

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 9, 2019

Volume 13 Issue 6

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	4

## Tonight's Research Points

- The "1<sup>st</sup> 5 Days" of January are a well-known predictor that I examine a little closer.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is bearish, but evidence is weak and is primed to turn bullish. I again don't find the current setup very compelling.

*Summary of Recent Active Studies (see Letters from listed dates for details)*

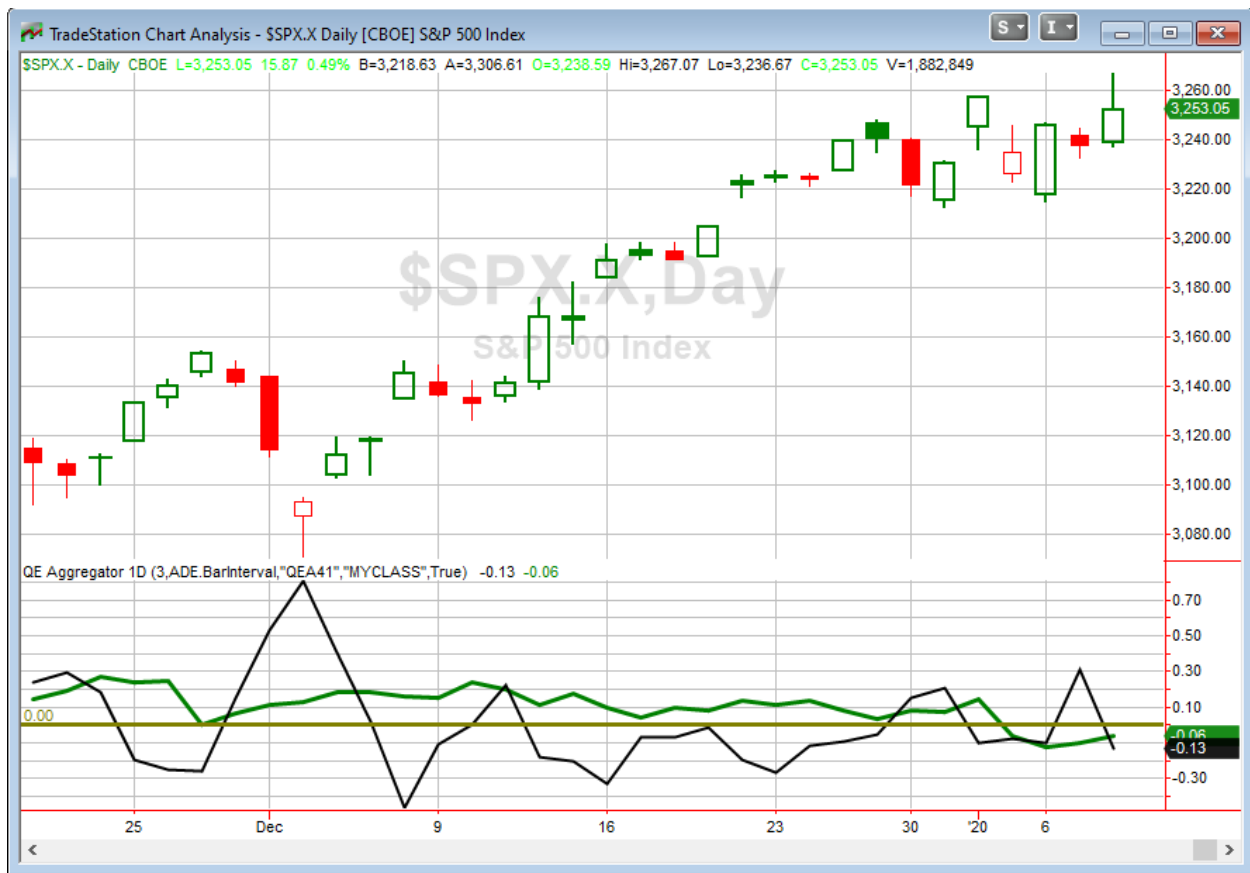
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
January 6, 2020	Unfill gp dn after unfill to to 20-high	1-4 days	Bearish			
<b>Active - Long Term</b>						
December 31, 2020	1st 5-day low > 10ma	1-10 days	Bullish	2.10%	-1.35%	-2.60%
November 11, 2019	"not QE"	int term	Bullish			
November 5, 2019	SPX 50-day %b > 100	1-50 days	Bullish	4.90%	-4.20%	-7.90%
November 4, 2019	Presidential cycle + Best 6 mos bullish	6 months	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
April 2, 2019	Golden Cross	int term	Bullish			

***The Evidence***

Wednesday saw the market rallies, with new all-time intraday highs being made in multiple indices. The SPX finished up 0.5%, NASDAQ rose 0.7% and Russell 2000 gained 0.3%. Breadth was negative as the NYSE Up Issues % was 60% and the Up Volume % came in at 51%. NYSE volume rose some from Tuesday's level.

It was the 4<sup>th</sup> day in a row that SPX changed direction. And despite the new intraday highs, the chop has helped keep away any compelling new directional evidence over the last few days. There was one interesting study from the Quantifinder that I decided to update tonight. It uses the 1<sup>st</sup> 5 days of the year to provide a hint of how the rest of the year may go. I have updated that study after the short-term outlook.

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



Without any new evidence being added tonight, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line dropped back 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 turned short at the close.

With the last short-term active study set to expire on Thursday, expectations are set to flip to bullish, based on the intermediate-term evidence. Of course short-term expectations in the coming days will be greatly influenced by any new short-term evidence that emerges. Meanwhile, the Differential Pivot will be 3245.51 on Thursday. That is 0.2% below Wednesday's close. Therefore, SPX would only need to close down about 0.2% in order to flip back to "oversold" versus recent expectations.

So the Aggregator is bearish. But evidence is light and is set to flip to bullish on Thursday. So I am not inclined to take on new short index exposure here. I will continue to wait for a more favorable reward/risk setup to emerge.

## 1<sup>st</sup> 5 Days Study

Yale and Jeffrey Hirsch have published the Stock Traders Almanac for many years. I am a fan of their work and have benefitted from some of the ideas they have shared. One study they published that gets a lot of press every year at this time is “January’s 1<sup>st</sup> 5 Days: An Early Warning System”. The basic idea is that performance on the 1<sup>st</sup> 5 days in January can be an indication of how the full year will perform. While I am a fan of their work, I have never been a big fan of this study. Not because I didn’t believe it, but because I didn’t know how to profit from it. It seemed silly to be to establish a bullish bias for the year based on just 5 days. But I examined it a couple of years ago and decided to update those results tonight.

Using the SPX I simply looked back to 1961 to see how the market has performed if the 1<sup>st</sup> 5 days in January closed higher. I did not include those 5 days in my results, but assumed I bought at the close of day 5 and then sold at the close on December 31<sup>st</sup>. Those results are below.

<b>Buy SPX if 1st 5 days of Jan show net gain. Sell end of December. \$100k/trade. 1961 - present.</b>	
<b>Statistics</b>	
<b>All trades</b>	39
Avg. Profit/Loss	10146.39
Avg. Profit/Loss %	10.15%
Avg. Bars Held	247.51
<b>Winners</b>	28 (71.79 %)
Avg. Profit %	17.05%
Avg. Bars Held	247.18
Max. Consecutive	5
Largest win	33656.66
<b>Losers</b>	11 (28.21 %)
Avg. Loss %	-7.43%
Avg. Bars Held	248.36
Max. Consecutive	2
Largest loss	-24199.84
<b>Profit Factor</b>	5.84

These numbers certainly look compelling. 72% of the time the market moved higher over the remainder of the year and winning years were more than twice as large as losers. The average result when the 1<sup>st</sup> 5 days were higher was a gain of 10.1%. Overall this seems impressive.

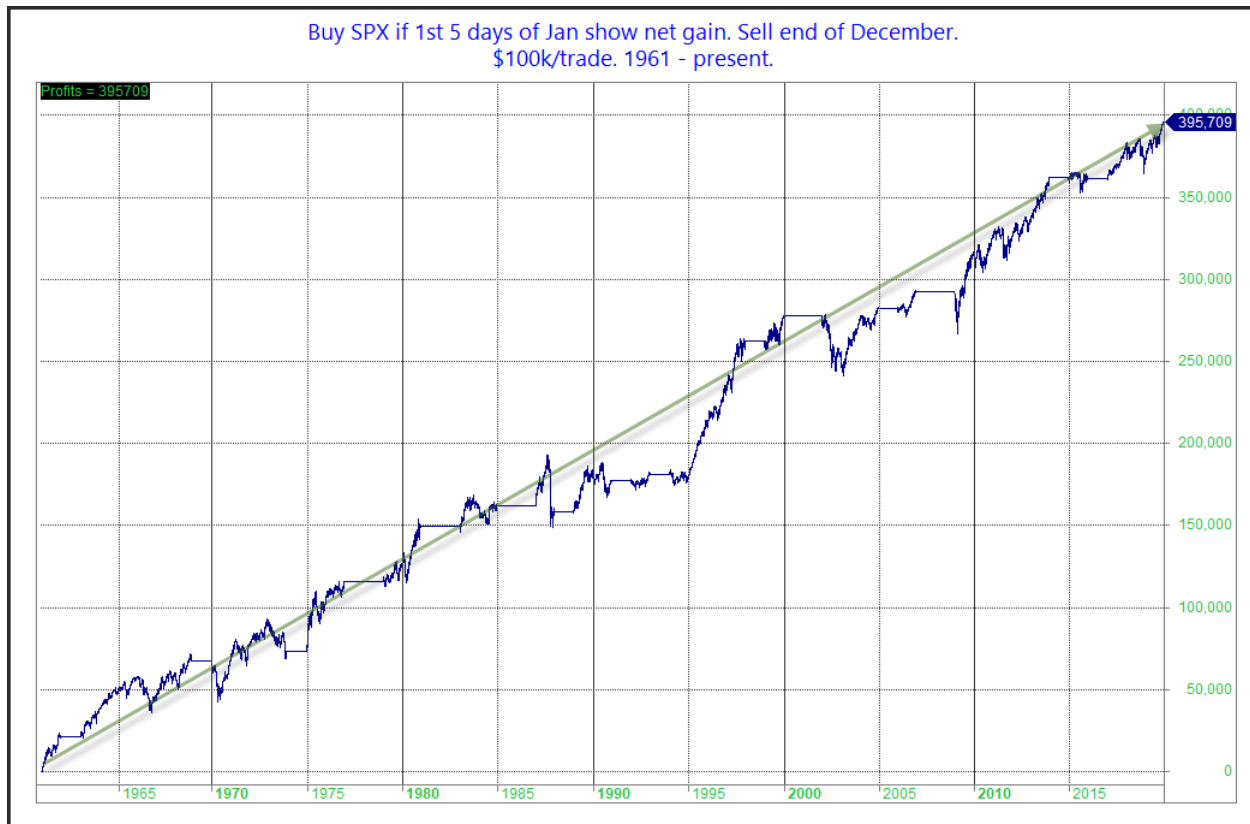
Now let's look at times the "1<sup>st</sup> 5 Days" showed a loss.

**Buy SPX if 1st 5 days of Jan show net loss. Sell end of December. \$100k/trade. 1961 - present.**

Statistics	
<b>All trades</b>	20
Avg. Profit/Loss	2928.95
Avg. Profit/Loss %	3.62%
Avg. Bars Held	248.05
<hr/>	
<b>Winners</b>	12 (60.00 %)
Avg. Profit %	15.88%
Avg. Bars Held	248.33
Max. Consecutive	7
Largest win	32451.57
<hr/>	
<b>Losers</b>	8 (40.00 %)
Avg. Loss %	-14.78%
Avg. Bars Held	247.63
Max. Consecutive	4
Largest loss	-35026.87
Profit Factor	1.56

The Hirsch's noted that these instances aren't bearish, but that they pale in comparison to the returns if the "1<sup>st</sup> 5 Days" are positive. As you can see, this is the case.

So far, a strong "1<sup>st</sup> 5 days" seems to be a positive sign. I produced a profit curve below to see how this edge has played out over time.



That is a pretty straight and steady looking curve. Based on these results it appears the “1<sup>st</sup> 5 days” of January may be predictive. While the market has had an upward bias over the years, we all know the curve has looked a lot choppier than this.

But is January more predictive than other months?

What about the “1<sup>st</sup> 5 days” of February? March? December?

If we are to consider January to be predictive then perhaps we should also compare it to other months. In the results table below I did this. I took each month’s “1<sup>st</sup> 5 days” and if the number was positive I then bought and held for the next year (minus 5 days). So if the 1<sup>st</sup> 5 days in February were positive I bought the close of the 5<sup>th</sup> trading day and then sold the last trading day the following January. A positive start to March would mean I bought the 5<sup>th</sup> day there and held to the end of February, and so on. In this way each month’s start had a chance to serve as a predictor for the next 12 months (minus 5 days).

Buy SPX if 1st 5 days of X Month shows a net gain. Sell last day of month next year at end of previous month. \$100k/trade. 1961 - present.									
X Month	# Trades	# of winners	# of losers	% of Winners	Net Profit	W. Avg % Profit	L. Avg % Loss	Profit Factor	Avg Profit/Loss
2	37	28	9	75.68	\$351,929.61	14.89	-6.94	6.63	\$9,511.61
3	33	26	7	78.79	\$200,831.85	11.67	-14.65	2.96	\$6,085.81
4	33	26	7	78.79	\$278,762.80	14.2	-12.91	4.09	\$8,447.36
5	36	24	12	66.67	\$226,507.83	15.05	-10.77	2.77	\$6,291.88
6	35	26	9	74.29	\$295,032.77	14.06	-7.83	5.18	\$8,429.51
7	37	30	7	81.08	\$322,450.51	13.21	-10.02	5.59	\$8,714.88
8	29	20	9	68.97	\$149,891.33	13.04	-11.94	2.4	\$5,168.67
9	29	24	5	82.76	\$297,146.90	13.53	-5.51	11.79	\$10,246.44
10	37	26	11	70.27	\$237,584.03	15.75	-14.96	2.44	\$6,421.19
11	41	34	7	82.93	\$325,833.93	12.66	-14.15	4.29	\$7,947.17

These results surprised me when I first ran them. If you look at the “% of Winners” column you will see that 7 of the remaining 11 months were more reliable predictors than January. January did not even make the top half! One thing that January does have going for it is that the “Avg Trade” was slightly better than all other months, except for September.

But I also looked at results for all the other months if the “1<sup>st</sup> 5 days” was down.

Buy SPX if 1st 5 days of X Month show a net loss. Sell last day of month next year at end of previous month. \$100k/trade. 1961 - present.									
X Month	# Trades	# of winners	# of losers	% of Winners	Net Profit	W. Avg % Profit	L. Avg % Loss	Profit Factor	Avg Profit/Loss
2	22	15	7	68.18	\$108,276.79	15.21	-17.13	1.9	\$4,921.67
3	26	19	7	73.08	\$265,465.24	18.48	-12.13	4.13	\$10,210.20
4	26	18	8	69.23	\$171,910.68	15.27	-11.5	2.92	\$6,611.95
5	23	20	3	86.96	\$223,892.44	13.04	-12.33	7.05	\$9,734.45
6	24	15	9	62.5	\$144,364.97	16.44	-11.14	2.44	\$6,015.21
7	22	12	10	54.55	\$98,367.95	19.73	-11.83	1.89	\$4,471.27
8	30	25	5	83.33	\$322,612.61	16.27	-16.82	4.84	\$10,753.75
9	30	19	11	63.33	\$148,974.77	16.53	-14.35	1.94	\$4,965.83
10	22	16	6	72.73	\$214,316.39	17.07	-9.81	4.64	\$9,741.65
11	18	13	5	72.22	\$90,487.11	14.55	-18.81	1.97	\$5,027.06

January’s edge is also put to question here. We see here that a weak start has actually beaten January’s “Avg Trade” in 2 of the instances. And it appears the most reliable and powerful “1<sup>st</sup> 5” scenario appears here... a bad start to August.

Overall, the “1<sup>st</sup> 5 Days” seems to be an interesting phenomenon, but its predictability is questionable and making it actionable is beyond me. This shouldn’t be construed as a knock on the Hirsch’s or their work. I’m quite sure they don’t take long-term positions based on 5 days in January, either. But I found it an interesting exercise and thought I would share the results.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/6 – bullish***

The intermediate-term outlook was last updated in the 1/6/20 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***

TGT – 1/3 @ \$124.76 (bought @ LIMIT)

TGT – 1/3 @ \$123.58 (bought @ LIMIT)

ACN – 1/3 @ \$208.43 (bought @ Limit)

ACN – 1/3 @ \$203.93 (bought @ Limit)

***Broad Market Large Cap CBI – 4(TGT-2, ACN-2)***

**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
TGT(1/3)	1/6/2020	\$123.97	\$123.40	-0.46%		Catapult
TGT(1/3)	1/7/2020	\$123.00	\$123.40	0.33%		Catapult
ACN(1/3)	1/7/2020	\$203.20	\$204.33	0.56%		Catapult
ACN(1/3)	1/8/2020	\$203.93	\$204.33	0.20%		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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