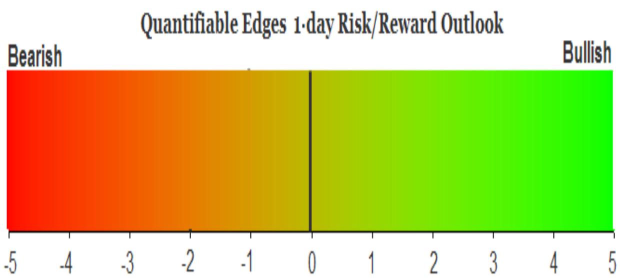
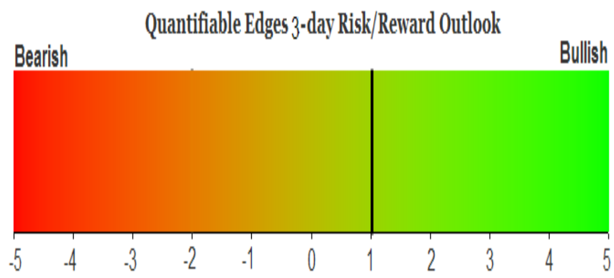
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 16, 2020 Volume 13 Issue 223

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The low volume on the breakout is a bullish sign for follow through over the next few days.
- SPY's unfilled gap up on the new-high breakout is a short-term positive.
- The NASDAQ has fallen into a lagging position.
- SPX has strong momentum, closing above it 50-day Bollinger Band. This has typically been a positive for the market.
- The SOMA saw a $15 billion increase this past week as the Fed continues to pump.

Short-term Outlook
The Bottom Line

The Aggregator is neutral. Evidence is pointing higher, but the market is a bit overbought for a favorable entry right here.

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 16, 2020	SPX breakout on declining volume	1-5 days	Bullish	1.50%	-1.00%	-1.90%
November 16, 2020	SPY breakaway gap	1-5 days	Bullish	1.40%	-0.90%	-1.90%
November 10, 2020	DJI 50-low to 50-high in 10 days	1-5 days	Bullish			
Active - Long Term						
November 16, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
November 2, 2020	Best 6 Months	1-6 months	Bullish			
September 28, 2020	4 weeks down > 40-week ma	1-10 weeks	Bullish	8.60%	-3.10%	-7.40%
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			

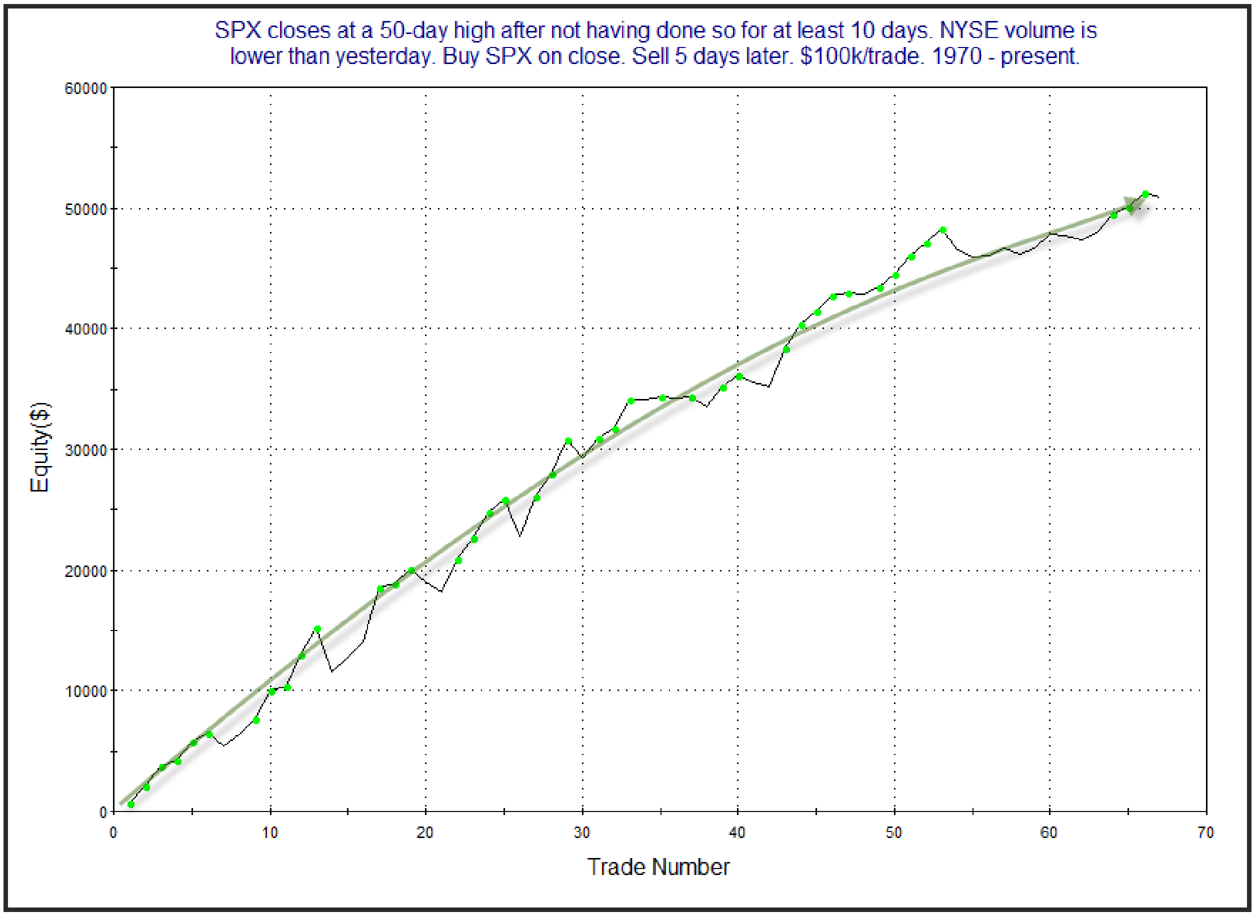
The Evidence

Friday the market rallied strongly. SPX gained 1.4%, the NASDAQ rose 1.0%, and the Russell 2000 jumped 2.1%. Breadth was positive with the NYSE Up Issues % coming in at 81% and the Up Volume % at 73%. NYSE total volume declined some from Thursday's level.

The SPX closed at a new all-time high for the 1st time since September. SPX breakout days often give clues as to whether we are likely to see additional follow through. Friday's volume is encouraging. For a breakout to have a good chance of success you generally want volume to come in either 1) lower than the day before (like Friday), or 2) extremely high. Moderate but increasing volume is the worst scenario. To see why I say this, take a look at the 3 studies below, which were last seen in the 7/21/20 letter. The first one examines new breakouts like Friday's, that occur on declining volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is lower than yesterday. Buy SPX 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
20	45,330.47	63	37	26	58.73	11,088.84	-8,157.10	2,647.05	-2,023.48	1.31	1.86	719.53
19	41,879.10	64	38	26	59.38	9,628.99	-9,056.82	2,466.08	-1,993.53	1.24	1.81	654.36
18	43,024.61	64	41	23	64.06	11,076.80	-9,094.80	2,348.92	-2,316.57	1.01	1.81	672.26
17	40,310.71	64	41	23	64.06	10,017.28	-8,682.96	2,328.78	-2,398.66	0.97	1.73	629.85
16	47,726.28	64	42	22	65.63	10,944.36	-9,243.81	2,393.00	-2,399.09	1.00	1.90	745.72
15	44,474.56	64	44	20	68.75	8,357.91	-9,354.92	2,195.60	-2,606.59	0.84	1.85	694.92
14	49,278.64	66	47	19	71.21	9,189.84	-6,525.68	2,012.28	-2,384.13	0.84	2.09	746.65
13	49,135.32	67	45	22	67.16	7,920.66	-5,160.09	2,008.77	-1,875.42	1.07	2.19	733.36
12	32,236.69	67	39	28	58.21	5,996.75	-4,539.14	1,977.88	-1,603.60	1.23	1.72	481.14
11	26,285.82	67	37	30	55.22	5,809.60	-6,029.07	1,929.94	-1,504.06	1.28	1.58	392.33
10	24,389.93	67	36	31	53.73	5,960.00	-4,324.52	1,873.00	-1,388.33	1.35	1.57	364.03
9	28,741.50	67	43	24	64.18	5,147.20	-5,812.26	1,545.63	-1,571.69	0.98	1.76	428.98
8	33,106.95	67	46	21	68.66	5,096.00	-4,186.55	1,399.89	-1,489.91	0.94	2.06	494.13
7	36,592.18	67	45	22	67.16	4,655.00	-3,211.35	1,312.84	-1,022.07	1.28	2.63	546.15
6	50,243.75	67	47	20	70.15	5,002.50	-3,563.65	1,396.56	-769.73	1.81	4.26	749.91
5	50,944.18	67	49	18	73.13	4,482.50	-3,693.73	1,382.62	-933.58	1.48	4.03	760.36
4	32,603.96	67	47	20	70.15	4,440.00	-2,913.85	1,114.26	-988.32	1.13	2.65	486.63
3	31,804.91	67	44	23	65.67	3,950.00	-1,802.37	1,081.94	-686.98	1.57	3.01	474.70
2	20,465.33	67	45	22	67.16	2,212.98	-1,912.60	760.16	-624.62	1.22	2.49	305.45
1	6,902.96	67	42	25	62.69	1,384.02	-1,921.32	434.54	-453.91	0.96	1.61	103.03

Numbers here appear pretty solid over the next 5 days. Beyond that there has not really been any follow through. So the breakout here does not appear to be a great intermediate-term signal. Below is a look at a 5-day profit curve.



The move from lower left to upper right is encouraging, and suggests Friday's breakout is likely to see additional follow through this upcoming week. Next, let's look at times where there was extremely strong volume (20-day high volume).

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume the highest in 20 days. Buy SPX 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
20	13,031.24	41	22	19	53.66	8,953.20	-8,308.32	3,632.58	-3,520.30	1.03	1.19	317.84
19	9,552.80	41	23	18	56.10	8,942.40	-7,980.00	3,409.41	-3,825.76	0.89	1.14	233.00
18	20,487.18	41	23	18	56.10	9,613.50	-7,323.36	3,674.90	-3,557.53	1.03	1.32	499.69
17	14,495.33	41	24	17	58.54	9,069.84	-8,144.90	3,274.62	-3,770.32	0.87	1.23	353.54
16	20,007.40	41	23	18	56.10	8,048.82	-8,109.35	3,530.65	-3,399.87	1.04	1.33	487.99
15	13,894.74	41	23	18	56.10	7,668.00	-8,358.20	3,424.99	-3,604.45	0.95	1.21	338.90
14	16,279.91	41	23	18	56.10	8,128.38	-8,338.45	3,302.74	-3,315.73	1.00	1.27	397.07
13	23,912.30	41	24	17	58.54	7,478.64	-8,251.55	3,054.35	-2,905.42	1.05	1.48	583.23
12	20,404.52	41	23	18	56.10	7,352.31	-8,757.15	2,796.65	-2,439.91	1.15	1.46	497.67
11	26,835.40	41	26	15	63.41	6,782.40	-6,975.70	2,514.89	-2,570.12	0.98	1.70	654.52
10	30,154.41	41	24	17	58.54	6,199.20	-3,730.08	2,487.82	-1,738.42	1.43	2.02	735.47
9	27,719.41	41	24	16	58.54	6,418.16	-3,113.22	2,272.85	-1,676.82	1.36	2.03	676.08
8	29,414.70	41	24	17	58.54	6,220.34	-2,943.34	2,245.80	-1,440.27	1.56	2.20	717.43
7	30,234.26	41	25	16	60.98	5,264.21	-2,946.00	2,017.12	-1,262.11	1.60	2.50	737.42
6	33,027.27	41	28	13	68.29	4,695.76	-3,093.30	1,753.17	-1,235.50	1.42	3.06	805.54
5	29,294.27	41	26	15	63.41	4,771.60	-2,562.72	1,655.48	-916.55	1.81	3.13	714.49
4	20,358.72	41	26	15	63.41	3,165.12	-1,948.21	1,266.35	-837.76	1.51	2.62	496.55
3	17,058.61	41	26	15	63.41	2,989.36	-2,188.15	1,086.30	-745.67	1.46	2.53	416.06
2	27,121.51	41	27	13	65.85	3,813.53	-1,259.60	1,181.81	-368.26	3.21	6.67	661.50
1	15,065.40	41	29	12	70.73	2,755.52	-1,292.50	648.11	-310.81	2.09	5.04	367.45

Numbers here are quite similar, with the first week getting solid follow-through buying once again. Next, let's look at rising but moderate volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is higher than yesterday but < 20-day high. Buy SPX 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
20	1,934.98	103	51	52	49.51	13,401.70	-11,541.15	3,252.65	-3,152.88	1.03	1.01	18.79
19	15,045.39	103	54	49	52.43	9,135.36	-11,854.89	3,067.77	-3,073.76	1.00	1.10	146.07
18	16,483.11	104	57	47	54.81	9,503.00	-10,293.66	2,879.69	-3,141.69	0.92	1.11	158.49
17	11,596.72	104	57	47	54.81	9,962.68	-9,419.67	2,774.33	-3,117.88	0.89	1.08	111.51
16	2,447.58	106	58	48	54.72	8,910.72	-11,033.63	2,611.91	-3,105.07	0.84	1.02	23.09
15	9,420.92	106	57	49	53.77	8,150.48	-10,321.97	2,528.91	-2,749.53	0.92	1.07	88.88
14	-2,637.16	106	59	47	55.66	7,702.40	-10,120.46	2,304.64	-2,949.17	0.78	0.98	-24.88
13	-4,357.10	106	56	50	52.83	7,911.80	-9,725.34	2,292.09	-2,654.29	0.86	0.97	-41.10
12	-5,914.02	107	58	49	54.21	10,197.98	-9,869.02	2,139.29	-2,652.92	0.81	0.95	-55.27
11	3,226.82	107	57	50	53.27	10,380.37	-9,482.88	2,185.85	-2,427.34	0.90	1.03	30.16
10	-2,621.51	107	55	52	51.40	10,515.18	-8,683.66	2,091.17	-2,262.23	0.92	0.98	-24.50
9	2,598.16	107	53	54	49.53	8,413.73	-6,878.68	2,072.62	-1,986.12	1.04	1.02	24.28
8	-2,978.62	107	59	48	55.14	8,532.68	-7,076.24	1,641.96	-2,080.30	0.79	0.97	-27.84
7	14,486.34	107	58	49	54.21	6,337.26	-7,255.84	1,687.77	-1,702.12	0.99	1.17	135.39
6	10,793.68	107	60	47	56.07	6,819.80	-7,103.18	1,459.89	-1,634.03	0.89	1.14	100.88
5	5,454.73	107	53	54	49.53	8,516.82	-6,088.44	1,498.52	-1,369.76	1.09	1.07	50.98
4	-1,463.54	107	59	48	55.14	6,716.71	-5,585.56	1,206.91	-1,513.98	0.80	0.98	-13.68
3	9,471.04	107	62	45	57.94	6,740.50	-5,361.06	1,098.07	-1,302.44	0.84	1.16	88.51
2	3,708.43	107	63	44	58.88	4,028.44	-4,276.16	761.68	-1,006.31	0.76	1.08	34.66
1	9,930.76	107	61	46	57.01	2,731.56	-2,722.61	507.36	-456.92	1.11	1.47	92.81

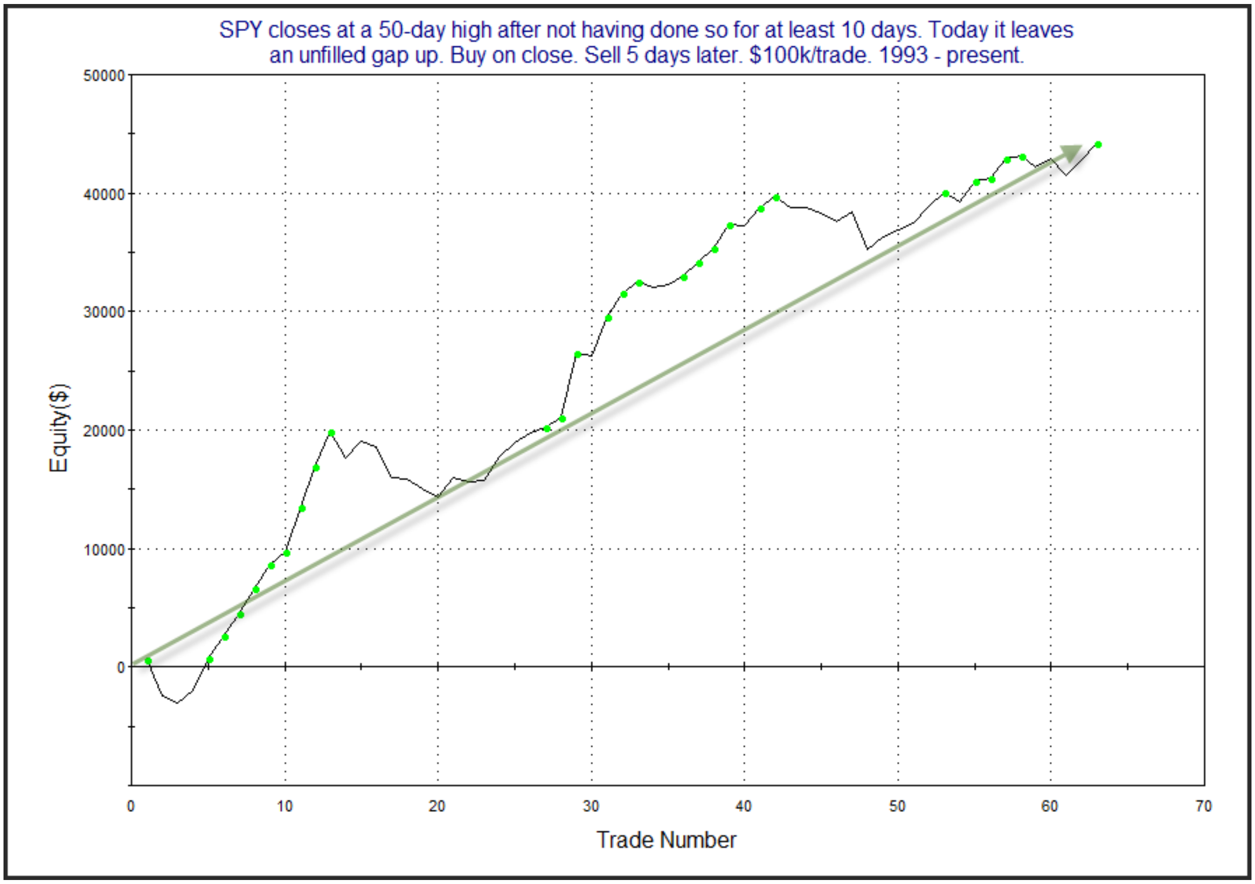
This does not appear to suggest any edge over the next 1-4 weeks.

SPY breakout action also provided some bullish evidence. This is because the breakout came with an unfilled gap up. I last showed the importance of an unfilled gap in the 5/19/20 subscriber letter. I have updated those studies below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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	44,208.32	63	44	19	69.84	5,434.00	-3,218.88	1,470.72	-1,079.14	1.36	3.16	701.72
4	27,711.65	63	43	20	68.25	3,637.92	-3,267.84	1,137.69	-1,060.44	1.07	2.31	439.87
3	21,223.61	63	42	21	66.67	3,992.56	-2,538.18	985.48	-960.31	1.03	2.05	336.88
2	17,691.62	63	41	22	65.08	2,545.92	-2,293.20	744.12	-582.60	1.28	2.38	280.82
1	6,059.90	63	43	20	68.25	1,816.10	-2,591.68	447.40	-658.92	0.68	1.46	96.19

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

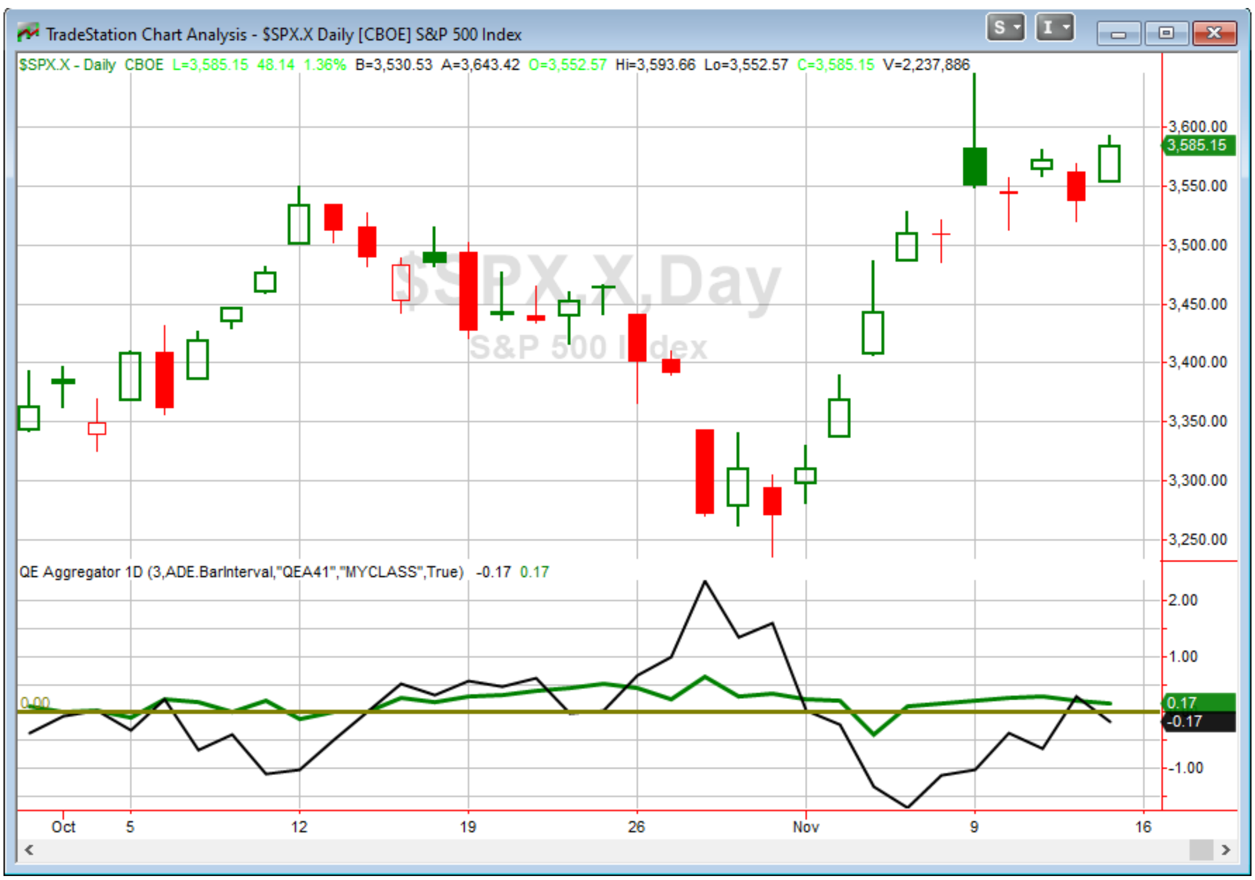
Technicians will often use the term "breakaway gap". This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn't immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let's look at instances where the 50-day high breakout was ***not*** accompanied by an unfilled gap. Interestingly, the number of instances was a bit lower here. This study also appeared in the 5/19/20 letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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	4,416.79	47	28	19	59.57	2,671.20	-4,285.26	1,035.78	-1,293.95	0.80	1.18	93.97
4	-285.30	47	27	20	57.45	2,072.07	-4,518.34	964.12	-1,315.83	0.73	0.99	-6.07
3	5,283.71	47	28	19	59.57	2,927.90	-5,133.72	988.84	-1,179.15	0.84	1.24	112.42
2	-816.35	47	25	22	53.19	2,324.90	-3,640.86	643.16	-767.97	0.84	0.95	-17.37
1	2,977.38	47	26	21	55.32	1,586.97	-2,448.72	470.61	-440.88	1.07	1.32	63.35

Moves to new highs that don’t start with an unfilled gap are much less reliable. I have been showing this study for 12 years or so, and I still find it amazing how more breakouts occur with an unfilled gap up than without one.

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 fell back below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is 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 Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 3599.13 on Monday. That is 0.4% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up at least 0.4% in order to remain overbought. Anything shy of that means it will be "oversold" vs expectations as of Monday's close.

So the Aggregator is neutral. The move higher looks like it has a good chance to continue over the short-term, but with the market currently overbought, reward/risk is not great. It does appear that things are lining up for a long-side edge if the market does not run away here immediately. Aggressive short-term traders could look to enter on weakness Monday. I am more inclined to wait for a more substantial edge in the form of a pullback entry.

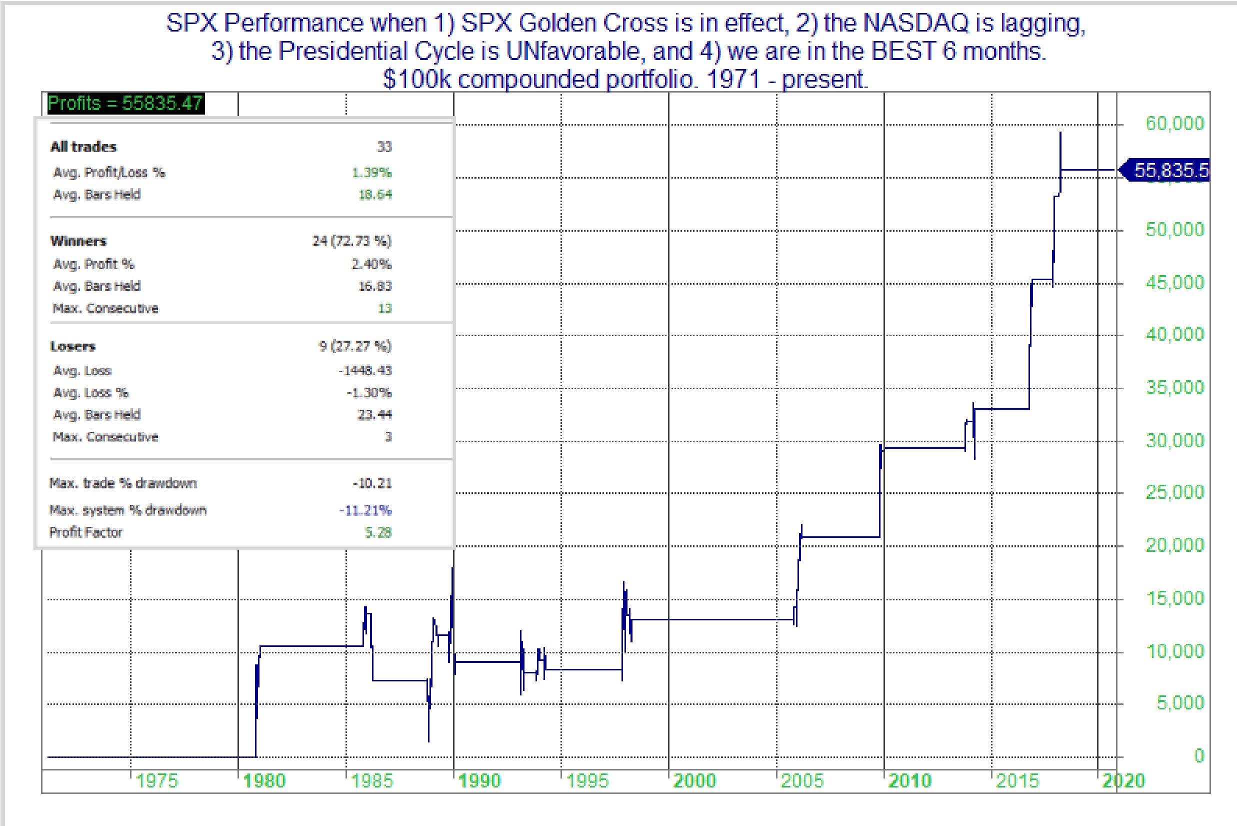
Intermediate-term Outlook (2 weeks – 2 months) – updated 11/16 – slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Flat

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 Combo System #3 changed from Long to Flat.*

This week saw a massive rotation and mixed results for the indices. The SPX rose 2.2%, the NASDAQ lost 0.55%, and the Russell 2000 rallied huge with a 6.1% gain. The SPX and Russell also closed at new all-time highs on Friday. For the Russell, it was the 1st all-time high since 2018. So from a trend standpoint, the uptrend certainly seems to be in place.

The struggling NASDAQ did cause our NASDAQ/SPX lead/lag indicator to flip, so that SPX is now the leader. Historically, nearly all of the gains the market has achieved since 1971 have come when the NASDAQ was leading. When SPX has been in a leading position, the market has struggled to make much headway. I decided to examine performance when the Quantifiable Edges Market Timing Course indicators are in their current formation. Those results can be found below.

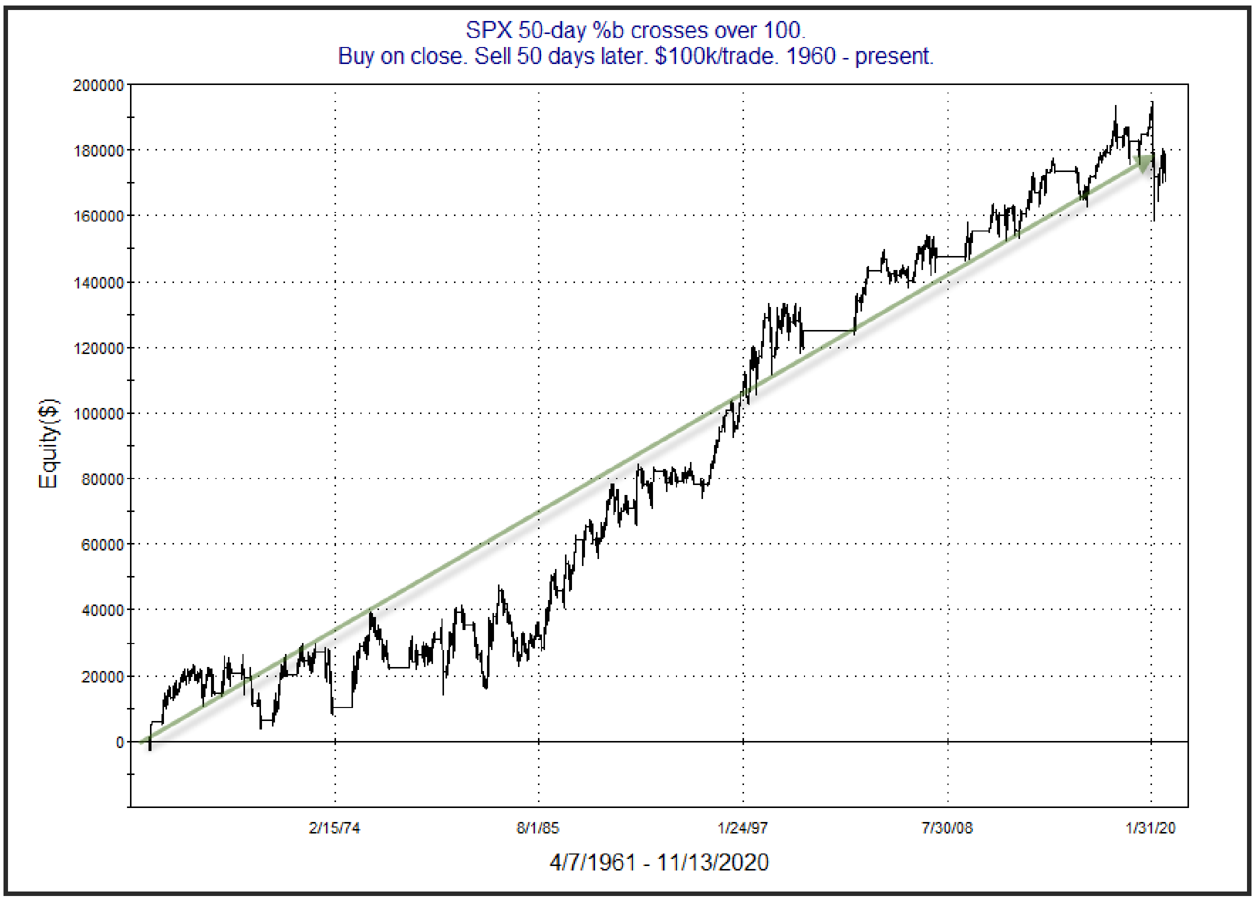


From 1971 – 2009, SPX struggled to make much headway with the current mix of indicators. But since 2009 or so, the setup has seen strong performance by SPX. So while a leading NASDAQ is preferable, the SPX being in the lead right now is ***not*** a big red flag.

A study that again triggered in the Quantifinder looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

SPX 50-day %b crosses over 100. Buy on close. Sell X days later. $100k/trade. 1960 - 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
50	178,357.25	141	86	55	60.99	18,408.18	-20,704.80	4,826.60	-4,304.19	1.12	1.75	1,264.95
45	133,179.03	147	84	63	57.14	15,816.57	-32,382.30	5,008.36	-4,563.86	1.10	1.46	905.98
40	143,450.44	152	91	61	59.87	17,624.67	-27,920.40	4,458.04	-4,298.88	1.04	1.55	943.75
35	146,946.88	160	96	64	60.00	15,782.13	-13,617.00	4,003.50	-3,709.20	1.08	1.62	918.42
30	100,390.91	167	100	67	59.88	11,920.74	-10,485.00	3,282.73	-3,401.23	0.97	1.44	601.14
25	63,556.19	175	100	75	57.14	10,859.94	-8,732.16	2,944.08	-3,078.02	0.96	1.28	363.18
20	60,225.03	188	107	81	56.91	9,501.30	-10,205.38	2,611.89	-2,706.75	0.96	1.27	320.35
15	49,878.23	206	119	87	57.77	7,843.46	-9,763.44	2,321.46	-2,602.02	0.89	1.22	242.13
10	36,708.88	230	140	90	60.87	8,239.16	-9,133.53	1,673.25	-2,194.96	0.76	1.19	159.60
5	14,019.28	281	158	123	56.23	5,030.81	-6,524.55	1,126.63	-1,333.24	0.85	1.09	49.89

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

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

« As of 11/04/2020

DOMESTIC SECURITIES HOLDINGS AS OF
November 10, 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)	3,869,996,937.5
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***	1,990,593,266.5
Agency Commercial Mortgage-Backed Securities***	9,774,248.1
Total SOMA Holdings	6,513,187,377.9
Change From Prior Week	14,577,174.7

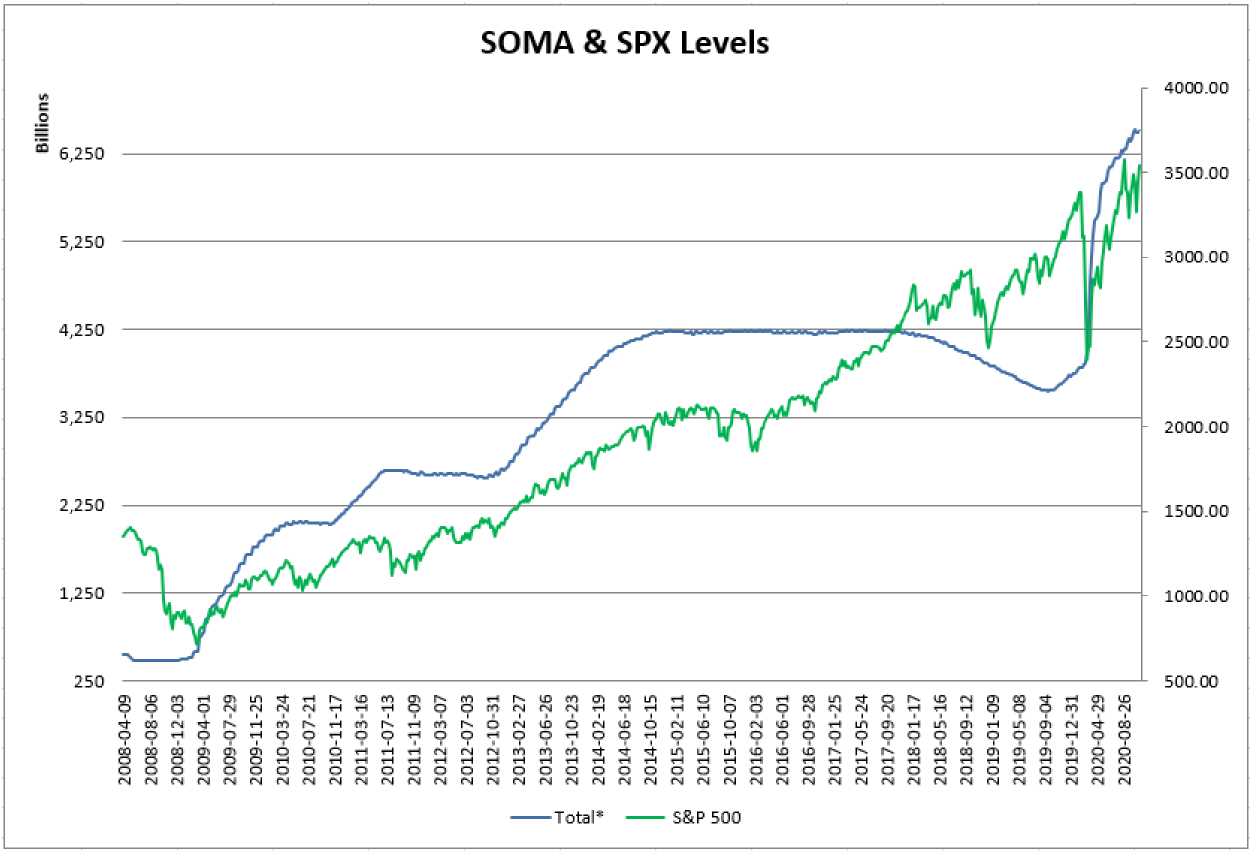
*Does not reflect inflation compensation of 42,258,393.

**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 11/12/2020 4:30pm.

This past week saw the SOMA rise by about $15 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. To this point, 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. Breadth is favorable, and momentum is strong with the SPX and Russell 2000 now at new highs. 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 restrictions. If breadth wanes, that could be an issue. If the NASDAQ continues to lag for an extended period, that could also be a drag. Stimulus talks are also worth keeping an eye on. 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