

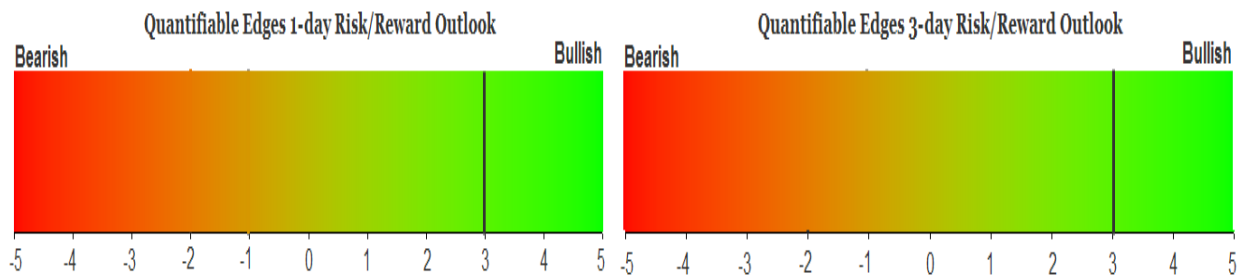
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2020

Volume 13 Issue 213

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- When a month closes at a 10-day but above the 200ma, the next month often starts with an up day.
- The “failed” bounce off Friday’s 20-day low appears to be another opportunity to take long exposure.
- We are entering the Best 6 Months of the year.
- The Presidential Cycle is moving to Year 1, but the 1st six months of Year 1 for a new president has not been good, while year 1 of an incumbent has done well Nov-Apr.
- 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, and there appears to be an upside edge over the next few days.

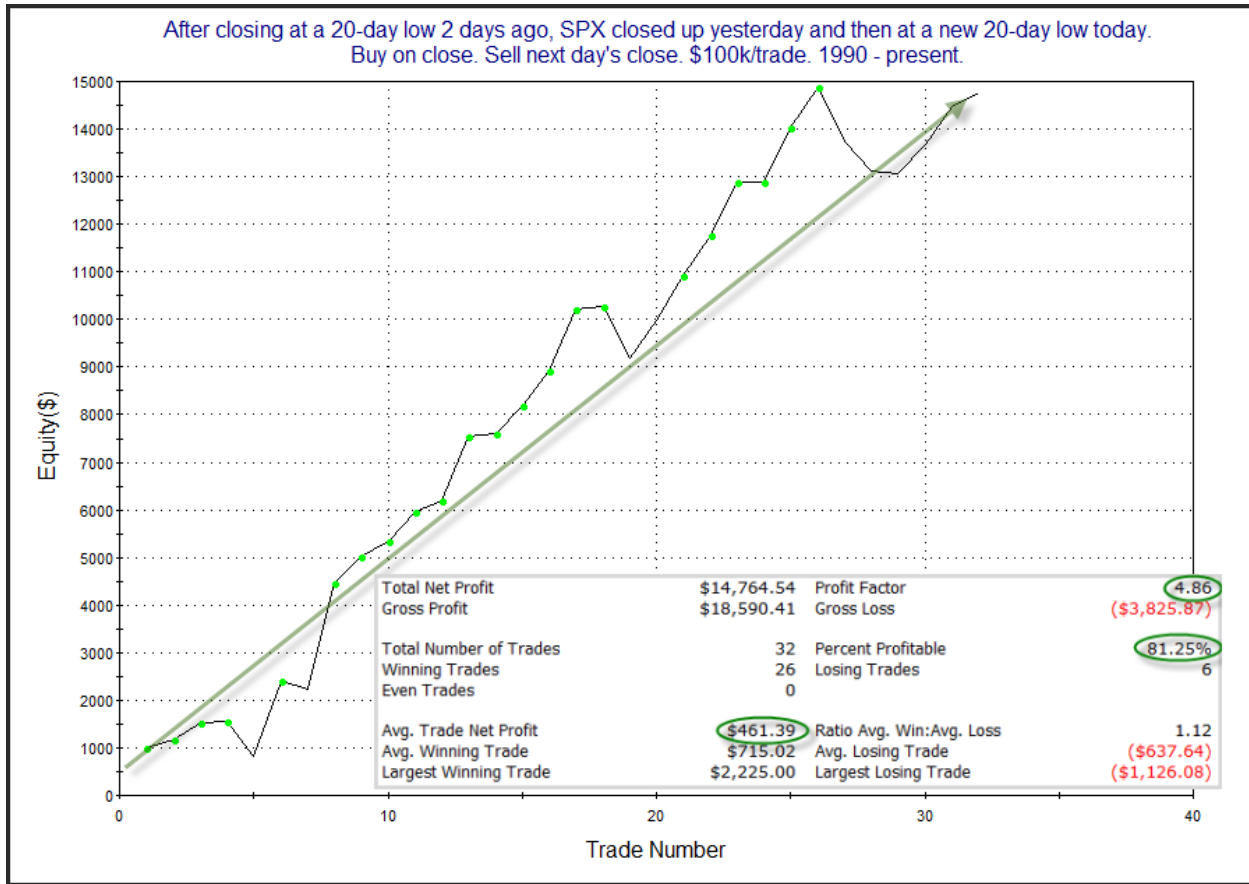
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
November 2, 2020	20-low. Up day. New 20-low	1 day	Bullish			
November 2, 2020	10Low > 200ma. End of Month	1 day	Bullish			
November 2, 2020	Yest 20-intra low up 1%. Today down	1-3 days	Bullish	2.10%	-0.95%	-2.10%
October 30, 2020	20-low reversal.	1-7 days	Bullish	2.40%	-1.60%	-3.00%
October 30, 2020	Down 2% 10-low. up 1% > 200	1-5 days	Bullish	2.90%	-1.35%	-2.65%
October 29, 2020	2nd 1.5% drop in 5 days. 5-day low.	1-4 days	Bullish	2.65%	-1.90%	-4.40%
Active - Long Term						
November 2, 2020	Best 6 Months	1-6 months	Bullish			
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			
March 23, 2020	QE4	int term	Bullish			

The Evidence

Friday was another tough day for the market. SPX closed down 1.2%, the NASDAQ fell 2.45%, and the Russell 2000 lost 1.5%. Breadth was negative with the NYSE Up Issues % coming in at 39% and the Up Volume % at 40%. NYSE total volume rose some from Thursday's level.

After closing at a 20-day low on Wednesday, the market put in a bounce attempt on Thursday. Friday's decline left that attempt looking like a failure, and also likely frustrated many bulls. But it also triggered a number of studies that still suggested an upside edge. The 1st study below looked at similar failed bounces. It was last seen in the 9/24/20 Letter.



Results here are compelling, and suggest a 1-day upside edge.

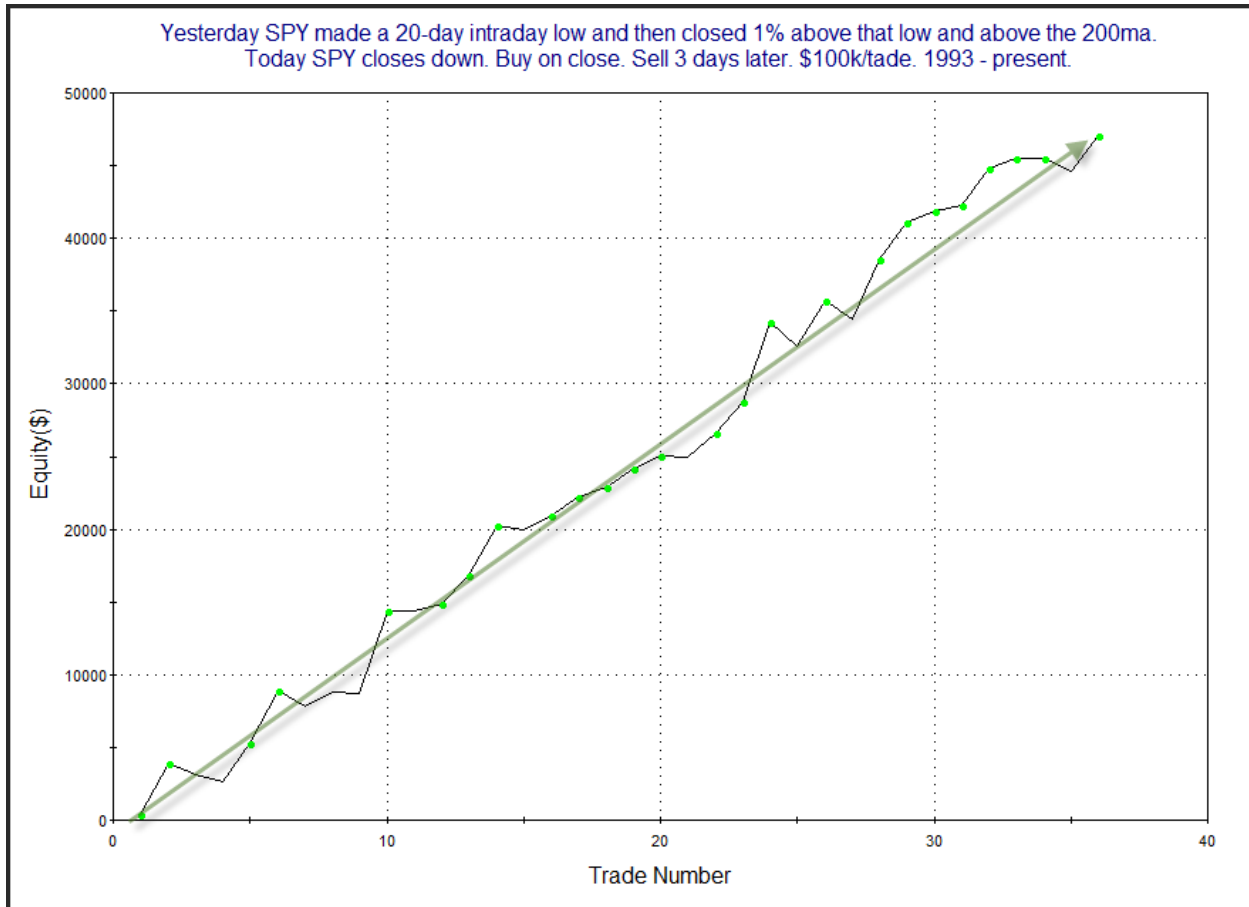
Another study that looked at the “failed bounce” was from the 2/8/18 letter. I have updated that one below as well.

Yesterday SPY made a 20-day intraday low and then closed 1% above that low and above the 200ma.
Today SPY closes down. Buy on close. Sell X days later. \$100k/tade. 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	48,279.95	36	25	11	69.44	5,602.68	-5,283.45	2,523.02	-1,345.04	1.88	4.26	1,341.11
4	55,516.83	36	27	9	75.00	6,132.78	-1,766.40	2,354.73	-895.65	2.63	7.89	1,542.13
3	47,086.51	36	26	9	72.22	5,630.94	-1,689.60	2,064.09	-731.09	2.82	8.16	1,307.96
2	37,213.45	39	30	9	76.92	6,435.36	-2,972.16	1,580.80	-1,134.50	1.39	4.64	954.19
1	16,757.32	39	27	12	69.23	4,400.20	-3,744.92	1,055.07	-977.46	1.08	2.43	429.67

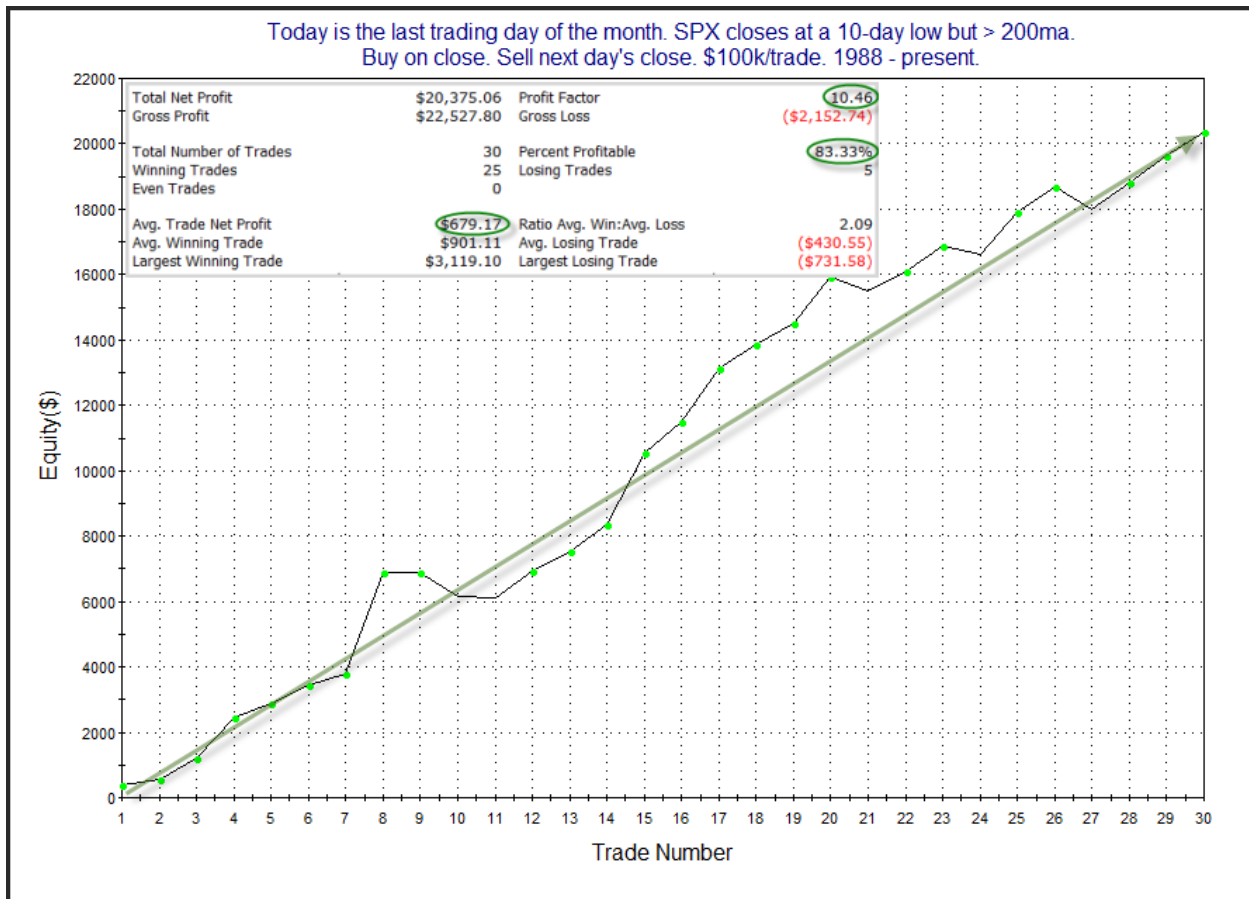
3/4/11 was the only instance NOT to close above the entry price at some point in the next week.

The stats here are suggestive of a bullish edge. Below is the curve for the 3-day holding period.



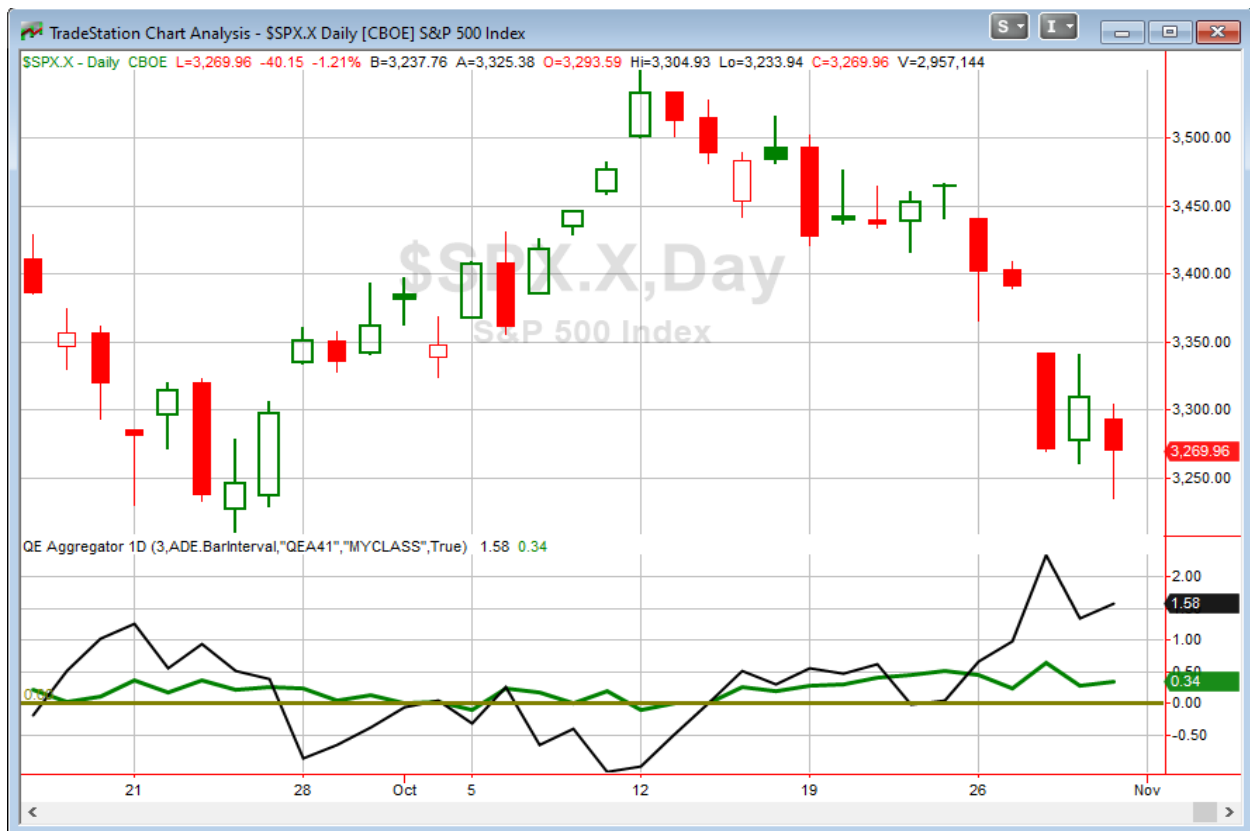
This is also impressive, and supports the idea of a short-term upside edge. I have included this study on the active list tonight.

Of course the 1st of the month often exhibits an upside edge. We know that edge is stronger when the market closes low in its range. Unfortunately for the bulls, that did not happen on Friday. But Friday did see SPX close at a 10-day low. And this triggered the below study, last featured in the 5/2/16 letter.



Both the numbers and the profit curve are impressive. This study suggests a bullish edge for Monday. I have included it on the Active List tonight.

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 is still far above 0. The positive Differential Line reading means that SPX is strongly 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. This could change if very compelling new bearish evidence emerged. Meanwhile, the Differential Pivot will be 3314.06 on Monday. That is 1.35% above Friday's close. Therefore, it will take a close higher of at least 1.35% on Monday in order for SPX to flip from oversold to overbought vs recent expectations.

So the Aggregator is again bullish. Evidence continues to point higher. But the election and all the uncertainty around it is keeping volatility very high. I expect to see a bounce this week, and if the election is a decided Tuesday night or early Wednesday, then that could remove a good bit of uncertainty and allow for a very strong bounce. Of course there will still be COVID, the economy, and all other kinds of things we worry about, but as the studies have shown, the market is at a point where a move higher would normally be expected. Hopefully election day will show a decisive victory and the market will be able to take that off its worry list.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/2 – 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 suffered its worst week since the March COVID crash, in a week that has historically been among the most bullish of the year from a seasonal standpoint. The SPX lost 5.6%, the NASDAQ declined 5.5%, and the Russell 2000 fell 6.2%. The SPX has now fallen over 7.5% in the last 14 trading days. The NDX is down 8.6% over the same period.

There are a couple of long-term seasonal indicators that are now changing. For one, we are moving from the “Worst 6 Months” of the year (May – Oct) into the “Best 6 Months” of the year (Nov – Apr). Secondly, we are changing the year of the Presidential Cycle from 4, which is typically bullish, to 1, which often is not.

I measure Presidential Cycle years starting in November, which puts it right near the election. Other people may measure them from January or February (to account for inauguration). My friend Tom McClellan taught me that Nov, when the election occurs, can often be a better measurement. I tested this years ago and found the numbers to support the logic. But one problem with measuring the Presidential Cycle starting November 1st is that Year 1 of the cycle often behaves somewhat differently when you have a new 1st term president vs a 2nd term president, and you don’t always know on Nov 1st whether you will have a 1st term or 2nd term president. First term presidents often see the stock market do worse over their 1st year. A possible reason for this is they spend a lot of time early on telling you how terrible things are and how their new policies will fix everything. This can weigh on sentiment, and with things so terrible, people are less inclined to aggressively invest in the stock market. A 2nd-term president is not going to say things are terrible.

We do not know right now whether we have entered the 1st year of a 1st-termer or a 2nd-termer. Let’s take a look at the “Best 6 Months” for each since 1964.

Best 6 Months of Presidential Year 1 with a new President								
Symbol	Trade	Date	Price	Ex. date	Ex. Price	MAE	MFE	% Profit
\$\$SPX	Long	10/31/1968	103.41	4/30/1969	103.69	-6.56%	5.76%	0.27%
\$\$SPX	Long	10/29/1976	102.9	4/29/1977	98.44	-6.19%	4.93%	-4.33%
\$\$SPX	Long	10/31/1980	127.47	4/30/1981	132.81	-2.20%	11.37%	4.19%
\$\$SPX	Long	10/31/1988	278.97	4/28/1989	309.64	-5.78%	11.28%	10.99%
\$\$SPX	Long	10/30/1992	418.68	4/30/1993	440.19	-0.74%	9.10%	5.14%
\$\$SPX	Long	10/31/2000	1429.4	4/30/2001	1249.49	-24.36%	0.63%	-12.59%
\$\$SPX	Long	10/31/2008	968.75	4/30/2009	872.81	-31.17%	4.00%	-9.90%
\$\$SPX	Long	10/31/2016	2126.15	4/28/2017	2384.2	-1.99%	12.93%	12.14%
					Avg	-9.87%	7.50%	0.74%
Best 6 Months of Presidential Year 1 of 2nd-term President								
Symbol	Trade	Date	Price	Ex. date	Ex. Price	MAE	MFE	% Profit
\$\$SPX	Long	10/30/1964	84.86	4/30/1965	89.11	-2.60%	5.63%	5.01%
\$\$SPX	Long	10/31/1972	111.58	4/30/1973	106.97	-4.32%	9.11%	-4.13%
\$\$SPX	Long	10/31/1984	166.09	4/30/1985	179.83	-2.74%	10.75%	8.27%
\$\$SPX	Long	10/31/1996	705.27	4/30/1997	801.34	-0.70%	15.94%	13.62%
\$\$SPX	Long	10/29/2004	1130.2	4/29/2005	1156.85	-0.49%	8.75%	2.36%
\$\$SPX	Long	10/31/2012	1412.16	4/30/2013	1597.57	-4.87%	13.13%	13.13%
					Avg	-2.62%	10.55%	6.38%

The 1st 6 months of a 2nd-term president has often seen gains for the market, and Max Adverse Excursion (MAE), also know as drawdown, has generally been very low. The biggest drop over the next 6 months has been less than 5%. But for 1st-termers, the average MAE has been nearly 4x as large on average, with two instances showing drops of 24%+. The average return over the 6-month period was under 1%. Hopefully we will know Tuesday night which setup is in play.

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

« As of 10/21/2020

DOMESTIC SECURITIES HOLDINGS AS OF
October 28, 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)	3,847,166,704.9
US Treasury Floating Rate Notes (FRN)	16,096,475.3
US Treasury Inflation-Protected Securities (TIPS)*	295,961,683.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,990,576,265.9
Agency Commercial Mortgage-Backed Securities***	9,729,068.4
Total SOMA Holdings	6,487,921,197.6
Change From Prior Week	-29,857,859.3

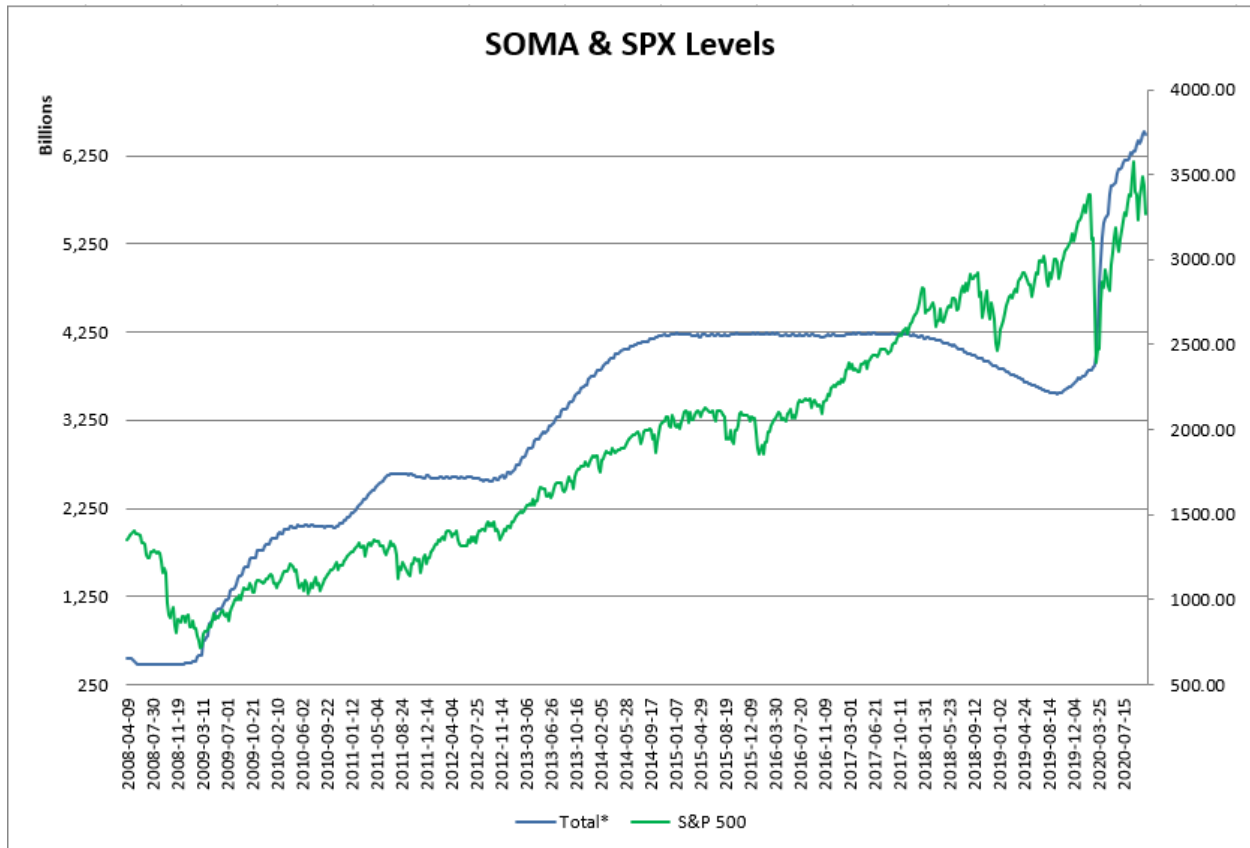
*Does not reflect inflation compensation of 41,917,571.1

**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 10/29/2020 4:30pm.

This past week saw the SOMA decline by nearly \$30 billion. That is the biggest drop for a week in about a year and a half. 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 that that is a positive. 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. There is a Fed meeting this upcoming week, so I will monitor that closely to see if there are any changes to policy, and what the impact of those changes may be.

My intermediate-term outlook remains basically 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	\$326.54	-5.97%		Aggregator
SPY(1/4)	10/21/2020	\$342.73	\$326.54	-4.72%		Aggregator
SPY(1/4)	10/27/2020	\$338.22	\$326.54	-3.45%		Aggregator

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