

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 14, 2017

Volume 10 Issue 241

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>
<b>Long</b>	<b>100% 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.
- While SPY closed down, its series of higher highs and higher lows continued, suggesting a rally in the coming days.

## *Short-term Outlook*

### *The Bottom Line*

While the Aggregator is bullish, I am less enthused. The SPX is still just 1 day and 1 point removed from an all-time high and has not had a pullback below its 10ma in over 3 weeks. I would prefer more of a pullback before getting excited about new long 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
<b>Active - Short Term</b>						
December 14, 2017	3 higher hi, low, close, Dn close.	1-4 days	Bullish			
December 14, 2017	Unfill up. Gap up close down.	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%
<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 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**

Wednesday was another mixed day for the market. The SPX finished down 0.05%, the NASDAQ gained 0.2%, and the Russell 2000 rose 0.55%. Breadth was also mixed as the NYSE Up Issues % was 54% and the Up Volume % came in at 47%. NYSE volume rose some from Tuesday's level.

SPY finished lower, but SPY did manage to register a higher high and a higher low. The study below was last seen in the 10/9/17 letter and examines other times a pullback of this sort followed a series of higher highs, lows, and closes. I've updated the results.

SPY makes at least 3 higher highs, lows, and closes. It then closes down on the day but still makes a higher high and higher low. Close > 200ma. Buy 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	22,047.91	35	22	13	62.86	1,457.84	3,602.64	-771.11	-2,800.26	1.89	3.20	629.94
4	25,450.14	35	25	10	71.43	1,322.15	2,962.96	-760.36	-2,191.22	1.74	4.35	727.15
3	17,674.53	35	25	10	71.43	971.01	2,762.41	-660.06	-2,640.33	1.47	3.68	504.99
2	12,985.31	35	27	7	77.14	698.00	2,073.28	-837.24	-1,804.67	0.83	3.22	371.01
1	9,300.62	35	24	11	68.57	526.15	1,395.93	-302.45	-1,137.92	1.74	3.80	265.73

There appears to be a strong propensity for the move up to reassume. Below is a profit curve assuming a 4-day holding period.



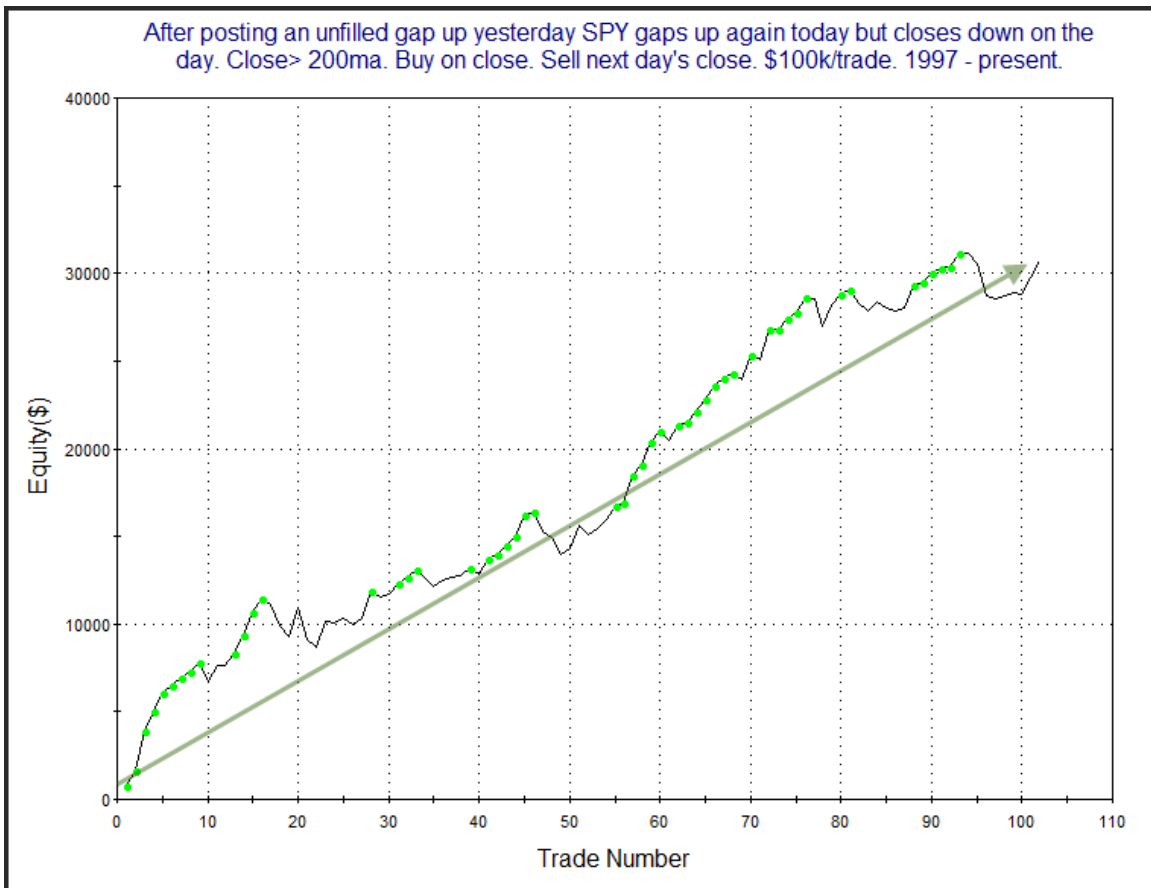
The upslope is impressive. This study appears worthy of consideration and I have included it on the Active List.

SPY gapped up and closed lower Wednesday after leaving an unfilled up gap on Tuesday. In the 11/30/17 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.

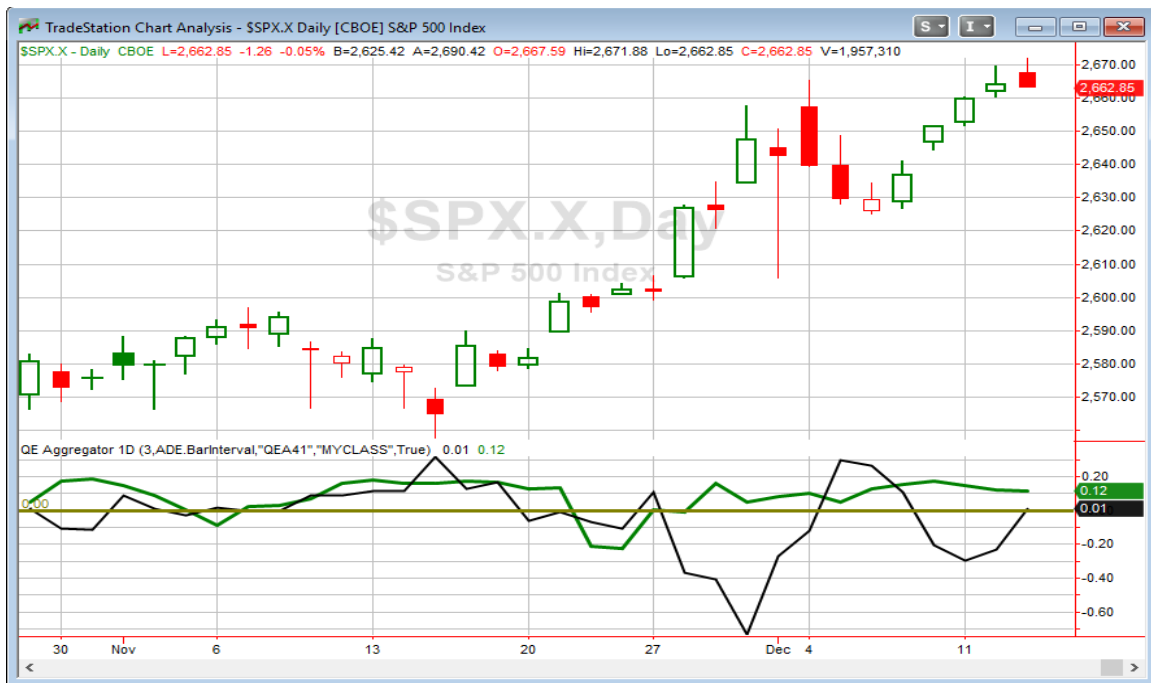
TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$30,674.42	Profit Factor	2.76
Gross Profit	\$48,141.07	Gross Loss	(\$17,466.65)
Total Number of Trades	102	Percent Profitable	69.61%
Winning Trades	71	Losing Trades	31
Even Trades	0		
Avg. Trade Net Profit	\$300.73	Ratio Avg. Win:Avg. Loss	1.20
Avg. Winning Trade	\$678.04	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 Thursday is fairly likely. I have included this study on the Active List tonight.

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 inched 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 turned long at the close.

Based on the current active list, expectations are slated to remain bullish on Thursday. It would take compelling new bearish evidence in order to change this. The Differential Pivot will be 2672.74 on Thursday. That is 0.4% above Wednesday's close. So SPX will need to close up at least 0.4% on Thursday to change from oversold to overbought versus expectations.

So the Aggregator is in a bullish formation. Evidence is pointing higher and SPX is oversold versus recent expectations. But it is not quite oversold enough for my liking just

yet. The 1-point decline on Wednesday came on the heels of an all-time high on Tuesday. Additionally, the SPX has now gone 16 days since it last closed below its 10-day moving average. That suggests the rally is getting a little long in the tooth. It could certainly continue a while longer (and the studies support that idea), but reward/risk seems sub-par up here. I prefer to wait for a more substantial pullback (and perhaps a close below the 10ma) before looking to get long any index 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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