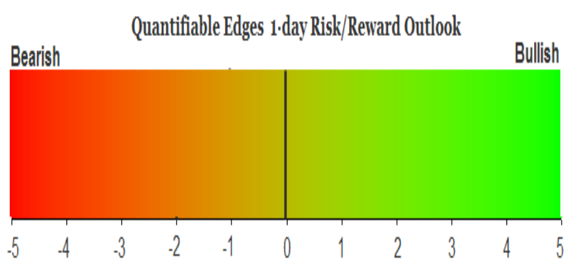
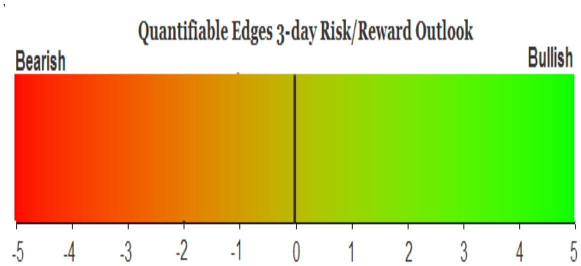
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 12, 2017 Volume 10 Issue 239

Market Overview





Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- Tuesday's action could have a substantial impact on the Fed Day edge for Wednesday.

Short-term Outlook

The Bottom Line

Expectations remain bullish, but the SPX is now overbought. This leaves me neutral on the short-term and awaiting a more favorable reward/risk scenario for establishing new positions.

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 11, 2017	Dec opex Seasonality bullish	1-5 days	Bullish	1.95%	-1.10%	-2.20%
December 5, 2017	SPX 20-high and close in bottom 10%	1-8 days	Bullish	1.90%	-1.20%	-2.40%
December 4, 2017	SPX > Upper Boll Band 4 days in row	1-8 days	Bullish	2.05%	-1.30%	-2.80%
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 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			
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			
Dropped Tonight						
December 7, 2017	3+ lower from high. Today mild.	1-3 days	Bullish			
December 8, 2017	2 up < 3 ago for SPY	1-2 days	Bullish			

The Evidence

Monday was mostly higher for the market. The SPX finished up 0.3%, and the NASDAQ gained 0.5%, but the Russell 2000 fell 0.1%. Breadth was positive as the NYSE Up Issues % was 53% and the Up Volume % came in at 61%. NYSE volume rose some from Friday's level.

From a price action standpoint, there was nothing that suggested a strong edge that appeared in the Quantifinder. But it is notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in The Quantifiable Edges Guide to Fed Days examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 9/19/17 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of the intraday range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$7,558.80	Profit Factor	1.31
Gross Profit	$31,707.93	Gross Loss	($24,149.13)
Total Number of Trades	80	Percent Profitable	48.75%
Winning Trades	39	Losing Trades	39
Even Trades	2		
Avg. Trade Net Profit	$94.49	Ratio Avg. Win:Avg. Loss	1.31
Avg. Winning Trade	$813.02	Avg. Losing Trade	($619.21)
Largest Winning Trade	$2,238.25	Largest Losing Trade	($2,739.69)

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of the intraday range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$16,031.15	Profit Factor	2.14
Gross Profit	$30,044.91	Gross Loss	($14,013.76)
Total Number of Trades	46	Percent Profitable	56.52%
Winning Trades	26	Losing Trades	19
Even Trades	1		
Avg. Trade Net Profit	$348.50	Ratio Avg. Win:Avg. Loss	1.57
Avg. Winning Trade	$1,155.57	Avg. Losing Trade	($737.57)
Largest Winning Trade	$4,704.07	Largest Losing Trade	($2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$11,831.97	Profit Factor	2.35
Gross Profit	$20,566.44	Gross Loss	($8,734.47)
Total Number of Trades	34	Percent Profitable	70.59%
Winning Trades	24	Losing Trades	10
Even Trades	0		
Avg. Trade Net Profit	$348.00	Ratio Avg. Win:Avg. Loss	0.98
Avg. Winning Trade	$856.94	Avg. Losing Trade	($873.45)
Largest Winning Trade	$2,943.00	Largest Losing Trade	($2,066.62)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the daily range.
Buy on close. Sell next day's close. $100k/trade. 1993 - present.

TradeStation Performance Summary Expand

All Trades

Total Net Profit	$23,650.08	Profit Factor	4.54
Gross Profit	$30,332.77	Gross Loss	($6,682.69)
Total Number of Trades	38	Percent Profitable	76.32%
Winning Trades	29	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	$622.37	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	$1,045.96	Avg. Losing Trade	($742.52)
Largest Winning Trade	$4,645.80	Largest Losing Trade	($2,945.28)

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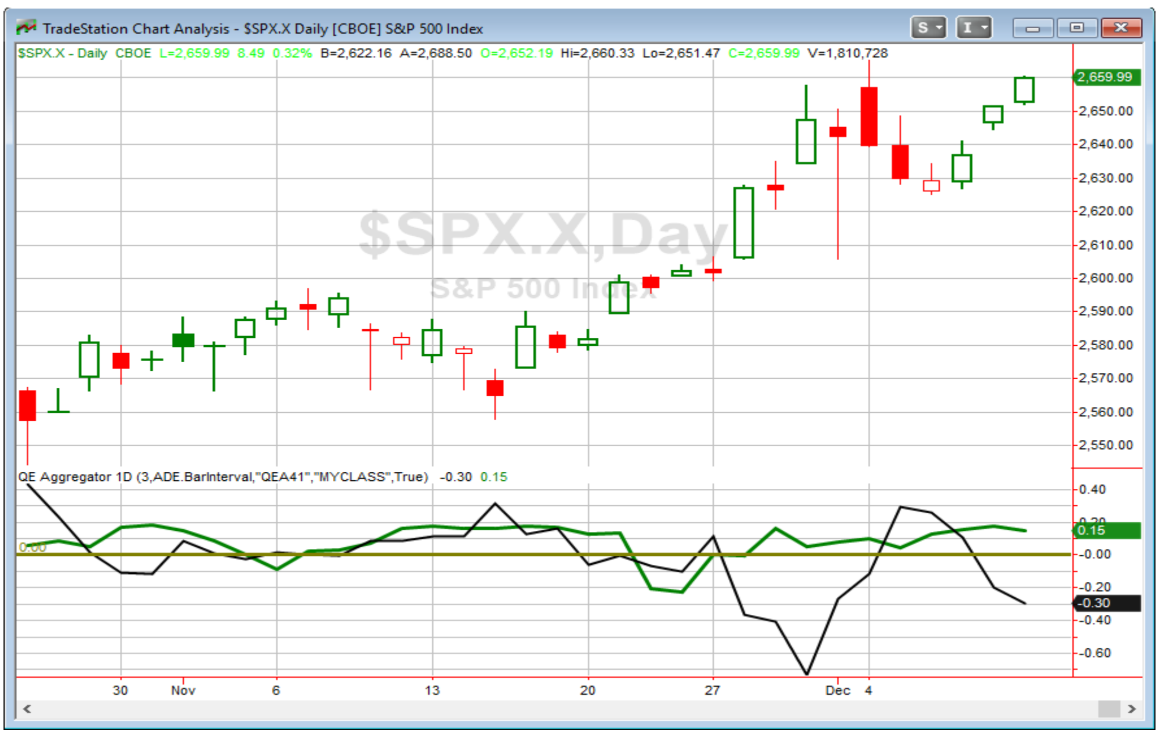
What was true 7 years ago when I first devised this study holds true today: the worse the close, the better the edge. So traders will want to keep this in mind as we approach the close on Tuesday. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk. Lastly, with SPX already at new highs, any up close on Tuesday will mean another new high. Fed Days have typically underperformed when they have occurred following a 20-day high. This can be seen in this study from the blog this past July.

I have updated the Aggregator chart below.



Without any new studies being added tonight, 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 dove down 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 Tuesday. It would take very compelling new bearish evidence in order to change this. The Differential

Pivot will be 2645.60 on Tuesday. That is 0.5% below Monday's close. So SPX will need to close down at least 0.5% in order to flip from overbought to oversold versus expectations.

Similar to last night, expectations remain bullish. But the overbought market has reward/risk less appealing than I would prefer. Like the Aggregator, I remain neutral. I will patiently await a pullback before possibly looking to take on long exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/11– somewhat bullish
The intermediate-term outlook was last updated in the 12/4 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.