

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 25, 2021

Volume 14 Issue 205

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- Monday has poor seasonality, but the rest of the week looks seasonally strong.
- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- SOMA expansion continues, but the pace will soon be starting to slow. We will learn more about that at the Nov Fed meeting.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. The market is overbought, but short-term evidence is mostly bullish. I'd like to see better reward/risk before getting excited about a direction.

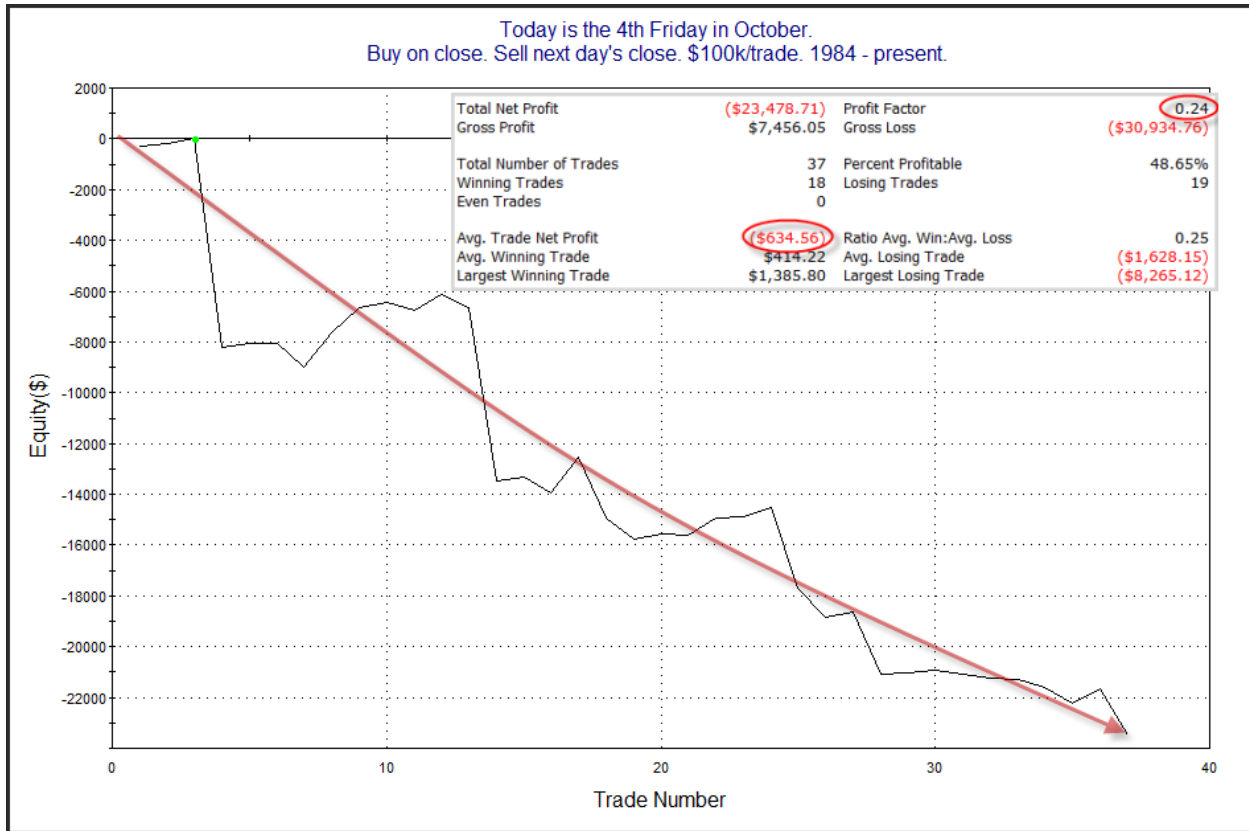
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
October 25, 2021	Week after day after 4th Fri Oct bullish	1-4 days	Bullish			
October 25, 2021	Day After 4th Fri October Bearish	1 day	Bearish			
October 25, 2021	5 up to 50-high then down 1	1-4 days	Bullish	1.10%	-0.80%	-1.60%
October 22, 2021	SPX up. Up Vol % < 40%	1-7 days	Bullish	1.70%	-1.15%	-2.25%
Active - Long Term						
October 25, 2021	5 up to 50-high then down 1	1-10 days	Bullish	1.80%	-1.10%	-2.30%
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

Friday saw a small dip for the major indices. The SPX declined 0.1%, the NASDAQ lost 0.8%, and the Russell 2000 fell 0.2%. Breadth was mixed with the NYSE Up Issues % coming in at 51% and the Up Volume % at 46%. NYSE total volume declined some from Thursday's level.

The week after the 4th Friday in October has been an interesting one historically. The studies below are updated from the 10/26/20 letter. They show that Monday has seen difficulties, but the rest of the week has been strong, and it has even carried through to the next Monday. Let's first look at the Monday after the 4th Friday:



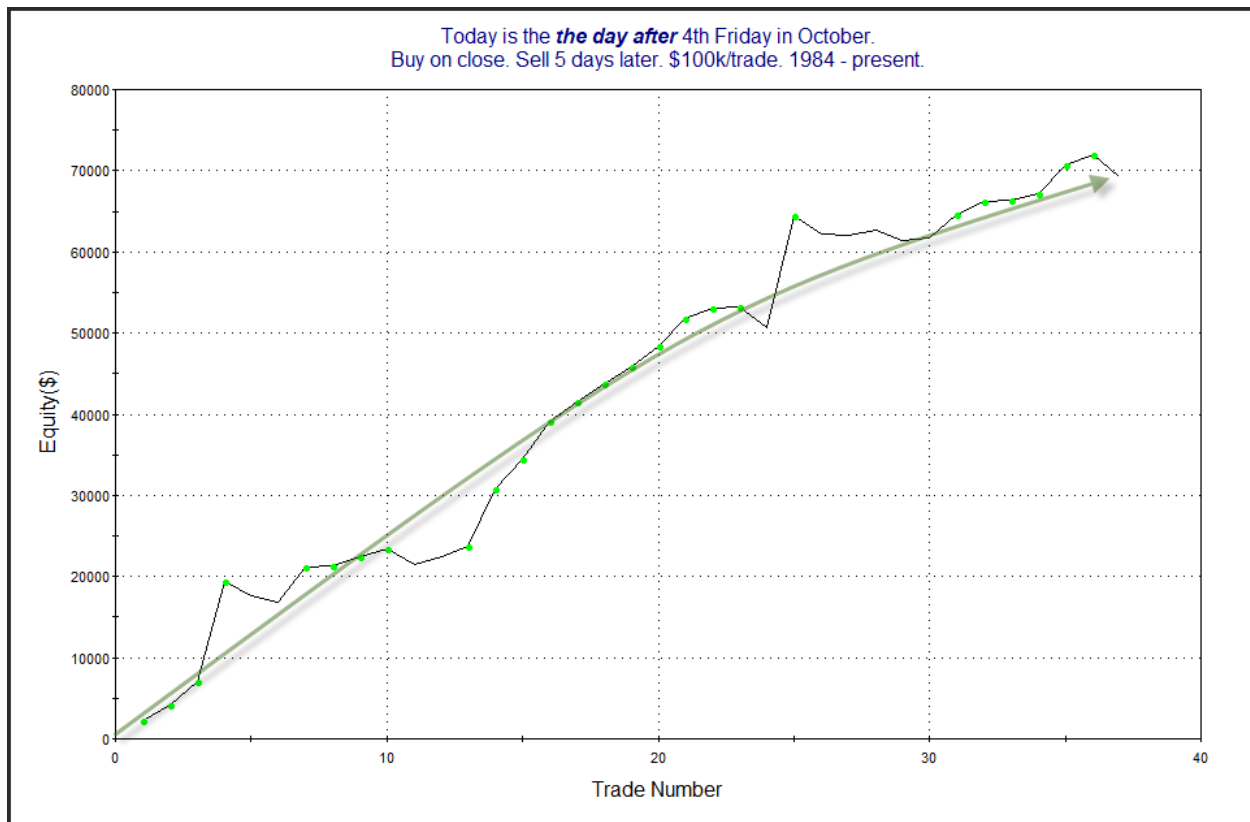
There have been almost the same number of Mondays here that have closed higher as lower, but the losers have been about 4x the size of the winners on average. The profit curve is choppy as you would expect with the winning % shown, but the slope has certainly been down for a long time. So Monday may carry a little extra risk to see a sizable decline. But Tuesday through the following Monday have shown very positive seasonality. This can be seen below.

Today is the *the day after* 4th Friday in October.
Buy on 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	69,301.31	37	29	8	78.38	13,733.46	-2,631.17	2,844.48	-1,648.59	1.73	6.25	1,873.01
4	54,219.74	37	27	10	72.97	14,020.11	-3,799.29	2,559.04	-1,487.43	1.72	4.65	1,465.40
3	46,250.75	37	27	10	72.97	12,304.89	-2,634.94	2,056.74	-928.12	2.22	5.98	1,250.02
2	24,231.83	37	28	9	75.68	9,496.89	-3,768.26	1,325.93	-1,432.68	0.93	2.88	654.91
1	22,954.54	37	23	14	62.16	10,716.03	-2,766.58	1,462.19	-762.57	1.92	3.15	620.39

34 of 37 instances (92%) closed above the entry price at some point in the next week.

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.



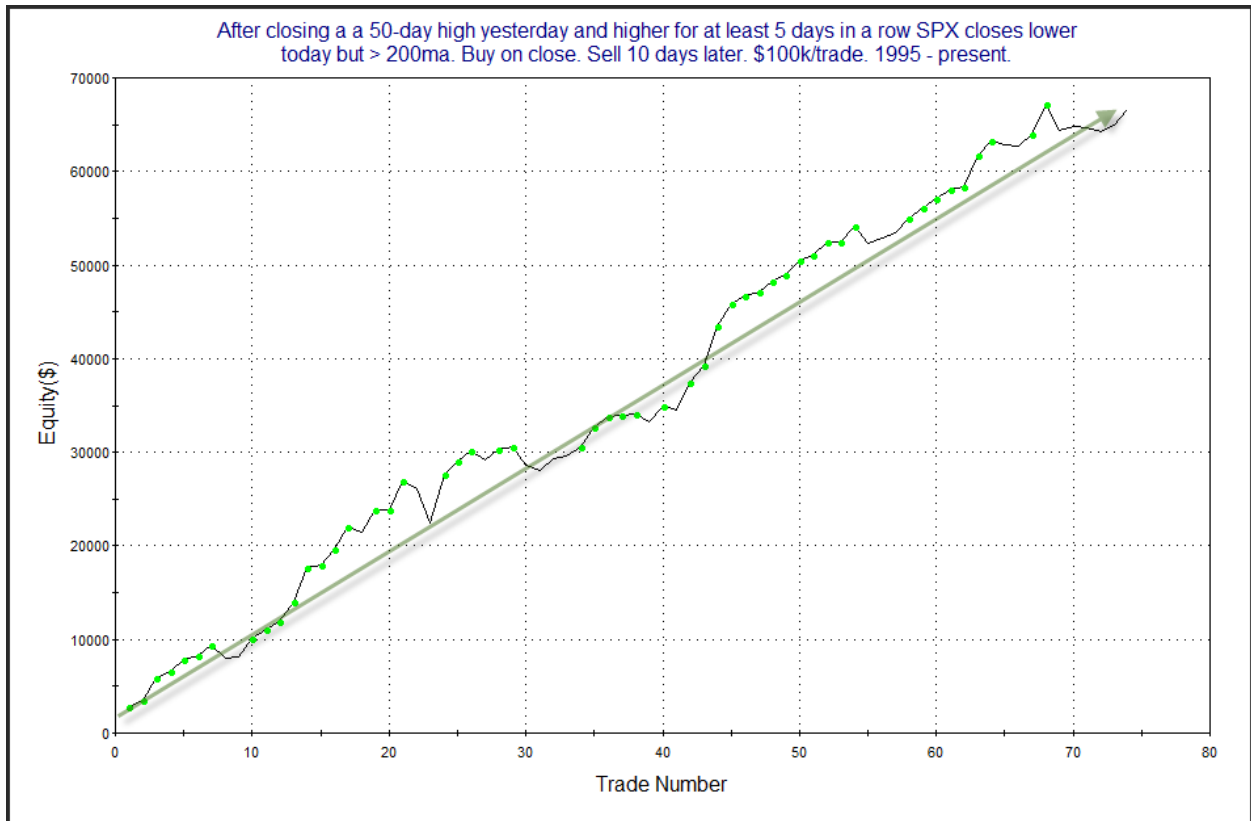
The curve has headed upwards for a long time. This short-term look at seasonality suggests the market could have some wind at its back after Monday.

Another compelling study that triggered Friday 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 last seen in the 7/7/21 Letter. I have updated the stats in the table below.

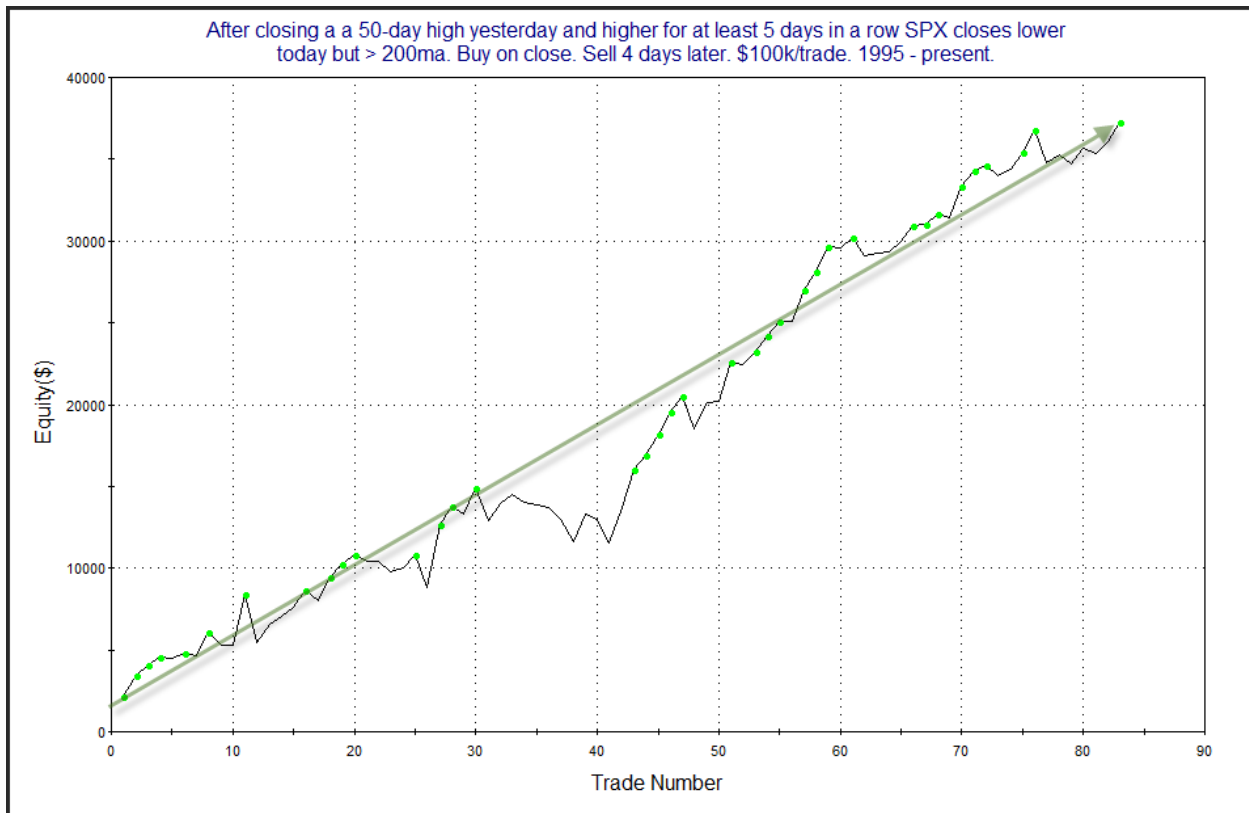
After closing a a 50-day high yesterday and higher for at least 5 days in a row SPX closes lower today but > 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - present.

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	66,608.76	74	59	15	79.73	5,131.35	-3,672.90	1,416.57	-1,131.26	1.25	4.93	900.12
9	62,947.17	77	61	16	79.22	5,023.20	-4,151.40	1,398.12	-1,396.14	1.00	3.82	817.50
8	53,154.38	78	54	24	69.23	4,878.08	-4,874.10	1,519.64	-1,204.43	1.26	2.84	681.47
7	42,018.34	81	56	25	69.14	3,874.76	-4,511.36	1,313.69	-1,261.93	1.04	2.33	518.74
6	44,101.85	83	60	23	72.29	4,307.20	-3,637.71	1,202.22	-1,218.75	0.99	2.57	531.35
5	34,435.82	83	56	27	67.47	4,252.50	-4,717.16	1,071.40	-946.76	1.13	2.35	414.89
4	37,260.52	83	54	29	65.06	3,843.00	-3,003.39	1,093.18	-750.73	1.46	2.71	448.92
3	22,232.10	83	52	31	62.65	2,472.85	-1,992.34	856.64	-719.77	1.19	2.00	267.86
2	22,232.13	83	55	28	66.27	2,437.50	-2,614.95	764.86	-708.39	1.08	2.12	267.86
1	13,225.08	83	53	29	63.86	1,751.19	-1,744.10	515.71	-486.46	1.06	1.94	159.34

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.

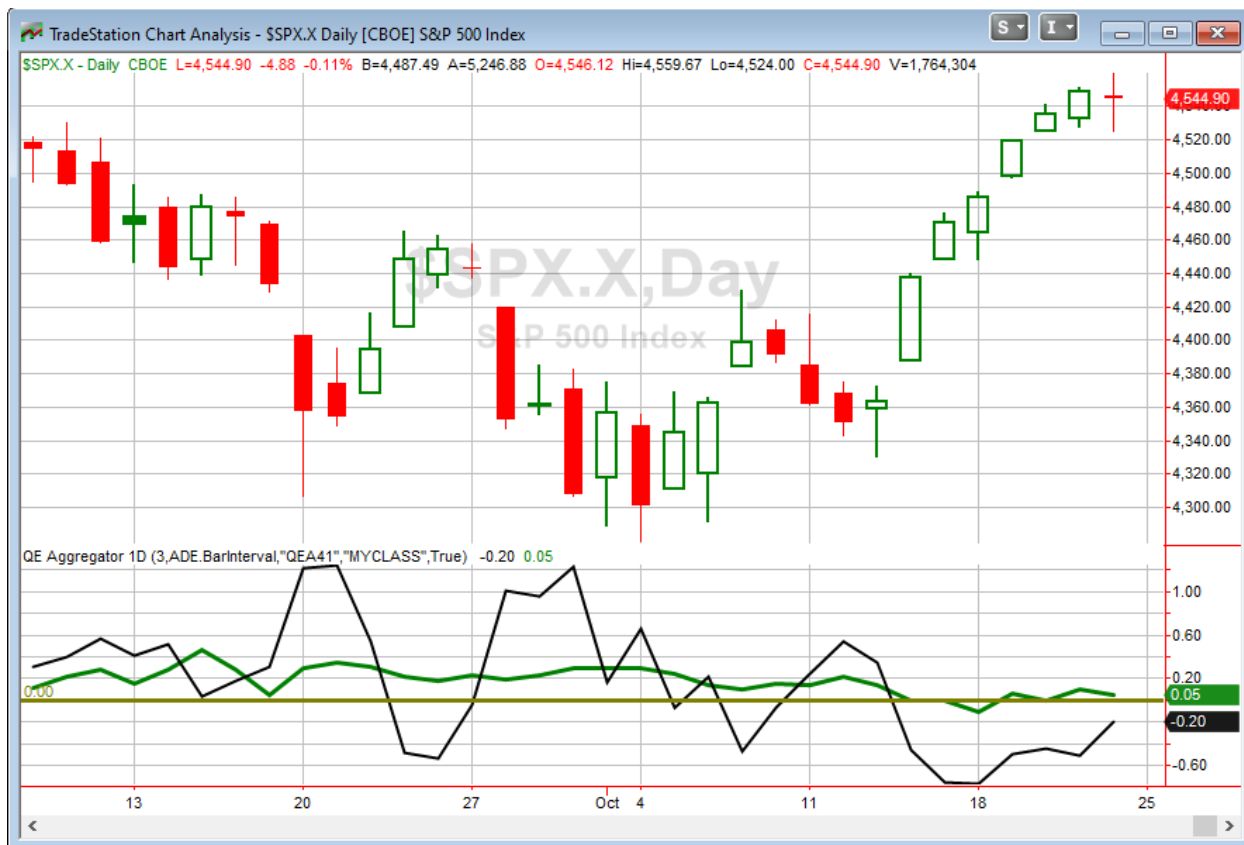


The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



Results are a little choppy. But even with more whipsaws this curve is back at new highs and the study appears worthy of consideration. I have included this study on both the short-term and intermediate-term active lists.

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 Monday. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4534.31 on Monday. That is 0.2% below Friday's close. Therefore, SPX would need to close down just 0.2% on Monday in order to flip from overbought to oversold versus recent expectations.

So the Aggregator is still neutral. Monday could be tough for the bulls, but beyond that, evidence is point higher. Of course after the recent 7-day run-up, a brief pullback would not be a big surprise. It would actually help work off the overbought condition and perhaps set up a long entry. But there is not a great opportunity yet. So I will wait until one actually arrives before looking to take on a new index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/25 – somewhat bullish

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 solid returns for the major indices. The SPX rose 1.6%, the NASDAQ gained 1.3%, and the Russell 2000 climbed 1.1%. The SPX is also posted new all-time highs. The NASDAQ and Russell are not there yet. With SPX hitting a new all-time high, the trend is clearly up. In addition to the study I discussed in the short-term section above, there were a few other studies with intermediate-term implications that triggered this past week.

This 1st one below triggered on Tuesday night:

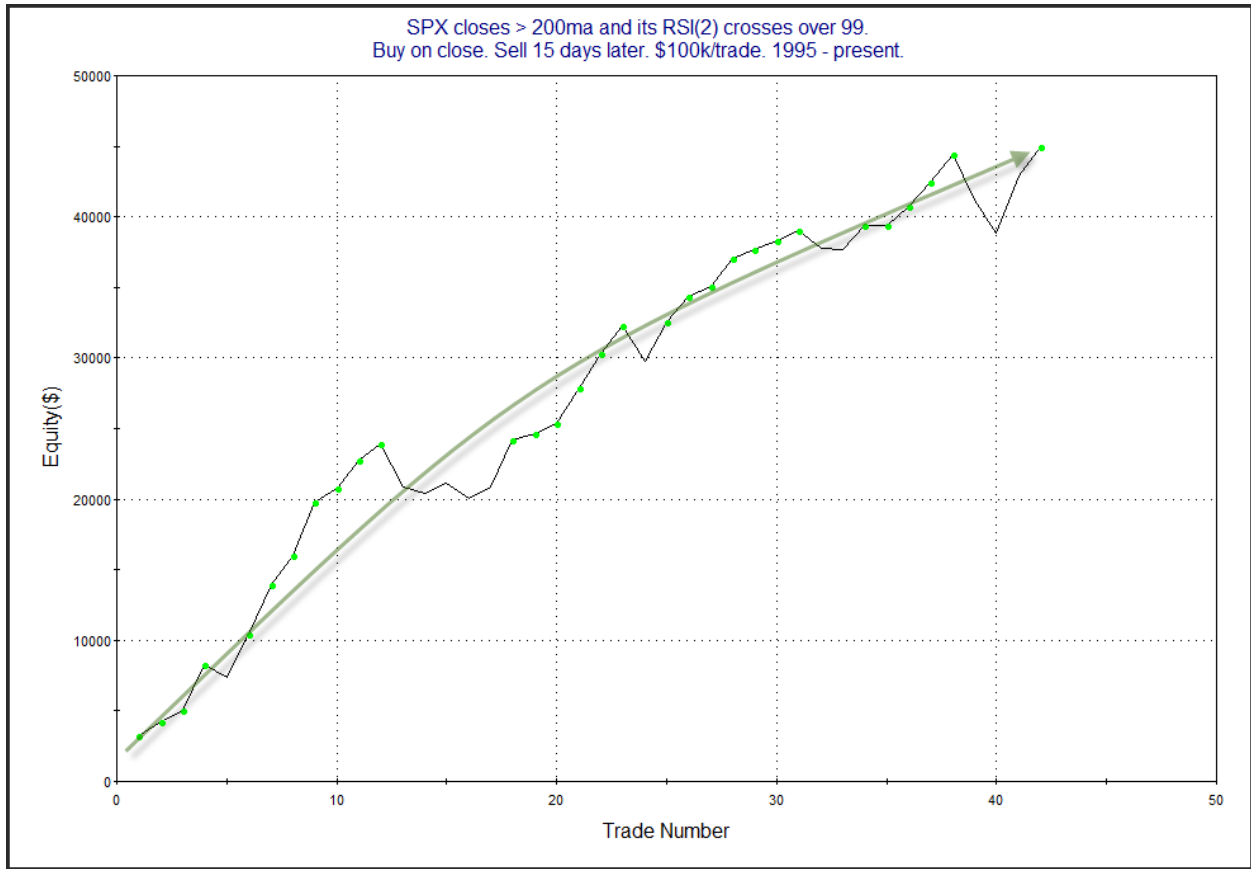
SPX closes up for exactly the 5th day in a row but below a 50-day high. Close > 200. The 5-day % gain is > 3%. Buy on close. Sell X days later. \$100k/trade. 1980 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	39,111.52	22	17	5	77.27	8,288.00	-3,282.90	2,733.95	-1,473.14	1.86	6.31	1,777.80
14	34,859.01	22	18	4	81.82	8,272.60	-3,691.52	2,270.66	-1,503.19	1.51	6.80	1,584.50
13	34,081.85	22	17	5	77.27	6,401.50	-3,773.44	2,490.17	-1,650.22	1.51	5.13	1,549.17
12	33,704.93	22	16	6	72.73	5,925.50	-2,877.44	2,460.63	-944.20	2.61	6.95	1,532.04
11	29,331.54	22	14	8	63.64	3,952.96	-2,485.76	2,545.17	-787.60	3.23	5.66	1,333.25
10	31,392.28	22	18	4	81.82	4,691.28	-2,533.02	2,089.74	-1,555.77	1.34	6.04	1,426.92
9	27,590.92	22	17	5	77.27	4,722.08	-3,125.76	2,102.66	-1,630.86	1.29	4.38	1,254.13
8	15,593.90	22	15	7	68.18	3,781.36	-3,376.64	1,774.95	-1,575.76	1.13	2.41	708.81
7	12,657.84	22	15	7	68.18	3,814.86	-3,500.70	1,657.50	-1,743.52	0.95	2.04	575.36
6	11,129.04	22	15	7	68.18	3,720.00	-2,882.56	1,493.10	-1,609.64	0.93	1.99	505.87
5	5,902.61	22	13	9	59.09	3,025.44	-2,664.96	1,339.68	-1,279.24	1.05	1.51	268.30
4	5,816.77	22	13	9	59.09	3,138.08	-2,002.44	1,182.46	-1,061.70	1.11	1.61	264.40
3	5,869.47	22	12	10	54.55	2,742.08	-2,971.50	1,325.58	-1,003.75	1.32	1.58	266.79
2	499.08	22	8	14	36.36	2,205.03	-3,748.50	1,213.76	-657.93	1.84	1.05	22.69
1	1,596.28	22	11	11	50.00	2,211.54	-1,252.30	658.19	-513.08	1.28	1.28	72.56

The numbers here were quite strong. In Thursday’s letter there was another study that I have copied below:

The recent rally has left the market short-term overbought by most measures. And short-term overbought often triggers some studies that suggest a downside edge. But when the overbought condition gets very strongly overbought, then those downside edges often disappear. And rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. We saw it last night, and it is also exemplified in the study below from the 6/4/20 Letter, which uses RSI(2).


SPX closes > 200ma and its RSI(2) crosses over 99. 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
15	44,997.68	42	33	9	78.57	4,055.36	-3,265.02	1,814.47	-1,653.30	1.10	4.02	1,071.37
14	39,771.58	42	33	9	78.57	4,461.36	-4,024.68	1,669.71	-1,703.22	0.98	3.59	946.94
13	40,802.33	44	35	9	79.55	3,989.82	-3,320.01	1,557.00	-1,521.42	1.02	3.98	927.33
12	34,969.08	45	34	11	75.56	4,058.61	-3,175.53	1,454.68	-1,317.29	1.10	3.41	777.09
11	34,009.40	45	33	12	73.33	4,106.40	-3,857.28	1,554.77	-1,441.51	1.08	2.97	755.76
10	28,115.44	46	34	12	73.91	3,770.55	-3,907.12	1,343.74	-1,464.31	0.92	2.60	611.21
9	26,289.87	46	34	12	73.91	3,453.27	-3,440.07	1,214.88	-1,251.34	0.97	2.75	571.52
8	21,669.61	46	31	15	67.39	3,547.80	-4,112.92	1,280.84	-1,202.42	1.07	2.20	471.08
7	16,853.47	47	30	17	63.83	3,564.39	-4,153.62	1,124.16	-992.42	1.13	2.00	358.58
6	7,847.57	47	28	19	59.57	2,634.36	-5,296.92	1,048.43	-1,132.03	0.93	1.36	166.97
5	13,437.76	47	32	15	68.09	2,859.08	-3,596.40	922.27	-1,071.65	0.86	1.84	285.91
4	8,040.57	47	31	16	65.96	2,697.92	-3,039.18	834.85	-1,114.98	0.75	1.45	171.08
3	3,008.12	48	28	20	58.33	3,504.64	-2,880.45	787.00	-951.39	0.83	1.16	62.67
2	4,729.50	48	28	20	58.33	2,273.92	-2,348.76	692.39	-732.87	0.94	1.32	98.53
1	1,111.86	48	24	24	50.00	2,096.10	-3,515.37	509.50	-463.18	1.10	1.10	23.16

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.



The upside edge has been apparent for a while and still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

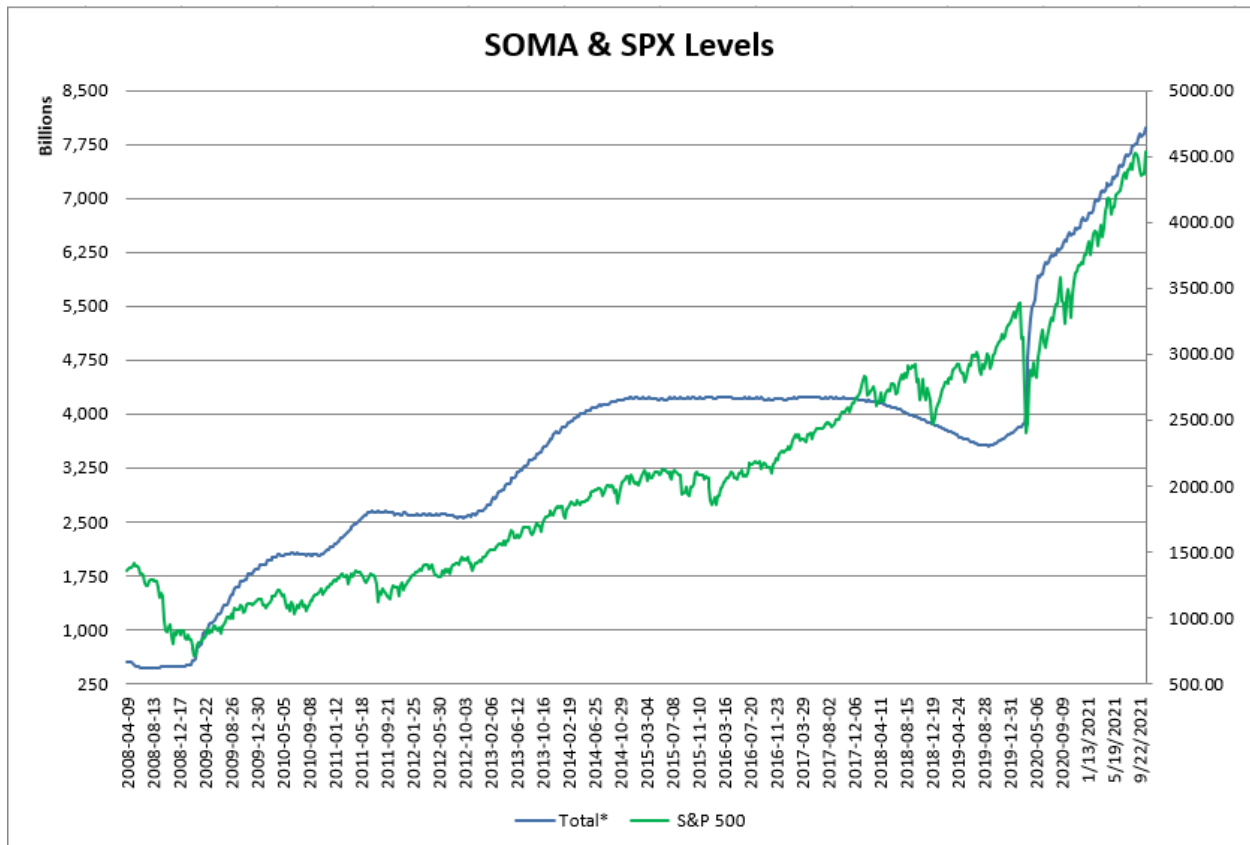
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
[◀ Previous](#) **October 20, 2021** 
Posted October 21, 2021 at 4:30 P.M.

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)	4,713,092,157.3
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	369,642,901.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,537,425,198.3
Agency Commercial Mortgage-Backed Securities***	9,506,770.4
Total SOMA Holdings	7,982,937,572.9
Change From Prior Week	84,975,068.6

This past week saw the SOMA rise by \$85 billion. This is a very big week but within the expected range for the current QE cycle and time of the month. This upcoming week, being the last week of the month, I expect to see a slight decline in the SOMA. 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 soon. It could be within the next month that QE gets dialed back. We will find out at the next Fed meeting on November 3rd. 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.

The strong move up recently has the market short-term overbought. But that has generated a few intermediate-term studies suggesting more strength is likely. With SPX hitting new highs, the trend is also on the side of the bulls. The NYSE Advance-Decline Line also made a new high this past week. That is generally a positive confirmation as well. Seasonality is strong this week, and then after that, we will be entering the “Best 6 Months” of the year. (More about that next week.) Fed liquidity is strong, but the end is approaching. So the bulls seem to have a good bit of evidence on their side. The bears can point to plenty of reasons for a decline. High on the list are the impending Fed taper, inflation, supply chain issues, COVID, and a Federal Government debt ceiling debate with a Dec 3rd deadline. Those could matter soon, but they haven’t stopped the market yet. And it is starting to look a little healthier. So I am going back to a somewhat bullish bias for the time being. That means I will be more conservative when considering short trades, and could be more aggressive with long trades.

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	\$264.80	-0.56%		Catapult

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