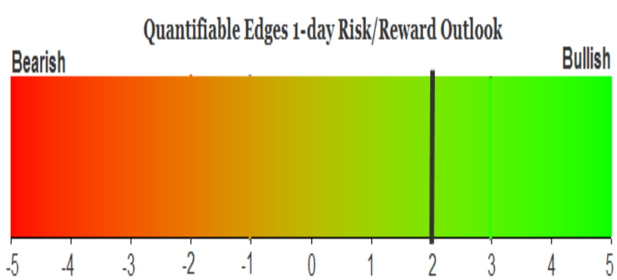
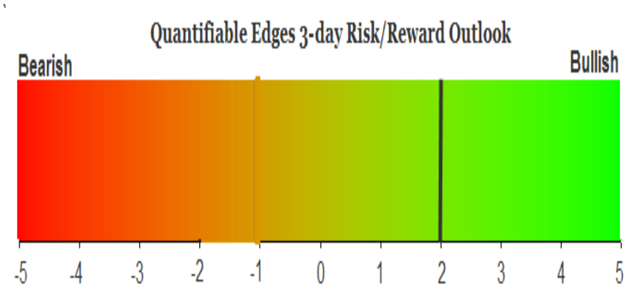
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 21, 2020 Volume 13 Issue 183

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The 3-day pullback has characteristics that suggest a bounce.
- A down Fed Day and the next 2 days also down have led to a bounce on a fairly consistent basis since 1982.
- Seasonally, the week after the 3rd Friday in September is the "weakest week".
- The Fed is continuing to pump, which is intermediate-term supportive of markets.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I am a little concerned about seasonality, but overall believe there should be a bounce in the next few days.

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						
September 21, 2020	Weakest Week	1-4 days	Bearish	-2.10%	0.80%	2.10%
September 21, 2020	3dn. Big drop to 10-low > 200	1-5 days	Bullish	1.90%	-1.30%	-3.00%
September 21, 2020	Fed Day 2 ago. Down 3 days.	1-3 days	Bullish	1.90%	-1.00%	-2.05%
Active - Long Term						
September 14, 2020	SPY gap up close up, lowest low 20	1-10 days	Bullish	2.90%	-1.70%	-3.30%
September 8, 2020	1st 10-low in 30 days > 200. ADX>14.	1-10 days	Bullish	3.00%	-1.90%	-4.20%
August 27, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
July 24, 2020	NDX big dn day. SPX new high.	1-50 days	Bullish	6.00%	-2.85%	-5.50%
July 9, 2020	Golden Cross	int term	Bullish			
April 29, 2020	Sell in May after 5% drop Jan-Apr	6 months	Bearish			
March 23, 2020	QE4	int term	Bullish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
September 18, 2020	***Big dn. 5 closes inside. > 200ma***	***1-3 days***	***Bullish***	***1.30%***	***-0.80%***	***-1.70%***
September 15, 2020	1.75% dn, then up 2 < 3 ago. Cls > 200	1-4 days	Bullish	2.30%	-1.00%	-2.30%

The Evidence

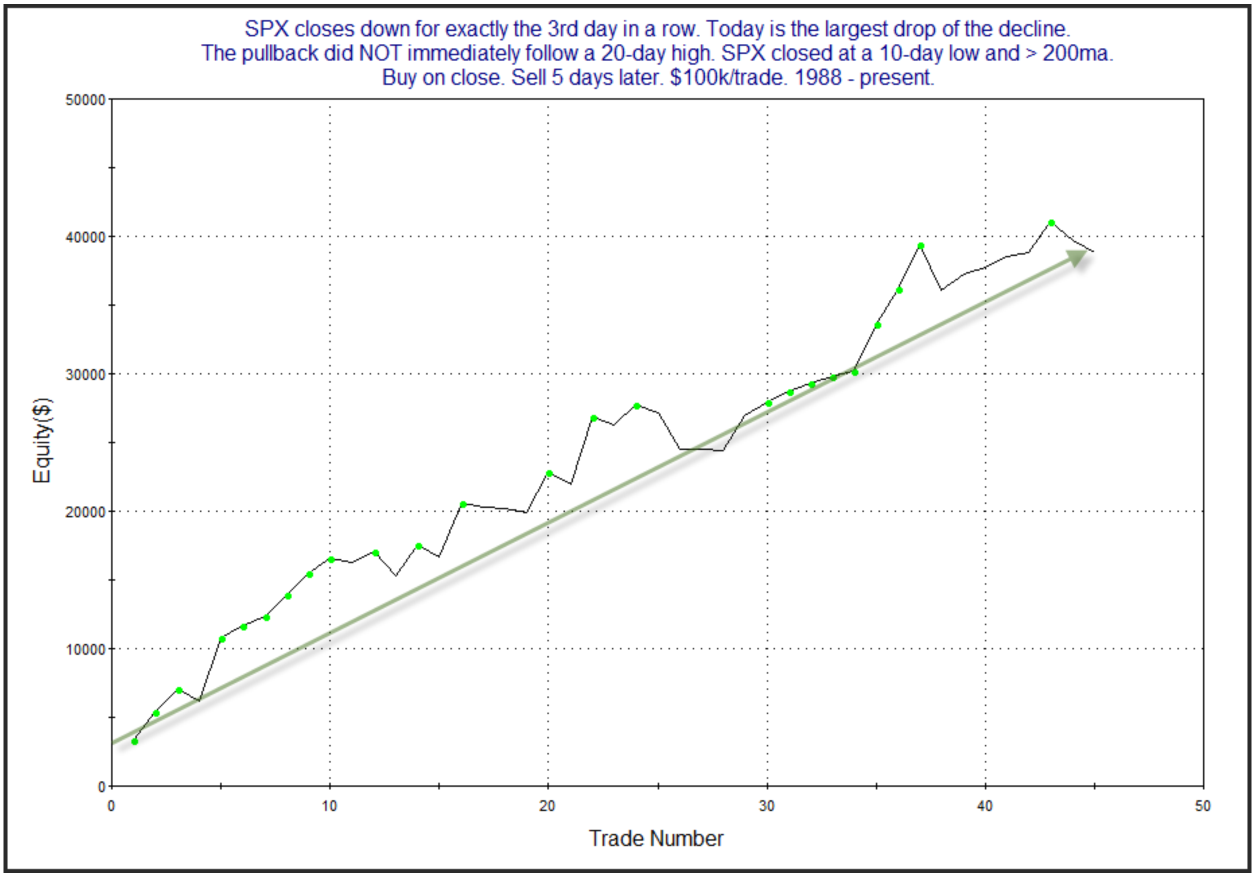
Friday was another day of selling. The SPX finished down 1.4%, and the NASDAQ fell 1.1%, and the Russell 2000 lost 0.4%. Breadth was negative as the NYSE Up Issues % was 34% and the Up Volume % came in at 28%. NYSE total volume rose strongly as it typically does on opex Friday.

I am seeing mixed evidence right now. There are some price action studies suggesting a bullish edge, while seasonality is bearish. I'll first look at the bullish price action studies.

The fact that Friday was the 3rd down day in a row was notable. I've discussed 3-day pullbacks many times before and a few studies associated with them came up tonight. They tend to provide a nice upside edge under the right conditions. The study below is from the 9/25/19 letter. It looks at a few themes from the other, broader studies. It considers 1) the fact that today's drop was especially large compared to the previous 2 days, 2) the 10-day low close, and 3) that the pullback did not originate from a 20-day closing high.

SPX closes down for exactly the 3rd day in a row. Today is the largest drop of the decline. The pullback did NOT immediately follow a 20-day high. SPX closed at a 10-day low and > 200ma. Buy on close. Sell X days later. $100k/trade. 1988 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	38,797.72	45	29	16	64.44	4,892.94	-3,385.80	1,851.78	-931.49	1.99	3.60	862.17
4	32,121.77	46	31	15	67.39	4,731.13	-3,863.84	1,648.36	-1,265.17	1.30	2.69	698.30
3	28,468.58	46	29	17	63.04	3,940.55	-4,464.88	1,562.30	-990.48	1.58	2.69	618.88
2	26,519.87	46	30	16	65.22	3,744.45	-7,559.56	1,310.76	-800.19	1.64	3.07	576.52
1	13,636.18	46	32	14	69.57	2,503.90	-1,814.24	731.45	-697.86	1.05	2.40	296.44

The stats suggest an upside edge over the next week. Below is a look at a 5-day profit curve.



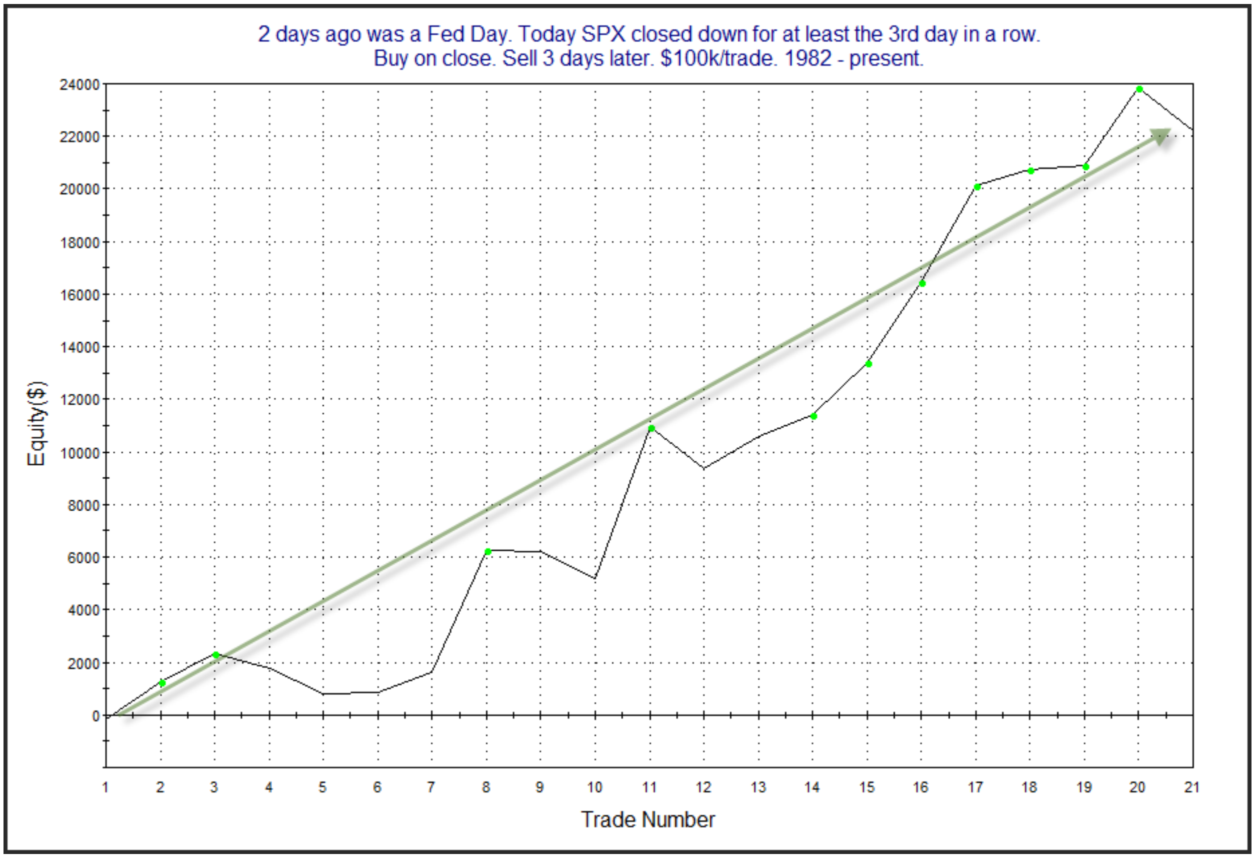
That is a nice, steady move from lower left to upper right. This serves as some confirmation of the edge suggested by the numbers. I have added this study to the Active List tonight.

It's interesting that the selling has continued right through and after a (typically bullish) Fed Day. In the 11/13/18 letter I examined other times where the Fed failed to inspire confidence and a selloff of at least 3 days (including the Fed Day) ensued. Results here are updated.

2 days ago was a Fed Day. Today SPX closed down for at least the 3rd day in a row.
Buy on close. Sell X days later. $100k/trade. 1982 - present.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	13,883.17	21	11	10	52.38	5,555.16	-3,477.69	2,642.49	-1,518.42	1.74	1.91	661.10
4	22,535.27	21	14	7	66.67	5,564.00	-2,266.11	2,158.77	-1,098.21	1.97	3.93	1,073.11
3	22,220.00	21	14	7	66.67	5,801.02	-1,634.38	2,017.28	-860.27	2.34	4.69	1,058.10
2	16,868.99	21	15	6	71.43	4,670.25	-1,709.52	1,434.62	-775.06	1.85	4.63	803.29
1	9,131.65	21	14	7	66.67	2,671.02	-2,968.54	1,110.15	-915.78	1.21	2.42	434.84

The edge looks bullish over the next 1-3 days. Below is a look at a 3-day profit curve.



Despite the last instance not closing higher, the overall curve looks solid. I have included this study on the active list tonight.

But as I mentioned, the evidence is not all bullish tonight. From a seasonality standpoint, there isn't a more reliable time of the year to have a selloff than this upcoming week. Since 1960 the week following the 3rd Friday in September has produced the most bearish results of any week. And the same goes for more recent looks. In the 9/23/19 subscriber letter I showed a table with the best and worst weeks of the year since 1988. This year I made two versions of that table. The 1st includes weeks following the 5th Friday of the month. The second excludes those weeks (because they don't always happen.)

SPX Performance Following the Month and Friday Specified. (5th Fridays included.)
$100k/trade. $0 commissions. 1988 - present. Top 10 and Bottom 10 Results Shown.

Month of Year	Fri of Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	5	11,672.23	12	9	3	75.00	3,853.85	-3,889.28	1,953.63	-1,970.15	0.99	2.97	972.69
10	2	30,682.27	32	24	8	75.00	7,282.10	-6,557.14	2,036.98	-2,275.66	0.90	2.69	958.82
4	2	30,168.20	32	21	11	65.63	5,731.96	-3,580.15	2,210.25	-1,477.00	1.50	2.86	942.76
11	4	29,450.53	32	24	8	75.00	7,362.46	-2,238.87	1,568.24	-1,023.41	1.53	4.60	920.33
10	4	26,521.49	32	23	9	71.88	10,485.72	-3,993.72	1,962.32	-2,067.99	0.95	2.42	828.80
1	4	26,106.73	33	20	13	60.61	4,860.00	-3,765.16	2,269.60	-1,483.48	1.53	2.35	791.11
5	5	9,533.51	14	9	5	64.29	4,787.84	-3,683.73	2,205.70	-2,063.56	1.07	1.92	680.96
5	4	21,801.13	33	21	12	63.64	7,145.28	-2,983.50	1,915.03	-1,534.54	1.25	2.18	660.64
12	5	10,411.28	17	11	6	64.71	3,714.66	-2,109.86	1,684.09	-1,352.28	1.25	2.28	612.43
9	2	18,730.68	32	21	11	65.63	5,313.08	-4,975.04	1,531.51	-1,221.01	1.25	2.39	585.33
6	1	-8,134.18	33	14	19	42.42	4,090.16	-4,731.22	1,272.79	-1,365.96	0.93	0.69	-246.49
12	1	-9,655.77	32	14	18	43.75	4,131.36	-3,728.04	1,312.54	-1,557.30	0.84	0.66	-301.74
11	5	-3,211.13	10	6	4	60.00	1,717.40	-4,574.88	1,042.55	-2,366.60	0.44	0.66	-321.11
1	3	-12,017.08	33	17	16	51.52	2,505.60	-5,602.80	1,103.51	-1,923.55	0.57	0.61	-364.15
10	1	-14,952.20	32	17	15	53.13	5,944.32	-18,000.90	1,942.50	-3,198.31	0.61	0.69	-467.26
2	3	-20,949.87	33	16	17	48.48	2,106.80	-11,122.37	841.94	-2,024.76	0.42	0.39	-634.84
6	3	-21,013.41	33	10	23	30.30	2,928.60	-3,626.75	1,146.73	-1,412.20	0.81	0.35	-636.77
9	3	-27,962.97	32	7	25	21.88	7,739.42	-6,525.56	2,011.18	-1,681.65	1.20	0.33	-873.84
7	5	-12,309.76	14	5	9	35.71	2,404.80	-7,153.30	1,416.09	-2,154.47	0.66	0.37	-879.27
4	5	-8,939.78	9	3	6	33.33	1,247.86	-6,368.04	818.59	-1,899.26	0.43	0.22	-993.31

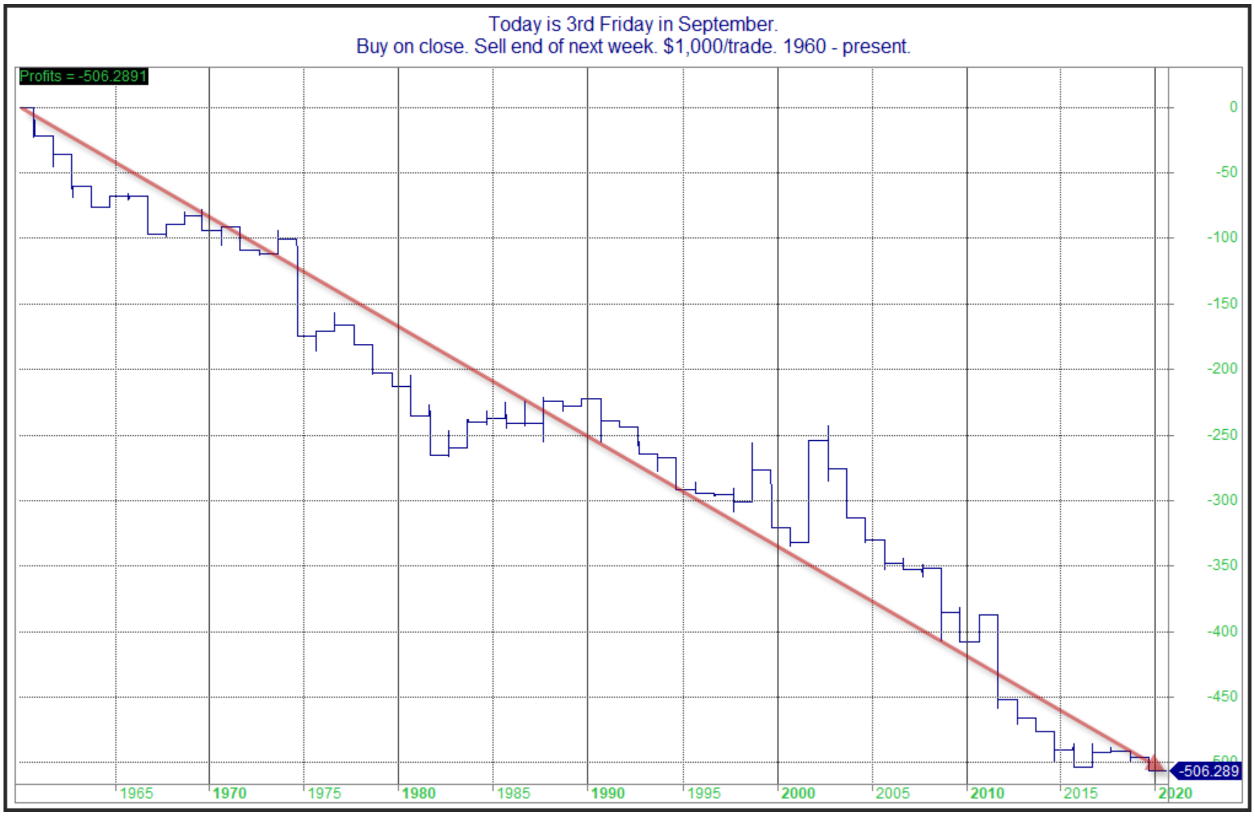
I will note that I DID exclude the 5th Friday in February. There has only been one of these since 1988. That was 2008, and it lost 2.8% the following week. Of course, February is not the immediate concern. September is. Here is the 2nd table.

SPX Performance Following the Month and Friday Specified. (5th Fridays excluded.)
$100k/trade. $0 commissions. 1988 - present. Top 10 and Bottom 10 Results Shown.

Month of Year	Fri of Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	2	30,682.27	32	24	8	75.00	7,282.10	-6,557.14	2,036.98	-2,275.66	0.90	2.69	958.82
4	2	30,168.20	32	21	11	65.63	5,731.96	-3,580.15	2,210.25	-1,477.00	1.50	2.86	942.76
11	4	29,450.53	32	24	8	75.00	7,362.46	-2,238.87	1,568.24	-1,023.41	1.53	4.60	920.33
10	4	26,521.49	32	23	9	71.88	10,485.72	-3,993.72	1,962.32	-2,067.99	0.95	2.42	828.80
1	4	26,106.73	33	20	13	60.61	4,860.00	-3,765.16	2,269.60	-1,483.48	1.53	2.35	791.11
5	4	21,801.13	33	21	12	63.64	7,145.28	-2,983.50	1,915.03	-1,534.54	1.25	2.18	660.64
6	4	20,119.46	33	19	14	57.58	5,807.67	-4,984.56	2,097.04	-1,408.88	1.49	2.02	609.68
9	2	18,730.68	32	21	11	65.63	5,313.08	-4,975.04	1,531.51	-1,221.01	1.25	2.39	585.33
3	4	19,283.48	33	22	11	66.67	4,194.44	-3,215.94	1,501.08	-1,249.11	1.20	2.40	584.35
7	1	15,711.60	31	22	9	70.97	5,370.89	-6,831.64	1,500.30	-1,921.65	0.78	1.91	506.83
8	2	-4,627.37	33	18	15	54.55	3,122.01	-5,670.55	1,231.73	-1,786.56	0.69	0.83	-140.22
8	1	-5,932.21	33	16	17	48.48	5,106.00	-3,772.71	1,066.02	-1,352.26	0.79	0.74	-179.76
3	3	-7,765.71	33	8	25	24.24	10,171.65	-5,895.00	3,744.21	-1,508.78	2.48	0.79	-235.32
6	1	-8,134.18	33	14	19	42.42	4,090.16	-4,731.22	1,272.79	-1,365.96	0.93	0.69	-246.49
12	1	-9,655.77	32	14	18	43.75	4,131.36	-3,728.04	1,312.54	-1,557.30	0.84	0.66	-301.74
1	3	-12,017.08	33	17	16	51.52	2,505.60	-5,602.80	1,103.51	-1,923.55	0.57	0.61	-364.15
10	1	-14,952.20	32	17	15	53.13	5,944.32	-18,000.90	1,942.50	-3,198.31	0.61	0.69	-467.26
2	3	-20,949.87	33	16	17	48.48	2,106.80	-11,122.37	841.94	-2,024.76	0.42	0.39	-634.84
6	3	-21,013.41	33	10	23	30.30	2,928.60	-3,626.75	1,146.73	-1,412.20	0.81	0.35	-636.77
9	3	-27,962.97	32	7	25	21.88	7,739.42	-6,525.56	2,011.18	-1,681.65	1.20	0.33	-873.84

At the bottom of the tables you will see that the worst (non-5th week) results occur following the 3rd Friday of the 9th month. Another potential bearish week that is coming up is the week after the 1st Friday in October. And interestingly, the weeks after the 2nd and 4th (and 5th) Fridays in October are listed among the most bullish 10. Further, I'd note that most of the weakest weeks occur after the 1st and 3rd Fridays, with those following quad-witching opex in March, June, and September being the ones with the lowest win %. Meanwhile, most of the strongest weeks occur after the 2nd and 4th Fridays of a month.

I also reproduced a graphic to show how this upcoming week has played out over time. For the chart, I went all the way back to 1960.



As you can see the bearish tendency has been pretty consistent over the last 60 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying Sept. op-ex Friday and then selling X days later from 1990 – 2018.

Today is Opex Friday in September.
Buy SPX on close. Sell X days later. $100k/trade. 1990 - 2019.

X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-28,213.36	30	6	24	20.00	7,739.42	-6,525.56	2,250.53	-1,738.19	1.29	0.32	-940.45
4	-28,292.45	30	6	24	20.00	5,439.43	-7,088.90	1,818.60	-1,633.50	1.11	0.28	-943.08
3	-20,360.64	30	7	23	23.33	4,508.00	-5,455.74	1,702.58	-1,403.42	1.21	0.37	-678.69
2	-17,720.91	30	9	21	30.00	4,786.41	-5,283.52	880.33	-1,221.14	0.72	0.31	-590.70
1	-9,648.71	30	8	22	26.67	3,877.95	-3,791.21	872.04	-755.68	1.15	0.42	-321.62

2001 & 2017 were the only years SPX failed to close below its entry price at some point in the next week.

The consistency and net results appear quite strong. I note the only instances that didn't post a lower close at some point during the following week was in 2001 and 2017. The 9/11 attacks certainly made for unusual circumstances in 2001, and 2017 did not see a decline, but it only rose 2 points, so it was not much of a victory for the bulls.

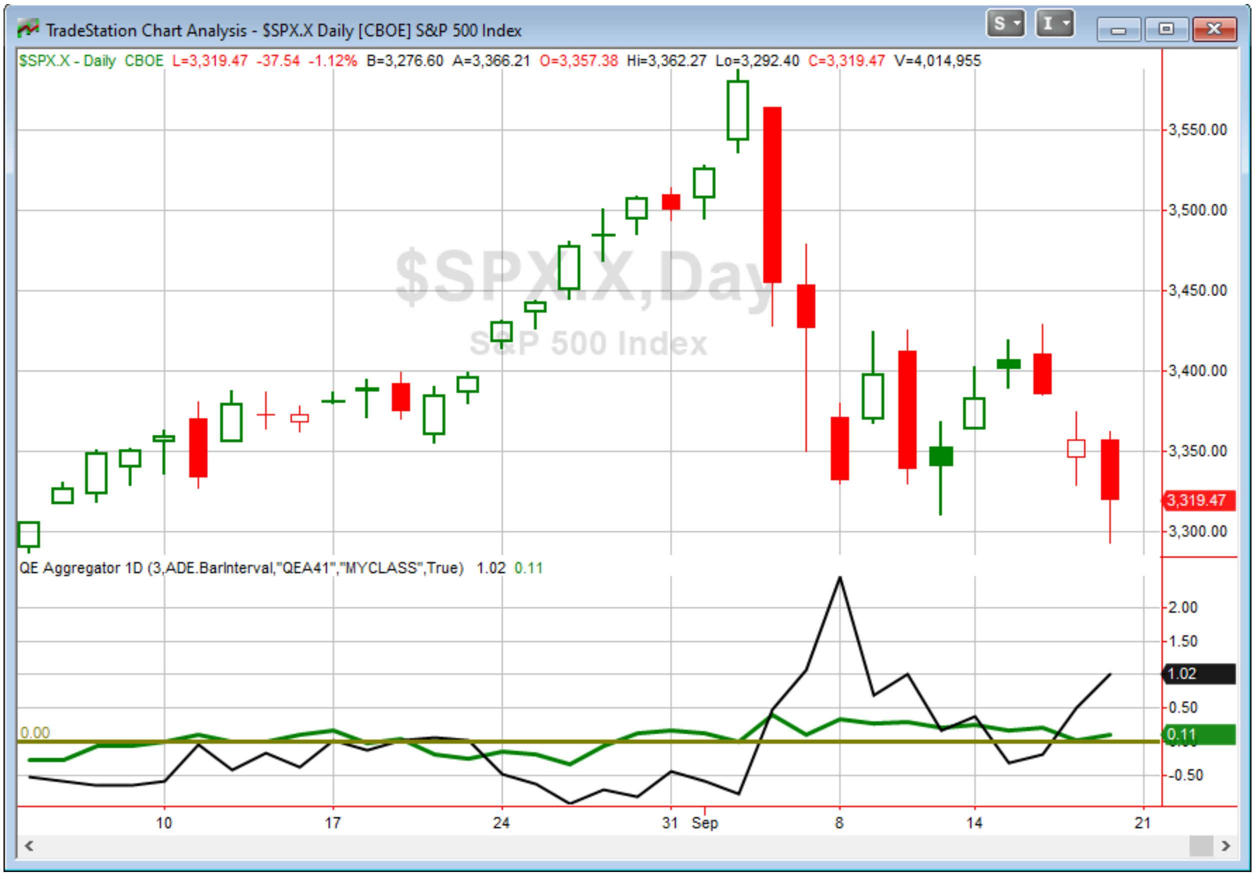
But this year seems a little different, because this is the 1st time since I have been running these tests that we are headed into the "weakest week" having already closed down 2 weeks in a row. (It has actually been three weeks.) That had me wondering whether the seasonal weakness may have come a little early this year. So I ran a test to look at other instances since 1960 that SPX had at least 2 losing weeks in a row leading up to the post-3rd Friday setup.

Today is the 3rd Friday in September. SPX closes down for at least the 2nd week in a row. Next week's return shown. (Instances with 3+ weeks lower shown in bold italics.) 1960 - 2019

Ticker	Date/Time	Close	Next Week
$SPX	***9/16/1960***	***55.11***	***-2.2***
$SPX	9/15/1961	67.65	-1.37
$SPX	9/17/1971	99.96	-1.81
$SPX	9/15/1972	108.81	-0.27
$SPX	***9/20/1985***	***182.05***	***-0.42***
$SPX	9/15/1989	345.06	0.58
$SPX	9/21/1990	311.32	-1.69
$SPX	9/17/1999	1335.42	-4.35
$SPX	9/15/2000	1465.81	-1.17
$SPX	***9/20/2002***	***845.39***	***-2.13***

This certainly does NOT suggest the seasonal weakness came early. Nine of ten instances where there were 2 down weeks leading up to the "weakest week", will still saw the "weakest week" close lower. And all 3 instances where there were 3+ down weeks still had at least one more down week to go. So I am viewing poor seasonality as a bearish short-term factor this upcoming week.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line remained slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line moved farther above 0. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current list of active studies, expectations are set to remain slightly positive on Monday. Of course this could change if bearish new evidence emerges. Meanwhile, the Differential Pivot will be 3405.84 on Monday. That is 2.6% above Friday's close. So SPX would need to close up a sizable 2.6% on Monday in order to flip from oversold to overbought versus recent expectations.

So the Aggregator is again bullish. And there is ample room to the upside for profits until the Differential Line would turn back to overbought. But evidence is mixed and moderate, and volatility is high. So traders looking to take advantage of a possible upside edge may want to do so with some cautious position sizing. I will look to take on some long index exposure on Monday, but only if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/21 – neutral

Combo #1	Combo #2	Combo #3
Long	Long	Flat

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](), which is included with all annual subscriptions. Detailed descriptions of these combination approaches [can be found in Lesson 8](). Subscribers may also download detailed hypothetical historical performance reports covering 12/31/71 – 3/7/14 in [Lesson 11, Course Downloads](). (You must go through the course first in order to access the Downloads.) *This week there were no changes to the Combo systems.*

This was the 3rd week of selling in a row for some of the indices. The SPX lost 0.64%, and the NASDAQ fell 0.56%, but the Russell 2000 gained 2.64%. The SPX and NASDAQ closed at 1-month lows on Friday. There were no new studies that emerged the last few days with intermediate-term implication.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

« As of 09/09/2020

DOMESTIC SECURITIES HOLDINGS AS OF
September 16, 2020

Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,739,598,562.0
US Treasury Floating Rate Notes (FRN)	16,096,475.3
US Treasury Inflation-Protected Securities (TIPS)*	285,917,826.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,995,638,667.9
Agency Commercial Mortgage-Backed Securities***	9,396,550.3
Total SOMA Holdings	6,375,039,081.5
Change From Prior Week	67,971,714.1

*Does not reflect inflation compensation of 39,347,867.3

**Fannie Mae, Freddie Mac and Federal Home Loan Bank

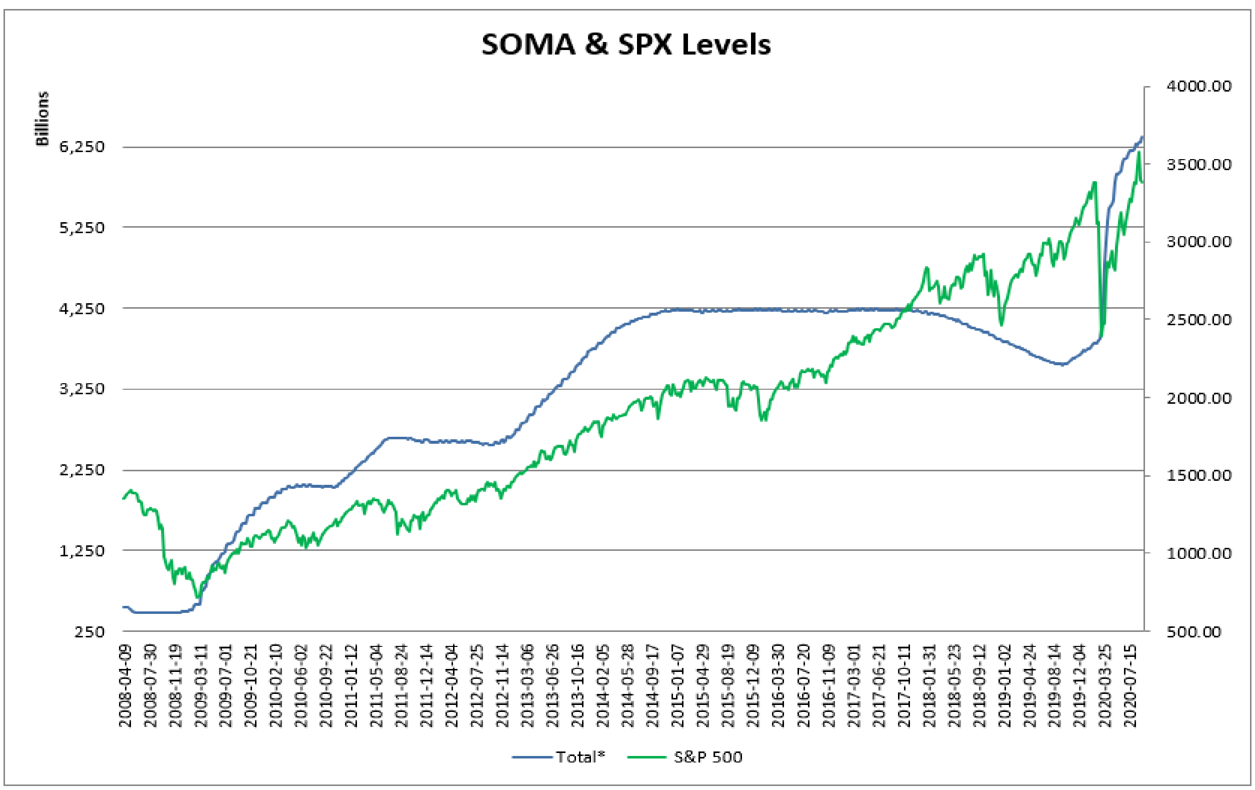
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 09/17/2020 4:30pm.

This past week saw the SOMA rise by a massive $68 billion. The Fed is still pumping strongly, and I am not seeing anything that would lead me to believe that is about to stop. Their statement on Wednesday was very accommodative. Below is a brief excerpt.

> achieved. The Committee decided to keep the target range for the federal funds rate at 0 to 1/4 percent and expects it will be appropriate to maintain this target range until labor market conditions have reached levels consistent with the Committee's assessments of maximum employment and inflation has risen to 2 percent and is on track to moderately exceed 2 percent for some time. In addition, over coming months the Federal Reserve will increase its holdings of Treasury securities and agency mortgage-backed securities at least at the current pace to sustain smooth market functioning and help foster accommodative financial conditions, thereby supporting the flow of credit to households and businesses.

So rates will remain low for an extended period and they are going to continue to pump liquidity via quantitative easing. Those are policies that have been supportive of bullish market conditions, and the Fed should remain a positive when considering an intermediate-term market bias. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is in the midst of the largest expansion in history, and the expansion is not likely to end anytime soon. We have seen some wiggles in the SOMA in the last couple of months, as not every week has seen strong buying. That is normal calendar-induced wiggling, similar to what we saw with earlier QE expansions. You'll note on the chart the same type of pattern during 2009 and 2013-14. The Fed has indicated they will remain aggressive in their efforts to stimulate the economy. And that is good for the market for as long as it lasts.

Nothing substantial is changing with regards to my intermediate-term outlook this week. The intermediate-term active list is still mostly bullish, but the evidence is weakening. The biggest plus is the continued massive liquidity infusion from the Fed. Bears can point to the lagging NASDAQ, uncertainties related to COVID, the upcoming election, social unrest, government stimulus, unemployment, and the economy in general. High valuations could also be a problem. So I am keeping my outlook neutral. I will not trade either the long or the short side very aggressively, and will be looking for strong setups before entering new positions.

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*.

SPY – But ¼ index position @ $328.00 LIMIT ON OPEN. If not filed on open, cancel order and look to buy @ $329.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on a small amount of SPY exposure if it gaps down sizably, or closes lower by a decent amount.

Current Open Trade Ideas

None