

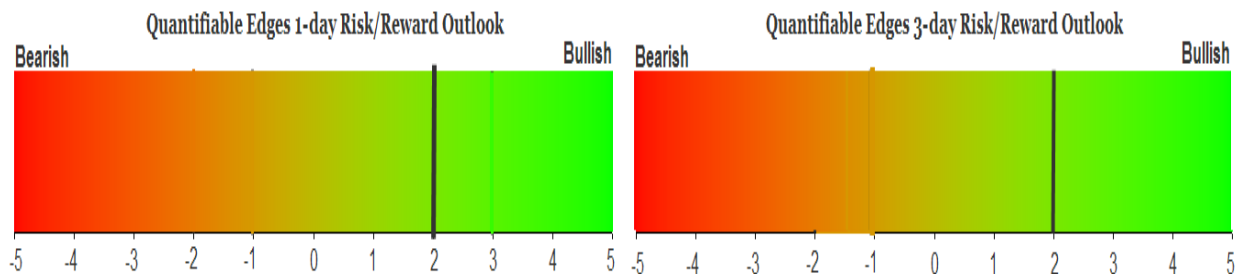
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 26, 2020

Volume 13 Issue 208

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Long | 0 |

Tonight's Research Points

- Monday has poor seasonality, but the rest of the week looks seasonally strong.
- The Fed is continuing to pump, which is an intermediate-term positive.
- The market remains volatile and reactive to news. This could impact short-term swings.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but SPX could turn overbought with a move higher on Monday. I believe there is a moderate upside edge.

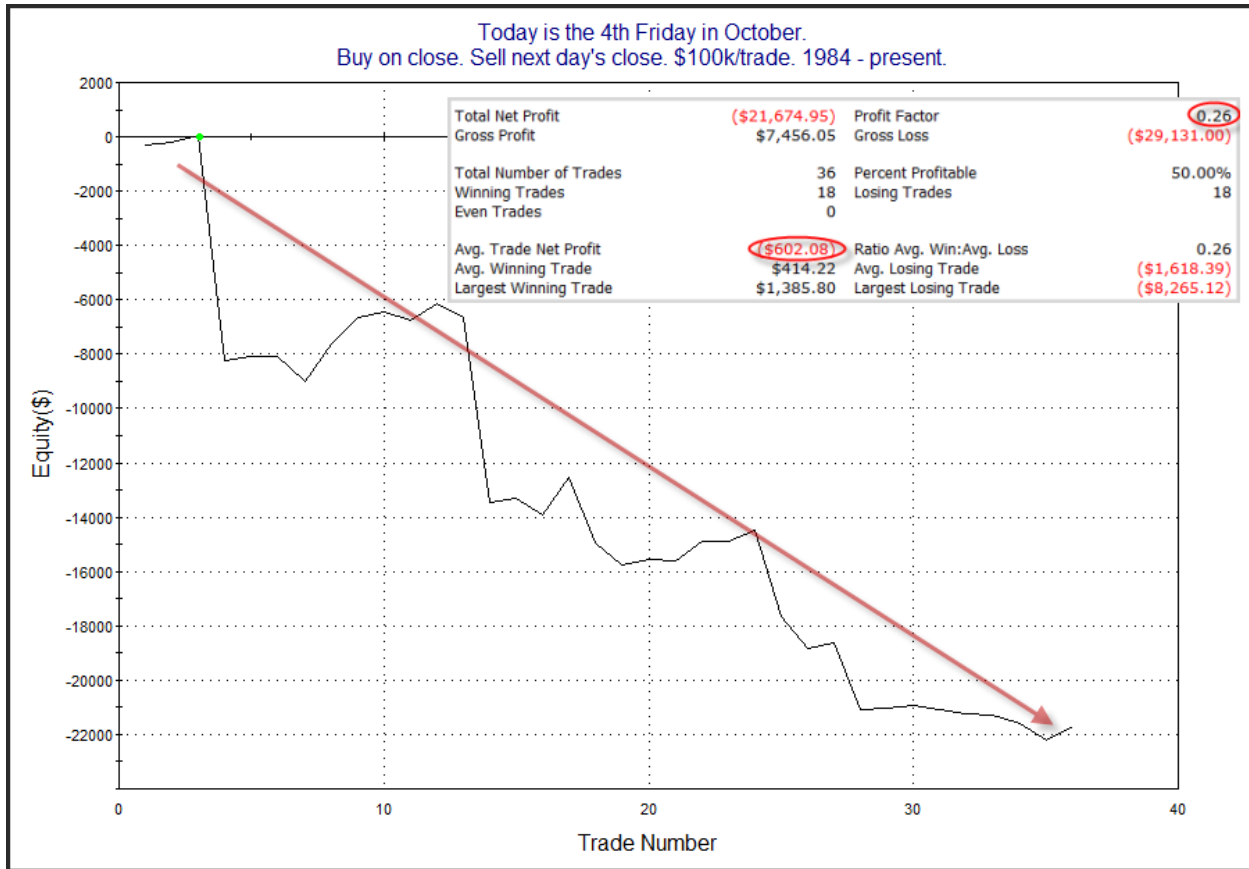
Summary of Recent Active Studies (see Letters from listed dates for details)

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|--|---------------------------------------|------------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| October 26, 2020 | Monday after 4th Friday in October | 1 day | Bearish | | | |
| October 22, 2020 | SPY closes btm 1/4 rng 4 days in row | 1-5 days | Bullish | 3.60% | -1.40% | -2.90% |
| October 20, 2020 | SPX close btm 10% rng 5-low Monday | 1-5 days | Bullish | 2.10% | -1.00% | -2.10% |
| Active - Long Term | | | | | | |
| 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 | | | |
| Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded) | | | | | | |
| October 19, 2020 | Gap up move up intra, close dn > 10Lo | 1-5 days | Bullish | 2.00% | -1.40% | -2.30% |
| October 21, 2020 | SPY gap up 0.75% rise, close < open | 1-3 days | Bullish | 1.90% | -1.60% | -3.40% |
| October 21, 2020 | VIX up 7 in a row | 1-3 days | Bullish | 1.90% | -0.50% | -1.10% |

The Evidence

Friday chopped around most of the day, but finished strong. SPX closed up 0.3%, the NASDAQ rose 0.4%, and the Russell 2000 rallied 0.6%. Breadth was positive with the NYSE Up Issues % coming in at 63% and the Up Volume % at 61%. NYSE total volume came in at the lightest level in a few weeks.

After the big down day on Monday, the last 4 days have been a lot of chop. Price action on Friday failed to generate any compelling new studies. But the week after the 4th Friday in October has been an interesting one historically. A few weeks ago I noted that it showed the highest average return of any week since 1984. The studies below are updated from the 10/28/19 letter. They show that Monday has seen difficulties, but the rest of the week has been strong, and it has even carried through to the next Monday. Let's first look at the Monday after the 4th Friday:



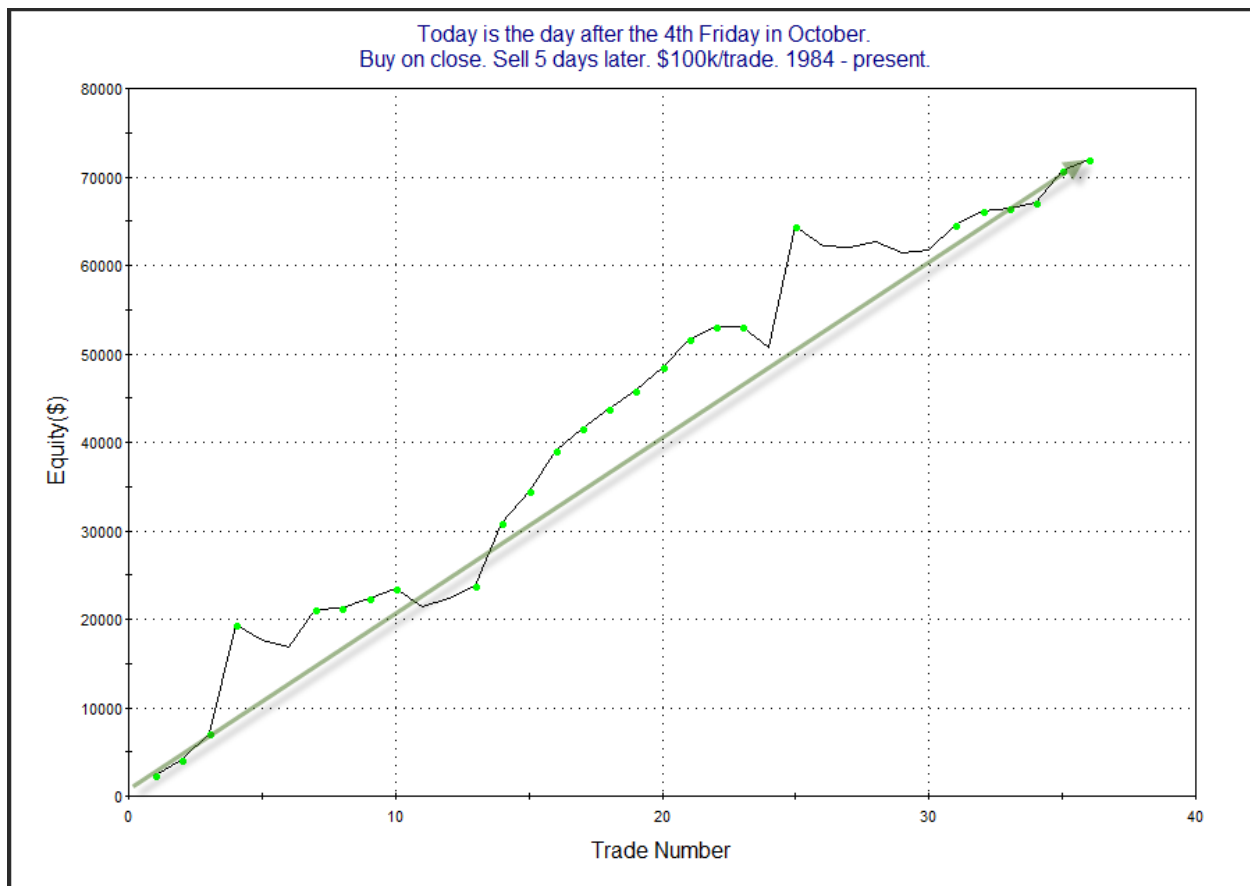
There have been the same number of Mondays here that have closed higher as lower, but the losers have been about 4x the size of the winners on average. The profit curve is choppy as you would expect with the winning % shown, but the slope has certainly been down for a long time. So Monday may carry a little extra risk to see a sizable decline. But Tuesday through the following Monday have shown very positive seasonality. This can be seen below.

Today is the day after the 4th Friday in October.
Buy on close. Sell X days later. \$100k/trade. 1984 - 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 | 71,932.48 | 36 | 29 | 7 | 80.56 | 13,733.46 | -2,483.20 | 2,844.48 | -1,508.22 | 1.89 | 7.81 | 1,998.12 |
| 4 | 58,019.03 | 36 | 27 | 9 | 75.00 | 14,020.11 | -2,860.68 | 2,559.04 | -1,230.56 | 2.08 | 6.24 | 1,611.64 |
| 3 | 48,885.69 | 36 | 27 | 9 | 75.00 | 12,304.89 | -2,081.28 | 2,056.74 | -738.47 | 2.79 | 8.36 | 1,357.94 |
| 2 | 28,000.09 | 36 | 28 | 8 | 77.78 | 9,496.89 | -2,261.76 | 1,325.93 | -1,140.73 | 1.16 | 4.07 | 777.78 |
| 1 | 23,252.95 | 36 | 23 | 13 | 63.89 | 10,716.03 | -2,766.58 | 1,462.19 | -798.27 | 1.83 | 3.24 | 645.92 |

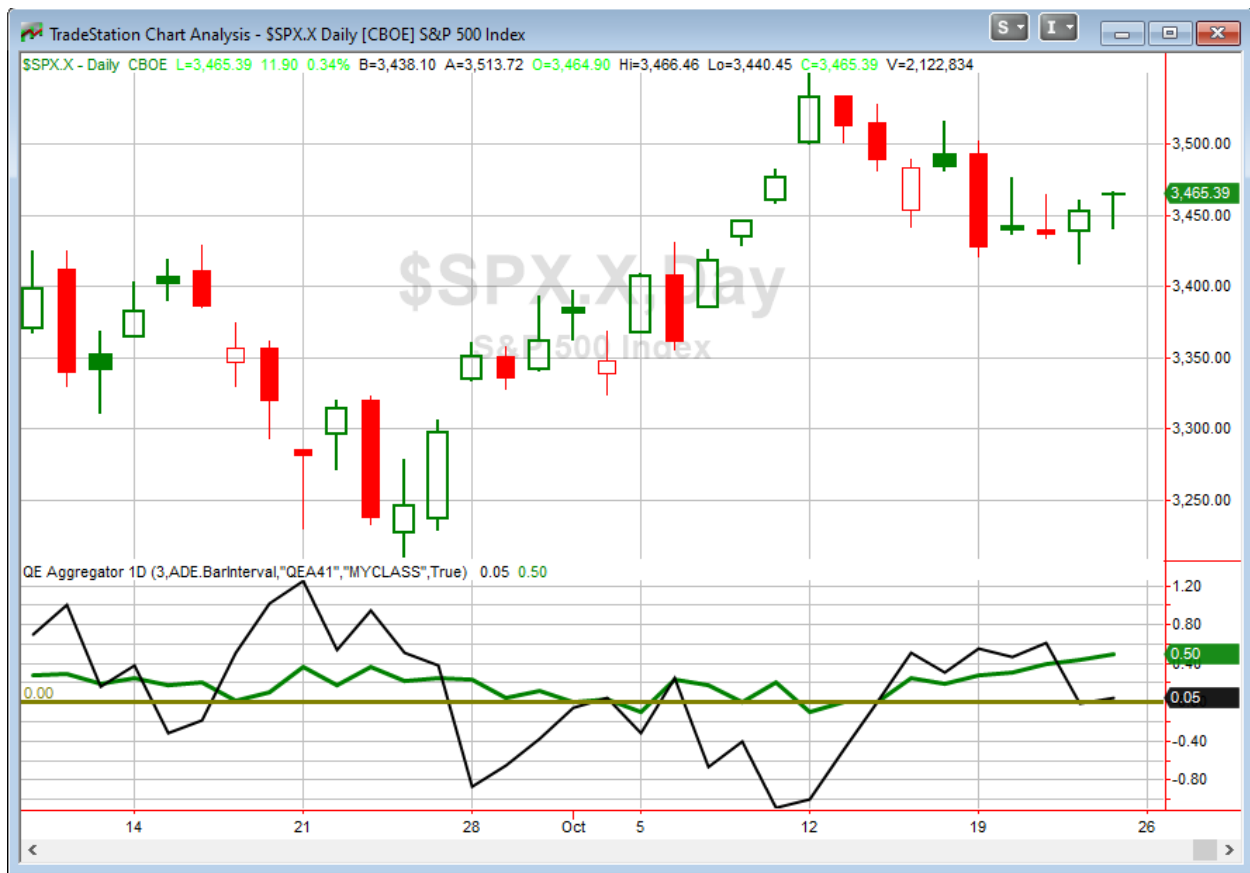
34 of 36 instances (94%) closed above the entry price
at some point in the next week.

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.



The curve has headed upwards for a long time. While there is an election and a Fed meeting to consider the following week, this short-term look at seasonality suggests the market could have some wind at its back after Monday.

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



With tonight's evidence considered, the green Aggregator Line remained well above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line inched back 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 turned long at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3469.72 on Monday. That is 0.1% above Friday's close. So it would only take a small gain on Monday in order for SPX to flip from oversold to overbought versus recent expectations.

So the Aggregator is back to bullish. Monday there is a seasonal headwind, but after that, seasonality is strong for the next several days. And the remaining price action based short-term studies suggest there should be more upside in the coming days as well. Of course there are a lot of outside forces for the market to contend with right now, so getting a little off track on a short-term basis would not be surprising. I already have some long index exposure. I won't be looking to add to it just now, and with the Differential Pivot so close by, I may look to reduce my exposure some on Monday if I can get a favorable fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/26– 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.*

The market did not accomplish much this past week. The SPX lost 0.5%, the NASDAQ declined 1.1%, and the Russell 2000 rose 0.4%. The SPX and NASDAQ are still below their September highs. There were no new studies that emerged in the past few days with intermediate-term implications.

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

« As of 10/14/2020

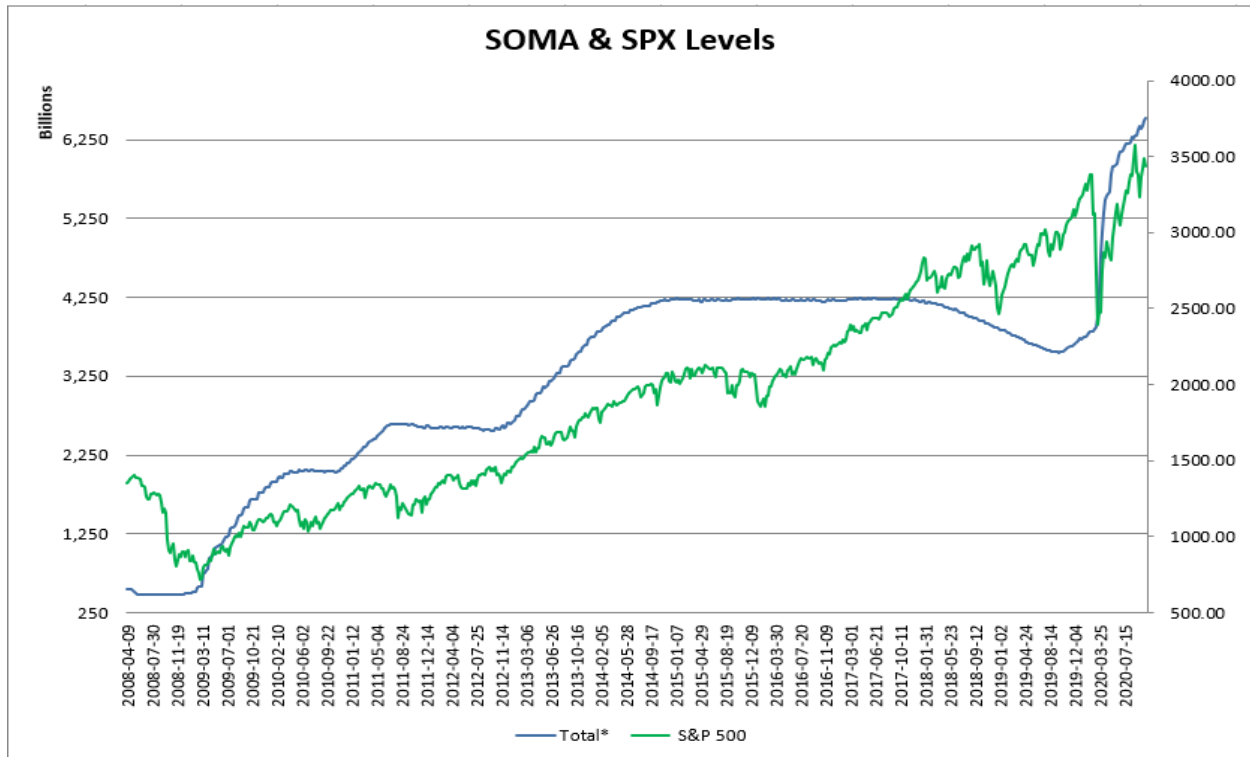
DOMESTIC SECURITIES HOLDINGS AS OF
October 21, 2020 📅

| Security Type | Total (in Thousands) |
|--|----------------------|
| US Treasury Bills (T-Bills) | 326,044,000.0 |
| US Treasury Notes and Bonds (Notes/Bonds) | 3,831,295,704.9 |
| US Treasury Floating Rate Notes (FRN) | 16,096,475.3 |
| US Treasury Inflation-Protected Securities (TIPS)* | 294,760,683.1 |
| Federal Agency Securities** | 2,347,000.0 |
| Agency Mortgage-Backed Securities*** | 2,037,696,336.3 |
| Agency Commercial Mortgage-Backed Securities*** | 9,538,857.3 |
| Total SOMA Holdings | 6,517,779,056.9 |
| Change From Prior Week | 24,534,266.4 |

*Does not reflect inflation compensation of 41,580,883.
 **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 10/22/2020 4:30pm.

The \$24 billion increase pushed the SOMA holding up to another record high. 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 expected to continue for the foreseeable future. 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. The VIX is still elevated, and the news cycle is still extreme, with election, pandemic, and economic/stimulus concerns all continually swirling about. But intermediate-term evidence is still leaning bullish. Bullish price action studies from past weeks remain active and the NASDAQ leading is a positive. 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.

None tonight.

Current Open Trade Ideas

| Symbol | Entry Date | Entry Price | Current Price | % Gain/Loss | Stop | Notes |
|----------|------------|-------------|---------------|-------------|------|------------------------------|
| SPY(1/4) | 10/19/2020 | \$347.29 | \$345.78 | -0.43% | | Aggregator |
| SPY(1/4) | 10/21/2020 | \$342.73 | \$345.78 | 0.89% | | <i>Sell @ \$346.50 Limit</i> |
| | | | | | | |

I will sell 1 lot of SPY at a limit price of \$346.50. If we close above the Differential Pivot, I will likely sell the other lot at the open on Tuesday.

The author of Quantifiable Edges (QE), Mr. Robert Hanna, is separately affiliated with a registered investment adviser in the States of Washington, California, Colorado, Michigan, Texas, Massachusetts, and Louisiana, Eastsound Capital Advisors, LLC (ECA) d.b.a. Hanna Capital Management, LLC. ECA may not transact business in states where it is not appropriately registered, excluded or exempted from registration. Individualized responses to persons that involve either the effecting of transaction in securities, or the rendering of personalized investment advice for compensation, will not be made without registration or exemption. Advisory clients of ECA utilizing the approaches developed by Mr. Hanna will receive the QE newsletter at no charge. ECA is not otherwise affiliated with QE, and neither endorses nor warrants the content of this site, the QE newsletter(s), any embedded advertisement, nor any linked resource herein.

This report has been prepared by Quantifiable Edges, LLC and is provided for information purposes only. Under no circumstances is it to be used or considered as an offer to sell, or a solicitation of any offer to buy securities. While information contained herein is believed to be accurate at the time of publication, we make no representation as to the accuracy or completeness of any data, studies, or opinions expressed and it should not be relied upon as such. Robert Hanna, Quantifiable Edges, LLC or clients of Quantifiable Edges, LLC may have positions or other interests in securities (including derivatives) directly or indirectly which are the subject of this report. This report is provided solely for the information of Quantifiable Edges, LLC clients and prospects who are expected to make their own investment decisions without reliance upon this report. Neither Quantifiable Edges, LLC nor any officer or employee of Quantifiable Edges, LLC accepts any liability whatsoever for any direct or consequential loss arising from any use of this report or its contents. This report may not be reproduced, distributed or published by any recipient for any purpose without the prior express consent of Quantifiable Edges, LLC.

Copyright © 2020 Quantifiable Edges, LLC.