

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

December 29, 2017

Volume 10 Issue 251

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Long	100% Long XIV

Tonight's Research Points

- The SPY gap and partial reversal pattern over the last few days have almost always led to higher prices a week later.
- The last day of the year used to be bullish, but the edge changed at the turn of the century.
- The last 15 minutes of the year have often been bearish.

Short-term Outlook

The Bottom Line

The Aggregator is again 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 29, 2017	Gap up and partial reverse 2x	1-5 days	Bullish	1.70%	-0.70%	-1.30%
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			

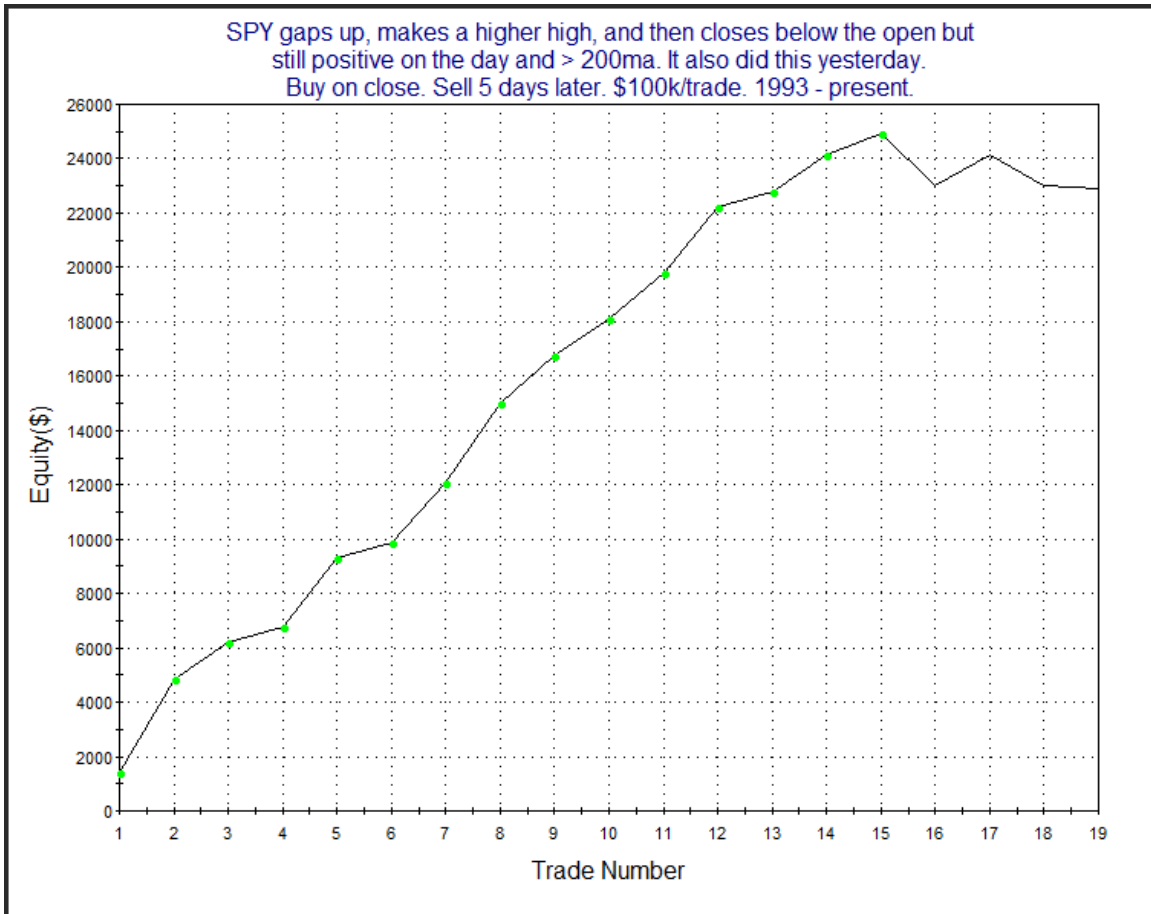
The Evidence

Thursday was a day of quiet gains. The SPX rose 0.2%, the NASDAQ climbed 0.2%, and the Russell 2000 rallied 0.3%. Breadth was positive as the NYSE Up Issues % was 61% and the Up Volume % came in at 64%. NYSE volume declined and again came in light with many traders taking time off.

One study that stood out tonight looked at the gap and partial reverse SPY pattern of the last 2 days. Both days had a gap higher, a move up above the previous day's high, and then a reversal that led the SPY to close below its open but still in positive territory. I looked at this 2-day setup in the 8/3/17 subscriber letter using a long-term trend filter. I have updated that study below.

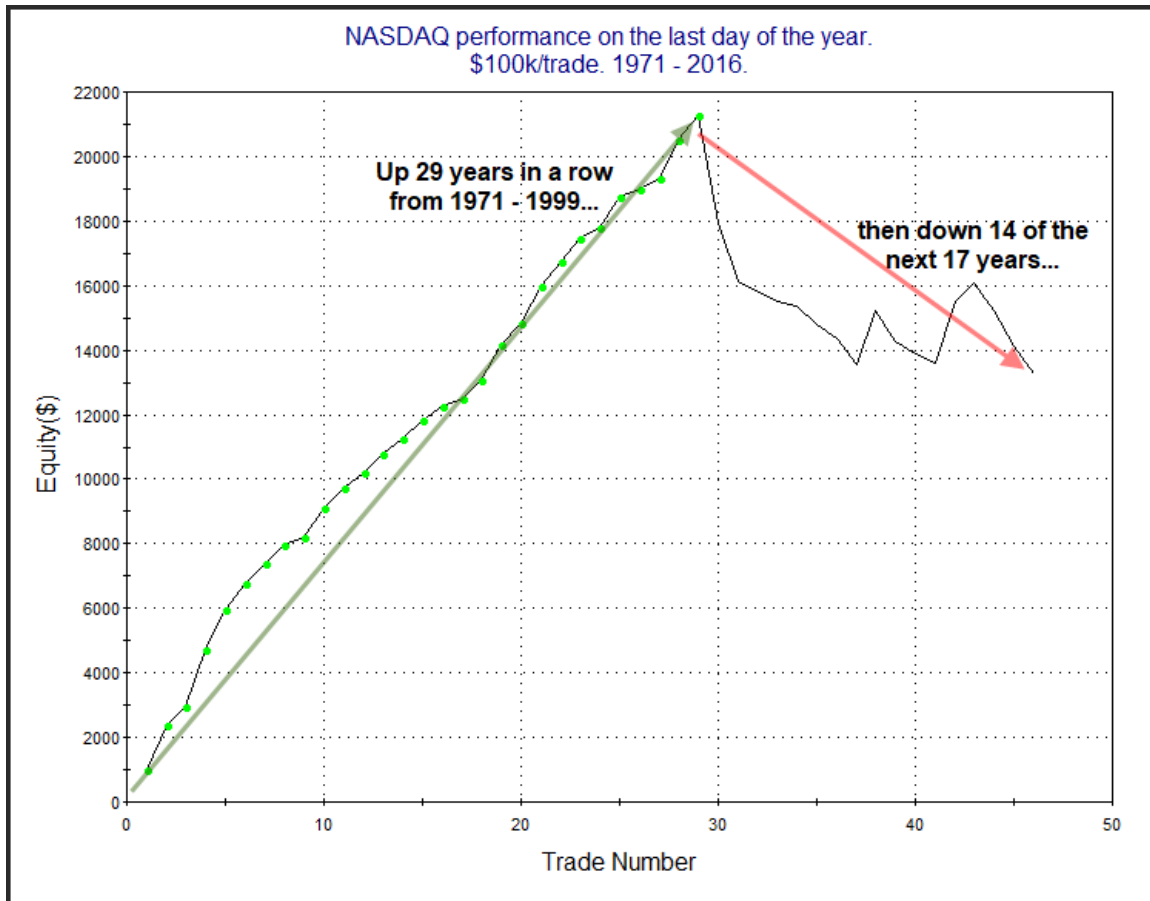
SPY gaps up, makes a higher high, and then closes below the open but still positive on the day and > 200ma. It also did this yesterday. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	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
5	22,920.23	19	16	3	84.21	1,627.13	3,458.95	-1,037.97	-1,911.60	1.57	8.36	1,206.33
4	16,156.10	19	14	5	73.68	1,414.77	3,132.80	-730.14	-1,635.48	1.94	5.43	850.32
3	15,702.38	19	13	6	68.42	1,307.04	3,282.40	-214.85	-520.38	6.08	13.18	826.44
2	12,271.66	19	14	5	73.68	1,044.05	2,640.00	-469.01	-855.50	2.23	6.23	645.88
1	8,158.17	21	14	7	66.67	743.62	2,570.70	-321.79	-721.00	2.31	4.62	388.48

The results have been very positive. Below is the 5-day the profit curve.



Despite the recent floundering, the edge still appears strong enough to warrant consideration. I have added it to the short-term active list.

While the last day of the year used to be a bullish day for the market, that seems to have changed since the turn of the century. This is true across a number of indices. The most dramatic example is the NASDAQ, which I highlighted last year in the 12/30/16 letter. I have updated the chart below.



Closing up 29 years in a row is fairly astounding. Just as astounding is the abrupt reversal and move lower for 14 of the next 17 years. I have no good explanation for why such a formerly consistent edge changed, but it did.

The Nasdaq study is a great reminder though. The market is constantly changing and evolving. 2018 is just a few trading hours away. I'm not sure what it has in store for us, but I know it will play out in its own unique pattern. We will see clues along the way, and many of the truisms we've identified through studies over the last 10 years at Quantifiable Edges will continue to work. But some may flounder. And when something stops working, like the "last day of year bullishness" above, then I will do my best to recognize it early. Examining edges is more than just running numbers. The profit curves are so vital. Over the last several years I have seen this point driven home time and again through my research. This is why I so often take the time to show the profits curves in the subscriber letter.

In another study I last showed in the 12/30/16 letter I found the returns in the last 15 minutes of the year to be especially interesting. I have updated that study below.

SPY performance in the last 15 minutes of the YEAR. \$100k/trade. 1998 - 2016.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$4,122.87)	Profit Factor	0.17
Gross Profit	\$850.42	Gross Loss	(\$4,973.29)
Total Number of Trades	19	Percent Profitable	21.05%
Winning Trades	4	Losing Trades	15
Even Trades	0		
Avg. Trade Net Profit	(\$216.99)	Ratio Avg. Win:Avg. Loss	0.64
Avg. Winning Trade	\$212.60	Avg. Losing Trade	(\$331.55)
Largest Winning Trade	\$415.36	Largest Losing Trade	(\$654.48)

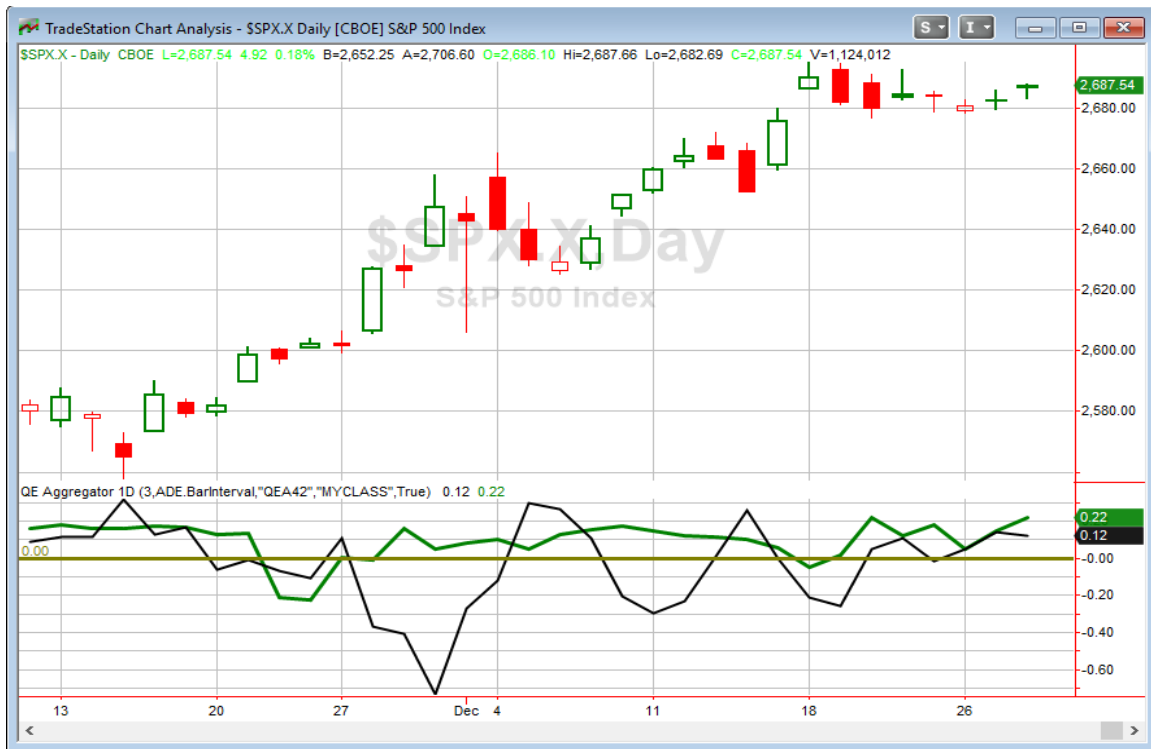
The numbers here are very strong. The average trade has seen SPY drop over 0.2%, and the average losing trade has seen it close down 0.33%. That's a sizable move for a 15-minute period. Below is a list of all the instances.

SPY performance in the last 15 minutes of the YEAR.
\$100k/trade. 1998 - 2016.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/31/1998 15:45	Buy	\$123.69	-0.65%	\$153.52
12/31/1998 16:00	Sell	\$122.88		(\$808.00)
12/31/1999 12:45	Buy	\$147.31	-0.21%	\$67.80
12/31/1999 13:00	Sell#2	\$147.00		(\$318.66)
12/29/2000 15:45	Buy	\$132.47	-0.17%	\$22.62
12/29/2000 16:00	Sell	\$132.25		(\$444.86)
12/31/2001 15:45	Buy	\$115.58	-0.60%	\$8.65
12/31/2001 16:00	Sell	\$114.89		(\$631.45)
12/31/2002 15:45	Buy	\$88.11	0.06%	\$90.72
12/31/2002 16:00	Sell	\$88.16		(\$181.44)
12/31/2003 15:45	Buy	\$111.45	-0.27%	\$26.91
12/31/2003 16:00	Sell	\$111.15		(\$269.10)
12/31/2004 15:45	Buy	\$121.28	-0.20%	\$8.24
12/31/2004 16:00	Sell	\$121.04		(\$206.00)
12/30/2005 15:45	Buy	\$125.03	-0.34%	\$23.97
12/30/2005 16:00	Sell	\$124.60		(\$375.53)
12/29/2006 15:45	Buy	\$141.91	-0.29%	\$49.28
12/29/2006 16:00	Sell	\$141.50		(\$295.68)
12/31/2007 15:45	Buy	\$147.04	-0.42%	\$6.80
12/31/2007 16:00	Sell	\$146.42		(\$462.40)
12/31/2008 15:45	Buy	\$90.59	-0.40%	\$77.21
12/31/2008 16:00	Sell	\$90.23		(\$606.65)
12/31/2009 15:45	Buy	\$111.96	-0.46%	\$8.93
12/31/2009 16:00	Sell	\$111.44		(\$473.29)
12/31/2010 15:45	Buy	\$125.81	-0.02%	\$7.94
12/31/2010 16:00	Sell	\$125.79		(\$230.26)
12/30/2011 15:45	Buy	\$126.00	-0.33%	\$0.00
12/30/2011 16:00	Sell	\$125.59		(\$325.13)
12/31/2012 15:45	Buy	\$141.87	0.42%	\$485.76
12/31/2012 16:00	Sell	\$142.46		(\$7.04)
12/31/2013 15:45	Buy	\$184.30	0.14%	\$205.96
12/31/2013 16:00	Sell	\$184.56		(\$10.84)
12/31/2014 15:45	Buy	\$206.14	-0.30%	\$4.85
12/31/2014 16:00	Sell	\$205.52		(\$363.75)
12/31/2015 15:45	Buy	\$204.58	-0.32%	\$68.32
12/31/2015 16:00	Sell	\$203.92		(\$346.48)
12/30/2016 15:45	Buy	\$223.01	0.24%	\$246.40
12/30/2016 16:00	Sell	\$223.54		(\$71.68)

Three of the last five years have bucked the trend and closed up. Prior to that the results were extremely bearish.

I have updated the Aggregator chart below.



With tonight's study considered, 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 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 Friday. Of course, this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2690.04 on Friday. That is about 0.1% above Thursday's close. Therefore, SPX will only need to close up 0.1% on Friday in order to change from oversold to overbought versus expectations.

So the Aggregator remains bullish, but that will only hold if SPX closes down or very slightly up. As I have been saying the last several days, I do not love getting long when the SPX has gone so long without closing below its 10ma (now 26 days in a row). And as we saw above, the market has struggled since the turn of the century on the last day of the year. And it has especially struggled in the last 15 minutes of the year. So I may look to take on some long exposure on Friday, but not until the close, and only if SPY closes down a fair amount. 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 @ \$267.37 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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