

QUANTIFIABLE EDGES WEEKLY RESEARCH

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 8, 2021

Issue 643

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The strong move up in the VIX with SPX rising is showing mixed signals, depending on how you view it.
- The intraday high, unfilled gap, and weak close imply short-term strength.
- The pace of QE is now slowing, and that should eventually lead to more difficult market conditions.

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 8, 2021	VIX up > 6%. SPX up.	1-5 days	Bullish	1.80%	-0.90%	-1.80%
November 8, 2021	Unfill gap 20-high close < open. Vol up	1-2 days	Bullish			
November 8, 2021	VIX up SPX 50-high Fri.	1-5 days	Bearish	-1.50%	0.70%	1.45%
November 3, 2021	SPX up. Up Vol % < 40%	1-7 days	Bullish	1.70%	-1.15%	-2.25%
November 1, 2021	End of month on high of month	1-5 days	Bullish			
Active - Long Term						
November 4, 2021	SPX up 14 of 16 days and new high	1-10 days	Bullish			
November 4, 2021	SPX 50-day %b > 100	1-50 days	Bullish			
November 1, 2021	NASDAQ Leading	int term	Bullish			
November 1, 2021	Best 6 Months	1-6 months	Bullish			
October 21, 2021	RSI2 > 99	1-15 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 saw more gains and new highs on Friday. The SPX closed up 0.4%, the NASDAQ rose 0.2%, and the Russell 2000 jumped 1.4%. Breadth was positive with the NYSE Up Issues % coming in at 66% and the Up Volume % at 68%. NYSE total volume declined some from Thursday's level.

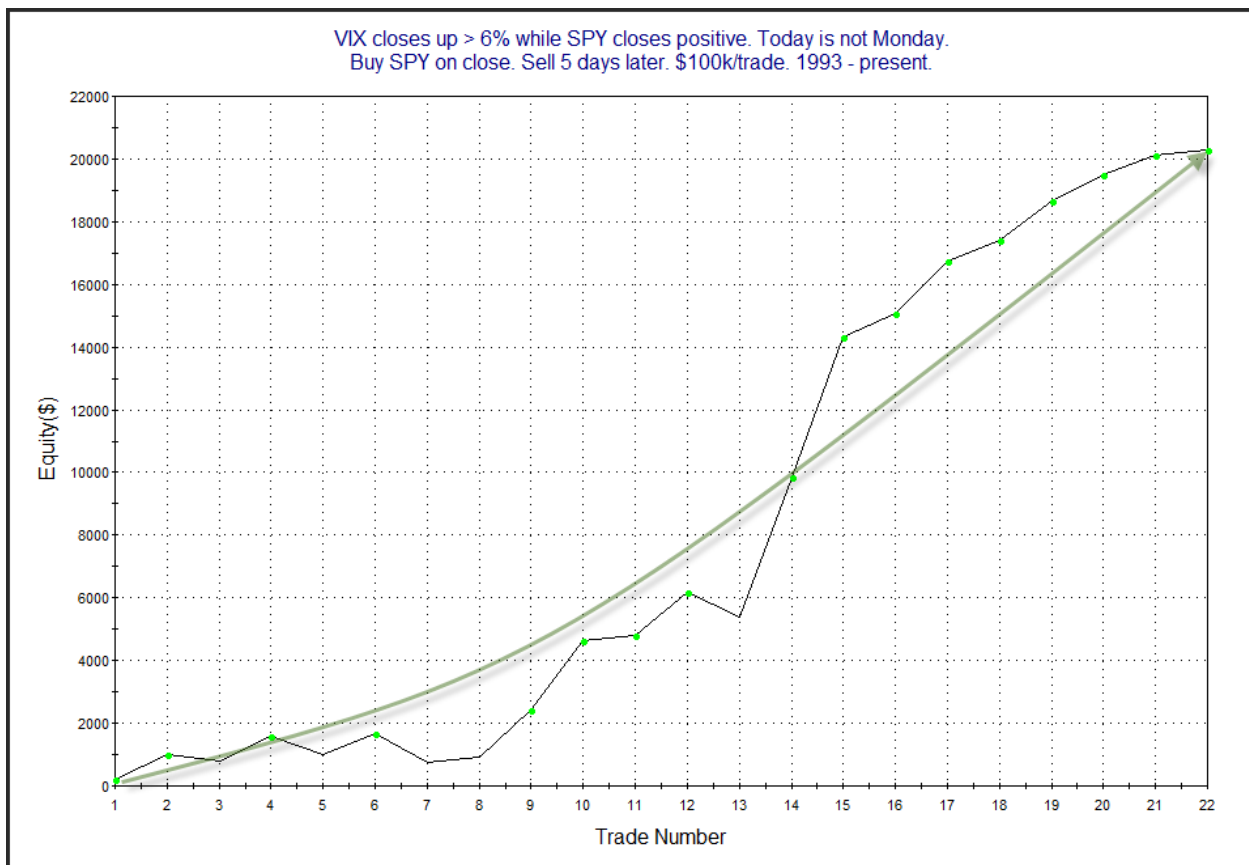
There was some interesting action on Friday that generated a mix of studies. Especially interesting was that the VIX spiked over 6.7% while SPY closed up solidly. It's unusual to see such a large spike in the VIX on a day where the SPY actually rose. I'll also note that Fridays there is a natural tendency for the VIX to dip in the afternoon, making it the least common day of the week to see SPX and VIX both rise. (Monday there is a natural inclination for the VIX to rise, so Mondays are about 3x as likely to see them both close higher as Fridays.) The study below was last seen in the 12/13/17 letter. It looked at non-Mondays that saw the VIX spike up > 6% despite the SPY also rising. I have updated the results table below.

VIX closes up > 6% while SPY closes positive. Today is not Monday.
Buy SPY 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	20,280.23	22	18	4	81.82	4,501.60	-914.83	1,267.85	-635.27	2.00	8.98	921.83
4	18,135.14	22	17	5	77.27	4,225.18	-1,233.08	1,271.29	-695.36	1.83	6.22	824.32
3	13,528.61	22	17	5	77.27	4,576.06	-3,070.92	1,052.06	-871.29	1.21	4.11	614.94
2	7,687.77	22	14	8	63.64	2,807.04	-2,288.52	943.17	-689.58	1.37	2.39	349.44
1	1,638.13	23	12	11	52.17	1,893.29	-1,613.70	541.02	-441.28	1.23	1.34	71.22

100% of instances closed above the entry price
at some point in the next week.

The edge here appears to be strong. Below is a profit curve assuming a 5-day holding period.



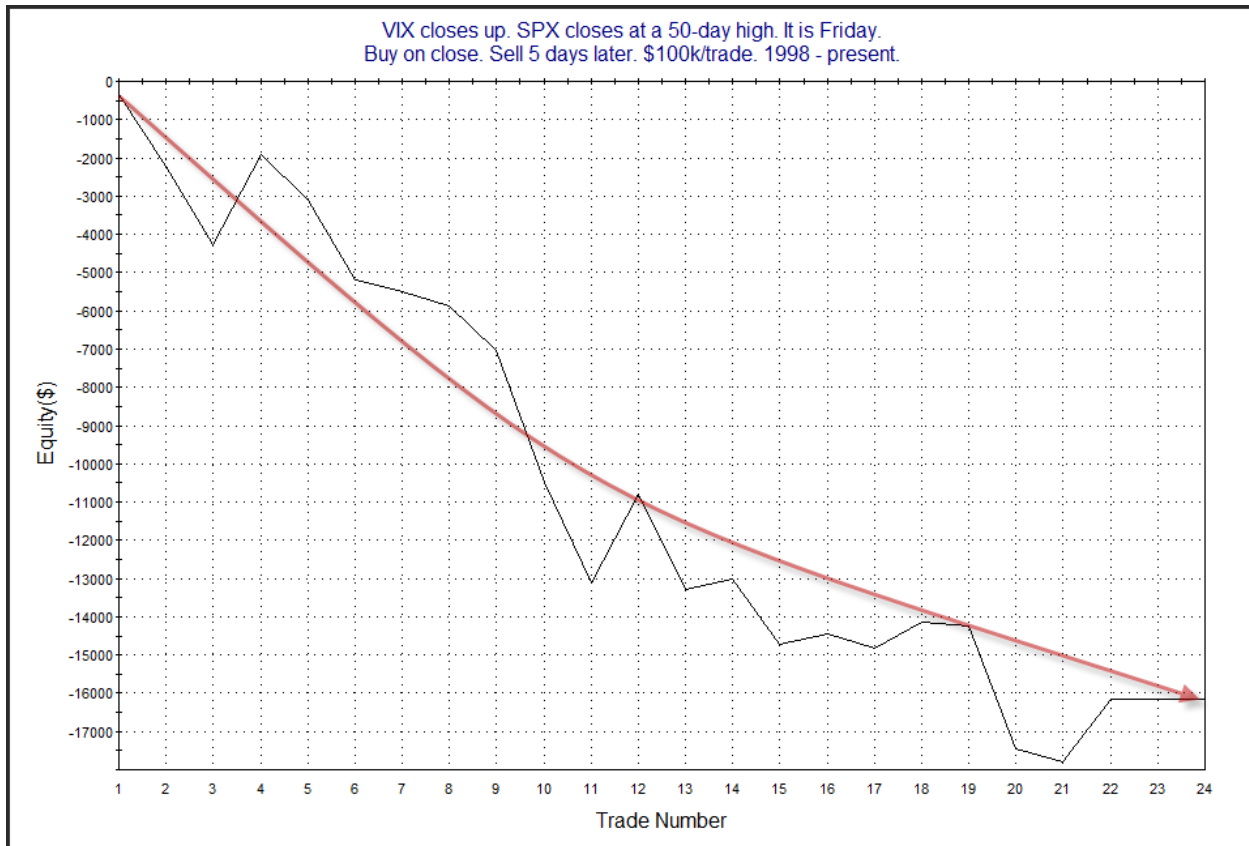
Results appear very strong. This serves as some confirmation of the upside edge.

But another VIX-study suggested a bearish inclination. It required SPX to close at a 50-day high. It last appeared in the 12/30/19 letter. All results are updated.

VIX closes up. SPX closes at a 50-day high. It is Friday.
Buy on close. Sell X days later. \$100k/trade. 1998 - 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	-16,140.85	24	8	16	33.33	2,339.37	-3,458.70	944.05	-1,480.83	0.64	0.32	-672.54
4	-12,842.95	25	8	17	32.00	1,324.62	-2,923.20	599.15	-1,037.42	0.58	0.27	-513.72
3	-9,541.52	25	8	17	32.00	1,976.04	-3,727.50	713.53	-897.04	0.80	0.37	-381.66
2	-9,565.03	25	8	17	32.00	1,835.17	-3,595.20	680.27	-882.78	0.77	0.36	-382.60
1	-2,905.49	25	10	15	40.00	1,530.15	-2,361.45	352.13	-428.45	0.82	0.55	-116.22

The numbers all appear to suggest a bearish edge. Below is a profit curve assuming a 5-day exit strategy.



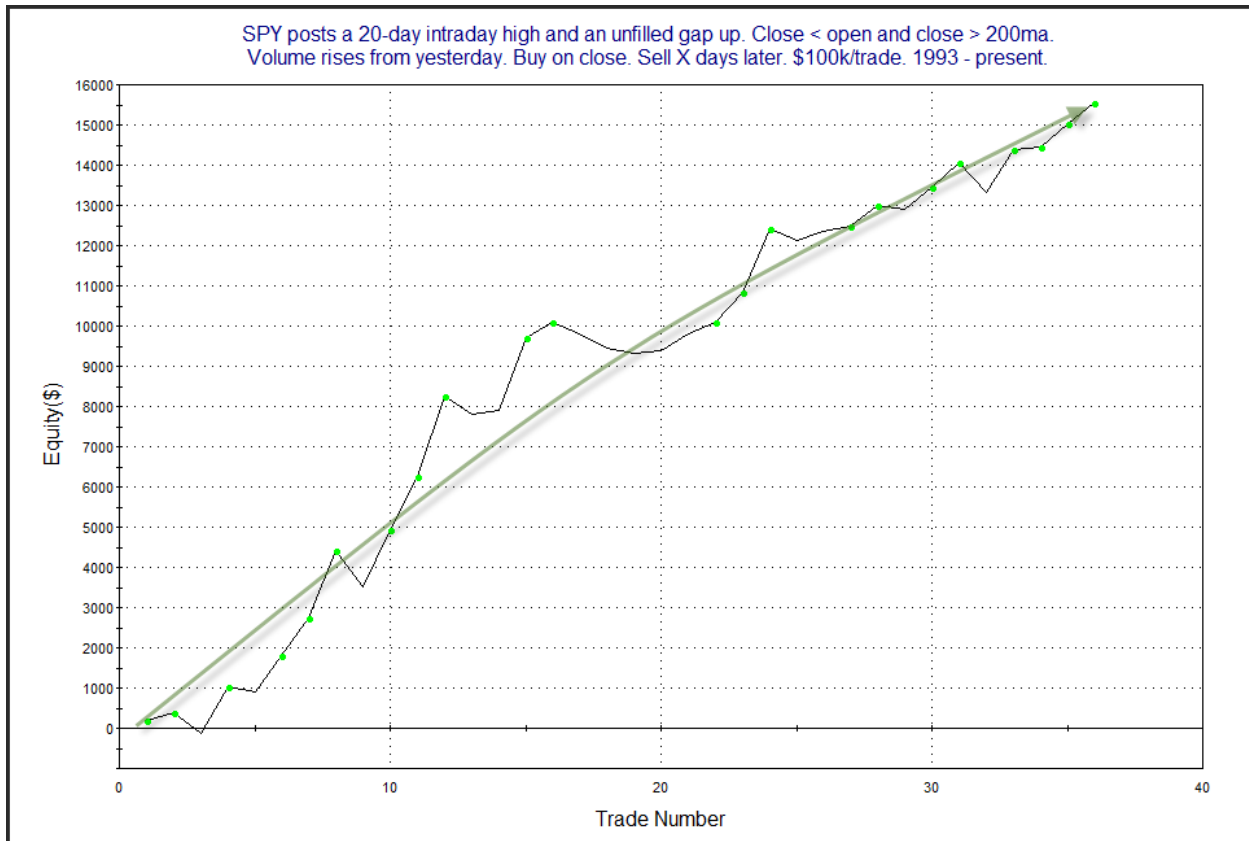
The move from upper left to lower right offers some confirmation of the downside edge. While they somewhat cancel each other out, I have added both VIX studies to the Active List tonight.

Some other studies looked at the price action of SPY and that it left an unfilled gap up and made a 20-day high. They showed that closing below where it opened under these circumstances appears to be favorable for the next few days. The study below was last seen in the 11/10/20 letter. It also took the rising volume into account. Results are updated.

SPY posts a 20-day intraday high and an unfilled gap up. Close < open and close > 200ma. Volume rises from yesterday. 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	18,141.05	34	19	15	55.88	3,754.17	-1,879.20	1,310.10	-450.06	2.91	3.69	533.56
4	18,180.62	34	27	7	79.41	3,436.02	-1,816.43	823.37	-578.64	1.42	5.49	534.72
3	18,763.74	35	27	7	77.14	2,056.39	-1,718.70	809.52	-441.90	1.83	7.07	536.11
2	15,548.41	36	26	10	72.22	1,998.70	-926.12	749.18	-393.02	1.91	4.96	431.90
1	9,185.41	36	27	9	75.00	1,708.92	-626.82	441.69	-304.46	1.45	4.35	255.15

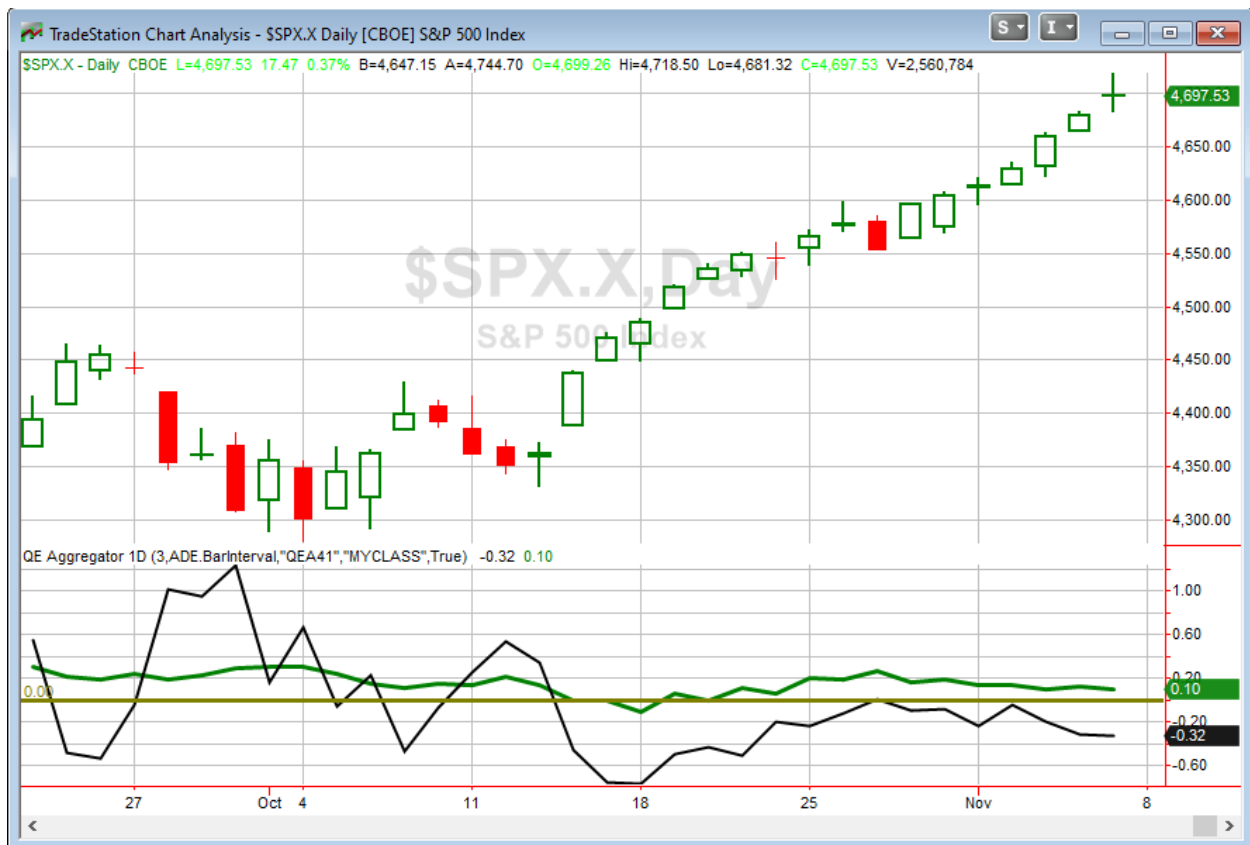
34 of 36 instances (94%) closed above the entry price at some point in the next 3 trading days.

Numbers here look bullish. Below I have included the 2-day equity curve.



The strong steady upslope appears to confirm the bullish edge. I have added this study to the active list tonight.

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



With this weekend's evidence 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 4678.23 on Monday. That is 0.4% below Friday's close. So SPX will need to close down at least 0.4% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence is mixed but leaning bullish. With the market so overbought, potential reward/risk is not great. This just is not a setup that I am excited about. So I will remain sidelined until the next strongly favorable opportunity arrives.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/8 – 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 stayed “Long”.*

This past week saw strong returns for the major indices. The SPX rose 2.0%, the NASDAQ gained 3.05%, and the Russell 2000 rallied 6.1%. They all closed Friday at new all-time highs, so the trend is clearly up. There were a couple of studies in the Wednesday night letter that suggested intermediate-term implications. I have copied them below.

It is also notable that the rally has been exceptionally persistent. Wednesday marked the 14th day in the last 16 in which SPX closed higher. I looked back at all instances where SPX closed higher 14 of the last 16 days and also hit a 252-day high. Results are below.

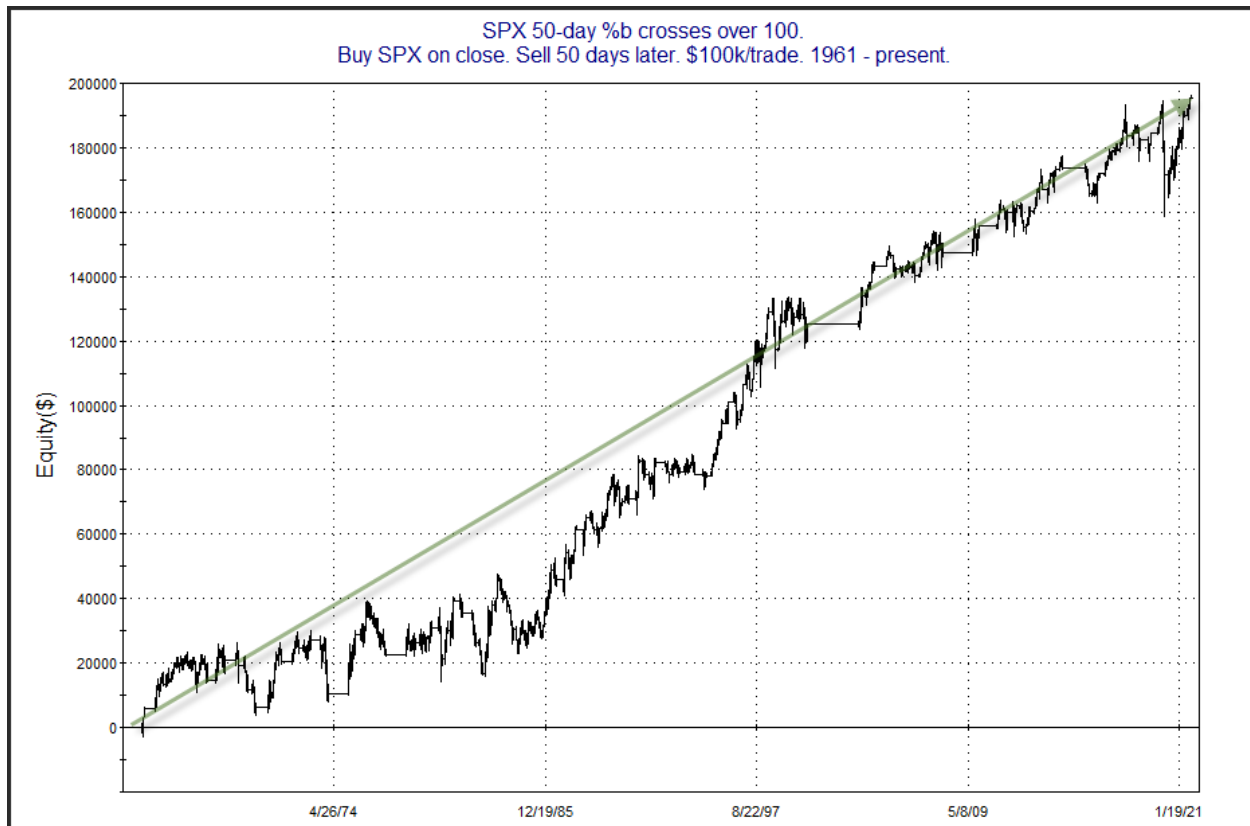
SPX closes up for the 14th time in the last 16 days and at a 252-day (1-yr) high. Forward performance shown. 1928 - present.													
Ticker	Date/Time	Close	Next Day % Chg	2-Day % Chg	3-Day % Chg	4-Day % Chg	5-Day % Chg	6-Day % Chg	7-Day % Chg	8-Day % Chg	9-Day % Chg	10-Day % Chg	10-Day % Ct
SSPX	9/4/1928	20.97	0.48	-0.14	0.57	-0.24	0.52	0.91	0.81	0.81	1.72	2.1	1
SSPX	7/2/1929	28.06	0.43	0.93	1.1	0.78	0.5	0.71	1.82	1.39	2.1	2.35	2.35
SSPX	9/22/1954	32	0.56	1.25	1.66	2.16	1.56	0.97	0.91	1.47	1.97	2.37	2.37
SSPX	6/22/1955	40.6	0.37	0.89	0.96	0.42	0.47	1.06	1.45	2.68	6.35	4.88	4.88
SSPX	1/25/1961	60.53	0.15	1.17	2.38	2.07	2.26	2.92	2.79	2.03	1.85	2.78	2.78
SSPX	7/7/1964	83.12	0	0.12	0.29	0.23	-0.07	0.26	0.63	1.07	0.75	0.51	0.51
SSPX	1/18/1966	93.95	-0.28	-0.63	-0.51	-0.26	-0.11	-0.27	-0.3	-0.68	-1.14	-1.91	-1.91
SSPX	11/26/1968	107.26	0.47	1.03	0.8	0.71	0.38	0.62	0.37	0.12	0.06	0.3	0.3
SSPX	2/2/1971	96.43	0.21	0.2	0.52	1.06	1.12	1	1.53	2.07	2.31	1.84	1.84
SSPX	4/15/1971	103.52	-0.03	0.47	0.09	-0.15	0.04	0.51	0.41	1.03	1.21	1.07	1.07
SSPX	9/13/1995	578.77	0.84	0.79	0.69	0.94	1.38	0.73	0.51	0.53	0.46	0.39	0.39
SSPX	12/22/2010	1258.84	-0.16	-0.1	-0.03	0.07	-0.08	-0.1	1.04	0.9	1.41	1.19	1.19
		Avg	0.25	0.50	0.71	0.65	0.66	0.78	1.00	1.12	1.59	1.40	1.40
		% Wins	66.7%	75.0%	83.3%	75.0%	75.0%	83.3%	91.7%	91.7%	91.7%	91.7%	91.7%

We see this has been a fairly rare setup, with the last instance occurring in 2010, and the previous one in 1995. But 11 of 12 instances have closed higher on day 7 through day 10, with 1966 being the only exception. The strong momentum over the last 16 days is something that has typically continued over next 1-2 weeks. I have added this study to the intermediate-term active list.

Another interesting study that triggered looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. I last featured this study in the 6/28/21 letter. Updated results are below.

SPX 50-day %b crosses over 100. Buy SPX on close. Sell 50 days later. \$100k/trade. 1961 - 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
50	195,524.81	144	89	55	61.81	18,408.18	-20,704.80	4,856.80	-4,304.19	1.13	1.83	1,357.81
45	152,487.94	150	87	63	58.00	15,816.57	-32,382.30	5,057.60	-4,563.86	1.11	1.53	1,016.59
40	158,740.38	156	95	61	60.90	17,624.67	-27,920.40	4,431.28	-4,298.88	1.03	1.61	1,017.57
35	160,565.53	164	100	64	60.98	15,782.13	-13,617.00	3,979.54	-3,709.20	1.07	1.68	979.06
30	106,704.25	171	103	68	60.23	11,920.74	-10,485.00	3,268.65	-3,381.86	0.97	1.46	624.00
25	73,142.88	179	103	76	57.54	10,859.94	-8,732.16	2,956.86	-3,044.92	0.97	1.32	408.62
20	70,589.22	192	111	81	57.81	9,501.30	-10,205.38	2,611.13	-2,706.75	0.96	1.32	367.65
15	55,948.84	212	123	89	58.02	7,843.46	-9,763.44	2,322.54	-2,581.17	0.90	1.24	263.91
10	43,802.44	236	144	92	61.02	8,239.16	-9,133.53	1,681.59	-2,155.94	0.78	1.22	185.60
5	13,454.36	289	161	128	55.71	5,030.81	-6,524.55	1,139.56	-1,328.25	0.86	1.08	46.55

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



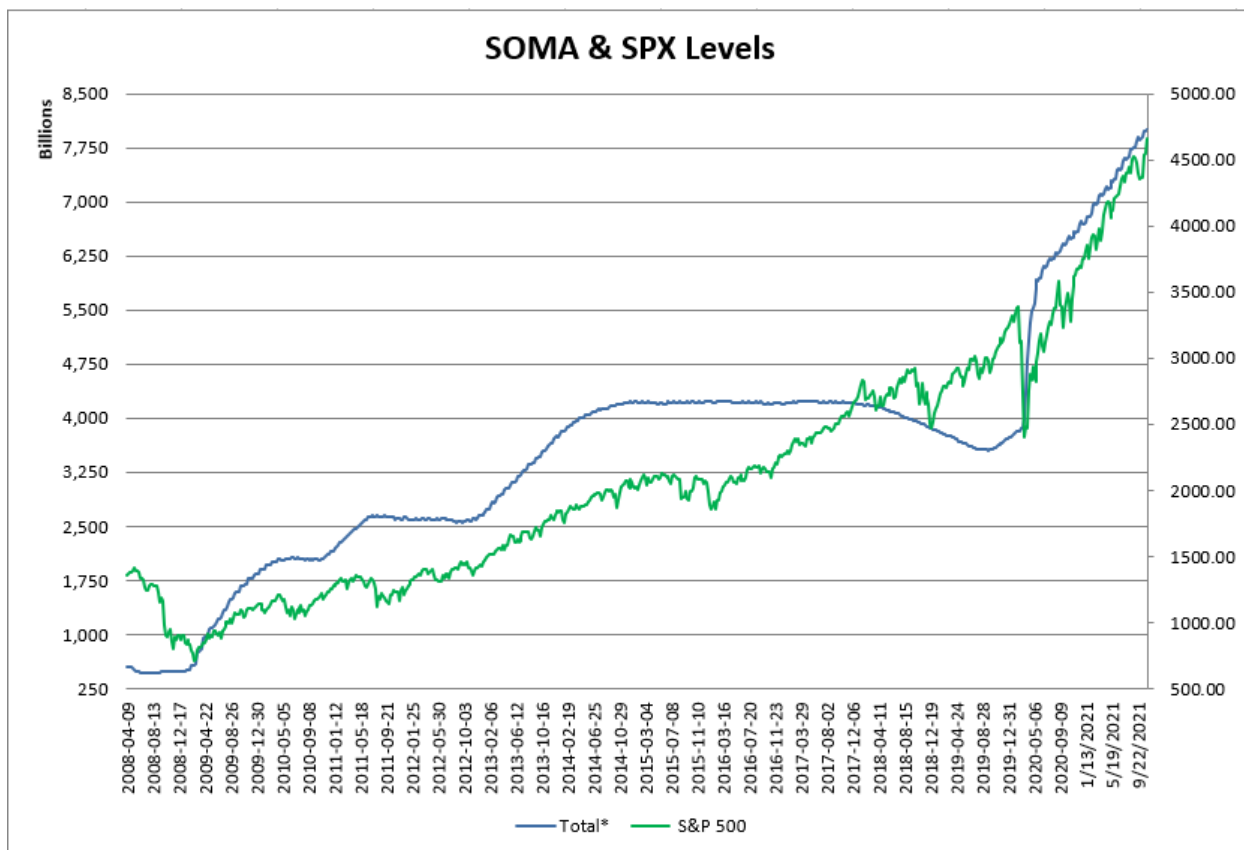
That's a pretty steady upslope for a study without a very high "% Profitable". Overall, I like this study enough to add it to the intermediate-term active list.

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](#) **November 3, 2021**
Posted November 4, 2021 at 4:30 P.M.

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,743,429,524.5
US Treasury Floating Rate Notes (FRNs)	24,346,178.7
US Treasury Inflation-Protected Securities (TIPS)*	372,842,901.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,518,432,273.0
Agency Commercial Mortgage-Backed Securities***	9,391,658.1
Total SOMA Holdings	7,996,833,535.3
Change From Prior Week	19,249,996.9

This past week saw the SOMA rise by \$19 billion. That is typical of what we would expect. 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 now slowing. It is not yet visible on the chart, but the blue line is going to start to flatten. And by June, the line will basically be horizontal. QE has provided incredible support, and the market has flourished. As QE goes away, it may become more and more difficult for the gains to continue. A lack of liquidity could also mean increased volatility. I'd be very surprised if 2022 saw the same kind of steady rise that we have seen over the last year and a half.

Overall the bulls still appear to have a lot going for them. Seasonality is helping, the NASDAQ is leading, the market is making new highs and clearly in an uptrend, and momentum-based studies suggesting more upside continue to emerge. There are plenty of issues the bears could grab onto, including valuations, inflation, supply-chain backups, the debt-ceiling negotiations, and more. And the more QE tapers, the less it can help to backstop the market when selloffs begin. I still favor the bullish case. 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.

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