

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 9, 2020

Volume 13 Issue 197

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- No compelling new studies emerged tonight, but SOMA numbers came in strong, and breadth is starting to look encouraging.

Short-term Outlook

The Bottom Line

The Aggregator is neutral 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						
None						
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)						
October 8, 2020	SPY unfilled gap up inside day > 200	1 day	Bearish			
October 7, 2020	Up yest. Outside day 1% dn > 200.	1-5 days	Bullish	1.95%	-1.10%	-2.10%

The Evidence

Thursday was the 2nd strong day in a row for the market. SPX gained 0.8%, the NASDAQ rose 0.5%, and the Russell 2000 rallied 1.1%. Breadth was positive as the NYSE Up Issues % was 76% and the Up Volume % came in at 85%. NYSE total volume declined some from Wednesday's level.

Action Thursday failed to trigger any compelling new short-term studies. But there were a few things to note. For one, we have seen some strong breadth over the last few days. Both of the last 2 days have seen the NYSE Adv/Decline % > 70%. If we see a 3rd day in a row, we will see an intermediate-term breadth thrust signal that triggered several times in the spring. So that is something to keep an eye out for on Friday.

The Fed released the most recent SOMA changes on Thursday after the close. I have copied them below.

« As of 09/30/2020

DOMESTIC SECURITIES HOLDINGS AS OF
October 7, 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)	3,798,493,704.9				
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***	9,513,580.9				
Total SOMA Holdings	6,414,530,082.8				
Change From Prior Week	24,151,000.0				

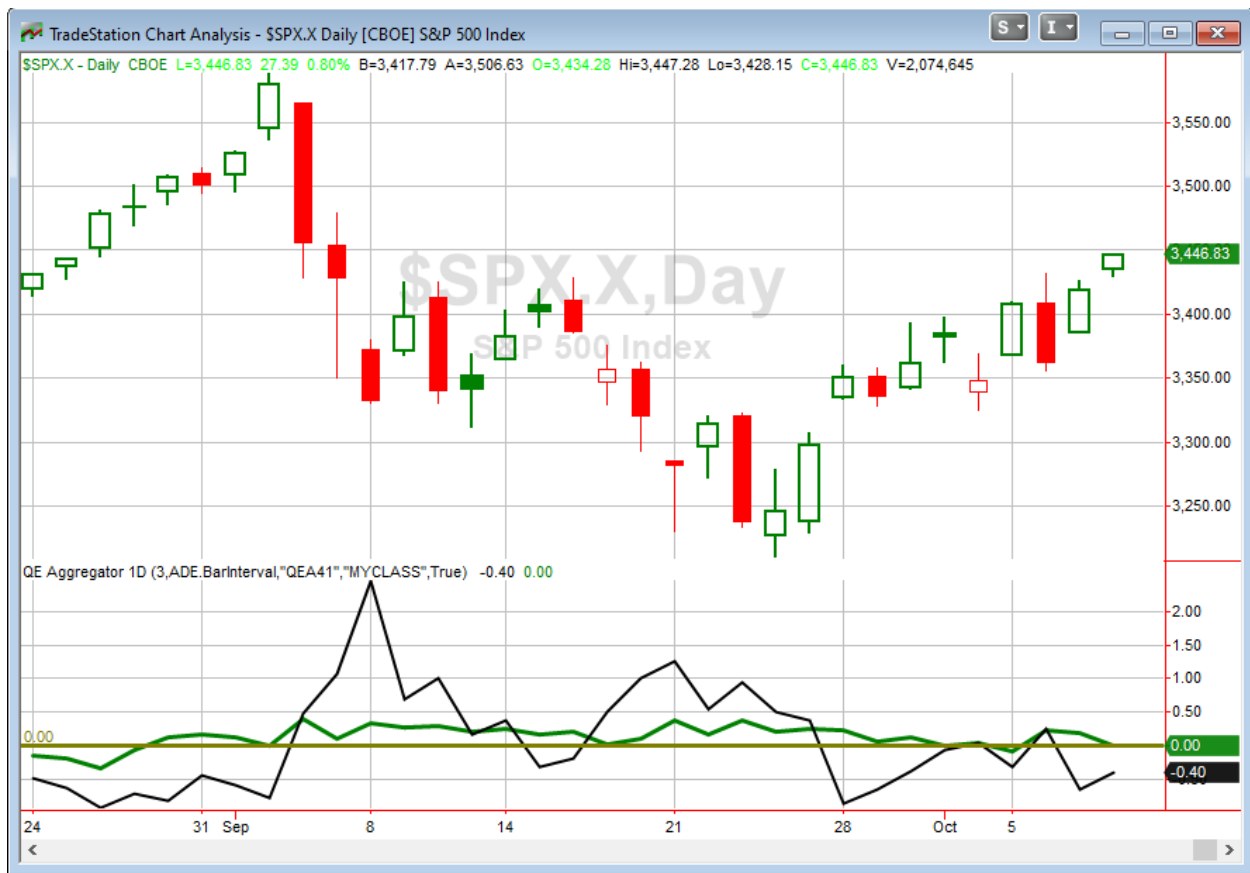
*Does not reflect inflation compensation of 40,454,414.4
**Fannie Mae, Freddie Mac and Federal Home Loan Bank
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 10/08/2020 4:30pm.

The \$24 billion increase is sizable, but not surprising. The Fed has been pumping liquidity at an unprecedented rate since March, and there does not appear to be any let up at this point. That is supportive of the market.

No new short-term studies are being added to the Active List tonight. Additionally, the bullish study from two nights ago reached its upside potential early, and so it is being removed from the list tonight.

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



Tonight the green Aggregator Line finished right at zero. Zero readings mean net expectations are flat over the next few days. Meanwhile the black Differential Line held below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are flat but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines do not close on the same side of zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active list, expectations are set to remain flat on Friday. Of course, this could change if any new evidence emerges. Meanwhile, the Differential Pivot will be 3405.68 on Thursday. That is 0.4% below Wednesday's close. Therefore, SPX will need to close down at least 0.4% on Thursday in order to flip from overbought to oversold vs recent expectations.

So the market is strongly overbought, but we are not seeing compelling evidence that it is about to reverse. Short-term reward/risk does not appear favorable for bulls or bears at the moment. I'll see how things play out Friday and take another look at any new evidence over the weekend.

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

The intermediate-term outlook was last updated in the 10/5/20 Letter. It can be found in the [most recent weekly letter](#) on the website.

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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