

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 22, 2017

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## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>
<b>Long</b>	<b>100% Long XIV</b>

## Tonight's Research Points

- The small bounce on Thursday does not appear to be a positive for the SPX.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is again bullish, but SPX is set to turn from oversold to overbought. I do not love reward/risk and am continuing to wait for a more compelling setup.

*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 20, 2017	Twas 3 Nights Before Christmas	1-8 days	Bullish	2.50%	-1.10%	-2.20%
<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			
<b>Dropped Tonight</b>						
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***

Thursday started fairly strong, but some gains were given back in the afternoon and most of the indices finished up just a small amount. The SPX rose 0.2%, the NASDAQ gained 0.1%, and the Russell 2000 climbed 0.5%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 72%. NYSE volume rose some from Wednesday's level, but remained light.

And another study also suggested the SPX bounce was so weak that it could be a concern. In the 4/5/17 letter I looked to see whether there was a substantial difference in performance following a small move down after two down days versus a small move up after two down days. Below I have updated that study.

First let's consider what happens after two down days are followed by a third lower close, but that third close is a drop of less than 0.2%.

SPX declined for a 3rd day in a row. Today's drop is < 0.2%.  
Buy on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	\$10,369.39	Profit Factor	1.66
Gross Profit	\$26,037.48	Gross Loss	(\$15,668.09)
Total Number of Trades	49	Percent Profitable	71.43%
Winning Trades	35	Losing Trades	14
Even Trades	0		
Avg. Trade Net Profit	\$211.62	Ratio Avg. Win:Avg. Loss	0.66
Avg. Winning Trade	\$743.93	Avg. Losing Trade	(\$1,119.15)
Largest Winning Trade	\$2,286.08	Largest Losing Trade	(\$2,452.26)

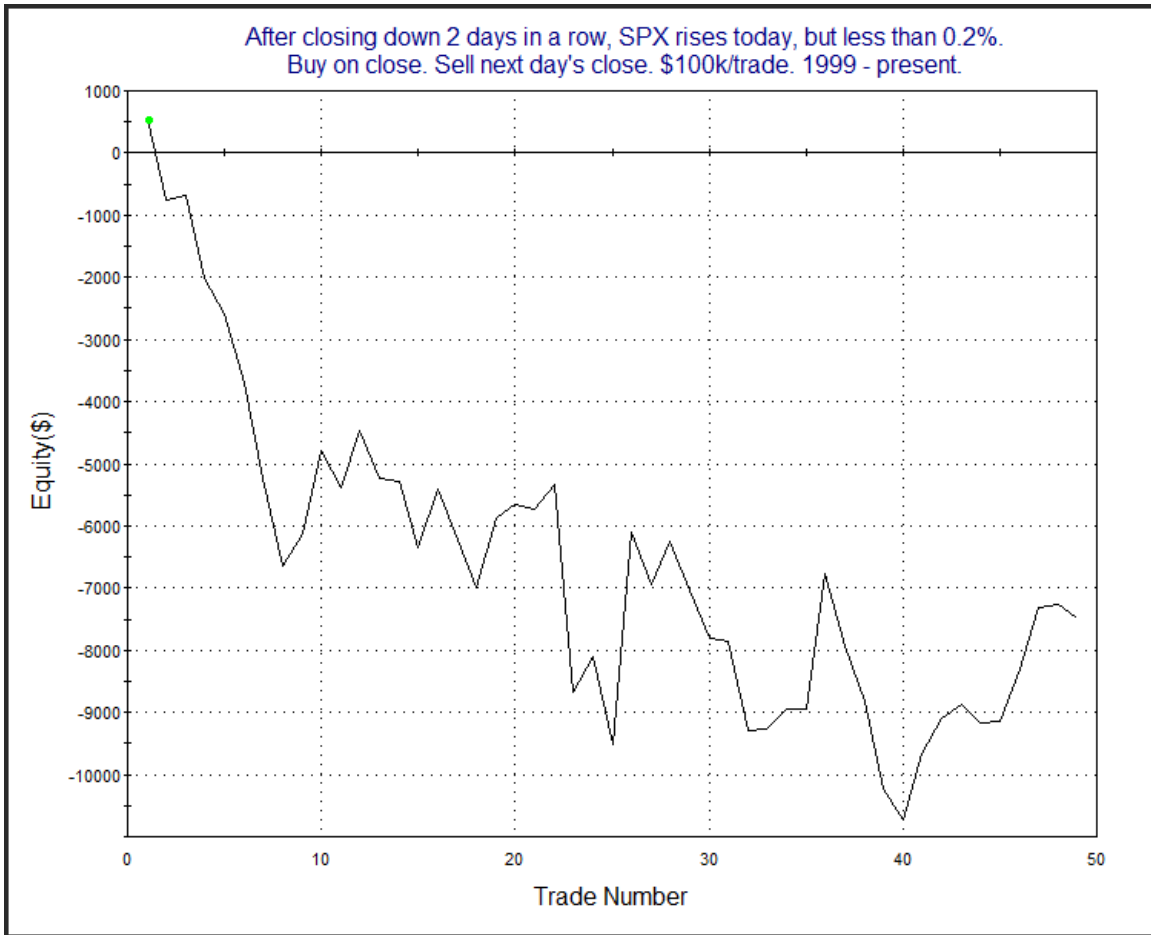
Results here suggest a possible bullish edge for the next day.

Now let's look at times like the present where two down days were followed by an up day, but that up day rose less than 0.2%.

After closing down 2 days in a row, SPX rises today, but less than 0.2%.  
Buy on close. Sell next day's close. \$100k/trade. 1999 - present.

TradeStation Performance Summary <span style="float: right;">Expand ▾</span>			
All Trades			
Total Net Profit	(\$7,496.65)	Profit Factor	0.69
Gross Profit	\$17,030.40	Gross Loss	(\$24,527.05)
Total Number of Trades	49	Percent Profitable	46.94%
Winning Trades	23	Losing Trades	26
Even Trades	0		
Avg. Trade Net Profit	(\$152.99)	Ratio Avg. Win:Avg. Loss	0.78
Avg. Winning Trade	\$740.45	Avg. Losing Trade	(\$943.35)
Largest Winning Trade	\$3,390.64	Largest Losing Trade	(\$3,325.38)

As you can see, results here suggest a small down day is substantially different than a small up day. While not overwhelming, the edge in this case would appear to be for more downside. Below is a profit curve.



The curve here is very choppy. And with really no downside progress over the 2<sup>nd</sup> half of the curve, I do not feel this merits inclusion on the Active List. But I still find the contrast between the small up close and the small down close to be notable and worth understanding.

I have updated the Aggregator chart below.



Tonight 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 also remained 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 stayed long at the close.

Based on the current active list, expectations are slated to remain bullish on Friday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be *slightly inverted* at 2682.33 on Friday. That is 0.1% *below* Thursday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down at least 0.1% on Friday in order to remain oversold versus recent expectations. Any small decline or any rise will turn SPX overbought as of Friday's close.

So there still appears to be an upside edge, largely thanks to strong seasonality. But the Differential tool has SPX set to turn from oversold to overbought on Friday. And the SPX has yet to resolve the fact that it has gone over a month without any closes below the 10ma. So while I believe there is a small upside edge, I still do not find reward/risk terribly appealing. I will continue to wait for a more compelling setup before taking on any new index positions.

***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.** I will cancel the QQQ trade idea from last night, which did not fill.

**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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