

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 16, 2021

Volume 14 Issue 30

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## 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.
- We are in a strong seasonal period for SPX over the next few days.
- The Fed continues to pump liquidity.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. Me too.

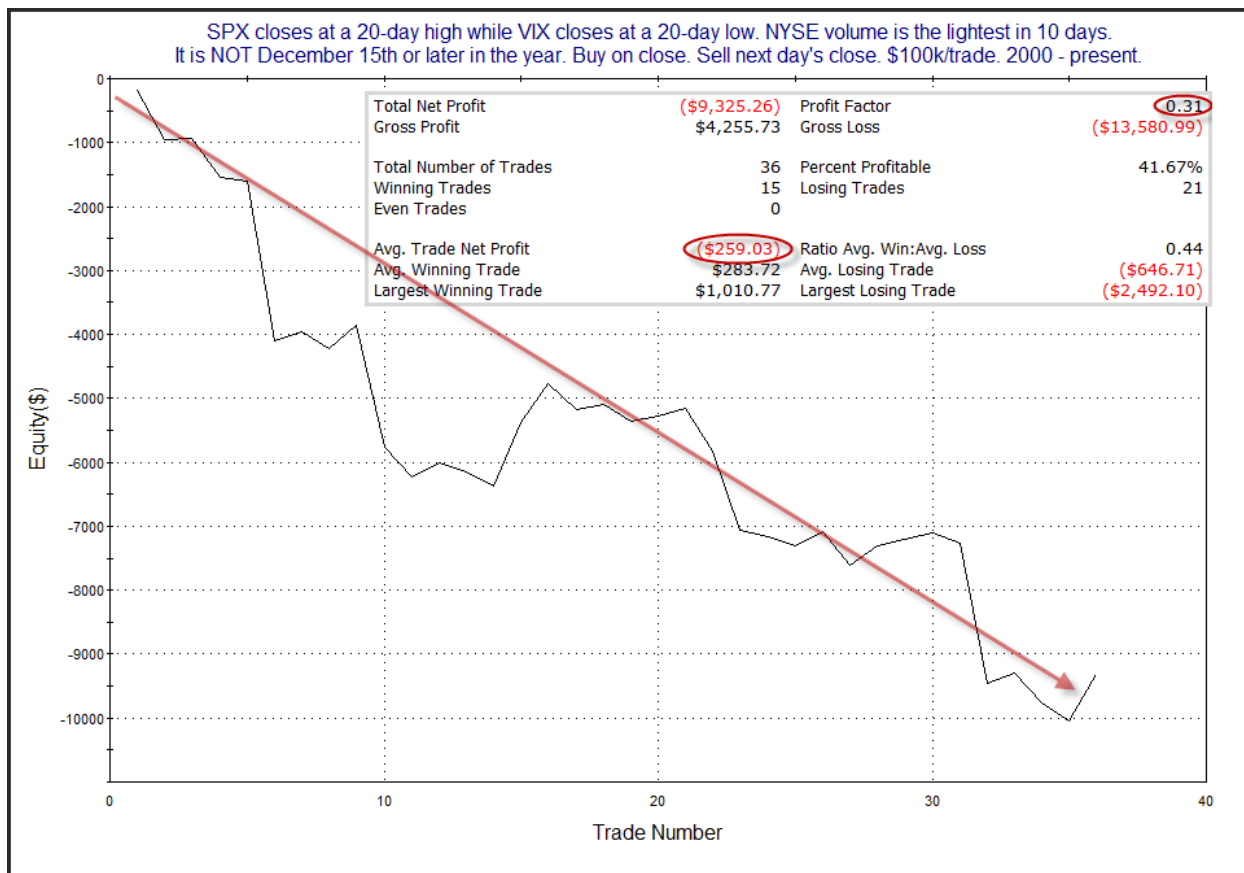
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
February 16, 2021	SPX high. VIX low. Volume low.	1 day	Bearish			
February 10, 2021	5 up to 50-high then down 1	1-4 days	Bullish	1.70%	-0.80%	-1.60%
February 10, 2021	SPY 3 higher highs and lows, dn close	1-4 days	Bullish	1.05%	-0.90%	-1.70%
February 9, 2021	Up 2% > 3 ago. Offset HV < 0.5	1-5 days	Bullish	1.70%	-0.90%	-1.70%
<b>Active - Long Term</b>						
February 10, 2021	5 up to 50-high then down 1	1-10 days	Bullish	1.90%	-1.00%	-2.20%
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**

Most of the indices edged higher on Thursday. The SPX rose 0.2%, the NASDAQ gained 0.4%, and the Russell 2000 climbed 0.1%. Breadth was negative with the NYSE Up Issues % coming in at 44% and the Up Volume % at 47%. NYSE total volume was very light.

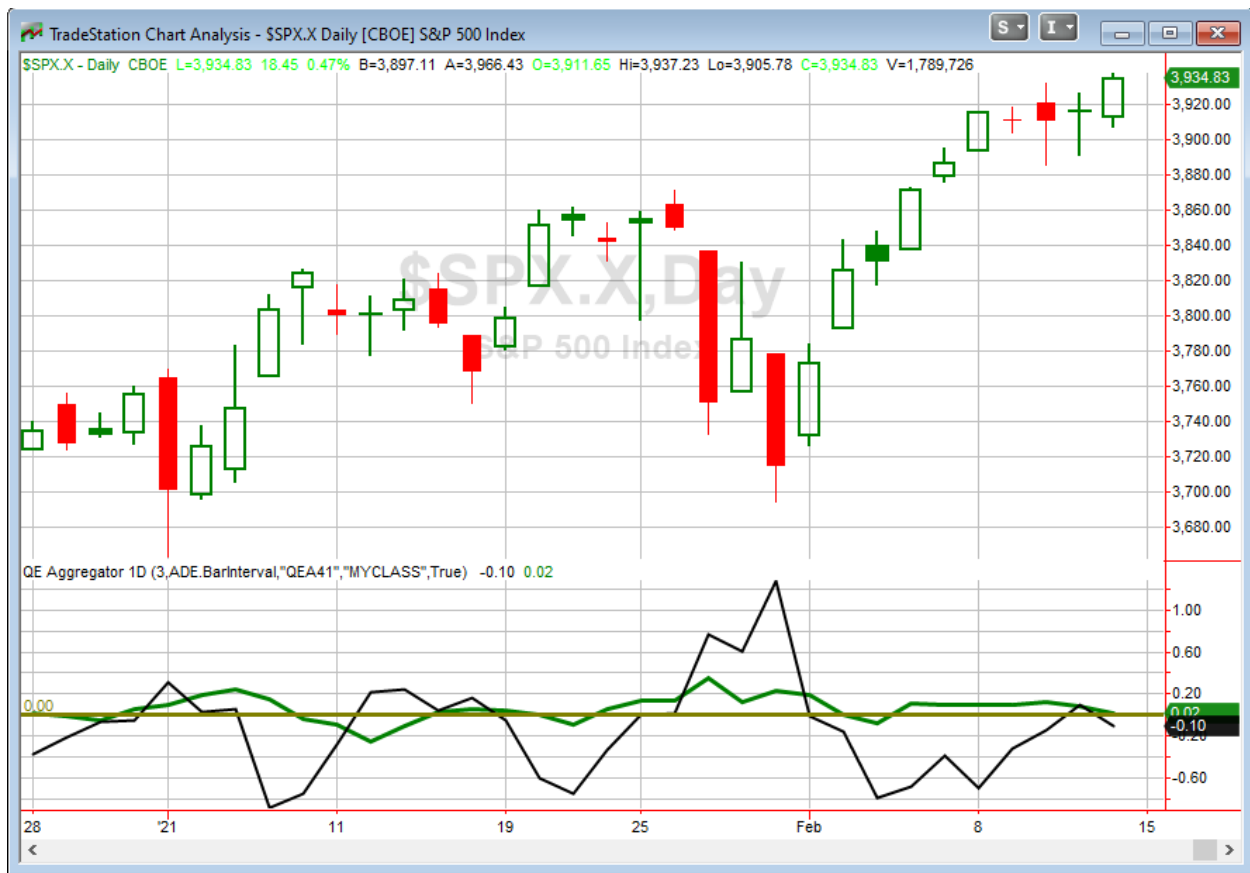
Some notables about Friday are that 1) SPX closed at a long-term high, 2) VIX closed at an intermediate-term low, and 3) NYSE volume was light. Low volume and a low VIX can both be potential signs of complacency and suggest a short-term pullback. This triggered the study below, which was last seen recently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

Another notable worth mentioning is that the SPX Seasonality Calendar is now in the midst of some of its strongest days of the month. This can be seen below.





Even 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 dipped back 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 positive on Tuesday. But I will also note that all of the active short-term studies are set to expire on Tuesday. So the Aggregator will be heavily influenced over the next few days by any new studies that emerge. Meanwhile, the Differential Pivot will be 3922.72 on Tuesday. That is 0.3% below Friday's close. Therefore, SPX would need to close down at least 0.3% in order to flip from overbought to oversold versus expectations.

So the Aggregator is back to neutral. Evidence is mixed, and the market is overbought at new highs. This does not appear to be a strongly favorable reward/risk setup. I'm currently sidelined, and will not take on any new index positions until reward/risk improves.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 2/16 – 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”.*

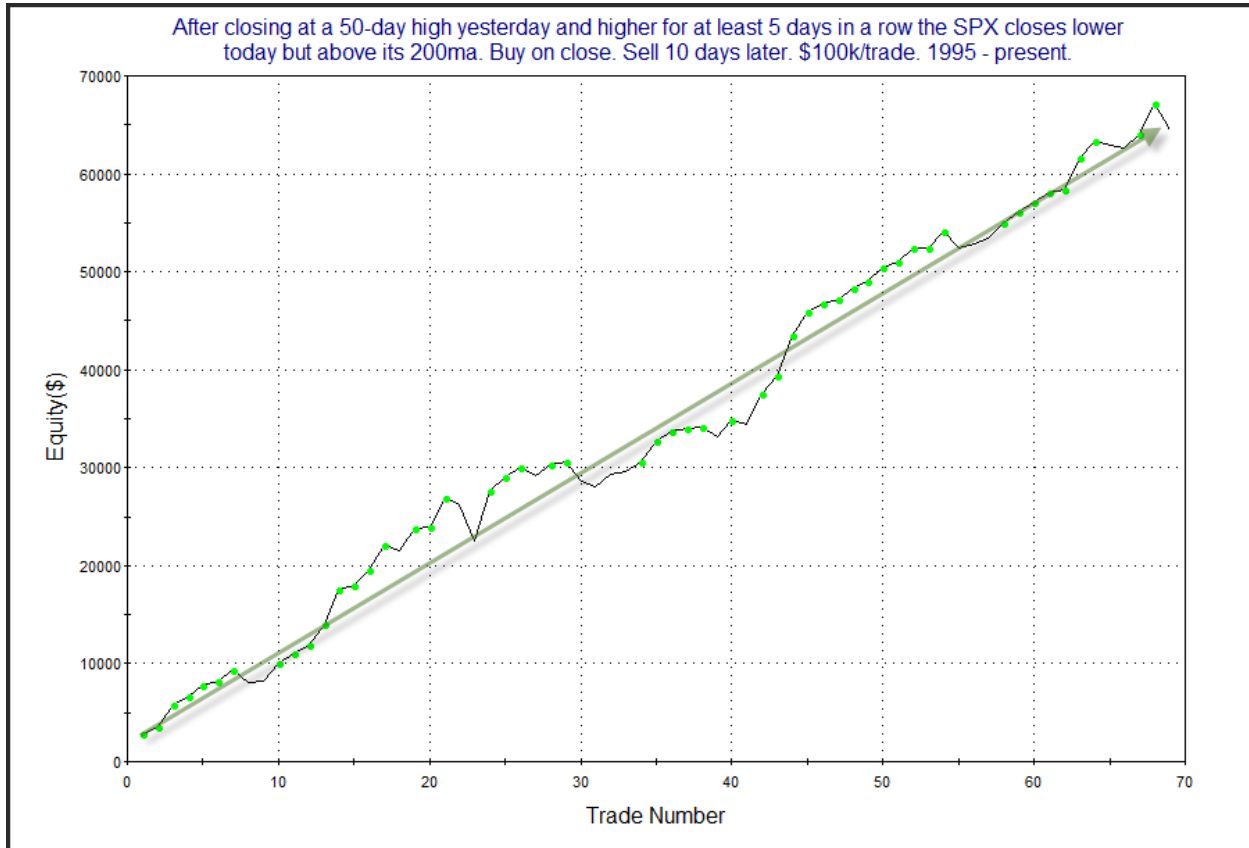
This week saw the stock rally continue. The SPX gained 1.2%, the NASDAQ jumped 1.7% and the Russell 2000 shot up 2.5%. They all closed the week at all-time highs. So the uptrend certainly remains intact.

There was one compelling study that emerged this past week with intermediate-term consequences. It was in Tuesday night’s letter and I have copied it below.

*One compelling study that triggered tonight suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was from the 9/1/20 Letter. I have updated the stats in the table below.*

After closing at a 50-day high yesterday and higher for at least 5 days in a row the SPX closes lower today but above its 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	64,411.22	69	56	13	81.16	5,131.35	-3,672.90	1,442.95	-1,261.06	1.14	4.93	933.50
9	62,985.12	72	58	14	80.56	5,023.20	-4,151.40	1,424.49	-1,402.54	1.02	4.21	874.79
8	51,983.92	73	51	22	69.86	4,878.08	-4,874.10	1,561.67	-1,257.33	1.24	2.88	712.11
7	40,890.84	75	52	23	69.33	3,874.76	-4,511.36	1,365.31	-1,308.93	1.04	2.36	545.21
6	42,640.84	77	55	22	71.43	4,307.20	-3,637.71	1,251.51	-1,190.54	1.05	2.63	553.78
5	31,858.28	77	51	26	66.23	4,252.50	-4,717.16	1,100.31	-932.99	1.18	2.31	413.74
4	34,767.17	77	50	27	64.94	3,843.00	-3,003.39	1,113.42	-774.21	1.44	2.66	451.52
3	21,402.57	77	49	28	63.64	2,472.85	-1,992.34	861.18	-742.69	1.16	2.03	277.96
2	23,054.79	77	52	25	67.53	2,437.50	-2,614.95	774.15	-688.04	1.13	2.34	299.41
1	12,841.73	77	50	26	64.94	1,751.19	-1,744.10	516.91	-500.15	1.03	1.99	166.78

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day.



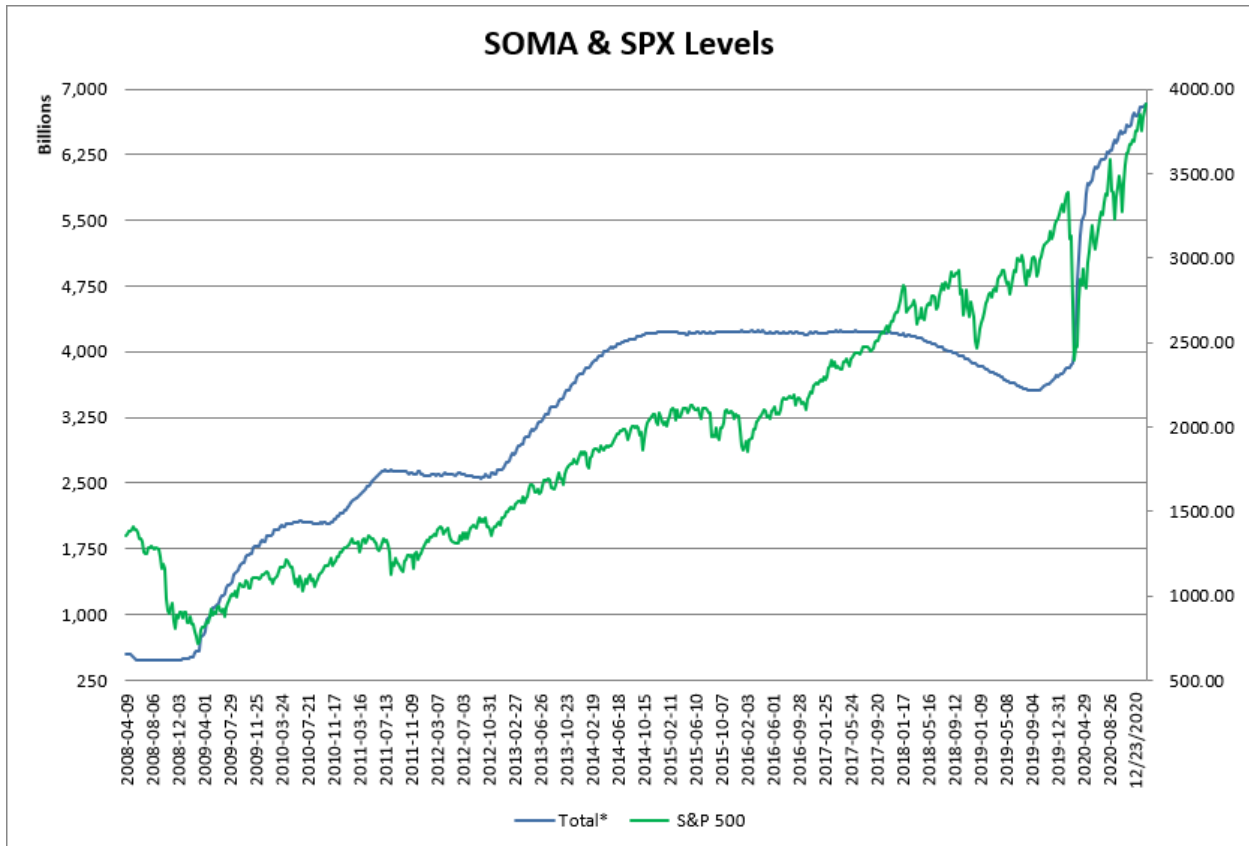
The strong upslope appears to confirm the bullish edge...

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

**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)	4,088,132,932.0
US Treasury Floating Rate Notes (FRNs)	21,038,668.5
US Treasury Inflation-Protected Securities (TIPS)*	320,422,401.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,059,900,462.9
Agency Commercial Mortgage-Backed Securities***	9,889,406.6
<b>Total SOMA Holdings</b>	<b>6,827,774,871.0</b>
Change From Prior Week	26,536,999.9

This past week saw the SOMA rise by about \$26.6 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. The NASDAQ is leading, and the long-term trends remain up. We have seen some studies recently showing 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*

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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