

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 2, 2021

Volume 14 Issue 211

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- A rising VIX at a 50-day SPX high (on the first day of the week) suggests a pullback.
- The Fed Day edge on Wednesday will be greatly influenced by action on Tuesday.

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 2, 2021	VIX up. SPX 50-high on Monday.	1-2 days	Bearish			
November 1, 2021	End of month on high of month	1-5 days	Bullish			
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			

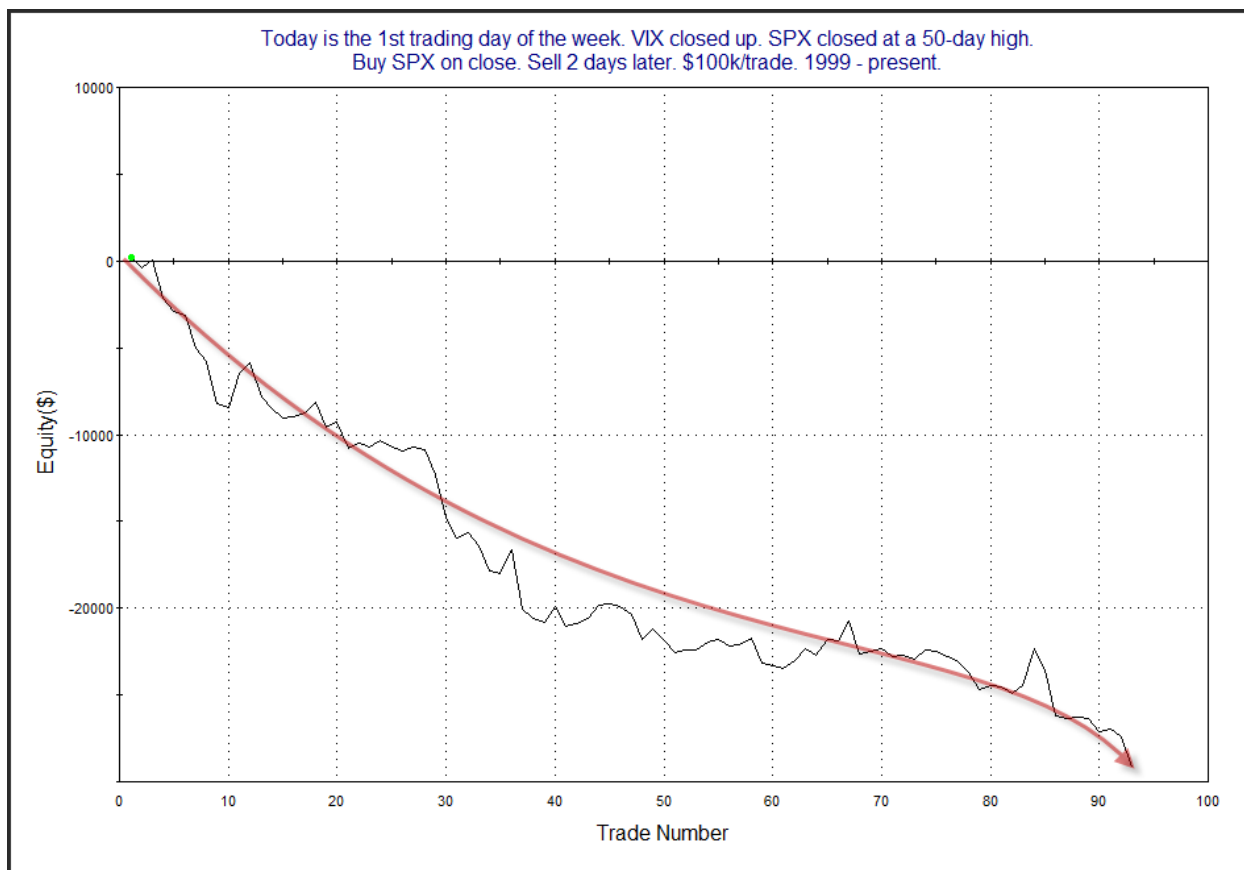
The Evidence

The market put in gains across the board, with smallcaps leading the way. The SPX closed up 0.2%, the NASDAQ rose 0.6%, and the Russell 2000 exploded up 2.65%. Breadth was positive with the NYSE Up Issues % coming in at 75% and the Up Volume % at 80%. NYSE total volume declined some from Friday's level.

While the SPX closed up the VIX also rose. Most often they trade opposite each other, so this kind of action is somewhat unusual. But VIX has a tendency to decline going into the weekend (Friday afternoons), and then rise when it returns from the weekend. So to see this action on the first trading day of the week is less unusual than at any other time. Still, combined with the SPX 50-day high, it has been often followed by a dip in the next few days. This can be seen in the study below, which was last seen in the 8/17/21 letter. Results are all updated.

Today is the 1st trading day of the week. VIX closed up. SPX closed at a 50-day high. Buy SPX on close. Sell X days later. \$100k/trade. 1999 - 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	-17,478.66	87	40	47	45.98	5,653.12	-5,048.68	1,076.27	-1,287.86	0.84	0.71	-200.90
4	-16,624.98	93	44	49	47.31	4,422.40	-5,732.40	937.66	-1,181.26	0.79	0.71	-178.76
3	-20,841.16	93	43	50	46.24	2,641.80	-6,908.70	664.29	-988.11	0.67	0.58	-224.10
2	-29,173.10	93	38	55	40.86	2,148.48	-3,372.16	478.26	-860.85	0.56	0.38	-313.69
1	-11,833.36	93	31	62	33.33	802.88	-1,580.04	303.92	-342.82	0.89	0.44	-127.24

Results here appear somewhat bearish. Below is a profit curve that assumes a 2-day exit strategy.



The profit curve has had a long decline. It is again back at new lows and seems worthy of consideration. I have also included this study on the Active List.

It is also worth noting that Wednesday is a Fed Day. Fed Days have historically shown an upside tendency. [I have documented this tendency](#) in great detail over the years, including the 2011 book, [The Quantifiable Edges Guide to Fed Days](#). One interesting observation I have noted about Fed Days is that the bullish tendency is greatly impacted by stock market action leading up to the Fed Day. This is something that often happens with other seasonal tendencies as well (like turn of the month). In the past I have broken down Fed Day performance based on the quartile that the SPY closed in of the daily range on the day before the Fed Day. The basic finding was that the worse the close, the better the Fed Day edge. Below are updated stats for the 4 quartiles from highest to lowest in the daily range.

Tomorrow is a Fed Day. SPY closes in the top 25% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand

All Trades

Total Net Profit	\$6,069.88	Profit Factor	1.23
Gross Profit	\$31,924.29	Gross Loss	(\$25,854.41)
Total Number of Trades	87	Percent Profitable	47.13%
Winning Trades	41	Losing Trades	44
Even Trades	2		
Avg. Trade Net Profit	\$69.77	Ratio Avg. Win:Avg. Loss	1.33
Avg. Winning Trade	\$778.64	Avg. Losing Trade	(\$587.60)
Largest Winning Trade	\$2,238.25	Largest Losing Trade	(\$2,739.69)

Tomorrow is a Fed Day. SPY closes > 50% and <= 75% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary

Expand

All Trades

Total Net Profit	\$14,449.06	Profit Factor	1.91
Gross Profit	\$30,261.13	Gross Loss	(\$15,812.07)
Total Number of Trades	52	Percent Profitable	51.92%
Winning Trades	27	Losing Trades	24
Even Trades	1		
Avg. Trade Net Profit	\$277.87	Ratio Avg. Win:Avg. Loss	1.70
Avg. Winning Trade	\$1,120.78	Avg. Losing Trade	(\$658.84)
Largest Winning Trade	\$4,704.07	Largest Losing Trade	(\$2,246.40)

Tomorrow is a Fed Day. SPY closes > 25% and <= 50% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

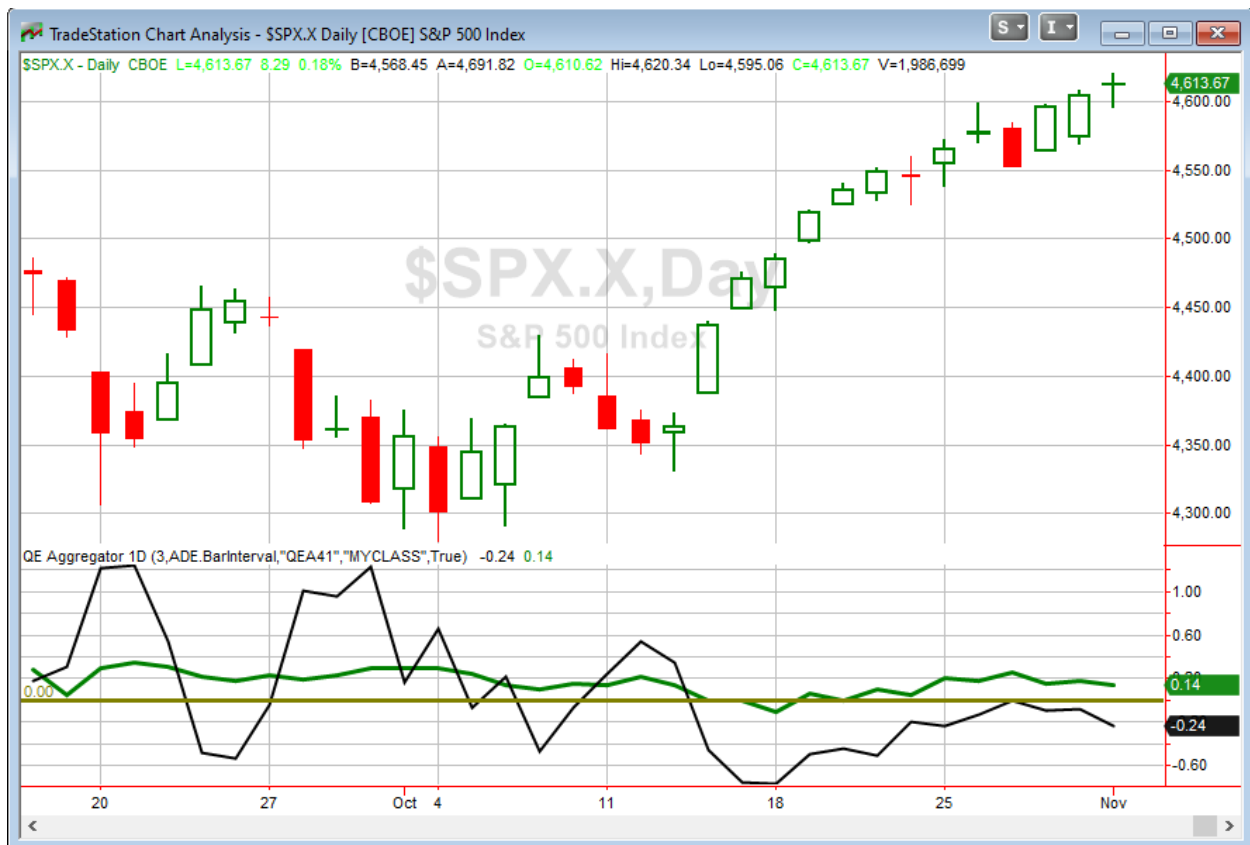
TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$13,022.10	Profit Factor	2.08
Gross Profit	\$25,075.32	Gross Loss	(\$12,053.22)
Total Number of Trades	46	Percent Profitable	65.22%
Winning Trades	30	Losing Trades	16
Even Trades	0		
Avg. Trade Net Profit	\$283.09	Ratio Avg. Win:Avg. Loss	1.11
Avg. Winning Trade	\$835.84	Avg. Losing Trade	(\$753.33)
Largest Winning Trade	\$2,943.00	Largest Losing Trade	(\$2,066.62)

Tomorrow is a Fed Day. SPY closes in the bottom 25% of the intraday range.
Buy on close. Sell Fed Day close. \$100k/trade. 1993 - present.

TradeStation Performance Summary Expand ▾			
All Trades			
Total Net Profit	\$25,719.21	Profit Factor	3.73
Gross Profit	\$35,139.11	Gross Loss	(\$9,419.90)
Total Number of Trades	43	Percent Profitable	74.42%
Winning Trades	32	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	\$598.12	Ratio Avg. Win:Avg. Loss	1.28
Avg. Winning Trade	\$1,098.10	Avg. Losing Trade	(\$856.35)
Largest Winning Trade	\$4,645.80	Largest Losing Trade	(\$2,945.28)

So what we see here is that the lower SPY has closed in its range the day before, the stronger the Fed Day edge has been. When there has been a lot of confidence or complacency leading up to the announcement, that has nearly eliminated the edge. This might also be attributed to some frontrunning. On the other hand, when there has been anxiety heading into the announcement, then the bullish edge has been greatly enhanced. This could be worth keeping in mind as we approach the close on Tuesday.

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 Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 4624.18 on Tuesday. That is 0.2% *above* Monday's close. An inverted pivot means that the Differential Line will cross zero if SPX closes flat. In this case, SPX is going to need to close up over 0.2% in order to remain overbought. Anything less than that, and it will be considered "oversold" vs expectations as of Tuesday's close.

So the Aggregator is neutral. Evidence is mixed. We could see a upside edge for Wednesday if Tuesday closes poorly. But if someone is considering taking advantage of that, they may want to get out prior to the 2pm Wednesday announcement. The Fed Day edge has primarily played out before 2pm. After that, results have been more random. Overall, I don't see a compelling reason to get involved right here. I'll wait and see how things play out over the next couple of days.

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

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
BIIB(1/3)	10/21/2021	\$266.30	\$272.10	2.18%		sell on open

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