

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 30, 2018

Volume 11 Issue 20

Market Overview



Signals Overview

Aggregator	Aggressive VIX
Flat	50% Long XIV

Tonight's Research Points

- When the VIX has hit 100-day highs without the SPX making 100-day lows, that has often led to a market rally.
- Unfilled gaps down from intermediate-term high will frequently be followed by more selling.
- Tuesday's action could have a substantial impact on the Fed Day edge for Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator remains neutral. But I am looking to take advantage of a potential bullish edge if the market continues to sell off on Tuesday.

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 29, 2018	Unfill gap dn from 20-high aft unfill up	1-3 days	Bearish			
January 29, 2018	VIX 100-day high. SPX > 100-day low	1-5 days	Bullish			
January 26, 2018	SPX 17 days > 5ma & 50-day high	1-12 days	Bullish	2.10%	-1.15%	-1.70%
Active - Long Term						
January 29, 2018	VIX 100-day high. SPX > 100-day low	1-15 days	Bullish			
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 relatively strong selling and a spike in implied volatility. The SPX declined 0.7%, the NASDAQ dropped 0.5%, and the Russell 2000 lost 0.6%. Breadth was negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 23%. NYSE volume rose some from Friday's level.

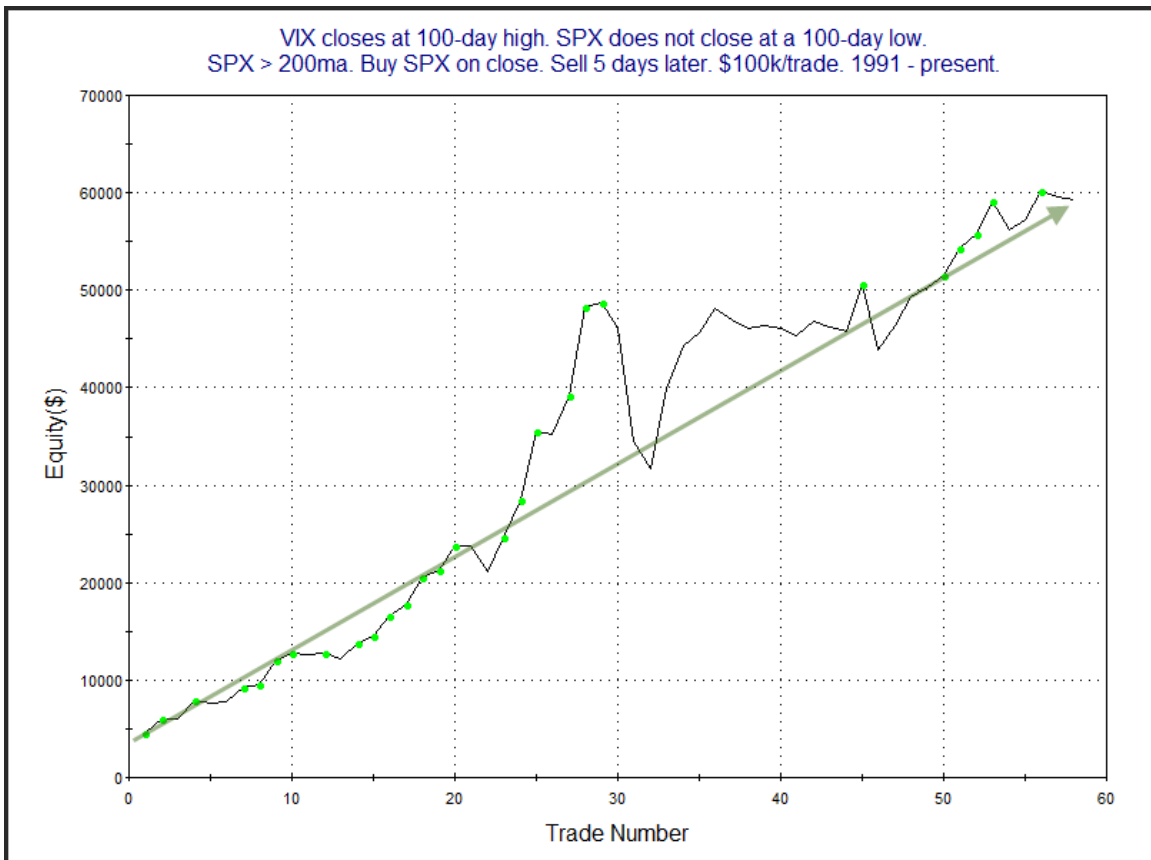
We are continuing to see option traders get nervous while the broad market is hardly budging. Monday was a large decline on a relative basis – primarily because the market has hardly declined at all so far this month. But even with the SPX dropping 0.7% on the day, it still closed nearly 1% above its 10-day moving average. Meanwhile, the VIX closed up 24.7% on the day and finished at the highest level since August. To put this in perspective, VIX hit a 100-day high just 1-day after SPX hit a 100-day high. That had never happened before. So we are seeing some unique action. Obviously, we cannot model something that has never been done before, but we can look to some less stringent studies that popped up today to see if they provide us any hints for the short-term. I have chosen below some studies from the Quantifinder with the most compelling results.

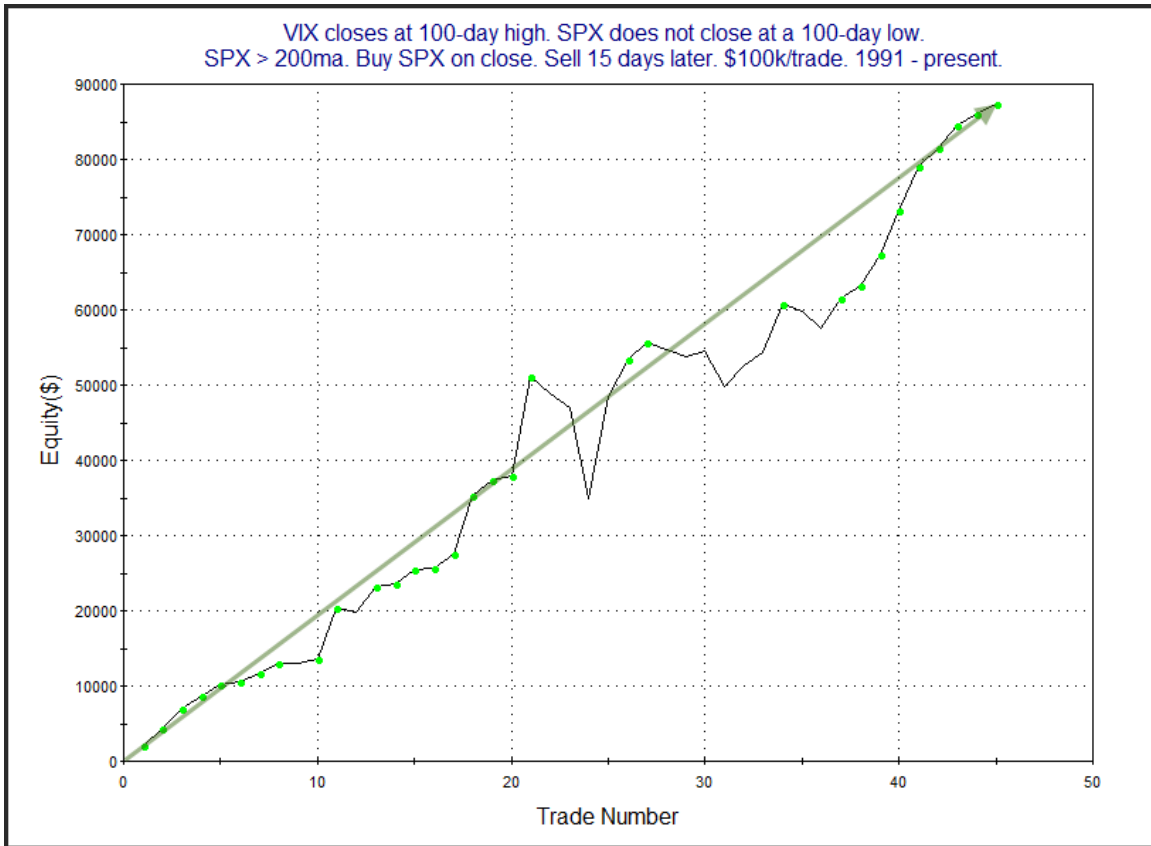
Simply seeing the VIX hit a 100-day high without the SPX making 100-day lows was enough to trigger the study below from the 8/11/17 letter. The basic idea is that the VIX is suggesting relatively extreme fear in a market that is not making long-term lows. Results are updated.

VIX closes at 100-day high. SPX does not close at a 100-day low.
 SPX > 200ma. Buy SPX on close. Sell X days later. 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
15	87,329.19	45	35	10	77.78	3,258.97	13,488.65	-2,673.49	-11,992.24	1.22	4.27	1,940.65
14	81,626.15	45	35	10	77.78	3,199.85	12,644.94	-3,036.86	-11,498.24	1.05	3.69	1,813.91
13	79,578.97	46	35	11	76.09	3,336.60	15,243.90	-3,381.99	-16,254.16	0.99	3.14	1,729.98
12	78,984.39	47	35	12	74.47	3,363.39	13,656.44	-3,227.86	-13,950.56	1.04	3.04	1,680.52
11	68,926.02	47	33	14	70.21	3,187.93	12,236.77	-2,591.11	-11,048.96	1.23	2.90	1,466.51
10	65,014.81	49	33	16	67.35	3,003.20	13,815.90	-2,130.67	-7,532.72	1.41	2.91	1,326.83
9	71,020.49	49	38	11	77.55	2,600.90	11,486.80	-2,528.52	-6,727.63	1.03	3.55	1,449.40
8	61,796.06	52	37	15	71.15	2,566.31	11,382.35	-2,210.49	-9,154.20	1.16	2.86	1,188.39
7	62,564.42	54	33	21	61.11	2,657.55	10,706.80	-1,196.89	-7,304.57	2.22	3.49	1,158.60
6	56,974.27	57	42	15	73.68	2,260.31	10,082.80	-2,530.59	-9,712.78	0.89	2.50	999.55
5	59,226.22	58	38	20	65.52	2,495.30	9,157.20	-1,779.76	-11,533.34	1.40	2.66	1,021.14
4	58,075.46	61	44	17	72.13	2,136.41	8,810.76	-2,113.32	-9,828.00	1.01	2.62	952.06
3	47,944.68	66	46	20	69.70	1,803.32	8,432.34	-1,750.39	-6,956.04	1.03	2.37	726.43
2	52,715.10	74	47	27	63.51	1,758.49	6,245.15	-1,108.66	-7,559.56	1.59	2.76	712.37
1	43,446.18	98	60	37	61.22	1,327.51	5,117.46	-978.50	-5,829.81	1.36	2.20	443.33

The stats seem to suggest a bullish edge that persists for three weeks or more. Much of that edge is realized over the first 1-5 days. Below are curves showing a 5-day and 15-day holding strategies.





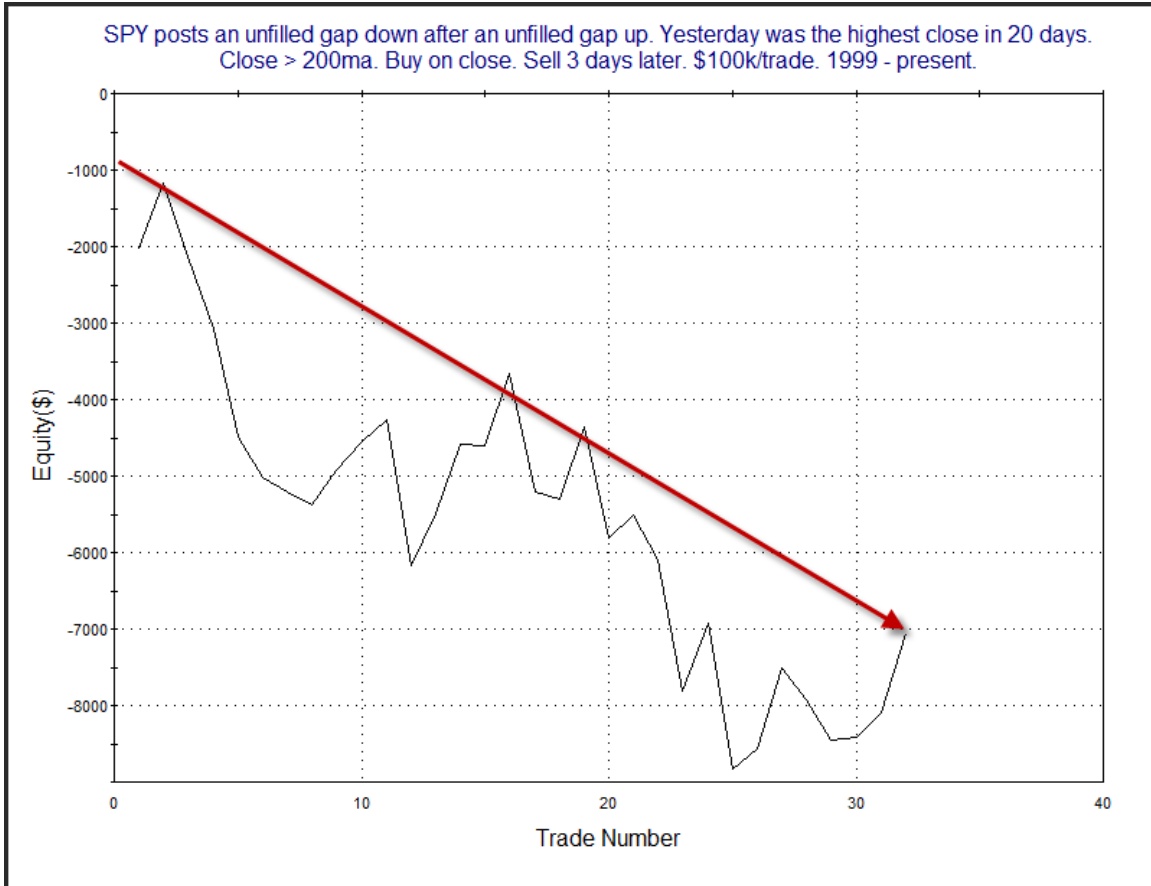
The curve is a little choppy, but that is not entirely unexpected in a study that is based on increased implied volatility. The upside persistence of the line is impressive and it is continuing to hit new highs. This study seems to be worth taking into consideration.

But not all the evidence was bullish tonight. This next study considers SPY performance after posting an unfilled gap down from a high level immediately after an unfilled gap up. It was last shown in the 10/31/17 Subscriber Letter. Below are updated results.

SPY posts an unfilled gap down after an unfilled gap up. Yesterday was the highest close in 20 days.
 Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1999 - 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	-6,390.86	32	16	16	50.00	821.97	1,827.28	-1,221.40	-4,404.92	0.67	0.67	-199.71
4	-8,193.88	32	15	17	46.88	785.30	1,998.36	-1,174.91	-3,746.95	0.67	0.59	-256.06
3	-7,047.61	32	15	17	46.88	622.73	1,044.24	-964.03	-2,017.28	0.65	0.57	-220.24
2	-4,064.50	33	14	19	42.42	562.67	1,383.20	-628.52	-2,232.00	0.90	0.66	-123.17
1	-3,330.52	33	15	18	45.45	438.20	1,008.68	-550.20	-1,807.92	0.80	0.66	-100.92

The numbers here appear to suggest a downside edge. Let's also take a look at a profit curve.



While the curve is choppy, and the last few trades have not worked out, but it still appears to be downward sloping and worth some consideration.

It is also notable that Wednesday is a Fed Day. Fed Days have historically shown a bullish inclination. One of the more compelling studies I featured in *The Quantifiable Edges Guide to Fed Days* examined Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. I last updated the studies by quartile in the 12/12/17 letter. Below are the 4 quartiles from highest to lowest in the daily range. All are updated.

Tomorrow is a Fed Day. SPY closes in the top 25% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$7,558.80	Profit Factor	1.31	
Gross Profit	\$31,707.93	Gross Loss	(\$24,149.13)	
Total Number of Trades	80	Percent Profitable	48.75%	
Winning Trades	39	Losing Trades	39	
Even Trades	2			
Avg. Trade Net Profit	\$94.49	Ratio Avg. Win:Avg. Loss	1.31	
Avg. Winning Trade	\$813.02	Avg. Losing Trade	(\$619.21)	
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)	

Tomorrow is a Fed Day. SPY closes > 50 and <= 75% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$16,031.15	Profit Factor	2.14	
Gross Profit	\$30,044.91	Gross Loss	(\$14,013.76)	
Total Number of Trades	46	Percent Profitable	56.52%	
Winning Trades	26	Losing Trades	19	
Even Trades	1			
Avg. Trade Net Profit	\$348.50	Ratio Avg. Win:Avg. Loss	1.57	
Avg. Winning Trade	\$1,155.57	Avg. Losing Trade	(\$737.57)	
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)	

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

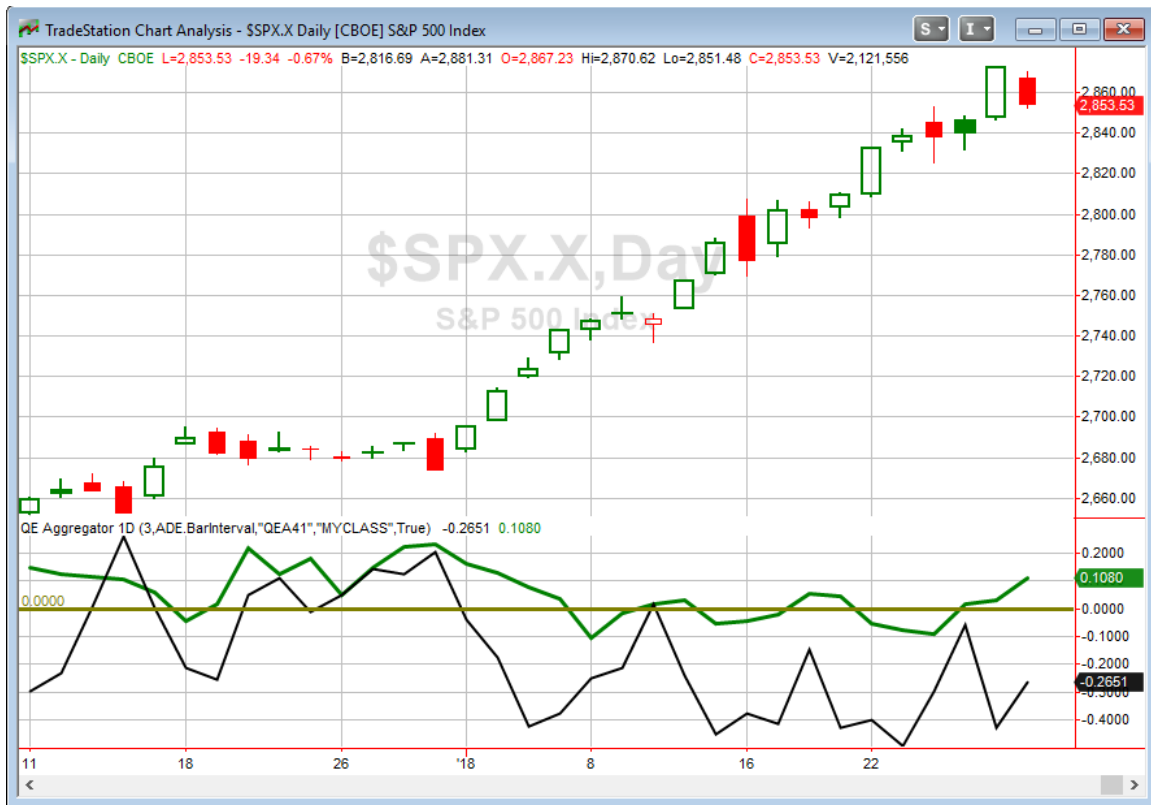
TradeStation Performance Summary				Expand ▾
All Trades				
Total Net Profit	\$11,820.75	Profit Factor	2.35	
Gross Profit	\$20,566.44	Gross Loss	(\$8,745.69)	
Total Number of Trades	35	Percent Profitable	68.57%	
Winning Trades	24	Losing Trades	11	
Even Trades	0			
Avg. Trade Net Profit	\$337.74	Ratio Avg. Win:Avg. Loss	1.08	
Avg. Winning Trade	\$856.94	Avg. Losing Trade	(\$795.06)	
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)	

Tomorrow is a Fed Day. SPY closes in bottom 25% of the intraday range.
Buy on close. Sell next day's close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$23,650.08	Profit Factor	4.54
Gross Profit	\$30,332.77	Gross Loss	(\$6,682.69)
Total Number of Trades	38	Percent Profitable	76.32%
Winning Trades	29	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$622.37	Ratio Avg. Win:Avg. Loss	1.41
Avg. Winning Trade	\$1,045.96	Avg. Losing Trade	(\$742.52)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

What was true 7 years ago when I first devised this study holds true today: the worse the close, the better the edge. So traders will want to keep this in mind as we approach the close on Tuesday. It should also be noted that the bullish inclinations of Fed Days have basically played out prior to the actual Fed announcement. Additional volatility can be expected after the announcement, which introduces some more risk.

I have updated [the Aggregator chart](#) below.



With tonight's mix of studies included, the green Aggregator line remained 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 stayed flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Tuesday. Of course this could change if compelling new bearish evidence emerges. The Differential Pivot will be 2834.63 on Tuesday. That is 0.7% below Monday's close. So SPX would need to close down at least 0.7% in order to flip from overbought to oversold versus recent expectations on Tuesday.

Monday's selloff did not change much. The market is still overbought and expectations remain positive. But further selling could set us up for a Fed Day bounce. In anticipation of that, I will look to take on some long exposure if we see a sizable selloff and poor close on Tuesday. This would likely be a very short-term trade that I could look to exit as early as Wednesday prior to the 2pm Fed announcement. Otherwise, I will re-evaluate tomorrow night.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/29– somewhat bullish*

The intermediate-term outlook was last updated in the 1/29/18 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

UNP – 1/3 @ \$133.60 (bought @ 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.

SPY – buy ½ index position if SPX closes <= 2834.63 and SPY closes in lower 50% of its intraday range. This is based on the short-term outlook above. I will be looking to exit all or at least part of this position prior to Wednesday’s Fed announcement.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UNP(1/3)	1/26/2018	\$133.60	\$136.05	1.83%		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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