

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 3, 2018

Volume 11 Issue 2

Market Overview



Signals Overview

| | |
|-------------------|-----------------------|
| Aggregator | Aggressive VIX |
| Flat | 50% Long XIV |

Tonight's Research Points

- Tuesday's move from a 5-day low to a 50-day high suggests a pullback is now likely.
- A move higher on the first day of the year is typically followed by another day or two of strength before the market undergoes a pullback.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. Though expectations are still leaning bullish, the market is overbought, I am looking to take profits on my index position and get flat.

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 | | | | | | |
| January 3, 2018 | Up close on 1st day of year | 1-2 days | Bullish | | | |
| January 3, 2018 | 5-day low to 50-day high | 1-4 days | Bearish | | | |
| January 2, 2018 | EOM<10ma, Down, Bottom 1/2 range | 1-2 days | Bullish | | | |
| January 2, 2018 | 3-day high, 3-day low 3-low close | 1-5 days | Bullish | | | |
| January 2, 2018 | SPY 1st close < 10ma in 25+ days | 1-4 days | Bullish | | | |
| 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 | | | | | | |
| January 2, 2018 | SPY 1st close < 10ma in 25+ days | 1-19 days | Bullish | 4.10% | -0.90% | -2.15% |
| 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 | | | |

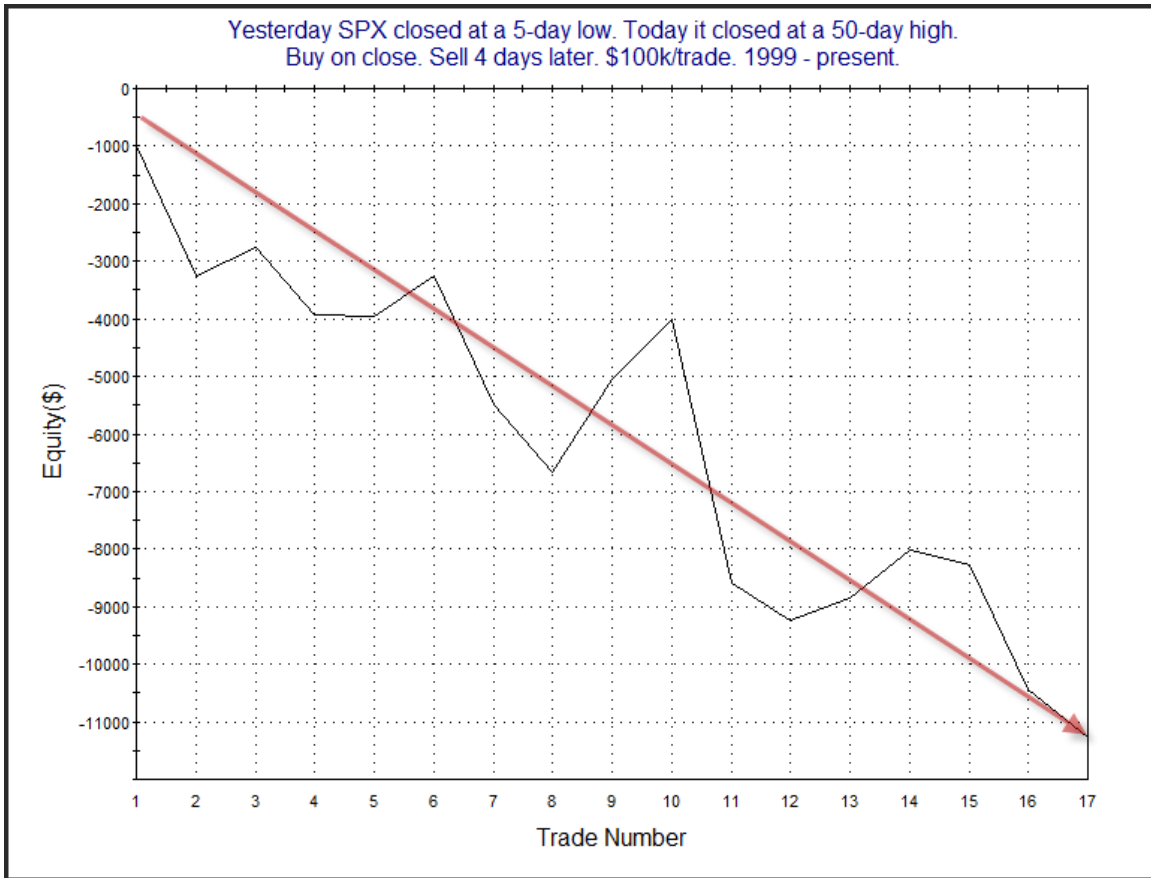
The Evidence

2018 got off to a strong start. The SPX rose 0.8%, the NASDAQ gained 1.5%, and the Russell 2000 climbed 0.9%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 74%. NYSE volume rose some as traders returned from vacation.

The strong move up caused SPX to move from a 5-day low close to an all-time high close. That is fairly unusual. In the 5/16/17 Letter I looked at moves from 5-day lows to 50-day highs. Tonight I have updated those results below.

| Yesterday SPX closed at a 5-day low. Today it closed at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1999 - 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 | -11,670.34 | 17 | 8 | 9 | 47.06 | 826.24 | 1,671.21 | -2,031.14 | -4,993.16 | 0.41 | 0.36 | -686.49 |
| 4 | -11,279.08 | 17 | 6 | 11 | 35.29 | 849.98 | 1,612.97 | -1,489.00 | -4,596.70 | 0.57 | 0.31 | -663.48 |
| 3 | -7,911.82 | 17 | 8 | 9 | 47.06 | 768.55 | 1,908.90 | -1,562.25 | -5,028.42 | 0.49 | 0.44 | -465.40 |
| 2 | -5,123.03 | 17 | 4 | 13 | 23.53 | 867.78 | 1,603.88 | -661.09 | -2,902.50 | 1.31 | 0.40 | -301.35 |
| 1 | -2,292.17 | 17 | 8 | 9 | 47.06 | 329.21 | 747.75 | -547.32 | -1,214.72 | 0.60 | 0.53 | -134.83 |

The numbers are not overwhelming but they do suggest a possible downside edge. Below is a look at the 4-day profit curve.



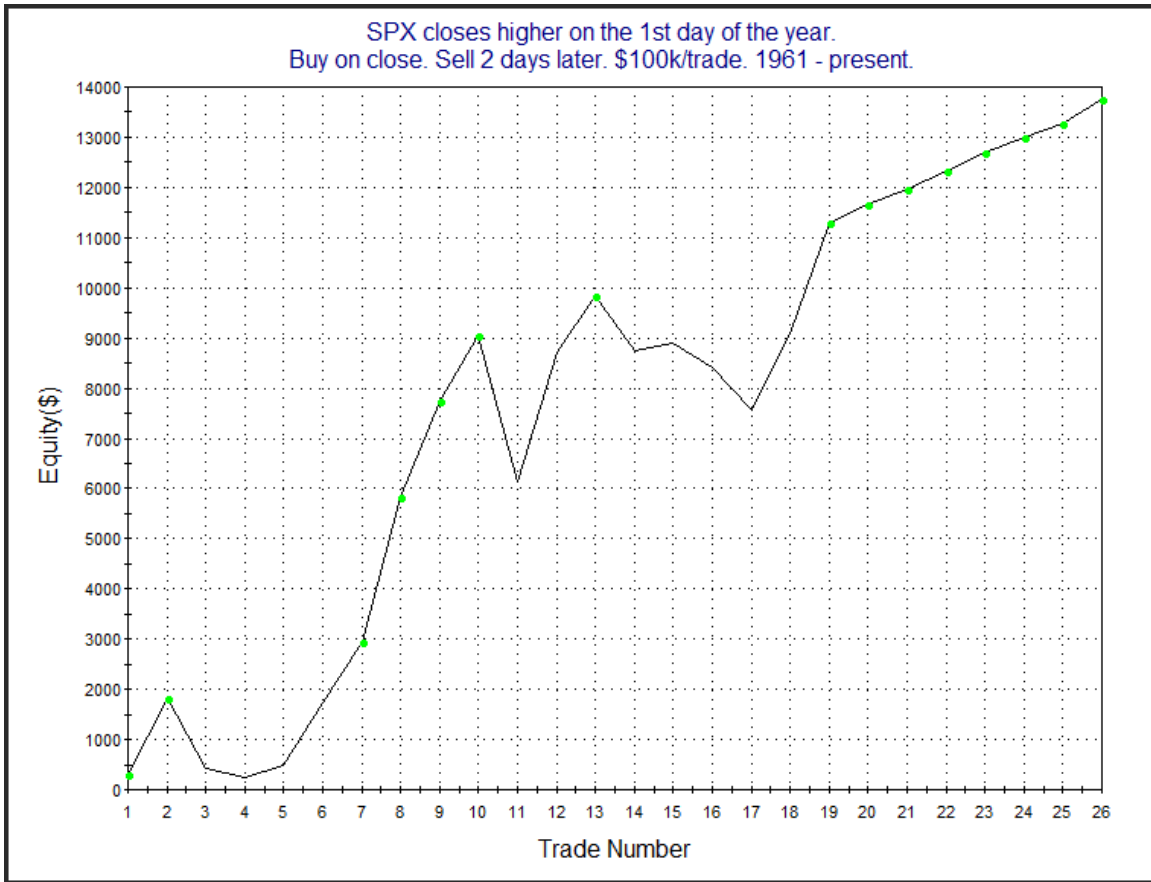
The move from upper left to lower right is impressive. I have included this study on the Active List tonight.

In the 1/4/11 Subscriber Letter I examined early-January following a positive 1st day to the year. Results were intriguing and I have updated those results below.

SPX closes higher on the 1st day of the year.
Buy on close. Sell X days later. \$100k/trade. 1961 - 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 |
|--------|-----------------|-------------------|---------------------|--------------------|-------------------|------------------------|------------------------|-----------------------|-----------------------|---------------------|-------------------|----------------|
| 20 | 3,915.16 | 26 | 13 | 13 | 50.00 | 4,661.23 | 11,194.20 | -4,360.06 | -11,381.59 | 1.07 | 1.07 | 150.58 |
| 19 | -169.48 | 26 | 14 | 12 | 53.85 | 4,044.83 | 11,254.95 | -4,733.09 | -11,333.44 | 0.85 | 1.00 | -6.52 |
| 18 | -2,770.38 | 26 | 13 | 13 | 50.00 | 4,095.35 | 11,724.75 | -4,308.46 | -9,418.64 | 0.95 | 0.95 | -106.55 |
| 17 | 1,496.33 | 26 | 13 | 13 | 50.00 | 3,990.50 | 11,060.55 | -3,875.40 | -9,340.80 | 1.03 | 1.03 | 57.55 |
| 16 | -8,274.67 | 26 | 11 | 15 | 42.31 | 4,140.65 | 9,658.00 | -3,588.12 | -9,211.63 | 1.15 | 0.85 | -318.26 |
| 15 | -5,626.07 | 26 | 10 | 16 | 38.46 | 4,447.97 | 9,582.30 | -3,131.61 | -10,189.61 | 1.42 | 0.89 | -216.39 |
| 14 | -9,947.46 | 26 | 10 | 16 | 38.46 | 4,158.42 | 11,121.30 | -3,220.73 | -10,683.95 | 1.29 | 0.81 | -382.59 |
| 13 | -16,439.14 | 26 | 11 | 15 | 42.31 | 3,244.84 | 8,667.00 | -3,475.49 | -11,160.10 | 0.93 | 0.68 | -632.27 |
| 12 | -11,992.85 | 26 | 10 | 16 | 38.46 | 3,611.17 | 9,153.00 | -3,006.53 | -9,796.92 | 1.20 | 0.75 | -461.26 |
| 11 | -2,390.93 | 26 | 14 | 12 | 53.85 | 2,658.89 | 9,274.50 | -3,301.28 | -13,544.06 | 0.81 | 0.94 | -91.96 |
| 10 | 2,267.07 | 26 | 14 | 12 | 53.85 | 2,592.61 | 8,035.20 | -2,835.79 | -8,739.76 | 0.91 | 1.07 | 87.20 |
| 9 | -2,332.61 | 26 | 14 | 12 | 53.85 | 2,470.86 | 7,711.20 | -3,077.06 | -9,422.42 | 0.80 | 0.94 | -89.72 |
| 8 | -7,027.21 | 26 | 15 | 11 | 57.69 | 2,305.61 | 6,853.00 | -3,782.85 | -9,542.26 | 0.61 | 0.83 | -270.28 |
| 7 | -6,941.99 | 26 | 14 | 12 | 53.85 | 2,179.46 | 5,467.50 | -3,121.20 | -6,421.07 | 0.70 | 0.81 | -267.00 |
| 6 | -9,310.50 | 26 | 15 | 11 | 57.69 | 1,971.66 | 5,973.00 | -3,535.04 | -6,584.78 | 0.56 | 0.76 | -358.10 |
| 5 | -7,176.81 | 26 | 14 | 12 | 53.85 | 1,772.30 | 4,973.40 | -2,665.75 | -4,851.44 | 0.66 | 0.78 | -276.03 |
| 4 | -2,509.29 | 26 | 13 | 13 | 50.00 | 1,484.20 | 4,390.20 | -1,677.22 | -4,894.50 | 0.88 | 0.88 | -96.51 |
| 3 | 8,142.05 | 26 | 17 | 9 | 65.38 | 1,279.24 | 3,600.45 | -1,511.67 | -3,101.34 | 0.85 | 1.60 | 313.16 |
| 2 | 13,771.90 | 26 | 20 | 6 | 76.92 | 1,036.60 | 2,893.00 | -1,160.01 | -2,897.84 | 0.89 | 2.98 | 529.69 |
| 1 | 11,303.28 | 26 | 20 | 6 | 76.92 | 730.01 | 2,328.75 | -549.49 | -2,189.66 | 1.33 | 4.43 | 434.74 |

24 of the 26 instances (92%) closed higher than the entry price on either day 1 or day 2. Interestingly, the 2 instances that didn't also didn't manage to post a profitable close at any point during the rest of the month. The basic pattern that is evident among the instances above is that immediate follow through is often followed by weakness. What is not obvious above is that the 1-2 day strength has continued over recent instances, but the mid-month dip has not happened recently as the last 4 instances (2011, 12, 13 & 17) managed to avoid it. Below is a look at the 2-day profit curve.



The curve supports the numbers. It also illustrates the recent hot streak. I have included the 2-day study on the Active List tonight.

I have updated the Aggregator chart below.



With tonight's mix of studies considered, the green Aggregator Line again remained above zero. Positive readings mean net expectations from the Active List are for upside over the next few days. Meanwhile, the black Differential Line dipped a little below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of 0. Therefore, the Aggregator signal turned flat at the close.

Based on the current active list, expectations are slated to remain bullish on Wednesday. For this to change would take some compelling bearish new evidence. The Differential Pivot will be *slightly inverted at 2698.77* on Wednesday. That is about 0.1% *above* Tuesday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, for SPX to remain overbought it will need to close up at least 0.1%. Any down or slight up close will turn SPX oversold as of Wednesday's close.

So the Aggregator is now neutral. The overbought reading reduces potential reward and increases risk. So this appears to be a good time to take profits on my open SPY position. But a flat or down close will very likely leave the Aggregator in a bullish formation on Wednesday. So I am not interested in selling into a gap down should that occur. Therefore, I'll be looking to exit my SPY position, but only if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/2– somewhat bullish

The intermediate-term outlook was last updated in the 1/2/18 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. With the gap up and run higher, the QQQ trade idea from Friday did not fill. I will be cancelling that trade idea now.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|-----------------------|
| SPY(1/4) | 12/29/2017 | \$266.86 | \$268.77 | 0.72% | | sell @ \$268.77 LIMIT |
| | | | | | | |
| | | | | | | |

Per the short-term outlook above, I will be looking to take profits on my SPY position if I can get filled at a price equal to Tuesday’s close or better.

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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