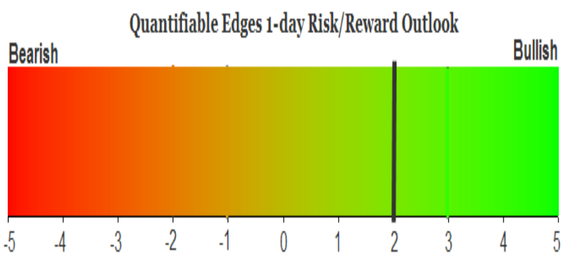
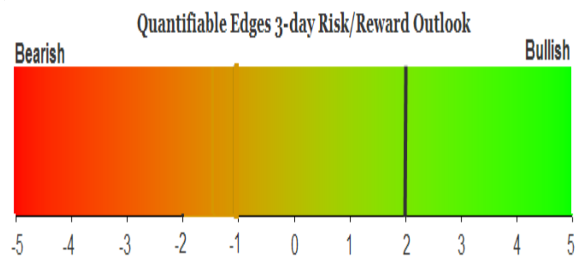
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 27, 2017 Volume 10 Issue 249

Market Overview





Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- Positive breadth on a down day used to be a bullish harbinger for the following day. But that has not held up in recent times.
- XIV has not done well over the years during the last few days of the year. But the sample size is small, and I am not convinced that there is a downside edge.

Short-term Outlook
The Bottom Line

The Aggregator is now bullish. I'd like to see SPX pull back just a little more to get reward/risk potential favorable enough for me to take on a new index position.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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	Twas 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			

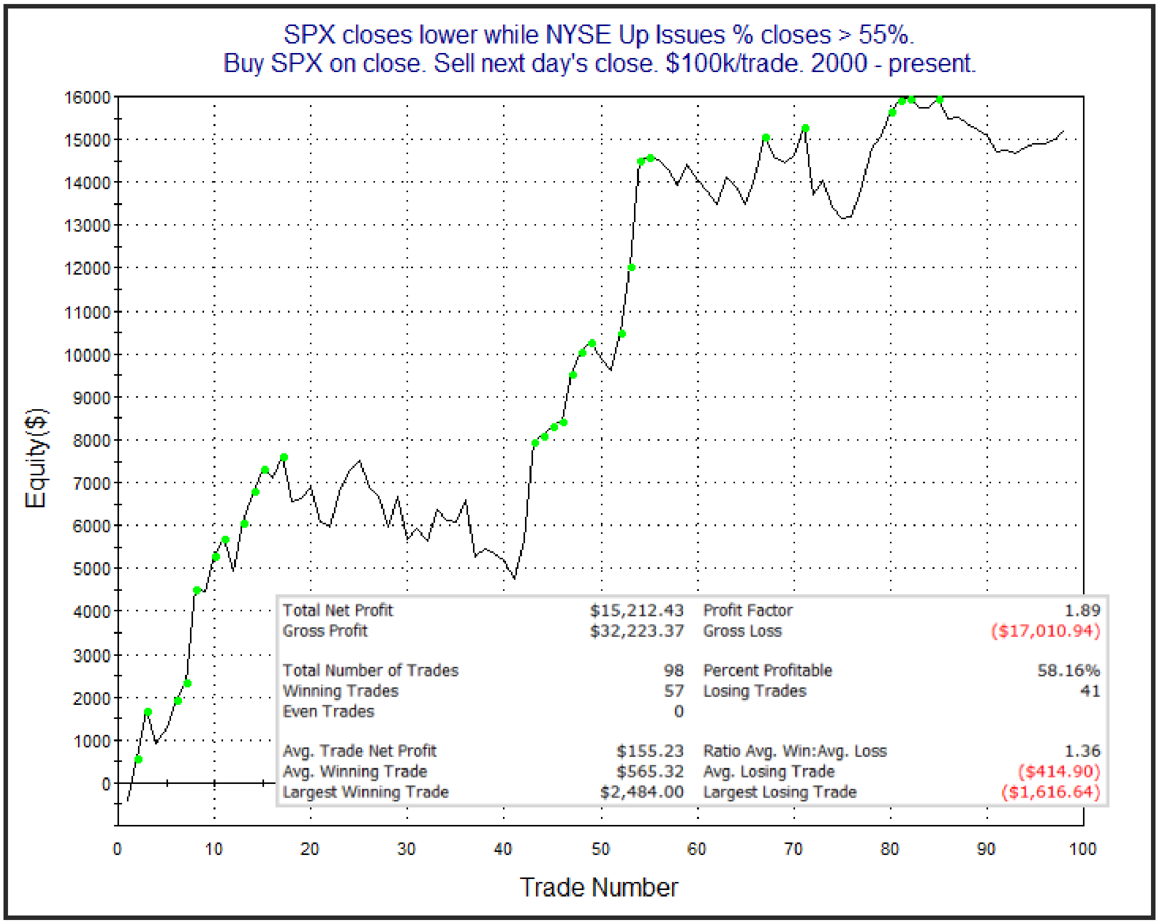
The Evidence

Tuesday was mixed and mild. The SPX declined 0.1%, the NASDAQ lost 0.3%, and the Russell 2000 rose 0.1%. Breadth was positive as the NYSE Up Issues % was 56% and the Up Volume % came in at 63%. NYSE volume came in light again.

The light volume triggered some studies in the Quantifinder. But low volume between Christmas and New Year's is typical. It is not indicative of complacency and it is not unusual. So I am ignoring the low volume studies tonight, and I will continue to ignore them the rest of the week.

There was one study that looked at the strong breadth on a down day. It was last seen in the 3/24/17 letter. It has shown a bullish tilt over the years. But it has not shown very bullish implications recently. I have updated the study below.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952



While the stats still look bullish, there has been very little progress made in the 2nd half of the chart. I have decided to put this study on "probation" for the time being. I will continue to keep an eye on it in the future in case it appears to be reasserting itself. But I no longer consider it a bullish setup.

I have updated the Aggregator chart below.

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

Tonight the green Aggregator Line again 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 rose 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 Wednesday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2694.19 on Wednesday. That is about 0.5% above Tuesday's close. Therefore, SPX will need to close up at least 0.5% on Wednesday in order to change from oversold to overbought versus expectations.

So the Aggregator is now bullish and there appears to be a bit of an upside edge. I still do not love getting long when the SPX has gone so long without closing below its 10ma (now 24 days in a row). Of course, it is no longer very far above there. I would be interested in taking on some long exposure if there is a bit more of a decline on Wednesday. Details in the Trade Ideas section near the bottom of the letter.

Some additional research regarding late-year short volatility plays

Last night I decided to examine performance of XIV during the last few days of the year. The thought was that we are now in a seasonally bullish time period (as shown by the 3 Night Before Christmas study that is currently active). Additionally, volume and volatility are often light this week with many traders on vacation. So I thought with low volatility and bullish seasonality, it could be a bullish time for XIV (the inverse-VIX etf). I checked.

Buy XIV at close on 1st trading day after Christmas.
Sell at close on last trading day of the year. $100k/trade. XIV inception - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/27/2011	Buy	$6.75	-3.56%	$888.84
12/30/2011	Sell	$6.51		($4,444.20)
12/26/2012	Buy	$16.58	0.06%	$1,145.89
12/31/2012	Sell	$16.59		($10,855.80)
12/26/2013	Buy	$35.38	-2.83%	$593.46
12/31/2013	Sell	$34.38		($4,267.26)
12/26/2014	Buy	$34.74	-10.36%	$978.52
12/31/2014	Sell	$31.14		($12,058.82)
12/28/2015	Buy	$26.80	-3.73%	$2,387.84
12/31/2015	Sell	$25.80		($3,805.62)
12/27/2016	Buy	$50.43	-7.30%	$594.60
12/30/2016	Sell	$46.75		($8,066.74)

These numbers certainly do not look bullish. They could even be viewed as bearish. Even the lone "winner" saw XIV undergo a drawdown of nearly 11% before closing up $0.01.

So is there a bearish edge? One person suggested I also look at ZIV, which looks at medium-term volatility measures, rather than short-term.

Buy ZIV at close on 1st trading day after Christmas.
Sell at close on last trading day of the year. $100k/trade. ZIV inception - present.

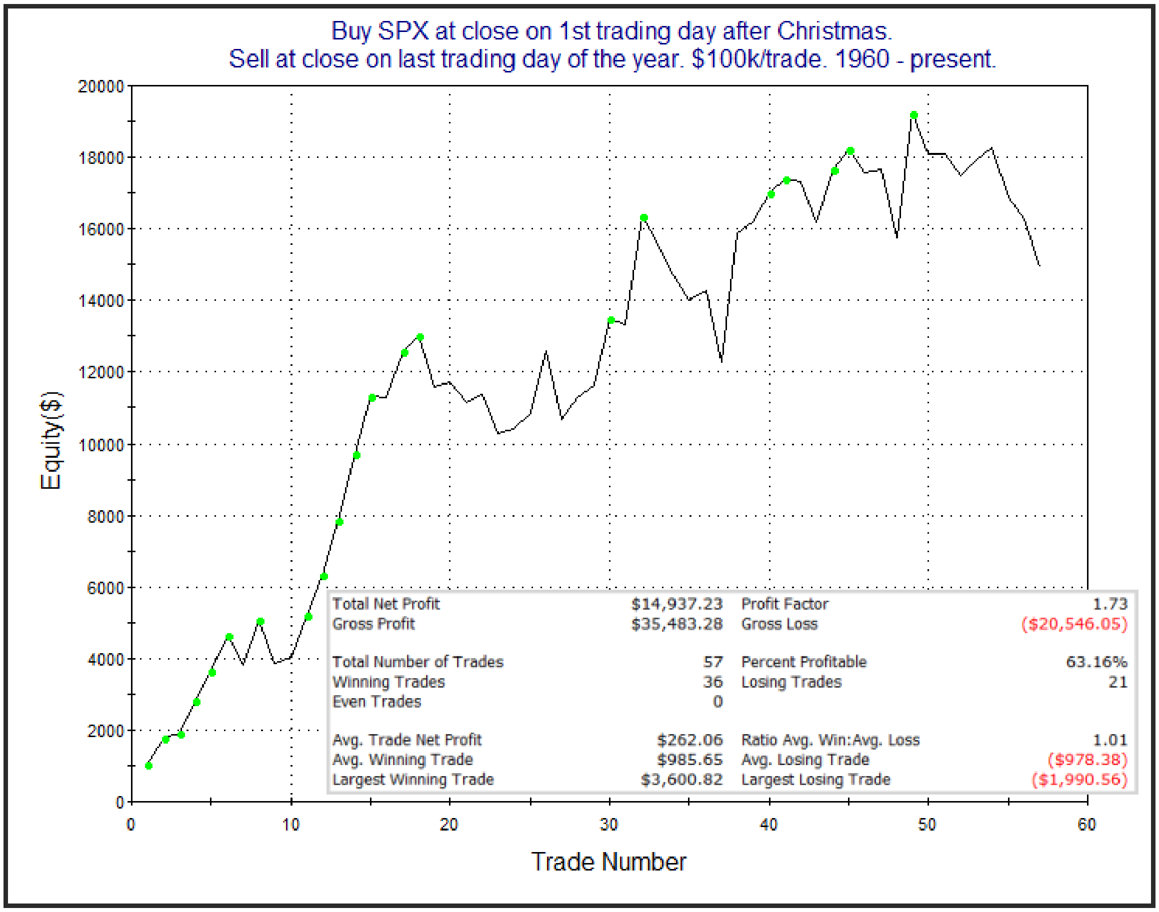
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/27/2011	Buy	$12.62	-1.27%	$237.69
12/30/2011	Sell	$12.46		($1,584.60)
12/26/2012	Buy	$23.39	1.62%	$2,094.75
12/31/2012	Sell	$23.77		($2,522.25)
12/26/2013	Buy	$38.57	0.34%	$725.76
12/31/2013	Sell	$38.70		($1,062.72)
12/26/2014	Buy	$43.48	-3.93%	$1,356.41
12/31/2014	Sell	$41.77		($5,034.81)
12/28/2015	Buy	$42.05	-1.76%	$1,498.14
12/31/2015	Sell	$41.31		($1,759.72)
12/27/2016	Buy	$47.72	-2.47%	$230.45
12/30/2016	Sell	$46.54		($2,995.85)

These results are also weak, but not nearly as bad as XIV. Let's also consider how SPX has done.

Buy SPX at close on 1st trading day after Christmas.
Sell at close on last trading day of the year. $100k/trade. 2011 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/27/2011	Buy	$1,265.43	-0.62%	$33.18
12/30/2011	Sell	$1,257.60		($1,326.41)
12/26/2012	Buy	$1,419.83	0.45%	$483.70
12/31/2012	Sell	$1,426.19		($1,520.40)
12/26/2013	Buy	$1,842.02	0.34%	$400.68
12/31/2013	Sell	$1,848.36		($175.50)
12/26/2014	Buy	$2,088.77	-1.43%	$224.66
12/31/2014	Sell	$2,058.90		($1,449.01)
12/28/2015	Buy	$2,056.50	-0.61%	$1,202.88
12/31/2015	Sell	$2,043.94		($618.24)
12/27/2016	Buy	$2,268.88	-1.32%	$106.92
12/30/2016	Sell	$2,238.83		($1,551.44)

It has been a fairly tough time for SPX over the last few years. So XIV struggling during the same times is not a surprise. If someone were to examine the last 6 years, they might believe there is a downside edge. I'm not terribly comfortable with such a small sample size. A look at a longer-term chart and stats for SPX might show why.



It's been a bad run the last few years. But suggesting there is a downside edge sure seems like a stretch for SPX.

Back to XIV…my original test examined performance over the last few days of the year. With volatility typically low, and seasonality generally regarded as bullish, I hypothesized there could be a strong bullish tendency for XIV. The results certainly refuted that hypothesis. But I am not of the opinion that they are great proof of a bearish edge for XIV.

Intermediate-term Outlook (2 weeks – 2 months) – updated 12/26– somewhat bullish

The intermediate-term outlook was last updated in the 12/26 Letter. It can be found in the most recent weekly letter on the website.

http://quantifiableedges.com/current-weekly-letter/

Hanna Capital Management, LLC 16 Hillcrest Rd., Medfield, Massachusetts 02052 781-956-6952

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.

SPY – buy ¼ index position @ $267.05 LIMIT ON CLOSE. Based on the short-term outlook above, I believe there is a bit of an upside edge. This limit price would leave SPY below its 10ma for the 1st time since 11/17/17. It would alleviate my concern that we have gone an extended amount of time without a pullback. I'll be looking get long some SPY if this happens tomorrow.

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.