

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 26, 2018

Volume 11 Issue 18

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- SPX is at new highs, but XIV is at short-term lows. In the past this has often been following by a move lower.
- The persistent move higher for SPX appears to have momentum that will often continue upwards over the next couple of weeks.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I.

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 26, 2018	SPX 17 days > 5ma & 50-day high	1-12 days	Bullish	2.10%	-1.15%	-1.70%
January 26, 2018	SPX 4-day high. XIV 4-day low close	1 day	Bearish			
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

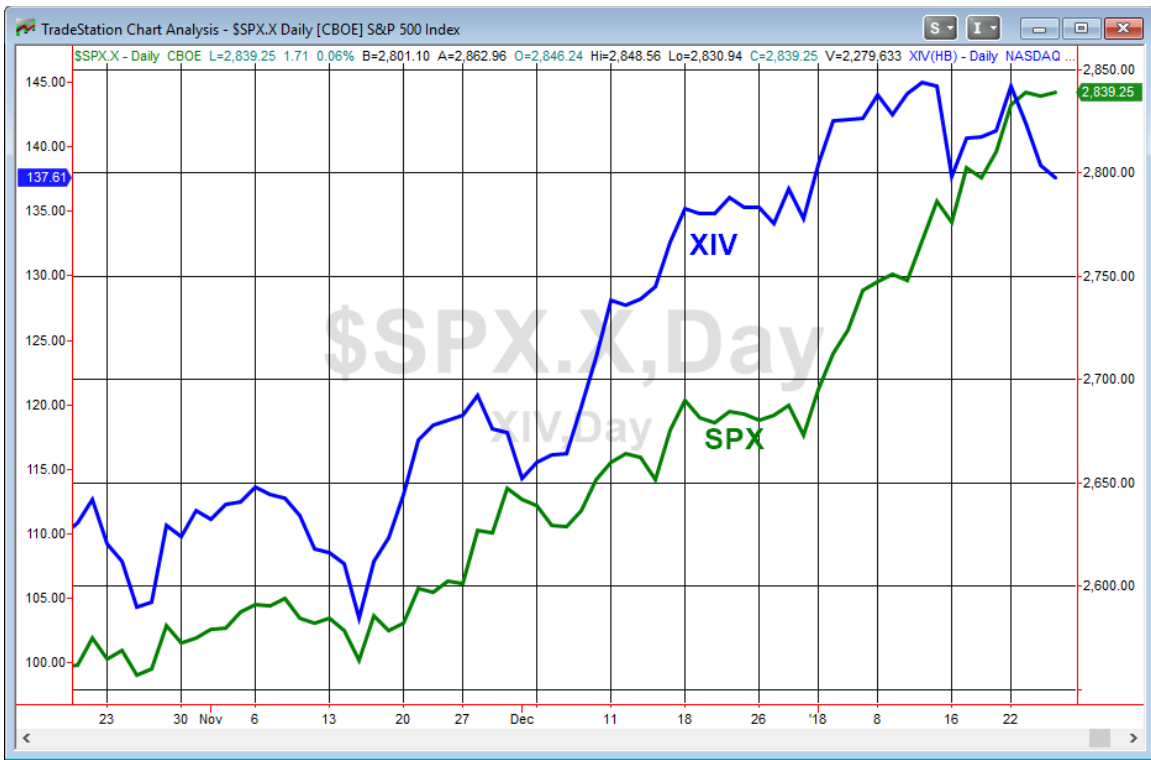
Thursday was mixed and mild. The SPX rose 0.1%, the NASDAQ lost 0.1%, and the Russell 2000 gained 0.1%. Breadth was negative as the NYSE Up Issues % was 46% and the Up Volume % came in at 43%. NYSE volume declined some from Wednesday's level.

There appears to be an interesting disconnect between stock traders and option traders at the moment. While stock traders have been continually pushing the market higher, seemingly without a care in the world, option traders have been getting more and more anxious. This can be seen a number of ways. Perhaps the most obvious is the recent increased correlation between the SPX and the VIX – two indices that typically trade inverse to each other. The Quantifinder again noted SPX closing at a new high while VIX rose on the day. This is something I discussed a couple of nights ago, and is also something we have seen a lot of lately. In fact, over the last 14 trading days, Thursday marked the 8th day where both SPX and VIX closed higher.

I looked back at other instances where SPX and VIX both closed higher at least 8 times in a 15-day period. There have only been 2 other instances – July 1995 and Feb 1996. Nothing since until now. This demonstrates how extreme the recent action has been.

XIV is an inverse-VIX ETN. In other words, it was designed to generally trade inversely to VIX futures on a daily basis. Since VIX and SPX typically trade opposite each other, you would think that XIV and SPX would often close in the same direction. And you would be right. Of course, XIV depends on more than just the movement in the VIX to determine its price. Among other things, it is influenced by short-term VIX futures movement and the term structure of the 1st couple months of VIX futures contracts. This is not the place to get into a deep discussion of XIV price influences. But it is important to understand that it 1) generally trades inverse to VIX movement, and 2) will often trade in the same direction as SPX. Mimicking the odd action in VIX I discussed above, XIV

has diverged with SPX in recent days. In fact, while SPX closed at an all-time high on Thursday, XIV closed at the lowest level of 2018. This can be seen in the chart below.



The divergence between the 2 is highly unusual. In fact this is the 1st time ever (since 2011 XIV inception) that SPX has closed at even a 10-day high while XIV has closed at a 10-day low. If we loosen the criteria to only require a 6-day SPX high and a 6-day XIV low we can find 7 previous instances. Their 1-day results can be found below.

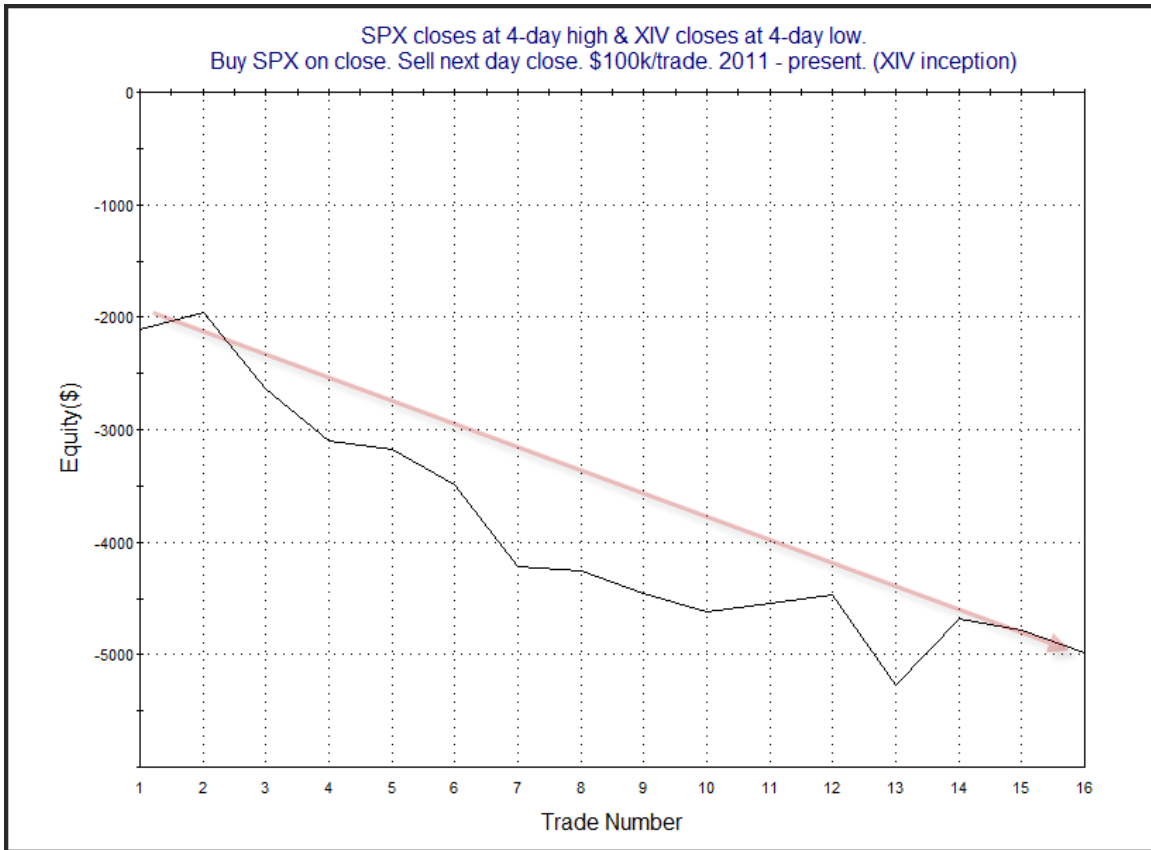
SPX closes at 6-day high & XIV closes at 6-day low. Buy SPX on close. Sell next day close. \$100k/trade. 2011 - present. (XIV inception)				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
12/7/2011	Buy	\$1,261.01	-2.11%	\$0.00
12/8/2011	Sell	\$1,234.35		(\$2,333.66)
2/9/2012	Buy	\$1,351.95	-0.69%	\$0.00
2/10/2012	Sell	\$1,342.64		(\$1,065.80)
2/28/2014	Buy	\$1,859.45	-0.74%	\$0.00
3/3/2014	Sell	\$1,845.73		(\$1,325.53)
8/27/2014	Buy	\$2,000.12	-0.17%	\$0.00
8/28/2014	Sell	\$1,996.74		(\$470.40)
12/13/2016	Buy	\$2,271.72	-0.81%	\$197.12
12/14/2016	Sell	\$2,253.28		(\$1,024.32)
2/21/2017	Buy	\$2,365.38	-0.11%	\$0.00
2/22/2017	Sell	\$2,362.82		(\$295.68)
11/30/2017	Buy	\$2,647.58	-0.20%	\$112.48
12/1/2017	Sell	\$2,642.22		(\$1,556.22)

The number of instances is low, but early indications suggest a possible 1-day downside edge,

Loosening the requirements further still resulted in some interesting results. This can be seen in the study below.

SPX closes at 4-day high & XIV closes at 4-day low. Buy SPX on close. Sell next day close. \$100k/trade. 2011 - present. (XIV inception)			
TradeStation Performance Summary			Expand 
All Trades			
Total Net Profit	(\$4,984.80)	Profit Factor	0.15
Gross Profit	\$902.60	Gross Loss	(\$5,887.40)
Total Number of Trades	16	Percent Profitable	25.00%
Winning Trades	4	Losing Trades	12
Even Trades	0		
Avg. Trade Net Profit	(\$311.55)	Ratio Avg. Win:Avg. Loss	0.46
Avg. Winning Trade	\$225.65	Avg. Losing Trade	(\$490.62)
Largest Winning Trade	\$597.24	Largest Losing Trade	(\$2,106.14)

The numbers all suggest a downside edge. Here is a look at the profit curve.



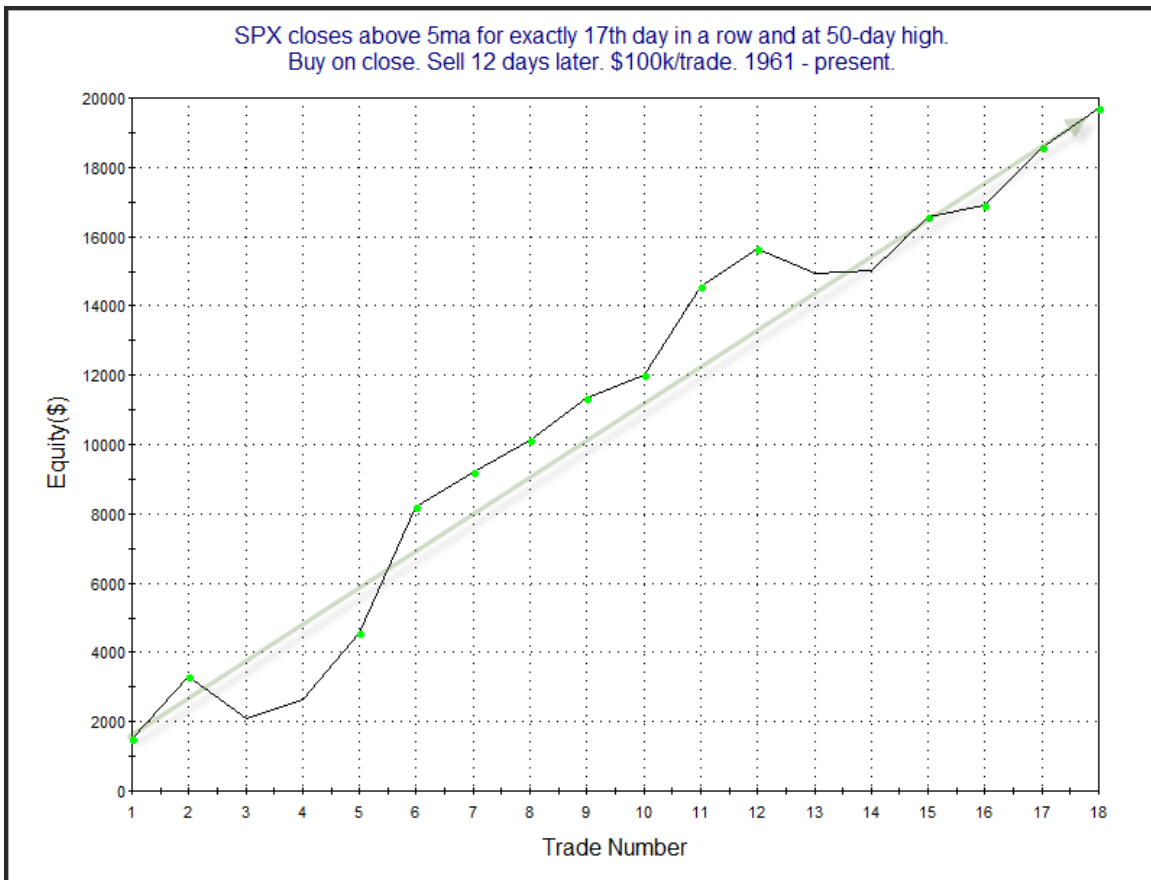
Based on past action, it appears XIV is suggesting a bearish edge for Friday.

Of course we continue to see strong momentum within the current market. Darren Miller, who is a trader, long-time Quantifiable Edges subscriber, and terrific follow on Twitter (@djmphd), noted today that SPX has now closed above its 5-day ma for 17 days in a row. That is a long time for SPX to manage to hold above such a short-term moving average. I examined other instances where SPX closed above its 5ma for 17 days in a row and also closed at a 50-day high. Study results are below.

SPX closes above 5ma for exactly 17th day in a row and at 50-day high.
Buy on close. Sell X days later. \$100k/trade. 1961 - present.

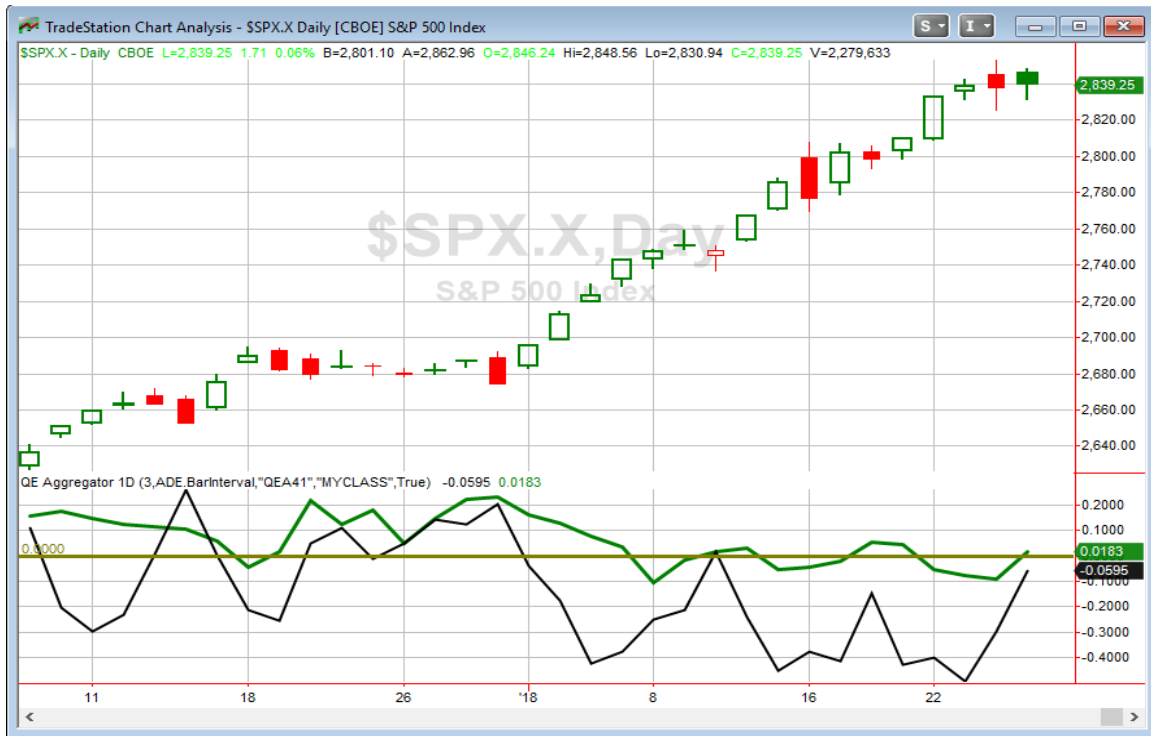
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	19,723.58	18	16	2	88.89	1,354.12	3,651.03	-971.18	-1,214.76	1.39	11.15	1,095.75
11	17,994.33	18	15	3	83.33	1,386.59	2,908.62	-934.85	-1,936.74	1.48	7.42	999.68
10	17,787.49	18	15	3	83.33	1,356.77	2,593.35	-854.66	-901.00	1.59	7.94	988.19
9	16,132.99	18	15	3	83.33	1,195.36	2,583.18	-599.12	-767.34	2.00	9.98	896.28
8	12,994.15	18	14	4	77.78	1,140.62	3,155.49	-743.61	-1,419.84	1.53	5.37	721.90
7	12,602.84	18	15	3	83.33	910.73	3,066.21	-352.72	-401.20	2.58	12.91	700.16
6	11,553.73	18	16	2	88.89	756.49	1,713.06	-275.07	-398.84	2.75	22.00	641.87
5	8,893.58	18	13	5	72.22	841.76	3,055.05	-409.86	-974.10	2.05	5.34	494.09
4	4,225.50	18	11	7	61.11	715.08	2,072.97	-520.05	-1,612.17	1.38	2.16	234.75
3	4,091.39	18	10	6	55.56	807.51	2,932.29	-663.95	-1,536.57	1.22	2.03	227.30
2	514.50	18	10	8	55.56	364.88	989.91	-391.79	-1,309.38	0.93	1.16	28.58
1	603.17	18	12	6	66.67	319.76	940.95	-538.99	-1,207.81	0.59	1.19	33.51

The numbers suggest such momentum often continues to carry through a while longer. Below is a profit curve with a 12-day holding period.



That is an impressive looking, and smooth move higher from lower left to upper right. This study appears worth consideration, and I have added it to the Active List tonight.

I have updated the Aggregator chart below.



With tonight's mix of studies considered the green Aggregator inched 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 turned flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Friday. Of course any new studies that emerge could greatly impact expectations over the next few days. The Differential Pivot will be 2836.60 on Friday. That is just 0.1% below Thursday's close. So SPX would need to close down just 0.1% in order to flip from overbought to oversold versus recent expectations on Friday.

It is an interesting market but not one that is offering a favorable entry point for short-term traders. Too overbought to buy and too strong to short remains the mantra. While SPX momentum is strong, option traders appear unusually uneasy, and that has often led to a short-term pullback. Bottom line is the Aggregator is neutral and so am I. I will continue to wait for a more favorable reward/risk entry opportunity.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/22– somewhat bullish

The intermediate-term outlook was last updated in the 1/22/18 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

New

UNP – 1/3 @ \$133.60 (buy @ limit)

Broad Market Large Cap CBI – 1(UNP)

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.

UNP – Buy 1/3 Catapult position @ \$133.60 LIMIT. This is from the Catapult section above. It is the 1st of up to 3 lots for UNP.

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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