

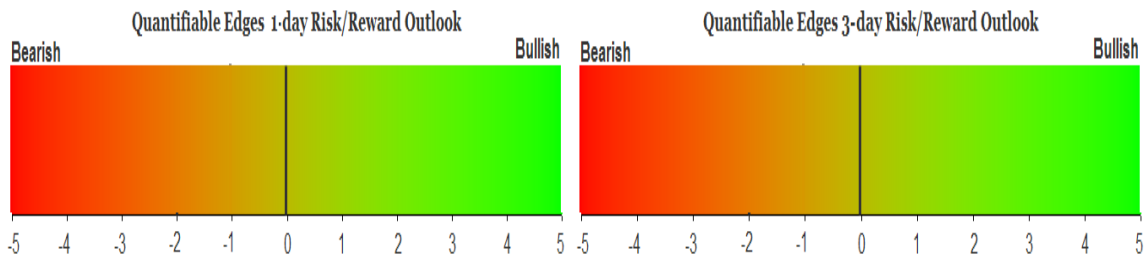
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 13, 2017

Volume 10 Issue 240

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- The strong move up in the VIX with SPX rising is showing mixed signals, depending on how you view it.
- 3 days up into a Fed Day has typically led to a strong Fed Day.

Short-term Outlook

The Bottom Line

The Aggregator remains neutral and so do I.

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 13, 2017	Up 4 days into Fed	1 day	Bullish			
December 13, 2017	VIX up 6%. SPX up.	1-5 days	Bullish			
November 13, 2017	VIX up 2.5%. SPX 50-high	1-5 days	Bearish			
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			

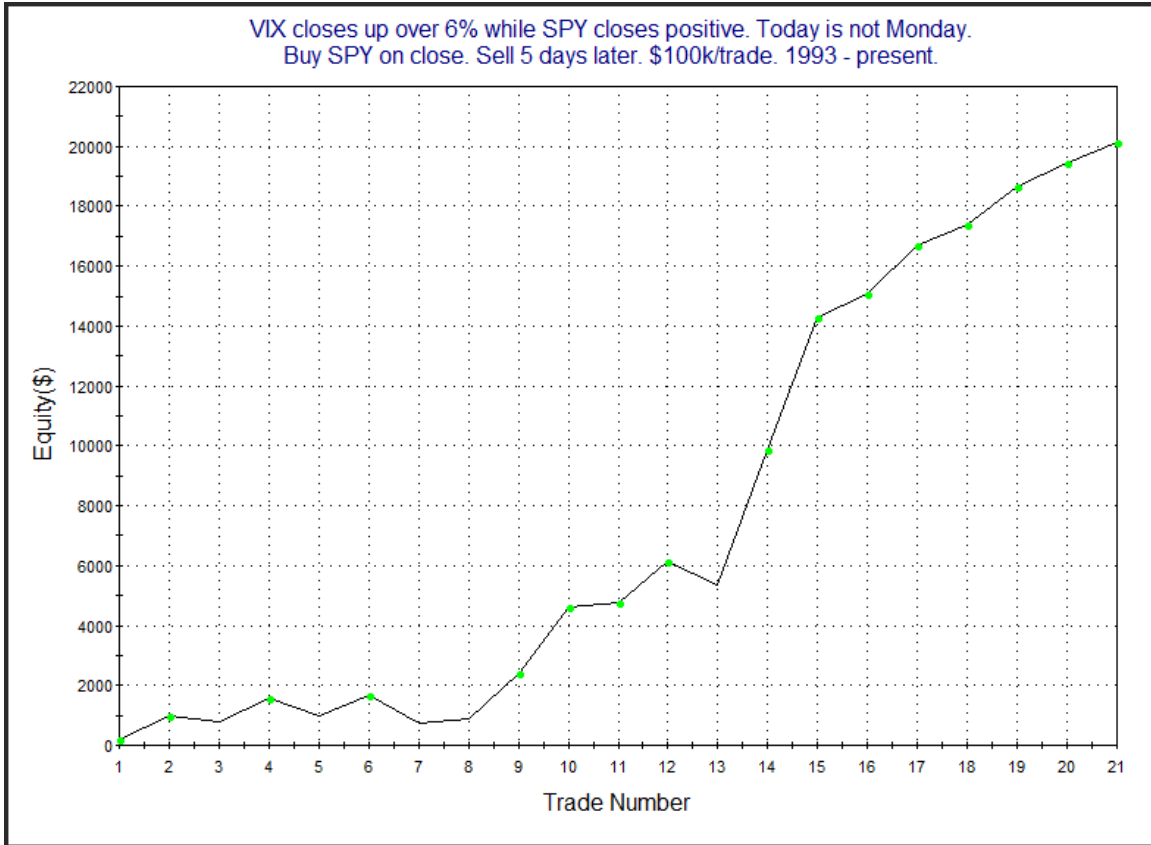
The Evidence

Tuesday was a mixed day for the market. The SPX finished up 0.15%, the NASDAQ lost 0.2%, and the Russell 2000 fell 0.2%. Breadth was also mixed as the NYSE Up Issues % was 45% and the Up Volume % came in at 58%. NYSE volume rose some from Monday's level.

There was some interesting action on Tuesday that generated a mix of studies. Especially interesting about the action on Wednesday was that the VIX spiked over 6% while SPY closed up solidly. It's unusual to see such a large spike in the VIX on a day where the SPY actually rose. The study below was last seen in the 2/16/17 letter. It looked at non-Mondays that saw the VIX spike up > 6% despite the SPY also rising. I have updated the results table below.

VIX closes up over 6% while SPY closes positive. Today is not Monday. Buy SPY on close. Sell X days later. \$100k/trade. 1993 - 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	20,112.96	21	17	4	80.95	1,332.59	4,501.60	-635.27	-914.83	2.10	8.92	957.76
4	17,584.93	21	16	5	76.19	1,316.36	4,225.18	-695.36	-1,233.08	1.89	6.06	837.38
3	13,607.17	21	17	4	80.95	1,050.74	4,576.06	-1,063.87	-3,070.92	0.99	4.20	647.96
2	8,106.65	21	14	7	66.67	943.17	2,807.04	-728.26	-2,288.52	1.30	2.59	386.03
1	1,649.35	22	12	10	54.55	541.02	1,893.29	-484.29	-1,613.70	1.12	1.34	74.97
100% of instances closed above the entry price at some point in the next week.												

The edge here appears to be strong. Below is a profit curve assuming a 5-day holding period.



Results appear very strong. And recent instances have been even stronger. This serves as some confirmation of the upside edge.

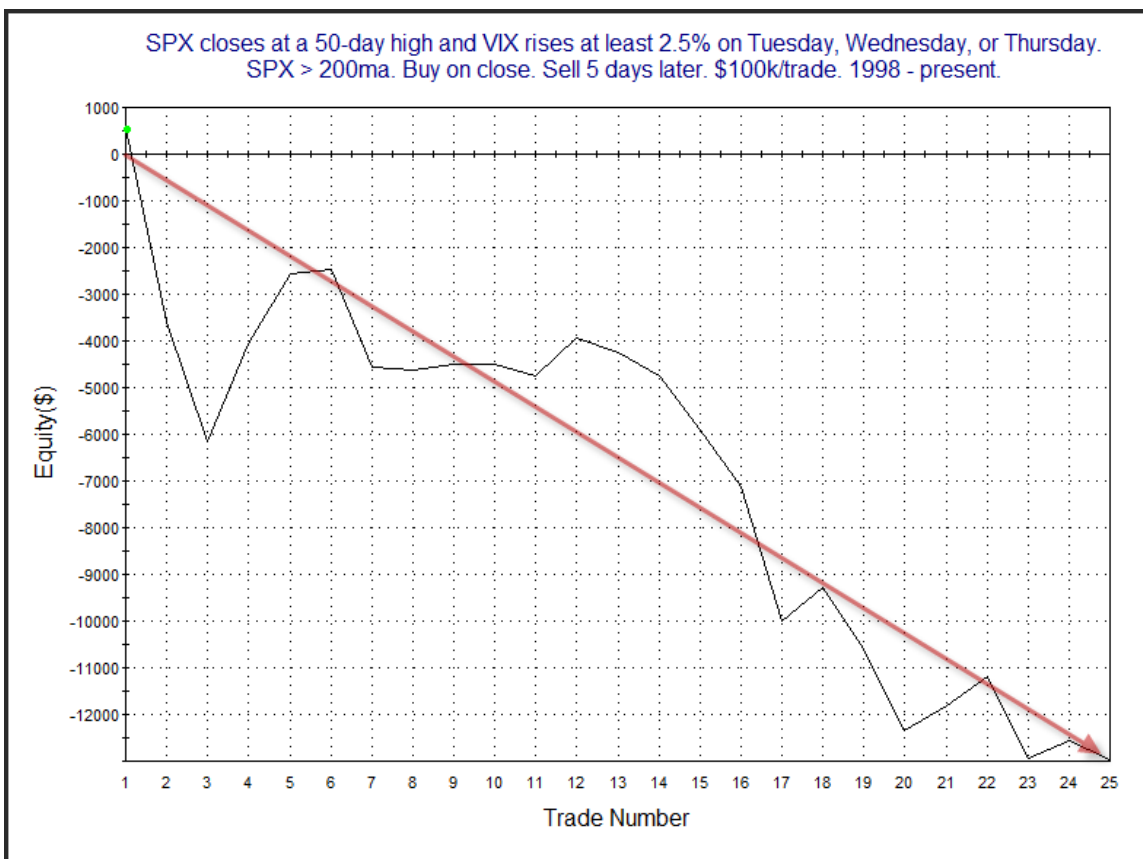
But another VIX-study suggested a bearish inclination. It required SPX to close at a 50-day high. It last appeared in the 12/1/17 letter. New readers may wonder why I use a day-of-week filter with VIX studies. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. All results are updated.

SPX closes at a 50-day high and VIX rises at least 2.5% on Tuesday, Wednesday, or Thursday.
SPX > 200ma. Buy 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	-12,956.02	25	10	15	40.00	745.11	2,108.40	-1,360.47	-4,149.36	0.55	0.37	-518.24
4	-12,284.58	25	9	16	36.00	617.40	1,629.60	-1,115.07	-4,240.48	0.55	0.31	-491.38
3	-9,708.40	25	11	14	44.00	542.27	1,271.55	-1,119.53	-4,423.40	0.48	0.38	-388.34
2	-7,463.82	25	6	19	24.00	443.11	1,192.71	-532.76	-1,461.48	0.83	0.26	-298.55
1	-2,401.90	29	14	15	48.28	270.18	1,108.05	-412.29	-1,008.70	0.66	0.61	-82.82

92% of instances closed below the entry price at some point in the next week.

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



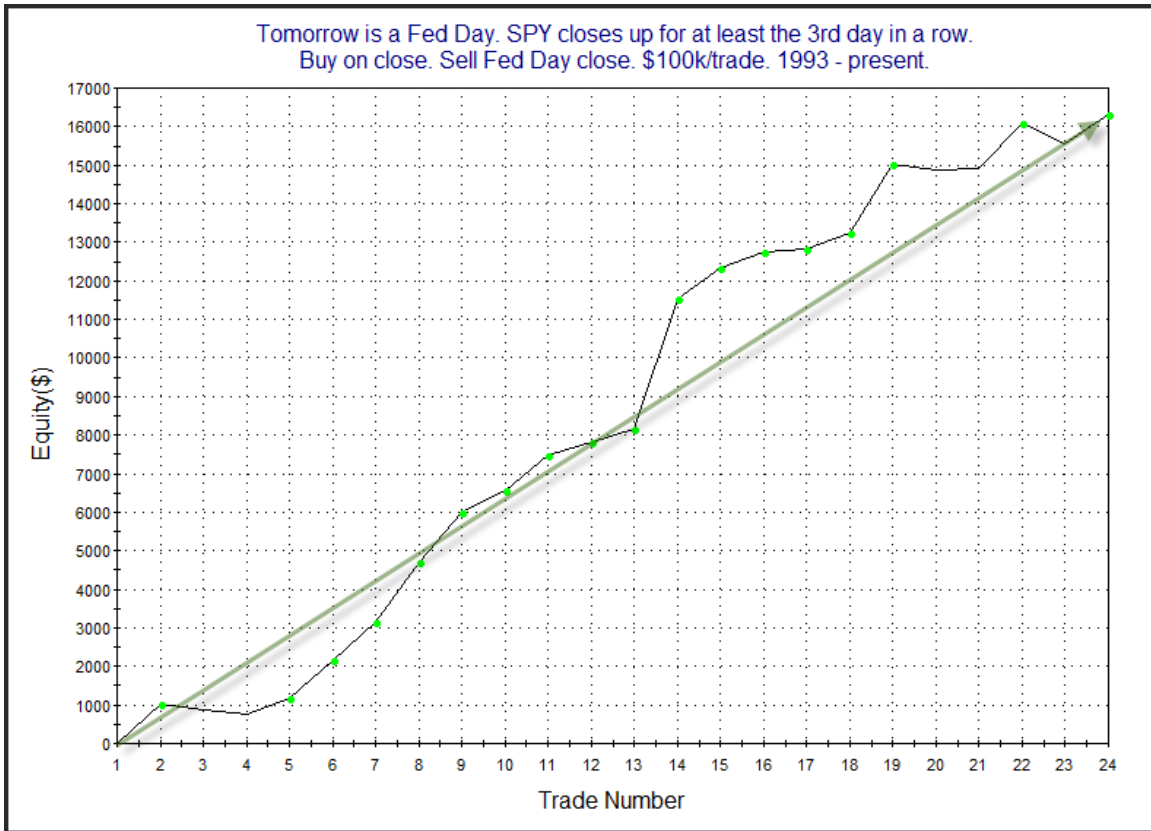
The move from upper left to lower right offers some confirmation of the downside edge. While they largely cancel each other out, I have added both VIX studies to the Active List tonight.

Last night I linked to a study that showed a close at a 20-day high the day prior to a Fed Day eliminated much of the Fed Day edge. Ironically, another study today suggested the move higher over the last few days may actually improve Wednesday's Fed Day outlook. The study requires at least three up days. It was last seen in the 9/18/13 Letter, and is updated below.

Tomorrow is a Fed Day. SPY closes up for at least the 3rd day in a row.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$16,308.28	Profit Factor	18.44
Gross Profit	\$17,243.41	Gross Loss	(\$935.13)
Total Number of Trades	24	Percent Profitable	79.17%
Winning Trades	19	Losing Trades	4
Even Trades	1		
Avg. Trade Net Profit	\$679.51	Ratio Avg. Win:Avg. Loss	3.88
Avg. Winning Trade	\$907.55	Avg. Losing Trade	(\$233.78)
Largest Winning Trade	\$3,383.38	Largest Losing Trade	(\$496.32)

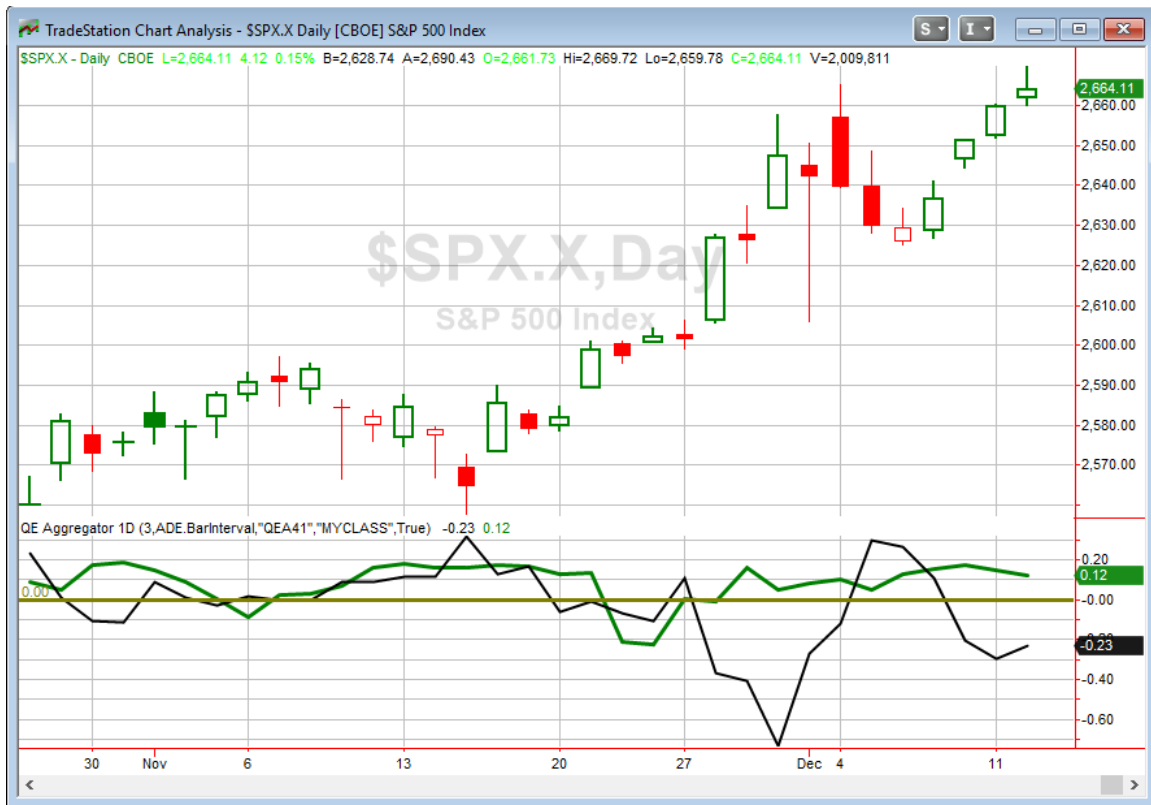
The average trade shown here is about twice as strong as the average Fed Day. Below is a profit curve.



I also added a filter to view instances that also closed at 20-day highs. It reduced the instances, but the results remained strong, with the profit factor still near 10. So I decided to include this study on the active list tonight.

So there certainly seem to be some crosswinds tonight. That is why we use the Aggregator, though.

I have updated the Aggregator chart below.



With tonight's mix of studies, 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 Wednesday. It would take compelling new bearish evidence in order to change this. The Differential Pivot will be 2663.61 on Wednesday. That is just $\frac{1}{2}$ point below Tuesday's close. So SPX will turn from overbought to oversold versus recent expectations with just about any lower close.

Evidence is mixed, potential market-moving news is pending, and the market could easily end up overbought or oversold tomorrow. In other words, lots of crosswinds and not a strong edge that would have me interested in trading. I'm sidelined right now. I'll wait to see how the market reacts and what new evidence emerges on the heels of the Fed announcement on Wednesday before committing to any new positions.

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.

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