

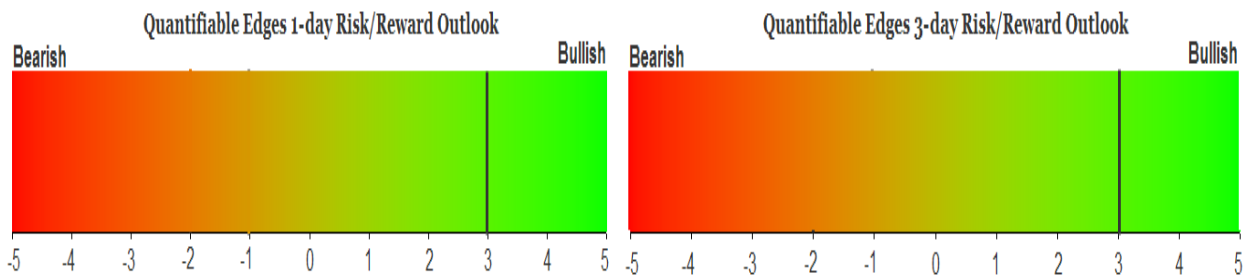
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 23, 2020

Volume 13 Issue 228

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Thanksgiving week tends to be favorable for the bulls.
- Two of the last 3 days have seen SPY close near its low, and that suggests a rebound could be setting up.
- The NASDAQ re-took a leading position vs SPX, which is a bullish indication.
- The Fed pumped \$82 billion this past week, a large liquidity inflow that supports the bulls.

Short-term Outlook

The Bottom Line

Evidence is building and SPX is oversold as we are entering a bullish week for the market. I like the long side.

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 23, 2020	2 of 3 close btm 10% daily. Close < 10ma	1-8 days	Bullish	2.90%	-1.30%	-2.80%
November 18, 2020	SPY unfilled gap up to 20-hi thn unfl dn	1-4 days	Bearish	-1.55%	0.70%	1.30%
November 17, 2020	VXO 10% below 10ma for 9 days	1-5 days	Bullish	1.80%	-1.00%	-2.60%
Active - Long Term						
November 23, 2020	NASDAQ Leading	int term	Bullish			
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
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%

The Evidence

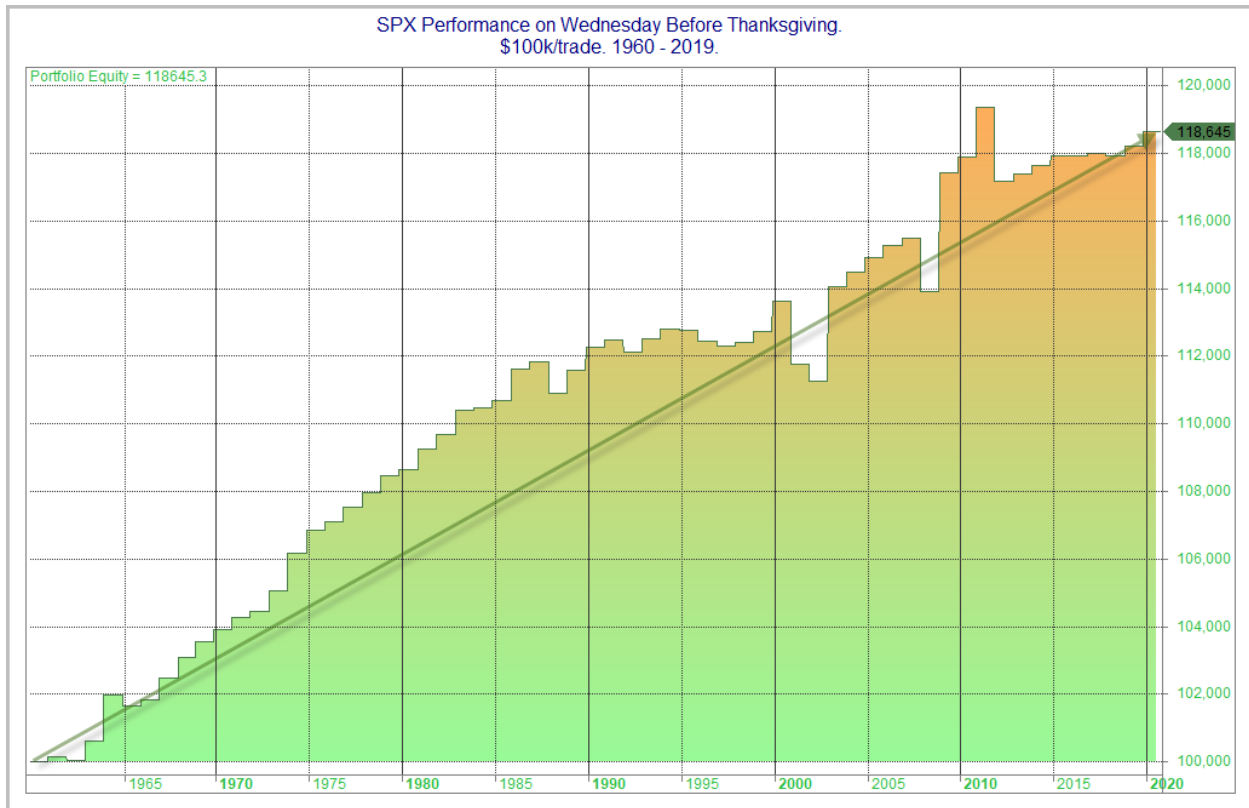
The market came in mostly lower on Friday. The SPX lost 0.7%, the NASDAQ fell 0.4%, and the Russell 2000 rose 0.1%. Breadth was negative with the NYSE Up Issues % coming in at 46% and the Up Volume % at 49%. NYSE total volume rose some from Thursday's level.

Thanksgiving week has shown some strong seasonal tendencies over the years. This is something I last showed in the 11/25/19 subscriber letter. I have re-run those studies and updated them below.

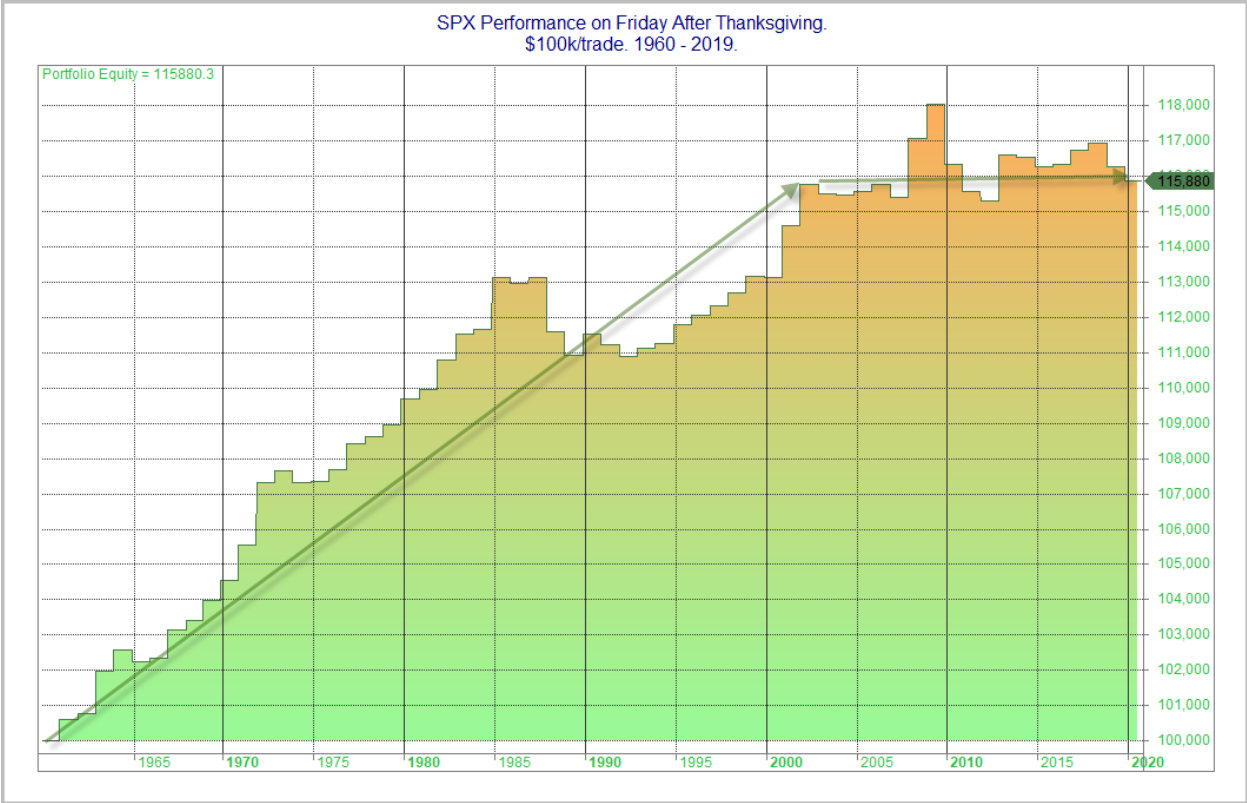
This first one breaks down performance during Thanksgiving week by day.

Thanksgiving Week Performance Broken Down By Day Of Week \$100k/trade in SPX. 1960 - 2019.										
Day	Net Profit	# Trades	# of wins	# of losers	Win %	W. Avg. Profit	L. Avg. Loss	Avg Profit/Loss	Profit Factor	
Monday After	-\$20,535.49	60	21	39	35	\$943.14	-\$1,034.39	-\$342.26	0.48	
Friday	\$15,880.25	60	42	18	70	\$580.47	-\$472.19	\$264.67	2.87	
Wednesday	\$18,645.34	60	47	13	78.33	\$576.69	-\$650.69	\$310.76	3.2	
Tuesday	\$1,561.69	60	36	24	60	\$550.30	-\$760.38	\$26.03	1.09	
Monday	\$2,596.62	60	28	32	46.67	\$1,023.79	-\$814.67	\$43.28	1.09	

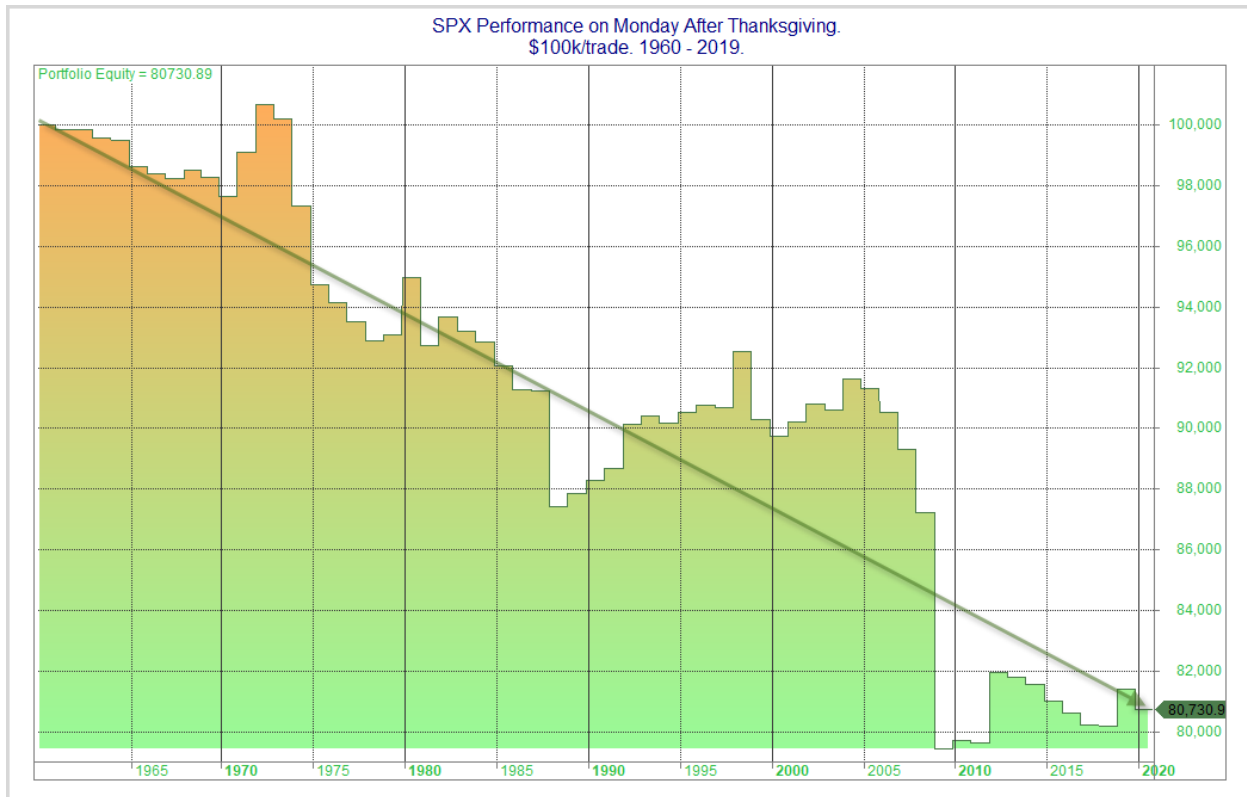
Monday and Tuesday don't show anything suggesting an edge. Wednesday and Friday, on the other hand, appear to be strongly bullish. And the Monday after Thanksgiving appears to exhibit a possible bearish edge. But before we jump to conclusions, let's examine the profit curves for Wednesday, Friday, and the following Monday. First below is Wednesday.



This curve looks to be strong. While there were a few bad Wednesdays, they were overwhelmed by the good ones. The next chart looks at Fridays after Thanksgiving.



This curve doesn't appear quite as strong as the Wednesday curve. It has flattened out in recent years, but may still contain a bit of a seasonal upside edge. Now let's look at what has happened on the Monday after Thanksgiving.



The numbers from the results table were extremely negative, but as you can see the downside edge has not been steady at all. While the trend has been down pretty much the entire time, a large portion of the downside move is thanks to a 9% drop in 2008. This suggests a seasonal downside edge does exist, but it is perhaps not as strong as the raw numbers would suggest.

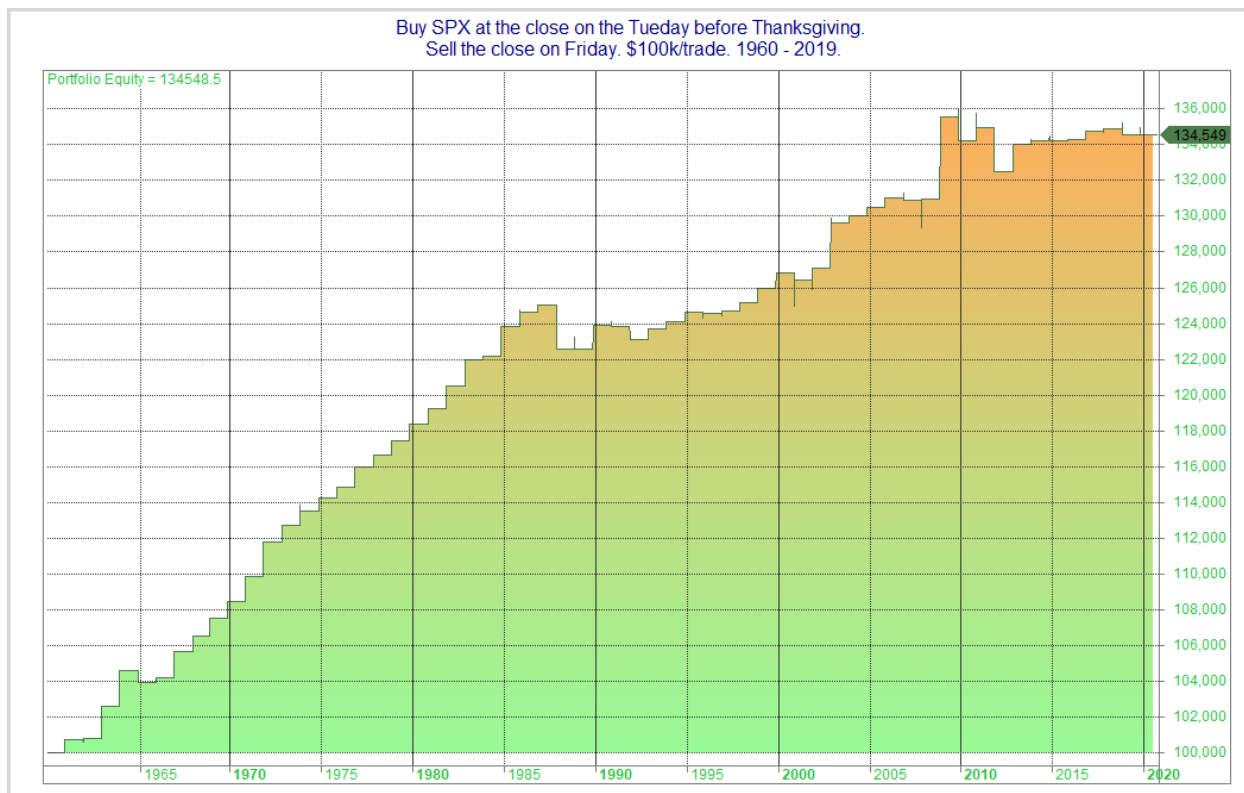
With Wednesday and Friday both showing seasonal strength an obvious play would be to buy on Tuesday's close, and then sell at Friday's close. This strategy was first suggested by Yale Hirsch many years ago. I looked at it the last few years and have updated the results again below.

Buy SPX at the close on the Tuesday before Thanksgiving & sell the close on Friday. \$100k/trade. 1960 - 2019.

Statistics

All trades	60
Avg. Profit/Loss	575.81
Avg. Profit/Loss %	0.58%
Avg. Bars Held	3.00
<hr/>	
Winners	50 (83.33 %)
Total Profit	43158.09
Avg. Profit	863.16
Avg. Profit %	0.86%
Avg. Bars Held	3.00
Max. Consecutive	22
Largest win	4531.19
<hr/>	
Losers	10 (16.67 %)
Total Loss	-8609.59
Avg. Loss	-860.96
Avg. Loss %	-0.86%
Avg. Bars Held	3.00
Max. Consecutive	2
Largest loss	-2472.14
<hr/>	
Max. trade drawdown	-2472.14
Max. trade % drawdown	-2.47
Profit Factor	5.01

As you can see the numbers are extremely strong. Below is an equity curve.



From 1960 through 1986 this trade would've worked fantastically. There was only one year during this period when it would have failed to make money. From 1987 to the present it has continued to do ok, but not nearly to the same degree as it had before. There have in fact been 9 losing years over this time period. Still, the curve looks generally positive and traders could consider a trade along these lines if other indicators also seem to be lining up.

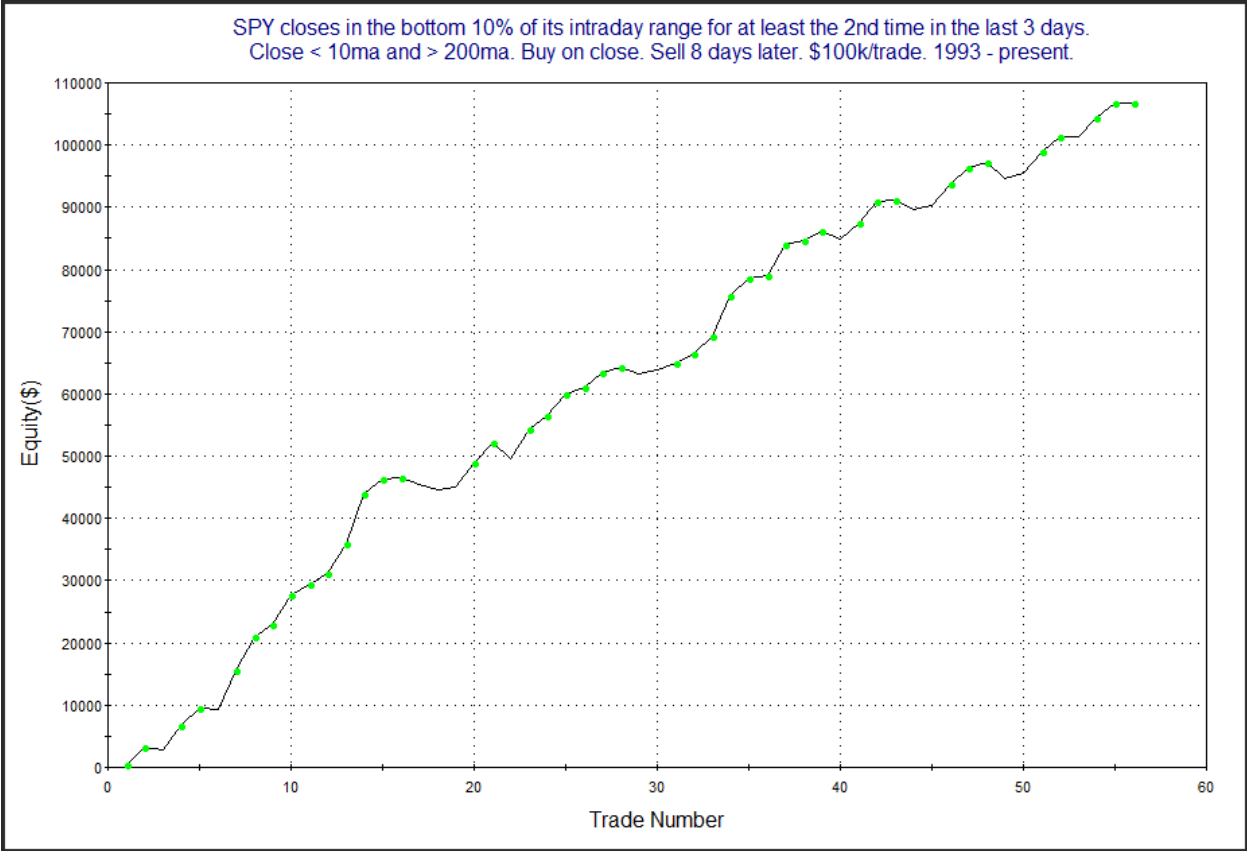
I will also note that there has been a vast difference in performance during recent times depending on how the market moved leading up to Wednesday. To examine this, I used SPY instead of SPX, because SPY has better intraday data. Since 1993, I found that years in which SPY closed in the bottom half of its intraday range on Thanksgiving Tuesday posted a 10-2 record with an average gain of 0.7% from Tuesday's close to Friday's close. When SPY closed in the top half of its range on Tuesday the performance over Wednesday to Friday was 10-5 with an average result of just a 0.1% gain. So Tuesday's action appears worth watching as we approach this potentially seasonally bullish period.

Closes that occur right near the high or the low of the day can serve as a sort of sentiment reading. Traders are looking to get in or get out at the worst prices of the day because their of perception of risk, and what might occur tomorrow. This late-day reaction is often an overreaction, and prices

will often rebound in the short term. Friday we saw traders selling hard at the end of the day, despite being offered the worst prices that they saw all day. This also happened on Wednesday. So this weekend I looked at other instances where SPY closed in the bottom 10% of its intraday range for at least the 2nd time in the last 3 days. I also added trend filters. The results were quite impressive and can be seen in the table below.

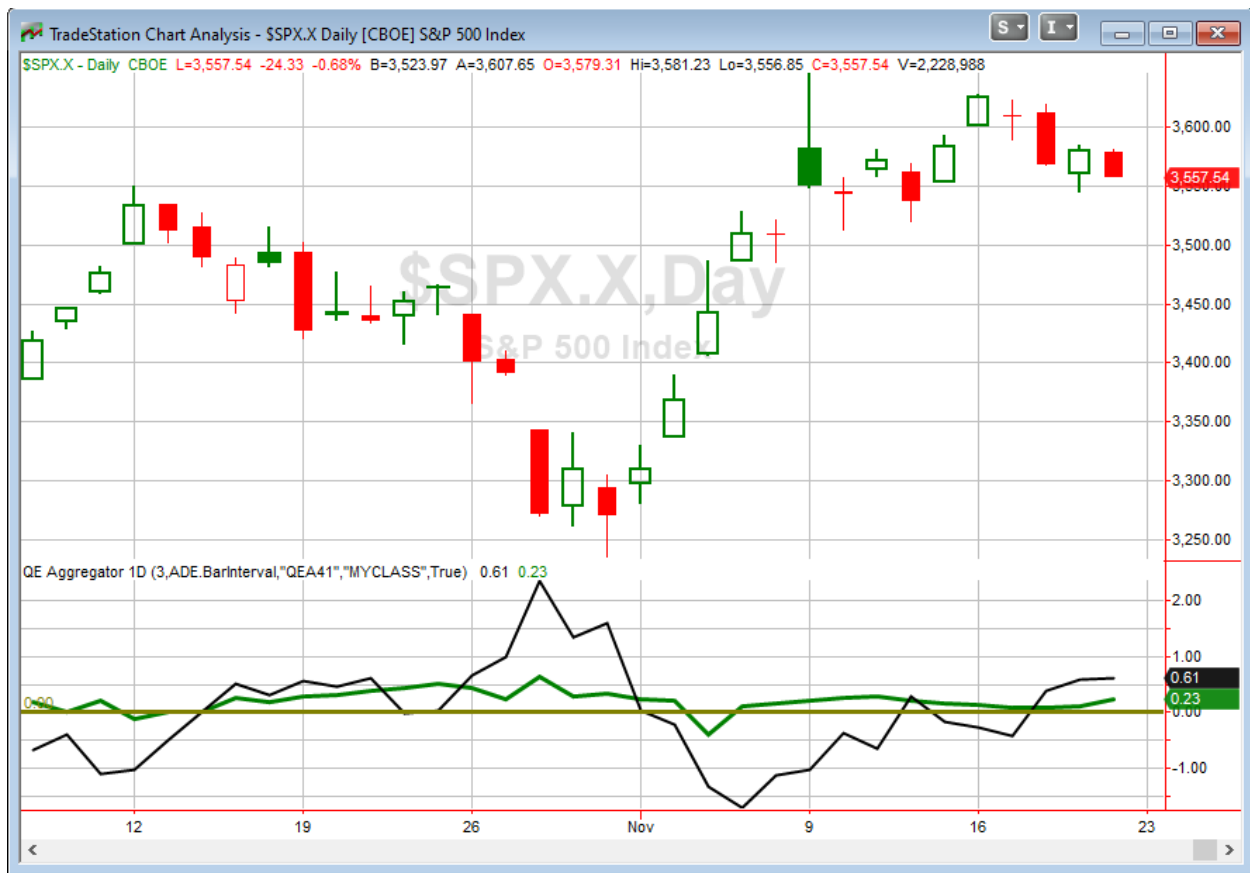
SPY closes in the bottom 10% of its intraday range for at least the 2nd time in the last 3 days. Close < 10ma and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	108,716.93	55	46	9	83.64	9,282.24	-2,690.64	2,687.74	-1,657.67	1.62	8.29	1,976.67
9	106,793.02	56	46	10	82.14	7,585.77	-2,770.56	2,584.25	-1,208.27	2.14	9.84	1,907.02
8	106,749.34	56	46	10	82.14	7,858.26	-2,601.84	2,571.12	-1,152.22	2.23	10.26	1,906.24
7	93,999.11	56	41	15	73.21	8,324.13	-1,975.05	2,637.41	-942.32	2.80	7.65	1,678.56
6	77,204.14	56	46	10	82.14	6,100.26	-4,158.00	2,028.61	-1,611.21	1.26	5.79	1,378.65
5	66,947.74	58	44	14	75.86	5,634.39	-3,578.85	1,951.35	-1,350.82	1.44	4.54	1,154.27
4	57,500.87	58	43	15	74.14	4,175.25	-3,268.58	1,758.60	-1,207.92	1.46	4.17	991.39
3	43,090.16	59	41	17	69.49	4,069.77	-2,610.72	1,477.62	-1,028.95	1.44	3.46	730.34
2	32,861.30	62	44	17	70.97	4,479.35	-2,760.94	1,161.84	-1,074.09	1.08	2.80	530.02
1	13,264.87	68	43	25	63.24	2,584.26	-3,744.92	889.57	-999.47	0.89	1.53	195.07

The numbers suggest a substantial upside edge over the next couple of weeks. Below is a look at an 8-day profit curve.



The strong upslope and minimal drawdowns support the numbers, and serve as some confirmation of the bullish tendency. I have included this study on the Active List tonight.

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



With this weekend'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 also held 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 stayed long at the close.

Based on the current list of studies, expectations are set to remain bullish on Monday. This could possibly change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3578.64 on Monday. That is a 0.6% above Friday's close. So SPX would need to close up at least 0.6% on Monday in order to flip from oversold to overbought vs recent expectations.

The past few days, despite the bullish Aggregator, I have been wary about taking on new long exposure. I was not seeing new and compelling bullish evidence to get me excited about taking on new index positions. But now we are seeing some new bullish evidence emerge. And bullish seasonality is about to kick in as well. So I will look to start building a long position if I can get a decent fill on Monday. I believe there is a solid chance that we see a bounce at some point in the next few days.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/23 – slightly bullish

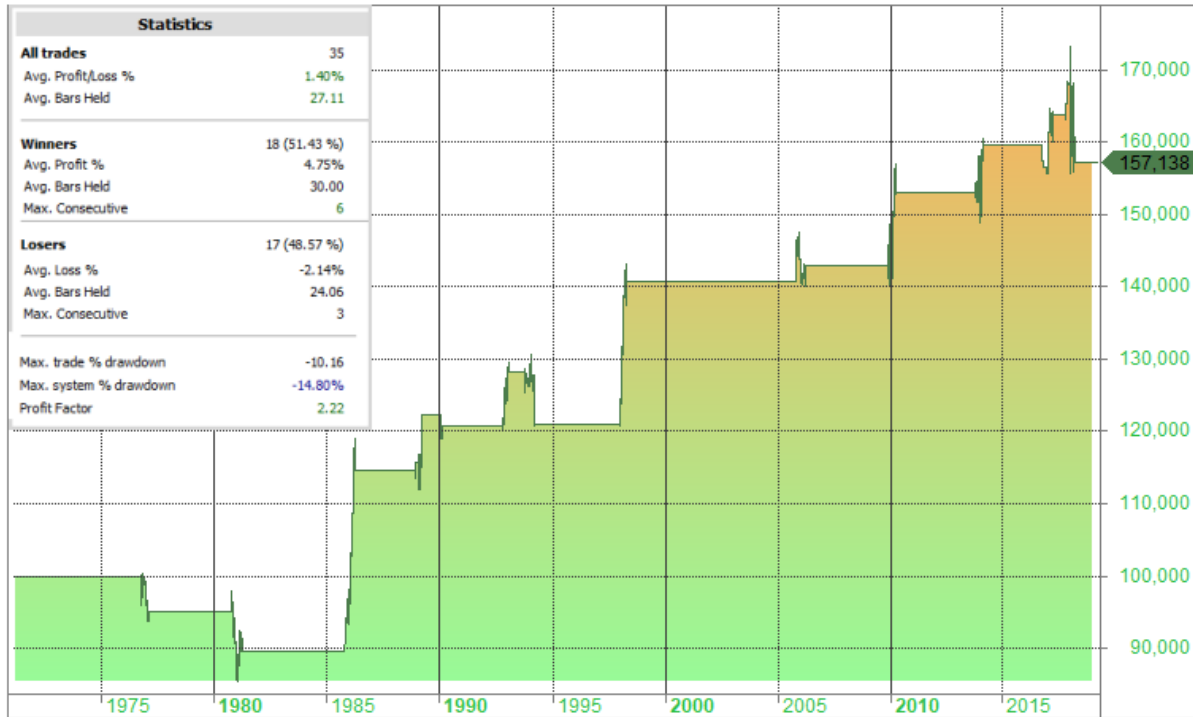
Combo #1	Combo #2	Combo #3
Long	Long	Long

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 Combo System #3 changed from Flat to Long.*

This week saw mixed results for the indices. The SPX declined 0.8%, the NASDAQ inched up 0.2%, and the Russell 2000 rallied 2.4%. Overall, the long-term uptrends certainly seem to be intact.

The NASDAQ outperformance caused our lead/lag indicator to again flip so that NASDAQ is now leading SPX. 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.

SPX Performance when 1) SPX Golden Cross is in effect, 2) the NASDAQ is leading,
 3) the Presidential Cycle is UNfavorable, and 4) we are in the BEST 6 months.
 \$100k compounded portfolio - profits . 1971 - present.



Since the mid-80s the market has shown a solid tendency to rise under these conditions. A leading NASDAQ is preferable, and it is a good sign that we are seeing it again. But with all the rotation we have seen in the last couple of weeks, we could easily see it flip back. If it can continue to maintain leadership, that would be a plus.

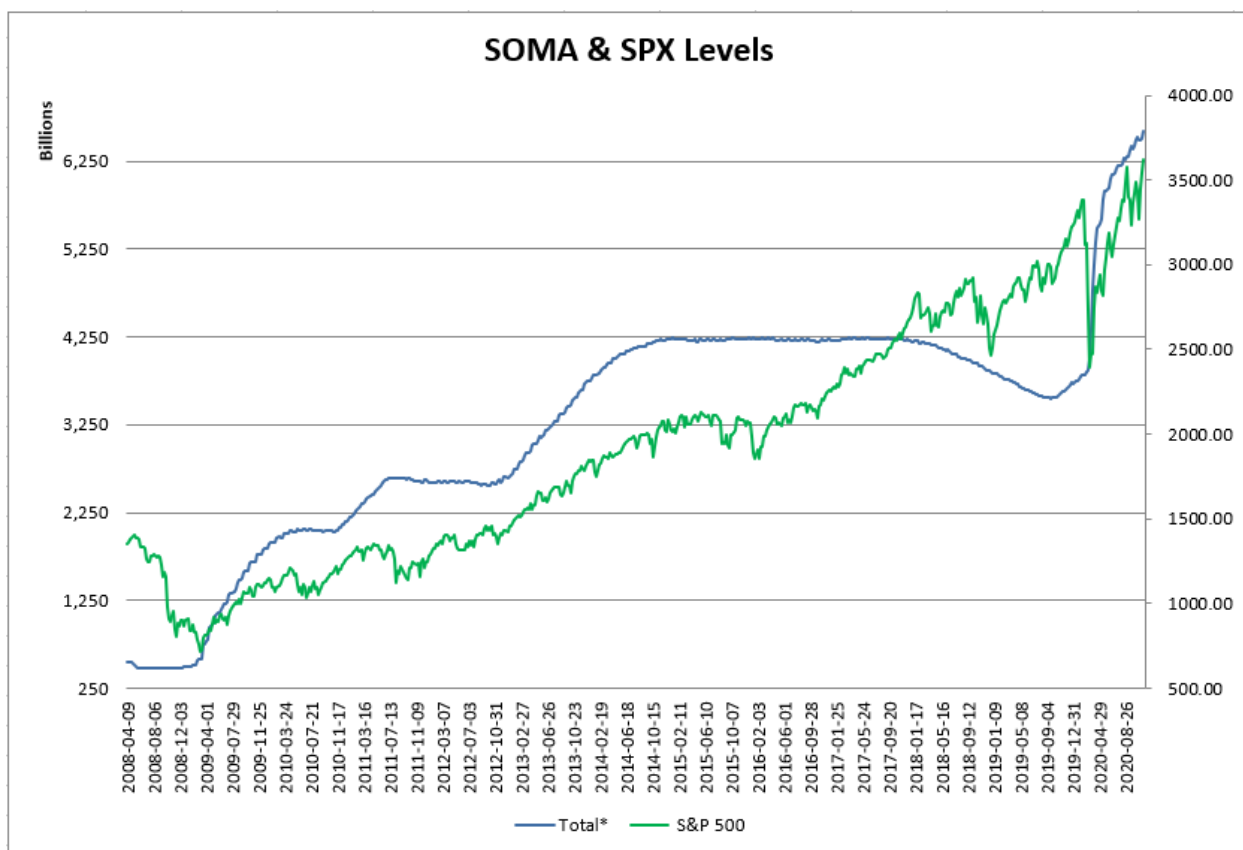
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
[Previous](#) **November 18, 2020**
Posted November 19, 2020 at 4:30 P.M.

SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS

Security Type	Total (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,898,934,937.5
US Treasury Floating Rate Notes (FRNs)	17,269,242.7
US Treasury Inflation-Protected Securities (TIPS)*	299,561,683.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,041,399,115.5
Agency Commercial Mortgage-Backed Securities***	9,776,536.3
Total SOMA Holdings	6,595,332,515.1
Change From Prior Week	82,145,137.2

This past week saw the SOMA rise by a massive \$82 billion. That is a very large week, even in the current environment. 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. Breadth is favorable, momentum is solid, and the NASDAQ is back to a leading position. 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. Stimulus talks are also worth keeping an eye on. Overall, I remain somewhat bullish. That basically 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.

SPY – Buy ¼ index position @ \$355.00 LIMIT. Based on the short-term outlook above, I will be looking to get long SPY on almost any weakness on Monday.

Current Open Trade Ideas

None

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