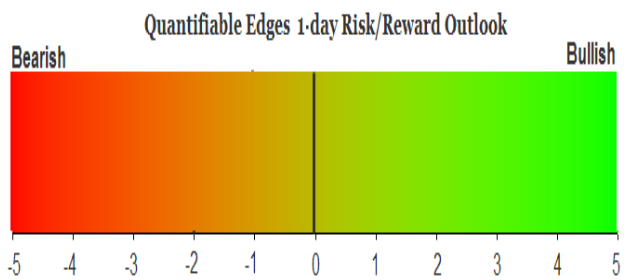
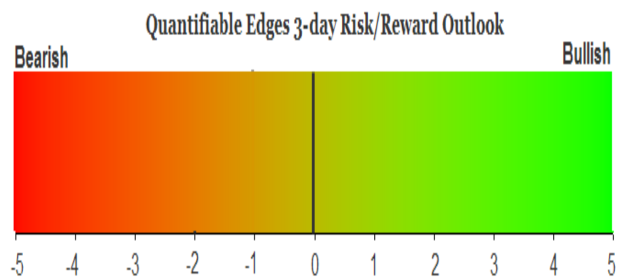
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 9, 2020 Volume 13 Issue 218

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- When an overbought market has pulled back as little as it did Tuesday, it may not want to pullback at all, and has often continued higher over the next 1 to 2 days.
- This past week saw a massive rebound. It is unusual to continue to see the market continue to rocket higher after such a move.
- The Fed continues to pump liquidity, and that is favorable for the bulls.

Short-term Outlook
The Bottom Line
The Aggregator is neutral and so am I.

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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 9, 2020	SPX down. RSI2 > 90	1-2 days	Bullish			
November 6, 2020	Up > 2% ove 3 days.3/10 OffHV < 0.25	1-5 days	Bullish			
November 6, 2020	Up 4 days. 3 > 1%	1-4 days	Bullish			
November 6, 2020	10-high. No 100-high. Fed Day	1-2 days	Bearish			
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

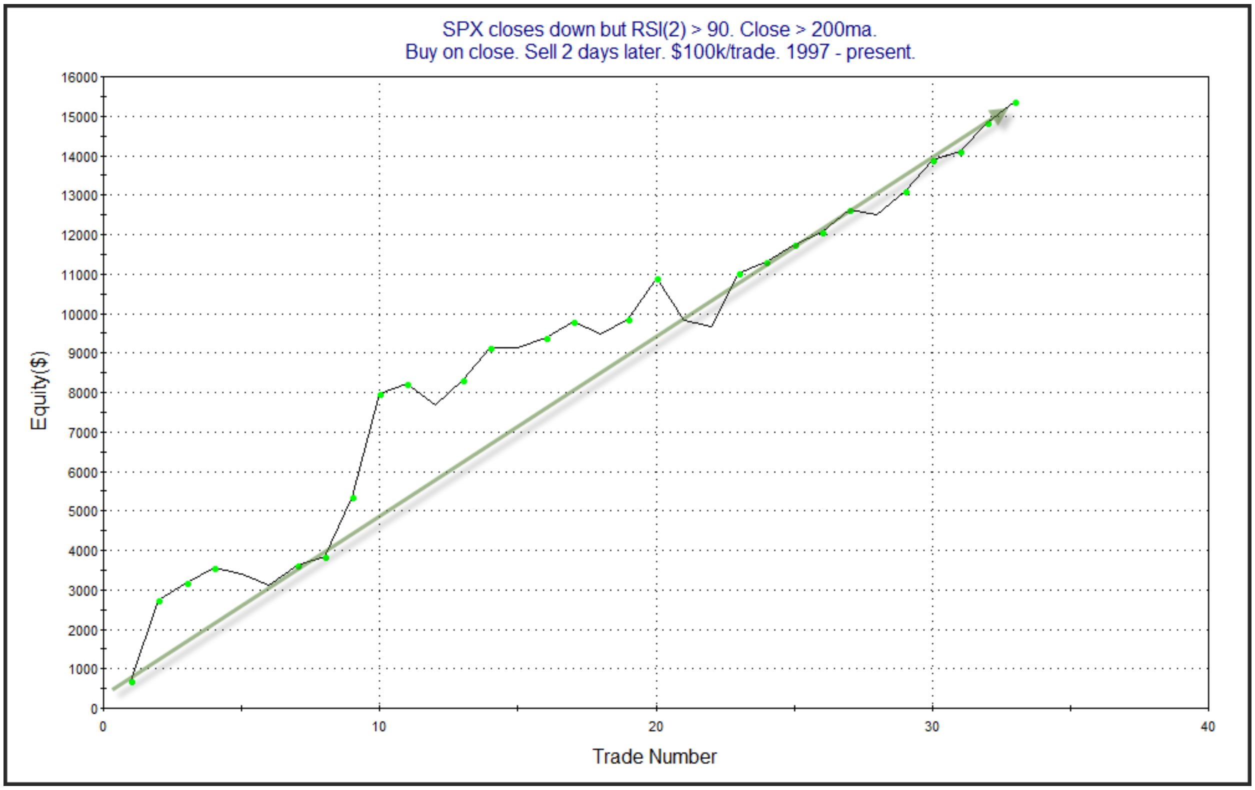
Friday was mixed and mild. SPX closed down 0.03%, the NASDAQ rose 0.04%, and the Russell 2000 fell 0.96%. Breadth was negative with the NYSE Up Issues % coming in at 39% and the Up Volume % at 45%. NYSE total volume rose some from Thursday's level.

The recent move higher has many oscillators strongly overbought short-term. With such a small SPX decline on Friday, it is still strongly overbought as measured by the 2-day RSI. The 2-day RSI is a sensitive indicator so it would take a very small decline from a very overbought position in order for it to remain above 90 on a down day. This is what happened on Friday. It triggered the study below from the 12/26/19 letter, which I have updated.

SPX closes down but RSI(2) > 90. Close > 200ma.
Buy on close. Sell X days later. $100k/trade. 1997 - present.

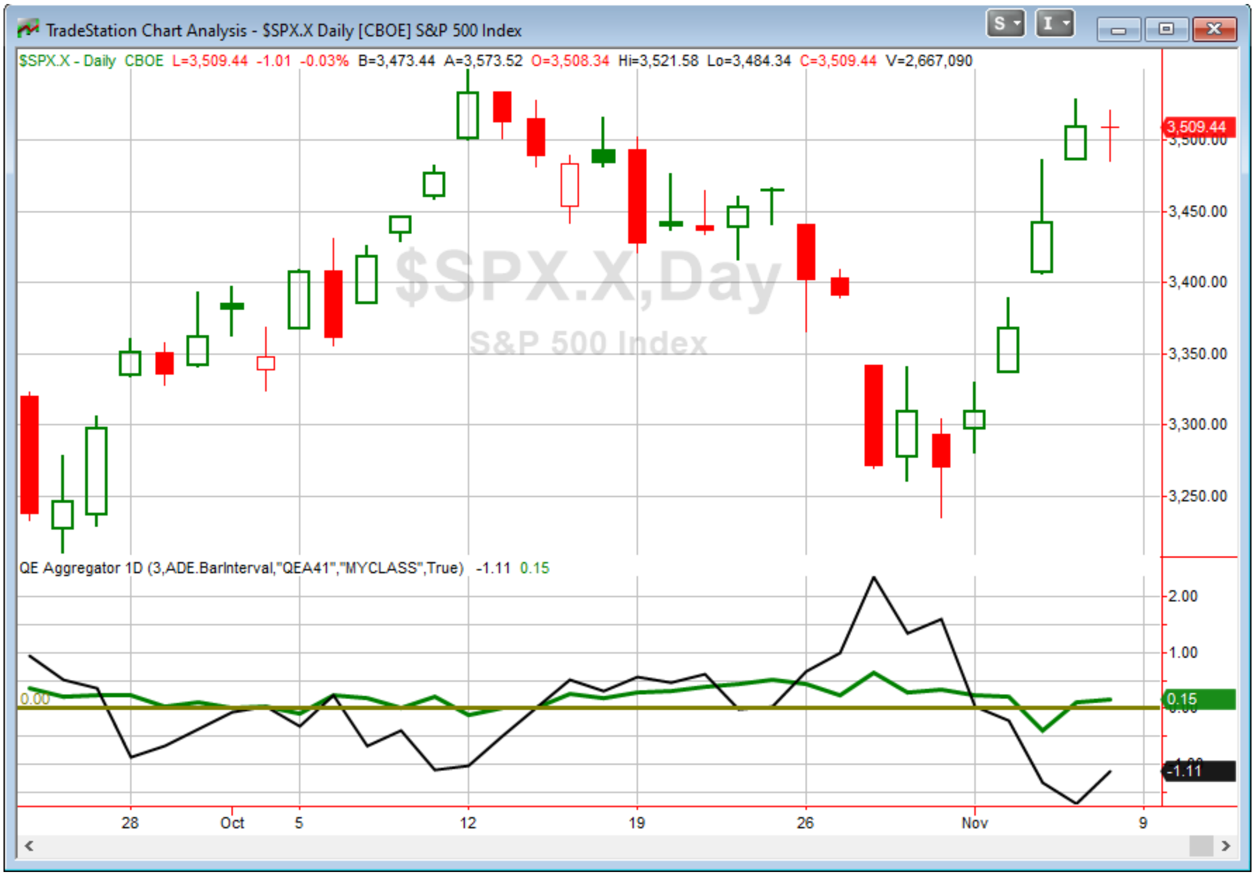
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	7,520.03	30	15	15	50.00	4,121.28	-2,008.73	1,214.62	-713.28	1.70	1.70	250.67
4	6,945.49	31	18	13	58.06	3,806.46	-1,717.70	926.70	-748.85	1.24	1.71	224.05
3	13,309.31	33	20	13	60.61	2,923.44	-1,123.50	934.02	-413.17	2.26	3.48	403.31
2	15,356.51	33	25	8	75.76	2,619.76	-1,054.68	719.83	-329.91	2.18	6.82	465.35
1	6,643.48	33	22	11	66.67	2,310.88	-704.76	456.50	-309.04	1.48	2.95	201.32

The stats here are all appealing over the 1-2 day period. Winning %, win/loss ratio, and profit factor all strongly favor the bulls. Below is a profit curve assuming a 2-day holding period.



The profit curve shows a strong and steady upslope. I have added this study to the 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 again 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 stayed flat at the close.

Based on the current list of studies, expectations are set to remain bullish on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3444.35 on Monday. That is 1.9% below Friday's close. Therefore, SPX will need to close down at least 1.9% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is again flat. SPX is strongly overbought, but evidence suggests the overbought condition is likely to persist. That means this does not appear to be a great entry point. I'll wait for either 1) compelling bearish evidence to emerge to suggest a downside edge, or 2) a pullback offering a better entry point for a long setup. For now, I'll be patient, and see how the market wants to respond after the strong rally of the last week.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/9 – 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 getting thumped the week before, this past week saw a huge rebound. The SPX gained 7.3%, the NASDAQ rallied 9.0%, and the Russell 2000 rose 6.9%. That is a fairly incredible bounce back.

Below is a look at all other times the S&P 500 lost 5% or more one week, and then made up for the losses and more the next week.

After closing down > 5% last week, SPX more than makes up for the loss the next week. Forward returns shown.

Ticker	Date/Time	Close	1-Week % Chg	2-Week % Chg	3-Week % Chg	4-Week % Chg	5-Week % Chg	13-Week %Chg	26-Week % Chg	52-Week % Chg
$SPX	10/11/1929	30.76	-6.24	-15.08	-21.49	-31.14	-34.01	-29.94	-15.99	-41.12
$SPX	6/23/1933	10.56	3.31	13.26	12.22	-8.62	-1.23	-2.84	-6.63	-7.58
$SPX	9/21/1934	8.95	1.45	0.56	2.68	0.89	-1.68	1.01	-4.47	25.81
$SPX	10/31/2008	968.75	-3.9	-9.85	-17.42	-7.48	-9.57	-14.75	-9.42	6.96
$SPX	11/28/2008	896.24	-2.25	-1.84	-0.93	-2.62	3.97	-17.98	2.56	21.79
$SPX	3/13/2009	756.55	1.58	7.85	11.36	13.22	14.94	25.07	37.83	52
$SPX	7/9/2010	1077.96	-1.21	2.29	2.19	4.05	0.12	8.09	17.95	24.66
$SPX	11/6/2020	3509.44	0	0	0	0	0	0	0	0
		Avg	-1.04	-0.40	-1.63	-4.53	-3.92	-4.48	3.12	11.79

1929 & 1933 were the only 2 instances to occur with SPX above its 40-week mov avg until 11/6/20.

Instances are very few. Three in the 1930s, three in the 2007-2009 bear market, and then once in 2010 before this past week. Results are mostly mixed, with some struggles occurring over the next 13 weeks. Does not appear to be a great signal, but expecting the turnaround to continue to jet higher from here may be a bit optimistic.

I also looked back at all other times the NDX rose at least 8% in one week. (It was up 9.4% this past week.)

NDX closes up over 8% this week and above its 40-week moving average.

Ticker	Date/Time	Close	Next Week % Chg	2-Week % Chg	3-Week % Chg	4-Week % Chg	5-Week % Chg	13-Week %Chg	26-Week % Chg	52-Week % Chg
$NDX	1/9/1987	156.99	3.52	6.23	6.17	11.24	14.06	19.93	20.22	0.77
$NDX	5/2/1997	909.49	1.06	0.64	5.45	5.43	3.9	21.93	12.11	37.61
$NDX	10/16/1998	1293.91	3.61	8.24	12.71	13.24	19.35	53.15	61.25	85.78
$NDX	1/29/1999	2127.19	-6.52	-7.93	-9.2	-9.49	-7.4	0.43	6.76	62
$NDX	2/4/2000	3874.37	2.44	2.36	7.85	14.67	18.4	-4.8	-6.6	-36.19
$NDX	4/20/2000	3505.29	7.64	5.22	-2.83	-6.98	-11.52	11.51	-1.39	-44.84
$NDX	6/2/2000	3755.67	0.12	0.84	-1.87	0.22	2.28	9.15	-32.11	-50.99
$NDX	3/8/2002	1555.11	-3.84	-5.47	-6.58	-11.47	-13.07	-26.68	-40.7	-36.54
$NDX	4/9/2020	8238.53	7.21	6.65	5.82	11.92	11.1	31.53	42.33	46.77
$NDX	11/6/2020	12091.35	0	0	0	0	0	0	0	0
		Avg	1.69	1.86	1.95	3.20	4.12	12.91	6.87	7.15

Results here tilt bullish, but again they are rare and generally moderate for the 1st several weeks. These studies both seem to suggest some consolidation may be needed soon.

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

« As of 10/28/2020

DOMESTIC SECURITIES HOLDINGS AS OF

November 4, 2020

Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies

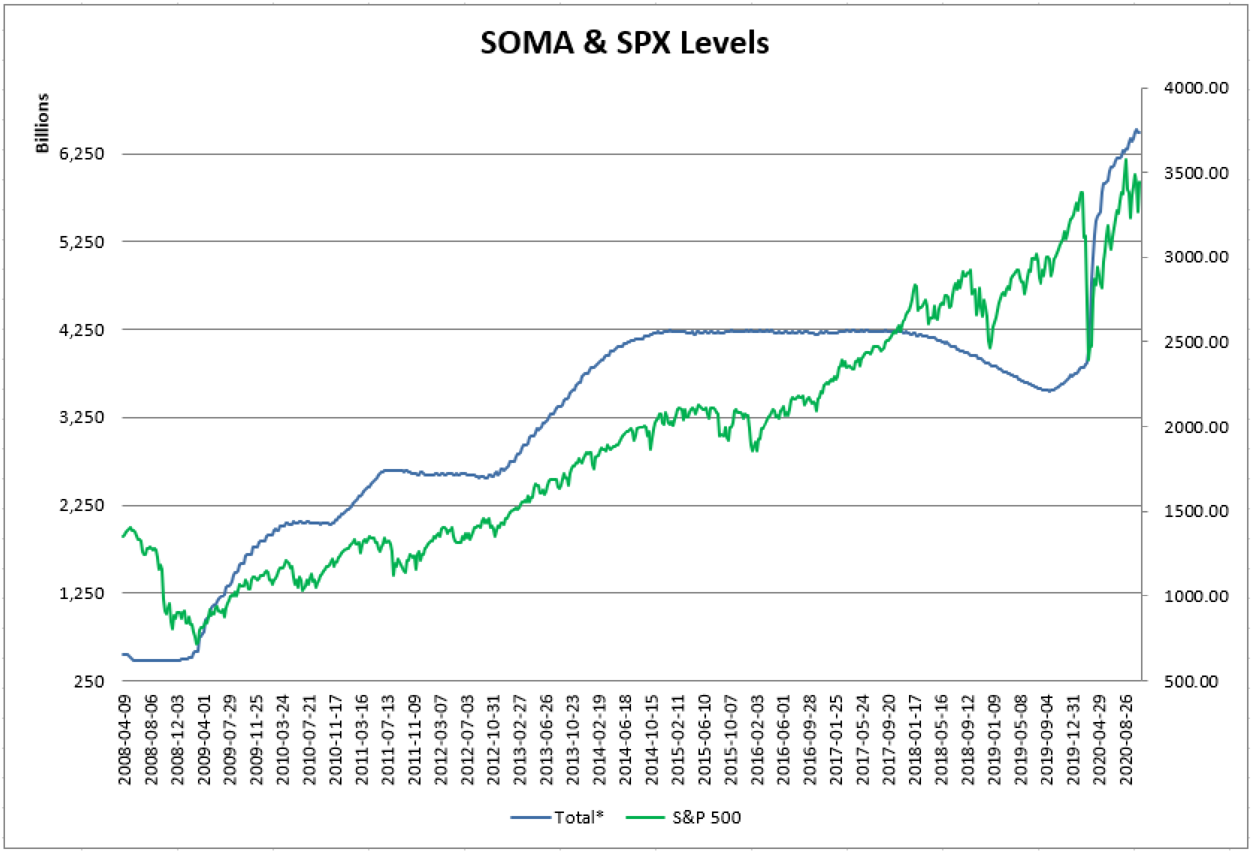
Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,855,462,937.5
US Treasury Floating Rate Notes (FRN)	17,269,242.7
US Treasury Inflation-Protected Securities (TIPS)*	297,162,683.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,990,593,266.4
Agency Commercial Mortgage-Backed Securities***	9,731,073.4
Total SOMA Holdings	6,498,610,203.1
Change From Prior Week	10,689,005.5

*Does not reflect inflation compensation of 42,148,130.4

**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.

This past week saw the SOMA rise by about $11 billion. That is a fairly moderate week for the current schedule. 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. Nothing substantial changed in the Fed statement this past week. 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 somewhat bullish. Intermediate-term evidence is leaning bullish. The NASDAQ is leading, we are now in the "Best 6 Months" (though at a weak time in the Presidential Cycle), breadth is favorable, and momentum is strong. The Fed's continued pumping is also a large plus for the bulls. The bears should be on the lookout for economic and business impacts of further COVID spikes. If breadth wanes, that could be an issue. And while the Presidential election seems to be decided, the political atmosphere could remain charged. It appears there will be two run-off elections in Georgia on January 5th, and if Democrats win both of those, they will control the senate. So Republicans and Democrats all around the country will be focused on Georgia politics for the next two months in a way that we have never seen before. And the market will be keenly interested as well. The result of the Georgia senate races will determine whether Biden will be able to push through many of his proposed changes, including taxes rate increases, capital gains treatment changes, the financial transaction tax, Green New Deal initiatives, and more. It could be a closely watched market story over the next few months. Closer-term, stimulus talks will come back into play shortly. Overall, I remain "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

None