

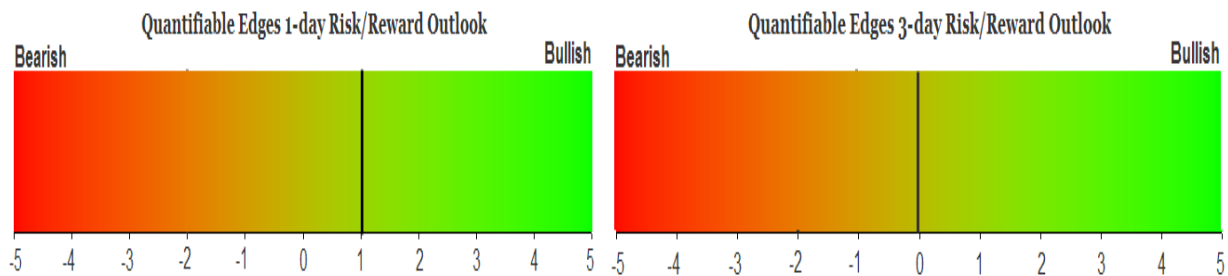
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 11, 2021

Volume 14 Issue 195

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	2

Tonight's Research Points

- Columbus Day is often bullish – especially when the market has been rising leading up to it.
- Opex week in October is typically one of the strongest of the year.
- The SOMA rose again this past week as QE continues.

Short-term Outlook

The Bottom Line

The Aggregator is flat. Evidence is bullish, but the market is overbought. So reward/risk is not great, and I am content to be sidelined.

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						
October 11, 2021	Columbus Day with momentum bullish	1 day	Bullish			
October 11, 2021	Opex week in October Bullish	1-4 days	Bullish	1.70%	-1.20%	-2.60%
October 7, 2021	SPX up & > 200. NYSE Up vol % < 40.	1-7 days	Bullish	1.70%	-1.20%	-2.30%
Active - Long Term						
October 4, 2021	21-day low Thursday. Up Friday	1-25 days	Bullish			
October 1, 2021	SPX dn > 1% 3rd day in last 10. > 200ma	1-20-days	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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
October 8, 2021	Employment Day Hot Streak	1 day	Bullish			

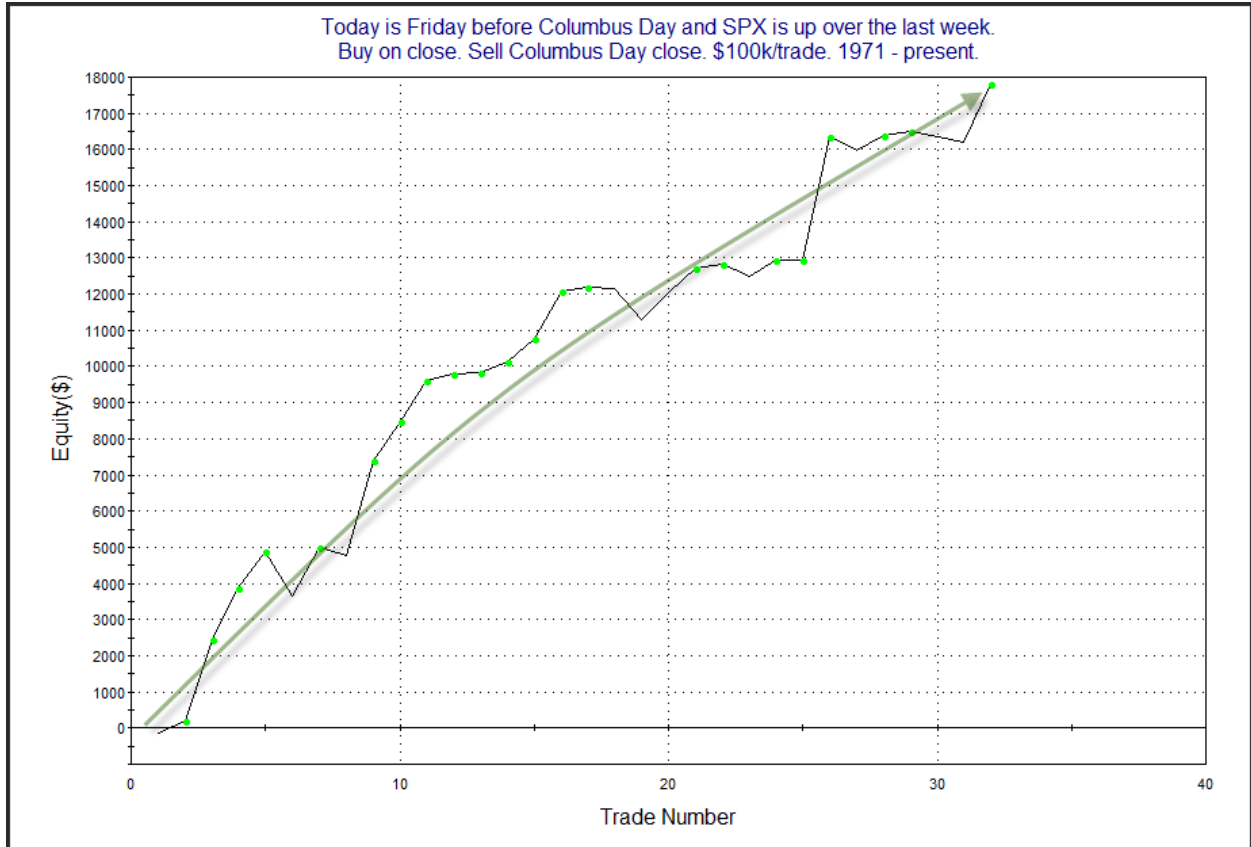
The Evidence

The market dipped on Friday. The SPX finished down 0.2%, the NASDAQ lost 0.5%, and the Russell 2000 fell 0.8%. Breadth was negative with the NYSE Up Issues % coming in at 45% and the Up Volume % at 44%. NYSE total volume sank some from Thursday's level.

While the stock market is open on Monday, banks, schools, government offices, and the bond market are closed. In past years with the bond market closed, the stock market has done quite well on Columbus Day. Of course the most famous Columbus Day rally was in 2008 when the market gained over 11% after having crashed the week before. In the 10/12/20 subscriber letter I showed that positive momentum leading up to Columbus Day has generally led to a positive Columbus Day. But there has not been a strong edge when the market stumbled heading into Columbus Day. Columbus Day has been celebrated on the 2nd Monday of October since 1971. Below is an updated breakdown of the study. First, times like now where there was momentum heading into it.

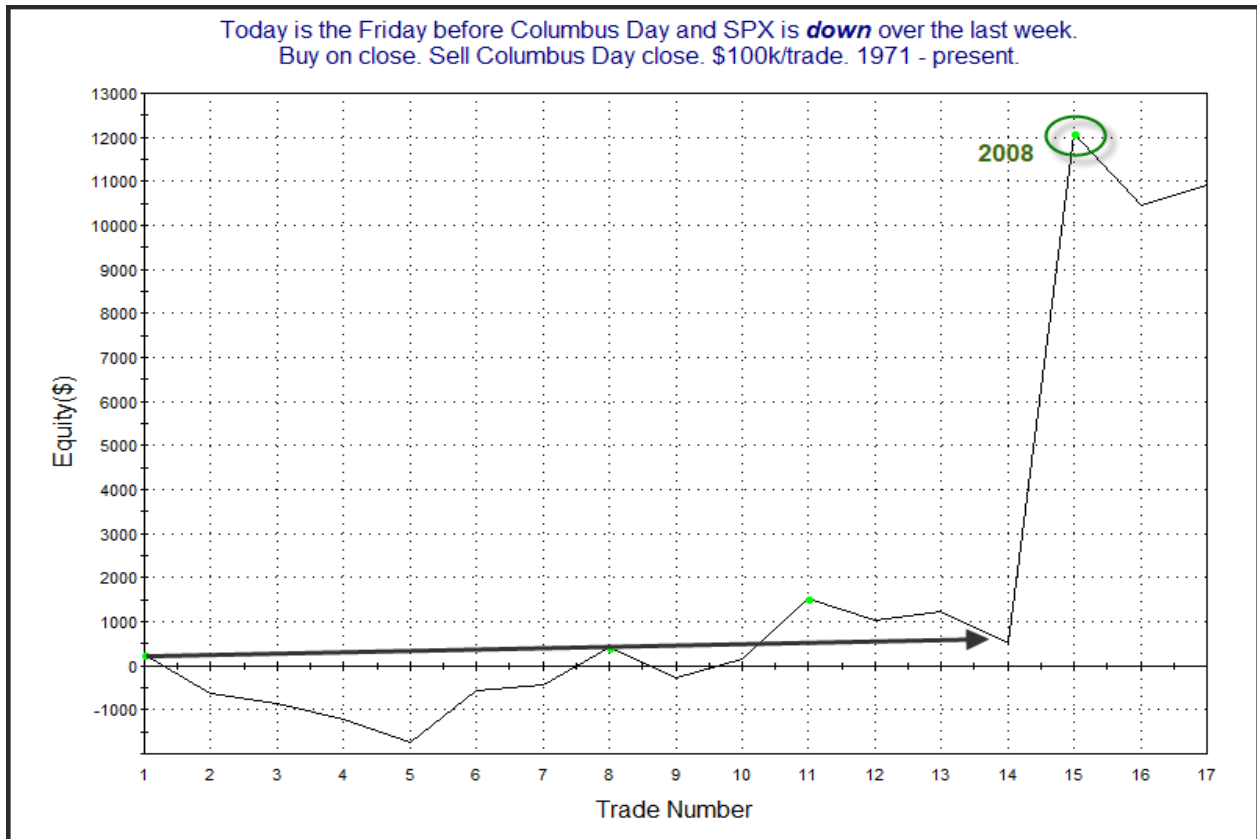
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$17,801.21	Profit Factor	6.13
Gross Profit	\$21,268.61	Gross Loss	(\$3,467.40)
Total Number of Trades	32	Percent Profitable	71.88%
Winning Trades	23	Losing Trades	9
Even Trades	0		
Avg. Trade Net Profit	\$556.29	Ratio Avg. Win:Avg. Loss	2.40
Avg. Winning Trade	\$924.72	Avg. Losing Trade	(\$385.27)
Largest Winning Trade	\$3,390.98	Largest Losing Trade	(\$1,248.22)

I've circled some of the more impressive stats here. With 72% of trades profitable and winners 2.4x the size of losers, risk/reward has been very favorable. I also find it interesting that the size of the average winning trade has been so large, with a 0.9% gain. That seems surprising for a day where the bond market is closed and many traders would be taking the day off. Below is a look at the profit curve.



The slope is clearly up. It certainly appears Columbus Day with upside momentum appears to provide a solid seasonal edge.

What about times *without* positive momentum? Below is an equity curve showing results of that setup.



As I mentioned above, 2008 was a huge outlier. Take away that one year and Columbus Day showed a mild negative return when the prior week was down. Overall, it does not appear to be a dependable edge.

It is also notable that next week is options expiration. October Opex has seen the 2nd most average gains of any week of the year, looking back to 1988. This can be seen in the chart below, which I copied from the 9/27/21 letter a few weeks ago.

**SPX Performance in the Week that Followed the Month and Friday Specified.
\$100k/trade. 1985 - present. Top 10 and bottom 10 results shown.**

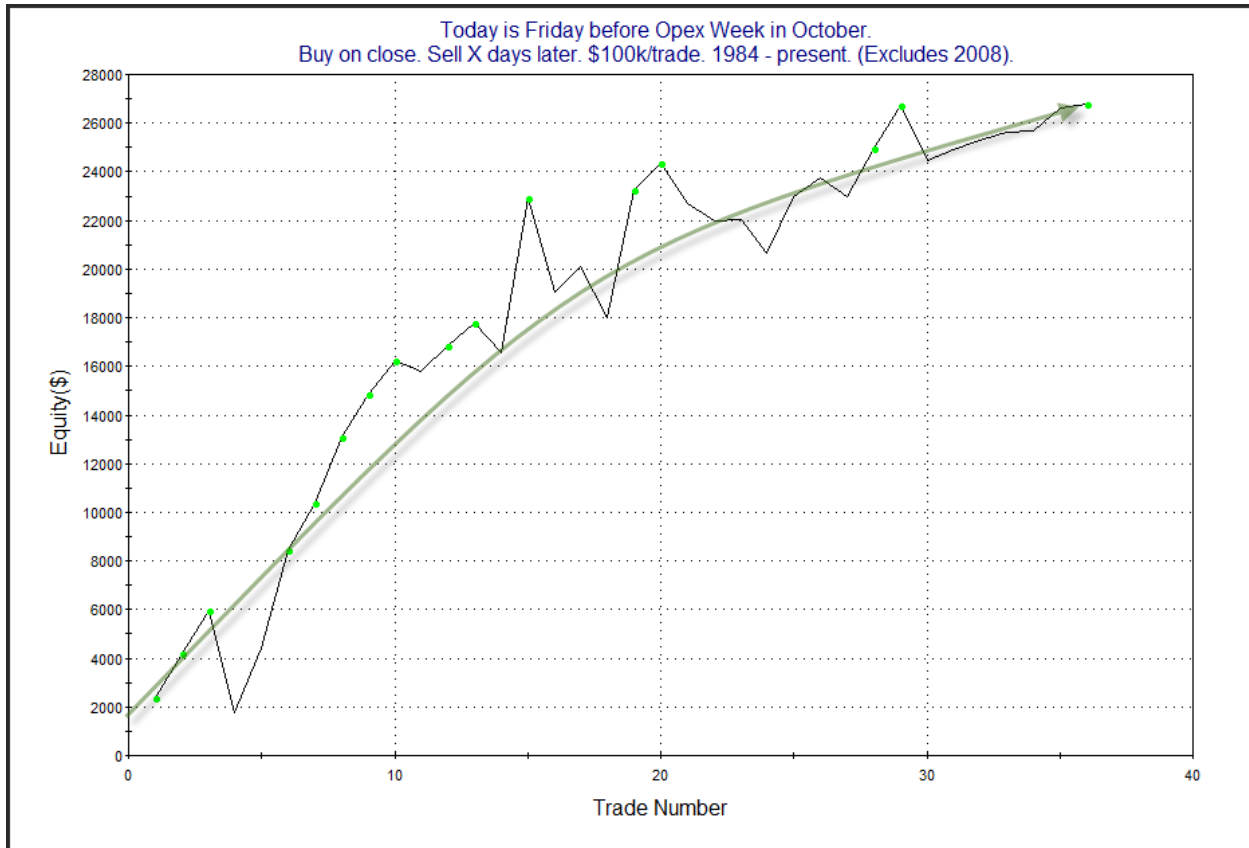
Month of Year	Fri of Month	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	5	19,048.94	15	11	4	73.33	7,184.40	-3,889.28	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

Of course, there was the big 2008 outlier that I showed in the Columbus Day study above. So let's look at October opex week performance with that week removed. The table below is updated from the 10/12/20 Subscriber Letter.

**Today is Friday before opex week in October.
Buy SPX on close. Sell X days later. \$100k/trade. 1984 - present. (Excludes 2008)**

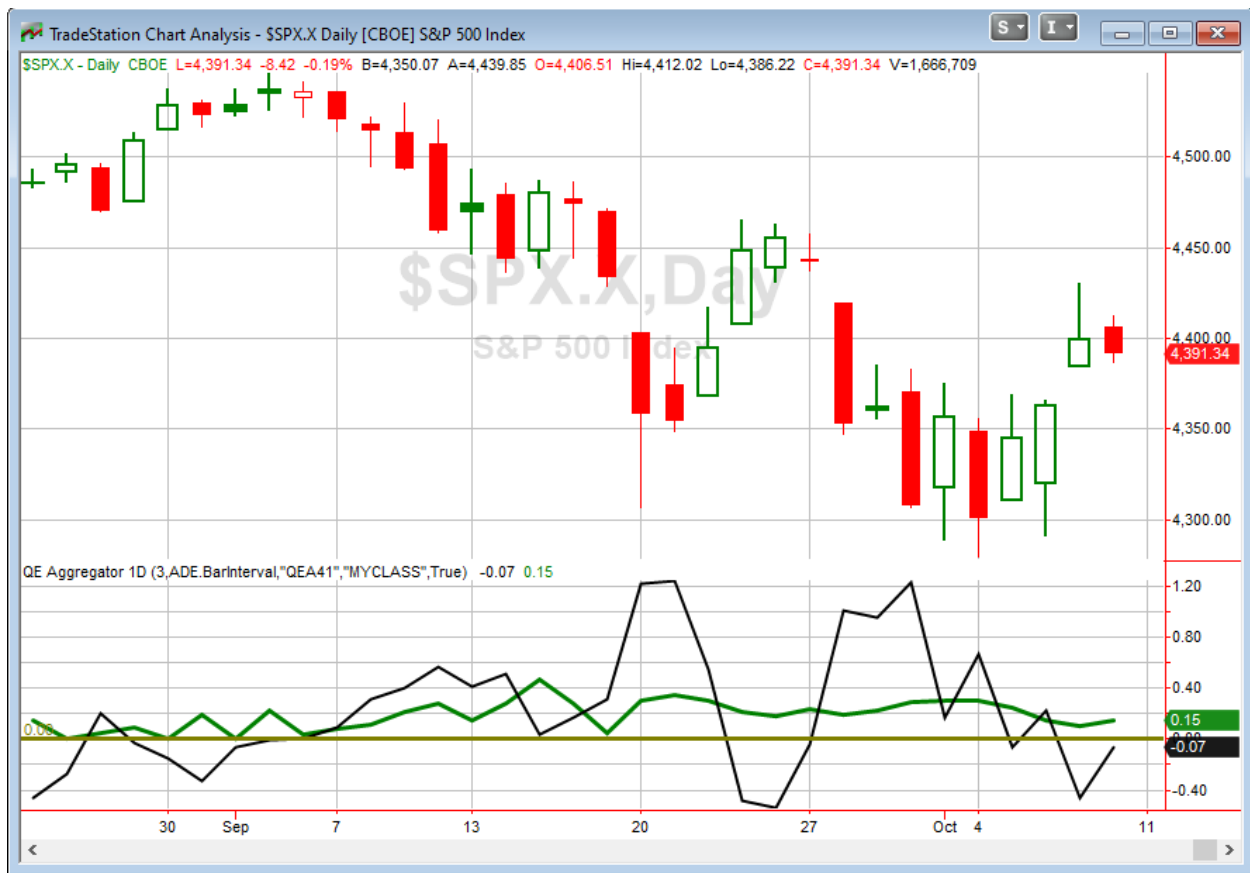
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	22,207.23	35	26	9	74.29	7,282.10	-9,109.98	1,904.71	-3,035.03	0.63	1.81	634.49
4	26,604.10	35	25	10	71.43	6,383.20	-4,169.79	1,810.14	-1,864.95	0.97	2.43	760.12
3	12,251.13	35	23	12	65.71	2,976.32	-3,734.78	1,243.97	-1,363.35	0.91	1.75	350.03
2	16,159.75	35	23	12	65.71	5,468.05	-1,737.36	1,086.34	-735.51	1.48	2.83	461.71
1	8,576.82	35	24	11	68.57	2,753.79	-1,921.32	630.52	-595.98	1.06	2.31	245.05

Results 1-4 days out look pretty solid. I found the profit curve for the 4-day hold the most compelling. It can be found below.



This appears strong enough to include on the Short-Term Active List. So I have.

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



With today'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 zero. 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. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *slightly inverted* at 4393.75 on Monday. That is 0.05% above Monday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up about 2.5 points in order to remain overbought. Anything other than that and it will flip to "oversold" vs expectations as of Monday's close.

So the Aggregator is neutral. Seasonality is positive over the next few days and we do not have any short-term evidence suggesting a downside edge at the moment. With the inverted pivot we could easily see the Aggregator turn bullish again on Monday. But it is not there yet. I'd give a slight edge to the bulls right now, but the setup does not appear strong enough to make a directional index bet.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 10/11 – neutral*

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

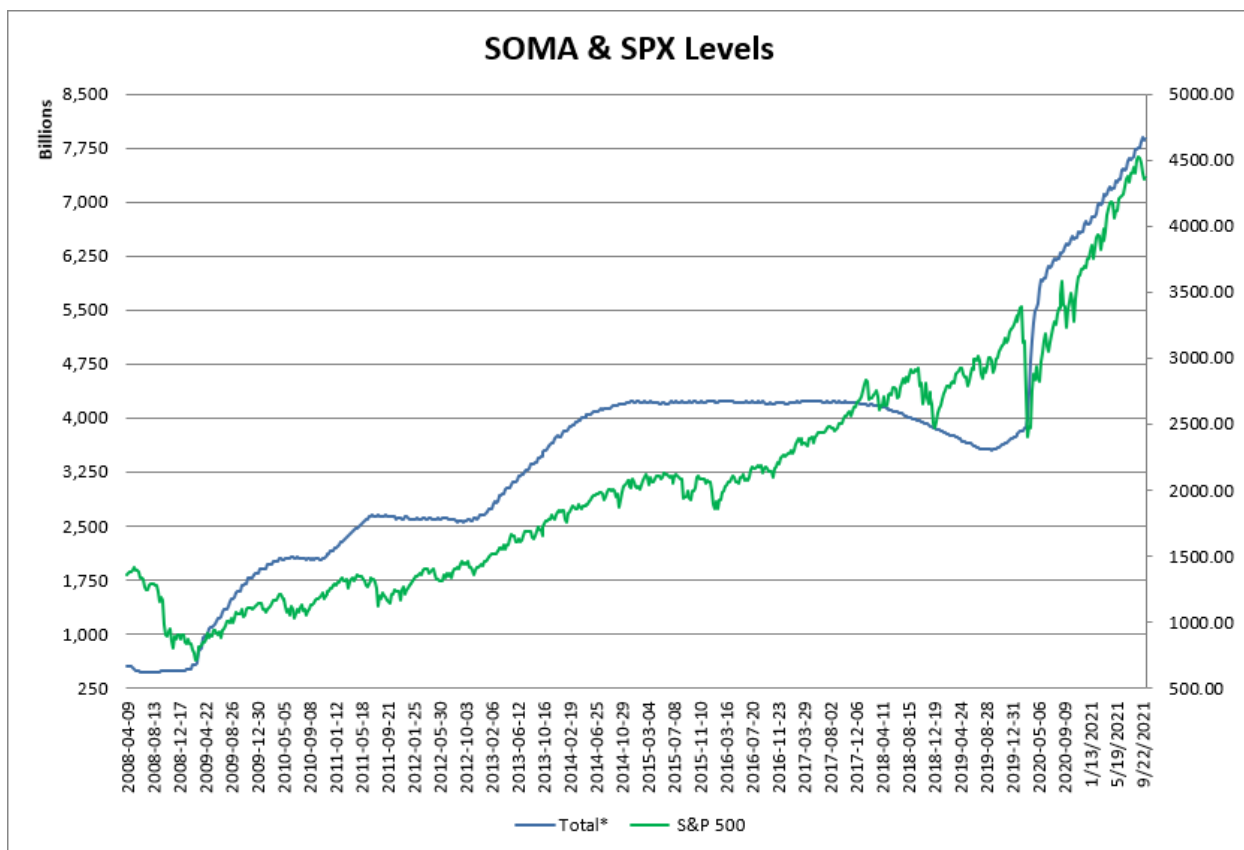
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 Systems. All three remained “Flat”.*

This past week saw mixed results for the major indices. The SPX rose 0.8%, the NASDAQ was about breakeven with a 0.1% gain, and the Russell 2000 declined 0.4%. The SPX and NASDAQ both remain above their 200-day moving averages, but both were also at multi-month lows early in the week. So the long-term trend is not exactly clear at this point.

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	October 6, 2021 📅 <small>Posted October 7, 2021 at 4:30 PM</small>
<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)	4,667,088,157.3
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	366,440,901.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,485,201,565.9
Agency Commercial Mortgage-Backed Securities***	9,547,334.4
Total SOMA Holdings	7,881,548,504.6
Change From Prior Week	17,668,000.3

This past week saw the SOMA rise by nearly \$18 billion. This is within the expected range for the current QE cycle and time of 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 a bit longer – at least until the next Fed meeting. That should continue to benefit the market. But the amount of stimulus will likely be dialed back some in the coming months. When the massive liquidity support is removed that will likely make for a much more challenging market environment. For now, the Fed is pumping at that is a positive for the SPX.

I continue to have mixed feelings about the current environment. Fed liquidity is strong, but the end is possibly in sight. Seasonality is favorable this week, but October has a penchant for oversized moves in both directions. The trend is not 100% clear. There are a few price-action and volatility studies still active that favor the bulls. I don't have great confidence in either direction at this point. We will soon be approaching the bullish end-of-year period, but the Fed potentially turning less dovish could cause trouble. I am again inclined to view trade opportunities with a neutral intermediate-term bias.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

TMUS – 1/3 @ \$123.18 (bought @ limit)

New

TMUS – 1/3 @ \$121.22 (buy @ limit)

Broad Market Large Cap CBI – 2(TMUS-2)

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.

TMUS – Buy 1/3 Catapult position @ \$121.22 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots for TMUS.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
<i>FDX(1/3)</i>	<i>9/20/2021</i>	<i>\$252.11</i>	<i>\$222.40</i>	<i>-11.78%</i>		<i>sold on open</i>
<i>FDX(1/3)</i>	<i>9/29/2021</i>	<i>\$222.40</i>	<i>\$222.40</i>	<i>0.00%</i>		<i>sold on open</i>
<i>FDX(1/3)</i>	<i>9/30/2021</i>	<i>\$221.09</i>	<i>\$222.40</i>	<i>0.59%</i>		<i>sold on open</i>
<i>ADBE(1/3)</i>	<i>9/30/2021</i>	<i>\$577.70</i>	<i>\$581.30</i>	<i>0.62%</i>		<i>sold on open</i>
<i>SPY(1/4)</i>	<i>9/30/2021</i>	<i>\$433.72</i>	<i>\$439.48</i>	<i>1.33%</i>		<i>sold on open</i>
<i>ADBE(1/3)</i>	<i>10/1/2021</i>	<i>\$575.72</i>	<i>\$581.30</i>	<i>0.97%</i>		<i>sold on open</i>
TMUS(1/3)	10/8/2021	\$123.18	\$121.22	-1.59%		Catapult

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