

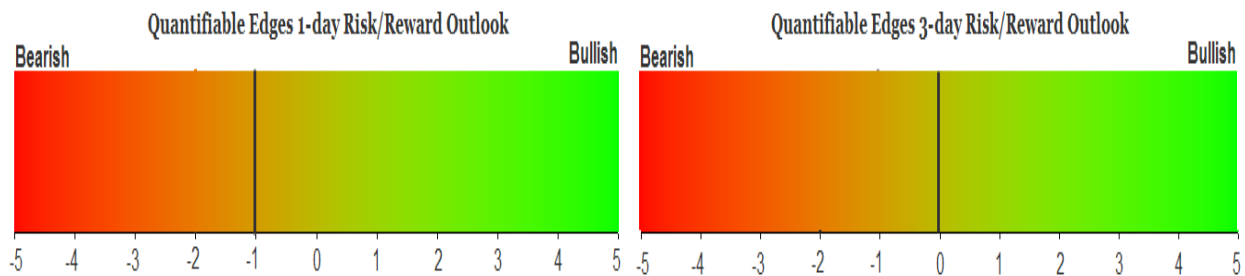
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 8, 2021

Volume 14 Issue 25

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	1

## Tonight's Research Points

- The high SPX, low VIX and low volume are a combination that has often led to a dip the next day.
- 3+ days of strong Nasdaq breadth are often followed by a down day.
- SPX has strong momentum, closing above its 50-day Bollinger Band. This has typically been a positive for the market.
- The huge 1-week drop in the VIX may also be an intermediate-term positive.
- The SOMA rose again. The Fed continues to support the market.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral and so am I.

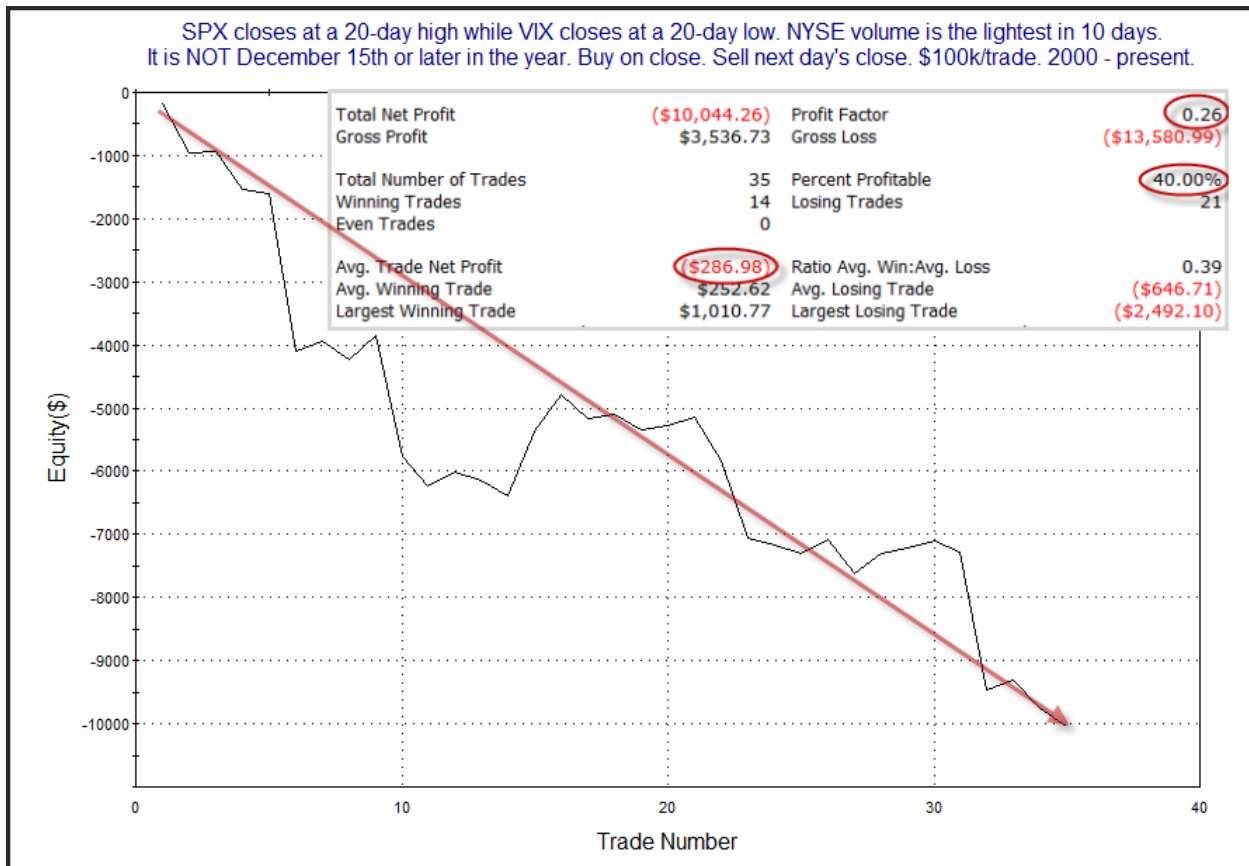
*Summary of Recent Active Studies (see Letters from listed dates for details)*

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
February 8, 2021	NASDAQ 3:2 breadth 3+ days	1 day	Bearish			
February 8, 2021	SPX high. VIX low. Volume low.	1 day	Bearish			
February 5, 2021	SPX up 1% on lowest NYSE vol in 20	1-2 days	Bearish			
February 5, 2021	SPX 50-day high. Lowest vol in 19	1-5 days	Bullish			
February 5, 2021	SPX up 4 days, 3 > 1% gains	1-4 days	Bullish			
<b>Active - Long Term</b>						
February 8, 2021	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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 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***

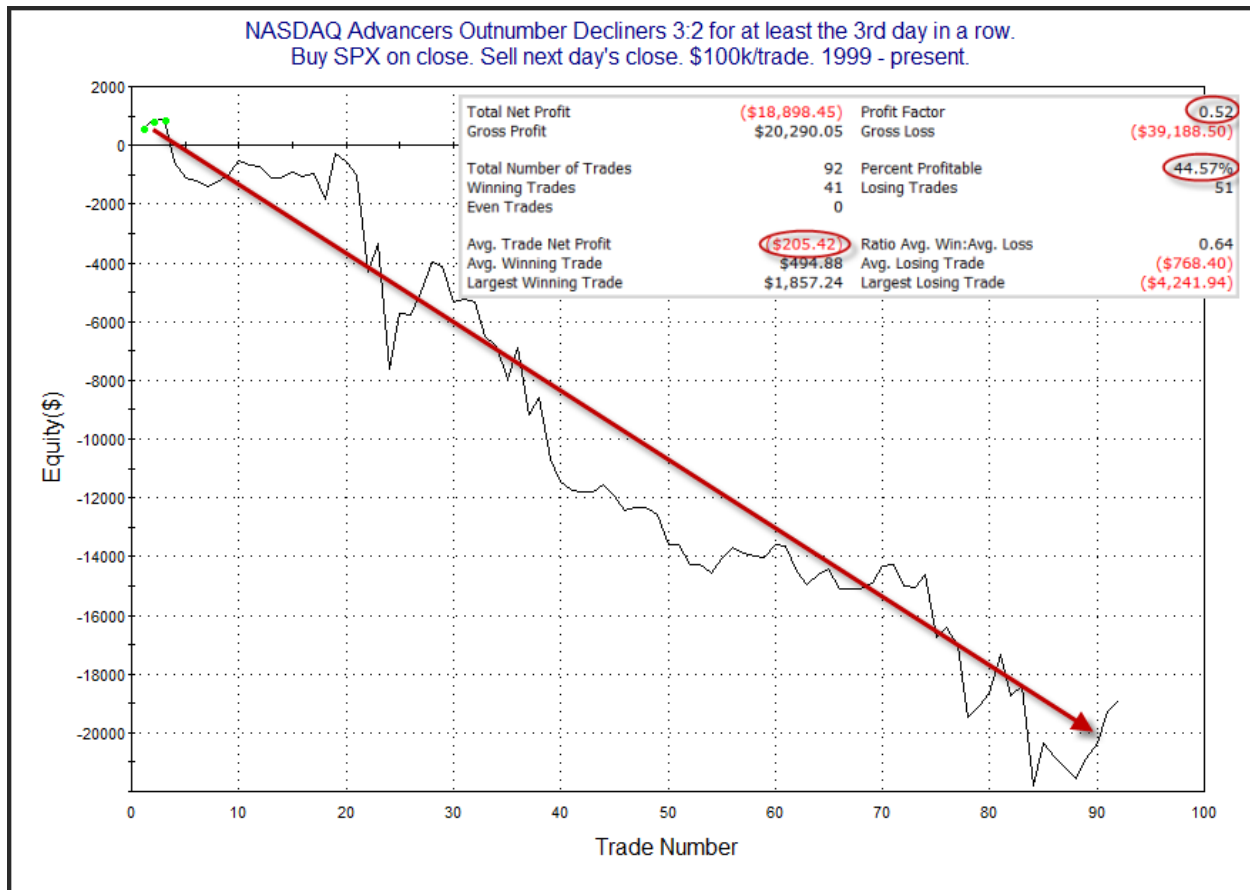
The rally continued on Friday. The SPX gained 0.4%, the NASDAQ climbed 0.6%, and the Russell 2000 rose 1.4%. Breadth was positive with the NYSE Up Issues % coming in at 67% and the Up Volume % at 68%. NYSE total volume came in at the lowest level in a month for the 2<sup>nd</sup> day in a row.

Some notables about Friday are that 1) SPX closed at a long-term high, 2) VIX closed at an intermediate-term low, and 3) NYSE volume was light. Low volume and a low VIX can both be potential signs of complacency and suggest a short-term pullback. This triggered the study below, which was last seen recently in the 1/22/21 letter.



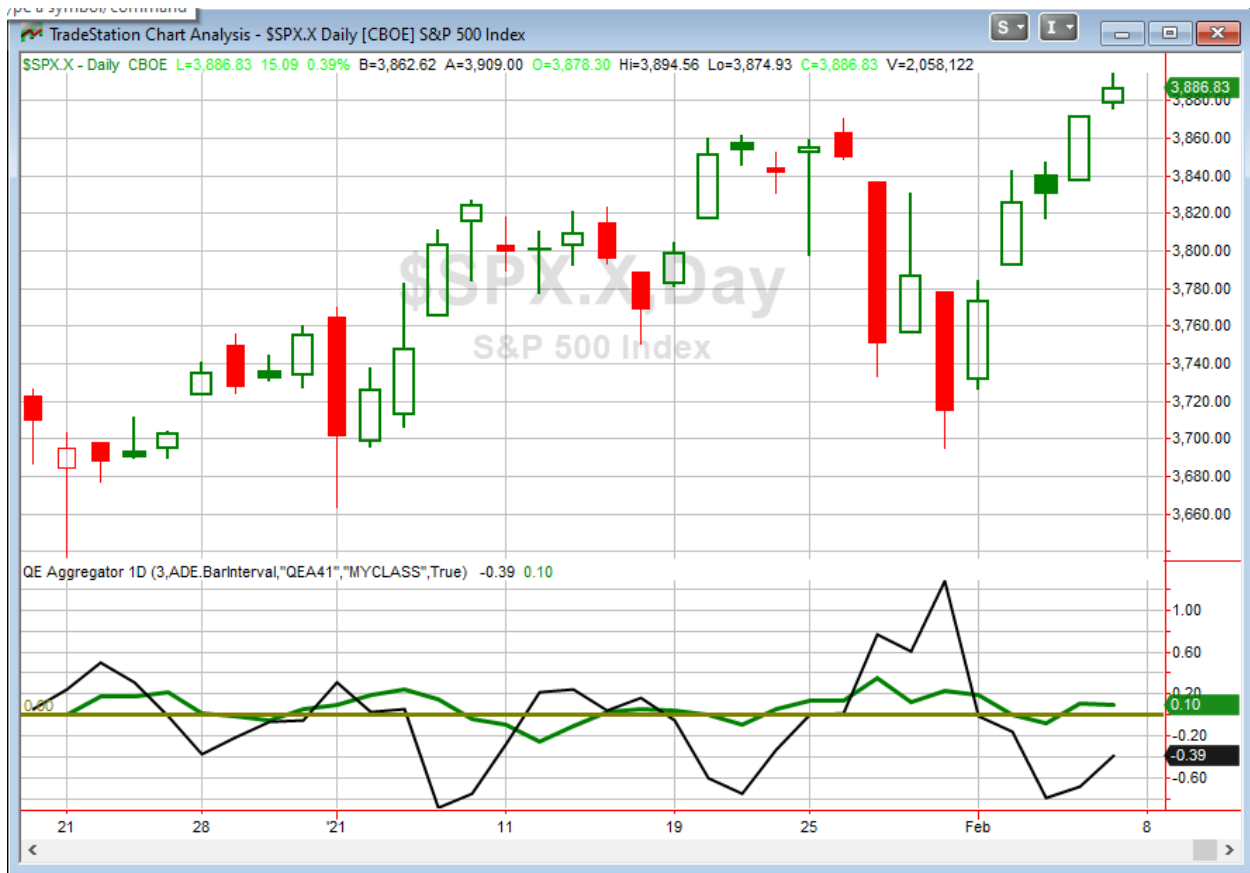
Beyond day 1 there did not appear to be a substantial edge. But the odds and curve for the 1-day hold suggest a downside edge. I have included this study on the Active List tonight.

Lastly, the persistently strong NASDAQ breadth study that I discussed the last 2 nights also triggered again. I won't go over it all again tonight, but I have updated the SPX numbers and chart below.



This is again on the Active List as well, though the last few days have certainly hurt the bearish look of the curve a bit.

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 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 zero. Therefore, the Aggregator signal stayed flat at the close.

Based on the current active studies, expectations are set to remain positive on Monday. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3834.11 on Monday. That is 1.4% below Friday's close. Therefore, SPX would need to close down a fairly sizable 1.4% on Monday in order to flip from overbought to oversold vs recent expectations.

Friday's action did not do much to change my outlook. The Aggregator is neutral. Evidence is mixed, and the market is overbought in an uptrend. I don't see a strong short-term edge here worth playing. I'll wait for a better reward/risk setup to emerge before looking to take on new index trades.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 2/8 – somewhat 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”.*

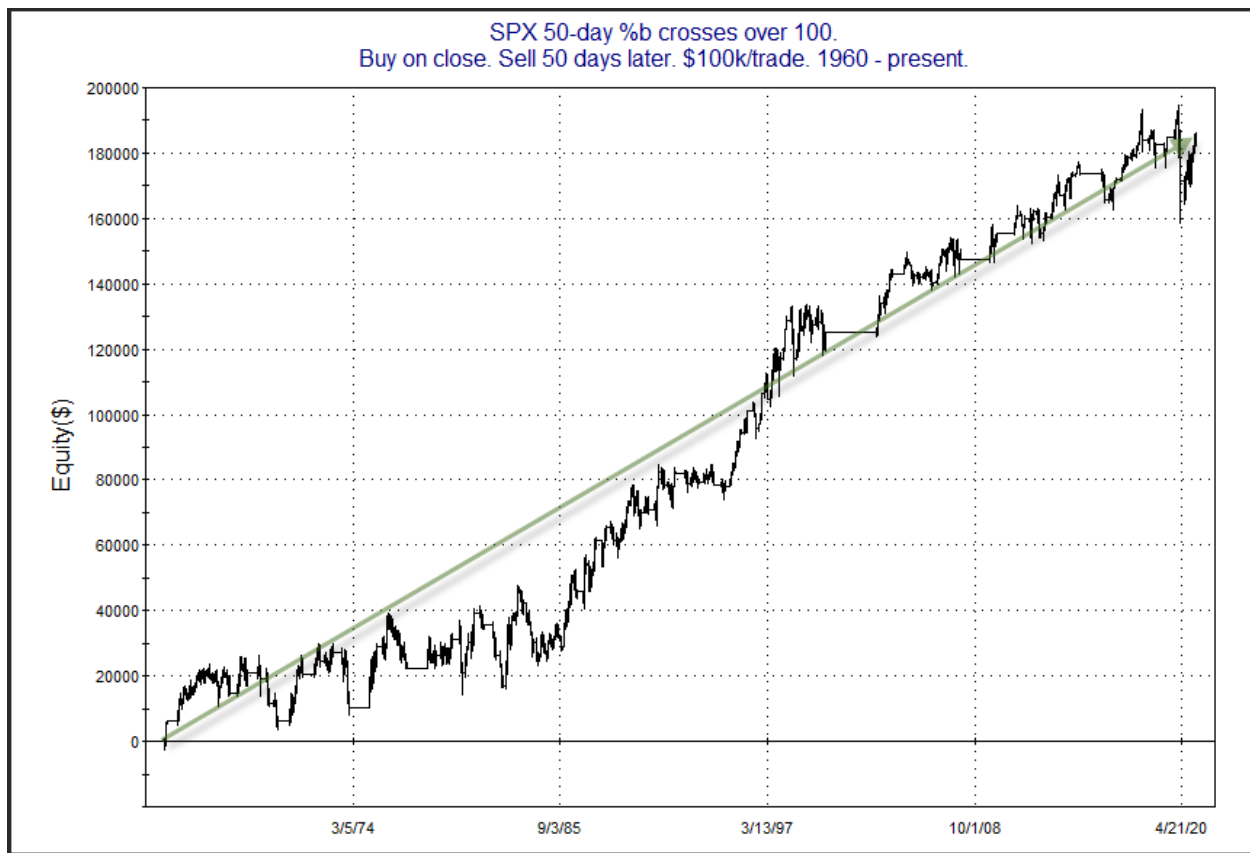
This week saw a big reversal from last week’s losses. The SPX rallied 4.65%, the NASDAQ jumped 6.0% and the Russell 2000 shot up 7.7%. They all closed the week at all-time highs. So the uptrend certainly remains intact.

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. I last featured this study in the 11/16/20 letter. Updated results are 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	183,817.47	142	87	55	61.27	18,408.18	-20,704.80	4,833.89	-4,304.19	1.12	1.78	1,294.49
45	140,412.88	148	85	63	57.43	15,816.57	-32,382.30	5,034.54	-4,563.86	1.10	1.49	948.74
40	148,155.28	153	92	61	60.13	17,624.67	-27,920.40	4,460.73	-4,298.88	1.04	1.56	968.34
35	150,537.31	161	97	64	60.25	15,782.13	-13,617.00	3,999.24	-3,709.20	1.08	1.63	935.01
30	101,605.28	168	101	67	60.12	11,920.74	-10,485.00	3,262.25	-3,401.23	0.96	1.45	604.79
25	66,151.50	176	101	75	57.39	10,859.94	-8,732.16	2,940.62	-3,078.02	0.96	1.29	375.86
20	61,908.22	189	108	81	57.14	9,501.30	-10,205.38	2,603.29	-2,706.75	0.96	1.28	327.56
15	52,762.11	207	120	87	57.97	7,843.46	-9,763.44	2,326.15	-2,602.02	0.89	1.23	254.89
10	37,151.83	232	141	91	60.78	8,239.16	-9,133.53	1,668.37	-2,176.79	0.77	1.19	160.14
5	10,746.81	283	158	125	55.83	5,030.81	-6,524.55	1,126.63	-1,338.09	0.84	1.06	37.97

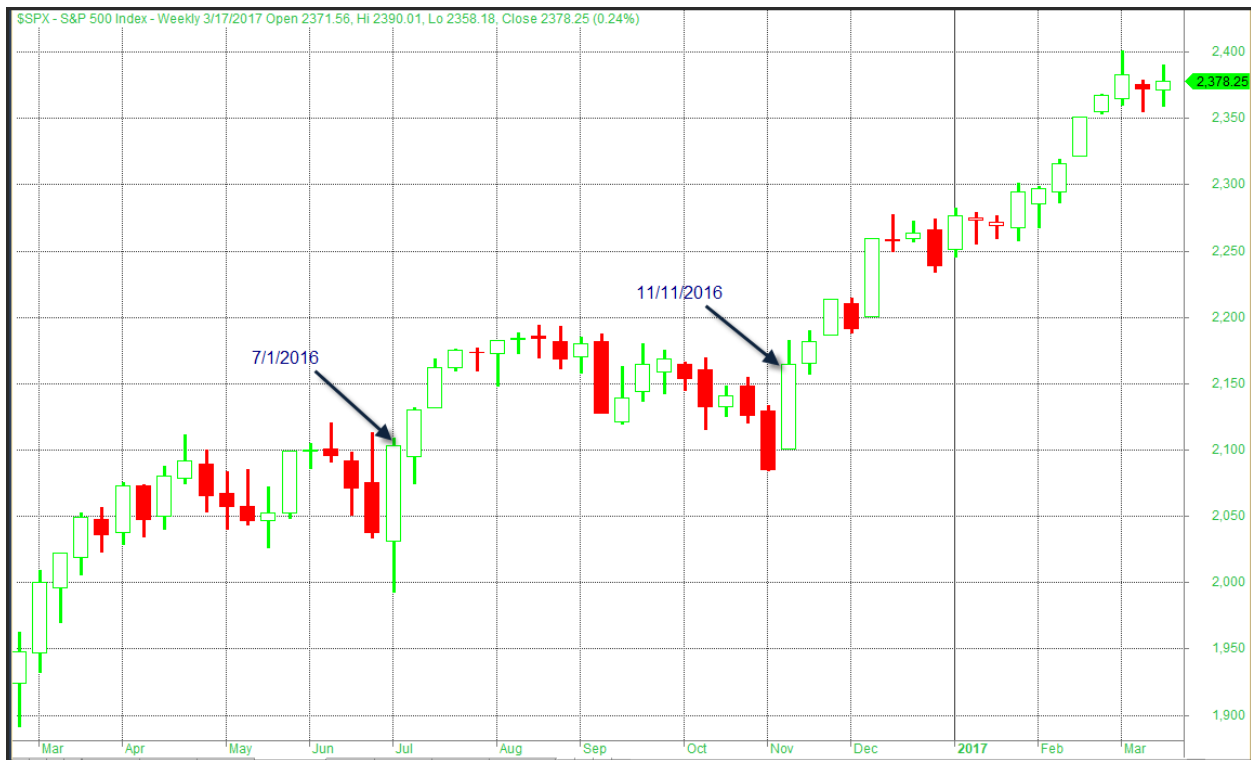
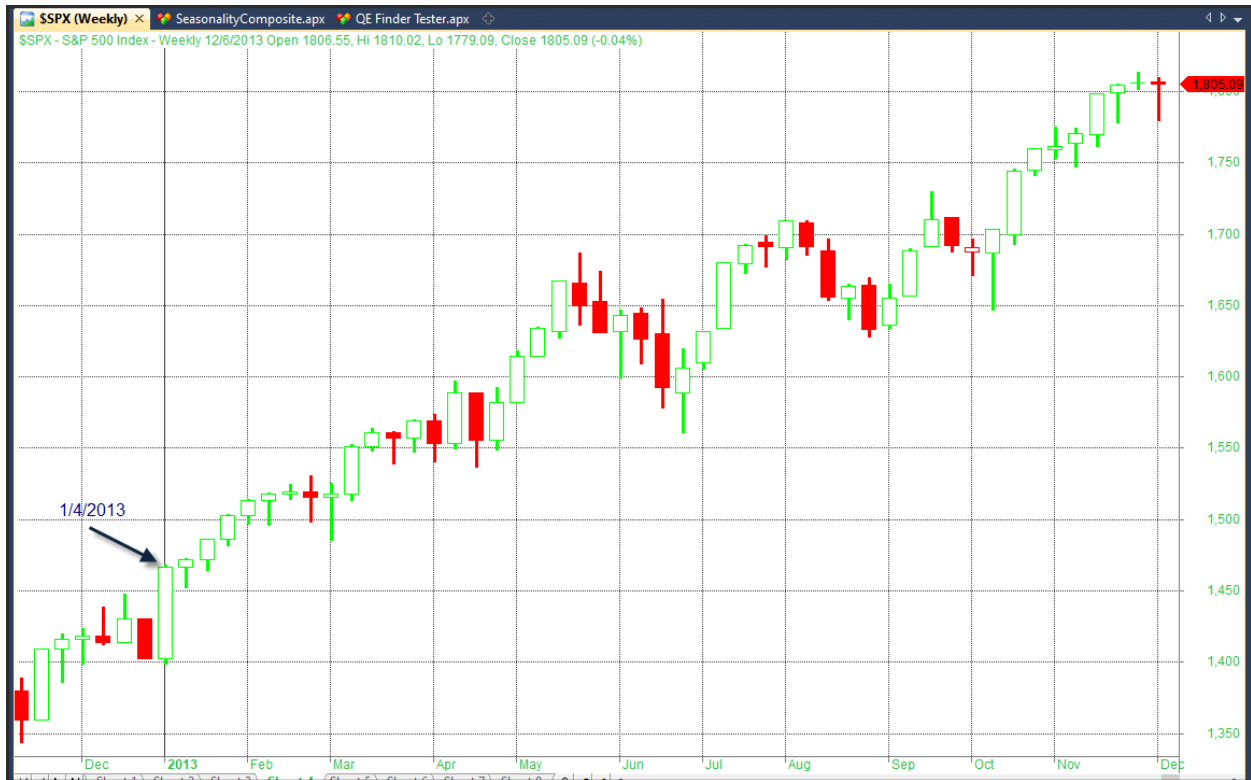
Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over

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.

Last week I discussed the fear that the Gamestop (and other) short squeezes put into the market. When it did not trigger any blow-ups, the market rallied and the VIX collapsed. In fact the VIX closed down nearly 37% from last Friday’s close. I looked back at all other weekly declines of 35% or more. There were only 3 other instances. They occurred on 1/4/2013, 7/1/2016, and 11/11/2016. Below are weekly SPX charts showing how the market acted after these large VIX declines.

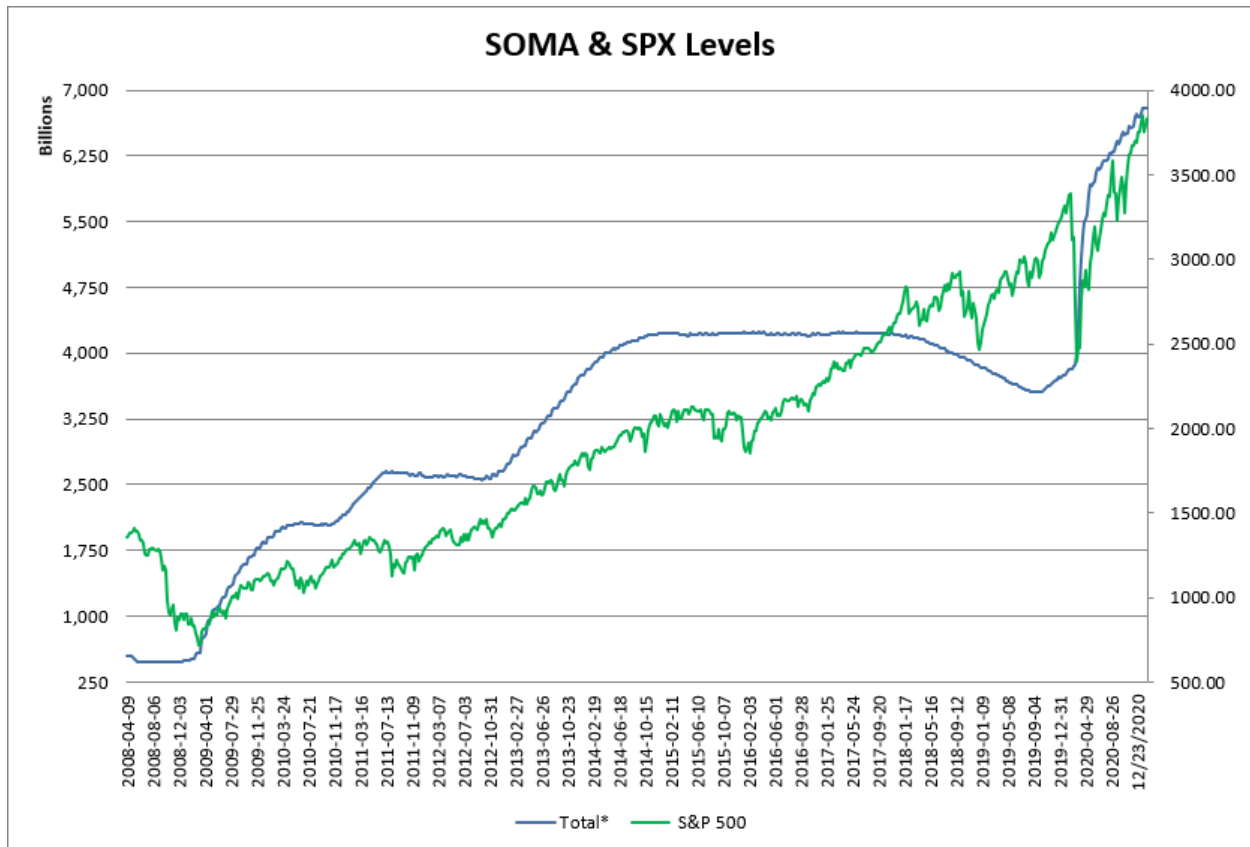


I don't like drawing conclusions from just three instances, but I will note that the other times this occurred the market continued higher for at least a few more weeks. So while the move last week seems short-term overdone, that does not mean a pullback is imminent.

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>February 3, 2021</b> 
<i>Posted February 4, 2021 at 4:30 P.M</i>	
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> <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)	4,063,997,932.0
US Treasury Floating Rate Notes (FRNs)	21,038,668.5
US Treasury Inflation-Protected Securities (TIPS)*	318,021,401.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,059,899,463.0
Agency Commercial Mortgage-Backed Securities***	9,889,406.6
Total SOMA Holdings	6,801,237,871.1
Change From Prior Week	5,891,007.2

This past week saw the SOMA rise by about \$5.9 billion. That is a moderate amount, but not unusual for early in the month. 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. The NASDAQ is leading, and the long-term trends remain up. The recent push higher has the market a bit over-extended short-term but that appears to be a positive for the intermediate-term. 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***

AMGN

***Broad Market Large Cap CBI – 1(AMGN)***

### **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
AMGN(1/3)	2/5/2021	\$237.22	\$236.32	-0.38%		Catapult

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