)
Total Number of Trades	83	Percent Profitable	54.22%
Winning Trades	45	Losing Trades	38
Even Trades	0		
Avg. Trade Net Profit	\$64.29	Ratio Avg. Win:Avg. Loss	1.00
Avg. Winning Trade	\$767.90	Avg. Losing Trade	(\$768.93)
Largest Winning Trade	\$2,562.30	Largest Losing Trade	(\$2,515.60)

We see here the upside edge nearly completely wiped away. Here is a picture of the profit curve.

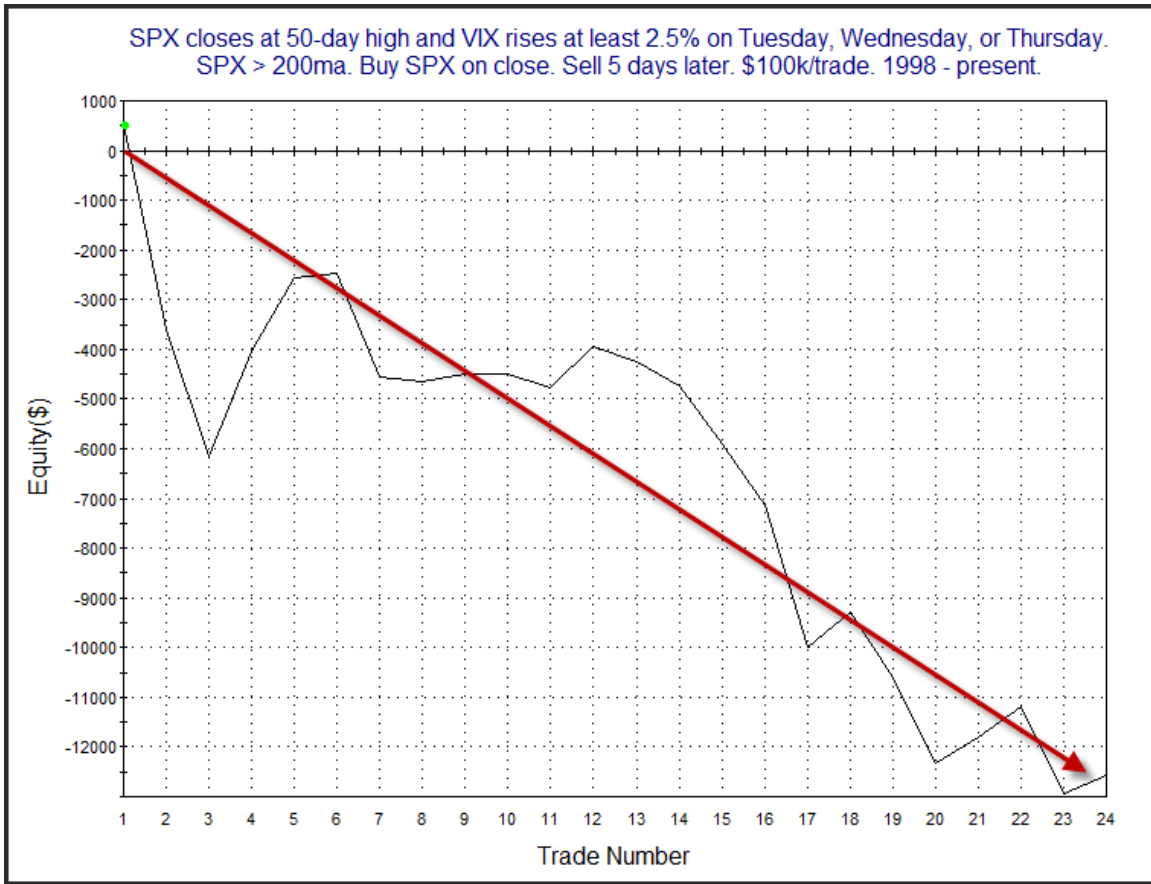


This paints an even bleaker picture. So it appears Friday's action may have set us up for further buying this upcoming week, but not necessarily on Friday.

There were also a few studies related to VIX action that appeared in the Quantifinder. The one below was the most compelling. It last appeared in the 11/4/15 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.

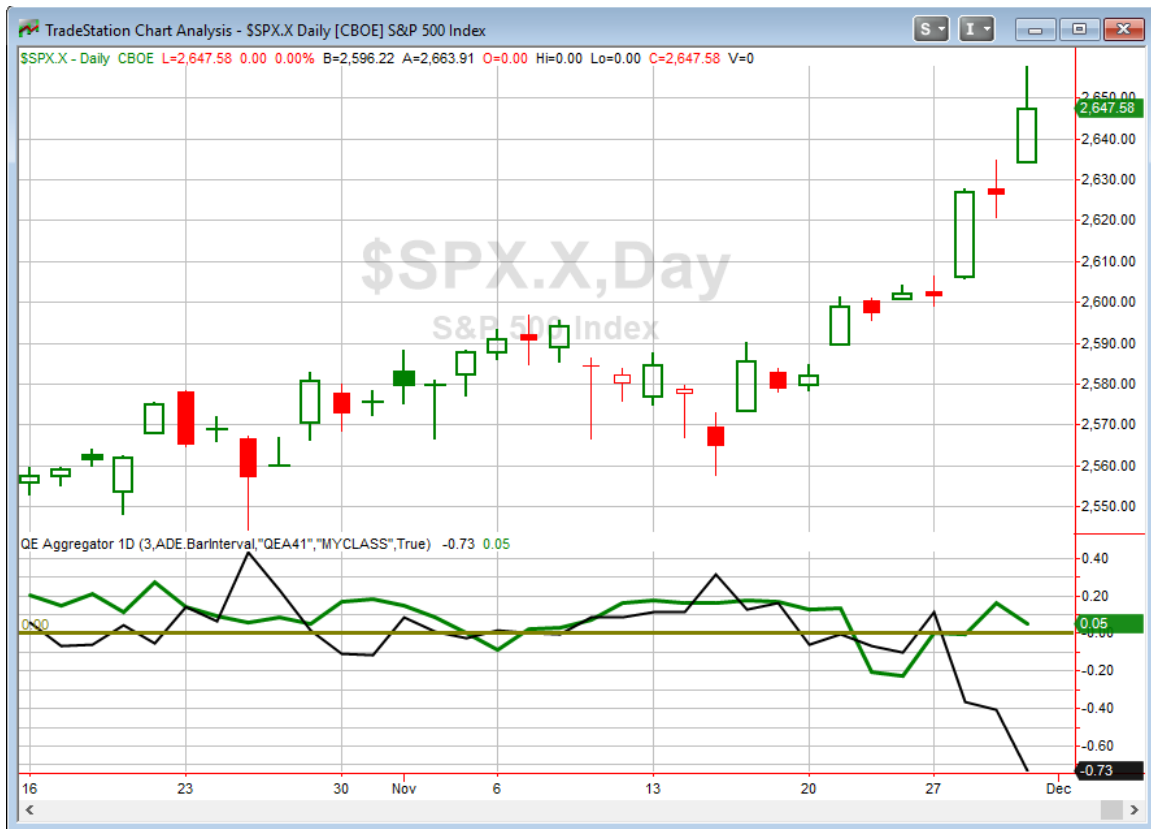
SPX closes at 50-day high and VIX rises at least 2.5% on Tuesday, Wednesday, or Thursday. SPX > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,563.82	24	10	14	41.67	745.11	2,108.40	-1,429.64	-4,149.36	0.52	0.37	-523.49
4	-11,607.11	24	9	15	37.50	617.40	1,629.60	-1,144.25	-4,240.48	0.54	0.32	-483.63
3	-9,042.03	24	11	13	45.83	542.27	1,271.55	-1,154.39	-4,423.40	0.47	0.40	-376.75
2	-7,162.64	24	6	18	25.00	443.11	1,192.71	-545.63	-1,461.48	0.81	0.27	-298.44
1	-2,203.58	28	14	14	50.00	270.18	1,108.05	-427.58	-1,008.70	0.63	0.63	-78.70

The numbers all appear to suggest a bearish edge. Below is a profit curve assuming a 5-day exit strategy.



The move from upper left to lower right offers some confirmation of the downside edge.

I have updated the Aggregator chart below.



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 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 stayed flat at the close.

Based on the current active list, expectations are slated to remain bullish on Friday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2620.82 on Friday. That is 1.0% below Thursday's close. So SPX would need to close down a fairly sizable 1.0% on Friday in order to flip from overbought to oversold versus expectations. A drop that large seems a bit unlikely. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So evidence is again pointing higher. But like last night, positive expectations and an overbought SPX serve as a poor reward/risk combination. So I am again 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

None.

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