

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 5, 2020

Volume 13 Issue 193

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Strong breadth near a short-term high and a down close suggest short-term bullish implications.
- On Employment Days, large unfilled gaps down like we saw Friday have been followed by weakness the next day a high percentage of the time.
- When SPY posts a large gap down and then partially fills the gap on a positive open-close rally but still finishes down on the day, then that has often led to a bounce higher over the next few days.
- October tends to be volatile, with all October weeks cracking either the Top 10 or Bottom 10 lists for weekly performance during the year.
- There was a sizable decline in the SOMA this past week, but that is not entirely unusual for the last week of the month.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but evidence is light and I am not terribly enthused about reward/risk potential in this volatile environment.

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						
October 5, 2020	5-high then down close with + breadth	1-2 days	Bullish			
October 5, 2020	1% unfilled gap down on Jobs Day	1 day	Bearish			
Active - Long Term						
September 28, 2020	NASDAQ Leading	int term	Bullish			
September 28, 2020	4 weeks down > 40-week ma	1-10 weeks	Bullish	8.60%	-3.10%	-7.40%
August 27, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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)						
July 24, 2020	NDX big dn day. SPX new high.	1-50 days	Bullish	6.00%	-2.85%	-5.50%

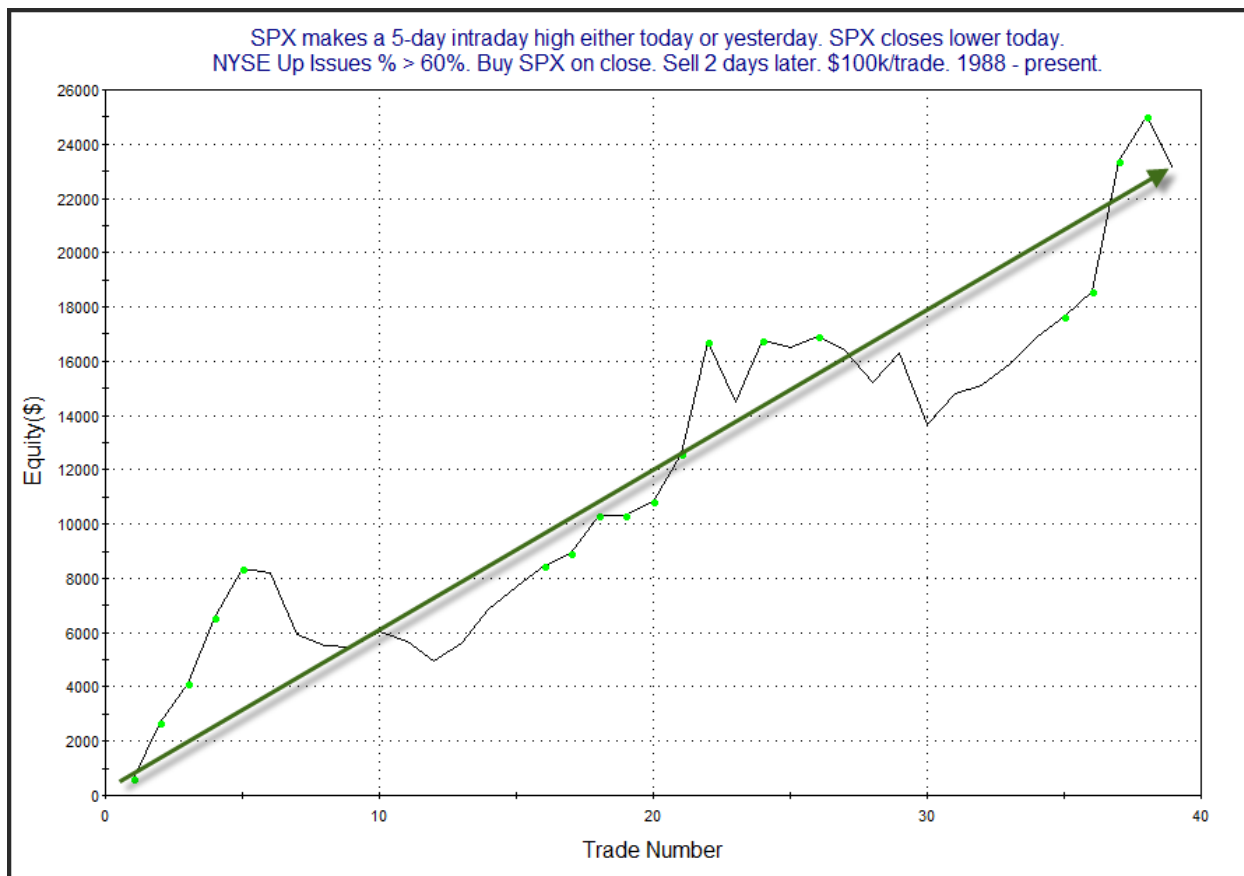
The Evidence

News of the president getting COVID and the jobs report a bit weaker than expected saw the market open lower, and then finish mixed. The SPX lost 1%, and the NASDAQ fell 2.2%, but the Russell 2000 rose 0.5%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 68%. NYSE total volume rose some from Thursday's level.

The action triggered an interesting study that we saw just recently in the 9/17/20 letter. It noted the positive breadth that accompanied the move lower from the short-term high. I have updated the results below.

SPX makes a 5-day intraday high either today or yesterday. SPX closes lower today. NYSE Up Issues % > 60%. Buy SPX 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	7,696.95	38	23	15	60.53	4,586.15	-6,119.33	1,563.59	-1,884.37	0.83	1.27	202.55
4	26,187.16	39	22	17	56.41	8,095.62	-3,969.70	2,148.87	-1,240.47	1.73	2.24	671.47
3	21,026.64	39	24	15	61.54	4,370.82	-3,028.47	1,540.86	-1,063.60	1.45	2.32	539.14
2	23,129.52	39	27	12	69.23	4,825.17	-2,625.30	1,328.05	-1,060.66	1.25	2.82	593.06
1	18,301.61	39	22	17	56.41	3,351.09	-1,606.00	1,124.37	-378.50	2.97	3.84	469.27

Stats here are solidly bullish. Below is a look at a 2-day profit curve.



The curve is certainly choppy. But it has made its way from lower left to upper right, and until the 9/17 instance had an 8-trade win streak going. I have included this study on the active list tonight.

Employment Days will often occur in conjunction with a strong price move because the employment report is frequently viewed as an important piece of economic data. Still, it has been quite rare to see the employment report lead to a large gap down that never fills during the day. This happened on Friday. When it has occurred in the past selling has generally continued into the next trading session. This is something I last showed in the 9/8/15 subscriber letter. I have updated that study below.

SPY gaps down > 1% on an Employment Day and fails to fill the gap during the day.
Buy on close. Sell next days close. \$100k/trade. 1994 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	(\$8,208.22)	Profit Factor	0.41
Gross Profit	\$5,776.33	Gross Loss	(\$13,984.55)
Total Number of Trades	15	Percent Profitable	26.67%
Winning Trades	4	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	(\$547.21)	Ratio Avg. Win:Avg. Loss	1.14
Avg. Winning Trade	\$1,444.08	Avg. Losing Trade	(\$1,271.32)
Largest Winning Trade	\$2,511.96	Largest Losing Trade	(\$7,805.28)

The number of instances is a bit low but stats appear strongly negative. Below is a list of all instances.

SPY gaps down > 1% on an Employment Day and fails to fill the gap during the day.
Buy on close. Sell next days close. \$100k/trade. 1994 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/8/1996	Buy	\$63.50	1.15%	\$1,322.16
3/11/1996	Sell	\$64.23		(\$676.82)
7/5/1996	Buy	\$65.58	-0.41%	\$624.84
7/8/1996	Sell	\$65.31		(\$685.80)
12/6/1996	Buy	\$74.31	1.44%	\$1,492.95
12/9/1996	Sell	\$75.38		\$0.00
11/7/1997	Buy	\$92.94	-0.60%	\$967.50
11/10/1997	Sell	\$92.38		(\$1,010.50)
9/7/2007	Buy	\$146.07	-0.19%	\$444.60
9/10/2007	Sell	\$145.79		(\$1,190.16)
1/4/2008	Buy	\$141.31	-0.08%	\$650.44
1/7/2008	Sell	\$141.19		(\$855.47)
7/2/2009	Buy	\$89.81	-0.01%	\$133.56
7/6/2009	Sell	\$89.80		(\$1,279.95)
6/4/2010	Buy	\$106.82	-1.25%	\$739.44
6/7/2010	Sell	\$105.49		(\$1,319.76)
6/3/2011	Buy	\$130.42	-1.05%	\$0.00
6/6/2011	Sell	\$129.05		(\$1,187.30)
7/8/2011	Buy	\$134.40	-1.81%	\$0.00
7/11/2011	Sell	\$131.97		(\$2,038.56)
9/2/2011	Buy	\$117.85	-0.73%	\$0.00
9/6/2011	Sell	\$116.99		(\$2,942.56)
6/1/2012	Buy	\$128.16	-0.05%	\$452.40
6/4/2012	Sell	\$128.10		(\$795.60)
4/5/2013	Buy	\$155.16	0.68%	\$682.64
4/8/2013	Sell	\$156.21		(\$264.04)
9/4/2015	Buy	\$192.59	2.51%	\$2,605.38
9/8/2015	Sell	\$197.43		\$0.00
3/6/2020	Buy	\$297.46	-7.81%	\$0.00
3/9/2020	Sell	\$274.23		(\$8,067.36)

Nothing here dissuades me from considering the study to be bearish. A good number of the losers saw substantial drawdowns the next day. I'll take this study under consideration as well.

This next study, from 9/20/11 letter, was also interesting.

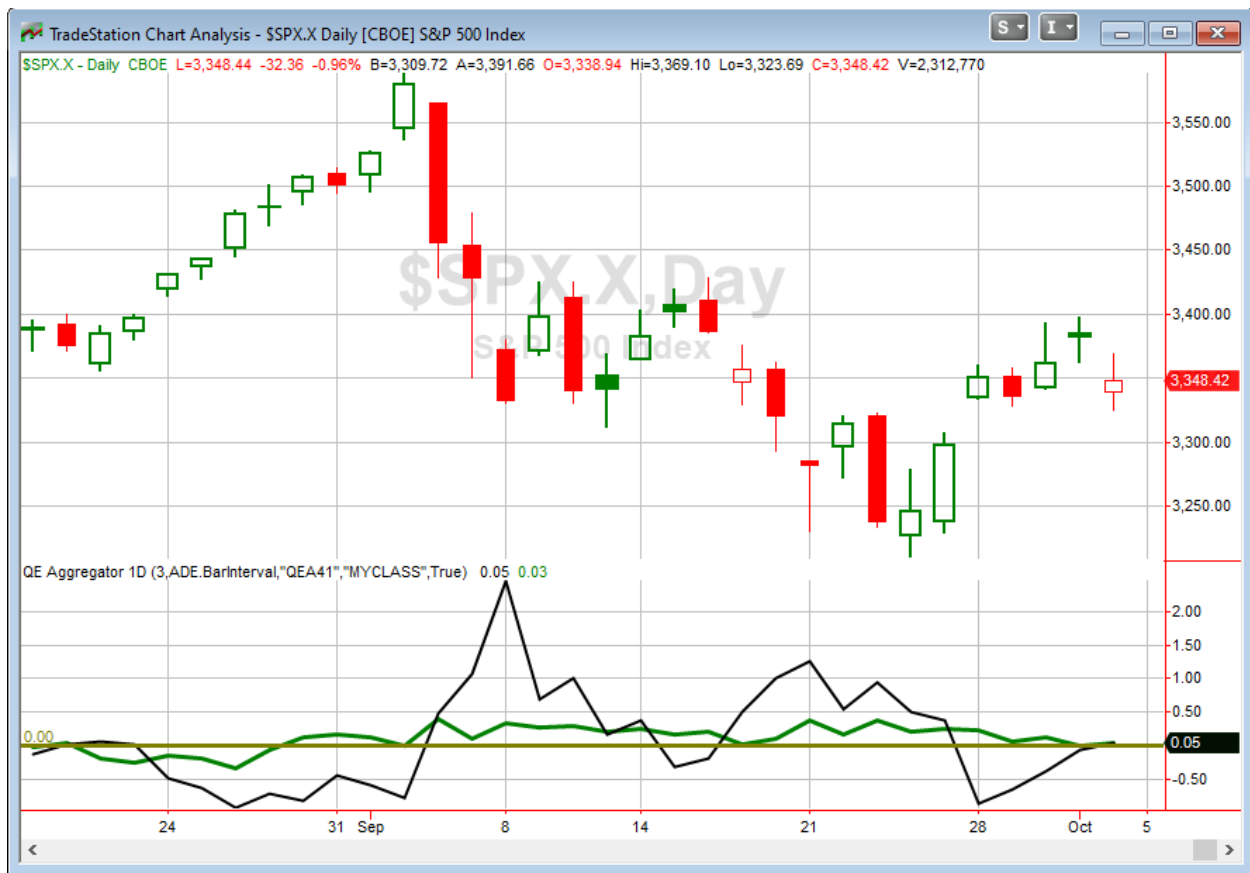
SPY gaps down at least 1%. It never fills and closes at least 0.5% above the open. Close > 10ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	14,536.45	7	6	1	85.71	5,117.92	-8,625.78	3,860.37	-8,625.78	0.45	2.69	2,076.64
9	15,100.64	7	6	1	85.71	5,499.74	-5,949.96	3,508.43	-5,949.96	0.59	3.54	2,157.23
8	19,358.72	8	7	1	87.50	6,684.18	-3,540.06	3,271.25	-3,540.06	0.92	6.47	2,419.84
7	13,504.69	8	6	2	75.00	5,658.39	-4,287.96	3,151.61	-2,702.48	1.17	3.50	1,688.09
6	15,452.72	8	6	2	75.00	4,377.98	-2,301.87	2,975.85	-1,201.20	2.48	7.43	1,931.59
5	11,817.94	8	6	2	75.00	5,272.34	-3,382.17	2,710.21	-2,221.66	1.22	3.66	1,477.24
4	4,570.39	8	6	2	75.00	2,867.80	-5,625.87	1,878.54	-3,350.44	0.56	1.68	571.30
3	2,712.36	8	6	2	75.00	3,176.64	-6,190.95	1,921.05	-4,406.98	0.44	1.31	339.05
2	2,061.93	8	4	4	50.00	2,345.96	-3,058.08	1,816.48	-1,301.00	1.40	1.40	257.74
1	944.11	8	4	4	50.00	2,247.84	-1,819.95	1,160.78	-924.75	1.26	1.26	118.01

Big gaps down that down fill and close well above the open and above the 10ma have been rare. But they have often led to gains in the coming days. Below are all the instances with an 8-day holding period.

SPY gaps down at least 1%. It never fills and closes at least 0.5% above the open. Close > 10ma. Buy on close. Sell 8 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/7/1997	Buy	\$92.94	1.85%	\$2,547.75
11/19/1997	Sell	\$94.66		(\$3,063.75)
11/12/2001	Buy	\$112.03	3.26%	\$3,407.44
11/23/2001	Sell	\$115.68		\$0.00
8/12/2002	Buy	\$90.62	6.69%	\$7,202.59
8/22/2002	Sell	\$96.68		(\$2,867.80)
10/22/2002	Buy	\$89.52	0.84%	\$1,977.09
11/1/2002	Sell	\$90.27		(\$2,814.84)
2/12/2010	Buy	\$108.04	2.43%	\$3,274.50
2/25/2010	Sell	\$110.67		\$0.00
2/25/2010	Buy	\$110.67	3.42%	\$3,900.96
3/9/2010	Sell	\$114.46		(\$505.68)
6/23/2011	Buy	\$128.30	4.42%	\$4,549.36
7/6/2011	Sell	\$133.97		(\$1,308.72)
9/19/2011	Buy	\$120.31	-3.54%	\$1,396.08
9/29/2011	Sell	\$116.05		(\$7,487.31)

Possible upside edge here, but I am not entirely convinced. For one, instances are very few. And there have not been any since 2011. The last one was a sizable loser, and several others had sizable drawdowns before finishing positive. So I will continue to keep an eye on this study, but I have not included it on the active list tonight.

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



With tonight's evidence considered, the green Aggregator Line held slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line moved up through 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 turned long at the close.

Based on the current active list, expectations are set to remain positive on Monday. Of course, this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3376.48 on Monday. That is about 0.8% above Friday's close. Therefore, SPX would need to close up at least 0.8% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. But evidence is mixed, especially on Monday. And evidence is light after the next 1-2 days. There is plenty of news for the market to latch onto in the coming days and weeks. Political, COVID-related, economic, and the upcoming earnings season could all spark sharp moves. I'd like to see compelling evidence and strong reward/risk opportunities before taking on index positions in this environment. I don't see that right now. So I will sit out another day and see if Monday brings about a convincing setup.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/5– “temporarily” neutral

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

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 we saw all 3 combo systems remain on long signals.*

This past week was an up one for the market. The SPX and the NASDAQ each rose 1.5%, while the Russell 2000 led the way with a 4.4% gain. The SPX and NASDAQ are still well off their September highs. Historically, October has been a very volatile month for the market. I wrote about this Thursday night, and have copied that study below.

October is a month that is known for volatility. And that is a well-earned reputation. Crashes in 1929, 1987, and 2008 all occurred in October. But volatility cuts both ways. If you break the year down into 1-week periods, October also contains some of the strongest seasonal edges of the year, both bearish and bullish. Breaking the year down by week is something I have done numerous times over the years, and it has provided some interesting insights. The table below shows stats back to 1985. I chose 1985 as the start date because SPX options trading began in 1984, so 1985 is the 1st full year where there was an options expiration schedule. We have found over the years that options expiration can generate strong edges. Action on and around options expiration, which occurs on the 3rd Friday of each month, helps to generate some seasonal tendencies. So this study encompasses the full range of time that SPX options have been in existence.

SPX Performance in the Week That Followed the Month and Friday Specified.
\$100k/trade. 1985 - 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	4	32,481.29	35	26	9	74.29	10,485.72	-3,993.72	1,965.12	-2,067.99	0.95	2.75	928.04
4	2	31,297.60	35	23	12	65.71	5,731.96	-3,580.15	2,149.89	-1,512.48	1.42	2.72	894.22
1	4	30,889.37	36	23	13	63.89	4,860.00	-3,765.16	2,181.50	-1,483.48	1.47	2.60	858.04
10	5	11,864.54	14	10	4	71.43	3,853.85	-3,889.28	1,831.89	-1,613.59	1.14	2.84	847.47
5	4	27,773.79	36	24	12	66.67	7,145.28	-2,983.50	1,924.51	-1,534.54	1.25	2.51	771.49
1	5	11,278.27	16	11	5	68.75	5,169.12	-3,138.72	2,144.57	-2,462.40	0.87	1.92	704.89
10	2	24,492.84	35	26	9	74.29	7,282.10	-9,109.98	1,992.62	-3,035.03	0.66	1.90	699.80
11	4	23,715.18	35	26	9	74.29	7,362.46	-6,830.72	1,489.74	-1,668.67	0.89	2.58	677.58
12	2	21,959.25	35	26	9	74.29	5,868.16	-6,968.06	1,453.94	-1,760.35	0.83	2.39	627.41
5	5	10,062.95	17	11	6	64.71	4,787.84	-3,683.73	1,914.87	-1,833.43	1.04	1.91	591.94
6	5	5,741.81	10	7	3	70.00	2,176.02	-2,736.99	1,345.20	-1,224.86	1.10	2.56	574.18
8	5	-3,886.62	16	8	8	50.00	3,283.38	-4,206.40	1,374.80	-1,860.62	0.74	0.74	-242.91
11	5	-2,801.11	11	7	4	63.64	1,717.40	-4,574.88	952.18	-2,366.60	0.40	0.70	-254.65
9	1	-10,799.62	36	18	18	50.00	3,778.72	-11,038.16	1,606.64	-2,206.61	0.73	0.73	-299.99
10	3	-13,393.07	35	17	18	48.57	4,339.20	-12,167.91	1,772.66	-2,418.24	0.73	0.69	-382.66
6	3	-18,957.12	36	13	23	36.11	2,928.60	-3,626.75	1,040.27	-1,412.20	0.74	0.42	-526.59
10	1	-18,796.42	35	19	16	54.29	5,944.32	-18,000.90	1,807.70	-3,321.41	0.54	0.65	-537.04
2	3	-21,606.37	36	17	19	47.22	2,106.80	-11,122.37	852.62	-1,900.04	0.45	0.40	-600.18
7	5	-10,948.21	15	6	9	40.00	2,404.80	-7,153.30	1,407.00	-2,154.47	0.65	0.44	-729.88
9	3	-27,334.77	36	9	27	25.00	7,739.42	-6,525.56	1,751.05	-1,596.08	1.10	0.37	-759.30
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

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You'll note that the highlighted weeks are the October weeks. It's amazing that all 5 potential weeks in October are included in either the Best 10 or the Worst 10 weeks of the year. Weeks are ranked based on Avg Trade (last column).

Weeks following the 1st and 3rd Friday in October have been among the **worst** on average. I'll also note that the 2 largest "max losing trades" shown above follow the 1st and 3rd Fridays in October. They were a 12% and an 18% drop.

Weeks following the 2nd, 4th, and 5th Fridays in October made up 3 of the **best** 10 weeks of the year on average. And the 2nd and 4th week show two of the largest winners as well, with 7.3% and 10.5% max gains. As I said, October can be volatile. (Note: as I was getting ready to send out the letter, I noticed that Tom McClellan wrote an article tonight about how October has been especially choppy during presidential election years. [You can find that article here.](#))

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

« As of 09/23/2020

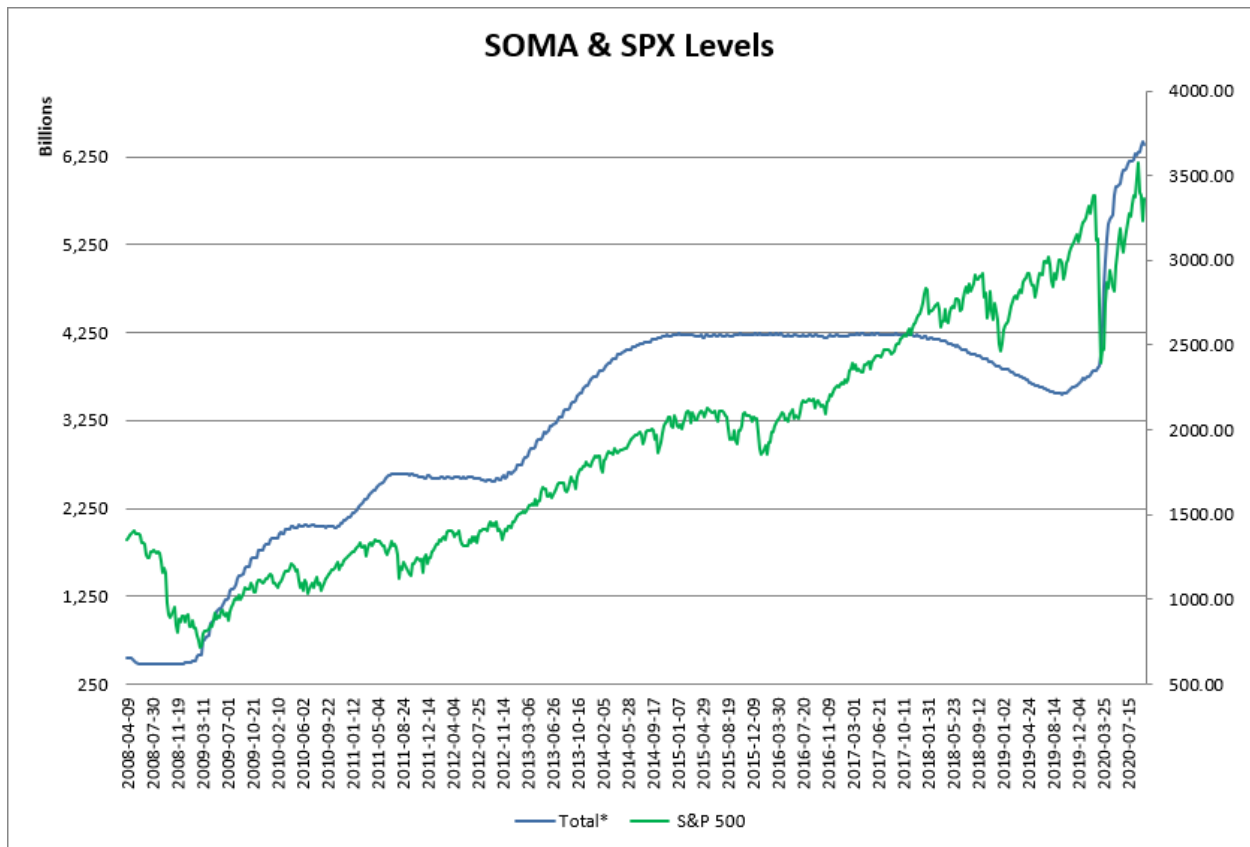
DOMESTIC SECURITIES HOLDINGS AS OF
September 30, 2020 📅

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)	3,774,356,704.9				
US Treasury Floating Rate Notes (FRN)	16,096,475.3				
US Treasury Inflation-Protected Securities (TIPS)*	288,759,683.1				
Federal Agency Securities**	2,347,000.0				
Agency Mortgage-Backed Securities***	1,973,275,638.6				
Agency Commercial Mortgage-Backed Securities***	9,499,580.9				
Total SOMA Holdings	6,390,379,082.8				
Change From Prior Week	-28,628,742.0				

*Does not reflect inflation compensation of 40,220,153.5
 **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 10/01/2020 4:30pm.

This past week saw the SOMA decline by over \$28.7 billion. That is the biggest drop for a week since QE4 began in March. But I am not of the belief that it is due to a change in policy. I believe it is more of a calendar quirk. The last week of each month has seen a decline in the SOMA every month starting in May. Overall, the Fed is still pumping strongly, and I am not seeing anything that would lead me to believe that is about to stop. 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.

Overall, we are entering an extremely volatile seasonal period at a time where the news cycle is also extremely volatile. And options remain expensive with the VIX around 28. I'll also note VIX has yet fall close under 20 since February. That is a run of 156 days. There have only been 4 other periods of time where the VIX remained above 20 for so long...1999, 2001, 2003, and 2009.

With such potential volatility in mind, I have decided to take my foot off the gas temporarily and move my outlook back to "neutral". Evidence is still leaning bullish, but it is a bit weaker than last week. One of our intermediate-term studies has now expired, and our leading NASDAQ indicator is not far from flipping to neutral. The week after the 1st Friday in October is one of those that has shown potential danger in the study I shared earlier. Bulls do still have the longer-term trends on

their side, and the Fed pumping liquidity. And that should help. If the NASDAQ can remain in the lead, and intermediate-term evidence strengthens, or at least does not weaken further, then I will likely flip back to “slightly bullish” next week. But I feel as though this may be a good time to exercise a bit more caution. And I will be doing so with potential long and short trade ideas for at least this week.

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

None.

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