

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 27, 2021

Volume 14 Issue 185

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	2

## Tonight's Research Points

- The strong rebound from the oversold condition a few days ago suggests further upside.
- Seasonality appears good for the upcoming weak, and mixed after that.
- The Fed is still pumping, though the amount of liquidity may be reduced in the coming months.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. That is basically where I am at as well. Evidence favors more gains, but with SPX short-term overbought, reward/risk is not great.

**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>						
September 27, 2021	Dn 4 days then up 3 < 7 ago	1-7 days	Bullish			
September 24, 2021	2 unfilled up gaps from 20-day low	1-7 days	Bullish	2.50%	-0.90%	-1.90%
September 24, 2021	VIX 10% above 10ma to 10% below 10ma	1-8 days	Bullish	2.05%	-1.20%	-2.50%
September 21, 2021	20 low big drop on Monday	1-5 days	Bullish			
September 21, 2021	Gap dn from 20-low. Close < open > 200	1-5 days	Bullish			
<b>Active - Long Term</b>						
August 30, 2021	NASDAQ Leading	int term	Bullish			
May 3, 2021	Worst 6 Months	1-6 months	Bearish			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			

**The Evidence**

Friday saw mixed and mild returns. The SPX finished up 0.15%, the NASDAQ lost 0.03%, and the Russell 2000 fell 0.49%. Breadth was negative with the NYSE Up Issues % coming in at 41% and the Up Volume % at 48%. NYSE total volume declined for the 5<sup>th</sup> day in a row.

Three higher closes for SPX is often viewed as a market that is short-term overbought and in need of a pause. But in fact that has not been the case when the market is rebounding from an oversold condition. The two studies below demonstrate this. The 1<sup>st</sup> shows 3-day rallies that do not originate from a 20-day low. The 2<sup>nd</sup> show results when the rally does originate from a 20-day low. It was last seen in the 1/22/15 letter.

SPX closes up 3 days in a row. It is NOT close at a 20-day low 3 days ago. 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	39,000.00	258	155	102	60.08	6,056.96	-11,813.36	1,615.41	-2,072.44	0.78	1.18	151.16
9	43,195.36	270	166	104	61.48	5,678.54	-7,672.32	1,516.79	-2,005.69	0.76	1.21	159.98
8	21,475.59	281	167	111	59.43	6,471.43	-7,331.92	1,379.79	-1,882.43	0.73	1.10	76.43
7	10,226.69	296	160	135	54.05	5,201.49	-5,306.40	1,370.56	-1,548.62	0.89	1.05	34.55
6	7,820.88	314	174	138	55.41	4,252.98	-7,055.40	1,210.86	-1,470.06	0.82	1.04	24.91
5	-17,386.63	332	177	155	53.31	4,501.60	-10,520.40	1,087.33	-1,353.83	0.80	0.92	-52.37
4	13,370.02	365	203	161	55.62	4,898.88	-4,745.40	1,007.11	-1,186.79	0.85	1.07	36.63
3	5,014.78	365	208	154	56.99	4,105.92	-3,943.56	818.50	-1,072.94	0.76	1.03	13.74
2	15,001.77	365	205	158	56.16	2,545.92	-5,128.20	636.28	-730.61	0.87	1.13	41.10
1	2,333.01	365	176	188	48.22	2,570.70	-2,653.20	524.92	-479.00	1.10	1.03	6.39

SPX closes up 3 days in a row after closing at a 20-day low 3 days ago. 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	36,783.08	58	33	25	56.90	6,051.55	-4,474.32	2,531.28	-1,869.96	1.35	1.79	634.19
9	46,635.31	58	36	22	62.07	6,118.26	-4,426.59	2,363.19	-1,747.24	1.35	2.21	804.06
8	38,552.49	58	35	23	60.34	5,994.37	-4,430.88	2,261.24	-1,764.82	1.28	1.95	664.70
7	23,770.27	59	39	20	66.10	5,145.60	-4,959.78	1,824.19	-2,368.67	0.77	1.50	402.89
6	25,310.34	59	38	21	64.41	4,716.80	-5,155.91	1,655.94	-1,791.21	0.92	1.67	428.99
5	22,167.23	59	39	20	66.10	4,984.19	-5,862.93	1,574.15	-1,961.23	0.80	1.57	375.72
4	11,399.36	59	38	21	64.41	4,450.51	-4,548.94	1,311.68	-1,830.69	0.72	1.30	193.21
3	22,937.25	59	40	19	67.80	4,431.45	-3,068.20	1,154.87	-1,224.09	0.94	1.99	388.77
2	6,626.95	59	35	24	59.32	3,521.00	-3,844.80	987.93	-1,164.60	0.85	1.24	112.32
1	1,898.65	59	30	28	50.85	1,949.70	-2,961.48	735.33	-720.04	1.02	1.09	32.18

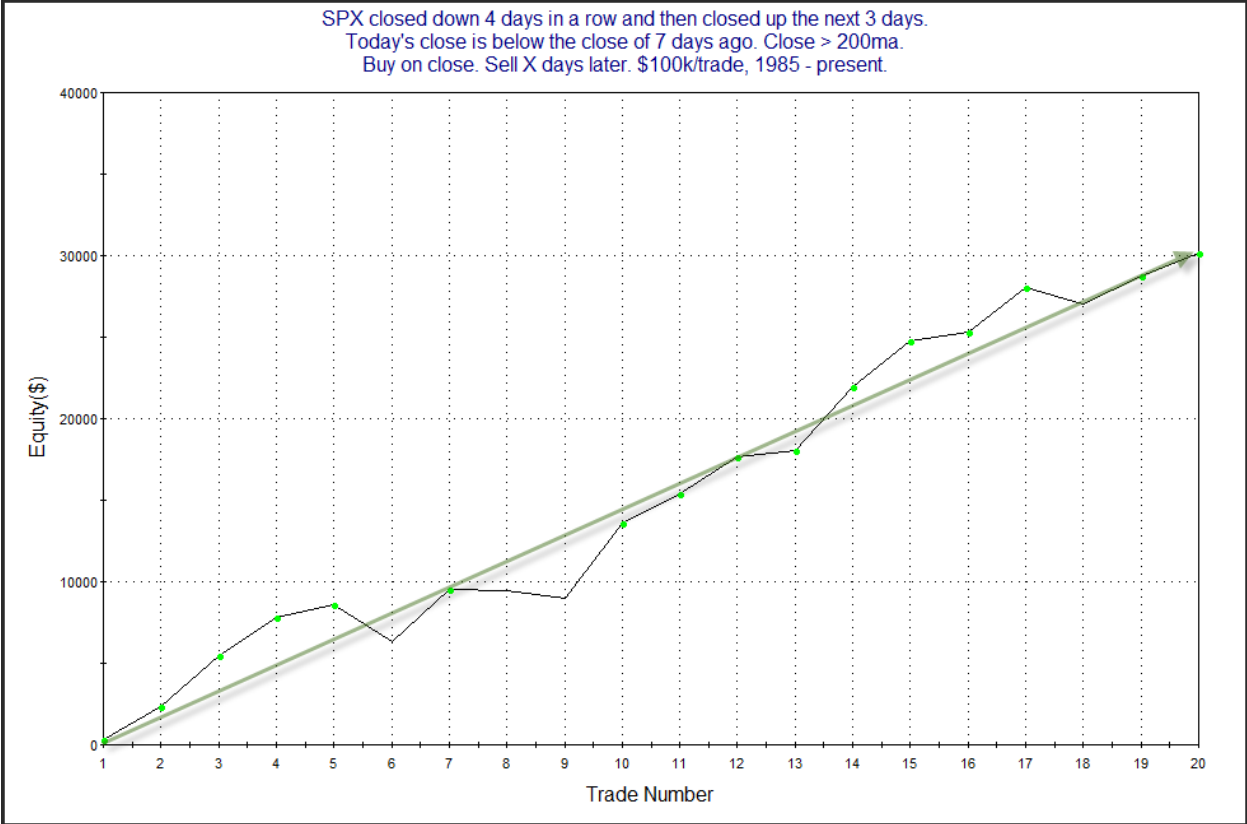
So the 1<sup>st</sup> table shows a lot of breakeven numbers over the next few weeks. No edge apparent. The 2<sup>nd</sup> results table shows a moderate upside edge over the next several days.

But the study that showed the most compelling results related to 3-day bounces from oversold conditions is the one below, which was last seen in the 2/6/17 letter.

SPX closed down 4 days in a row and then closed up the next 3 days.  
Today's close is below the close of 7 days ago. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade, 1985 - present.

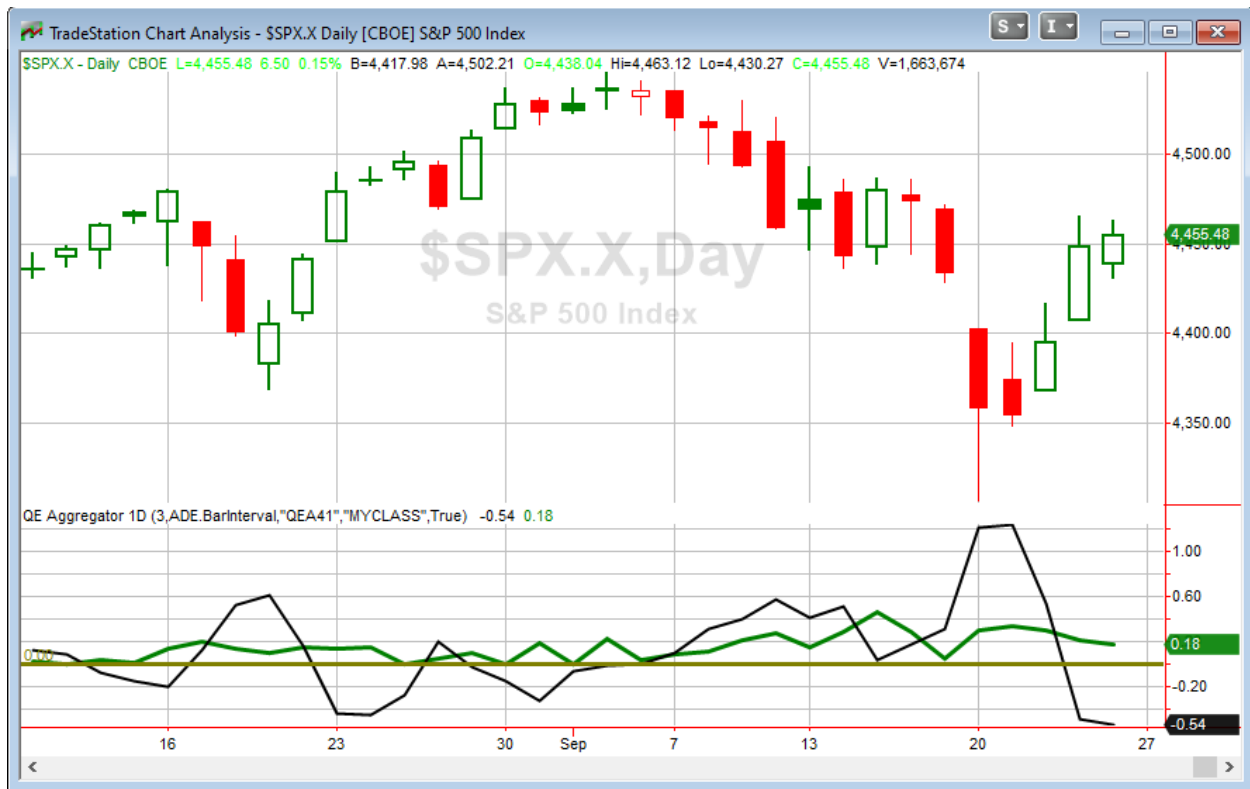
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	36,576.73	20	17	3	85.00	6,720.00	-2,984.24	2,428.12	-1,567.08	1.55	8.78	1,828.84
9	34,916.02	20	17	3	85.00	5,014.40	-2,904.67	2,271.93	-1,235.60	1.84	10.42	1,745.80
8	32,139.58	20	17	3	85.00	4,162.27	-2,182.72	2,132.85	-1,372.98	1.55	8.80	1,606.98
7	30,132.08	20	16	4	80.00	4,607.52	-2,270.88	2,122.39	-956.55	2.22	8.88	1,506.60
6	24,743.11	20	15	5	75.00	4,206.89	-2,625.04	2,098.54	-1,347.01	1.56	4.67	1,237.16
5	13,903.09	20	14	6	70.00	3,798.42	-2,842.40	1,587.94	-1,388.01	1.14	2.67	695.15
4	10,183.28	20	14	6	70.00	4,252.56	-2,397.04	1,406.39	-1,584.35	0.89	2.07	509.16
3	6,015.64	20	11	9	55.00	2,149.68	-3,386.56	1,421.82	-1,069.38	1.33	1.63	300.78
2	3,735.14	20	11	9	55.00	2,068.56	-2,482.97	1,003.66	-811.68	1.24	1.51	186.76
1	-2,077.63	20	8	12	40.00	1,441.26	-1,695.34	658.22	-611.95	1.08	0.72	-103.88

Aside from Day 1, these results suggest a strong and consistent edge over the next couple of weeks. The profit curves were all impressive as well. Below I elected to share the 7-day curve.



That is a very nice move from lower left to upper right. The green arrow is as straight as...um...er...um...an arrow. I like this study and have added it to the active list tonight.

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



With tonight's evidence considered, the green Aggregator Line again 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 of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. It would take strong bearish evidence to change this. Meanwhile, the Differential Pivot will be 4437.55 on Monday. That is a 0.4% below Friday's close. Therefore, for SPX to flip from overbought to oversold versus recent expectations on Monday it will need to close down over 0.4%.

So the Aggregator is now neutral. Evidence favors more upside in the coming days and weeks, but SPX is short-term overbought. This reduces reward/risk. I flattened out my index position on Friday, and will wait for the next favorable short-term setup before jumping back in.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 9/27 – somewhat bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Flat</b>	<b>Long</b>	<b>Long</b>

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 there were no changes to the Combo System signals.*

This past week started poorly but rebounded nicely. The SPX finished the week up 0.5%, the NASDAQ was basically breakeven with a 0.02% gain, and the Russell 2000 rose 0.5%. The SPX is still less than 3% below its all-time high.

Below are the Quantifiable Edges SPX Seasonality Calendars for September and October.





that options expiration can generate strong edges. Action on and around options expiration, which occurs on the 3<sup>rd</sup> Friday of each month, helps to generate some seasonal tendencies. So this study encompasses the full range of time that SPX options have been in existence.

SPX Performance in the Week that Followed the Month and Friday Specified. \$100k/trade. 1985 - present. Top 10 and bottom 10 results shown.													
Month of Year	Fri of Month	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	5	19,048.94	15	11	4	73.33	7,184.40	-3,889.28	2,318.48	-1,613.59	1.44	3.95	1,269.93
4	2	35,623.57	37	25	12	67.57	5,731.96	-3,580.15	2,150.94	-1,512.48	1.42	2.96	962.80
1	5	15,765.61	17	12	5	70.59	5,169.12	-3,138.72	2,339.80	-2,462.40	0.95	2.28	927.39
5	4	28,366.73	37	25	12	67.57	7,145.28	-2,983.50	1,871.25	-1,534.54	1.22	2.54	766.67
10	4	27,009.25	36	26	10	72.22	10,485.72	-5,472.04	1,965.12	-2,408.40	0.82	2.12	750.26
1	4	27,581.39	37	23	14	62.16	4,860.00	-3,765.16	2,181.50	-1,613.80	1.35	2.22	745.44
11	4	25,355.97	36	27	9	75.00	7,362.46	-6,830.72	1,495.33	-1,668.67	0.90	2.69	704.33
10	2	24,679.60	36	27	9	75.00	7,282.10	-9,109.98	1,925.74	-3,035.03	0.63	1.90	685.54
12	2	23,199.90	36	27	9	75.00	5,868.16	-6,968.06	1,446.04	-1,760.35	0.82	2.46	644.44
5	5	10,062.95	17	11	6	64.71	4,787.84	-3,683.73	1,914.87	-1,833.43	1.04	1.91	591.94
8	5	-3,886.62	16	8	8	50.00	3,283.38	-4,206.40	1,374.80	-1,860.62	0.74	0.74	-242.91
11	5	-2,801.11	11	7	4	63.64	1,717.40	-4,574.88	952.18	-2,366.60	0.40	0.70	-254.65
9	1	-12,490.32	37	18	19	48.65	3,778.72	-11,038.16	1,606.64	-2,179.46	0.74	0.70	-337.58
10	3	-13,908.83	36	17	19	47.22	4,339.20	-12,167.91	1,772.66	-2,318.11	0.76	0.68	-386.36
10	1	-15,063.54	36	20	16	55.56	5,944.32	-18,000.90	1,903.95	-3,321.41	0.57	0.72	-418.43
6	3	-16,215.12	37	14	23	37.84	2,928.60	-3,626.75	1,161.83	-1,412.20	0.82	0.50	-438.25
7	5	-10,040.49	16	7	9	43.75	2,404.80	-7,153.30	1,335.68	-2,154.47	0.62	0.48	-627.53
2	3	-23,995.37	37	17	20	45.95	2,106.80	-11,122.37	852.62	-1,924.49	0.44	0.38	-648.52
9	3	-26,839.99	37	10	27	27.03	7,739.42	-6,525.56	1,625.43	-1,596.08	1.02	0.38	-725.41
4	5	-7,756.89	10	4	6	40.00	1,247.86	-6,368.04	909.67	-1,899.26	0.48	0.32	-775.69

You'll note that the highlighted weeks are the October weeks. It's amazing that all 5 potential weeks in October are included in either the Best 10 or the Worst 10 weeks of the year. Weeks are ranked based on Avg Trade (last column).

Weeks following the 1<sup>st</sup> and 3<sup>rd</sup> Friday in October have been among the *worst* on average. I'll also note that the 2 largest "max losing trades" occurred following the 1<sup>st</sup> and 3<sup>rd</sup> Friday in October. They were a 12% and an 18% drop.

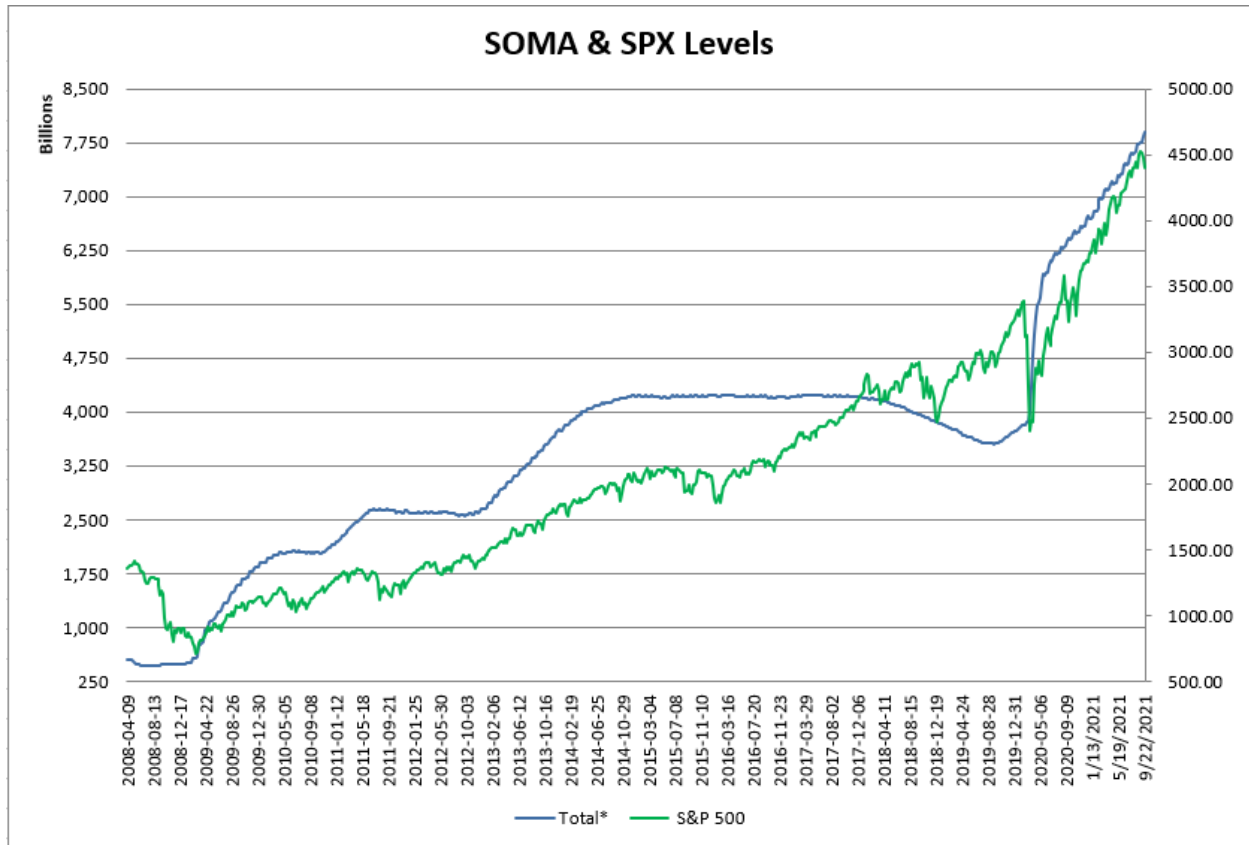
Weeks following the 2<sup>nd</sup>, 4<sup>th</sup>, and 5<sup>th</sup> Fridays in October made up 3 of the *best* 10 weeks of the year on average. And they show three of the largest winners as well, with 7.2%, 7.3% and 10.5% max gains.

As I said, October can be volatile. While I really like the QE Seasonality Calendars, this other look may be worth some consideration as well. There could easily be some strong moves up and down throughout the month, and traders may want to keep this in mind for position sizing, or if they are making volatility trades.

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>September 22, 2021</b> 📅 <i>Posted September 23, 2021 at 4:30 PM</i>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> <span style="background-color: #333; color: white; padding: 2px 5px; font-weight: bold;">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)	4,635,968,229.8
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	362,753,828.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,526,984,063.9
Agency Commercial Mortgage-Backed Securities***	9,572,804.2
Total SOMA Holdings	7,888,549,472.2
Change From Prior Week	43,204,066.7

This past week saw the SOMA rise by \$43 billion. This is fairly typical in the current QE environment. It will also be typical to see the SOMA shrink some this upcoming week. It has done so the last week of every month since the Fed began purchasing \$120 billion worth of bonds each month in the spring of 2020. So don't be alarmed if you see a negative number next week. It is just a calendar quirk. We should see the SOMA continue to rise in the coming 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 a while longer. That should continue to benefit the market. But amount of stimulus will be dialed back some in the coming months. At this point it seems the most likely beginning of tapering will be after the November meeting, which is not far off. For now, the Fed is pumping at that is big positive for the SPX for as long as it lasts.

The S&P 500 is still down 1.5% in September, so it will take a strong finish in the last few days to post a positive month. But it is still not far from its high. The long-term trend still appears to be up. The leading NASDAQ and the strong liquidity support from the Fed are also bullish. Seasonality is mixed, and upcoming Fed policy changes could take a big positive away from the bulls. So I will continue to lean bullish for the time being, but I am prepared to come off that stance if evidence weakens.

## **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

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

FDX – 1/3 @ \$257.55 (bought @ limit)

NEE – 1/3 @ \$81.64 (bought @ limit)

### ***Broad Market Large Cap CBI – 2(FDX, NEE)***

### **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.**

### **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
LLY(1/3)	9/10/2021	\$240.00	\$232.77	-3.01%		<i>sold on open</i>
TMUS(1/3)	9/10/2021	\$131.44	\$130.17	-0.97%		<i>sold on open</i>
LLY(1/3)	9/13/2021	\$239.50	\$232.77	-2.81%		<i>sold on open</i>
TMUS(1/3)	9/13/2021	\$130.81	\$130.17	-0.49%		<i>sold on open</i>
PFE(1/3)	9/14/2021	\$44.58	\$44.07	-1.14%		<i>sold on open</i>
LLY(1/3)	9/14/2021	\$237.96	\$232.77	-2.18%		<i>sold on open</i>
TMUS(1/3)	9/14/2021	\$130.02	\$130.17	0.12%		<i>sold on open</i>
FDX(1/3)	9/20/2021	\$252.11	\$226.64	-10.10%		Catapult
NEE(1/3)	9/20/2021	\$81.54	\$80.70	-1.03%		Catapult
SPY(1/4)	9/21/2021	\$433.63	\$443.18	2.20%		<i>sold @ limit</i>

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