

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 21, 2017

Volume 10 Issue 246

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- Over the next several days seasonality is set to be especially strong.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish. I am on the lookout to possibly get long if we get further selling and another down close on Thursday.

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	Tw3 3 Nights Before Christmas	1-8 days	Bullish	2.50%	-1.10%	-2.20%
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 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			

The Evidence

Wednesday was mixed and mild. The SPX finished down 0.08%, the NASDAQ fell 0.04%, and the Russell 2000 rose 0.22%. Breadth was positive as the NYSE Up Issues % was 51% and the Up Volume % came in at 53%. NYSE volume declined some from Tuesday’s level. I expect volume numbers will continue to remain low through the end of the year.

The study below is the “Tw3 3 Nights Before Christmas” study, and I have shown it each year in the letter. It triggered as of Wednesday’s close. I show here how it has performed for a few of the major indices. First...SPX.

Buy SPX at close 3 trading sessions before Christmas. Sell X days later. \$100k/trade. 1987 - 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
10	30,384.27	30	22	8	73.33	2,359.09	7,830.30	-2,689.46	-4,698.12	0.88	2.41	1,012.81
9	38,308.80	30	21	9	70.00	2,695.67	7,974.78	-2,033.37	-3,644.64	1.33	3.09	1,276.96
8	45,763.82	30	22	8	73.33	2,504.82	8,333.40	-1,167.78	-2,782.08	2.14	5.90	1,525.46
7	35,661.03	30	20	10	66.67	2,214.03	7,796.76	-861.97	-1,580.04	2.57	5.14	1,188.70
6	24,055.27	30	19	11	63.33	1,802.67	7,752.90	-926.86	-1,768.23	1.94	3.36	801.84
5	30,526.89	30	23	7	76.67	1,658.62	7,247.22	-1,088.78	-2,846.94	1.52	5.01	1,017.56
4	22,188.84	30	20	10	66.67	1,543.54	5,070.22	-868.20	-2,258.85	1.78	3.56	739.63
3	19,534.27	30	21	9	70.00	1,279.00	4,592.40	-813.86	-1,794.00	1.57	3.67	651.14
2	17,543.08	30	22	8	73.33	1,036.87	3,257.17	-658.50	-2,185.04	1.57	4.33	584.77
1	11,051.49	30	22	8	73.33	715.94	2,523.24	-587.40	-1,518.40	1.22	3.35	368.38

28 of 30 instances (93%) closed above the entry price at some point in the next week.

The stats all appear quite strong. I would note the “Max Losing Trade” column shows very mild numbers from days 1-8, with no decline reaching 3%.

But as I discussed last week, smallcaps rule this time of year. So let’s examine some other indices. First let’s look at the Russell 2000.

Buy RUT at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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
10	54,807.12	30	23	7	76.67	3,346.71	11,169.90	-3,166.76	-6,361.44	1.06	3.47	1,826.90
9	61,380.53	30	22	8	73.33	3,619.62	10,353.42	-2,281.39	-5,973.50	1.59	4.36	2,046.02
8	71,872.51	30	25	5	83.33	3,202.55	9,130.50	-1,638.24	-2,948.40	1.95	9.77	2,395.75
7	61,411.14	30	25	5	83.33	2,701.00	7,189.56	-1,222.77	-2,529.09	2.21	11.04	2,047.04
6	57,822.16	30	23	7	76.67	2,689.15	8,941.50	-575.49	-1,300.32	4.67	15.35	1,927.41
5	50,133.77	30	24	6	80.00	2,293.98	11,299.50	-820.28	-2,385.63	2.80	11.19	1,671.13
4	34,926.41	30	22	8	73.33	1,908.48	7,987.50	-882.52	-1,845.90	2.16	5.95	1,164.21
3	31,477.93	30	25	5	83.33	1,376.38	5,136.75	-586.29	-1,591.20	2.35	11.74	1,049.26
2	25,319.24	30	22	8	73.33	1,320.44	4,317.75	-466.32	-930.30	2.83	7.79	843.97
1	13,653.88	30	23	7	76.67	756.21	2,299.70	-534.12	-1,354.50	1.42	4.65	455.13

All 30 instances closed above the entry price at some point in the 4 trading days.

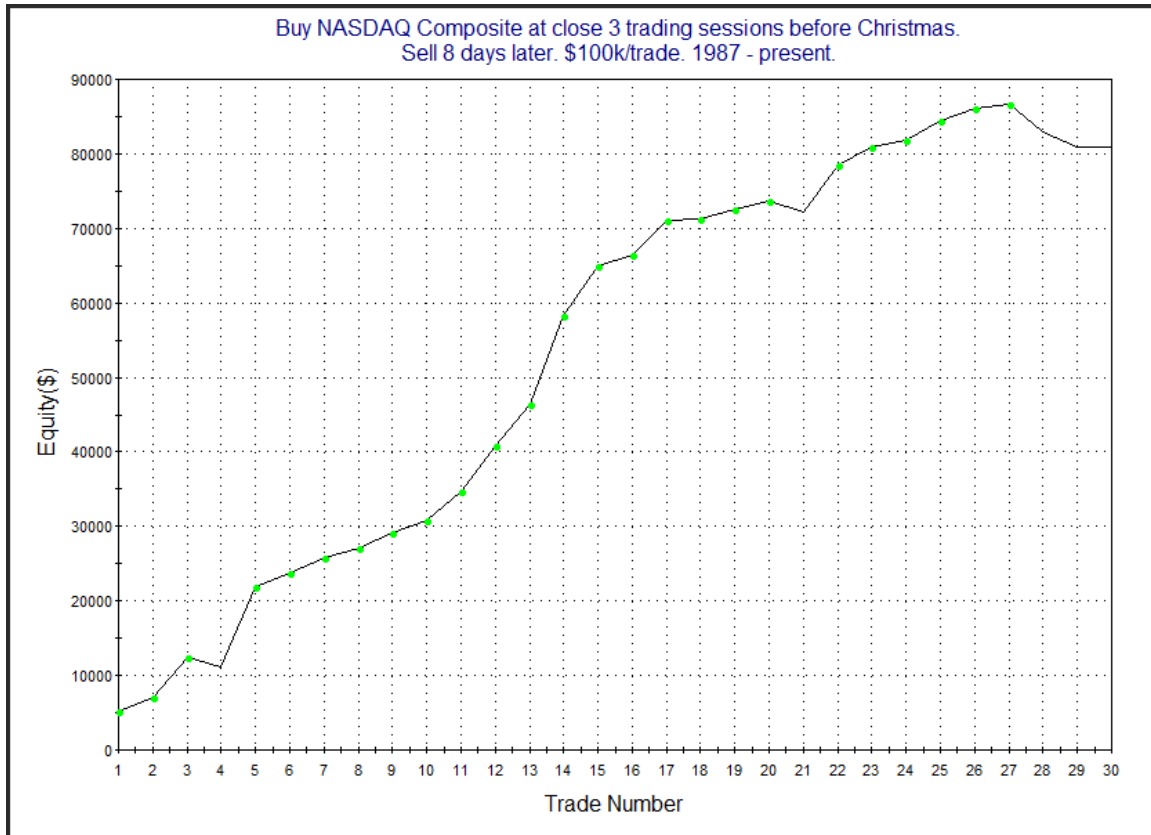
Results are substantially stronger here. And the Russell has never gone without providing an opportunity for a winning trade on a closing basis. Now the Nasdaq.

Buy NASDAQ Composite at close 3 trading sessions before Christmas.
Sell X days later. \$100k/trade. 1987 - 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
10	68,723.14	30	24	6	80.00	3,650.39	12,374.58	-3,147.70	-5,921.92	1.16	4.64	2,290.77
9	74,707.83	30	24	6	80.00	3,712.16	11,558.04	-2,397.34	-5,039.77	1.55	6.19	2,490.26
8	80,978.95	30	26	4	86.67	3,443.67	11,915.40	-2,139.15	-3,773.60	1.61	10.46	2,699.30
7	49,064.55	30	20	10	66.67	3,025.85	9,428.34	-1,145.24	-2,577.00	2.64	5.28	1,635.48
6	45,278.73	30	23	7	76.67	2,295.41	9,407.88	-1,073.68	-2,010.42	2.14	7.02	1,509.29
5	44,677.14	30	21	9	70.00	2,473.88	9,436.56	-808.25	-2,882.56	3.06	7.14	1,489.24
4	34,743.86	30	21	9	70.00	1,959.61	8,665.86	-711.99	-2,063.36	2.75	6.42	1,158.13
3	31,771.35	30	23	7	76.67	1,586.92	6,748.14	-675.40	-1,927.36	2.35	7.72	1,059.04
2	28,744.02	30	23	7	76.67	1,475.61	7,726.74	-742.13	-2,114.45	1.99	6.53	958.13
1	15,064.83	30	23	7	76.67	872.95	2,423.79	-716.14	-1,439.75	1.22	4.01	502.16

1986 was the only time th NASDAQ failed to close above its entry price at some point in the next 5 days since its inception in 1971.

Results just keep getting better. And only once since the inception of the Nasdaq did it go without some kind of move up in the following week. Below is the 8-day profit curve.



The curve is impressive despite the mild pullback the last couple of years.

Lastly, let's look at the NDX.

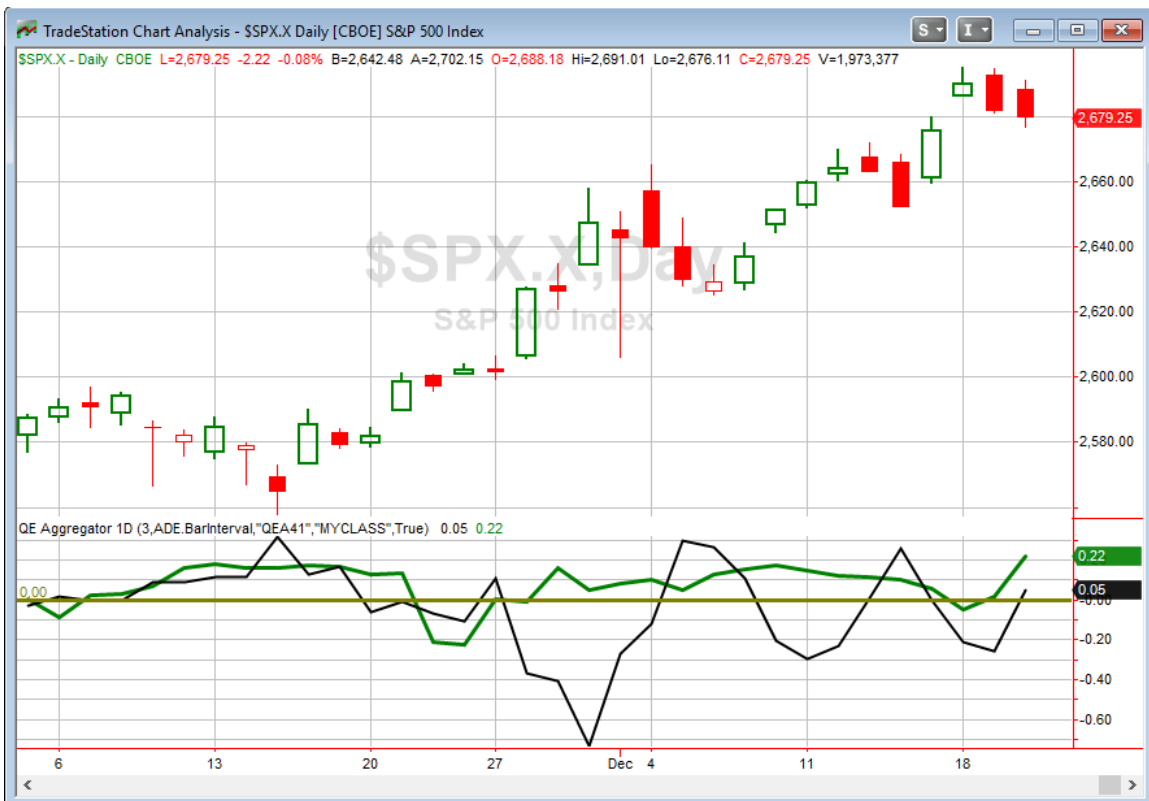
Buy NDX at close 3 trading sessions before Christmas.
 Sell X days later. \$100k/trade. 1987 - present.

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
10	69,705.65	30	23	7	76.67	4,003.57	14,811.16	-3,196.65	-5,954.34	1.25	4.12	2,323.52
9	79,460.62	30	23	7	76.67	4,211.81	13,881.66	-2,487.28	-5,095.68	1.69	5.56	2,648.69
8	87,595.63	30	24	6	80.00	4,034.99	14,312.70	-1,540.67	-3,052.33	2.62	10.48	2,919.85
7	52,620.76	30	20	10	66.67	3,311.65	12,688.52	-1,361.23	-3,669.30	2.43	4.87	1,754.03
6	40,935.62	30	21	9	70.00	2,529.71	11,843.52	-1,354.26	-2,893.94	1.87	4.36	1,364.52
5	49,766.43	30	21	9	70.00	2,868.86	11,443.50	-1,164.40	-3,226.03	2.46	5.75	1,658.88
4	39,495.34	30	21	9	70.00	2,303.68	11,245.05	-986.88	-2,242.57	2.33	5.45	1,316.51
3	35,022.35	30	21	9	70.00	2,079.77	8,742.60	-961.42	-2,203.20	2.16	5.05	1,167.41
2	31,829.52	30	22	8	73.33	1,803.95	10,167.30	-982.17	-3,741.36	1.84	5.05	1,060.98
1	18,174.38	30	22	8	73.33	1,127.66	2,863.84	-829.27	-2,662.20	1.36	3.74	605.81

28 of 30 instances (93%) closed above the entry price at some point in the next week.

Numbers here are similar to the Nasdaq Composite, but the 8-day profits are the best we see among any of the indices.

I have updated the Aggregator chart below.



With tonight's new study considered, the green Aggregator Line moved further above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line crossed 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. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2693.29 on Thursday. That is 0.5% above Wednesday's close. So SPX will need to close up at least 0.5% in order to move from overbought to oversold versus expectations.

So the Aggregator is now bullish. But despite the 2-day pullback, I am still not yet enthused about reward/risk. SPY has now closed above its 10ma 22 days in a row. I would like to see a close below it before getting very excited about long index positions. With the NDX looking like it has the best seasonality in the studies above, I will consider getting long QQQ if SPY and QQQ both close down a fair amount on Thursday. Specifics in the Trade Ideas section below.

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.

QQQ – buy ¼ index position @ \$157.50 LIMIT ON CLOSE if SPY closes <= \$266.65. Based on the short-term outlook above, I will be looking to buy QQQ if the market suffers another substantial down day on Thursday. I would like to see a 3rd lower close for QQQ and a close below the 10ma for SPY.

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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