

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 16, 2018

Volume 11 Issue 10

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Short	100% Short SPY

Tonight's Research Points

- VIX rising on a Friday that SPX hits a new 50-day has often led to a decline the next day.
- MLK week has been bearish over the years.
- Opex week in January has been weak over the last 16 years.
- The NASDAQ has retaken a leading position, which is an intermediate-term bullish indication.
- The SOMA saw a slight increase this past week, despite a Fed policy of a \$20 billion / month reduction.

Short-term Outlook

The Bottom Line

The Aggregator suggesting a downside edge. And while it may be worth taking for aggressive traders, I am not inclined to try a short with the trend so strong right now.

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 16, 2018	SPX 50-high. VIX up. MOnday	1-4 days	Bearish			
January 16, 2018	SPX 50-high. VIX up. Friday	1-5 days	Bearish			
January 11, 2018	5 up 50 high. Down 1.	1-4 days	Bullish			
January 11, 2018	Unfill up 20 high. Unfilled gap down	1-3 days	Bearish			
January 10, 2018	SPX> Bollinger Band 4 days	1-8 days	Bullish	2.00%	-1.30%	-2.70%
Active - Long Term						
January 16, 2018	NASDAQ Leading	int term	Bullish			
January 11, 2018	5 up 50 high. Down 1.	1-10 days	Bullish			
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%
April 26, 2016	Golden Cross	int term	Bullish			
July 22, 2013	New High Divergence (Study of Tops)	int term	Bearish			

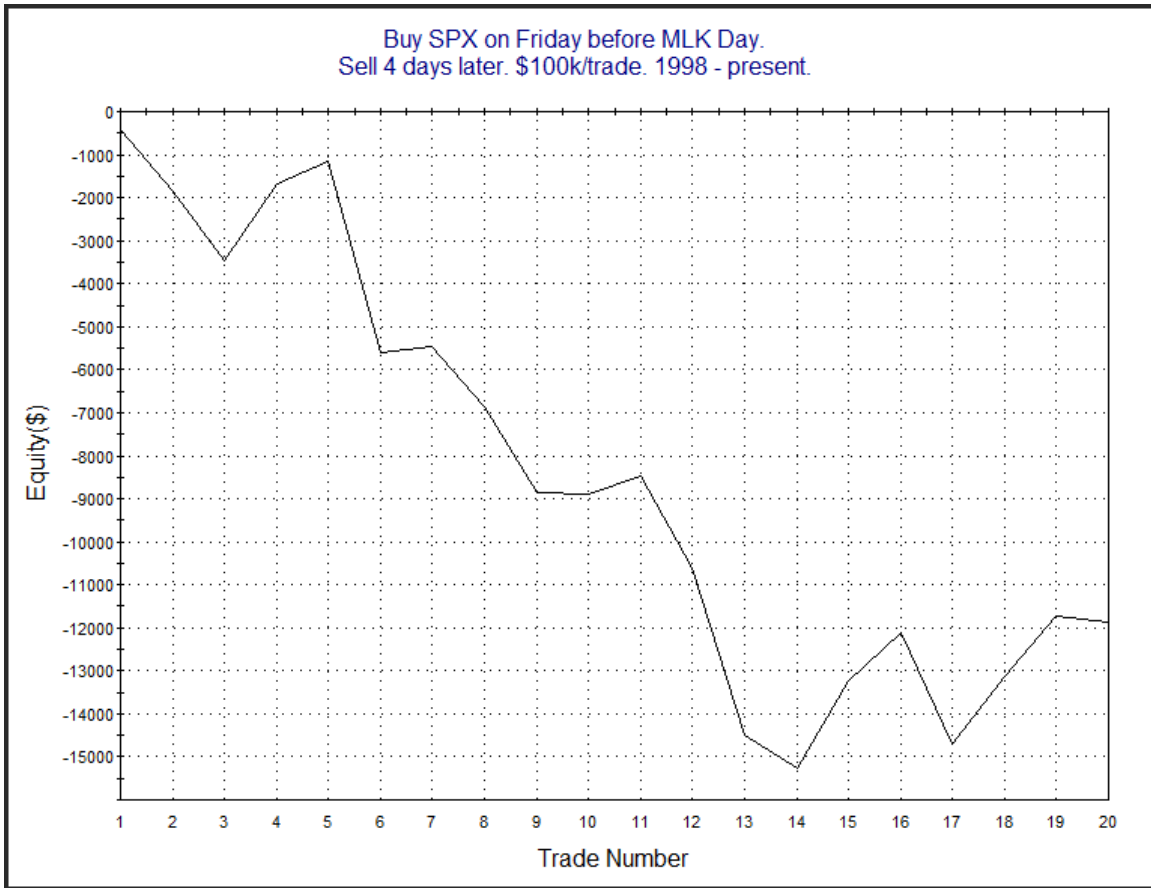
The Evidence

Friday was another day of gains and new highs. The SPX rose 0.7%, the NASDAQ gained 0.8%, and the Russell 2000 rallied 0.3%. Breadth was positive as the NYSE Up Issues % was 53% and the Up Volume % came in at 64%. NYSE volume rose for the 3rd day in a row.

Seasonality may come into play this week. Martin Luther King Jr. Day is on Monday. The NYSE has only observed MLK Day as a holiday since 1998. But over that 20-year period the market has not done too well during MLK week. I discussed this last year in the 1/17/17 Letter. I've updated that study below.

Buy SPX on Friday before MLK Day. 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	-13,808.05	20	7	13	35.00	1,525.63	2,148.75	-1,883.65	-5,973.00	0.81	0.44	-690.40
4	-11,864.62	20	8	12	40.00	1,127.32	2,024.33	-1,740.26	-4,441.80	0.65	0.43	-593.23
3	-1,981.74	20	8	12	40.00	1,229.79	2,206.50	-985.01	-2,646.54	1.25	0.83	-99.09
2	563.30	20	12	8	60.00	648.18	1,459.15	-901.86	-2,576.20	0.72	1.08	28.16
1	-3,364.77	20	12	8	60.00	558.26	1,776.32	-1,257.99	-5,253.30	0.44	0.67	-168.24

Numbers here are somewhat weak, though not terribly consistent. Below is an equity curve showing how the full (4-day) week has played out over time.



The curve is a bit choppy. And it has flattened out recently. There still may be a bit of a downside inclination.

The Quantifinder also noted that January opex week tends to be bearish. Last year in the 1/17/17 Letter I examined this. I have updated that study below.

Today is Friday before January Opex week.
Buy SPX 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	-23,638.42	19	4	15	21.05	1,607.52	2,072.07	-2,004.57	-5,383.93	0.80	0.21	-1,244.13
4	-19,543.99	19	6	13	31.58	970.08	2,024.33	-1,951.11	-5,220.32	0.50	0.23	-1,028.63
3	-15,032.97	19	6	13	31.58	893.02	2,206.50	-1,568.54	-5,345.76	0.57	0.26	-791.21
2	-7,042.04	19	7	12	36.84	523.20	1,459.15	-892.04	-2,775.24	0.59	0.34	-370.63
1	-3,399.56	19	9	10	47.37	439.92	1,080.62	-735.88	-2,250.08	0.60	0.54	-178.92

2001 and 2012 were the only years the SPX failed to close below Friday's close at some point during the week. Below is the list of 19 January op-ex weeks from the table above with their full week performance results. There have been 8 years in which January op-ex week occurred in conjunction with Martin Luther King Day. These were 4-day weeks and they are denoted with blue boxes around them.

Today is Friday before January Opex week. Buy SPX on close. Sell next Friday's close. \$100k/trade. 1999 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/8/1999	Buy	\$1,275.09	-2.50%	\$88.14
1/15/1999	Sell	\$1,243.26		(\$5,343.00)
1/14/2000	Buy	\$1,465.15	-1.62%	\$38.08
1/21/2000	Sell	\$1,441.36		(\$1,809.48)
1/12/2001	Buy	\$1,318.55	1.82%	\$2,700.00
1/19/2001	Sell	\$1,342.56		(\$391.50)
1/11/2002	Buy	\$1,145.60	-1.57%	\$279.27
1/18/2002	Sell	\$1,127.58		(\$1,840.05)
1/10/2003	Buy	\$927.57	-2.78%	\$800.36
1/17/2003	Sell	\$901.78		(\$3,054.85)
1/9/2004	Buy	\$1,121.86	1.60%	\$1,598.44
1/16/2004	Sell	\$1,139.82		(\$593.63)
1/14/2005	Buy	\$1,184.51	-1.41%	\$963.48
1/21/2005	Sell	\$1,167.82		(\$1,401.96)
1/13/2006	Buy	\$1,287.61	-2.03%	\$13.86
1/20/2006	Sell	\$1,261.48		(\$2,055.13)
1/12/2007	Buy	\$1,430.73	-0.02%	\$313.26
1/19/2007	Sell	\$1,430.50		(\$449.88)
1/11/2008	Buy	\$1,401.03	-5.41%	\$1,197.06
1/18/2008	Sell	\$1,325.20		(\$6,284.92)
1/9/2009	Buy	\$890.35	-4.52%	\$5.60
1/16/2009	Sell	\$850.12		(\$8,210.72)
1/8/2010	Buy	\$1,144.98	-0.78%	\$472.41
1/15/2010	Sell	\$1,136.03		(\$1,182.33)
1/14/2011	Buy	\$1,293.24	-0.76%	\$217.14
1/21/2011	Sell	\$1,283.35		(\$1,692.46)
1/13/2012	Buy	\$1,289.09	2.04%	\$2,032.80
1/20/2012	Sell	\$1,315.38		\$0.00
1/11/2013	Buy	\$1,472.05	0.95%	\$933.31
1/18/2013	Sell	\$1,485.98		(\$555.43)
1/10/2014	Buy	\$1,842.37	-0.20%	\$457.38
1/17/2014	Sell	\$1,838.70		(\$1,449.90)
1/9/2015	Buy	\$2,044.81	-1.24%	\$581.76
1/16/2015	Sell	\$2,019.42		(\$2,721.12)
1/8/2016	Buy	\$1,922.03	-2.17%	\$1,471.60
1/15/2016	Sell	\$1,880.29		(\$3,338.40)
1/13/2017	Buy	\$2,274.64	-0.15%	\$99.76
1/20/2017	Sell	\$2,271.31		(\$697.89)
Avg Runup: \$751 Avg Drawdown: -\$2267				

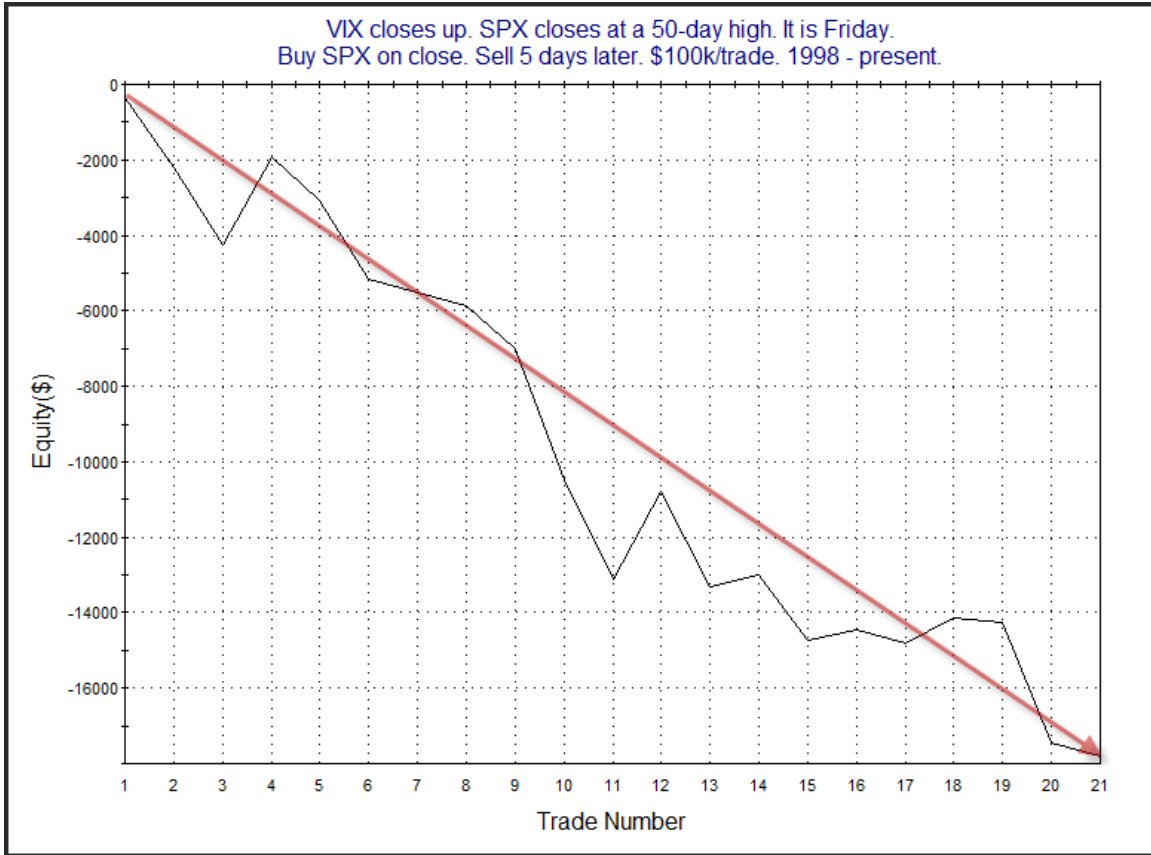
Overall there has been a decided downside tendency during opex week over the last 19 years. The drawdown / run-up stats at the bottom remain quite compelling for the bears. I have combined the results of the MLK and opex studies for estimation in the Aggregator.

VIX action in relation to the SPX has been quite unusual lately, and we have seen a few VIX-related studies emerging over the last several days. Most often, the SPX and VIX will trade in opposite directions on a day to day basis. But the last time they traded in opposite directions was Jan. 3, making Friday the 7th trading day in a row where they did not close opposite each other. That is a fairly remarkable run. Looking back, it has only happened twice before – on 3/1/91 and 3/30/92. We can't read anything into just two prior instances, but it does exemplify how unusual current market conditions are.

We have seen studies in the last few weeks related to VIX moving up on days that SPX made a new 50-day high. The other studies looked at Monday or mid-week occurrences. Tonight I studied such action occurring on a Friday.

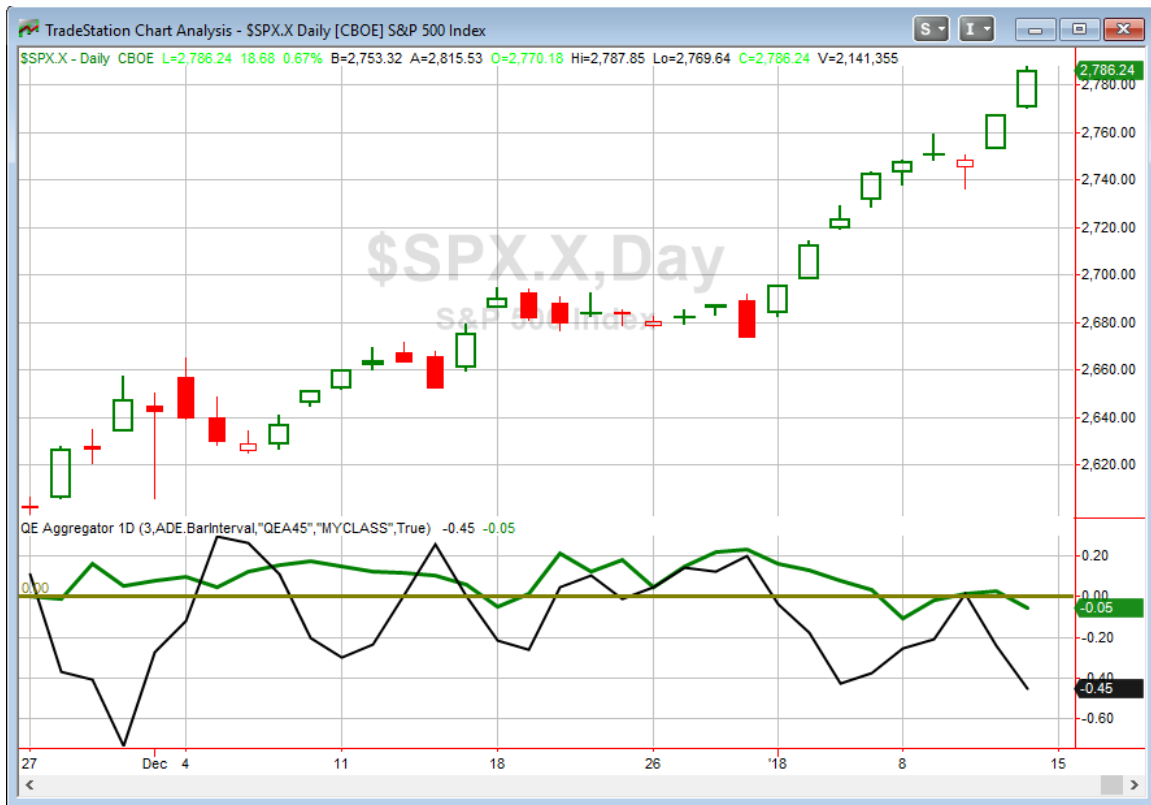
VIX closes up. SPX closes at a 50-day high. It is Friday. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-17,792.22	21	5	16	23.81	1,180.20	2,339.37	-1,480.83	-3,458.70	0.80	0.25	-847.25
4	-14,233.85	21	5	16	23.81	649.43	1,324.62	-1,092.56	-2,923.20	0.59	0.19	-677.80
3	-10,949.46	21	5	16	23.81	836.25	1,976.04	-945.67	-3,727.50	0.88	0.28	-521.40
2	-10,199.69	21	5	16	23.81	906.06	1,835.17	-920.62	-3,595.20	0.98	0.31	-485.70
1	-2,190.33	21	8	13	38.10	416.36	1,530.15	-424.71	-2,361.45	0.98	0.60	-104.30
19 of 21 instances (90.5%) closed below the entry price at some point in the next week.												

Instances have been fairly low, but impressively consistent with such a large percentage closing lower over the 1-5 day period. Below is a look at a 5-day holding period.



The strong, steady downslope serves as additional confirmation of the bearish edge suggested by the numbers. I have included this study on the Active List tonight. Combined with the seasonal studies above, it appears the market could be ripe for a pullback.

I have updated the Aggregator chart below.



With tonight's studies considered the green Aggregator Line dropped 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 turned short at the close.

Based on the current active list, expectations will remain bearish on Tuesday. This could change if compelling new bullish evidence emerges. The Differential Pivot will be 2744.90 on Tuesday. That is a sizable 1.5% below Friday's close. So SPX would need to close down at least this much in order to flip from overbought to oversold versus recent expectations.

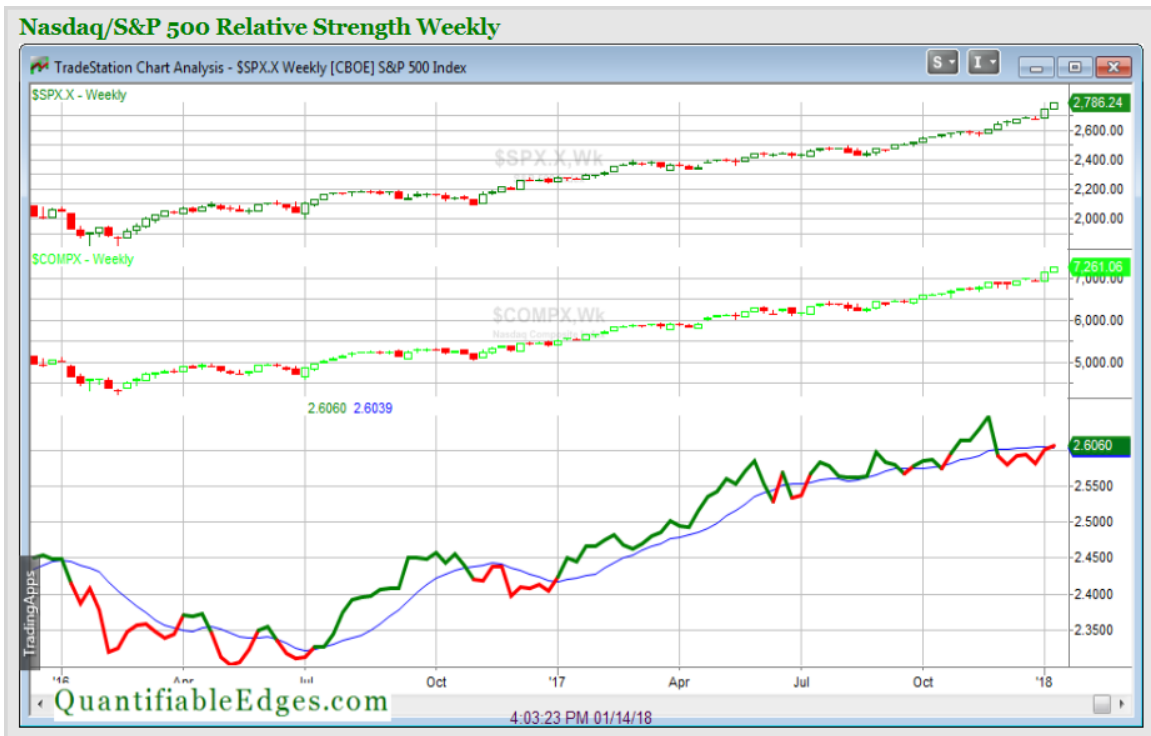
So there appears to be a decent downside edge, and ample room to profit before the market would turn oversold. And aggressive traders could certainly look to take advantage of this. I am wary of trying to short into a market this strong. The trend is clearly up and intermediate-term evidence continues to build for the bulls. So, while it was a somewhat tough decision, I am not quite inclined to try and take advantage of a short-side index position. I will remain patient and await a setup with more favorable reward/risk.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/16– somewhat bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), which is included with all annual subscriptions. Detailed descriptions of these combination approaches can be found in [Lesson 8](#). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](#). (You must go through the course first in order to access the Downloads.) *This week Combo System #3 turned “Long” to join the other two.*

The market continued to rally and again finished the week at new all-time highs. The SPX closed the week up 1.6% and the NASDAQ rose 1.7%. The slight outperformance by the NASDAQ helped it to overtake SPX and establish a leading position via our NASDAQ/SPX Relative Strength Indicator. This can be seen in the chart below.



The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 1971, the market has performed substantially better when the NASDAQ has been leading. Over that time, the SPX has gained 2038.83 points when the NASDAQ has been leading versus 645.31 points when the

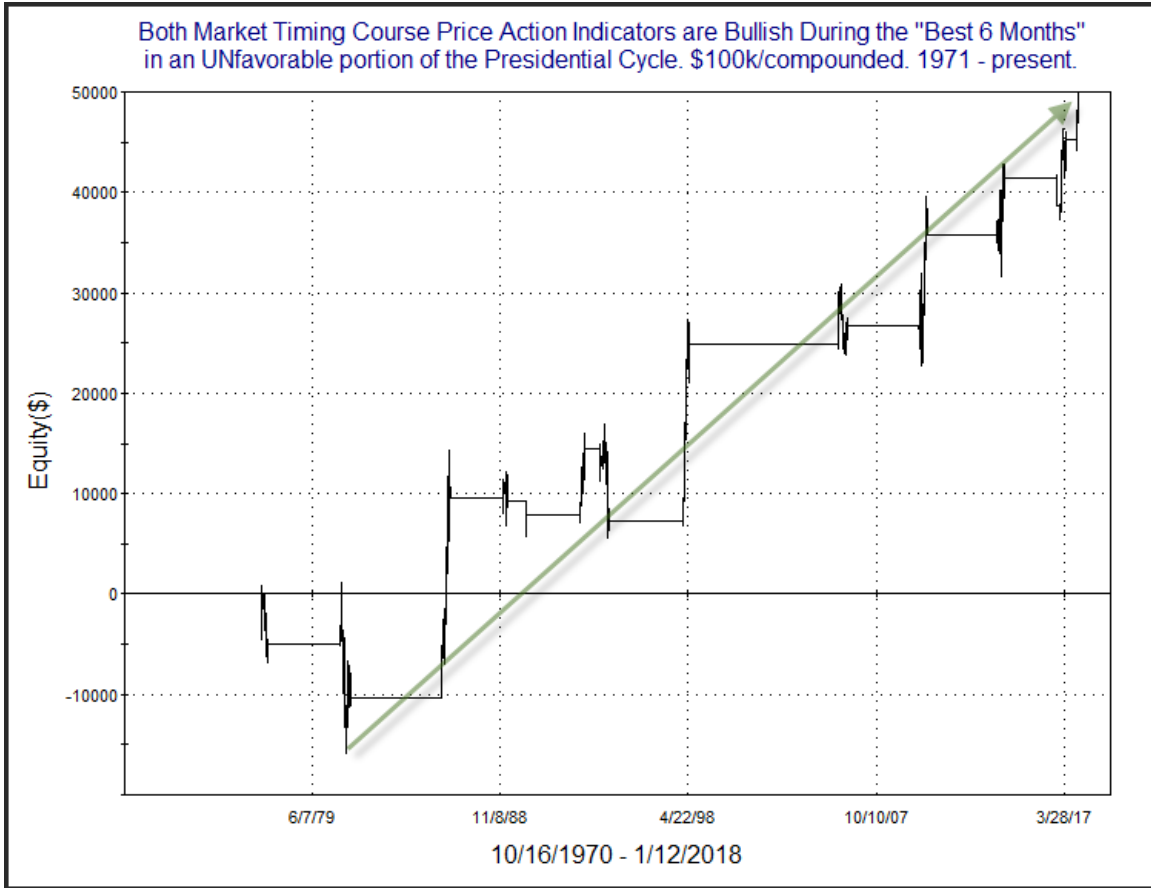
NASDAQ has lagged. The difference for the NASDAQ has been even more dramatic, with the point gains being 6310.72 vs. just 841.96. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). <http://quantifiableedges.com/nasdaq-weekly-strength-model/>

I decided to take a look at how the market has done when all 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX “Golden Cross” in effect, 3) unfavorable Presidential Cycle, and 4) “Best” 6 months in effect. Below are updated stats showing SPX performance during this alignment.

Both Market Timing Course Price Action Indicators are Bullish During the "Best 6 Months" in an UNfavorable portion of the Presidential Cycle. \$100k/trade. 1971 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$42,853.31	Profit Factor	2.40
Gross Profit	\$73,395.00	Gross Loss	(\$30,541.69)
Total Number of Trades	32	Percent Profitable	50.00%
Winning Trades	16	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	\$1,339.17	Ratio Avg. Win:Avg. Loss	2.40
Avg. Winning Trade	\$4,587.19	Avg. Losing Trade	(\$1,908.86)
Largest Winning Trade	\$14,725.36	Largest Losing Trade	(\$5,116.74)

Wins have been substantially larger than losers here, leading to some strong bullish stats. But the win rate is low. So it is certainly worth examining the profit curve. (I ran the profit curve with compounding in effect.)



That appears to be a fairly steady curve, especially when the win rate is only about breakeven. Like the Market Timing Course combo systems would imply, I am viewing this as a bullish formation.

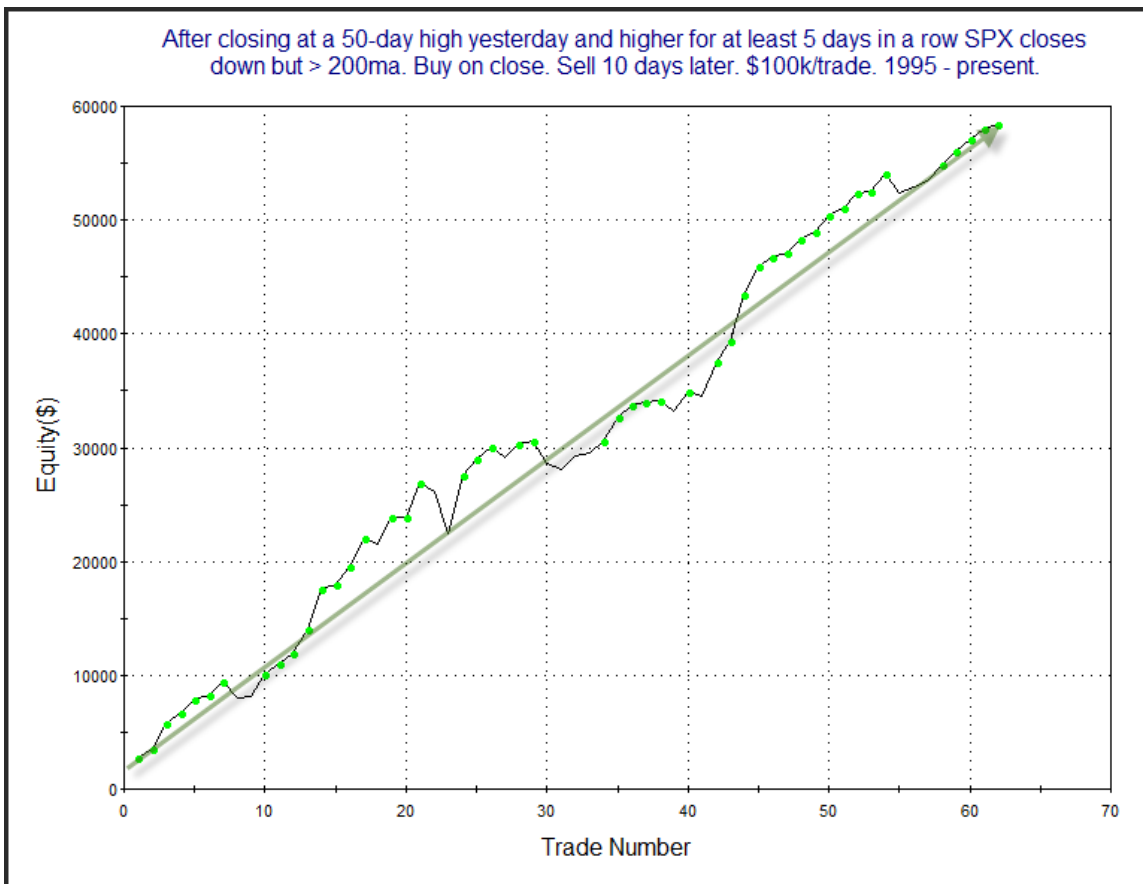
There was another study with intermediate-term implications that triggered in the Wednesday night letter. I have copied it below.

One compelling suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 11/8/17 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row SPX closes down but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	58,391.74	62	52	10	83.87	1,371.49	5,131.35	-1,292.59	-3,672.90	1.06	5.52	941.80
9	56,963.35	65	53	12	81.54	1,367.28	5,023.20	-1,291.89	-4,151.40	1.06	4.67	876.36
8	49,490.97	66	47	19	71.21	1,538.11	4,878.08	-1,200.01	-4,874.10	1.28	3.17	749.86
7	37,898.73	67	46	21	68.66	1,380.01	3,874.76	-1,218.18	-3,912.48	1.13	2.48	565.65
6	37,407.77	69	48	21	69.57	1,265.87	4,307.20	-1,112.10	-3,637.71	1.14	2.60	542.14
5	29,193.97	69	44	25	63.77	1,107.60	4,252.50	-781.62	-2,466.75	1.42	2.49	423.10
4	31,417.14	69	44	25	63.77	1,128.18	3,843.00	-728.90	-3,003.39	1.55	2.72	455.32
3	19,640.87	69	44	25	63.77	862.44	2,472.85	-732.26	-1,992.34	1.18	2.07	284.65
2	18,185.49	69	47	22	68.12	727.74	2,437.50	-728.10	-2,614.95	1.00	2.14	263.56
1	10,773.40	69	45	23	65.22	495.06	1,751.19	-500.18	-1,744.10	0.99	1.94	156.14

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day:

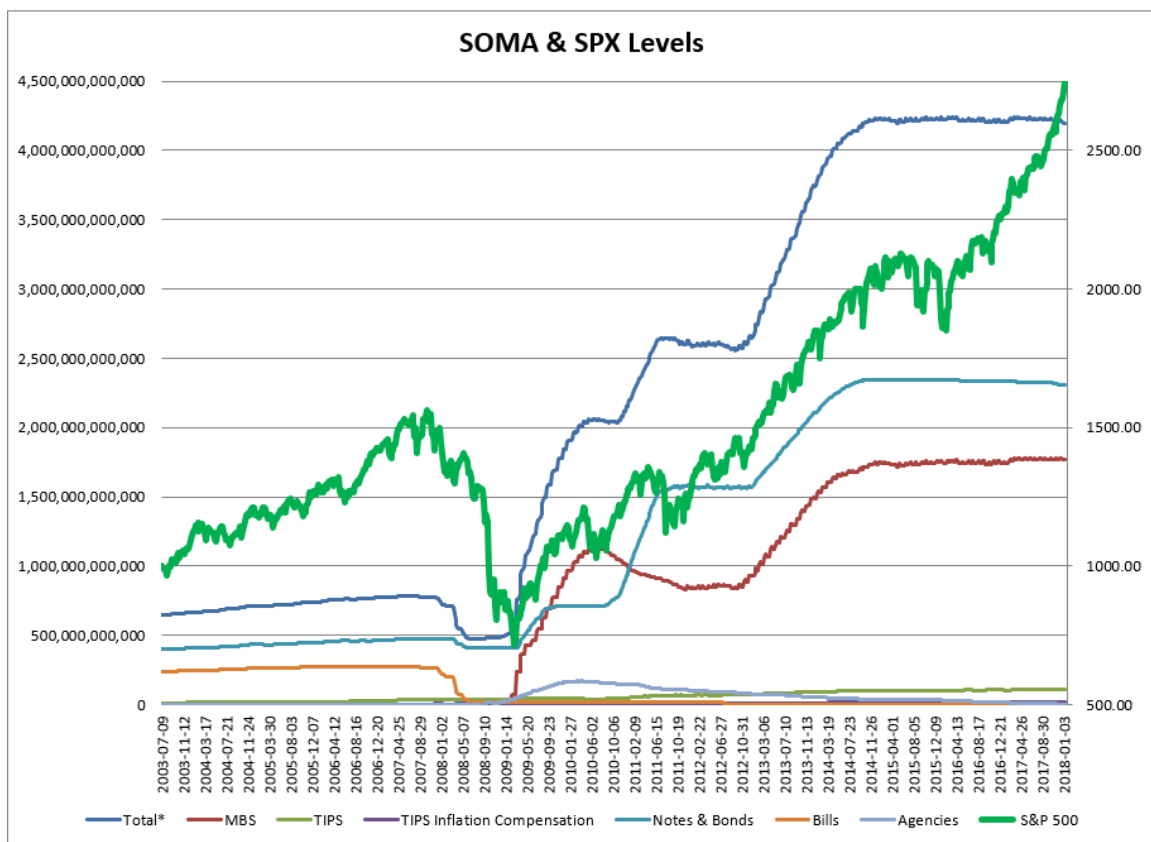


The strong upslope appears to confirm the bullish edge...

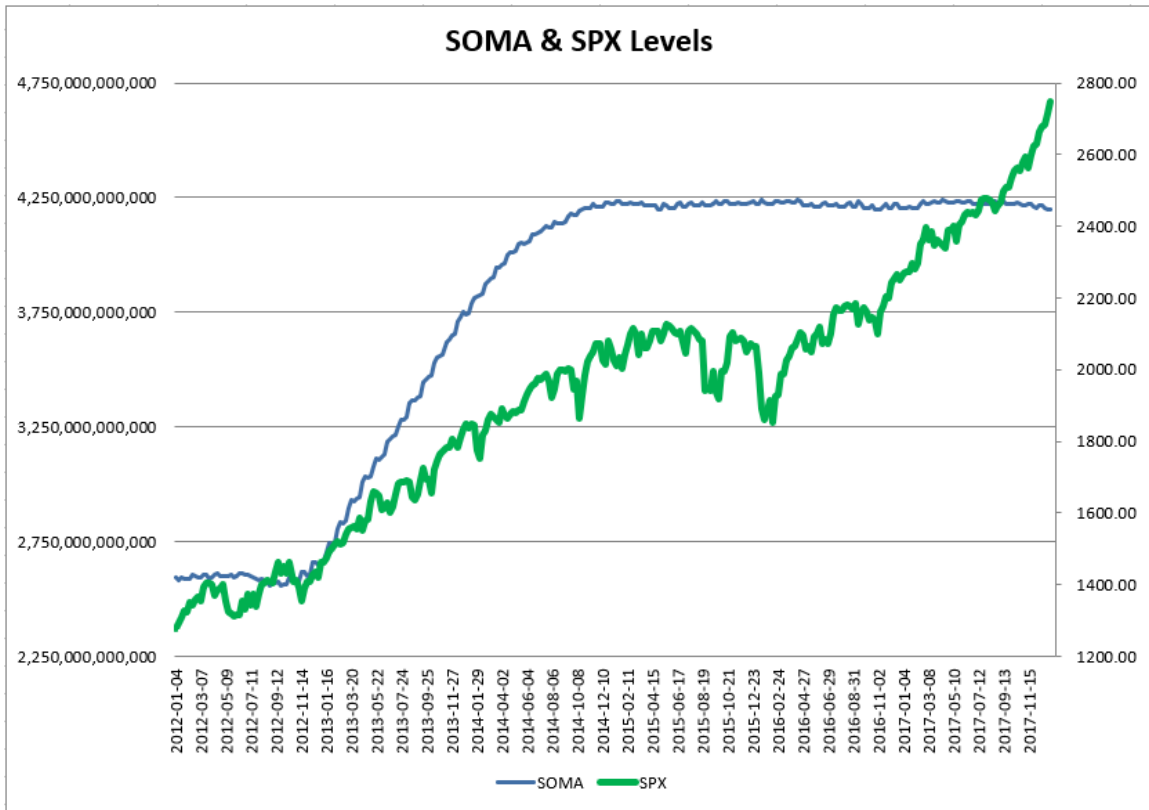
As I do each week, I have updated our Fed SOMA charts below. Below is a description for those who are new to these charts or who may want a refresher.

SOMA stands for System Open Market Account. It is the account at the Fed that contains all of its bond purchase holdings. We have tracked Fed purchases for several years, and as is evident in the charts below, the stock market has consistently reacted positively when the Fed has been buying securities in the open market and increasing the size of its account. When the account has declined, the market has struggled. The obvious takeaway has been “don’t fight the Fed”. As far as intermediate-term indicators go, this has been as good as anything in recent years.

While the Fed is not making new QE purchases any longer, it is continuing to reinvest maturities. Therefore, the total assets in their System Open Market Account (SOMA) has not begun to dive like the old Quantifiable Edges POMO indicators did. Below are long and short-term views of SOMA and SPX. First, the long-term view (back to 2003).



And now the zoomed-in view (2012 – present).



The Fed’s SOMA this past week (Wednesday to Wednesday) actually increased about \$1,000,000, which is less than even 0.01%. But with the Fed looking to lower the SOMA by about \$20 billion / month right now, any increase far outpaces anticipated reduction amounts. Up until now, the mild rate of reduction in the SOMA has not hindered the bull market. But the SOMA is just now beginning to hit post-QE3 lows. And each quarter this year the rate of decline is set to be upped by \$10 billion / month. So it could go to \$30 billion starting in April, and then \$40 billion in July and \$50 billion in October, where it is expected to remain and not increase further. While the rate of reduction has not caused a liquidity issue yet, I fully expect it will at some point. And 2018 will likely see corrections and volatility of greater magnitude than 2017. This could make trading more challenging, but it could also mean more opportunity for traders to make money – perhaps in both directions.

Overall evidence still appears to be favoring the bulls. There are several intermediate-term bullish studies that remain active, including the newest ones from the last few days. We are still in a period of strong seasonality. Additionally, the trend is still up, and all 3 Market Timing Course Combo Systems are “long”. Fed policy, and its implications, is still my biggest concern. There are no signs of a market correction starting just yet. My outlook is again somewhat bullish. I will continue to be a bit more aggressive with long trades and especially conservative when considering short trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

DUK -1/3 @ \$81.94 (bought 1/3 at limit)

DUK -1/3 @ \$79.28

New

DUK – buy 1/3 @ \$78.90 – buy at limit

Broad Market Large Cap CBI – 3(DUK-3)

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.

DUK – buy 1/3 Catapult position @ \$78.90 LIMIT. From the Catapult section above. This would be the 3rd and final lot for DUK.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
DUK(1/3)	1/8/2018	\$81.94	\$78.90	-3.71%		Catapult
DUK(1/3)	1/12/2018	\$79.00	\$78.90	-0.13%		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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