

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 19, 2017

Volume 10 Issue 244

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Short	100% Short SPY

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.

Short-term Outlook

The Bottom Line

The Aggregator is now bearish, but evidence is not strong enough for me to want to take a counter-trend trade during a seasonally bullish period. I am sidelined.

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 19, 2017	VIX up. SPX 50-high. 1st day of week.	1-2 days	Bearish			
December 14, 2017	3 higher hi, low, close, Dn close.	1-4 days	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			
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			

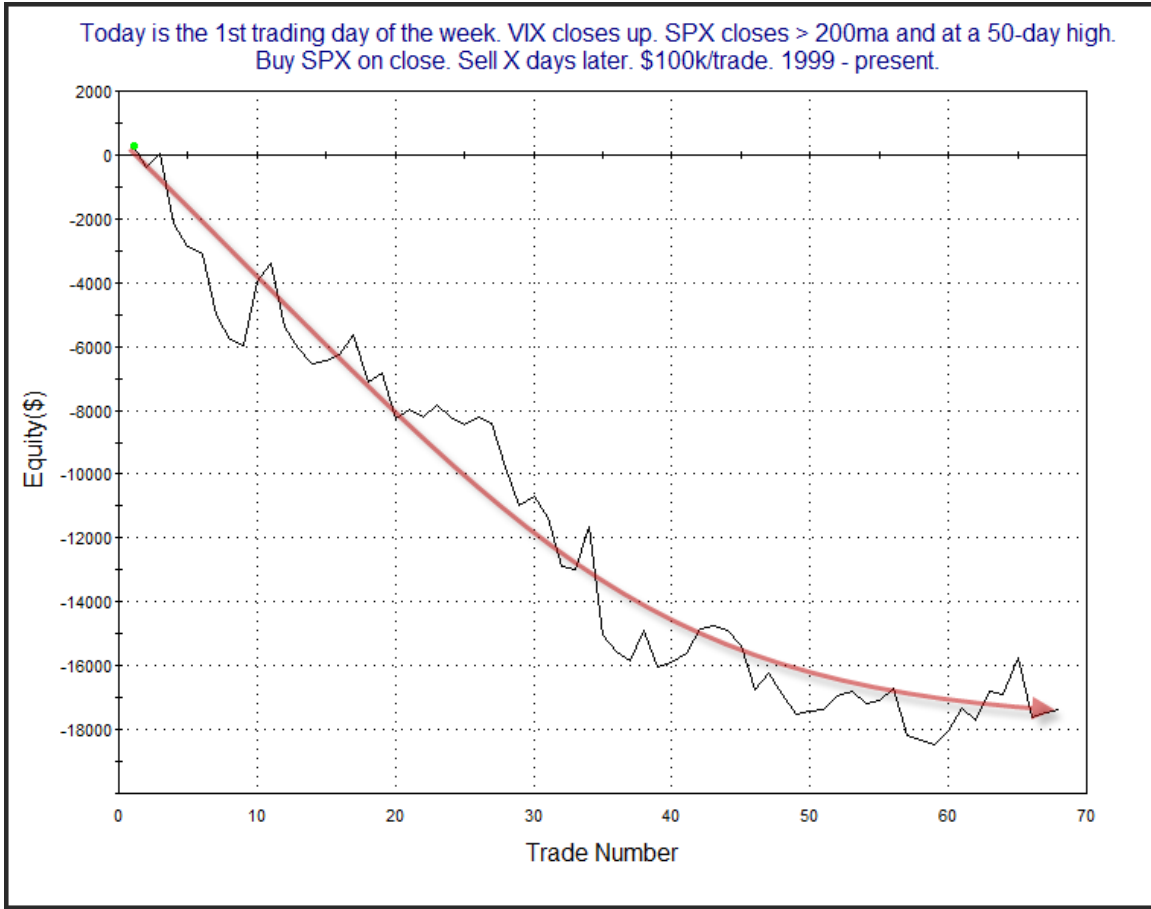
The Evidence

Monday was another good day for the market. The SPX finished up 0.5%, the NASDAQ gained 0.8%, and the Russell 2000 rallied 1.2%. Breadth was strong the NYSE Up Issues % was 70% and the Up Volume % came in at 78. NYSE volume dipped some from opex Friday levels as it usually does.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 6/7/16 letter. Results are all updated.

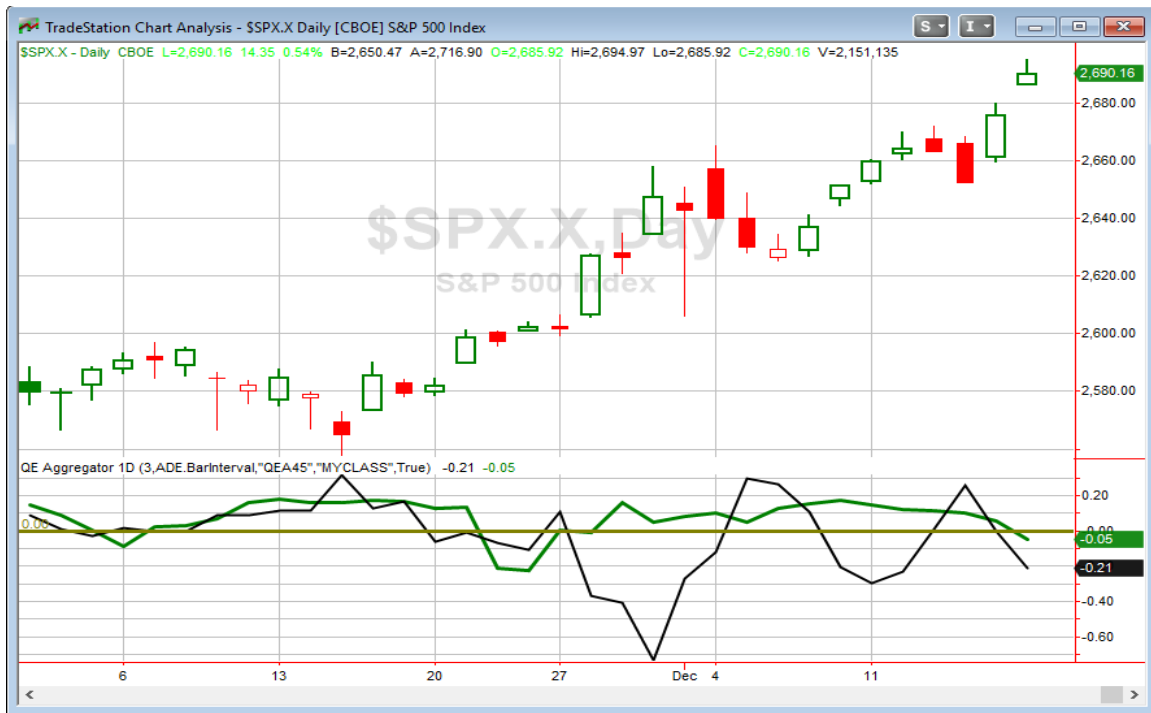
Today is the 1st trading day of the week. VIX closes up. SPX closes > 200ma and at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-12,537.41	62	29	33	46.77	1,067.79	3,260.25	-1,318.28	-5,048.68	0.81	0.71	-202.22
4	-6,670.43	68	33	35	48.53	910.97	2,953.65	-1,049.49	-4,271.52	0.87	0.82	-98.09
3	-8,921.63	68	32	36	47.06	708.79	2,641.80	-877.86	-3,887.84	0.81	0.72	-131.20
2	-17,365.64	68	31	37	45.59	467.19	1,981.72	-860.77	-3,372.16	0.54	0.45	-255.38
1	-7,375.06	68	25	43	36.76	326.95	769.70	-361.60	-1,580.04	0.90	0.53	-108.46

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. We did see a recent bump up, which has flattened out the current look of the curve some. Still, this study seems worthy of consideration and I have included it on the Active List.

I have updated the Aggregator chart below.



With tonight's new study considered, the green Aggregator Line dipped below zero. Negative readings mean net expectations from the Active List are for downside over the next few days. Meanwhile, the black Differential Line also dropped below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal flipped from long to short at the close.

Based on the current active list, expectations are slated to remain bearish on Tuesday. Of course this could easily change if new bullish evidence emerges. The Differential Pivot will be 2660.82 on Tuesday. That is 1.1% below Monday's close. Therefore, SPX will need to close down a fairly sizable 1.1% on Tuesday in order to move from overbought to oversold versus expectations.

So the Aggregator is suggesting a short-term bearish edge. And the market is quite overbought with a decent amount of room to the downside before it would turn oversold. During a less bullish time of year I might be inclined to take a counter-trend trade right here. But I know we will be seeing more bullish seasonal evidence kick in during the next couple of days. And expectations have turned bearish largely thanks to tonight's study, a study which has struggled to deliver bearish results in recent instances. So I will remain sidelined awaiting the next strongly favorable setup. Unfortunately, we seem to be reaching that state where the market is "too strong to short, and too overbought to buy". So it may be a few days before the next high-probability setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/18– somewhat bullish

The intermediate-term outlook was last updated in the 12/18 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.

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

This report has been prepared by Hanna Capital Management, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Hanna Capital Management, LLC or clients of Hanna Capital Management, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Hanna Capital Management, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Hanna Capital Management, LLC nor any officer or employee of Hanna Capital Management, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Hanna Capital Management, LLC.

Copyright © 2017 Hanna Capital Management, LLC.