

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 22, 2021

Volume 14 Issue 204

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- Breadth was weak, but that could be a positive based on tonight's study.
- SPX broke out to a 50-day high for the 1st time in a while, but volume was not what we would prefer to see when looking for additional follow through.
- The VIX making a new year-to-date low in October is unusual. The few past instances have seen buying in the following months.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. The market is overbought, but short-term evidence is either neutral or bullish.

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 22, 2021	SPX up. Up Vol % < 40%	1-7 days	Bullish	1.70%	-1.15%	-2.25%
Active - Long Term						
October 21, 2021	RSI2 > 99	1-10 days	Bullish			
October 20, 2021	5 up over 3% < 50-high > 200ma	1-15 days	Bullish	3.00%	-1.70%	-3.20%
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			

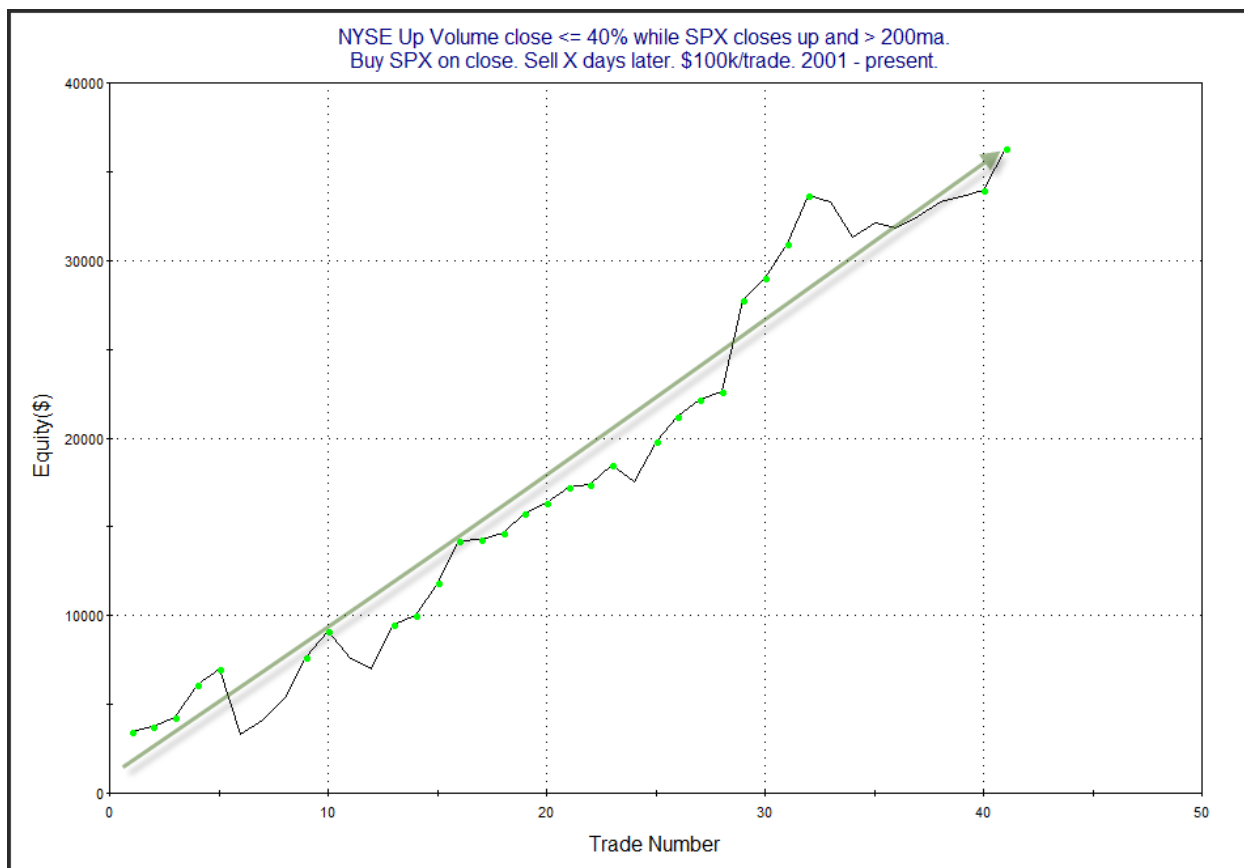
The Evidence

The rally kept going on Thursday. The SPX rose 0.3%, the NASDAQ climbed 0.6%, and the Russell 2000 gained 0.3%. Breadth was negative with the NYSE Up Issues % coming in at 47% and the Up Volume % at 36%. NYSE total volume rose some from Wednesday's level.

Weak breadth is generally regarded as a negative for the market. But we have seen some studies recently that saw weak breadth as an "oversold" type condition suggesting a short-term upside edge. And that is what tonight's study suggests. With SPX closing up and the Up Volume % coming in under 40% it triggered the study below, which has been featured a few times in recent months. It is updated from the 10/7/21 letter.

NYSE Up Volume close <= 40% while SPX closes up and > 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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	42,521.08	37	30	7	81.08	3,969.23	-7,891.63	1,868.03	-1,931.40	0.97	4.15	1,149.22
9	40,282.03	38	30	8	78.95	3,793.00	-7,594.37	1,760.84	-1,567.91	1.12	4.21	1,060.05
8	37,892.41	39	32	7	82.05	4,666.56	-6,657.20	1,529.56	-1,579.09	0.97	4.43	971.60
7	36,344.17	41	34	7	82.93	5,211.84	-3,690.83	1,345.78	-1,344.61	1.00	4.86	886.44
6	30,310.61	41	30	11	73.17	6,018.56	-3,495.92	1,418.90	-1,114.21	1.27	3.47	739.28
5	24,271.10	44	34	10	77.27	4,787.84	-3,769.15	1,130.21	-1,415.61	0.80	2.71	551.62
4	14,484.97	44	29	15	65.91	2,689.05	-2,557.50	1,056.14	-1,076.21	0.98	1.90	329.20
3	14,536.51	45	29	16	64.44	2,513.92	-2,547.82	957.39	-826.74	1.16	2.10	323.03
2	12,176.31	47	31	16	65.96	2,661.75	-2,848.17	780.74	-751.67	1.04	2.01	259.07
1	6,880.13	52	33	19	63.46	1,790.64	-1,371.49	513.13	-529.11	0.97	1.68	132.31

Results have been surprisingly strong over the last 20 years. Below is a look at a 7-day profit curve.



The curve has shown strong upside persistence, including the recent instances. I'll also note that the setup has become more common in recent years. Thursday was the 39th instance since the start of 2016. Prior to 2016, there were only 11 instances in 15 years. Overall, I find these results intriguing and have added this study to the short-term Active List.

Not only did SPX close up for the 7th day in a row, it actually closed at new high for the 1st time since early September. Days where the market breaks out to a new high for the 1st time in a while will often give some clues as to the likely additional follow-through. One indicator that helps to give clues is the volume on the breakout. In the past I have broken down volume by time it came in 1) lower, 2) the highest in 20 days, and 3) higher, but not the highest level in 20 days. I last showed these studies in the 6/7/21 letter and have updated them below. First let's take a look at breakouts that came on NYSE volume that was *lower* than the day before.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is < yesterday.
Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	54,748.66	66	40	26	60.61	11,088.84	-8,157.10	2,683.98	-2,023.48	1.33	2.04	829.53
19	49,816.94	67	41	26	61.19	9,628.99	-9,056.82	2,479.24	-1,993.53	1.24	1.96	743.54
18	51,515.36	67	44	23	65.67	11,076.80	-9,094.80	2,381.74	-2,316.57	1.03	1.97	768.89
17	48,443.09	67	44	23	65.67	10,017.28	-8,682.96	2,354.83	-2,398.66	0.98	1.88	723.03
16	56,954.91	67	45	22	67.16	10,944.36	-9,243.81	2,438.55	-2,399.09	1.02	2.08	850.07
15	51,229.16	67	47	20	70.15	8,357.91	-9,354.92	2,199.17	-2,606.59	0.84	1.98	764.61
14	54,535.93	69	50	19	72.46	9,189.84	-6,525.68	1,996.69	-2,384.13	0.84	2.20	790.38
13	53,028.22	70	48	22	68.57	7,920.66	-5,160.09	1,964.32	-1,875.42	1.05	2.29	757.55
12	36,477.55	70	42	28	60.00	5,996.75	-4,539.14	1,937.58	-1,603.60	1.21	1.81	521.11
11	30,207.88	70	40	30	57.14	5,809.60	-6,029.07	1,883.24	-1,504.06	1.25	1.67	431.54
10	25,257.52	70	38	32	54.29	5,960.00	-4,324.52	1,816.88	-1,368.24	1.33	1.58	360.82
9	28,984.08	70	45	25	64.29	5,147.20	-5,812.26	1,510.21	-1,559.02	0.97	1.74	414.06
8	33,754.93	70	48	22	68.57	5,096.00	-4,186.55	1,370.07	-1,454.94	0.94	2.05	482.21
7	37,649.48	70	47	23	67.14	4,655.00	-3,211.35	1,286.51	-992.02	1.30	2.65	537.85
6	47,710.84	70	47	23	67.14	5,002.50	-3,563.65	1,396.56	-779.46	1.79	3.66	681.58
5	49,203.35	70	49	21	70.00	4,482.50	-3,693.73	1,382.62	-883.10	1.57	3.65	702.90
4	33,028.87	70	48	22	68.57	4,440.00	-2,913.85	1,109.16	-918.68	1.21	2.63	471.84
3	32,090.87	70	46	24	65.71	3,950.00	-1,802.37	1,051.31	-677.88	1.55	2.97	458.44
2	22,230.90	70	48	22	68.57	2,212.98	-1,912.60	749.43	-624.62	1.20	2.62	317.58
1	8,320.46	70	45	25	64.29	1,384.02	-1,921.32	437.07	-453.91	0.96	1.73	118.86

Numbers here are pretty good, and suggest a good chance at follow through over the next week. Next let's look at breakouts on very high volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is the highest in at least 20 days. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	13,031.24	41	22	19	53.66	8,953.20	-8,308.32	3,632.58	-3,520.30	1.03	1.19	317.84
19	9,552.80	41	23	18	56.10	8,942.40	-7,980.00	3,409.41	-3,825.76	0.89	1.14	233.00
18	20,487.18	41	23	18	56.10	9,613.50	-7,323.36	3,674.90	-3,557.53	1.03	1.32	499.69
17	14,495.33	41	24	17	58.54	9,069.84	-8,144.90	3,274.62	-3,770.32	0.87	1.23	353.54
16	20,007.40	41	23	18	56.10	8,048.82	-8,109.35	3,530.65	-3,399.87	1.04	1.33	487.99
15	13,894.74	41	23	18	56.10	7,668.00	-8,358.20	3,424.99	-3,604.45	0.95	1.21	338.90
14	16,279.91	41	23	18	56.10	8,128.38	-8,338.45	3,302.74	-3,315.73	1.00	1.27	397.07
13	23,912.30	41	24	17	58.54	7,478.64	-8,251.55	3,054.35	-2,905.42	1.05	1.48	583.23
12	20,404.52	41	23	18	56.10	7,352.31	-8,757.15	2,796.65	-2,439.91	1.15	1.46	497.67
11	26,835.40	41	26	15	63.41	6,782.40	-6,975.70	2,514.89	-2,570.12	0.98	1.70	654.52
10	30,154.41	41	24	17	58.54	6,199.20	-3,730.08	2,487.82	-1,738.42	1.43	2.02	735.47
9	27,719.41	41	24	16	58.54	6,418.16	-3,113.22	2,272.85	-1,676.82	1.36	2.03	676.08
8	29,414.70	41	24	17	58.54	6,220.34	-2,943.34	2,245.80	-1,440.27	1.56	2.20	717.43
7	30,234.26	41	25	16	60.98	5,264.21	-2,946.00	2,017.12	-1,262.11	1.60	2.50	737.42
6	33,027.27	41	28	13	68.29	4,695.76	-3,093.30	1,753.17	-1,235.50	1.42	3.06	805.54
5	29,294.27	41	26	15	63.41	4,771.60	-2,562.72	1,655.48	-916.55	1.81	3.13	714.49
4	20,358.72	41	26	15	63.41	3,165.12	-1,948.21	1,266.35	-837.76	1.51	2.62	496.55
3	17,058.61	41	26	15	63.41	2,989.36	-2,188.15	1,086.30	-745.67	1.46	2.53	416.06
2	27,121.51	41	27	13	65.85	3,813.53	-1,259.60	1,181.81	-368.26	3.21	6.67	661.50
1	15,065.40	41	29	12	70.73	2,755.52	-1,292.50	648.11	-310.81	2.09	5.04	367.45

Again good numbers over the next week suggest the very high volume can generate some follow through momentum. Lastly, let's look at just moderately higher volume.

SPX closes at a 50-day high after not having done so for at least 10 days. NYSE volume is > yesterday but < 20-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1970 - 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
20	1,934.98	103	51	52	49.51	13,401.70	-11,541.15	3,252.65	-3,152.88	1.03	1.01	18.79
19	15,045.39	103	54	49	52.43	9,135.36	-11,854.89	3,067.77	-3,073.76	1.00	1.10	146.07
18	16,483.11	104	57	47	54.81	9,503.00	-10,293.66	2,879.69	-3,141.69	0.92	1.11	158.49
17	11,596.72	104	57	47	54.81	9,962.68	-9,419.67	2,774.33	-3,117.88	0.89	1.08	111.51
16	2,447.58	106	58	48	54.72	8,910.72	-11,033.63	2,611.91	-3,105.07	0.84	1.02	23.09
15	9,420.92	106	57	49	53.77	8,150.48	-10,321.97	2,528.91	-2,749.53	0.92	1.07	88.88
14	-2,637.16	106	59	47	55.66	7,702.40	-10,120.46	2,304.64	-2,949.17	0.78	0.98	-24.88
13	-4,357.10	106	56	50	52.83	7,911.80	-9,725.34	2,292.09	-2,654.29	0.86	0.97	-41.10
12	-5,914.02	107	58	49	54.21	10,197.98	-9,869.02	2,139.29	-2,652.92	0.81	0.95	-55.27
11	3,226.82	107	57	50	53.27	10,380.37	-9,482.88	2,185.85	-2,427.34	0.90	1.03	30.16
10	-2,621.51	107	55	52	51.40	10,515.18	-8,683.66	2,091.17	-2,262.23	0.92	0.98	-24.50
9	2,598.16	107	53	54	49.53	8,413.73	-6,878.68	2,072.62	-1,986.12	1.04	1.02	24.28
8	-2,978.62	107	59	48	55.14	8,532.68	-7,076.24	1,641.96	-2,080.30	0.79	0.97	-27.84
7	14,486.34	107	58	49	54.21	6,337.26	-7,255.84	1,687.77	-1,702.12	0.99	1.17	135.39
6	10,793.68	107	60	47	56.07	6,819.80	-7,103.18	1,459.89	-1,634.03	0.89	1.14	100.88
5	5,454.73	107	53	54	49.53	8,516.82	-6,088.44	1,498.52	-1,369.76	1.09	1.07	50.98
4	-1,463.54	107	59	48	55.14	6,716.71	-5,585.56	1,206.91	-1,513.98	0.80	0.98	-13.68
3	9,471.04	107	62	45	57.94	6,740.50	-5,361.06	1,098.07	-1,302.44	0.84	1.16	88.51
2	3,708.43	107	63	44	58.88	4,028.44	-4,276.16	761.68	-1,006.31	0.76	1.08	34.66
1	9,930.76	107	61	46	57.01	2,731.56	-2,722.61	507.36	-456.92	1.11	1.47	92.81

These results look quite a bit different. There does not seem to be any edge suggested. And unfortunately, this is the setup that triggered on Thursday's breakout. So SPX made a 50-day high, and we may see further follow through over the next several days, but odds of that appear about breakeven.

Another disappointment about the breakout for SPY is that it did not come with an unfilled gap up. When SPY leaves an unfilled up gap on the day of a breakout, the performance over the next week has been much stronger. This is something I have shown many times over the years. The stats tables below are copied right from the 6/7/21 letter. (Not updated.)

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. 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
5	42,914.79	65	44	21	67.69	5,434.00	-3,218.88	1,470.72	-1,037.96	1.42	2.97	660.23
4	28,569.79	65	44	21	67.69	3,637.92	-3,267.84	1,133.36	-1,014.20	1.12	2.34	439.54
3	21,320.35	65	43	22	66.15	3,992.56	-2,538.18	976.62	-939.74	1.04	2.03	328.01
2	19,126.22	65	43	22	66.15	2,545.92	-2,293.20	742.87	-582.60	1.28	2.49	294.25
1	7,441.65	65	45	20	69.23	1,816.10	-2,591.68	458.22	-658.92	0.70	1.56	114.49

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. 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
5	4,416.79	47	28	19	59.57	2,671.20	-4,285.26	1,035.78	-1,293.95	0.80	1.18	93.97
4	-285.30	47	27	20	57.45	2,072.07	-4,518.34	964.12	-1,315.83	0.73	0.99	-6.07
3	5,283.71	47	28	19	59.57	2,927.90	-5,133.72	988.84	-1,179.15	0.84	1.24	112.42
2	-816.35	47	25	22	53.19	2,324.90	-3,640.86	643.16	-767.97	0.84	0.95	-17.37
1	2,977.38	47	26	21	55.32	1,586.97	-2,448.72	470.61	-440.88	1.07	1.32	63.35

The difference is pretty striking. So whether you are looking at volume, or SPY's chart lacking a gap up, the breakout on Thursday does not appear ideal. Chances of follow-through are not as strong as they otherwise would be.

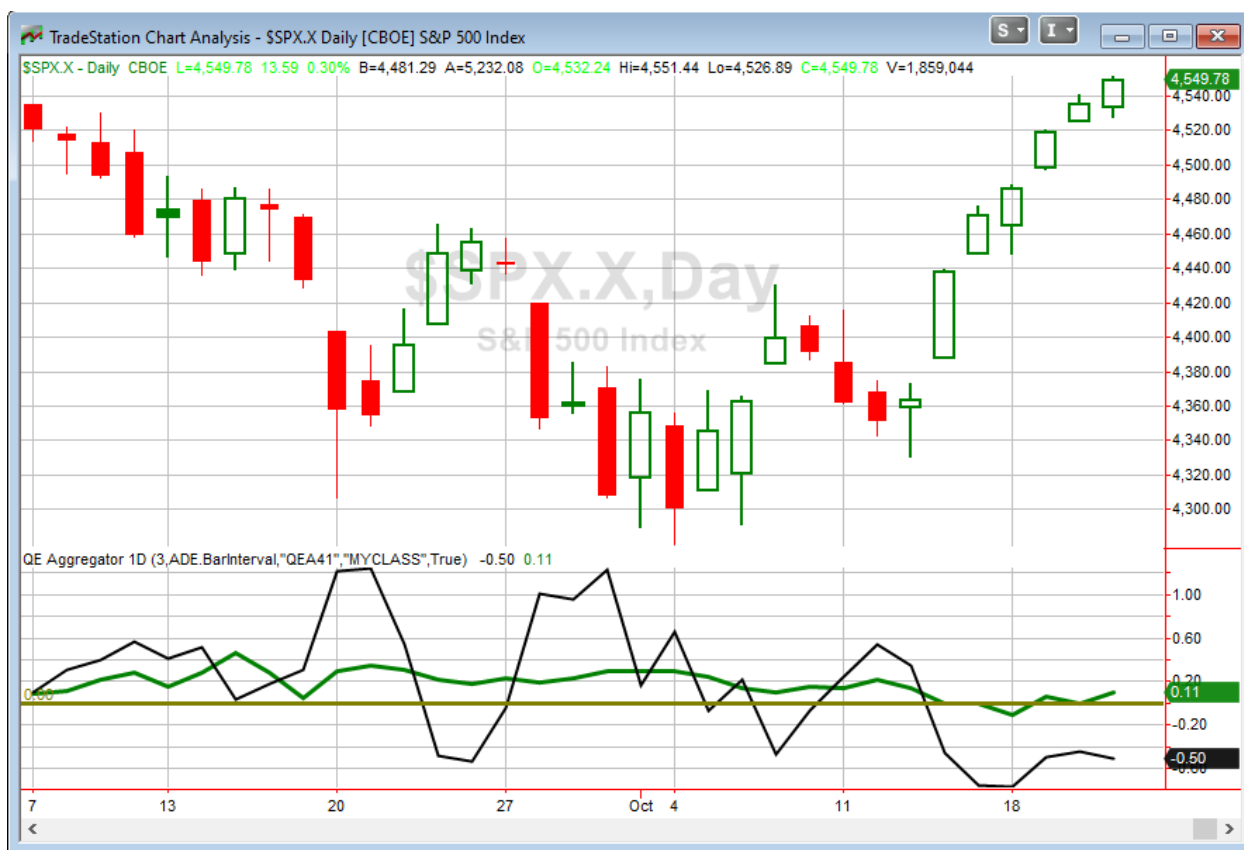
Lastly, I will note that the VIX posted its lowest close so far in 2021 on Thursday. October is known for its volatility, so as you might expect, posting a low in implied volatility during October is somewhat unusual. Looking back to 1990, this is just the 6th time that has occurred. I've listed all of them below, along with forward SPX results.

It is October. VIX posts its lowest YTD close.
SPX forward returns shown. 1990 - 2021

Date/Time	Close	10-Day %Chg	21-Day % Chg	42-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg
10/14/2003	1049.48	-0.26	0.86	2.35	7.72	7.56	5.13
10/1/2004	1131.5	-2.06	-0.09	5.29	7.11	3.94	8.6
10/20/2006	1368.6	-0.31	2.33	4.01	5.23	9.27	11.03
10/12/2009	1076.19	-0.86	1.56	2.43	5.58	12.49	8.7
10/5/2017	2552.07	0.39	1.4	3.04	7.49	2.39	13.07
10/21/2021	4549.78	0	0	0	0	0	0
Average		-0.62	1.212	3.424	6.626	7.13	9.306

Five instances is too few to draw solid conclusions. But I did find the results interesting. I noted that 4 of them occurred during the “lost decade” of 2000 – 2009, when stocks showed no gains over 10 years. Still, all of those instances were followed by gains between 2-12 months out. And so was the 2017 instance.

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



With tonight’s evidence considered, the green Aggregator Line closed above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained 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 slated to remain positive on Friday. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the

Differential Pivot will be 4517.62 on Friday. That is 0.7% below Thursday's close. Therefore, SPX would need to close down 0.7% on Friday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is still neutral. We have some evidence pointing higher, but the breakout on Thursday was less than ideal. A pullback would not be entirely out of the ordinary. And with SPX being up 7 days in a row and at a new high, it is certainly overbought. This increases risk and reduces upside potential. I will continue to wait for a more compelling setup before taking on new index exposure.

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

The intermediate-term outlook was last updated in the 10/18 Letter. It can be found [in the most recent weekly letter](#) on the website.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BIIB – 1/3 @\$266.57 (bought @ limit)

Broad Market Large Cap CBI – 1 (BIIB)

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
BIIB(1/3)	10/21/2021	\$266.30	\$270.21	1.47%		Catapult

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