

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 9, 2021

Volume 14 Issue 216

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- 8 consecutive up days and a 50-day high suggests momentum so strong that it often continues higher over the next several days.
- VXX closing at a 5-day high while SPX closes at a 50-day high could be a harbinger of something scary in the next few days.

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 Monday. The SPX closed up 0.1%, the NASDAQ rose 0.1%, and the Russell 2000 climbed 0.2%. Breadth was positive with the NYSE Up Issues % coming in at 55% and the Up Volume % at 61%. NYSE total volume declined some from Friday's level.

I've discussed in the past that overbought conditions will often trigger some bearish studies, but when overbought becomes extremely overbought, then that momentum will often create an upside edge. There was a Quantifinder study tonight that exemplified this. It was last seen in the 4/9/19 letter and looked at other instances where SPX rose 8 days in a row and closed at a 50-day high. This study looks all the way back to the 60s. I have updated the study below.

SPX closes up for the 8th day in a row and at a 50-day high. Buy on close. Sell X days later. \$100k/trade. 1961 - present.									
X Days	Net Profit	# Trades	# of winners	# of losers	% of Winners	W. Avg. Profit	L. Avg. Loss	Profit Factor	Avg Profit/Loss
5	10,785.72	32	20	12	62.50	1,141.67	-1,003.97	1.90	337.05
4	14,445.82	32	25	7	78.13	885.37	-1,098.34	2.88	451.43
3	11,477.56	32	19	13	59.38	811.63	-303.33	3.91	358.67
2	7,457.17	32	19	13	59.38	638.72	-359.88	2.59	233.04
1	703.17	32	18	14	56.25	378.16	-435.98	1.12	21.97

The net numbers are not all that powerful from an average trade standpoint, but the consistency is impressive. This makes sense as it would be difficult to spark a huge move up when the market is already so overbought. Still, the edge appears strong enough that I believe it is worth some consideration.

But there were also a few bearish studies that took into account the fact that the VIX rose once again. The most notable one used VXX, the ETN that utilizes VIX futures. In general, VXX will most often move in the same direction as the VIX, and also in the opposite direction of SPX. But on Monday, while SPX was closing at a new high, both VIX and VXX closed at the highest level in a week. I looked back at other times that SPX closed at a 50-day high while VXX closed at a 5-day high. There have only been 15 instances in the last 12 years. Below are all the dates along with SPX performance in the following days (updated from the 7/8/21 letter).

SPX closes at a 50-day high while VXX (original or current) closes at a 5-day high. (Duplicate instances within 10 days excluded.) Forward returns for SPX shown. 2009 - present.								
Ticker	Date	Close	Next Day % Chg	2-Day % Chg	3-Day % Chg	4-Day % Chg	5-Day % Chg	10-Day %Chg
\$SPX	8/26/2009	1028.12	0.28	0.08	-0.73	-2.93	-3.25	1.56
\$SPX	3/11/2010	1150.24	-0.02	0.02	0.8	1.39	1.36	1.35
\$SPX	2/17/2011	1340.43	0.19	-1.86	-2.46	-2.56	-1.53	-1.44
\$SPX	2/9/2012	1351.95	-0.69	-0.01	-0.11	-0.64	0.45	1.02
\$SPX	2/28/2014	1859.45	-0.74	0.78	0.77	0.95	1	-0.99
\$SPX	8/27/2014	2000.12	-0.17	0.16	0.11	0.03	-0.12	-0.13
\$SPX	11/14/2014	2039.82	0.07	0.59	0.44	0.63	1.16	0.67
\$SPX	12/13/2016	2271.72	-0.81	-0.43	-0.6	-0.4	-0.04	-0.96
\$SPX	2/21/2017	2365.38	-0.11	-0.07	0.08	0.18	-0.07	0.13
\$SPX	11/30/2017	2647.58	-0.2	-0.31	-0.68	-0.69	-0.4	0.17
\$SPX	1/25/2018	2839.25	1.18	0.5	-0.59	-0.54	-0.61	-9.1
\$SPX	12/27/2019	3240.02	-0.58	-0.29	0.55	-0.16	0.19	1.48
\$SPX	8/26/2020	3478.73	0.17	0.84	0.62	1.38	2.94	-4.01
\$SPX	1/25/2021	3855.36	-0.15	-2.71	-1.76	-3.66	-2.11	1.56
\$SPX	7/7/2021	4358.13	-0.86	0.26	0.61	0.25	0.37	0.01
% Wins			33.3%	53.3%	53.3%	46.7%	46.7%	60.0%
Avg			-0.16	-0.16	-0.20	-0.45	-0.04	-0.58

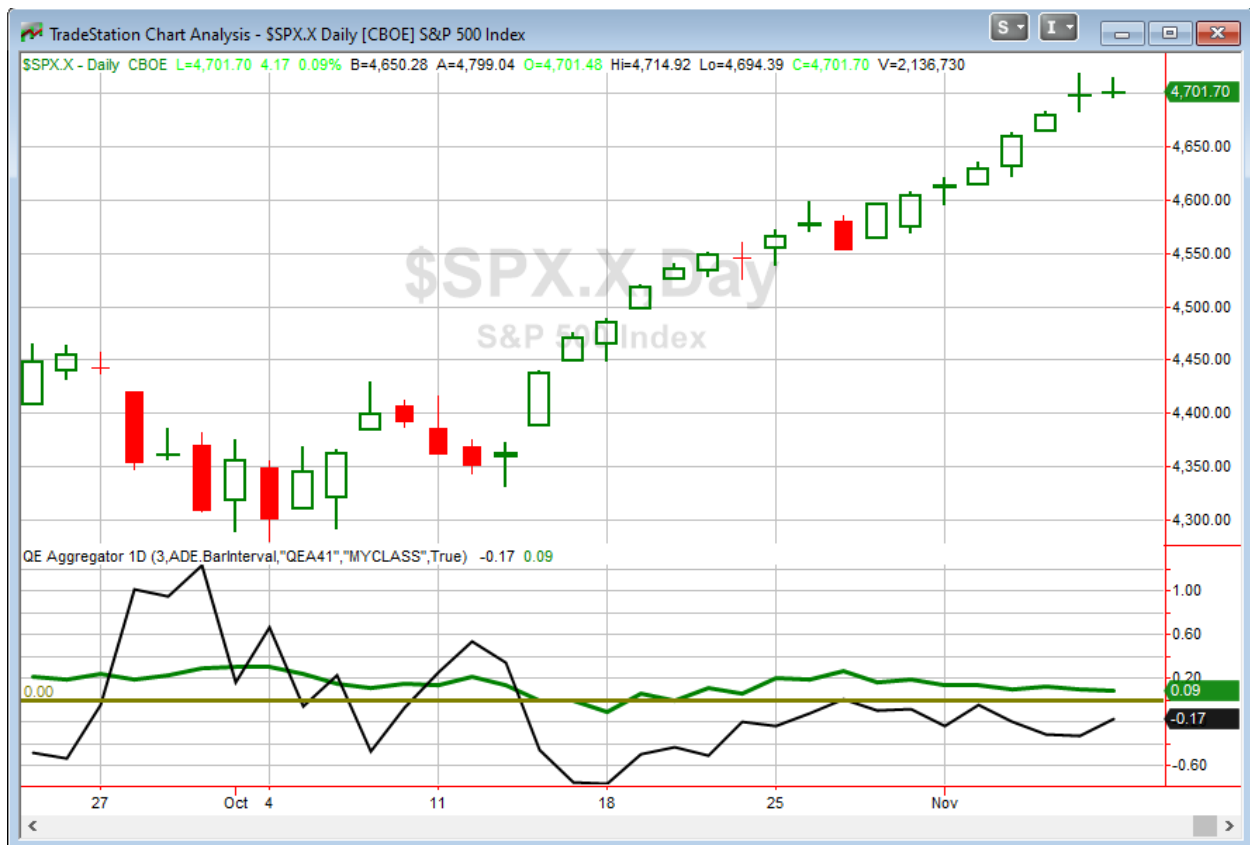
SPX results have been mixed and somewhat weak over the next week or so. I also looked at VXX returns after these same instances.

SPX closes at a 50-day high while VXX (original or current) closes at a 5-day high. (Duplicate instances within 10 days excluded.) Forward returns for VXX shown. 2009 - present. Yellow highlight shows notable spikes. Green highlighted instances are those with little or no spike higher.

Ticker	Date	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
VXX old	8/26/2009	60364.8	-2.44	-0.75	0.37	5.78	6.34	1.29	-1.59	-4.89	-7.96	-11.6
VXX old	3/11/2010	24657.92	-0.96	-0.75	-3.78	-7.02	-8.31	-7.23	-8.93	-10.67	-8.39	-7.35
VXX old	2/17/2011	7370.24	0.83	13.06	18.13	16.99	9.45	4.83	12.71	12.99	7.26	9.97
VXX old	2/9/2012	6571.52	8.57	0.35	3.31	9.15	4.95	3.62	3.47	0.55	-6	-2.42
VXX old	2/28/2014	701.92	5.49	-1.44	-1.53	-2.05	0.07	-0.34	1.05	1	5.08	8.05
VXX old	8/27/2014	445.28	1.58	1.01	1.62	0.43	0.65	-1.37	-1.15	1.44	0.86	0.61
VXX old	11/14/2014	458.56	-0.21	-1.95	0.42	-0.63	-2.58	-4.71	-5.37	-6.84	-4.4	-0.32
VXX old	12/13/2016	105.64	-0.38	-1.67	-3.03	-6.4	-8.18	-9.77	-8.1	-8.56	-9.81	-6.78
VXX old	2/21/2017	71.04	0.45	2.93	1.86	1.24	3.72	1.63	1.69	-1.24	-3.1	-3.1
VXX old	11/30/2017	31.97	2.69	1.94	1.5	1.38	-1.91	-5.13	-8.38	-8.1	-8.35	-8.91
VXX	1/25/2018	110.64	0	6.94	10.45	10.81	5.23	18.76	58.57	55.88	61.03	99.49
VXX	12/27/2019	60.92	3.48	-0.72	-4.73	0.39	-0.98	-1.44	-2.82	-6.89	-7.29	-9.65
VXX	8/26/2020	99.72	3.17	2.61	7.7	9.39	12.07	27.2	16	13.44	7.62	8.82
VXX	1/25/2021	68.24	0.82	18.7	16	23.56	16.53	6.62	1.11	-3.28	-3.46	-4.28
VXX	7/7/2021	29.63	6.48	-0.67	-1.32	-0.13	-2.43	-1.01	3.1	17.82	7.9	1.05
% Wins			66.7%	53.3%	66.7%	66.7%	60.0%	46.7%	53.3%	46.7%	40.0%	40.0%
Avg			1.97	2.64	3.13	4.19	2.31	2.20	4.09	3.51	2.07	4.91

Eleven of the fifteen instances saw a pretty sizable spike in VXX in the following days. And a few of the instances saw very strong moves. I don't know why VXX has risen over the last few days while SPX has been rallying. Sometimes, like the instances highlighted in green, it has meant nothing. Other times, such action has preceded an event that caused a substantial spike in fear. 2011, 2018, 2019, and Jan 2021 are good examples of that. And while 8/27/2014 shows relative calm over the next 10 days, September and October that year did get wild. Perhaps there is smart money buying VIX futures or VXX right now. Or perhaps this will turn to nothing, like 2010 and 2016. But there is enough evidence in the data above to make me extra cautious over the next week or so. Something might be brewing that the market does not yet know about.

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



With tonight's mix of 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 Tuesday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4697.19 on Tuesday. That is just 0.1% below Monday's close. So SPX will only need to close down about 0.1% on Tuesday in order to flip from overbought to oversold vs recent expectations.

Very little changed. 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. And with the VXX study we saw, if I am going to consider a long index trade in the next week, I am going to want a very compelling setup and a strong multi-day pullback to buy into.

*Intermediate-term Outlook (2 weeks – 2 months) – **updated 11/8 – 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

None

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