

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 20, 2017

Volume 10 Issue 245

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- The SPY gap and reversal on Tuesday after an unfilled gap up on Monday suggests an upside edge for Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and crosswinds abound. I do not see a strong reward/risk setup at the moment.

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 20, 2017	Unfill gap up. Gap up reverse down.	1 day	Bullish			
December 19, 2017	VIX up. SPX 50-high. 1st day of week.	1-2 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			
Dropped Tonight						
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			

The Evidence

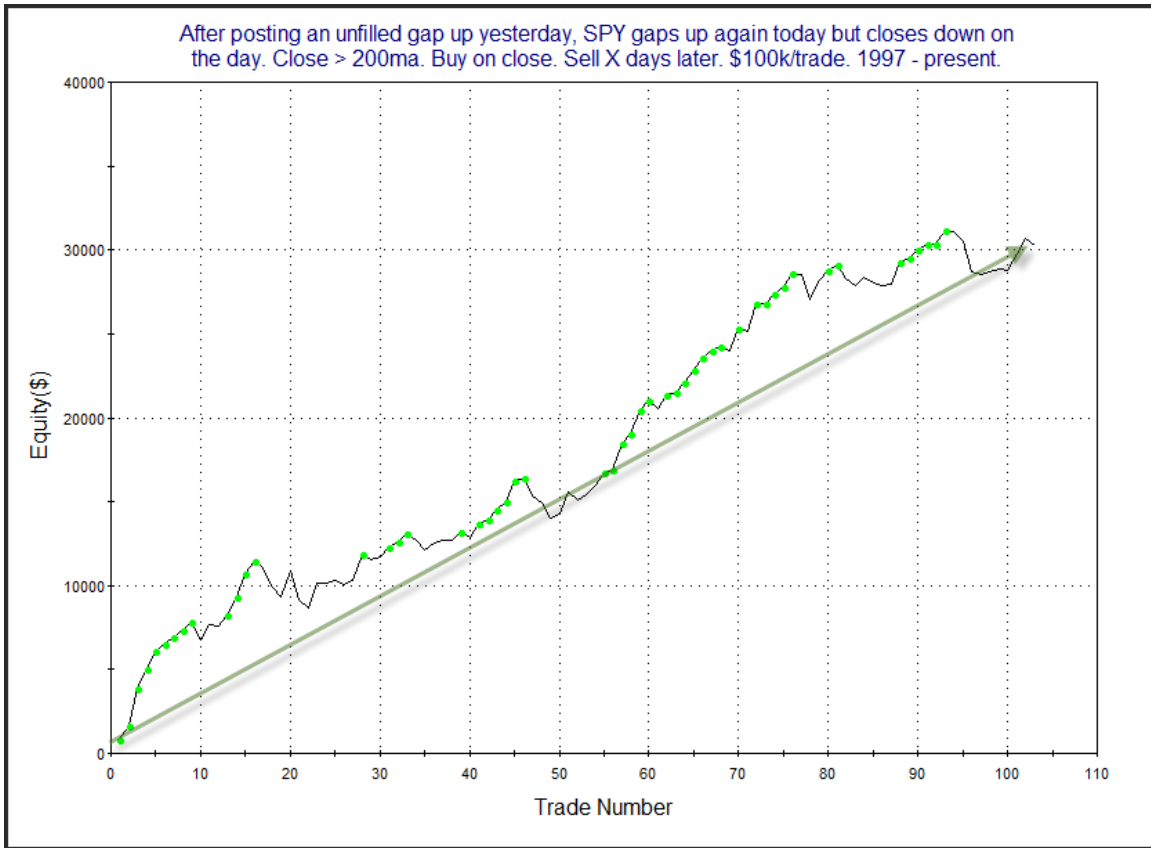
Tuesday saw the market pull back some from Monday's highs. The SPX finished down 0.3%, the NASDAQ fell 0.4%, and the Russell 2000 dropped 0.8%. Breadth was negative as the NYSE Up Issues % was 34% and the Up Volume % came in at 35%. NYSE volume declined some from Monday's level. I expect volume numbers will continue to remain low through the end of the year, except perhaps on days when market moving news occurs.

SPY gapped up and closed lower Tuesday after leaving an unfilled up gap on Monday. Just recently in the 12/14/17 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.

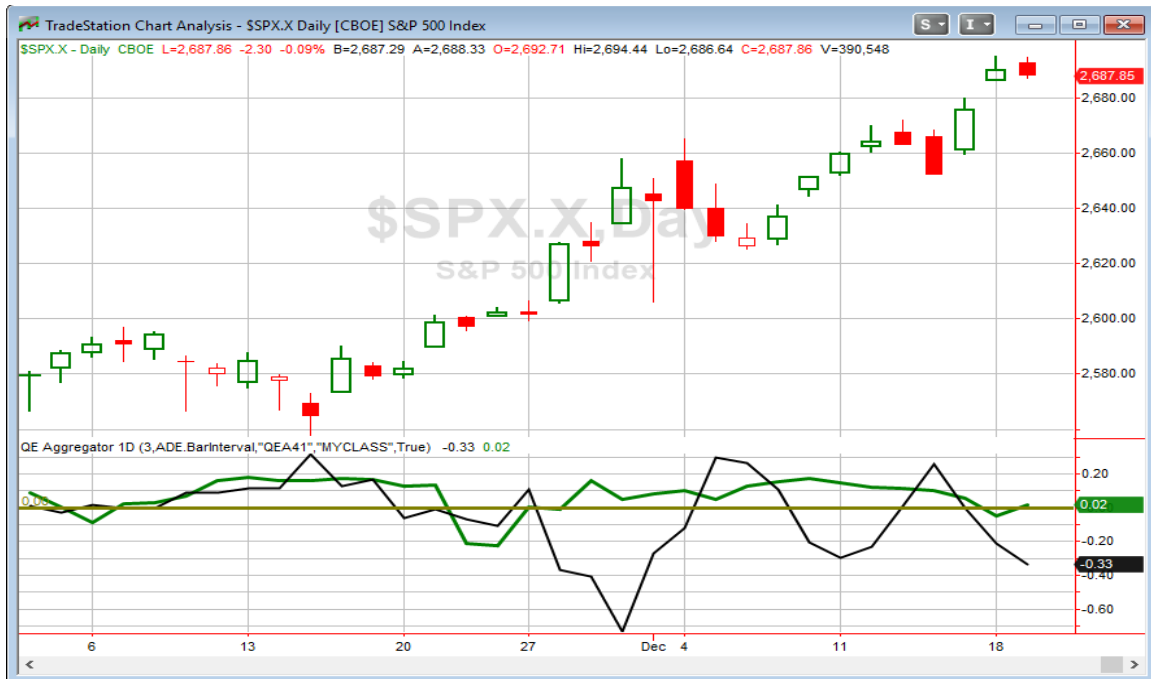
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$29,800.42	Profit Factor	2.71
Gross Profit	\$47,267.07	Gross Loss	(\$17,466.65)
Total Number of Trades	101	Percent Profitable	69.31%
Winning Trades	70	Losing Trades	31
Even Trades	0		
Avg. Trade Net Profit	\$295.05	Ratio Avg. Win:Avg. Loss	1.20
Avg. Winning Trade	\$675.24	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 Wednesday is fairly likely. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's new considered, the green Aggregator Line inched back 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 turned flat at the close.

Based on the current active list, expectations are slated to remain bullish on Wednesday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2683.24 on Wednesday. That is 0.1% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up at least 0.1% in order to remain overbought. Anything shy of that and it will be considered oversold vs expectations as of Wednesday's close.

I am not viewing the current setup as a high-probability opportunity. Of course the Aggregator is neutral, so that typically sidelines me on its own. But we also have some other crosswinds. We are in a strong seasonal period (and it is about to get stronger as I will discuss tomorrow night). At the same time, the rally is very extended by a number of measures. Not only have we been hitting all-time highs, but the SPX has now gone 21 days in a row without closing below its 10ma. That is a long time, and it suggests a pullback is a bit overdue. Patience is key during times of uncertainty. I'll continue to wait for a more favorable reward/risk scenario to emerge.

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](#).

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