

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 11, 2021

Volume 14 Issue 6

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	1

## Tonight's Research Points

- A SOX decline combined with a strong NDX has often been followed by a market pullback.
- Opex week in January used to lean bearish. That no longer appears to be the case.
- Momentum, liquidity & breadth all remain positive for the intermediate-term.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bearish, but I do not find evidence compelling enough to bet against the strong uptrend.

**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
<b>Active - Short Term</b>						
January 11, 2021	NDX up > 1%. SOX down.	1-6 days	Bearish			
January 5, 2021	3-day Hi, Low, close	1-5 days	Bullish			
<b>Active - Long Term</b>						
December 10, 2020	SPX 20 intra-high. NDX biggest dn 20	1-50 days	Bullish	6.20%	-2.80%	-5.40%
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			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
January 4, 2021	SPY closes month at high of month	1-5 days	Bullish	2.00%	-1.00%	-2.20%

**The Evidence**

Friday was mixed. The SPX gained 0.55%, the NASDAQ rallied 1.0%, and the Russell 2000 declined 0.25%. Breadth was positive with the NYSE Up Issues % coming in at 51.2% and the Up Volume % at 51.0%. NYSE total volume declined some from Thursday's level.

An interesting aspect of Friday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.3% on Friday, the SOX declined slightly. This is somewhat unusual action. It brought about a study last seen in the 12/29/20 Letter, which I have updated below.

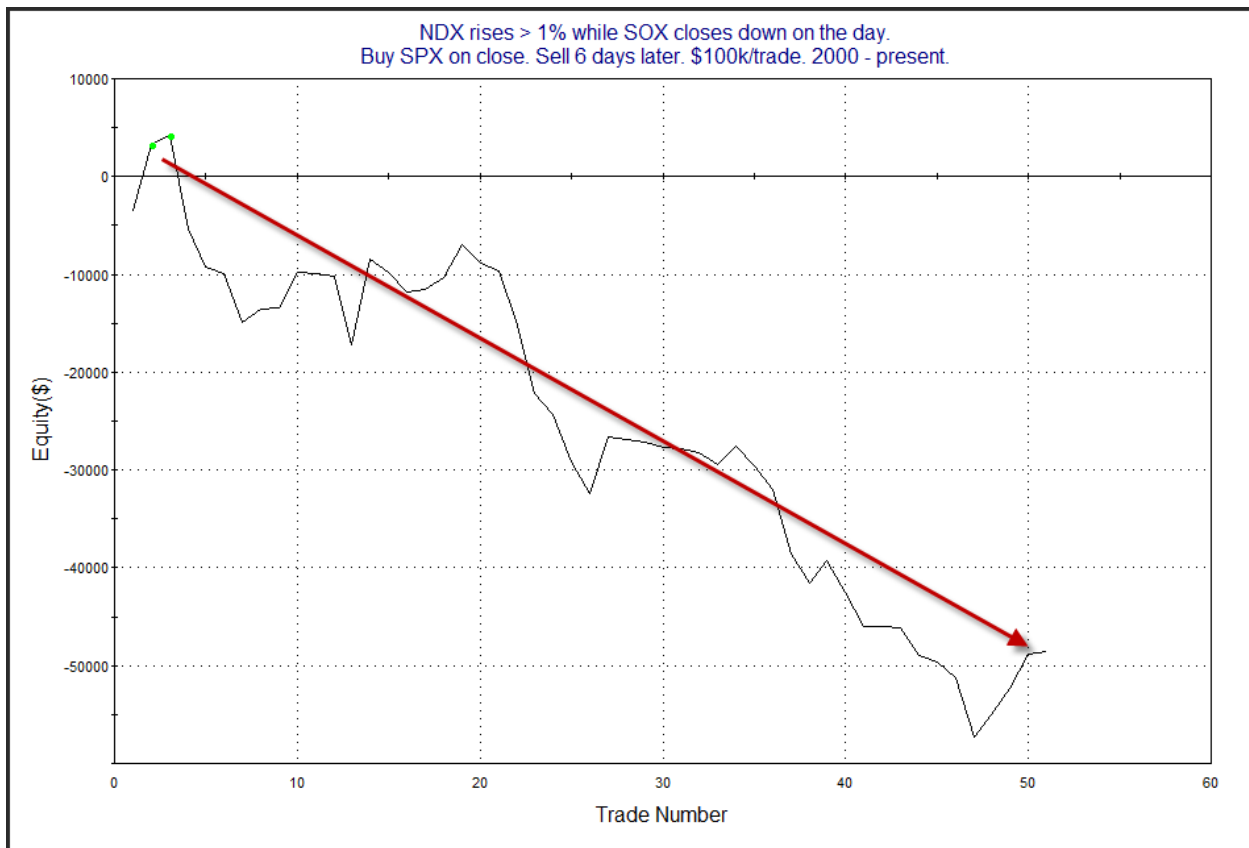
<p style="text-align: center;">NDX rises &gt; 1% while SOX closes down on the day. Buy NDX on close. Sell X days later. \$100k/trade. 2000 - present.</p>												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-90,200.56	48	19	29	39.58	18,826.33	-13,954.56	4,524.78	-6,074.87	0.74	0.49	-1,879.18
9	-79,044.02	48	16	32	33.33	22,154.89	-15,780.45	5,385.37	-5,162.81	1.04	0.52	-1,646.75
8	-77,884.48	50	16	34	32.00	30,307.45	-13,288.50	5,504.73	-4,881.18	1.13	0.53	-1,557.69
7	-96,114.83	51	13	38	25.49	31,628.02	-17,436.00	6,487.18	-4,748.64	1.37	0.47	-1,884.60
6	-123,652.32	51	13	38	25.49	23,421.19	-21,090.48	6,049.40	-5,323.54	1.14	0.39	-2,424.56
5	-83,049.33	52	18	34	34.62	12,749.43	-12,790.08	4,022.44	-4,572.15	0.88	0.47	-1,597.10
4	-50,032.03	53	23	30	43.40	11,322.33	-12,796.24	3,120.36	-4,060.01	0.77	0.59	-944.00
3	-29,781.85	54	23	31	42.59	15,615.69	-15,779.50	3,673.48	-3,686.19	1.00	0.74	-551.52
2	-2,234.70	56	27	29	48.21	16,624.43	-9,160.50	2,972.15	-2,844.23	1.04	0.97	-39.91
1	-495.70	58	28	30	48.28	9,397.52	-6,256.64	2,252.51	-2,118.87	1.06	0.99	-8.55

Six days later 74% of the instances were losers and the average occurrence was a 2.4% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

NDX rises > 1% while SOX closes down on the day.  
Buy SPX on close. Sell X days later. \$100k/trade. 2000 - 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	-21,840.24	48	20	28	41.67	9,774.70	-8,478.02	2,819.37	-2,793.85	1.01	0.72	-455.00
9	-23,310.36	48	21	27	43.75	9,278.30	-8,963.07	2,848.50	-3,078.85	0.93	0.72	-485.63
8	-32,605.64	50	23	27	46.00	9,165.45	-7,574.41	2,369.58	-3,226.15	0.73	0.63	-652.11
7	-44,766.64	51	23	28	45.10	10,101.57	-11,391.59	2,095.10	-3,319.78	0.63	0.52	-877.78
6	-48,503.09	51	17	34	33.33	8,753.07	-9,589.14	2,659.36	-2,756.24	0.96	0.48	-951.04
5	-41,197.61	52	22	30	42.31	6,877.04	-7,519.22	1,777.29	-2,676.60	0.66	0.49	-792.26
4	-23,603.09	53	26	27	49.06	5,068.10	-11,917.40	1,673.87	-2,486.06	0.67	0.65	-445.34
3	-10,930.26	54	25	29	46.30	6,877.26	-9,480.90	1,725.70	-1,864.57	0.93	0.80	-202.41
2	-1,911.52	56	25	31	44.64	5,842.98	-6,411.90	1,568.46	-1,326.55	1.18	0.95	-34.13
1	6,089.66	58	30	28	51.72	5,396.04	-2,692.80	1,153.01	-1,017.88	1.13	1.21	104.99

The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.

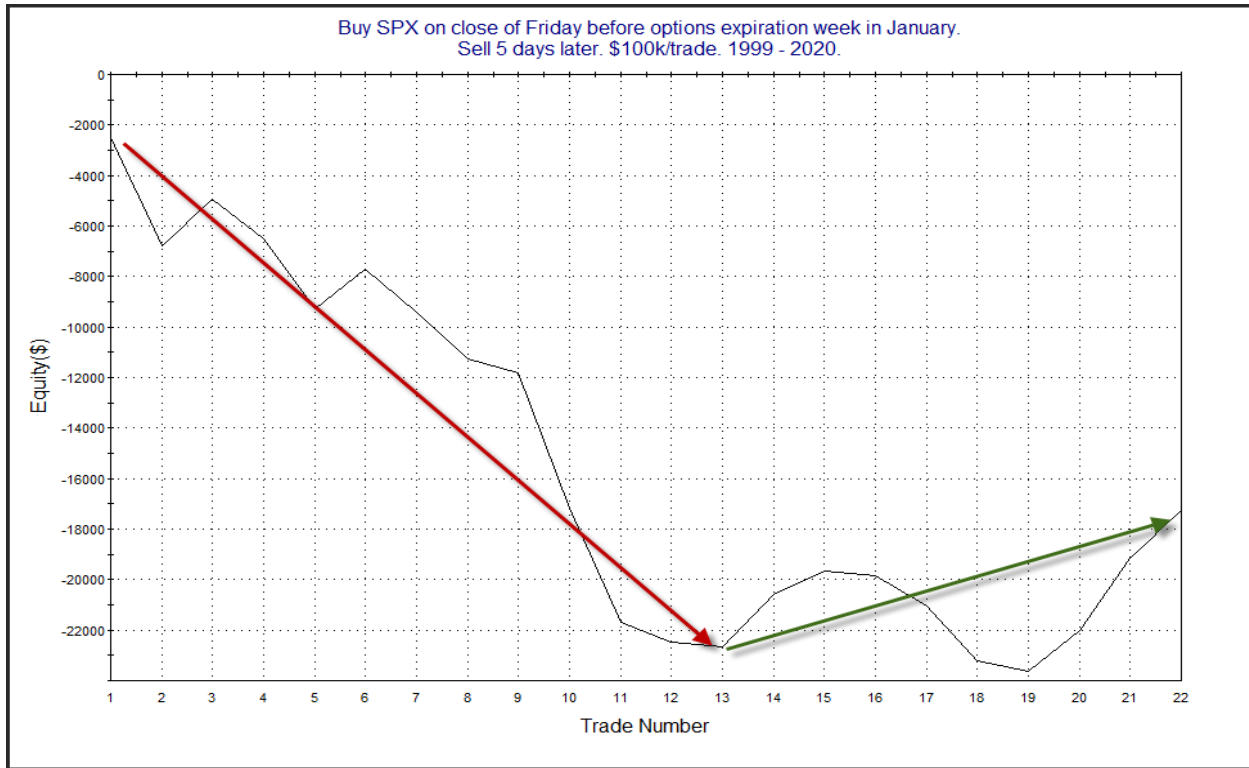


That is a fairly steady downslope. It has now failed on the last 4 instances, so that is perhaps a bit of a warning. But that is not enough to throw out the whole study. We have used it for years and I believe it still merits some consideration.

Opex week overall has typically been a bullish part of the month for the market. But January was an exception to this rule for a good while. The table below shows results of buying the Friday before options expiration week in January and then selling at some point over the next few days. It is updated from the 1/13/2020 letter.

Buy SPX on close of Friday before options expiration week in January. Sell X days later. \$100k/trade. 1999 - 2020.												
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	-17,245.67	22	7	15	31.82	2,829.10	-5,383.93	1,831.83	-2,004.57	0.91	0.43	-783.89
4	-15,649.49	22	9	13	40.91	2,024.33	-5,220.32	1,079.44	-1,951.11	0.55	0.38	-711.34
3	-13,148.20	22	9	13	40.91	2,206.50	-5,345.76	804.76	-1,568.54	0.51	0.36	-597.65
2	-5,403.32	22	10	12	45.45	1,459.15	-2,775.24	530.11	-892.04	0.59	0.50	-245.61
1	-3,578.56	22	10	12	45.45	1,080.62	-2,250.08	464.27	-685.10	0.68	0.56	-162.66

Numbers here suggest a downside inclination. But below is a look at the 5-day profit curve.



The downward progress simply has not persisted over the last 9 years. And that is a big chunk of the chart. I'll also note the QE Seasonality Calendar for SPX for this upcoming week.

Quantifiable Edges Seasonality Calendar				
~SPX S&P 500 Index				
Date	Win%	Profit Factor	Avg % Chg	
1/11/2021	55.95	1.208	0.022	
1/12/2021	56.39	1.571	0.129	
1/13/2021	58.82	1.534	0.078	
1/14/2021	61.32	1.609	0.108	
1/15/2021	60.19	1.637	0.107	
<b>Baseline</b>	<b>54.84</b>	<b>1.153</b>	<b>0.049</b>	

The numbers here do not suggest weakness at all. Of course they don't look back as far. The calculations continually roll, and they look back about 10 years. The calendar also doesn't just look specifically at seasonality in one way like the Opex in January study. It utilize multiples slices of seasonality to come up with a composite number. And those composite numbers look fairly strong, especially near the end of the week. Bottom line for me is that while January opex used to show weakness, it has not over the last decade, and there is a chance seasonality could even prove slightly helpful this upcoming week.

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



With tonight's evidence considered, the green Aggregator Line dipped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line is far below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal turned short at the close.

Based on the current list of active studies, expectations are set to remain negative on Monday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3767.42 on Monday. That is 1.5% below Friday's close. So SPX will need to close down at least 1.5% on Monday in order to flip from overbought to oversold vs expectations.

So the Aggregator is bearish. I will note that 1-day expectations are actually neutral as shown in the graphic at the top of the letter. Any trade to the short-side would also be counter-trend. Momentum is tough to battle against when it is this strong. So based on the mix of evidence, I am not interested in taking on index trades to the short side. I would need a much more compelling setup than I am currently seeing. I do think a pullback at some point soon is likely. I just don't love it from a reward/risk standpoint when considering a trade just yet.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 1/11 – 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 all 3 Combo Systems remained “Long”.*

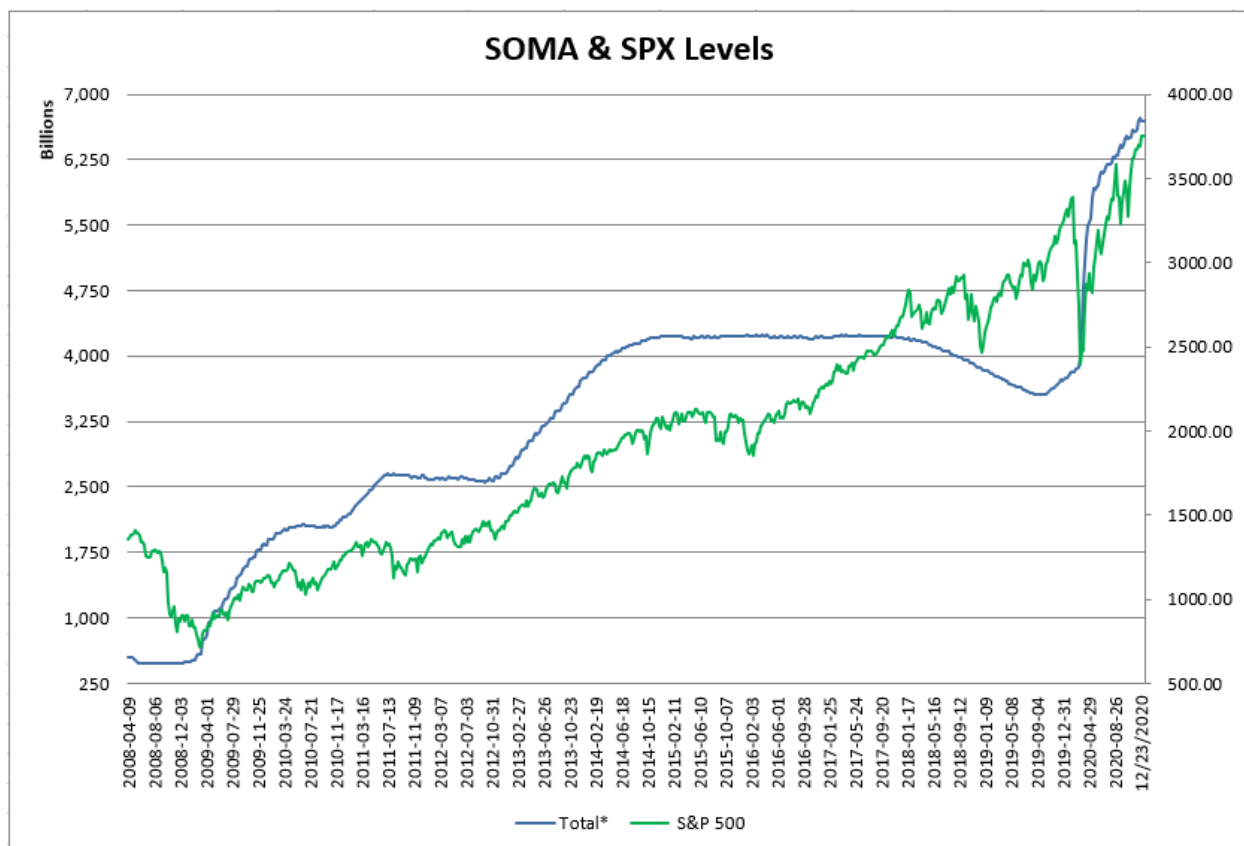
This past week saw the market rally. The SPX rose 1.8%, the NASDAQ gained 2.4% and the Russell 2000 rallied 5.9%. The longer-term trends is still up, with all 3 indices making all-time highs this week.

There were no new studies that emerged with intermediate-term implications. Breadth and momentum remain strong. I did note that along with the rally in stocks, we have seen a spike in bond rates over the last several days. I did look at other times SPX and TNX (10-year rates) were both hitting long-term highs at the same time. Results overall were slightly negative over the next 1-10 weeks, but they were not consistent enough to suggest a compelling edge.

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	
<a href="#">Previous</a>	<b>January 6, 2021</b> <small>Posted January 7, 2021 at 4:30 P.M</small>
<b>SUMMARY</b>	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)	3,998,176,018.3
US Treasury Floating Rate Notes (FRNs)	17,269,242.7
US Treasury Inflation-Protected Securities (TIPS)*	314,306,602.3
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,029,629,198.2
Agency Commercial Mortgage-Backed Securities***	9,840,055.2
Total SOMA Holdings	6,697,612,116.8
Change From Prior Week	10,534,899.2

This past week saw the SOMA rise by about \$10.5 billion. That is a moderate amount, but it also includes some of late December. I expect to see much strong SOMA increases to occur over the next few weeks. 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. 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.

Of course it will end at some point. And there was some discussion this past week about when we might expect to see the massive QE bond purchase program begin to “taper”, or wind down. Estimates at this point appear to be late 2021 at the earliest, with some forecasting into 2022. So there appears to be plenty more time that the market will have the Fed behind it. When tapering begins that could produce problems for the market. But we’ll worry about those problems when we get closer to them.

My intermediate-term outlook remains largely unchanged. Breadth is favorable with the NYSE Advance/Decline line again at new highs, momentum is strong, the NASDAQ is leading, and I am not seeing any immediate red flags from a technical perspective. The Fed's continued pumping is also a large plus for the bulls. Overall, I remain somewhat bullish, and do not see a reason to change. 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](#)

### ***Open Catapult Triggers***

KHC – 1/3 @ \$33.69 (bought at limit)

### ***Broad Market Large Cap CBI – 1(KHC)***

## **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
KHC(1/3)	1/8/2021	\$33.51	\$33.62	0.33%		bought on open

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