

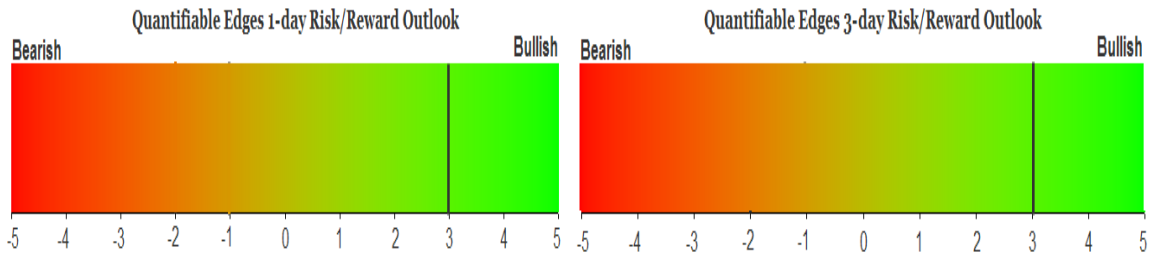
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 6, 2018

Volume 11 Issue 25

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>Aggressive VIX</b>
<b>Long</b>	<b>100% Long XIV</b>

*Note with the possible end of XIV upon us, I may have to remove or change the Aggressive VIX system in the coming days.*

## Tonight's Research Points

- XIV and SVXY potential extinctions have the potential to throw the market into further turmoil.
- The CBI spike is suggesting a bounce should come within days – but there could be a further price decline before it kicks in.
- Tuesdays are the best days to see a turnaround, and one study shows a very positive outlook over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is pointing higher, but we are experiencing historically abnormal market conditions. I believe we should see a bounce within a few days, but am careful not to go all-in too quickly here with more panic selling possible.

*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
<b>Active - Short Term</b>						
February 6, 2018	CBI > 10	1-5 days	Bullish			
February 6, 2018	20-low Big drop. Monday	1-4 days	Bullish			
February 5, 2018	Dn 1.5x 20-day ATR	1-6 days	Bullish			
February 5, 2018	VIX 20% up on Fri	1-4 days	Bullish			
February 5, 2018	VIX 25% > 10ma	1-2 days	Bullish			
February 5, 2018	Down 1.5%+ 1st 2 days of month > 200	1-5 days	Bullish			
February 5, 2018	2% drop. 10-low. Bottom 10%. > 200	1-2 days	Bullish			
January 31, 2018	1st close < 10ma in over 15 days	1-5 days	Bullish			
January 31, 2018	Gap < 5-low. Close < open. Close > 200ma	1-6 days	Bullish			
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%
<b>Active - Long Term</b>						
February 6, 2018	CBI > 10	1-17 days	Bullish			
February 5, 2018	Hindenburg Omen Cluster	1-35 days	Bearish			
January 29, 2018	VIX 100-day high. SPX > 100-day low	1-15 days	Bullish			
January 16, 2018	NASDAQ Leading	int term	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			
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 was down huge. The SPX lost 4.1%, the NASDAQ fell 3.8%, and the Russell 2000 dropped 3.6%. Breadth was very negative as the NYSE Up Issues % was 11% and the Up Volume % came in at 3%. NYSE volume rose to the highest level in a while as panic selling kicked in.

Things got serious. After reaching levels that would typically lead to a quick bounce, the market fell apart on Monday. It is acting in a historically abnormal way, and that will impact risk over the next few days.

When I say “historically abnormal”, that is not just because Monday crapped out when we saw so much evidence pointing higher over the weekend. It is also because of the unprecedented action in the VIX and VIX-based ETN/ETF products. After closing at 17.31 on Friday, the VIX spiked up over 115% and finished Monday at 37.32. While the VIX has surpassed 37 numerous times over the years, it has never before closed with a 115% gain in one day. In fact, there has never even been a move of 65% on a close to close basis.

And that action caused a massive spike in VIX futures – much of which appeared to occur in the 15 minutes after the NYSE closing bell and prior to futures settlement. In turn, this massive VIX futures move on Monday caused huge selloffs in the Inverse VIX products XIV and SVXY. XIV closed at 99 on Monday at 4pm. In after hours it managed to dip

down below 10 before trading last at 15.43. That is an 84% decline in the after-hours! There is concern tonight that XIV and SVXY might go extinct on Tuesday. They could become liquidated and cease trading. Whether that happens or not, it appears there will be some massive losses in those securities, and reverberations could be felt throughout Wall St.

From an evidence standpoint, what I am seeing suggests we should see a strong bounce begin within days. Unfortunately, the bounce might not occur until after the market collapses much further. While such historically abnormal behavior can be hard to quantify when considering reward/risk, I've chosen a few compelling studies below to discuss briefly.

As you will see in the Catapult & CBI section down below, the CBI spiked on Monday from 6 to 25. Twenty-five is an extremely high number. And while readings that high have been rare, they have also been quickly followed by a bounce in the SPX. Below is the list of the 5 previous instances, dating back to 1995, and their 5-day returns.

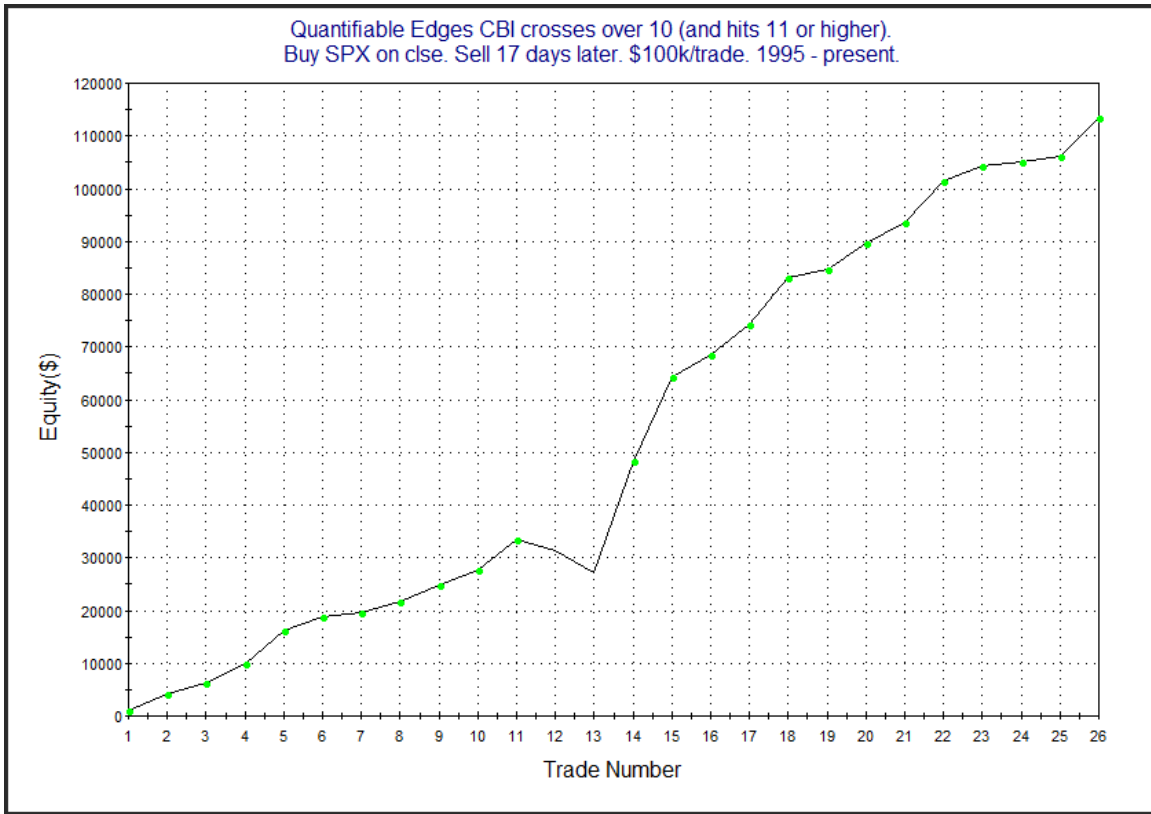
Quantifiable Edges CBI crosses over 24 (and hits 25 or higher). Buy SPX on close. Sell 5 days later. \$100k/trade. 1995 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
8/31/1998	Buy	\$957.55	6.88%	\$6,853.60
9/8/1998	Sell	\$1,023.45		(\$1,825.20)
9/20/2001	Buy	\$984.54	3.46%	\$3,610.75
9/27/2001	Sell	\$1,018.61		(\$4,018.79)
7/19/2002	Buy	\$847.75	0.60%	\$746.46
7/26/2002	Sell	\$852.84		(\$8,432.19)
10/9/2008	Buy	\$909.92	4.01%	\$14,648.51
10/16/2008	Sell	\$946.43		(\$7,643.08)
8/24/2015	Buy	\$1,893.21	4.17%	\$5,214.04
8/31/2015	Sell	\$1,972.18		(\$1,358.76)

You'll note when looking at the dates they were all significant historical market events. Long-Term Capital, Post 9/11 attacks, 2002 crash, 2008 crash, and 2015 China-induced crash. Every instance bounced over the next 5 days, but 3 of them saw further declines between 4% and 8.5% before the bounce occurred. The message appears to be that the market is likely within a few days of a capitulative bottom, but price may have to fall further before the big reversal kicks in.

I also re-ran the study below, which I have shown a number of times over the years. It looks to buy when the CBI reaches 11 or higher.

Quantifiable Edges CBI crosses over 10 (and hits 11 or higher). Buy SPX 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
20	112,549.41	26	24	2	92.31	4,915.25	17,878.08	-2,708.24	-5,220.48	1.81	21.78	4,328.82
19	112,120.91	26	22	4	84.62	5,406.79	17,534.88	-1,707.10	-2,993.00	3.17	17.42	4,312.34
18	114,780.86	26	23	3	88.46	5,135.44	20,061.36	-1,111.39	-2,748.00	4.62	35.43	4,414.65
17	113,504.38	26	24	2	92.31	4,994.30	21,217.68	-3,179.43	-4,214.00	1.57	18.85	4,365.55
16	101,348.37	26	24	2	92.31	4,510.81	15,329.16	-3,455.52	-6,614.00	1.31	15.66	3,898.01
15	94,051.24	26	22	4	84.62	4,615.87	17,338.20	-1,874.45	-5,572.00	2.46	13.54	3,617.36
14	73,588.93	27	23	4	85.19	3,915.08	15,991.80	-4,114.46	-14,731.00	0.95	5.47	2,725.52
13	74,815.68	27	22	5	81.48	4,203.18	19,377.60	-3,530.87	-11,946.00	1.19	5.24	2,770.95
12	68,657.09	27	22	5	81.48	3,874.13	17,982.36	-3,314.74	-8,812.00	1.17	5.14	2,542.86
11	76,761.63	27	21	6	77.78	4,358.05	20,758.32	-2,459.58	-9,945.00	1.77	6.20	2,843.02
10	63,755.94	27	19	8	70.37	3,918.96	16,319.16	-1,338.04	-4,118.00	2.93	6.96	2,361.33
9	69,209.52	27	21	6	77.78	3,723.90	12,246.96	-1,498.72	-2,554.04	2.48	8.70	2,563.32
8	57,908.95	27	21	6	77.78	3,633.19	15,615.60	-3,064.66	-5,568.00	1.19	4.15	2,144.78
7	56,858.11	27	19	8	70.37	3,888.33	12,720.84	-2,127.53	-4,980.00	1.83	4.34	2,105.86
6	47,367.71	27	19	8	70.37	3,637.84	18,349.11	-2,718.90	-8,839.00	1.34	3.18	1,754.36
5	59,938.07	27	20	7	74.07	3,850.13	18,981.60	-2,437.78	-5,174.95	1.58	4.51	2,219.93
4	50,219.42	27	19	8	70.37	3,574.26	17,851.68	-2,211.44	-4,365.00	1.62	3.84	1,859.98
3	21,069.98	27	17	10	62.96	3,389.02	13,853.40	-3,654.34	-9,701.00	0.93	1.58	780.37
2	12,540.02	27	15	12	55.56	3,089.44	13,116.84	-2,816.80	-8,631.00	1.10	1.37	464.45
1	15,470.06	27	17	10	62.96	2,148.34	10,716.03	-2,105.18	-6,760.90	1.02	1.73	572.97

Numbers here are very strong. Below is a look at the 17-day profit curve.



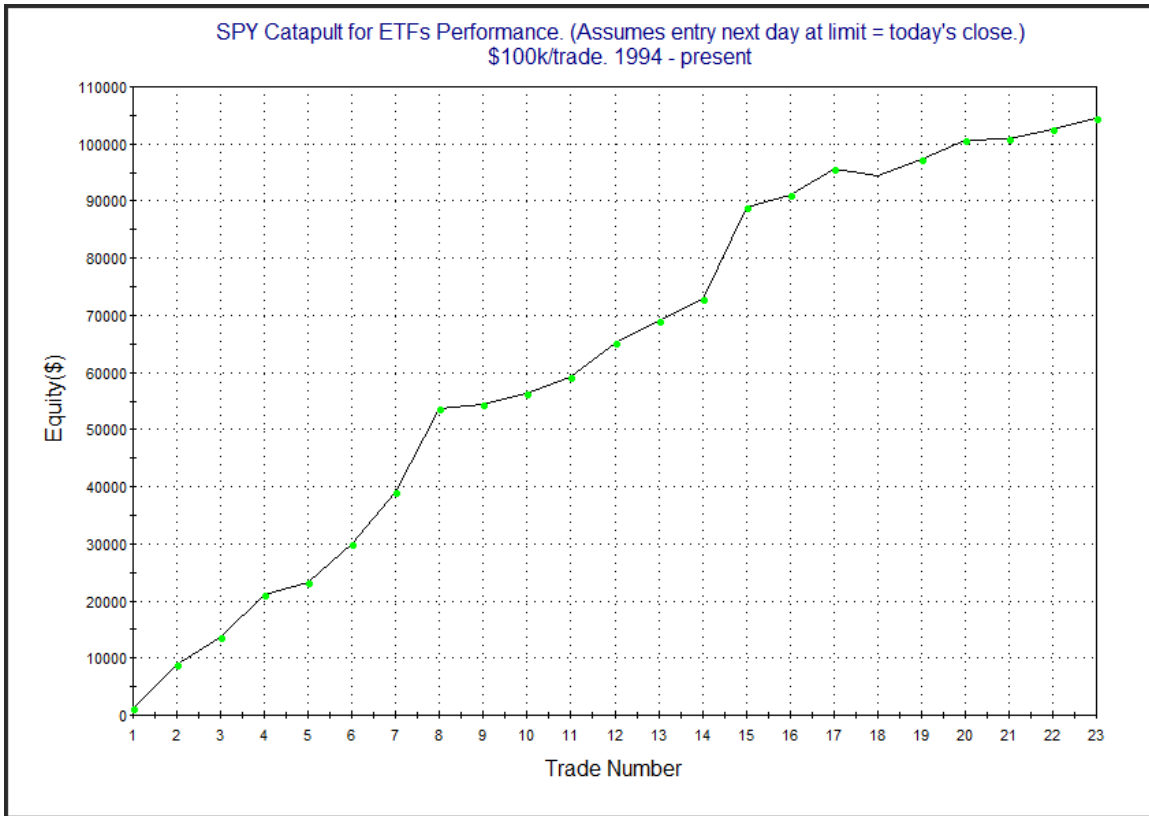
That is an impressive move from lower left to upper right.

Of course the CBI is a count of all the Catapult triggers in S&P 100 stocks. But interestingly, the SPY triggered a Catapult on Monday afternoon. Below are results of SPY Catapult triggers since 1993.

SPY Catapult for ETFs Performance. (Assumes entry next day at limit = today's close.)  
\$100k/trade. 1994 - present

TradeStation Performance Summary <span>Expand</span>			
All Trades			
Total Net Profit	\$104,598.34	Profit Factor	86.86
Gross Profit	\$105,816.64	Gross Loss	(\$1,218.30)
Total Number of Trades	23	Percent Profitable	95.65%
Winning Trades	22	Losing Trades	1
Even Trades	0		
Avg. Trade Net Profit	\$4,547.75	Ratio Avg. Win:Avg. Loss	3.95
Avg. Winning Trade	\$4,809.85	Avg. Losing Trade	(\$1,218.30)
Largest Winning Trade	\$16,078.18	Largest Losing Trade	(\$1,218.30)

Numbers are fantastic. Here is the curve.



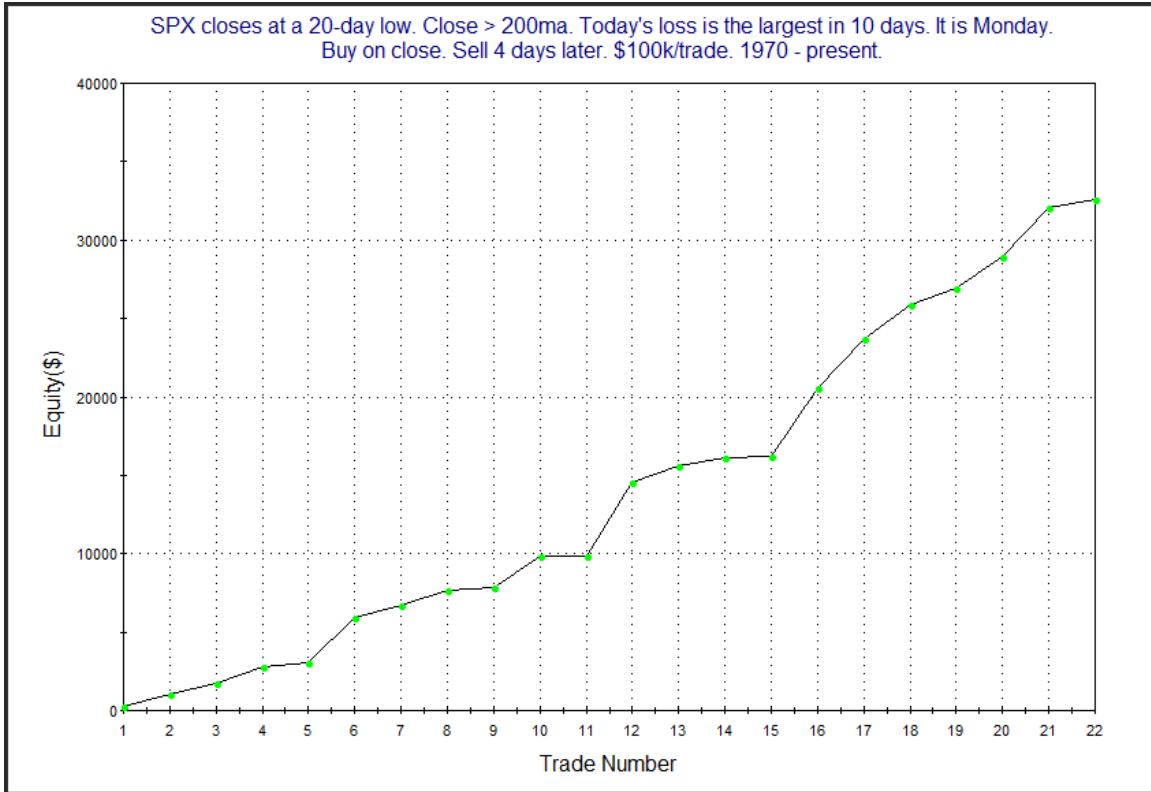
The curve is also very impressive. The CBI is reaching levels that merit consideration and the SPY Catapult trigger is helping to confirm the probability of a bounce.

Of course Turnaround Tuesday is typically the best day for a bounce to begin. There were a few Turnaround Tuesday studies in the Quantifinder as well. The one below was the most compelling. It also considered the long-term uptrend, intermediate-term low, and strong selling on Monday. It was last seen in the 6/30/15 letter. All stats are now updated.

SPX closes at a 20-day low. Close > 200ma. Today's loss is the largest in 10 days. It is Monday.  
Buy on close. Sell X days later. \$100k/trade. 1970 - present.

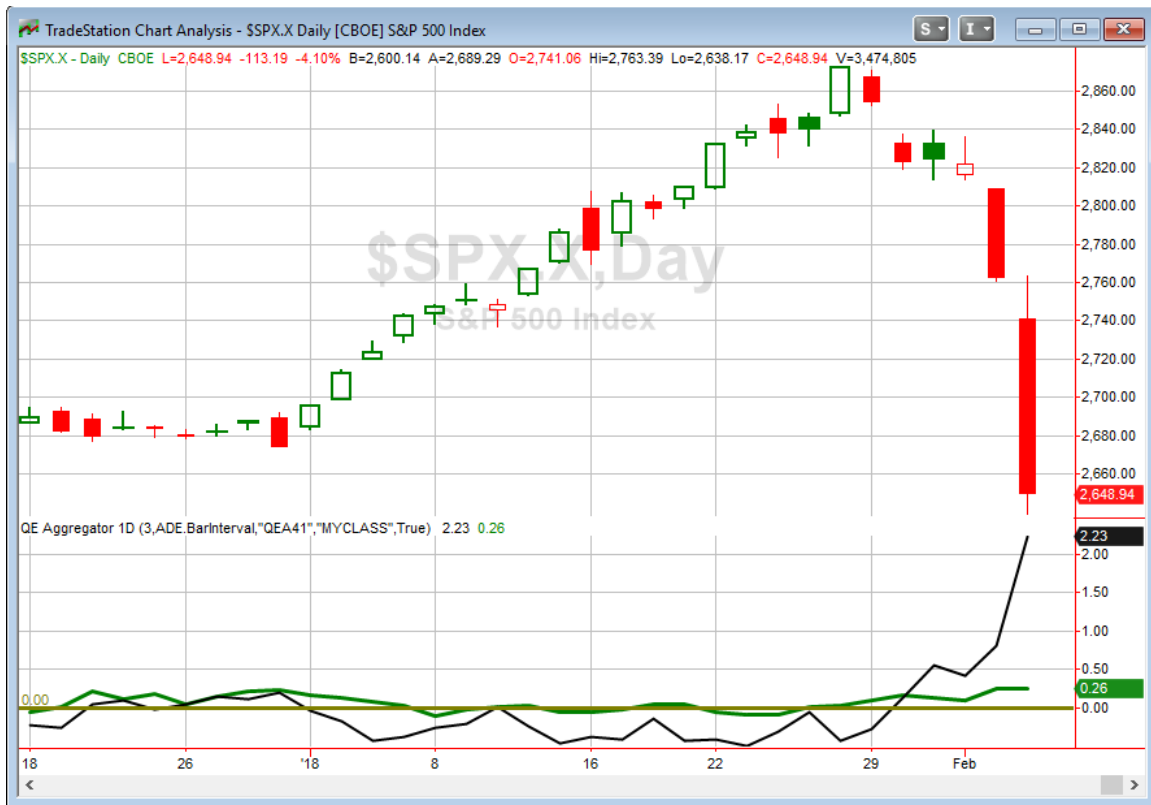
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Avg Winning Trade	All: Max Winning Trade	All: Avg Losing Trade	All: Max Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	39,119.48	22	19	3	86.36	2,165.37	7,070.28	-674.18	-734.40	3.21	20.34	1,778.16
4	32,609.20	22	22	0	100.00	1,482.24	4,690.50	0.00	0.00	100.00	100.00	1,482.24
3	24,967.31	22	18	4	81.82	1,491.98	3,940.55	-472.08	-897.60	3.16	14.22	1,134.88
2	19,746.13	22	18	4	81.82	1,223.69	4,809.66	-570.05	-925.32	2.15	9.66	897.55
1	8,936.24	22	15	7	68.18	817.94	5,117.46	-476.12	-2,264.50	1.72	3.68	406.19

Every time this has occurred since 1970 we have seen SPX close higher 4 days later. You can't get more compelling numbers than that. Below is a profit curve looking at a 4-day exit strategy.



Nothing here makes me think any less of the numbers.

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



With tonight's evidence considered, 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 is now very far above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is heavily oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above 0. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Tuesday. No amount of bearish evidence is likely to change this. The Differential Pivot will be 2824.38 on Tuesday. That is a whopping 6.6% above Monday's close. So SPX would need to close up at least 6.6% in order to flip from oversold to overbought on Tuesday. That's extremely unlikely for a 1-day move. A more likely scenario for working off the oversold condition would be a multi-day bounce or consolidation.

So everything is pointing higher, and we have already reached levels suggesting a strong bounce is likely to occur in the next few days. But the pending XIV news is a real wildcard, and similar CBI spikes in the past have often seen more selling before the bounce kicked in. So rather than jump right in with my 3<sup>rd</sup> of 4 possible SPY lots, I will wait until the close. If it finishes down again on Tuesday, I will look to buy there. I will look to increase

my Catapult exposure during the day. For traders that may want to review how past crisis have unfolded, how I handled them, and how the Catapult trades played out, you can always check out the past letters on the archives page. It has every subscriber letter since inception in 2008.

*Intermediate-term Outlook (2 weeks – 2 months) – updated 2/5– somewhat bullish*

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***Open Catapult Triggers***

Ticker	Trigger Price
UNP	\$133.60
UPS	\$119.51
PCLN	\$1,859.10
F	\$10.71
HD	\$193.97
LOW	\$101.50
<b><i>New Catapults</i></b>	
CVS	\$73.32
HON	\$150.17
WMT	\$100.09
FDX	\$248.50
WFC	\$58.16
GOOGL	\$1,062.39
UNP	\$124.14
ABT	\$58.73
CAT	\$151.08
MMM	\$231.44
CVX	\$112.62
TGT	\$70.77
UNH	\$220.02
COST	\$182.77
LOW	\$97.58
UPS	\$113.30
HD	\$183.11
F	\$10.24
PCLN	\$1,825.93

***Broad Market Large Cap CBI – 25(UNP-2, UPS-2, PCLN-2, F-2, HD-2, LOW-2, CVS, HON, WMT, FDX, WFC, GOOGL, ABT, CAT, MMM, CVX, TGT, UNH, COS***

### 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.

**ALL new Catapults from section above.** There will be up to 3 lots of each. When the number of Catapults spikes like this, I typically tend to take all of them, but with reduced personal position size. For example, I typically won't take more than 3-4 in a day. So if I trade them with \$10,000 each under normal circumstances, and there are 19 signals I am looking to take tomorrow, I would take them with  $\$40,000 / 19 = \$2105$  each. Sometimes a little larger anticipating not all will fill. With SPY also triggering a Catapult, traders could consider simply trading SPY rather than taking all these signals. I will track them all in the letter, though.

**SPY – buy ¼ index position @ \$263.93 LIMIT ON CLOSE.** Based on the short-term outlook above. I will look to take more SPY at the close on Tuesday, unless it rallies.

### Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
UNP(1/3)	1/26/2018	\$133.60	\$124.14	-7.08%		Catapult
SPY(1/4)	1/31/2018	\$281.90	\$263.93	-6.37%		Aggregator
UPS(1/3)	2/2/2018	\$118.99	\$113.30	-4.78%		Catapult
SPY(1/4)	2/5/2018	\$273.45	\$263.93	-3.48%		Aggregator
HD(1/3)	2/5/2018	\$190.07	\$183.11	-3.66%		Catapult
LOW(1/3)	2/5/2018	\$101.38	\$97.58	-3.75%		Catapult
F(1/3)	2/5/2018	\$10.71	\$10.24	-4.39%		Catapult
PCLN(1/3)	2/5/2018	\$1,841.30	\$1,825.93	-0.83%		Catapult

A complete list of Quantifiable Edges trade idea results since the inception of the letter in 2008 [can be found here](#).

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2018 Quantifiable Edges, LLC.