

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 10, 2018

Volume 11 Issue 7

## Market Overview



## Signals Overview

Aggregator	Aggressive VIX
Short	100% Short SPY

## Tonight's Research Points

- The strong move up in the VIX with SPX at new highs is suggesting a short-term downside edge.
- Persistent overbought conditions like we have seen recently often lead to more gains over the next several days.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is again bearish. But the edge does not appear strong enough to warrant a counter-trend 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
<b>Active - Short Term</b>						
January 10, 2018	1st 4 days of year close higher	1-8 days	Bullish	2.00%	-1.30%	-2.70%
January 10, 2018	VIX up 2.5%. SPX 50-high	1-2 days	Bearish			
January 9, 2018	SPX 50-high. VIX up. Monday	1-2 days	Bearish			
<b>Active - Long Term</b>						
January 8, 2018	1st 4 days of year close higher	1-250 days	Bullish	15.90%	-5.70%	-11.10%
January 8, 2018	SOMA reduction intensifies to \$20billion	int term	Bearish			
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%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

**The Evidence**

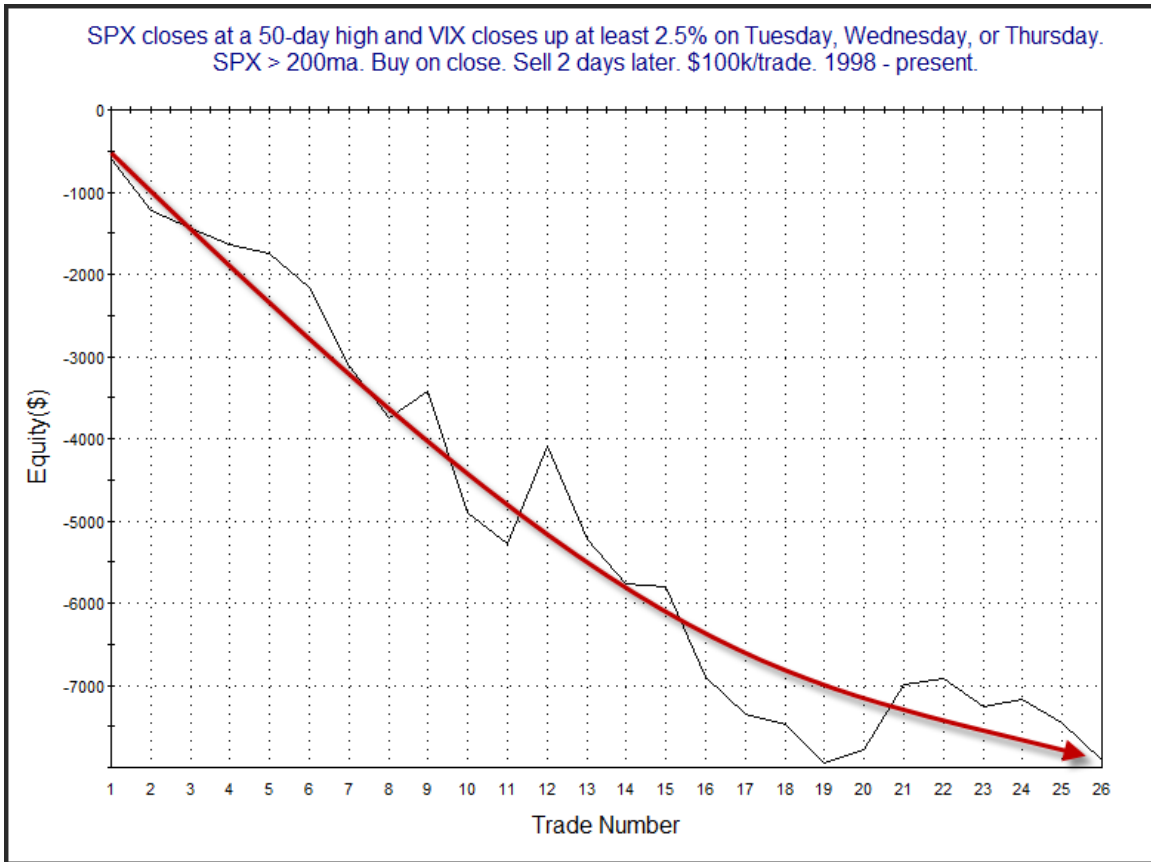
Tuesday was a mixed day for the market. The SPX and NASDAQ each gained 0.1%, while the Russell 2000 lost 0.1%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 46%. NYSE volume declined some from Monday's level.

There were several VIX-based studies that emerged. The one below showed some of the most compelling results. It required SPX to close at a 50-day high. It last appeared in the 12/13/17 letter. New readers may wonder why I use a day-of-week filter with VIX studies. The VIX has a natural tendency to fall on Fridays and rise on Mondays. Because of this I typically separate out those days from the rest of the week when conducting VIX-based studies. All results are updated.

SPX closes at a 50-day high and VIX closes up at least 2.5% on Tuesday, Wednesday, or Thursday. SPX > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-12,313.70	26	11	15	42.31	735.77	2,108.40	-1,360.47	-4,149.36	0.54	0.40	-473.60
4	-11,320.73	26	10	16	38.46	652.05	1,629.60	-1,115.07	-4,240.48	0.58	0.37	-435.41
3	-9,275.50	26	12	14	46.15	533.16	1,271.55	-1,119.53	-4,423.40	0.48	0.41	-356.75
2	-7,911.52	26	6	20	23.08	443.11	1,192.71	-528.51	-1,461.48	0.84	0.25	-304.29
1	-2,448.52	30	14	16	46.67	270.18	1,108.05	-389.44	-1,008.70	0.69	0.61	-81.62

**92% of instances closed below the entry price at some point in the next week.**

The numbers all appear to suggest a bearish edge. Below is a profit curve assuming a 2-day exit strategy.



The move from upper left to lower right offers some confirmation of the downside edge. I have added this study to the Active List tonight.

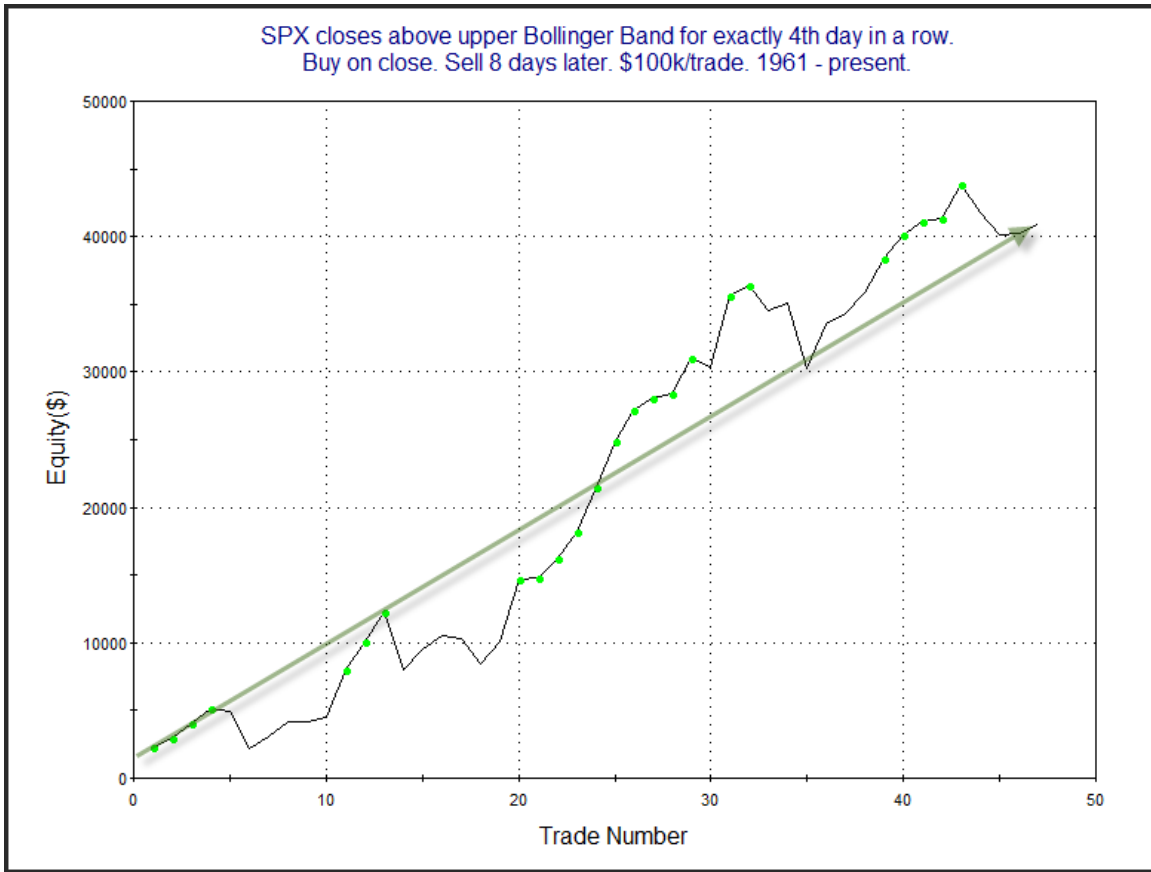
The strong move up over the last few days has left SPX stretched above its Bollinger Band. It's somewhat unusual to see the market close this far above its mean for 4 days in a row. Such shows of strength have often begat more short-term strength. This can be seen in the study below, which last appeared in the 12/4/17 subscriber letter.

SPX closes above upper Bollinger Band for exactly 4th day in a row.  
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
10	36,979.10	48	34	13	70.83	1,808.67	3,731.50	-1,885.82	-3,824.52	0.96	2.51	770.40
9	42,475.07	48	35	12	72.92	1,791.73	3,927.00	-1,686.30	-3,737.50	1.06	3.10	884.90
8	41,649.28	48	38	10	79.17	1,629.58	5,222.40	-2,027.49	-4,731.56	0.80	3.05	867.69
7	34,811.36	48	36	12	75.00	1,483.52	4,335.00	-1,549.62	-4,901.14	0.96	2.87	725.24
6	28,942.46	48	35	13	72.92	1,309.49	3,356.16	-1,299.21	-4,428.54	1.01	2.71	602.97
5	22,484.26	48	36	12	75.00	1,142.59	3,581.50	-1,554.07	-6,988.92	0.74	2.21	468.42
4	21,367.78	48	32	16	66.67	1,099.96	3,067.74	-864.44	-3,254.50	1.27	2.54	445.16
3	16,789.08	48	33	15	68.75	839.55	3,025.75	-727.73	-3,128.00	1.15	2.54	349.77
2	17,736.30	48	30	18	62.50	858.55	2,701.80	-445.57	-2,081.50	1.93	3.21	369.51
1	3,947.19	48	26	21	54.17	457.61	1,582.32	-378.61	-1,596.68	1.21	1.50	82.23

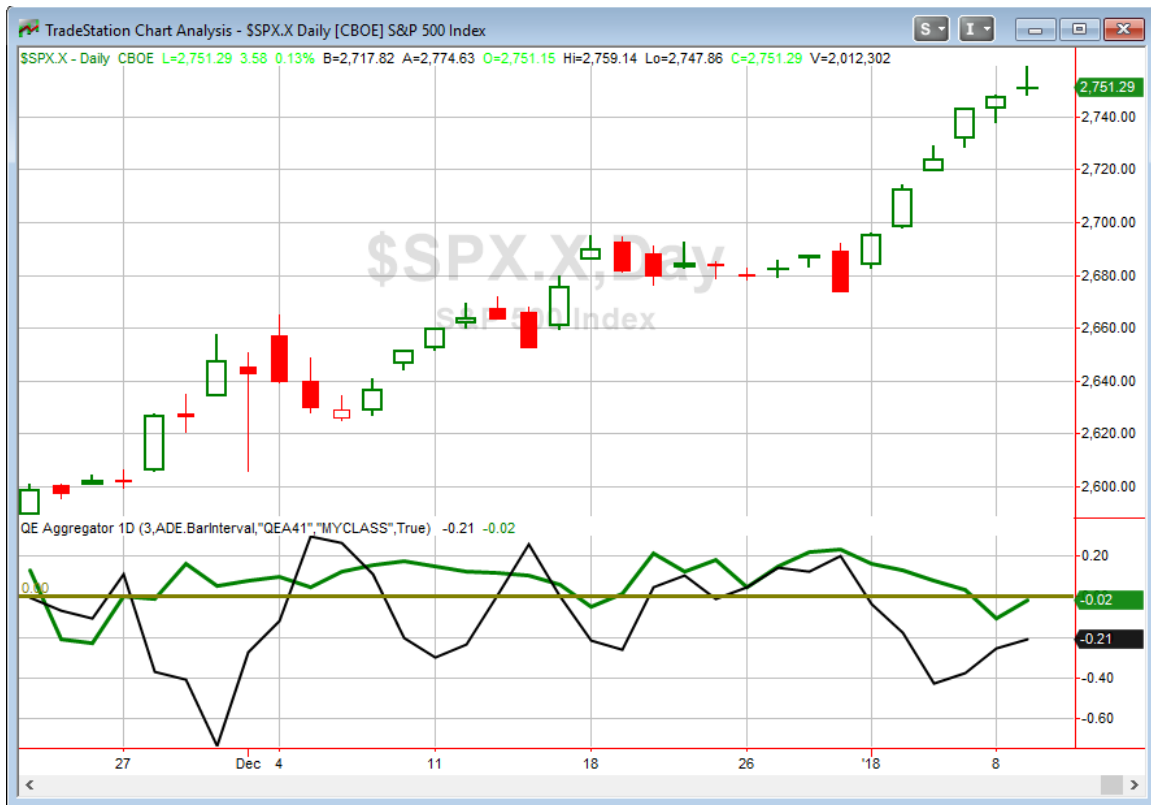
44 of 48 instances (92%) closed above the entry price at some point in the next week.

The stats seem to strongly support the bull case. Even those instances that didn't continue higher immediately mostly just saw a shallow pullback before hitting new highs at some point in the week. I find the results especially impressive considering the moves are measured from a point where the market is already substantially overbought. Below is an equity curve that assumes an 8-day exit strategy.



The strong, long-term upslope is impressive and helps confirm the edge suggested by the numbers.

I have updated the Aggregator chart below.



With tonight's studies considered the green Aggregator Line remained below zero. Negative readings mean net expectations from the Active List are for downside 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 negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below 0. Therefore, the Aggregator signal stayed short at the close.

Based on the current active list, expectations are slated to flip to bullish on Wednesday. This could change if new bearish evidence emerges. The Differential Pivot will be 2749.79 on Wednesday. That is just 0.1% below Tuesday's close. Therefore SPX will only need to close down 0.1% on Wednesday to flip from overbought to oversold.

So the Aggregator is again bearish. But the downside edge is on the verge of turning. Without further bearish evidence, expectations will flip to positive. And just about any move lower on Wednesday would leave the SPX oversold versus recent expectations. Combined with the fact that a short would be a counter-trend trade, I do not find the current setup very appealing. I will continue to wait for a more favorable reward/risk opportunity.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/8– somewhat bullish***

The intermediate-term outlook was last updated in the 1/8/18 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***

DUK – buy 1/3 @ \$81.94

***Broad Market Large Cap CBI – 1(DUK)***

**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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DUK(1/3)	1/8/2018	\$81.94	\$81.24	-0.85%		Catapult

*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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