

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 28, 2017

Volume 10 Issue 250

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

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

Short-term Outlook

The Bottom Line

The Aggregator is now bullish. Like last night, 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.

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

Wednesday was again mixed and mild. The SPX rose 0.08%, the NASDAQ gained 0.04%, and the Russell 2000 declined 0.02%. Breadth was also mixed as the NYSE Up Issues % was 56% and the Up Volume % came in at 45%. NYSE volume rose slightly but came in light again with many traders taking time off.

The mild, sideways chop is not a great environment for compelling studies to emerge. Tonight, the only really interesting one was a repeat from last week. I decided to just repost that study from the 12/22 letter below.

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.

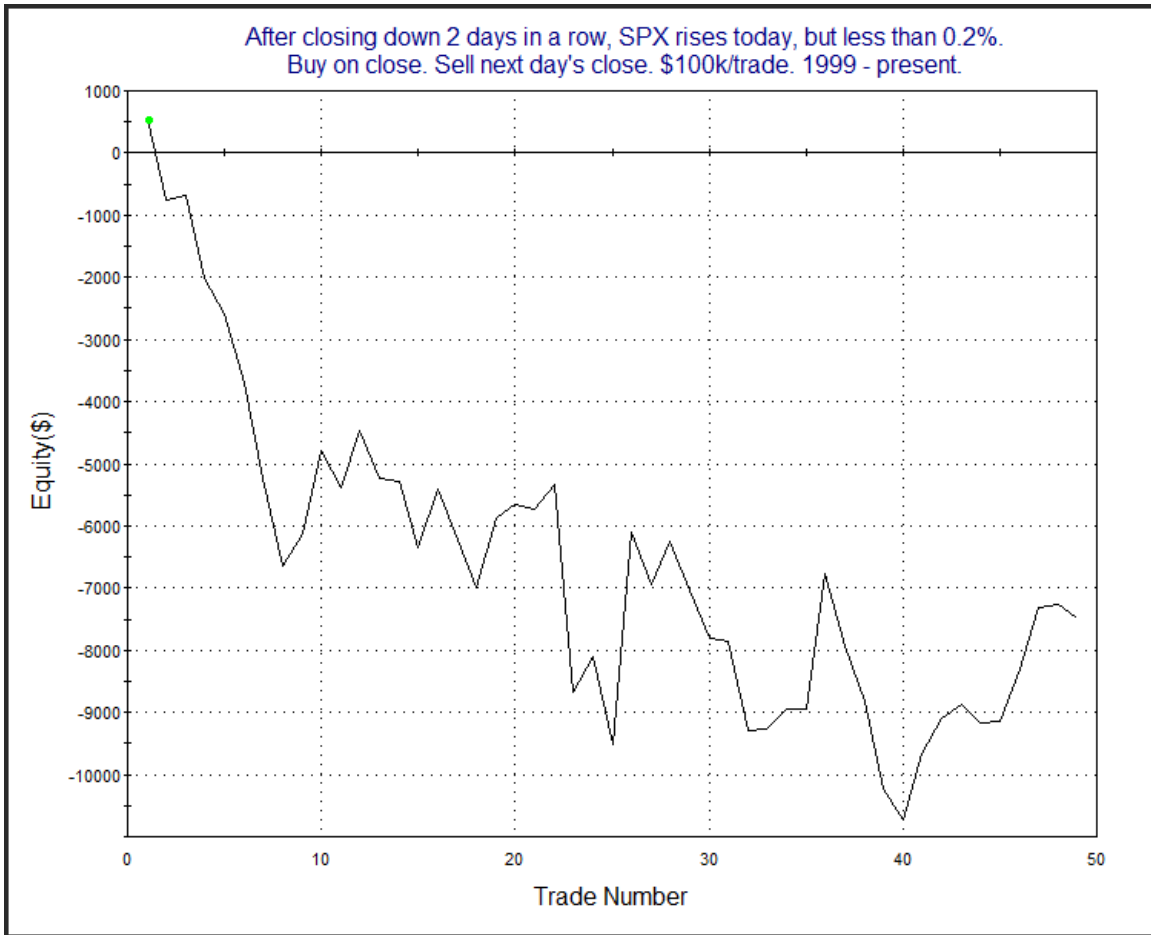
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$10,369.39	Profit Factor		1.66
Gross Profit	\$26,037.48	Gross Loss	(\$15,668.09)	
Total Number of Trades	49	Percent Profitable		71.43%
Winning Trades	35	Losing Trades		14
Even Trades	0			
Avg. Trade Net Profit	\$211.62	Ratio 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%.

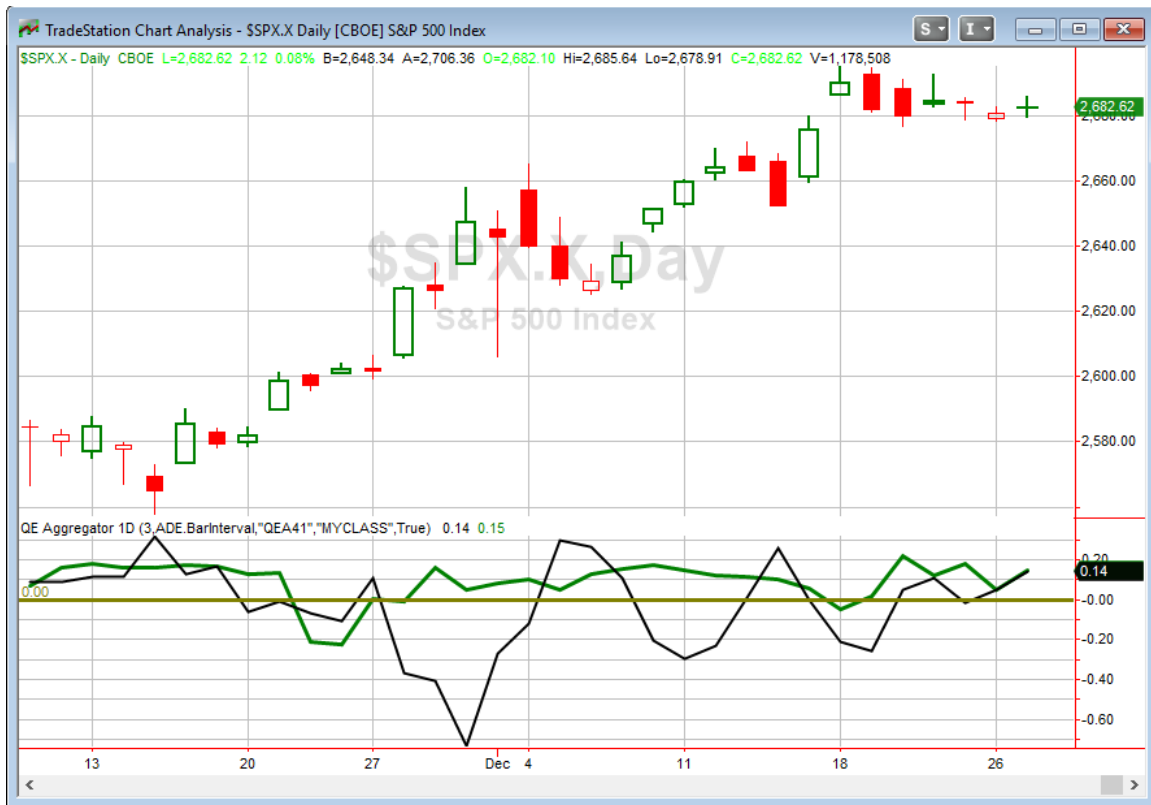
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$7,496.65)	Profit Factor		0.69
Gross Profit	\$17,030.40	Gross Loss	(\$24,527.05)	
Total Number of Trades	49	Percent Profitable		46.94%
Winning Trades	23	Losing Trades		26
Even Trades	0			
Avg. Trade Net Profit	(\$152.99)	Ratio 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 2nd 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.

So from a short-term standpoint, there are no new studies that emerged that are worthy of inclusion on the Active List. I have updated the Aggregator chart below.



Tonight the green Aggregator Line again held above zero. (It is barely visible behind the black Differential Line.) Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line also held 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 Thursday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2697.35 on Thursday. That is about 0.5% above Wednesday's close. Therefore, SPX will need to close up at least 0.5% on Thursday in order to change from oversold to overbought versus expectations.

My outlook really is unchanged from last night. The Aggregator remains 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 25 days in a row). Of course, it is not very far above there. I would be interested in taking on some long exposure if there is a bit more of a decline on Thursday. Details in the Trade Ideas section near the bottom of the letter.

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/>

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 @ \$267.12 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](#).

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