

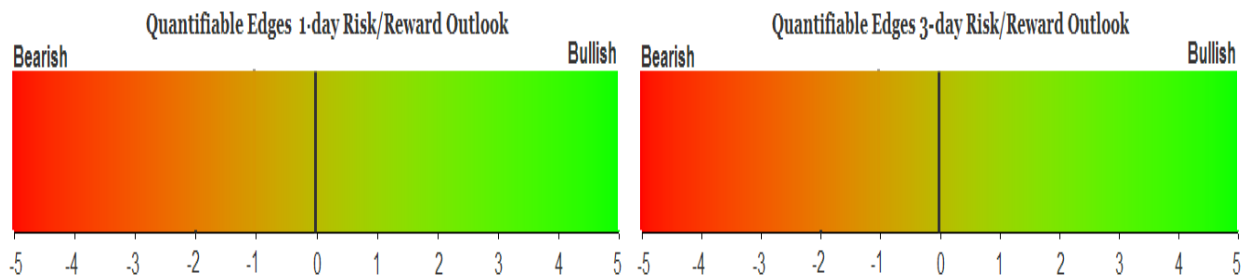
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 18, 2021

Volume 14 Issue 200

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- The week after opex in October has often been volatile, but unreliable from a directional standpoint.
- The Fed continue to pump, supporting the market.
- The intermediate-term trend is unclear.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I am as well.

**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						
None						
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			

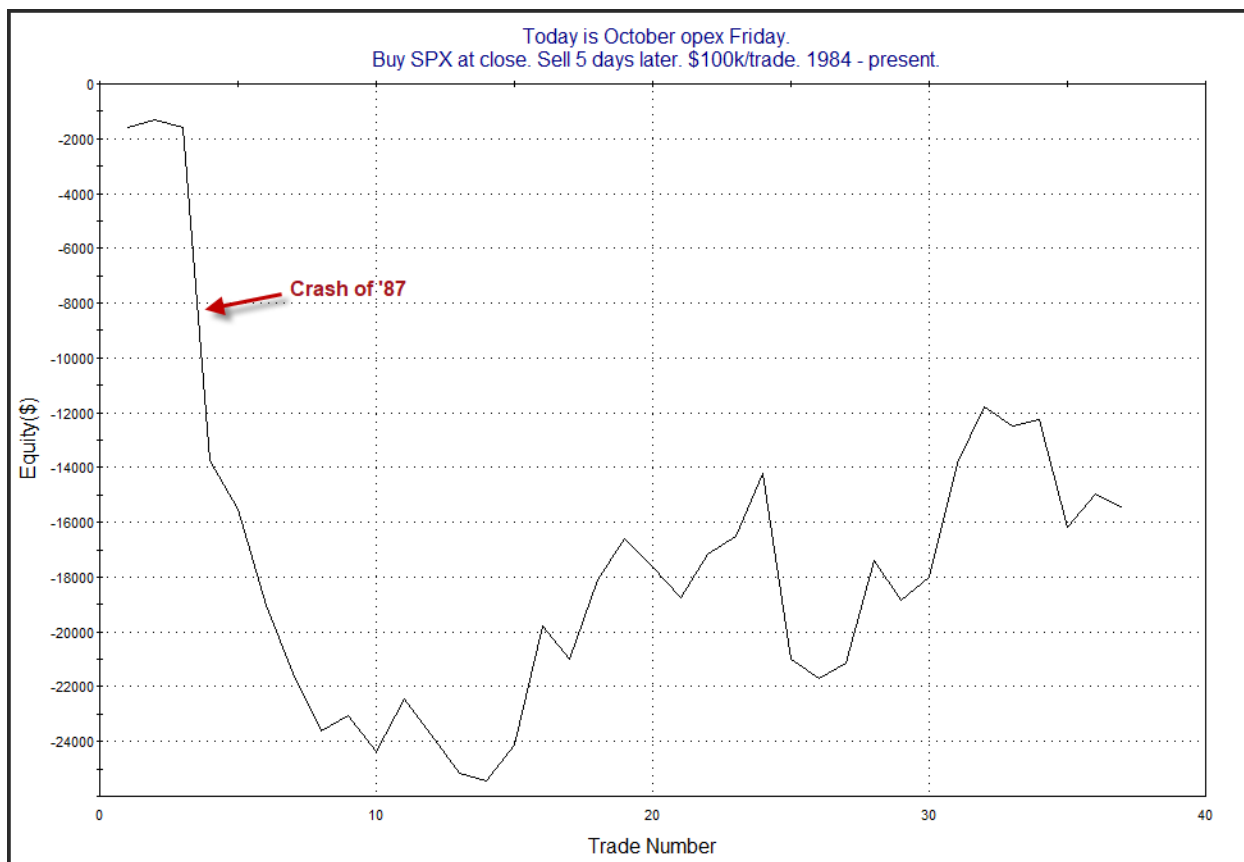
**The Evidence**

Friday was strong for the large-caps, but mixed overall. The SPX finished up 0.75%, the NASDAQ rose 0.5%, and the Russell 2000 declined 0.4%. Breadth was mixed with the NYSE Up Issues % coming in at 49% and the Up Volume % at 62%. NYSE total volume rose some as it often does on Opex Friday.

I have discussed October's strong volatility the last few weeks. Notably, the week after the 2<sup>nd</sup> and 4<sup>th</sup> Friday is often strong. But the week following opex (the 3<sup>rd</sup> Friday) is where we are headed, so let's look briefly at that.

Today is October opex Friday. Buy SPX at close. Sell X days later. \$100k/trade. 1984 - 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
5	-15,497.48	37	17	20	45.95	4,339.20	-12,167.91	1,772.66	-2,281.63	0.78	0.66	-418.85
4	-14,105.37	37	17	20	45.95	3,707.20	-12,157.32	1,328.11	-1,834.16	0.72	0.62	-381.23
3	-15,242.64	37	16	21	43.24	3,361.60	-8,584.96	1,125.24	-1,583.16	0.71	0.54	-411.96
2	-10,983.45	37	18	19	48.65	2,950.50	-16,188.58	983.23	-1,509.55	0.65	0.62	-296.85
1	-7,325.85	37	22	15	59.46	4,754.10	-20,424.58	936.21	-1,861.50	0.50	0.74	-198.00

The numbers here are fairly negative. I also decided to look at an equity curve. This can be seen below.



We see here a few things: 1) The downside was realized in the early years. Since the 90s the week after October opex has actually posted gains. 2) Sizable moves have occurred in both directions. While the study does not show a strong directional edge, it does suggest the moves at this time of year are somewhat exaggerated. So...not necessarily bearish, but risks may be elevated, because moves in either direction could be outsized.

Below is a look at the current QE Seasonality Calendar for SPX:

<b>Quantifiable Edges Seasonality Calendar</b>			
<b>§SPX S&amp;P 500 Index</b>			
<b>Date</b>	<b>Win%</b>	<b>Profit Factor</b>	<b>Avg % Chg</b>
10/1/2021	59.59	1.438	0.111
10/4/2021	54.79	1.263	0.088
10/5/2021	52.60	1.133	0.047
10/6/2021	57.62	1.335	0.092
10/7/2021	55.05	1.150	0.052
10/8/2021	57.25	1.485	0.124
10/11/2021	53.87	1.104	0.027
10/12/2021	53.39	1.285	0.079
10/13/2021	54.06	1.054	0.007
10/14/2021	57.20	1.129	0.034
10/15/2021	53.39	1.129	0.036
10/18/2021	57.09	1.119	0.036
10/19/2021	56.00	1.545	0.125
10/20/2021	56.11	1.156	0.048
10/21/2021	55.09	1.126	0.040
10/22/2021	56.15	1.135	0.042
10/25/2021	48.69	1.054	0.014
10/26/2021	52.03	1.204	0.062
10/27/2021	51.76	1.195	0.061
10/28/2021	53.57	1.311	0.085
10/29/2021	53.22	1.113	0.036
<b>Baseline</b>	<b>54.96</b>	<b>1.187</b>	<b>0.058</b>

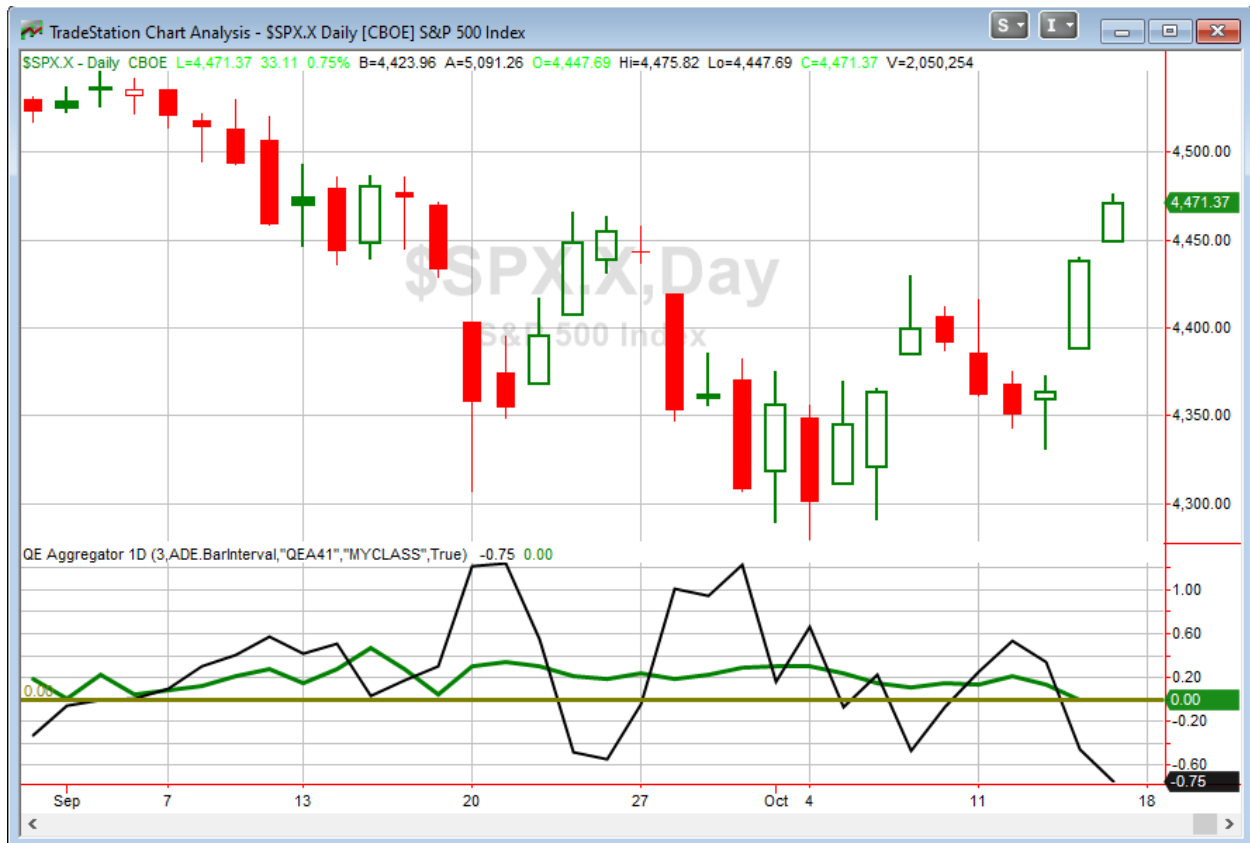
Interestingly, we see this upcoming week showing some of the strongest numbers for October. So based on the Calendar models, we should continue to have a wind at our backs for at least this upcoming week. But the last week of October is showing neutral to barely positive numbers. So no great seasonal edge apparent there. I also ran the preliminary numbers for November, which can be found for all ten Calendars in the Seasonality section of the website. (<https://quantifiableedges.com/seasonality-next-month-preliminary/>) Here is SPX.

<b>Quantifiable Edges Seasonality Calendar</b>			
<b>\$SPX S&amp;P 500 Index</b>			
<b>Date</b>	<b>Win%</b>	<b>Profit Factor</b>	<b>Avg % Chg</b>
11/1/2021	56.72	1.634	0.168
11/2/2021	50.99	1.159	0.049
11/3/2021	53.54	1.416	0.111
11/4/2021	53.54	1.180	0.056
11/5/2021	54.68	1.289	0.090
11/8/2021	55.49	1.019	0.004
11/9/2021	55.11	1.239	0.069
11/10/2021	56.31	1.014	-0.001
11/11/2021	59.40	1.104	0.032
11/12/2021	59.73	1.510	0.126
11/15/2021	54.99	0.989	-0.005
11/16/2021	54.00	1.425	0.088
11/17/2021	54.23	1.036	0.011
11/18/2021	53.18	1.012	0.004
11/19/2021	52.19	0.995	-0.002
11/22/2021	53.68	1.198	0.024
11/23/2021	56.85	1.313	0.063
11/24/2021	57.20	1.486	0.089
11/26/2021	53.11	1.073	0.019
11/29/2021	48.54	1.261	0.058
11/30/2021	51.71	1.376	0.096
<b>Baseline</b>	<b>54.96</b>	<b>1.190</b>	<b>0.058</b>

Mostly positive, with 1<sup>st</sup> of the month, the 11<sup>th</sup>-12<sup>th</sup>, and the 23<sup>rd</sup> and 24<sup>th</sup> (right before Thanksgiving) showing some of the best numbers. These will be finalized at the end of October.

I did look at several other studies this weekend, but nothing stood out and showed a compelling edge. There are no new studies being added to the Active List tonight.

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



Without anything new being added to the Active List, the green Aggregator Line finished dead even at 0. Flat readings mean net expectations are neutral. Meanwhile the black Differential Line remained below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator formation stayed flat at the close.

With the short-term active list bare, and the intermediate-term outlook neutral, expectations over the next few days will be heavily dependent on any new evidence that emerges. Meanwhile, the Differential Pivot will be 4383.63 on Monday. That is nearly 2.0% below Friday's close. Therefore, SPX would need to close down almost 2.0% on Monday in order to flip from overbought to oversold versus recent expectations. That'd be a huge drop. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So the Aggregator is again neutral. I exited most of my long exposure on Friday morning. I'm good with that for now. We are at a point where I don't see decisive evidence pointing either long or short. But I do see sizable swings in both directions and potential for more volatility on the horizon. There seems to be a lot that the market is trying to digest right now, between Fed tapering, government spending (and debt ceiling) negotiations, supply chain issues, inflation worries,

Chinese real estate troubles, US real estate booming, earnings season just getting going, and then very low down on the list is the fact that the world continues to have to deal with a pandemic. With sizable moves possible, I'm content to wait for a decisive signal before moving back into the market. That could come in a day, a week, or a few weeks. But something will emerge soon enough, and I'll look to take advantage when it does.


***Intermediate-term Outlook (2 weeks – 2 months) – updated 10/18 – neutral***

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

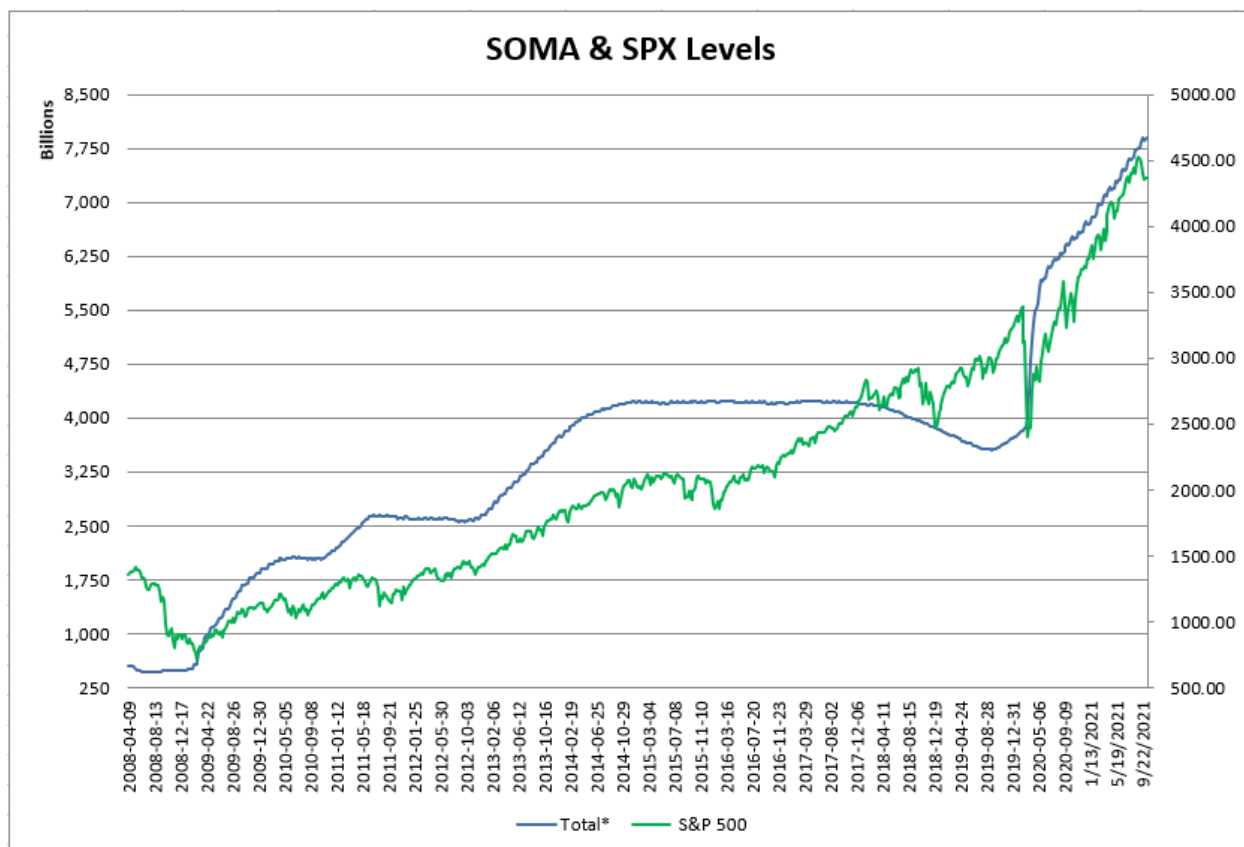
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

This past week saw solid returns for the major indices. The SPX rose 1.8%, the NASDAQ gained 2.2%, and the Russell 2000 climbed 1.5%. The SPX is back to its highest level since mid-September. The NASDAQ and Russell are not there yet. The SPX and NASDAQ remain in the middle 3<sup>rd</sup> of the range from the high in early September to the low in early October. The intermediate-term trend is not entirely clear, but they are above their long-term averages, like the 200ma.

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>October 13, 2021</b>  <i>Posted October 14, 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)	4,682,291,157.3
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	367,641,901.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,485,211,565.6
Agency Commercial Mortgage-Backed Securities***	9,547,334.4
Total SOMA Holdings	7,897,962,504.3
Change From Prior Week	16,413,999.7

This past week saw the SOMA rise by over \$16 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, though that expansion is expected to slow in the next couple of months. Until then, the strong liquidity should continue to benefit the market. 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 still a positive for the SPX.

Very little has changed since last week. I continue to have mixed feelings about the current environment. Fed liquidity is strong, but the end is approaching. 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*

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
TMUS(1/3)	10/8/2021	\$123.18	\$119.61	-2.90%		<i>sold on open</i>
TMUS(1/3)	10/11/2021	\$120.98	\$119.61	-1.13%		<i>sold on open</i>
TMUS(1/3)	10/12/2021	\$117.19	\$119.61	2.07%		<i>sold on open</i>
SPY(1/4)	10/12/2021	\$433.62	\$444.75	2.57%		<i>sold on open</i>
AMGN(1/3)	10/13/2021	\$202.82	\$207.84	2.48%		<i>sell on open</i>

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