

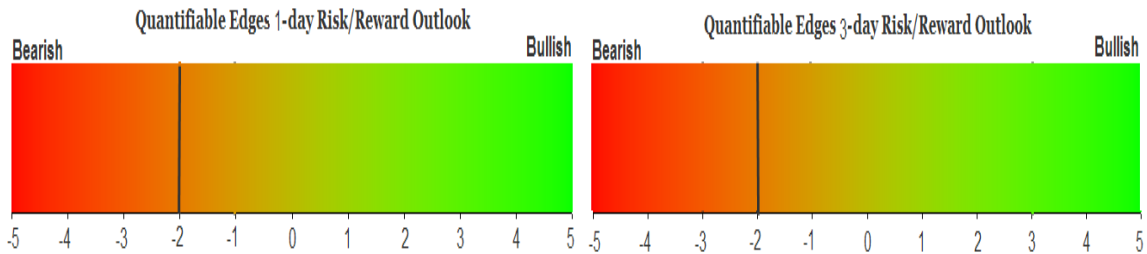
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 17, 2018

Volume 11 Issue 11

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Short	100% Short SPY

Tonight's Research Points

- Tuesday's spiking VIX and mild SPX decline appear to be a bullish combination.

Short-term Outlook

The Bottom Line

The Aggregator is again suggesting a downside edge. I do not think the overall edge is strong enough to warrant a counter-trend trade, and am still waiting for a more favorable opportunity.

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 17, 2018	VIX up > 10%. SPX down < 1%	1-5 days	Bullish			
January 16, 2018	MLK & Jan Opex Week Weak	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 \$2obillion	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			

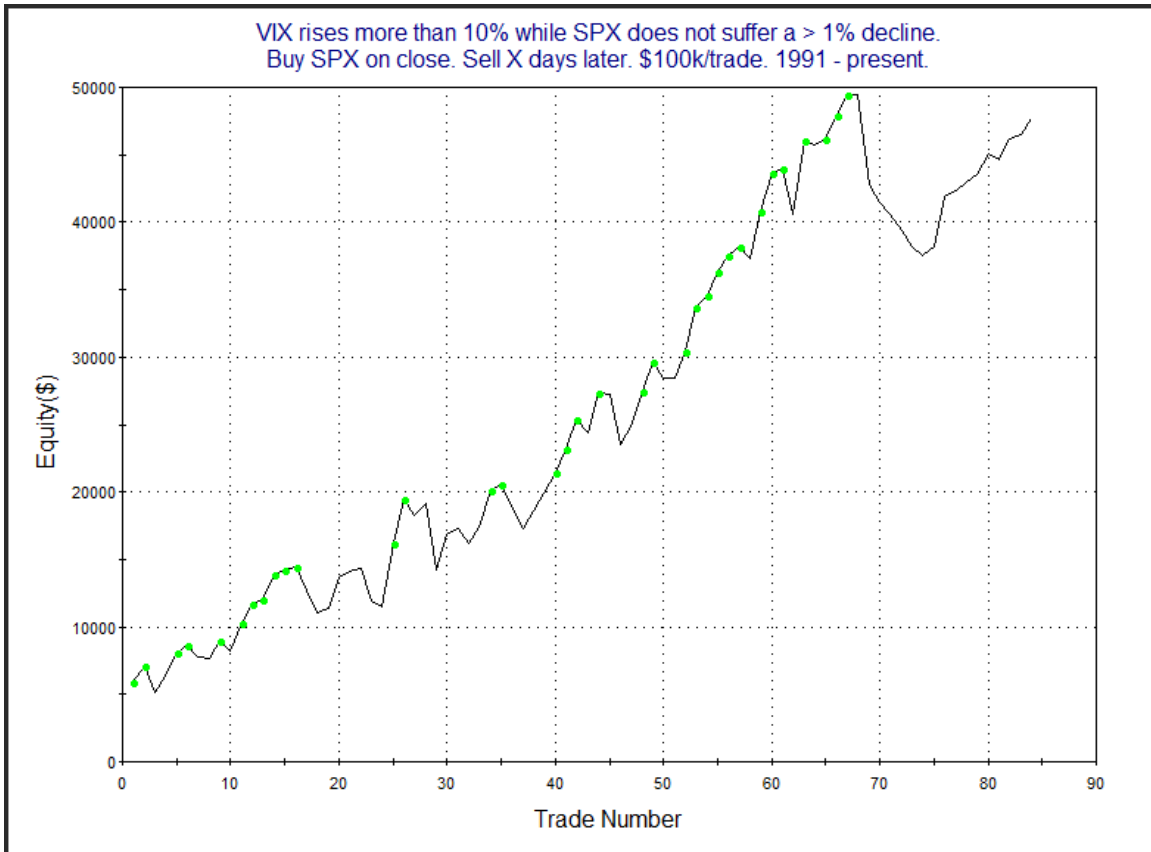
The Evidence

Monday saw the market gap up to new highs but then reverse strongly and finish lower. The SPX lost 0.35%, the NASDAQ fell 0.5%, and the Russell 2000 dropped 1.2%. Breadth was negative as the NYSE Up Issues % was 32% and the Up Volume % came in at 33%. NYSE volume rose for the 4th day in a row.

What stuck out to me today was the large spike in the VIX (nearly 15%) despite the relatively small drop in the SPX (less than 0.5%). This triggered the study below, from the 4/14/15 letter that looked at other times where the VIX spiked over 10% and SPX did not even drop 1%. Below are updated results.

VIX rises more than 10% while SPX does not suffer a > 1% decline. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - 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	47,752.61	84	55	29	65.48	1,655.08	5,945.60	-1,492.30	-6,676.80	1.11	2.10	568.48
4	31,170.31	85	55	30	64.71	1,512.31	6,316.80	-1,733.56	-10,175.52	0.87	1.60	366.71
3	18,161.42	88	54	34	61.36	1,176.90	4,953.60	-1,335.04	-8,947.20	0.88	1.40	206.38
2	12,831.09	91	54	37	59.34	889.12	4,424.50	-950.85	-5,218.56	0.94	1.36	141.00
1	7,676.88	93	52	41	55.91	588.80	2,007.50	-559.53	-2,106.24	1.05	1.33	82.55

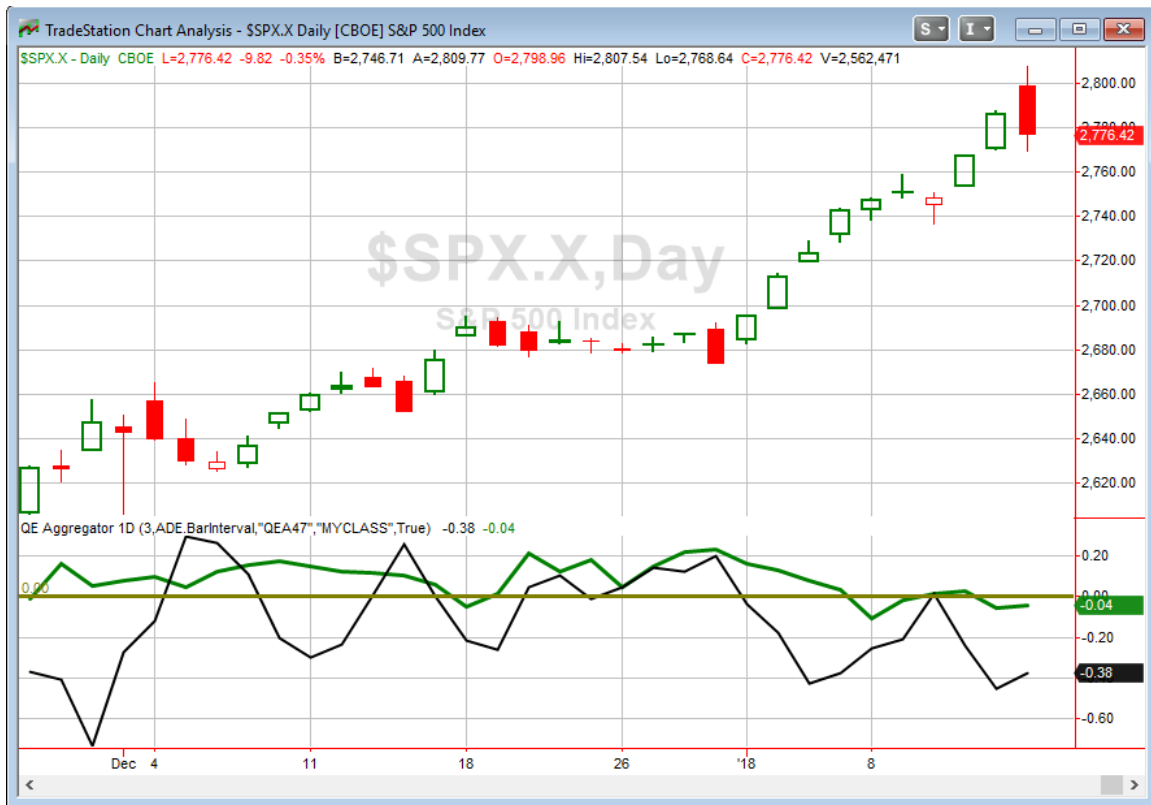
The numbers here all seem to favor the bulls. Below is a look at the profit curve for a 5-day holding period.



The curve underwent a substantial correction recently but appears to quickly be getting back on track. This suggests the VIX spike on Tuesday might have been overdone. Odds favor an SPX move higher from here based on this study, which I have added to the Active List.

There were also a few studies that triggered in the Quantifinder that examined relatively large drops from high levels. Though some of the criteria were the same, one of the studies suggested bullish implications and the other appeared bearish. I investigated further and reviewed performance when criteria for both were met. As you might suspect, this showed no strong edge in either direction. So I have not included any of these studies on the Active List tonight.

I have updated the Aggregator chart below.



Despite tonight's bullish study, 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 will remain bearish on Wednesday. This could change if compelling new bullish evidence emerges. The Differential Pivot will be 2468.25 on Wednesday. That is 0.3% below Tuesday's close. So SPX would need to close down at least 0.3% in order to flip from overbought to oversold versus recent expectations.

The apparent bearish tendency from last night played out some on Tuesday, and it appears it could have further to go. But evidence is mixed, the uptrend is strong, and intermediate-term expectations remain bullish. So a short position is counter-trend and appears to carry more potential risk and less potential reward than I would like to see for establishing a new position. Therefore, I will continue to exercise patience and await a more favorable reward/risk opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/16– 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 –1/3 @ \$81.94 (bought 1/3 at limit)

DUK –1/3 @ \$79.28 (bought 1/3 at limit)

DUK –1/3 @ \$78.90 (bought 1/3 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.

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	\$78.42	-4.30%		Catapult
DUK(1/3)	1/12/2018	\$79.00	\$78.42	-0.73%		Catapult
DUK(1/3)	1/16/2018	\$78.90	\$78.42	-0.61%		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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