

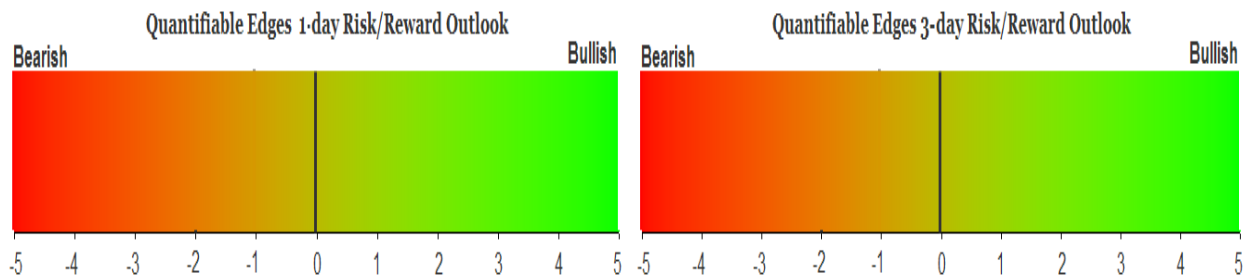
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

January 25, 2021

Volume 14 Issue 15

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The Russell 2000 rising > 1% while SPX closes lower suggests a 1-day upside edge.
- Unfilled gaps down from 50-day highs have historically struggled the following day.
- The Fed's pumping continues to provide a boost to the market.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. Me too.

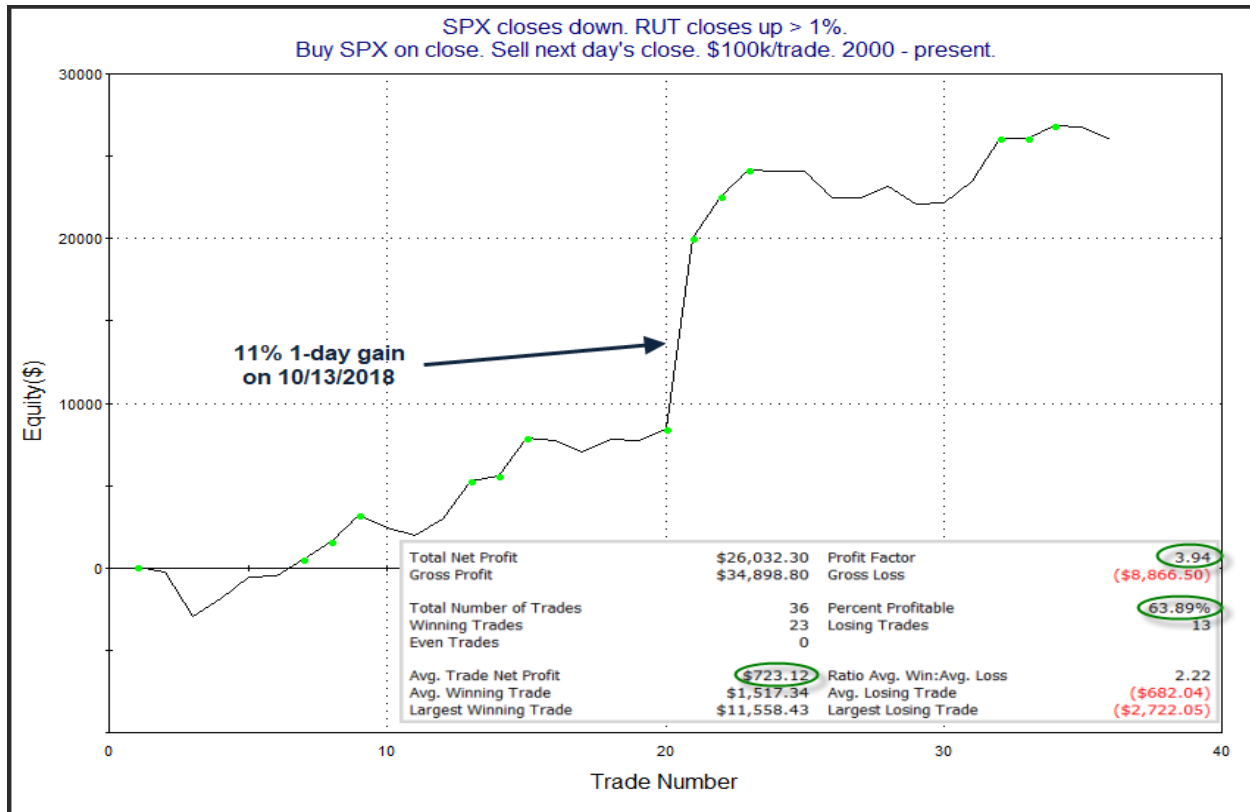
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
January 25, 2021	RUT up > 1%. SPX down.	1 day	Bullish			
January 25, 2021	Unfilled gap down from 50-high	1 day	Bearish			
<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 22, 2021	SPX 20-hi VIX 20-low Volume 10-low	1 day	Bearish			

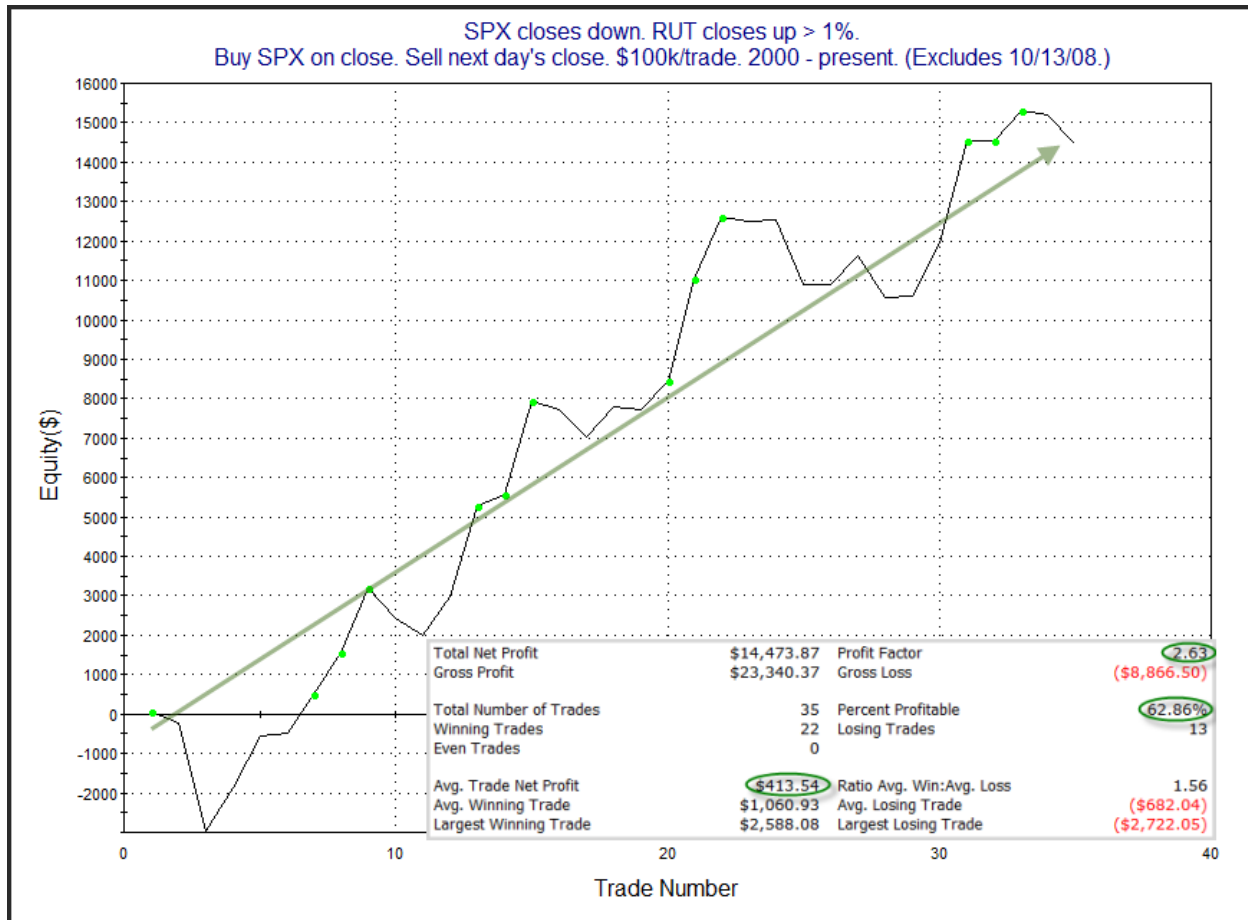
**The Evidence**

Friday was a mixed day for the market. The SPX declined 0.3%, the NASDAQ gained 0.1%, and the Russell 2000 rallied 1.3%. Breadth was positive with the NYSE Up Issues % coming in at 53% and the Up Volume % at 54%. NYSE total volume rose some from Thursday’s low level.

The split market triggered a study I featured just recently in the 1/15/20 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.

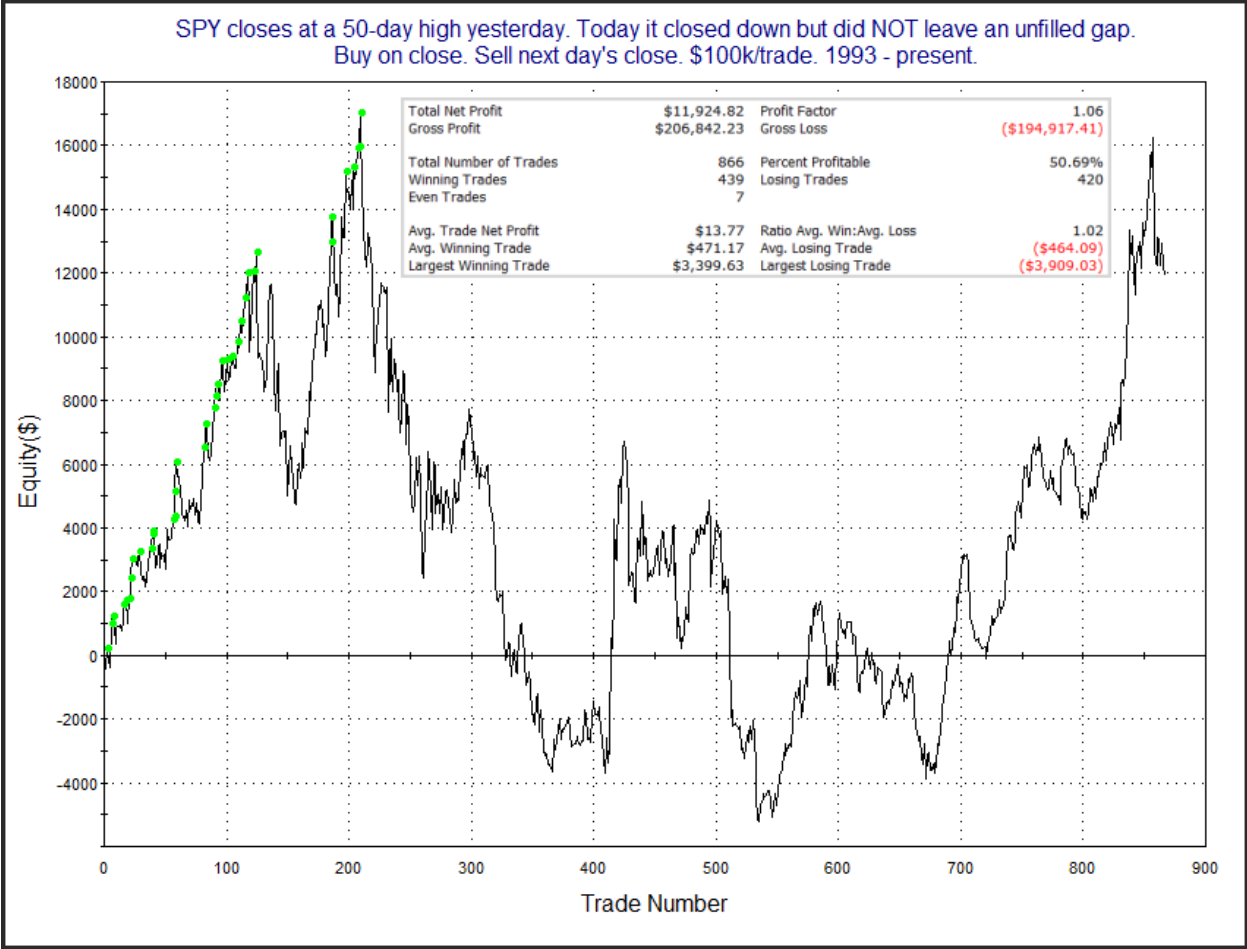


Stats here are very strong, but the one instance noted certainly inflates all the stats and skews the curve. So let's look at the results if we exclude that 2008 instance.

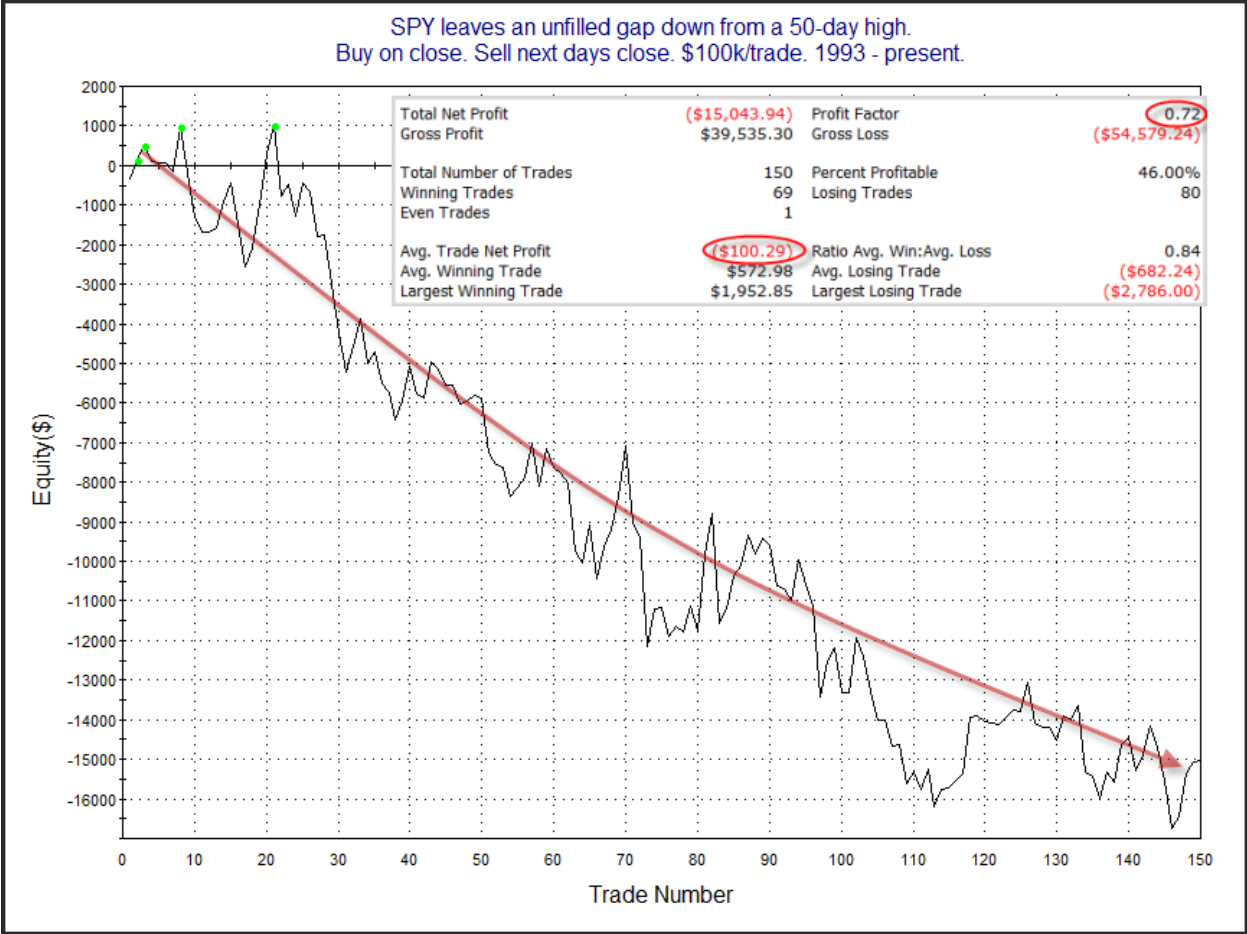


This seems worth paying attention to. The profit curve is persistent and the average instance has led to a 0.4% gain the next day. I have included this on the Active List.

Of course Monday was the 1<sup>st</sup> down day from a high. When the 1st day down is accompanied by an unfilled gap, then it has more often been followed by another day of selling. The unfilled gap will sometimes leave buyers from the day before with losing positions where they had no opportunity to exit. The studies below demonstrate this. They are updated from the 1/12/21 letter. The 1st one shows performance following down closes from a 50-day high that do not include an unfilled gap lower.

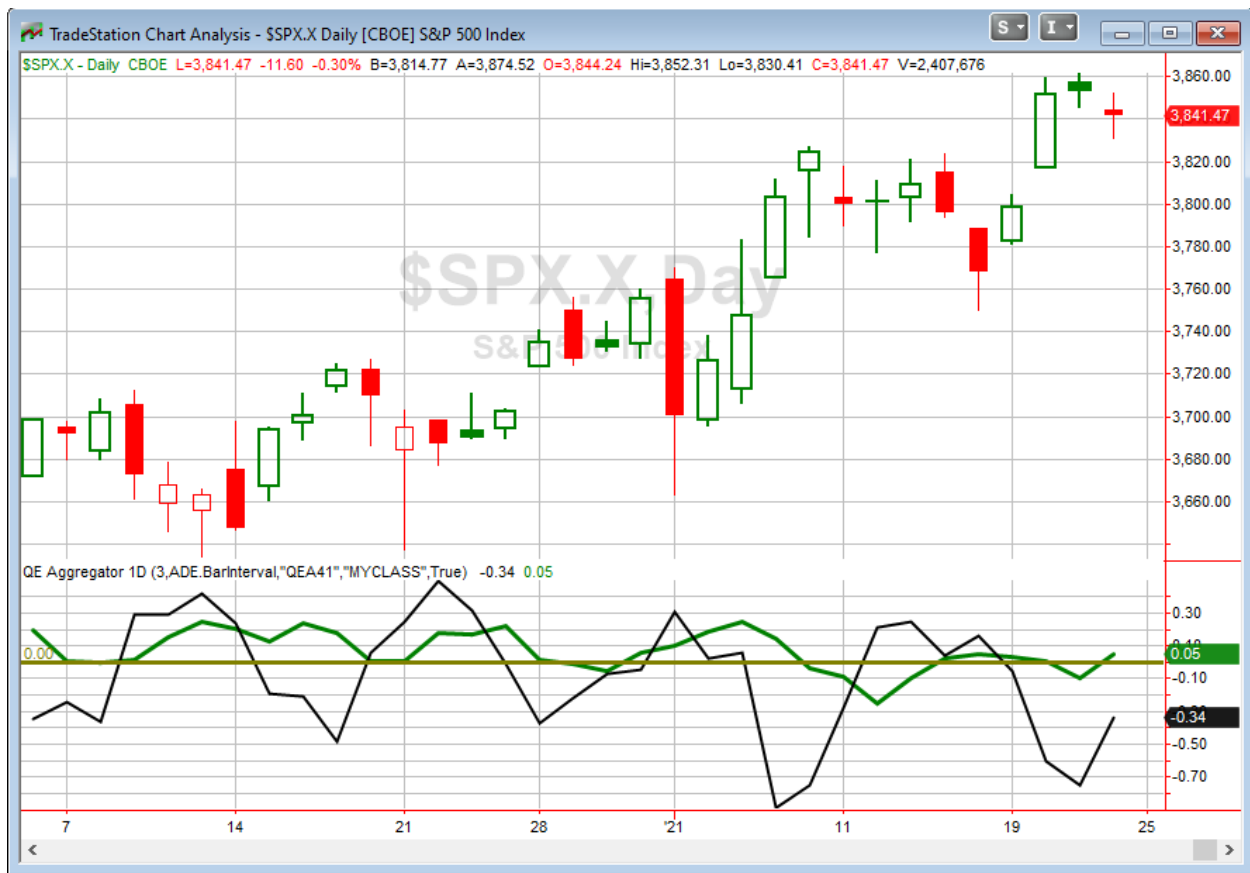


There is no compelling edge suggested by either the numbers or the profit curve here. Now let's look at instances that see an unfilled gap down follow a 50-day high.



While the last few instances have moved higher, we see here an overall downward tendency. The curve and numbers appear weak enough to suggest a possible downside edge. So evidence is mixed tonight.

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



With tonight's evidence considered the green Aggregator Line moved back above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held 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 active studies, expectations are set to remain slightly positive on Monday. That could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 3855.45 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 will need to rise about 0.4% in order to remain "overbought" versus recent expectations. Anything less than that, and it will flip to "oversold" as of Monday's close.

So the Aggregator is now neutral. Me too. But with the inverted pivot, we could easily see a bullish Aggregator signal on Monday. I'm not going to get excited about that just yet. I'd like to see some additional bullish evidence emerge before looking to take on new index exposure. So I'll sit out Monday and see how things play out and what new evidence emerges.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 1/25 – slightly bullish**

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

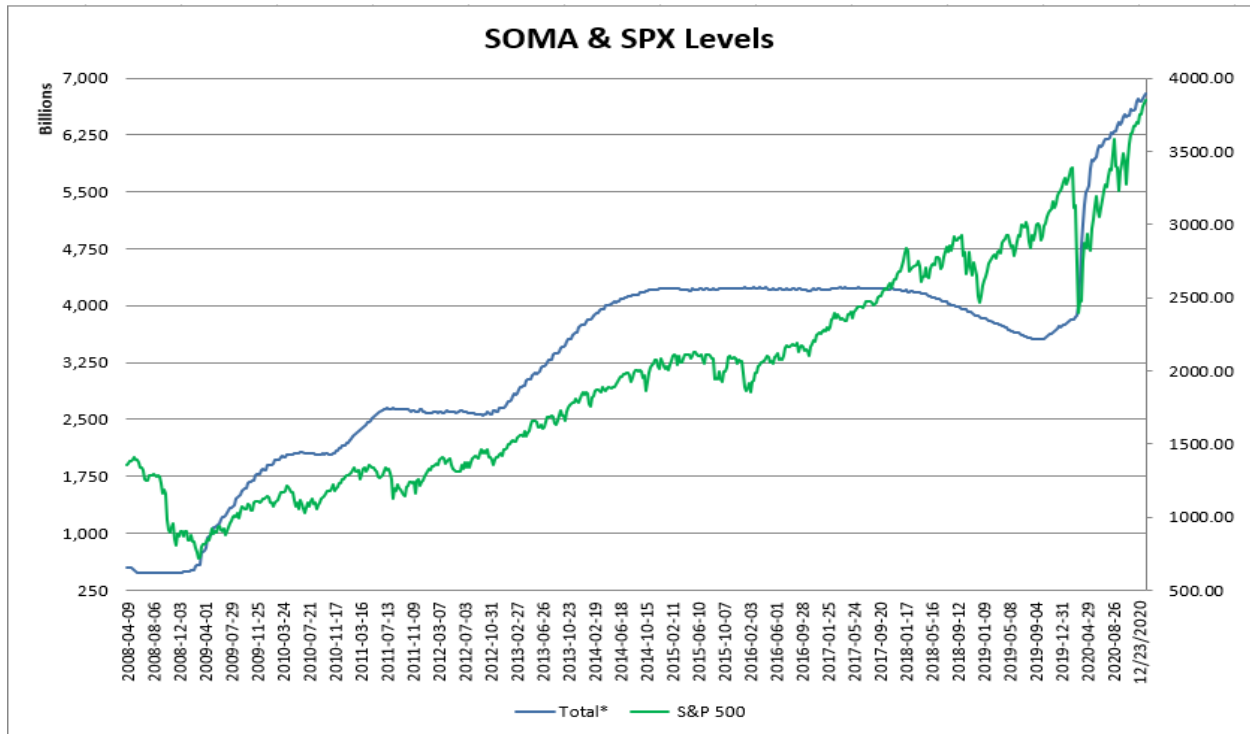
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 nice gains for the indices. The SPX rose 1.94%, the NASDAQ rallied 4.19% and the Russell 2000 gained 2.15%. All 3 indices also made new all-time highs this week, so the uptrend certainly seems to be intact. 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 20, 2021 📅 <small>Posted January 21, 2021 at 4:30 PM</small>
<div style="display: flex; justify-content: space-between; font-size: small;"> <span>SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
Security Type	Total (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,044,161,357.8
US Treasury Floating Rate Notes (FRNs)	17,269,242.7
US Treasury Inflation-Protected Securities (TIPS)*	313,218,401.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,090,005,609.6
Agency Commercial Mortgage-Backed Securities***	9,843,460.9
Total SOMA Holdings	6,802,889,072.0
Change From Prior Week	81,066,309.7

This past week saw the SOMA rise by about \$81 billion. That is a sizable amount. 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 again remains largely unchanged. Breadth is favorable with the NYSE Advance/Decline line again making new highs this week, 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***

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**

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