

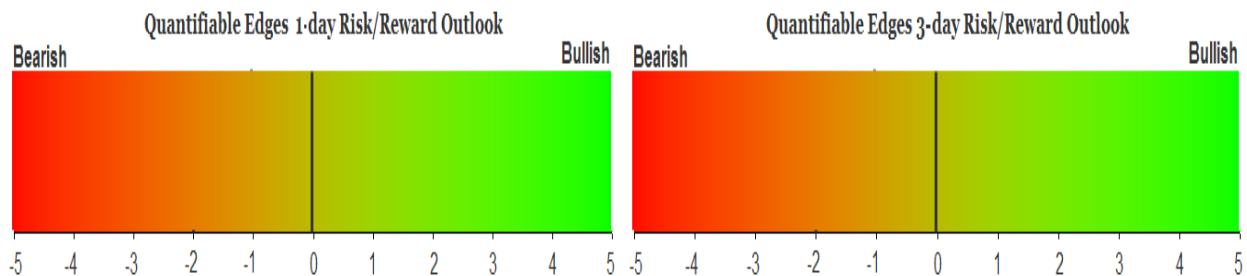
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 1, 2021

Volume 14 Issue 210

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- When the last day of the month marks the highest close of the month, then the momentum often carries through into the 1st week of the new month.
- SPY's gap down and reverse to a new high pattern suggests a 1-day downside edge.
- The NASDAQ is now leading the SPX, which is a bullish intermediate-term indication.
- Seasonality is moving from the worst 6 months to the best 6 months.
- The Fed will be announcing policy changes on Wednesday, which could outline the plan for tapering QE purchases.

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						
November 1, 2021	Gap dn close top 10% and 10-high	1 day	Bearish			
November 1, 2021	End of month on high of month	1-5 days	Bullish			
October 25, 2021	Week after day after 4th Fri Oct bullish	1-4 days	Bullish			
October 22, 2021	SPX up. Up Vol % < 40%	1-7 days	Bullish	1.70%	-1.15%	-2.25%
Active - Long Term						
November 1, 2021	NASDAQ Leading	int term	Bullish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			
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			
July 9, 2020	Golden Cross	int term	Bullish			
March 23, 2020	QE4	int term	Bullish			

The Evidence

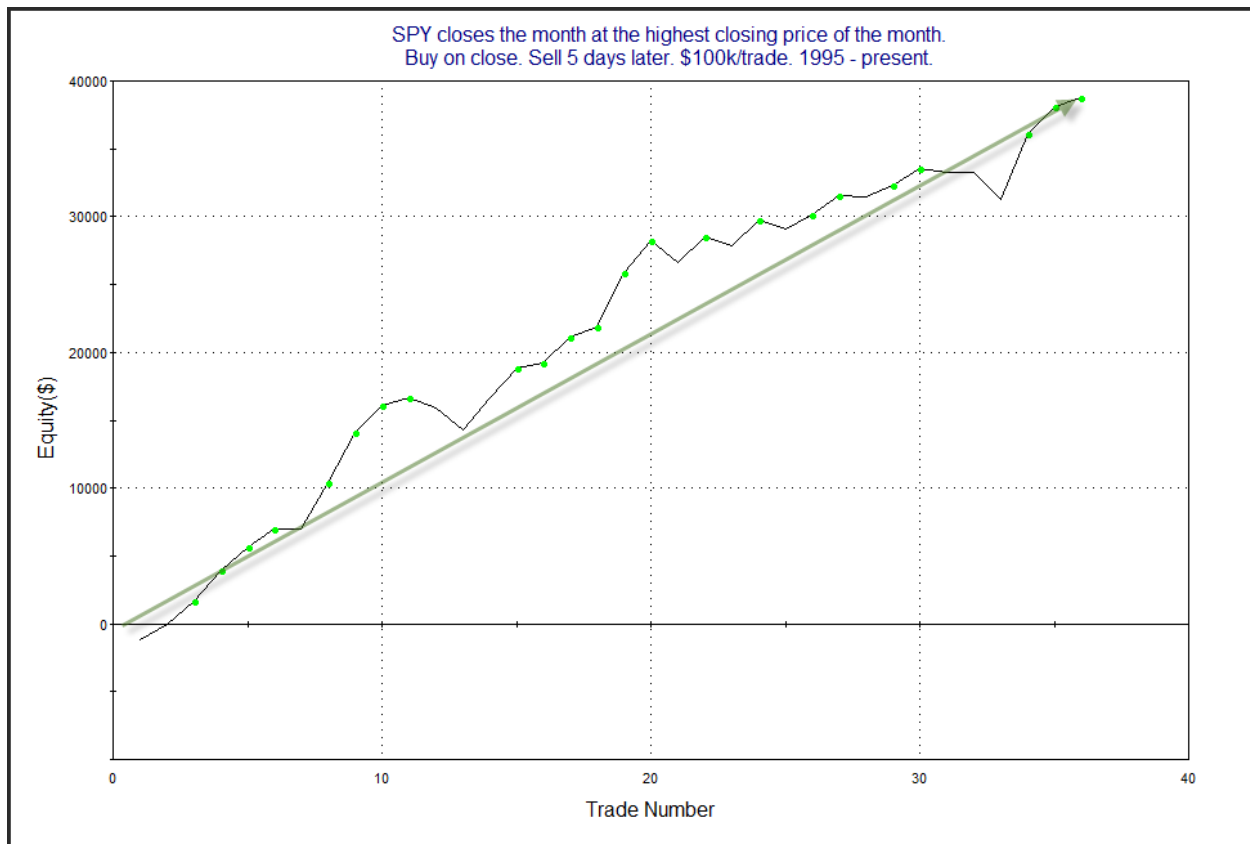
The market gapped down Friday but mostly finished at new highs. The SPX closed up 0.2%, the NASDAQ rose 0.3%, and the Russell 2000 inched down 0.03%. Breadth was negative with the NYSE Up Issues % coming in at 38% and the Up Volume % at 45%. NYSE total volume rose some from Thursday's level.

There were a fair number of "Turn of the Month" studies that triggered in the Quantifinder. As I mentioned Thursday night, the 1st of the month has done a whole lot better when SPY has finished in the lower portion of the day's range on the last day of the month. Unfortunately, SPY closed strongly on Friday. Which leaves us with a neutral 1st-day outlook on Monday.

But while the outlook for Monday may not be great, there is a compelling new-month study suggesting that we could see further rallying in the next few days. Results are updated from the 7/1/21 letter. They suggest strong end of month momentum has typically carried through into the following month. This can be seen below.

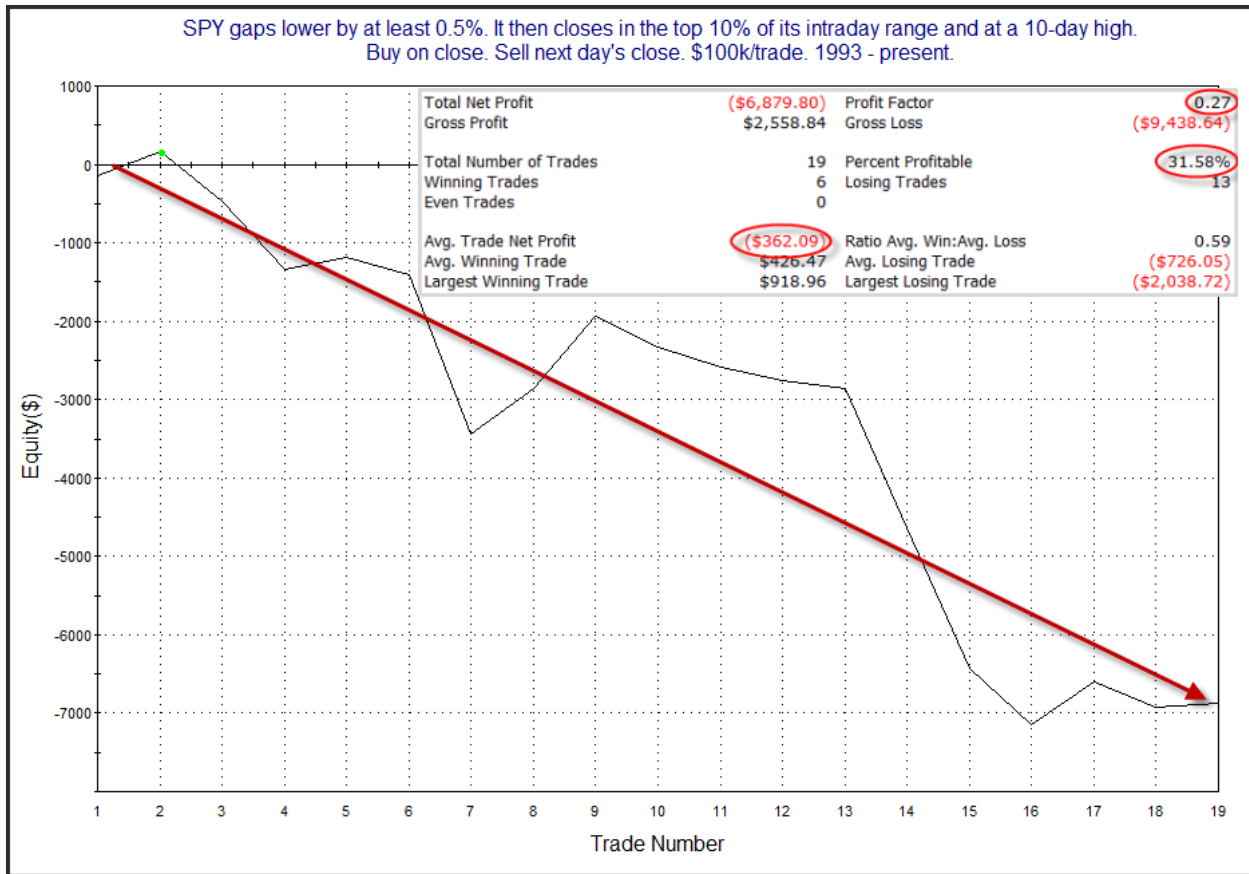
SPY closes the month at the highest closing price of the month. Buy on close. Sell X days later. \$100k/trade. 1995 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	38,790.30	36	26	9	72.22	4,926.56	-2,070.60	1,835.02	-991.14	1.85	5.35	1,077.51
4	33,124.99	36	25	11	69.44	5,394.96	-4,338.40	1,782.26	-1,039.23	1.71	3.90	920.14
3	21,046.63	36	24	12	66.67	4,105.92	-4,678.40	1,421.25	-1,088.61	1.31	2.61	584.63
2	12,465.08	36	20	16	55.56	3,954.78	-4,848.40	1,278.30	-818.81	1.56	1.95	346.25
1	3,642.35	36	19	17	52.78	1,850.94	-1,359.03	718.50	-588.77	1.22	1.36	101.18

The numbers across the board are quite compelling. Below is an equity curve showing results assuming a 5-day holding period.



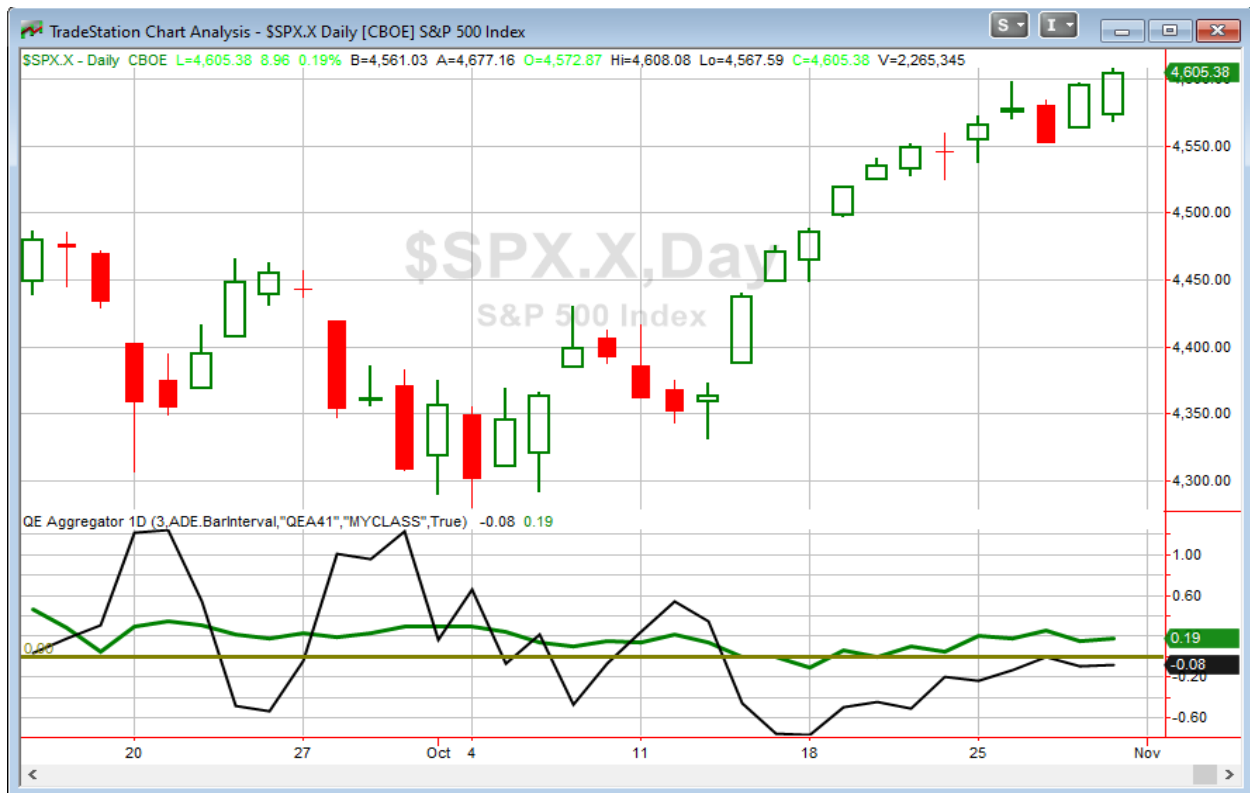
The steady upslope is comforting. I have added this study to the active list tonight.

Many traders view reversals like Friday as a positive. The fact that the market overcame a gap down and was able to close in the black and near its highs is typically interpreted as a sign of strength. I've looked at days similar to this in the past and found that most often they are actually followed by short-term market weakness. The study below was last seen in the 1/11/19 letter. I have updated the stats and curve so they are current.



The bearish stats and decline from upper left to lower right suggests a downside edge. This also casts some doubt on Monday.

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



With this weekend's studies considered, the green Aggregator Line held 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. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4580.91 on Monday. That is 0.5% below Friday's close. So SPX will need to close down at least 0.5% on Monday in order to flip from overbought to oversold vs expectations.

The Aggregator is neutral. Evidence, while mixed, continues to lean bullish. We have not seen a decent pullback to buy into in a few weeks, and the market is overbought again right now. I don't see a great reason to get involved right here. I'll talk about the Fed more below, but there is Fed meeting this week, with a policy announcement coming on Wednesday. That could mean some anticipatory maneuvers ahead of the announcement and strong reaction after the announcement. This increases risk right now. If we get some selling Monday and Tuesday it could set up a nice short-term buying opportunity. But the setup will need to be compelling to make the potential reward worth the risk.

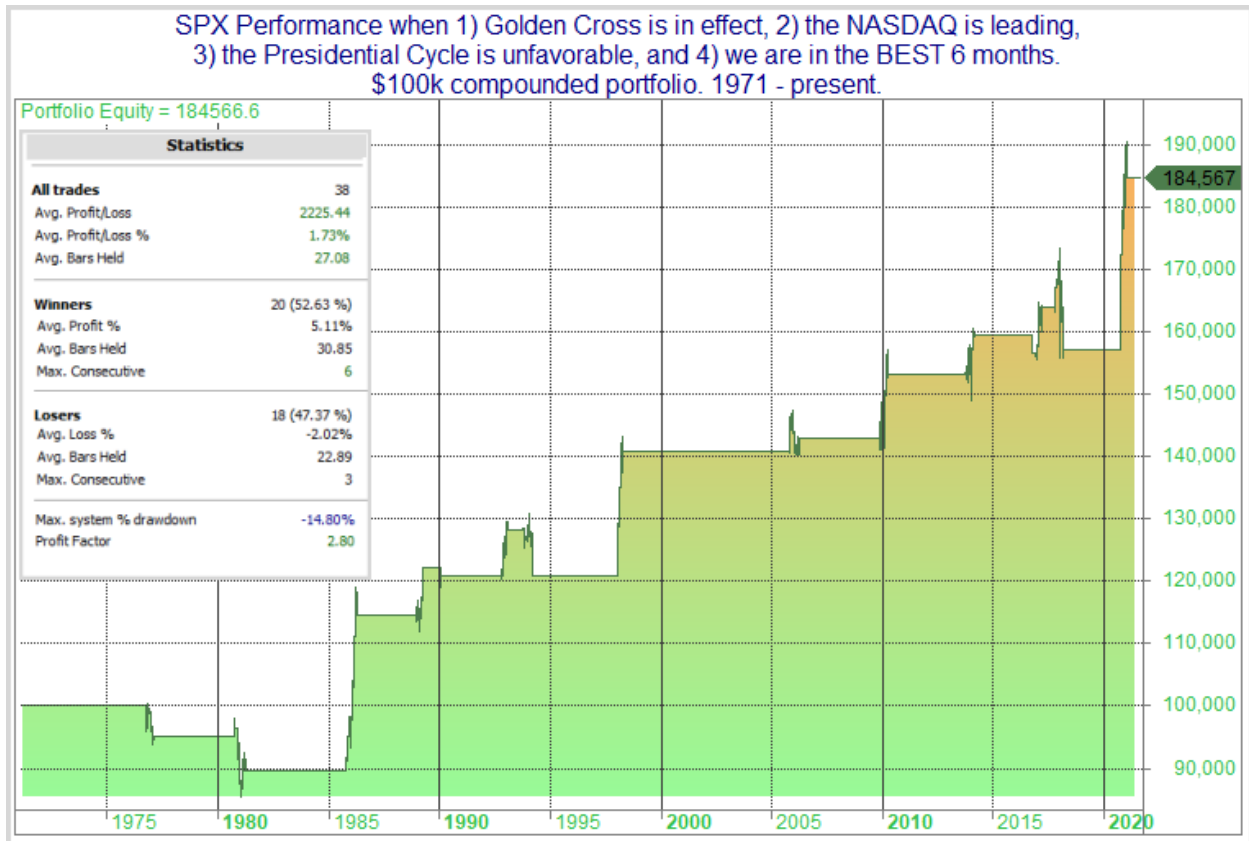
Intermediate-term Outlook (2 weeks – 2 months) – updated 11/1 – somewhat bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

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 the “Combo Systems” all changed from “Flat” to “Long”.*

This past week saw solid returns for the major indices. The SPX rose 1.3%, the NASDAQ gained 2.7%, and the Russell 2000 climbed 0.3%. The SPX and NASDAQ also closed Friday at new all-time highs, so the trend is clearly up.

The NASDAQ outperformance caused our lead/lag indicator to flip so that NASDAQ is now leading SPX. Historically, nearly all of the gains the market has achieved since 1971 have come when the NASDAQ was leading. When SPX has been in a leading position, the market has struggled to make much headway. Additionally, the turn to November means the market is no longer in its “worst 6 months” period. So two of the Market Timing Course long-term indicators just flipped to positive. I decided to examine performance when the Quantifiable Edges Market Timing Course indicators are in their current formation. Those results can be found below.



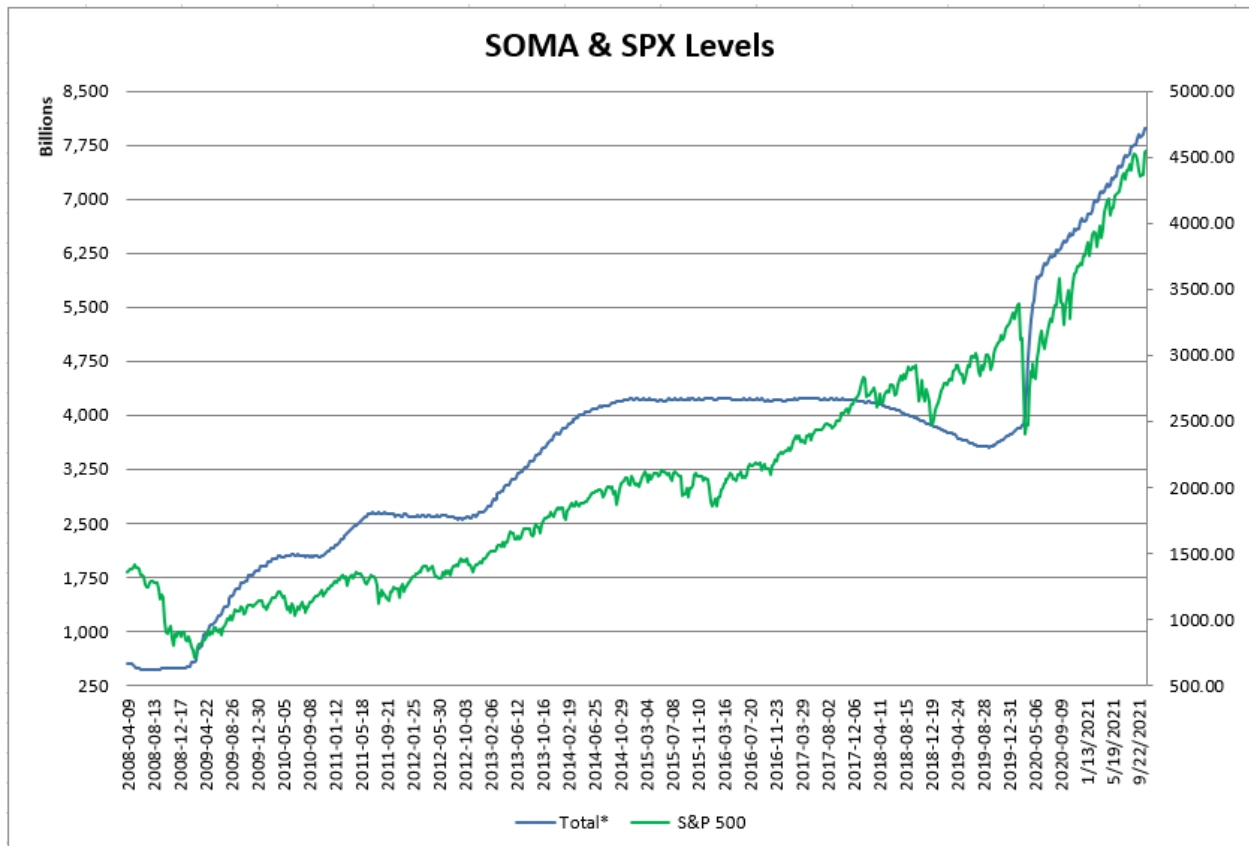
Since the mid-80s the market has shown a solid tendency to rise under these conditions. A leading NASDAQ is preferable, and it is a good sign that we are seeing it again. If it can continue to maintain leadership, that would be a plus. Best 6 months seasonality is now also a tailwind.

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

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)	4,725,694,157.3
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	370,841,901.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,518,385,276.1
Agency Commercial Mortgage-Backed Securities***	9,391,658.1
Total SOMA Holdings	7,977,583,538.4
Change From Prior Week	-5,354,034.5

This past week saw the SOMA decline by \$5 billion. That small decline is typical for the last week of the month in the current QE cycle. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is in the midst of the largest expansion in history, but the pace of the expansion is expected to slow, and some of those changes are expected to be released on Wednesday. Strong liquidity is a positive for the market. That positive is likely going to be reduced over the next few months. At some point, the liquidity pump will not be providing a strong tailwind for the market. The pace has been about \$120 billion/month. So how much is enough for the market these days? \$90 billion? \$60 billion? \$0. There is no saying for sure. But the tailwind is likely to leave us soon, and I expect we'll learn more about how soon on Wednesday.

All of a sudden there is a lot of positives for the bulls. Seasonality is helping, the NASDAQ is leading, the market is making new highs and clearly in an uptrend, and there are several momentum-based studies from the last few weeks that remain active and suggesting more upside. Potential bearish issues still include inflation, supply chain issues, COVID, and the debt ceiling. None of them seem to matter right now, but they could at some point. Of course, I believe the biggest story will be the Fed. That is not just a story for the upcoming announcement, and reaction to it, but whether the market begins to stumble as liquidity starts to dry up. For now, there is enough bullish evidence that I will continue to lean that way. But being nimble in the coming months may be more important than it has been since March of 2020. I will continue to consider all evidence and be sure I am open to changing my mind when the evidence changes.

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	\$266.68	0.14%		Catapult

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