

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 5, 2018

Volume 11 Issue 4

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- 3 unfilled up gaps has often been followed by losses the next day.
- VIX rising on a day that SPX hits a new 50-day has often led to a decline the next day.

Short-term Outlook

The Bottom Line

The Aggregator is again neutral. I do not see a strongly favorable reward/risk scenario.

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 5, 2018	3 unfilled up gaps	1 day	Bearish			
January 5, 2018	VIX up. SPX 50-high. Midweek.	1 day	Bearish			
January 4, 2018	2 unfilled gaps & 50-day highs	1-3 days	Bullish	0.80%	-0.65%	-1.20%
January 3, 2018	5-day low to 50-day high	1-4 days	Bearish			
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%
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

2018s perfect record remains intact. The SPX rose 0.4%, the NASDAQ gained 0.2%, and the Russell 2000 climbed 0.2%. Breadth was positive as the NYSE Up Issues % was 59% and the Up Volume % came in at 62%. NYSE volume rose some from Wednesday’s level.

There were a couple of interesting studies that triggered tonight. The first one noted that Thursday marked the 3rd day in a row that the SPY posted an unfilled up gap. This has rarely happened since the SPY began trading in 1993. Results below are updated.

SPY leaves an unfilled gap up for the 3rd day in a row.
Buy on close. Sell next day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	(\$3,288.86)	Profit Factor	0.32	
Gross Profit	\$1,548.01	Gross Loss	(\$4,836.87)	
Total Number of Trades	19	Percent Profitable	31.58%	
Winning Trades	6	Losing Trades	13	
Even Trades	0			
Avg. Trade Net Profit	(\$173.10)	Ratio Avg. Win:Avg. Loss	0.69	
Avg. Winning Trade	\$258.00	Avg. Losing Trade	(\$372.07)	
Largest Winning Trade	\$500.58	Largest Losing Trade	(\$1,126.25)	

On average we’ve only seen this occur about once every 1.5 years. Statistics favor the downside. I listed below all 19 instances along with their day 1 returns.

SPY leaves an unfilled gap up for the 3rd day in a row.
Buy on close. Sell next day close. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/31/1994	Buy	\$48.22	-0.52%	\$0.00
2/1/1994	Sell	\$47.97		(\$642.63)
4/6/1995	Buy	\$50.75	-0.08%	\$236.40
4/7/1995	Sell	\$50.71		(\$551.60)
5/14/1996	Buy	\$66.77	-0.12%	\$808.38
5/15/1996	Sell	\$66.69		(\$179.64)
9/16/1996	Buy	\$68.80	-0.23%	\$261.54
9/17/1996	Sell	\$68.64		(\$828.21)
12/1/1997	Buy	\$98.09	-0.60%	\$0.00
12/2/1997	Sell	\$97.50		(\$1,559.07)
10/29/1999	Buy	\$137.00	-1.05%	\$0.00
11/1/1999	Sell	\$135.56		(\$1,049.76)
11/5/1999	Buy	\$137.88	0.09%	\$362.50
11/8/1999	Sell	\$138.00		(\$819.25)
7/2/2001	Buy	\$124.13	-0.02%	\$0.00
7/3/2001	Sell	\$124.10		(\$869.40)
6/15/2007	Buy	\$153.07	-0.12%	\$208.96
6/18/2007	Sell	\$152.89		(\$267.73)
9/3/2010	Buy	\$110.89	-1.13%	\$0.00
9/7/2010	Sell	\$109.64		(\$1,207.34)
3/9/2012	Buy	\$137.57	0.01%	\$137.94
3/12/2012	Sell	\$137.58		(\$348.48)
8/7/2012	Buy	\$140.32	0.12%	\$234.96
8/8/2012	Sell	\$140.49		(\$363.12)
5/6/2013	Buy	\$161.79	0.50%	\$531.48
5/7/2013	Sell	\$162.60		(\$74.16)
6/27/2013	Buy	\$161.08	-0.41%	\$198.40
6/28/2013	Sell	\$160.42		(\$756.40)
7/13/2015	Buy	\$209.77	0.43%	\$609.28
7/14/2015	Sell	\$210.68		(\$57.12)
2/17/2016	Buy	\$192.88	-0.41%	\$202.02
2/18/2016	Sell	\$192.09		(\$600.88)
6/8/2016	Buy	\$212.37	-0.14%	\$0.00
6/9/2016	Sell	\$212.08		(\$554.60)
7/12/2016	Buy	\$214.95	-0.01%	\$232.50
7/13/2016	Sell	\$214.92		(\$279.00)
2/13/2017	Buy	\$232.77	0.40%	\$403.26
2/14/2017	Sell	\$233.70		(\$261.69)

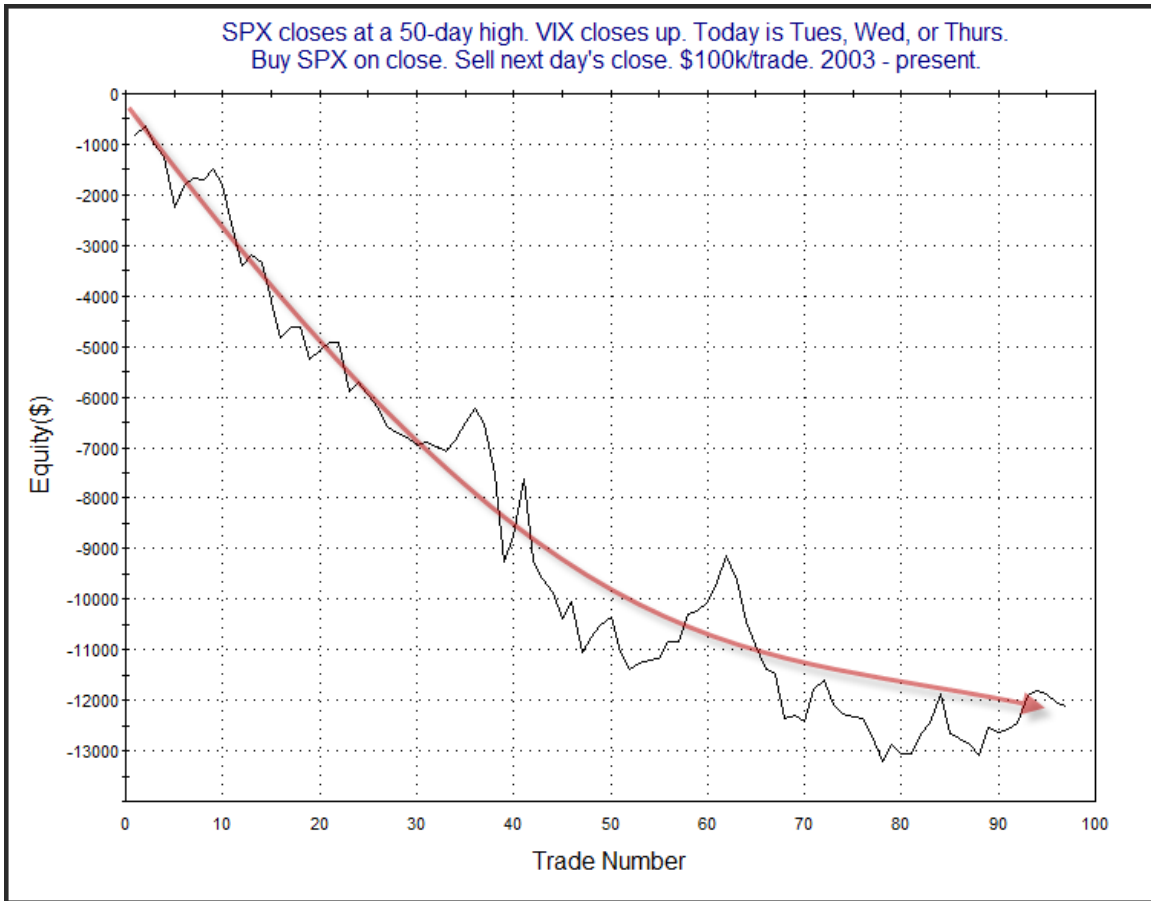
Six of the nineteen instances posted an unfilled gap down the next day. The only instances where the intraday run-up was larger than the drawdown were 5/7/13, 7/14/15, and 2/13/17. The negative bias has not been as strong recently, but I still think this study is worth some consideration.

The study below was seen in the 4/21/16 letter. It examines other times where the VIX rose midweek while SPX was closing at a 50-day high. I often segregate VIX studies by mid-week vs. Monday or Friday because the VIX has a natural tendency to decline on Friday afternoons and rise on Mondays. Results below are updated.

SPX closes at a 50-day high. VIX closes up. Today is Tues, Wed, or Thurs.
Buy SPX on close. Sell next day's close. \$100k/trade. 2003 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$12,108.88)	Profit Factor	0.49
Gross Profit	\$11,443.99	Gross Loss	(\$23,552.87)
Total Number of Trades	97	Percent Profitable	44.33%
Winning Trades	43	Losing Trades	54
Even Trades	0		
Avg. Trade Net Profit	(\$124.83)	Ratio Avg. Win:Avg. Loss	0.61
Avg. Winning Trade	\$266.14	Avg. Losing Trade	(\$436.16)
Largest Winning Trade	\$1,108.05	Largest Losing Trade	(\$1,721.70)

The numbers seem moderately suggestive of a downside edge. Here is the profit curve.



The curve has flattened some, and is a little choppy, but the downside edge seems to have persisted fairly well throughout the last 15 years. I have included this study on the Active List tonight.

I have updated the Aggregator chart below.



Even with tonight's bearish studies considered, the green Aggregator Line 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 held 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 stayed flat at the close.

Based on the current active list, expectations are slated to remain bullish on Friday. For this to change would take some compelling bearish new evidence. The Differential Pivot will be 2712.38 on Friday. That is 0.4% below Thursday's close. So SPX will need to close down at least 0.4% on Friday to flip from overbought to oversold.

The Aggregator is again neutral and so am I. Tonight's evidence suggests we could be in for a dip on Friday, but it is not impactful beyond that. I do not see a strong reward/risk setup here. I will wait for a more favorable setup to emerge before putting new trades on.

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.

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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