

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 19, 2020

Volume 13 Issue 203

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- Friday was the 1<sup>st</sup> time SPY closed at a 5-day low in a while, while still closing above its 10-day low. That has typically meant a bounce in the next several days.
- The gap & reverse pattern in SPY suggests a bit of an upside edge.
- The Fed's SOMA saw the biggest 1-week increase since June.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I believe the bulls have a mild edge over 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
<b>Active - Short Term</b>						
October 19, 2020	SPY 5 low after not in 10 days	1-4 days	Bullish	1.30%	-1.00%	-2.00%
October 19, 2020	Gap up move up intra, close dn > 10Lo	1-5 days	Bullish	2.00%	-1.40%	-2.30%
October 16, 2020	Down 3 from 20-high. Offset HV low	1-2 days	Bullish			
<b>Active - Long Term</b>						
October 19, 2020	SPY 5 low after not in 10 days	1-10 days	Bullish	2.10%	-1.30%	-2.60%
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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
October 16, 2020	RUT up > 1%. SPX down	1 day	Bullish			

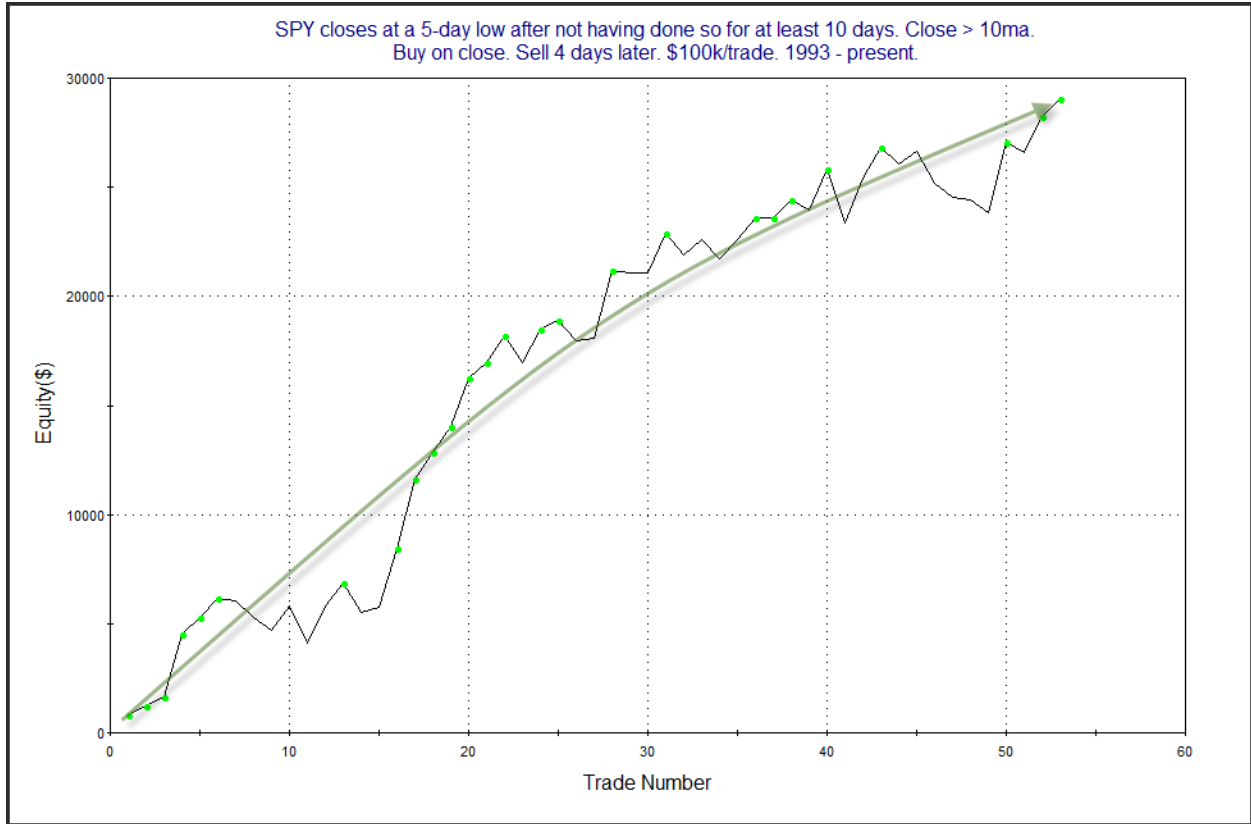
**The Evidence**

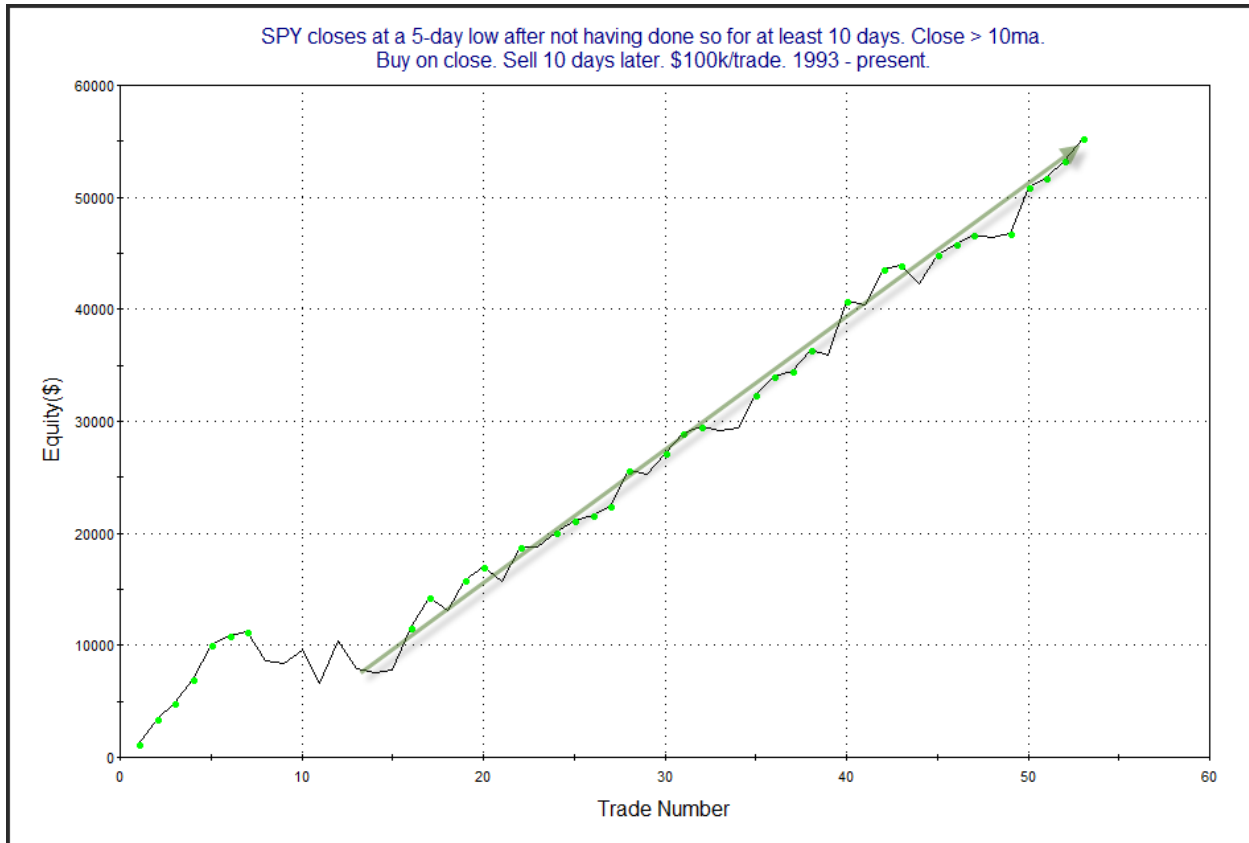
Friday opened strong but finished mixed. SPX closed up 0.47 points (but SPY closed down slightly), the NASDAQ lost 0.4%, and the Russell 2000 fell 0.3%. Breadth was mixed with the NYSE Up Issues % coming in at 41% and the Up Volume % at 59%. NYSE total volume rose from Thursday's level, but was not as strong as you often see on opex Friday.

Friday's action caused SPY to close in an interesting position. Traders could look at the chart and say it is "short-term oversold" due to the fact that it closed at a 5-day low. They might also say it is "short-term overbought" since it closed above its 10-day moving average. I have found that edges often arise when something is short-term overdone in one timeframe, but overdone in another direction in another timeframe. The study below looks at the current discrepancy. It was last seen in the 12/31/19 letter and has been updated.

SPY closes at a 5-day low after not having done so for at least 10 days. 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	55,225.85	53	39	14	73.58	4,839.66	-2,972.16	1,787.82	-1,035.64	1.73	4.81	1,042.00
9	48,876.20	53	40	13	75.47	5,293.08	-3,319.71	1,630.99	-1,258.71	1.30	3.99	922.19
8	44,011.44	53	40	13	75.47	4,734.72	-2,602.71	1,488.10	-1,193.29	1.25	3.84	830.40
7	39,388.87	53	38	15	71.70	4,118.22	-3,472.29	1,556.17	-1,316.38	1.18	2.99	743.19
6	34,552.51	53	35	18	66.04	4,307.28	-2,992.38	1,460.59	-920.44	1.59	3.09	651.93
5	32,769.20	53	35	18	66.04	4,496.34	-3,570.00	1,397.93	-897.69	1.56	3.03	618.29
4	29,055.20	53	35	18	66.04	3,240.45	-2,475.20	1,279.49	-873.72	1.46	2.85	548.21
3	25,522.64	53	38	15	71.70	3,452.40	-3,393.78	1,101.56	-1,089.11	1.01	2.56	481.56
2	16,150.03	53	34	19	64.15	3,809.72	-3,737.28	979.97	-903.62	1.08	1.94	304.72
1	7,267.75	53	30	23	56.60	2,225.48	-3,909.03	718.60	-621.31	1.16	1.51	137.13
48 of 53 instances (91%) closed above the entry price at some point in the next week.												

Results here suggest a solid edge over the next 1-10 days. And a good chunk of the gains have been realized in the first few days. Below are profit curves for both the 4 and 10-day timeframes.





The strong, steady upslopes are impressive and serve as some confirmation of the bullish edge. I have added this study to both the short-term and intermediate-term active lists.

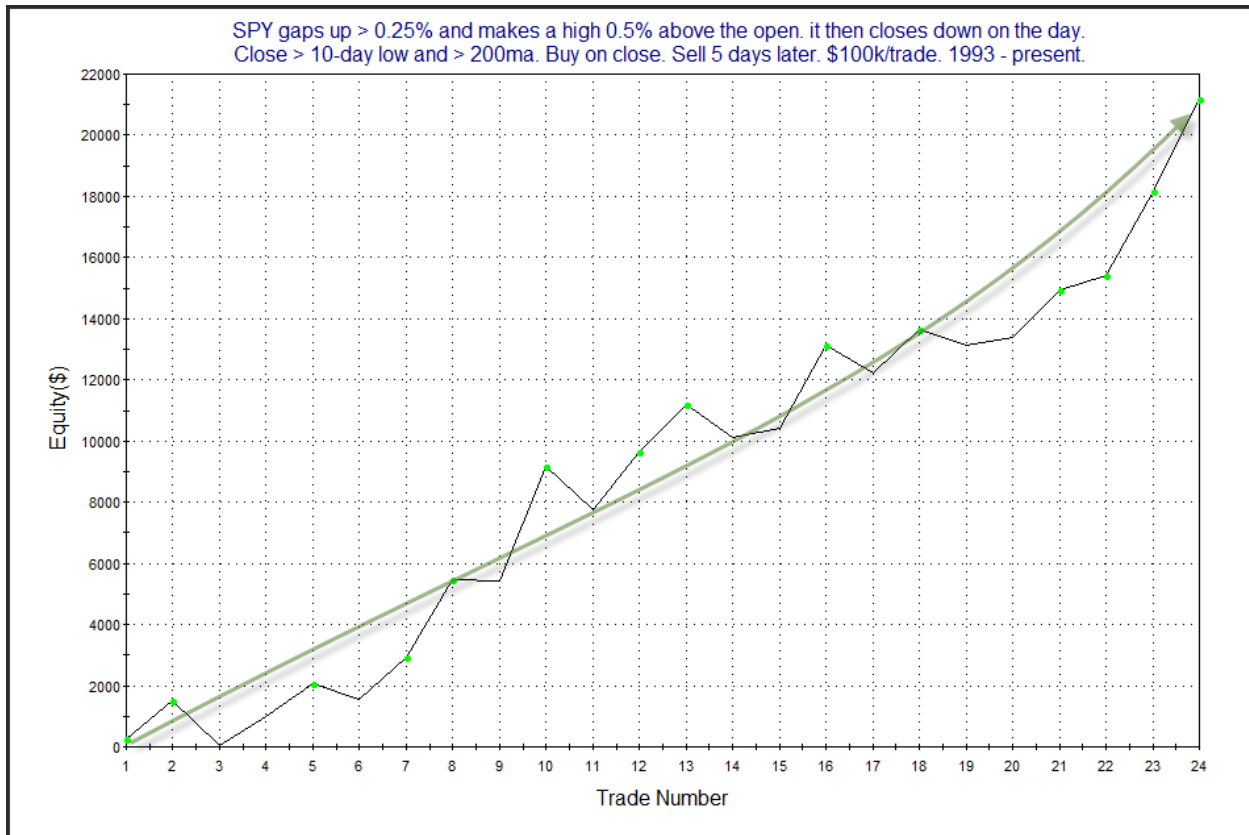
The gap up, move higher intraday, and then reversal to a down close for SPY triggered the study below from the 1/14/15 letter.

SPY gaps up > 0.25% and makes a high 0.5% above the open. it then closes down on the day.  
Close > 10-day low and > 200ma. 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
5	21,187.54	24	17	7	70.83	3,756.06	-1,498.84	1,597.15	-852.01	1.87	4.55	882.81
4	20,977.10	25	16	9	64.00	4,533.98	-2,259.92	1,870.67	-994.85	1.88	3.34	839.08
3	14,387.46	25	16	9	64.00	3,858.36	-2,990.26	1,559.27	-1,173.43	1.33	2.36	575.50
2	9,912.32	25	17	8	68.00	2,772.48	-1,568.92	926.04	-728.79	1.27	2.70	396.49
1	3,623.63	26	16	10	61.54	2,319.36	-2,206.61	728.22	-802.78	0.91	1.45	139.37

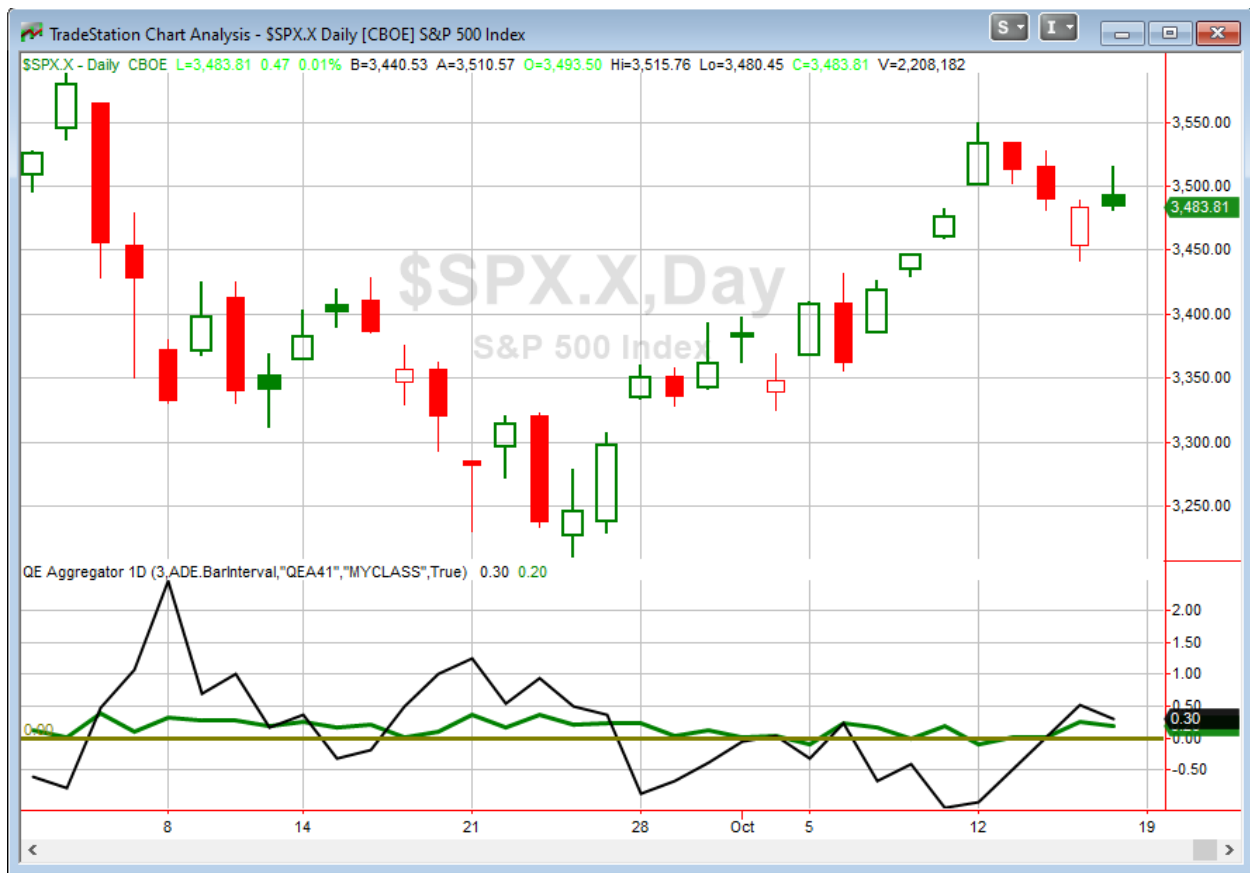
**Only 2 instances failed to close above the entry price at some point in the next week. They triggered on 6/11/96 and 2/24/99.**

Results here appear similar to those above. But the profit curves looked even better. Here is the 5-day profit curve.



The edge has been persistent and has accelerated in recent instances. This serves as some confirmation of the numbers. I have added this study to the short-term active list.

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



With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line is also 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 slated to remain bullish on Monday. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3485.47 on Monday. That is less than 2 points above Friday's close. Therefore, SPX will only need to close up a couple of points on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is again bullish. I like the upside evidence. The hitch with current setup is that there is not much room to the upside before SPX would turn overbought. But I still think a small position is worth consideration. If it turns out to be a quick, 1-day trade because it rallies on Monday, then I'm ok with that. If I can get a favorable fill on Monday, I will look to take on a small index position.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 10/19– slightly bullish**

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.*

After a strong Monday, the market generally struggled the rest of the week. But the Monday gains were enough for several indices to post a weekly gain. For the week, the SPX rose 0.2%, the NASDAQ rallied 0.8%, and the Russell 2000 lost 0.2%. The SPX and NASDAQ are still below their September highs.

Other than the study cited at the top of the letter looking at Friday being the 1<sup>st</sup> 5-day low in over 10 days, there was nothing else that emerged this past week with intermediate-term influence.

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

« As of 10/07/2020

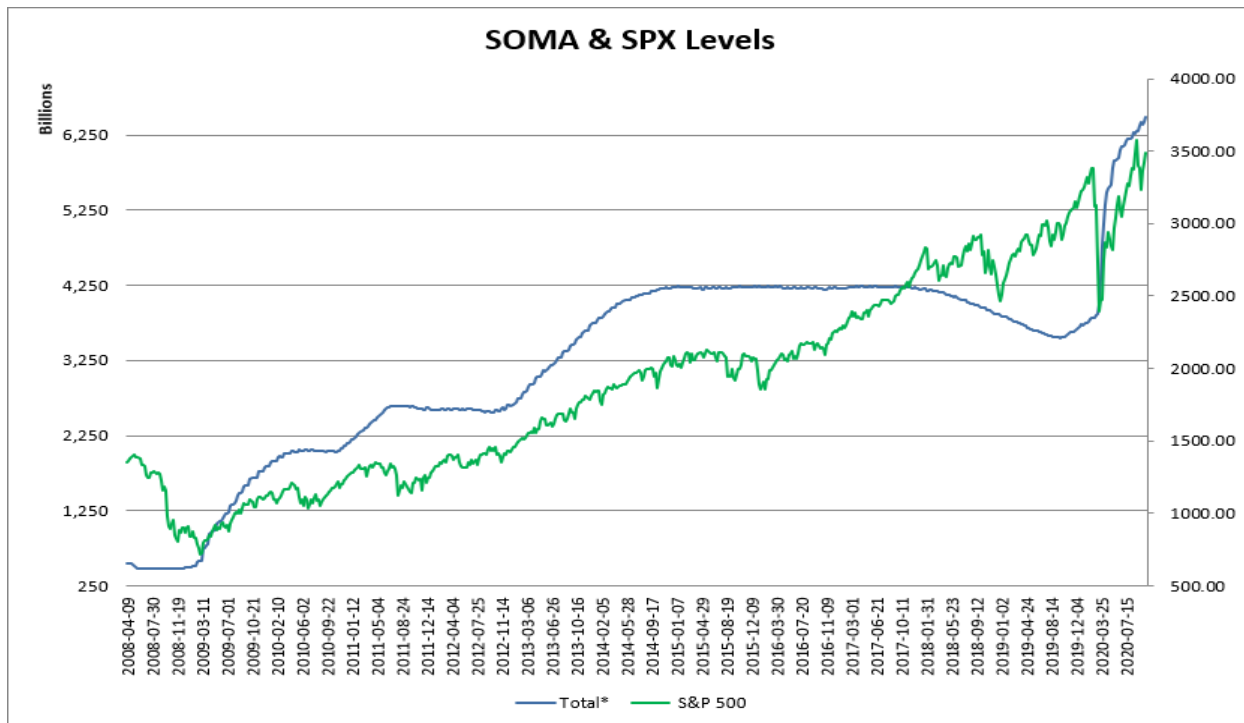
DOMESTIC SECURITIES HOLDINGS AS OF  
**October 14, 2020**

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,810,759,704.9
US Treasury Floating Rate Notes (FRN)	16,096,475.3
US Treasury Inflation-Protected Securities (TIPS)*	291,158,683.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,037,299,239.5
Agency Commercial Mortgage-Backed Securities***	9,539,687.7
Total SOMA Holdings	6,493,244,790.5
Change From Prior Week	78,714,707.7

\*Does not reflect inflation compensation of 40,918,946.9  
 \*\*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 10/15/2020 4:30pm.

The \$79 billion increase is the biggest week since June. 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. 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.

My intermediate-term outlook remains much the same as last week. Volatility is still a concern when considering how aggressive to be. Moves remain sizable in both directions, the VIX is still elevated, and October has been the most volatile of months. And this year’s news cycle appears more extreme than most, with election, pandemic, and economic/stimulus concerns all continually swirling about. But intermediate-term evidence is still leaning bullish. In addition to the new evidence suggesting a move up over the next few weeks, the NASDAQ leading is a positive. And the Fed’s continued pumping is also a large plus for the bulls. I’m keeping my outlook at “slightly positive”. That simply means I will be a bit more cautious when considering short positions than with long 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 – buy ¼ index position @ \$347.29 LIMIT.** Based on the short-term outlook above, I will look to take on a small index position on Monday if I can get filled at or below Friday's closing price.

### **Current Open Trade Ideas**

**None.**

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