

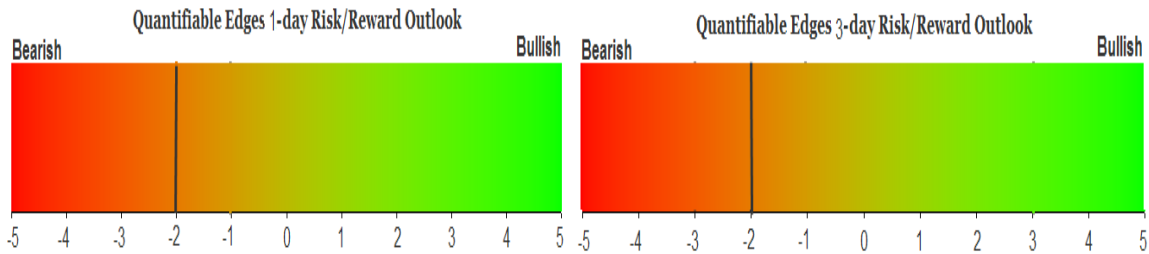
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 17, 2018

Volume 12 Issue 12

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|--------------|-------------|
| Short | 0 |

Tonight's Research Points

- The VIX issued a potential warning sign on Wednesday.

Short-term Outlook

The Bottom Line

The Aggregator is bearish 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 17, 2019 | SPX up < 0.25% & < 200. VIX up midwk. | 1-2 days | Bearish | | | |
| January 16, 2019 | SPY 20-high < 200ma | 1-2 days | Bearish | | | |
| January 14, 2019 | Jan opex week weak | 1-5 days | Bearish | | | |
| Active - Long Term | | | | | | |
| January 9, 2019 | Up Issues > 70% for 3 days | 1-85 days | Bullish | | | |
| January 9, 2019 | SPY up 3 < 200. SPY volume dn 3. | 1-20 days | Bearish | | | |
| January 8, 2019 | Zweig Thrust | 1-20 days | Bullish | 7.50% | -1.45% | -2.50% |
| January 2, 2019 | NASDAQ leading | int term | Bullish | | | |
| December 21, 2018 | CBI 10+. SPX 50-day low. | 1-18 days | Bullish | | | |
| November 1, 2018 | Best 6 Month During Pres Yr 3 | 1-6 months | Bullish | 17.70% | -3.10% | -7.20% |
| October 1, 2018 | Quantitative Tightening \$50billion/mo | int term | Bearish | | | |

The Evidence

The market posted mostly modest gains on Wednesday. The SPX finished the day up 0.2% the NASDAQ rose 0.15%, and the Russell 2000 gained 0.7%. Breadth was positive as the NYSE Up Issues % was 62% and the Up Volume % came in at 60%. NYSE volume declined some from Tuesday.

One notable from Wednesday is that the VIX rose along with the SPX. Most often they move in opposite directions. This is especially true during mid-week, because the VIX is not impacted by the weekend, as it is on Friday afternoon and Monday morning. Rising SPX prices will often mean less worry on the part of options traders, and vice-versa. When the SPX and VIX agree on direction it will sometimes suggest a possible short-term edge. Of course the SPX was not up greatly today, so some people might think that the two closing in the same direction is not a big deal. That is not what my research suggests. I have shown the study below for several years, most recently in the 12/19/18 subscriber letter. It considers the rising VIX along with the small up close for SPX during the middle of the week. I have updated the results.

| SPX rises between 0% - 0.25% and closes < 200ma. VIX closes up. It is Tuesday, Wednesday, or Thursday. Buy SPX on close. Sell X days later. \$100k/trade. 1998 - 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 | -31,870.99 | 15 | 1 | 14 | 6.67 | 3,503.04 | 3,503.04 | -2,526.72 | -7,204.80 | 1.39 | 0.10 | -2,124.73 |
| 4 | -41,585.90 | 15 | 2 | 13 | 13.33 | 1,409.23 | 2,692.32 | -3,415.72 | -7,745.95 | 0.41 | 0.06 | -2,772.39 |
| 3 | -27,080.17 | 15 | 2 | 13 | 13.33 | 1,811.83 | 2,766.72 | -2,361.83 | -5,299.32 | 0.77 | 0.12 | -1,805.34 |
| 2 | -32,739.98 | 15 | 1 | 14 | 6.67 | 2,317.92 | 2,317.92 | -2,504.14 | -6,672.34 | 0.93 | 0.07 | -2,182.67 |
| 1 | -14,774.54 | 16 | 6 | 10 | 37.50 | 605.28 | 1,214.88 | -1,840.62 | -3,035.25 | 0.33 | 0.20 | -923.41 |

Instances are a little lower than I normally like, but with all but one instance lower on day 2, they demand a closer look. The list is below.

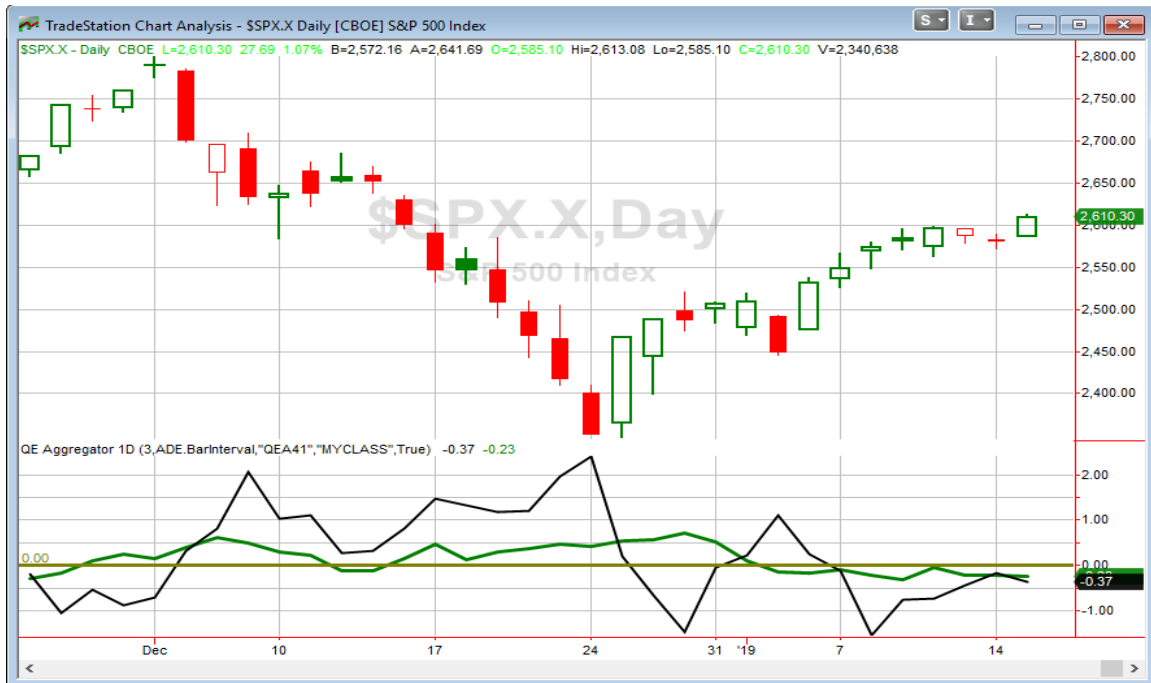
SPX rises between 0% - 0.25% and closes < 200ma.
VIX closes up. It is Tuesday, Wednesday, or Thursday.
Buy SPX on close. Sell 2 days later. \$100k/trade. 1998 - present.

| Date/Time | Signal | Price | % Profit | Run-up Drawdown |
|------------|--------|------------|----------|--------------------|
| 9/29/1998 | Buy | \$1,049.00 | -5.97% | \$0.00 |
| 10/1/1998 | Sell | \$986.40 | | (\$6,431.50) |
| 3/8/2001 | Buy | \$1,264.76 | -6.68% | \$0.00 |
| 3/12/2001 | Sell | \$1,180.30 | | (\$6,950.42) |
| 5/2/2001 | Buy | \$1,267.42 | -0.06% | \$7.02 |
| 5/4/2001 | Sell | \$1,266.60 | | (\$2,762.76) |
| 11/14/2001 | Buy | \$1,141.21 | -0.22% | \$456.75 |
| 11/16/2001 | Sell | \$1,138.65 | | (\$982.23) |
| 1/10/2002 | Buy | \$1,156.55 | -1.57% | \$245.96 |
| 1/14/2002 | Sell | \$1,138.41 | | (\$1,582.40) |
| 6/4/2002 | Buy | \$1,040.69 | -1.11% | \$904.32 |
| 6/6/2002 | Sell | \$1,029.15 | | (\$1,322.88) |
| 6/8/2006 | Buy | \$1,257.93 | -1.71% | \$367.35 |
| 6/12/2006 | Sell | \$1,236.41 | | (\$1,716.67) |
| 1/15/2009 | Buy | \$843.74 | -4.57% | \$1,698.02 |
| 1/20/2009 | Sell | \$805.22 | | (\$4,633.86) |
| 7/15/2010 | Buy | \$1,096.48 | -2.30% | \$0.00 |
| 7/19/2010 | Sell | \$1,071.25 | | (\$3,218.67) |
| 8/18/2010 | Buy | \$1,094.16 | -2.05% | \$0.00 |
| 8/20/2010 | Sell | \$1,071.69 | | (\$2,752.75) |
| 8/30/2011 | Buy | \$1,212.92 | -0.70% | \$1,458.78 |
| 9/1/2011 | Sell | \$1,204.42 | | (\$743.74) |
| 12/6/2011 | Buy | \$1,258.47 | -1.92% | \$678.61 |
| 12/8/2011 | Sell | \$1,234.35 | | (\$2,133.00) |
| 7/9/2015 | Buy | \$2,051.31 | 2.35% | \$2,369.28 |
| 7/13/2015 | Sell | \$2,099.60 | | \$0.00 |
| 2/4/2016 | Buy | \$1,915.45 | -3.24% | \$0.00 |
| 2/8/2016 | Sell | \$1,853.44 | | (\$4,523.48) |
| 12/18/2018 | Buy | \$2,546.16 | -3.09% | \$1,526.07 |
| 12/20/2018 | Sell | \$2,467.42 | | (\$4,094.22) |

Avg Run-up: 0.6% MAX Run-up: 2.4%
Avg Drawdown: 2.9%

These results are very impressive. The average drawdown is actually greater than the MAX run-up, and near 5x the average run-up. Potential downside seems to dwarf upside potential. This study appears worth taking into account, and I have added it to the Active List tonight.

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



With tonight's study considered the green Aggregator Line held below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile, the black Differential Line also remained 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 zero. Therefore, the Aggregator signal stayed short at the close.

With the current list of active studies, expectations are slated to remain bearish on Thursday. Of course this could change if compelling new bullish evidence emerges. The Differential Pivot will be 2570.24 on Thursday. That is 1.75% below Wednesday's close. So SPX will need to close down at least 1.75% on Thursday in order to turn from overbought to oversold vs expectations.

The market is short-term overbought in a longer-term downtrend, we are in the midst of a bearish seasonal week, and now the VIX is signaling possible trouble for the next couple of days. Bearish evidence continues to mount, and the market continues to rise against it. As I stated last night, the bearish evidence has not mattered yet. At some point it will. I have a small short position. I considered adding to it tonight. And if the market was not experiencing a massive breadth thrust off a potential major bottom then I likely would be adding more to my short position. But that has turned my intermediate-term outlook somewhat bullish and so the short trade is counter-trend. I generally trade counter-trend more conservatively, and so rather than add more at this point, I will remain lightly positioned to the short side.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/14– somewhat bullish*

The intermediate-term outlook was last updated in the 1/14/19 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

OpenCatapult Triggers

None

Broad Market Large Cap CBI – 0

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 |
|-------------|------------|-------------|---------------|-------------|------|------------|
| SPY(s)(1/4) | 1/9/2019 | \$257.56 | \$260.98 | -1.33% | | Aggregator |
| | | | | | | |
| | | | | | | |

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