

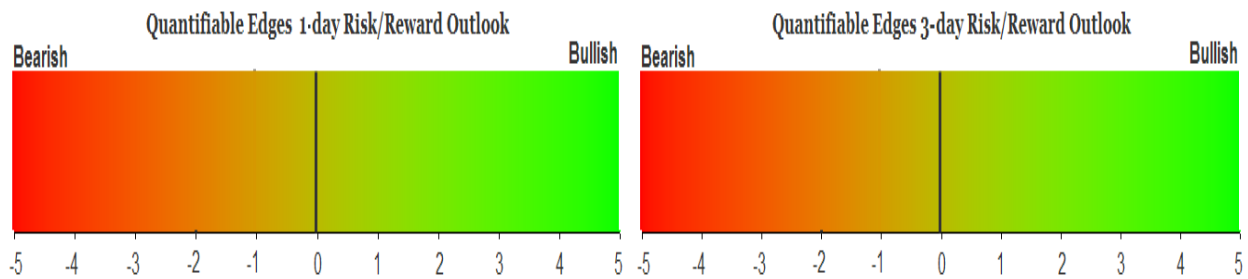
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 6, 2020

Volume 13 Issue 217

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- Strong 4-day rallies when SPX > 200ma have led to further gains in the past.
- Low 3/10 Offset HV numbers along with the 3-day rally suggest an upside edge in the coming days and weeks.
- Short-term highs on a Fed Day are often met by a pullback over the next few days.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and so am I.

### *The Evidence*

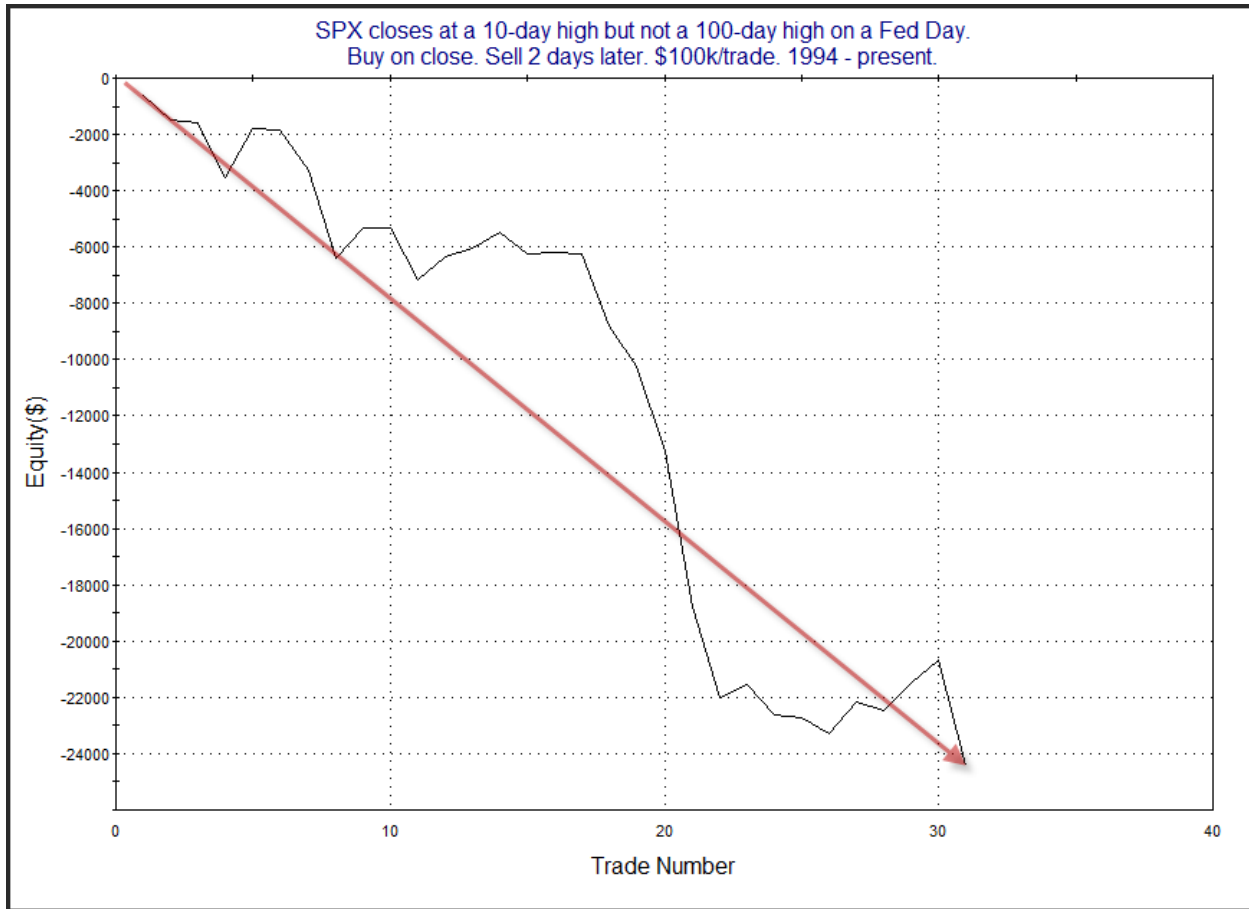
The rally continued on Thursday. SPX closed up 1.95%, the NASDAQ rose 2.6%, and the Russell 2000 rallied 2.8%. Breadth was positive with the NYSE Up Issues % coming in at 80% and the Up Volume % at 85%. NYSE total volume declined some from Wednesday's level.

The Fed released their statement on Thursday. Their outlook and policy was basically unchanged and offered no surprise. The market was fine with that, and the rally we have seen over the last few days continued. There was a mix of studies that emerged.

First let's look at a Fed-related study that examined other times the market rallied to a short-term high, but not a long-term high, on a Fed Day. Last seen in the 6/20/19 letter. I have updated the results below.

SPX closes at a 10-day high but not a 100-day high on a Fed Day. Buy on close. Sell X days later. \$100k/trade. 1994 - 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	-24,847.42	31	13	18	41.94	5,231.46	-6,268.92	1,317.72	-2,332.10	0.57	0.41	-801.53
4	-19,912.65	31	13	18	41.94	3,438.24	-4,528.95	1,208.70	-1,979.21	0.61	0.44	-642.34
3	-12,627.92	31	17	14	54.84	3,830.40	-5,547.24	1,139.27	-2,285.40	0.50	0.61	-407.35
2	-24,396.37	31	11	20	35.48	1,737.55	-5,495.94	714.95	-1,613.04	0.44	0.24	-786.98
1	-11,337.64	31	9	22	29.03	1,990.25	-3,300.30	888.88	-878.98	1.01	0.41	-365.73

The first 1-2 days here seem to struggle. Below is a look at the 2-day profit curve.



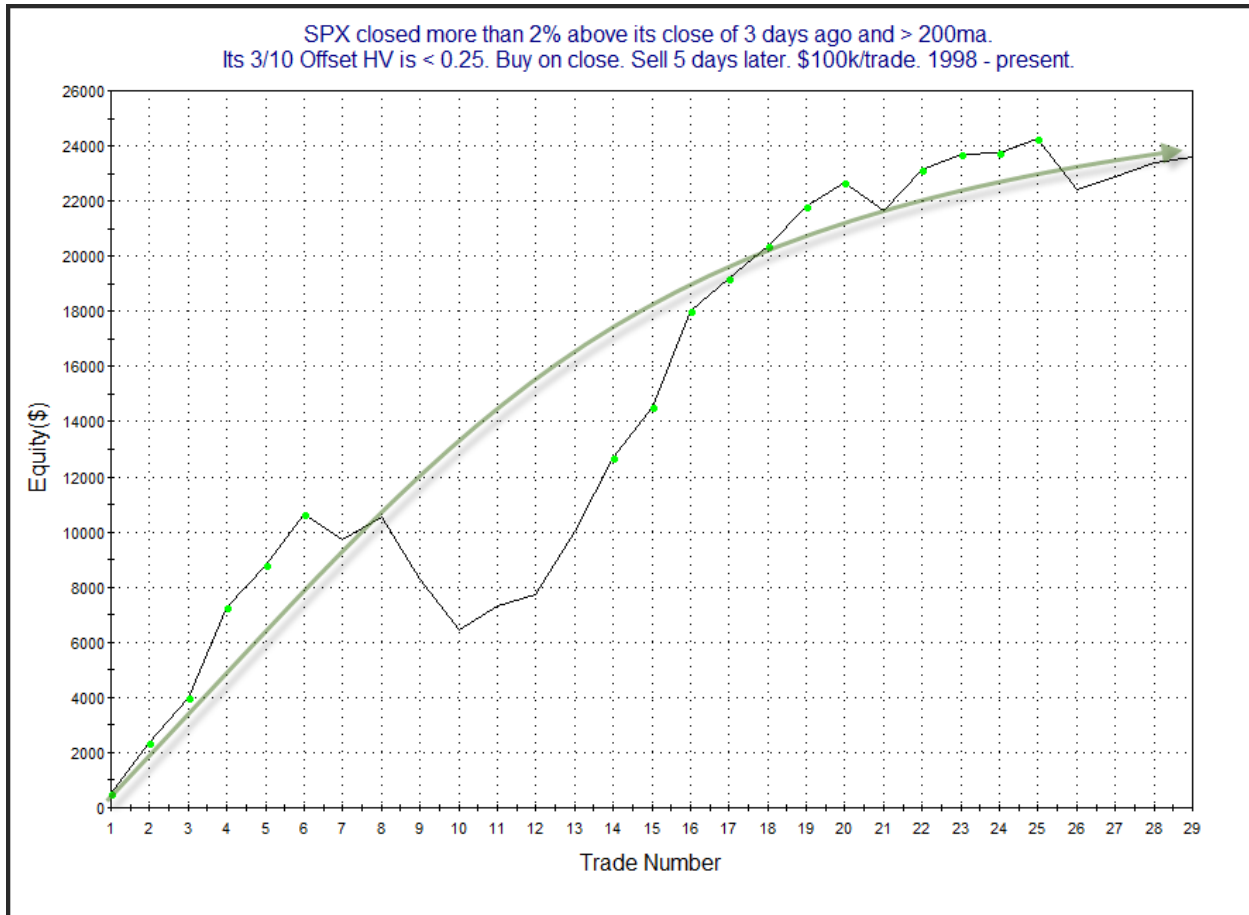
Upper left to lower right looks bearish. And new lows were made again with the last instance.

There were also some bullish studies worth noting. On Thursday the Quantifiable Edges 3/10 Offset HV indicator came in very low, which is fairly unusual considering we've seen a strong move higher over the last three days. The 3/10 Offset HV compares the 3-day historical volatility to the 10-day historical volatility number of 3 days ago. A low reading suggests there has been a contraction in volatility. This triggered the study below, which I last featured in the 10/14/19 letter.

SPX closed more than 2% above its close of 3 days ago and > 200ma.  
Its 3/10 Offset HV is < 0.25. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	23,612.78	29	24	5	82.76	3,481.56	-2,287.35	1,309.68	-1,563.92	0.84	4.02	814.23
4	18,422.92	29	18	11	62.07	2,616.60	-1,697.04	1,402.66	-620.46	2.26	3.70	635.27
3	16,660.24	29	21	8	72.41	2,315.72	-1,476.45	1,097.63	-798.76	1.37	3.61	574.49
2	13,210.24	30	19	11	63.33	2,451.76	-1,838.16	1,089.97	-681.75	1.60	2.76	440.34
1	1,836.69	32	17	15	53.13	1,857.24	-2,159.69	517.61	-464.18	1.12	1.26	57.40

The numbers here all seem to suggest an upside edge. I suppose to get the 3/10 Offset HV indicator that low while the market is rising so strongly would require some volatile activity prior to the bounce. That scary, volatile period will often pave the way for a continuation of the rally. Of course, I also wanted to take a look at the profit curves. Below is the profit curve for the 5-day period.



Despite the mild fade, this curve looks solid. I have added this study to the Active List tonight. Of course, the rally over the last few days is much stronger than 2%. It has been a 6% gain over the last few days. But there have not been any others in the sample that saw gains of 6% or more. I did up the % gain requirement to 3% to see how that changed things.

SPX closed more than 3% above its close of 3 days ago and > 200ma.  
Its 3/10 Offset HV is < 0.25. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	13,915.95	10	9	1	90.00	3,481.56	-897.84	1,645.98	-897.84	1.83	16.50	1,391.59
4	9,503.50	10	6	4	60.00	2,616.60	-1,697.04	2,038.31	-681.59	2.99	4.49	950.35
3	10,981.56	10	8	2	80.00	2,315.72	-864.00	1,508.31	-542.45	2.78	11.12	1,098.16
2	8,261.37	10	7	3	70.00	2,451.76	-1,838.16	1,554.99	-874.51	1.78	4.15	826.14
1	1,927.78	12	8	4	66.67	1,427.25	-2,159.69	657.62	-833.29	0.79	1.58	160.65

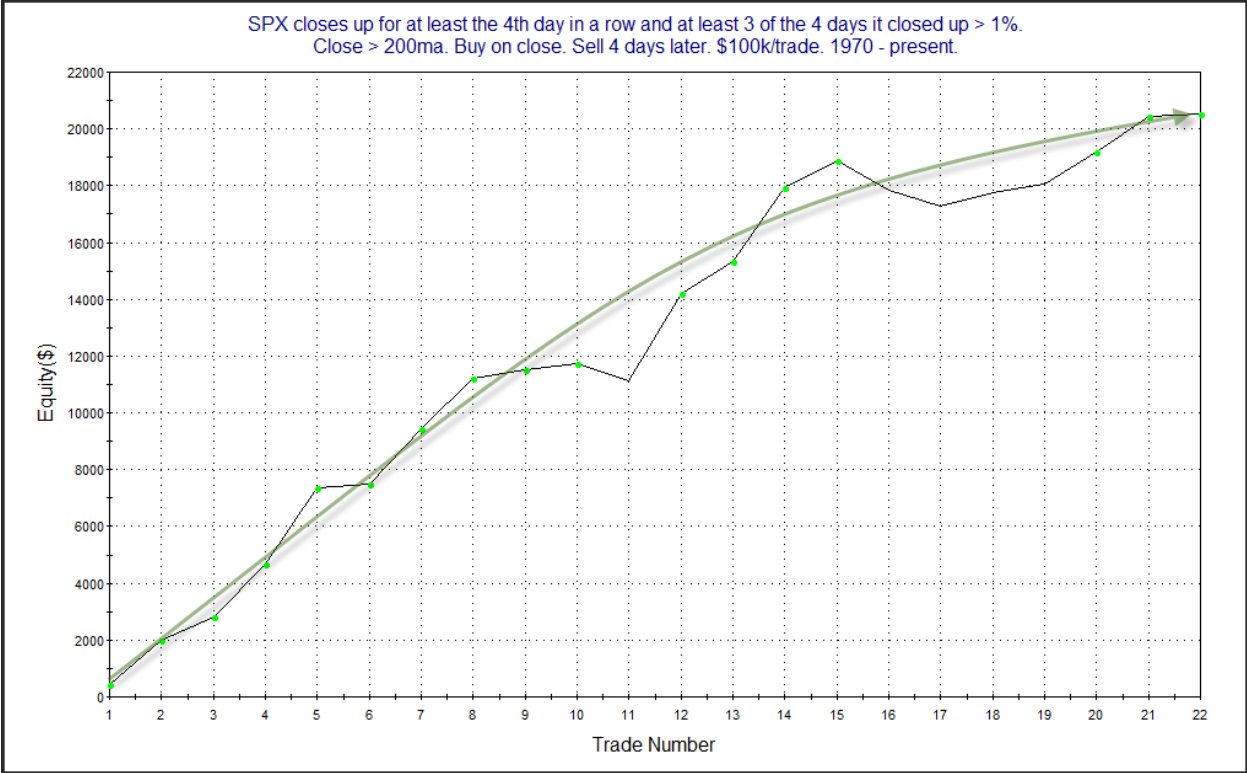
Instances are low, but larger gains have seemed to do even better.

I saw some chatter on Twitter today about how rare it is to see SPX close up > 1% for 4 days in a row. In fact, when filtering to see times it has occurred since 1970 with SPX closing above the 200ma, there was only one other instance – 10/11/82. But we did have a study in the Quantifinder that looked at strong 4-day win streaks that required at least 3 days close up 1% or more. That was last seen in the 2/15/18. I have updated it below.

SPX closes up for at least the 4th day in a row and at least 3 of the 4 days it closed up > 1%.  
Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1970 - present.

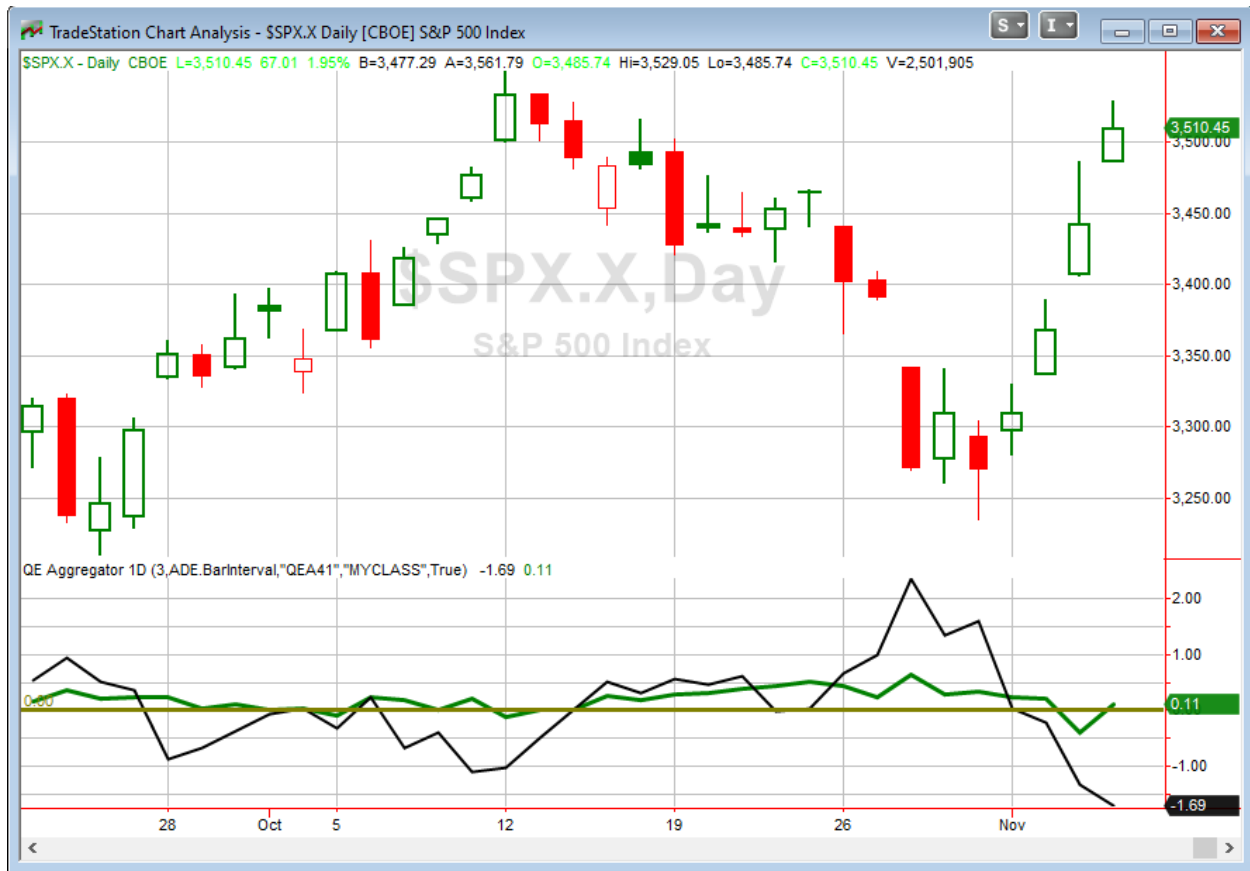
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	22,634.27	22	17	5	77.27	3,581.50	-1,493.32	1,655.89	-1,103.19	1.50	5.10	1,028.83
4	20,547.99	22	19	3	86.36	3,067.74	-1,043.86	1,200.25	-752.27	1.60	10.10	934.00
3	19,803.11	22	16	6	72.73	4,318.58	-1,698.57	1,461.27	-596.21	2.45	6.54	900.14
2	9,067.04	22	13	9	59.09	2,586.57	-1,301.14	989.61	-421.99	2.35	3.39	412.14
1	2,846.79	26	13	13	50.00	2,609.46	-1,362.90	690.23	-471.25	1.46	1.46	109.49

The numbers above suggest a bullish edge. Below is a look at the profit curve assuming a 4-day holding period.



The curve has moved from lower left to upper right, and seems to offer some confirmation of the bullish numbers.

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



With tonight's evidence considered, the green Aggregator Line moved above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line fell further below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is strongly overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned flat at the close.

Based on the current list of studies, expectations are set to remain bullish on Friday. This could change if new bearish evidence emerged. Meanwhile, the Differential Pivot will be 3392.10 on Friday. That is 3.4% below Thursday's close. That would be a very large 1-day drop. A more likely scenario for working off the overbought condition would be a multi-day pullback or consolidation.

So the Aggregator is flat. SPX is strong overbought on a short-term basis, but momentum studies are showing there is a decent chance the run-up continues. This all suggests reward/risk is not very appealing. I'm now sidelined and awaiting the next favorable opportunity.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 11/2 – slightly bullish***

The intermediate-term outlook was last updated in the 11/2/20 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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