

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 18, 2018

Volume 11 Issue 12

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Short	100% Short SPY

Tonight's Research Points

- SPX and VIX both hitting new 40-day highs is quite unusual.
- New Fed chairmen have typically been met with stock market enthusiasm during their 1st few weeks in office.

Short-term Outlook

The Bottom Line

The Aggregator is again suggesting a downside edge. But I again do not think the edge is strong enough to warrant a counter-trend trade. And with some studies expiring, the edge also is not likely to persist beyond Thursday.

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 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 \$20 billion	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

Wednesday was another day of gains for the market. The SPX rose 0.9%, the NASDAQ gained 1.0%, and the Russell 2000 climbed 0.9%. Breadth was negative as the NYSE Up Issues % was 64.6% and the Up Volume % came in at 65.3%. NYSE volume declined some from Tuesday's level.

While the market has been continually pushing higher, it has not been an easy market to swing trade. It simply is not offering pullbacks for entry opportunities. Interestingly, it is not just the stock indices that have been persistently pushing higher. The VIX has as well. And many nights recently this has led to multiple VIX-based studies emerging. Tonight was no exception as we again saw a 50-day closing high for SPX and an up close for VIX. Of course we already have some similar studies appearing on the Active List from the past few days. I do not intend to add to them with another that contains nearly the same criteria. But I will note just how unusual the SPX / VIX action been.

Wednesday saw both SPX and VIX close at 40-day highs (about 2 months). Since they commonly trade opposite each other, to have them both be extended up like this is very rare. In fact, it has only happened 4 other times. Below is a list of those instances along with their 4-day results.

SPX and VIX both close at 40-day highs. (About 2 months.)
Buy SPX on close. Sell 4 days later. \$100k/trade. 1990 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/8/1993	Buy	\$454.70	-1.07%	\$451.14
3/12/1993	Sell	\$449.83		(\$1,677.54)
6/5/1995	Buy	\$535.62	-1.43%	\$273.42
6/9/1995	Sell	\$527.94		(\$1,789.32)
3/25/1998	Buy	\$1,102.00	-0.02%	\$731.70
3/31/1998	Sell	\$1,101.76		(\$1,078.20)
12/30/1999	Buy	\$1,464.47	-4.26%	\$920.04
1/5/2000	Sell	\$1,402.11		(\$5,901.72)

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The takeaway here is not that they all lost money over the next few days. It would be dangerous to draw conclusions from just 4 instances. But I do think it is worth considering the fact there have only been 4 instances, and none since Y2K. The very low number of instances in itself demonstrates how unusual it is to have the SPX and the VIX pushing higher together. Current market conditions appear abnormal.

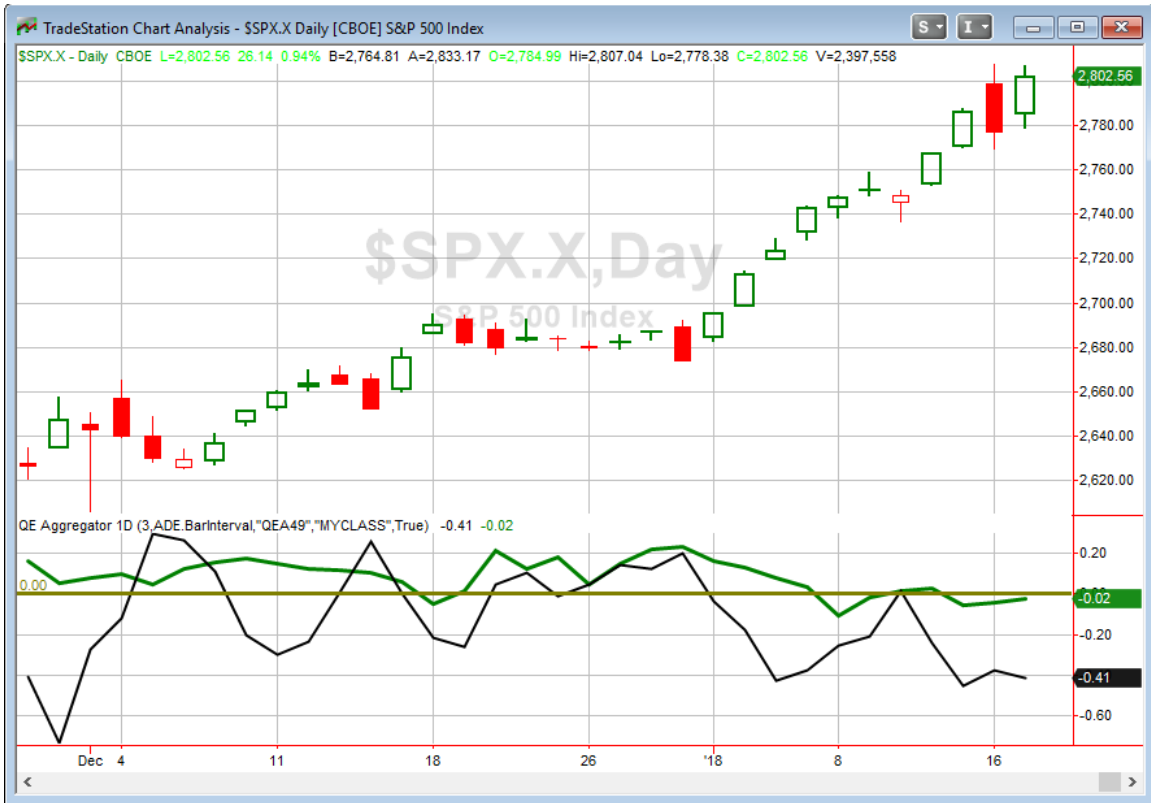
Also in the news today was the senate committee approval of Jerome Allen to become the new Fed chairman in the coming weeks. I thought to examine how the market has performed after other chairman had started the job. I found that the market had met past chairmen with some initial enthusiasm, with 1-3 week returns looking quite good. But after that, results were not consistent. The list below shows returns over the 1st 15 days for all the chairpeople since 1970.

Buy SPX the at the close the day before a new Fed chairman takes over.
Sell 15 days later. \$100k/trade. 1970 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
1/30/1970	Buy	\$85.02	3.54%	\$4,374.72
2/20/1970	Sell	\$88.03		(\$446.88)
3/7/1978	Buy	\$87.36	2.61%	\$4,564.56
3/29/1978	Sell	\$89.64		(\$446.16)
8/3/1979	Buy	\$104.04	4.38%	\$5,420.04
8/24/1979	Sell	\$108.60		(\$739.97)
8/10/1987	Buy	\$328.00	0.55%	\$3,003.52
8/31/1987	Sell	\$329.80		(\$480.32)
1/31/2006	Buy	\$1,280.08	0.98%	\$1,099.02
2/22/2006	Sell	\$1,292.67		(\$2,064.66)
1/31/2014	Buy	\$1,782.59	3.65%	\$4,262.72
2/24/2014	Sell	\$1,847.61		(\$2,501.52)

Returns here all point higher. But instances are very low and if you look out further, returns become more mixed. In fact, the Crash of '87 occurred about 2 months into Greenspan's chairmanship. I do not think these results are worthy of inclusion on the Active List. I did think the study was interesting enough to warrant some display and discussion.

I have updated the Aggregator chart below.



Without any new studies being added tonight 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 flip to bullish. This could change if compelling new bearish evidence emerges. The Differential Pivot will be 2785.86 on Thursday. That is 0.6% below Wednesday's close. So SPX would need to close down at least 0.6% in order to flip from overbought to oversold versus recent expectations.

So there appears to be a bit of a downside edge. But that edge is set to expire as of Thursday's close unless additional bearish evidence emerges. So like the last couple of nights, despite a mild bearish edge, I am not inclined to get involved in a counter-trend trade with weak reward/risk. I will continue to exercise patience and await a more favorable opportunity before entering any new index positions.

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	\$78.41	-4.31%		Catapult
DUK(1/3)	1/12/2018	\$79.00	\$78.41	-0.75%		Catapult
DUK(1/3)	1/16/2018	\$78.90	\$78.41	-0.62%		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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