

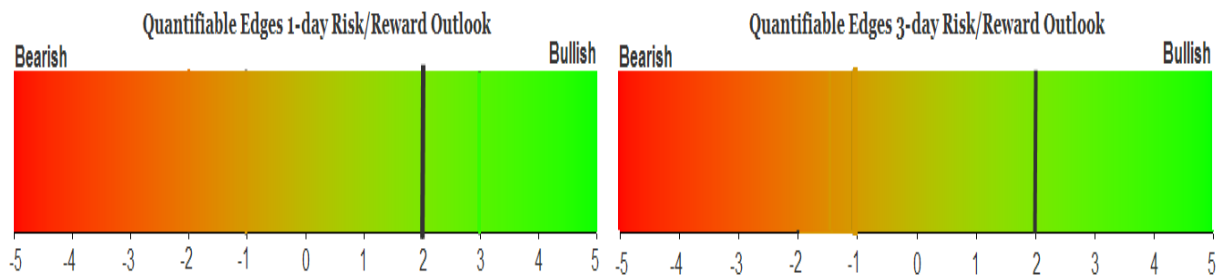
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 19, 2021

Volume 14 Issue 11

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- During an uptrend, gaps down and further selling from a short-term low often lead to bounces in the following days.
- Inaugurations of new presidents don't often see the stock market rise on Inauguration Day, but they do in the days following.
- The SOMA saw a sizable increase this past week, and continued pumping is a positive for the market.

Short-term Outlook

The Bottom Line

The Aggregator is now bullish. I believe there is a moderate upside edge.

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						
January 19, 2021	Gap down close lower from 5-low > 200	1-2 days	Bullish			
January 15, 2021	SPX bottom 10% rng, 5-low > 200	1-5 days	Bullish	1.60%	-1.40%	-3.00%
January 11, 2021	NDX up > 1%. SOX down.	1-6 days	Bearish			
Active - Long Term						
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			

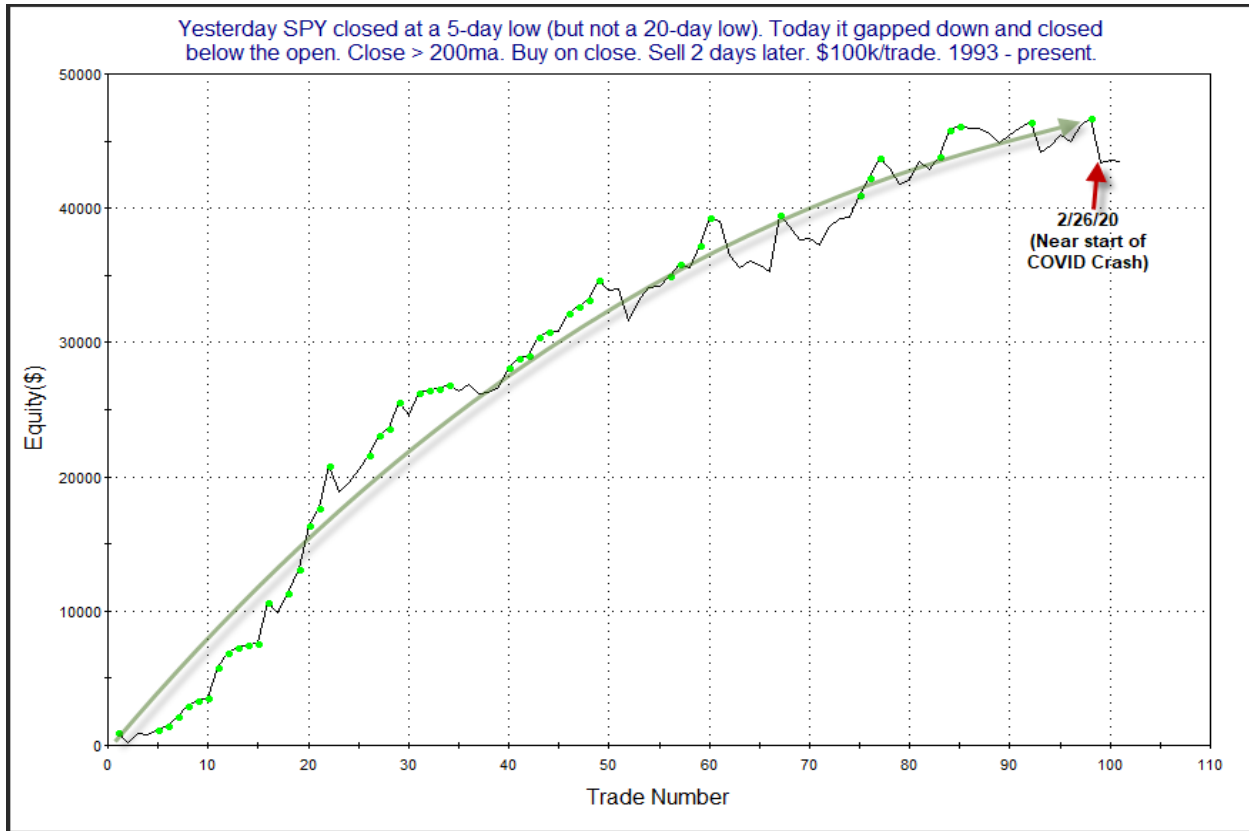
The Evidence

Friday saw some selling ahead of the long weekend. The SPX lost 0.7%, the NASDAQ fell 0.9%, and the Russell 2000 lost 1.5%. Breadth was negative with the NYSE Up Issues % coming in at 32% and the Up Volume % at 33%. NYSE total volume rose some from Thursday's level.

SPY action triggered some interesting evidence in the Quantifinder. In the 5/3/19 letter I showed a study that examined gaps down and poor closes following a 5-day low. The setup appeared bullish. But I also noted that it was even more bullish if the gap down followed a 20-day low. So 20-day low instances were excluded to prevent the data from looking overly bullish. Updated stats are below.

Yesterday SPY closed at a 5-day low (but not a 20-day low). Today it gapped down and closed below the open. Close > 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	90,557.53	93	63	30	67.74	9,183.06	-14,938.90	2,431.89	-2,088.39	1.16	2.45	973.74
9	93,931.13	94	67	27	71.28	8,378.28	-7,737.60	2,180.79	-1,932.66	1.13	2.80	999.27
8	97,005.44	95	69	26	72.63	8,537.40	-6,291.25	2,125.94	-1,910.95	1.11	2.95	1,021.11
7	94,112.83	98	70	28	71.43	7,191.00	-3,539.76	1,955.91	-1,528.60	1.28	3.20	960.34
6	77,372.96	98	67	31	68.37	7,215.48	-7,614.21	1,861.78	-1,527.95	1.22	2.63	789.52
5	69,731.28	98	67	30	68.37	5,165.28	-5,063.85	1,608.95	-1,268.95	1.27	2.83	711.54
4	39,850.10	98	66	32	67.35	4,647.50	-8,109.60	1,418.06	-1,679.43	0.84	1.74	406.63
3	43,603.13	100	64	35	64.00	4,290.00	-7,722.10	1,395.05	-1,305.14	1.07	1.95	436.03
2	43,515.16	101	71	30	70.30	4,305.42	-3,385.20	984.14	-878.63	1.12	2.65	430.84
1	24,997.90	105	72	33	68.57	2,143.68	-4,181.76	765.60	-912.88	0.84	1.83	238.08

Odds here appear bullish, with a nice bump over the 1st 2 days. Below is a profit curve assuming a 2-day exit strategy.



The curve is impressive for the most part. I have labeled the recent instance with the big drop. That occurred as the Feb/March 2020 COVID selloff was beginning. Overall, I like the study enough to again include it on the Active List.

Back in the 1/20/17 letter I looked at inauguration day returns. I wondered whether a new president brought about new hope and optimism for the market. I have decided to update that study today.

I limited the instances to only those inaugurations where a new president was entering office. I don't think re-elections carry a sense of "new hope" the way a new president does. I also eliminated inaugurations of Presidents that weren't elected (Ford in '74, Johnson in '63, Truman in '45, and Coolidge in '23). I just don't believe the same sense of excitement is generated by a replacement as by a newly elected president. The remaining presidents and their inaugurations can be found in the table below.

DJI Performance On & After Inauguration of 1st-term Presidents.
1921 - 2017.

President	Date	Dow Price	Inauguration Day %Chg	Next 10-day %Chg	Next 75-day %Chg
Warren G Harding	3/4/1921	75.10	-0.13%	1.60%	-11.72%
Herbert Hoover	3/4/1929	313.90	-2.27%	1.19%	0.81%
Franklin D Roosevelt**	3/4/1933	62.10	15.43%	-8.52%	58.04%
Dwight Eisenhower	1/20/1953	288.00	0.35%	0.76%	-3.40%
John Kennedy	1/20/1961	634.30	0.32%	2.93%	8.28%
Richard Nixon	1/20/1969	931.30	-0.45%	1.68%	3.26%
Jimmy Carter	1/20/1977	959.00	-1.00%	-1.24%	-2.70%
Ronald Reagan	1/20/1981	950.68	-2.09%	-0.98%	2.91%
George HW Bush	1/20/1989	2,235.36	-0.17%	4.29%	6.08%
Bill Clinton	1/20/1993	3,242.00	-0.43%	4.07%	6.02%
George W Bush*	1/20/2001	10,578.24	-0.09%	3.66%	2.73%
Barack Obama	1/20/2009	7,949.09	-4.01%	1.63%	5.80%
Donald Trump	1/20/2017	19,827.25	0.48%	1.23%	5.79%

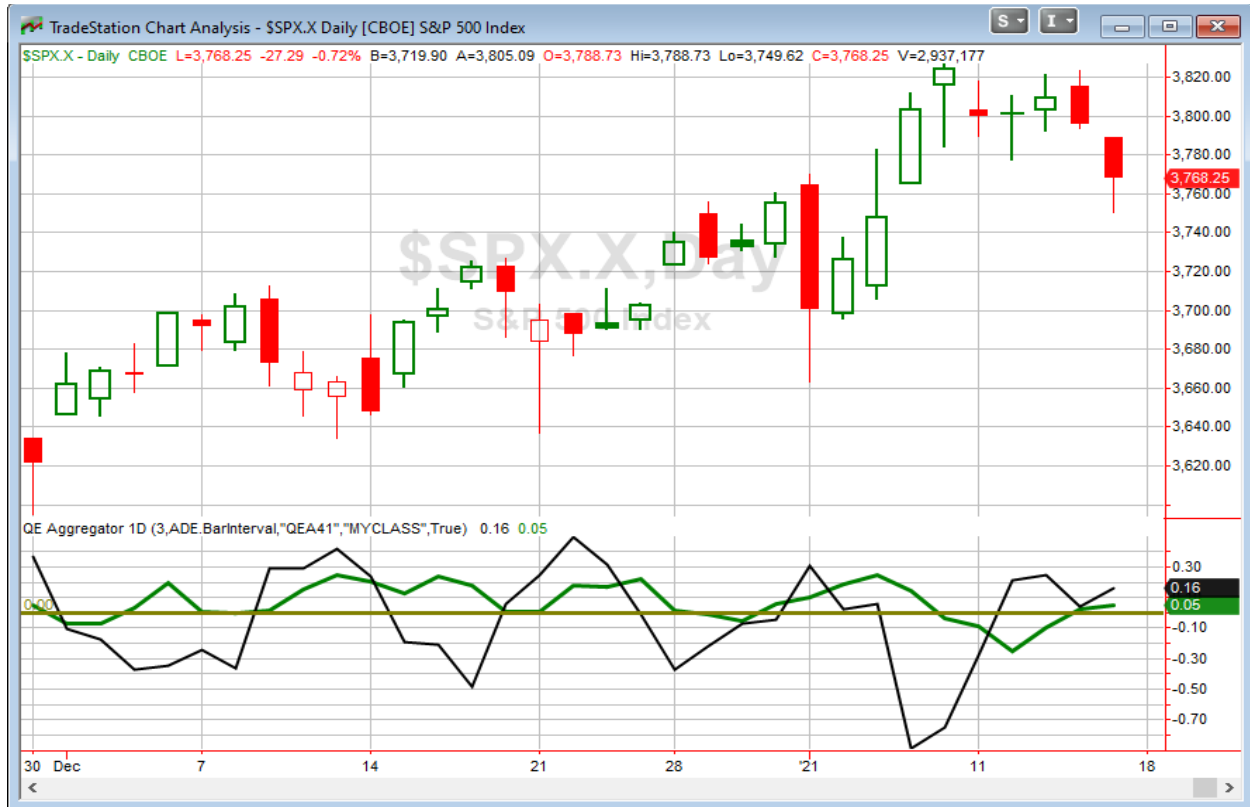
* George W Bush's inauguration was on a Saturday. The "Inauguration Day % Chg" shown is for Monday 1/22/2001.

** Franklin Roosevelt was inugurated on a Saturday. But a "Bank Holiday" was established, closing banks for the next 2 weeks to try and avoid massive additional bank failures. NYSE followed suit, and did not re-open until 3/15/1933. So the 15.43% return was the 1st day back after being closed since 3/3/1933.

First, I found it interesting that the wonderful speeches and overall positive vibes surrounding a new president did NOT translate to a strong Inauguration Day performance. (You could throw out Roosevelt and G.W. Bush here, since the market was not open on the days they were giving their speeches.) I'll also note that Donald Trump could (and certainly would) claim he gave the greatest Inauguration Day speech of the last 100 years, since the 0.48% rise on that day was the best of any president on the actual Inauguration Day. It could also be claimed that Obama gave the worst speech in 100 years, since the Dow tumbled 4% on the day of his inauguration.

I'll also note that looking out over the next 10 and 75 days the market did often seem to embrace the new hope that comes along with a new administration. Harding in 1921 is the only one on the list that saw the market more than 3.5% lower 75 days out. Meanwhile, there were 6 instances where the market was more than 3.5% higher. Of course it is a bit dangerous to draw conclusions based on just 13 instances over a 100 year period. I won't be adding this to the Active List, but I did think it was interesting enough to share.

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 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 active studies, expectations are set to remain positive on Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3792.79 on Tuesday. That is 0.65% above Friday's close. Therefore, SPX will need to close up at least 0.65% on Tuesday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. Evidence is suggesting a bounce, and there is some room to the upside before SPX would turn overbought. I believe there is an upside edge worth taking a chance with here. I am not inclined to bet big. But I will look to start scaling into an SPX position on Monday if I can get a decent fill.

Intermediate-term Outlook (2 weeks – 2 months) – updated 1/19 – slightly bullish

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

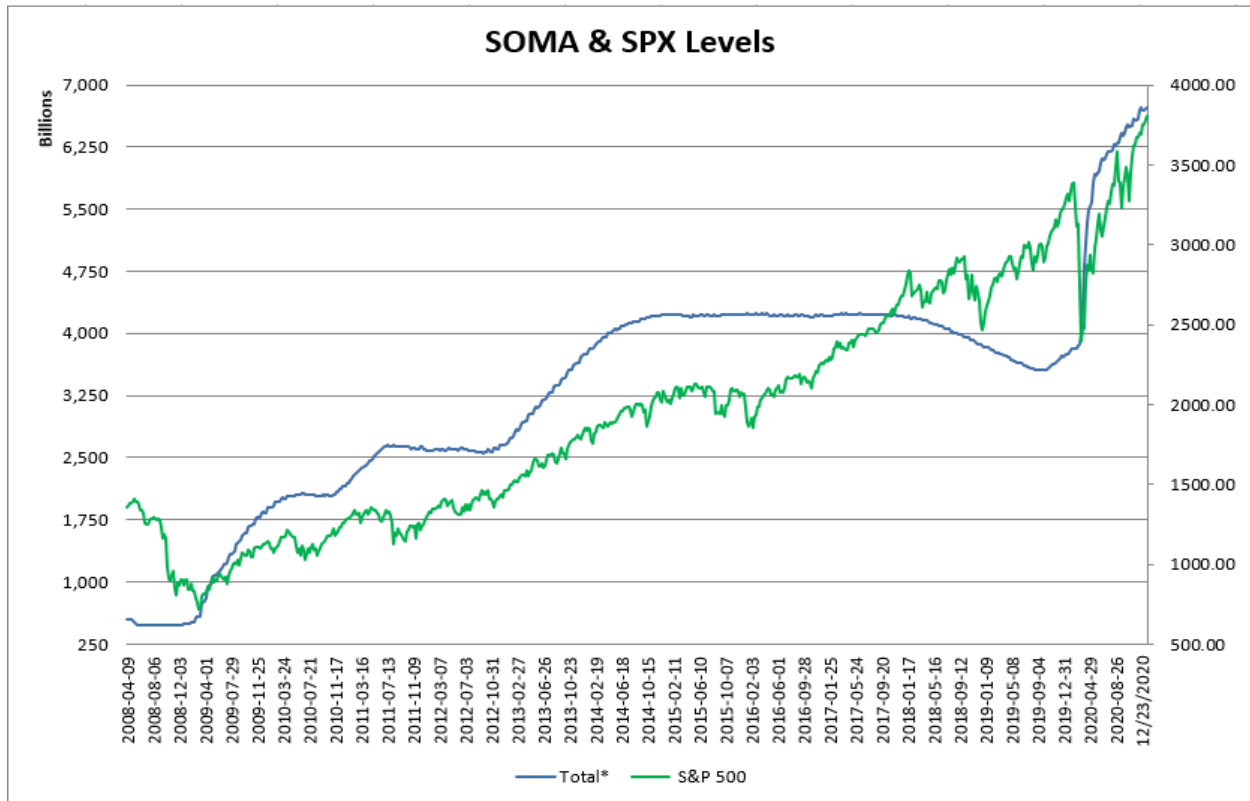
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 mixed results. The SPX and NASDAQ each lost 1.5% and the Russell 2000 gained 1.5%. Despite the small dip, the longer-term trend certainly still appears to be higher. Breadth continued to show strength, with the NYSE Advance/Decline Line making a few new all-times highs. There were no new studies that emerged with intermediate-term implications.

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	January 13, 2021 📅 <i>Posted January 14, 2021 at 4:30 PM</i>
<div style="display: flex; justify-content: space-between; font-size: small;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
Security Type	Total (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,018,712,018.3
US Treasury Floating Rate Notes (FRNs)	17,269,242.7
US Treasury Inflation-Protected Securities (TIPS)*	317,908,602.3
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,029,629,198.1
Agency Commercial Mortgage-Backed Securities***	9,912,700.9
Total SOMA Holdings	6,721,822,762.3
Change From Prior Week	24,210,645.5

This past week saw the SOMA rise by about \$24 billion. That is a sizable amount. I expect to see another large increase this week. 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.

My intermediate-term outlook remains largely unchanged. Breadth is favorable with the NYSE Advance/Decline line again at new highs, 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.

SPY – Buy ¼ index position @ \$375.70 LIMIT. Based on the short-term outlook above, I'll look to start scaling into a SPY position if I can get filled at a price equal to Friday's close, or better.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
KHC(1/3)	1/8/2021	\$33.51	\$31.99	-4.54%		Catapult

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