

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 24, 2022

Volume 15 Issue 203

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Back to back outside days and a short-term high have typically been followed by further rallying in the next few days.
- The week after opex in October has often been volatile, but unreliable from a directional standpoint.
- The SOMA saw a sizable decline this past week, and that is expected to continue.
- Seasonality should improve when we reach November.

Short-term Outlook

The Bottom Line

The Aggregator is long. But evidence is light and the market is primed to flip from oversold to overbought. So I don't believe the bullish edge is substantial.

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 24, 2022	2 outside days and a 10-day high	1-3 days	Bullish	7.30%	-4.10%	-8.20%
Active - Long Term						
May 2, 2022	Worst 6 Months with Jan-April selling	1-6 months	Bearish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

The stock market had a huge up day on Friday. SPX rallied 2.4%, the NASDAQ gained 2.3%, and the Russell 2000 climbed 2.2%. Breadth was positive with the NYSE Up Issues % coming in at 70% and the Up Volume % at 79.5%. NYSE total volume came in high as it typically does on opex Friday.

One interesting study from the Quantifinder looked at the fact that SPY made an outside day for the 2nd day in a row. An outside day is a day where SPY makes both a higher high and a lower low than the day before. It also required SPY close at a 10-day high. Updated results of that study can be seen below.

SPY posts back to back outside days and closes at a 10-day high. 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	9,859.55	9	7	2	77.78	3,826.52	-686.34	1,545.75	-480.34	3.22	11.26	1,095.51
4	8,860.19	9	9	0	100.00	2,617.44	0.00	984.47	0.00	100.00	100.00	984.47
3	12,483.92	9	8	1	88.89	3,447.12	-509.66	1,624.20	-509.66	3.19	25.49	1,387.10
2	7,040.80	9	8	1	88.89	1,749.06	-584.61	953.18	-584.61	1.63	13.04	782.31
1	2,145.36	9	5	4	55.56	1,387.52	-929.38	769.01	-424.92	1.81	2.26	238.37

The number of instances is somewhat small. It is quite unusual to see this kind of increasing range occur along with a short-term high. But the times it has happened SPY has always been higher 4 days later. And the 1-3 day results have also been very strong. Below is a look at the 3-day individual trade results.

SPY posts back to back outside days and closes at a 10-day high.
Buy on close. Sell 3 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
2/5/1996	Buy	\$64.16	2.62%	\$2,742.08
2/8/1996	Sell	\$65.84		(\$109.06)
8/12/1996	Buy	\$66.70	-0.51%	\$0.00
8/15/1996	Sell	\$66.36		(\$1,049.30)
10/16/1996	Buy	\$70.66	0.64%	\$1,372.55
10/21/1996	Sell	\$71.11		(\$155.65)
8/14/2002	Buy	\$92.22	3.45%	\$3,826.52
8/19/2002	Sell	\$95.40		(\$238.48)
11/1/2002	Buy	\$90.27	3.07%	\$3,099.60
11/6/2002	Sell	\$93.04		\$0.00
4/12/2007	Buy	\$144.66	1.68%	\$1,893.34
4/17/2007	Sell	\$147.09		(\$207.30)
2/20/2015	Buy	\$211.24	0.18%	\$473.00
2/25/2015	Sell	\$211.63		(\$359.48)
10/30/2019	Buy	\$304.14	1.06%	\$1,266.08
11/4/2019	Sell	\$307.37		(\$790.48)
8/3/2021	Buy	\$441.15	0.30%	\$404.54
8/6/2021	Sell	\$442.49		(\$546.92)

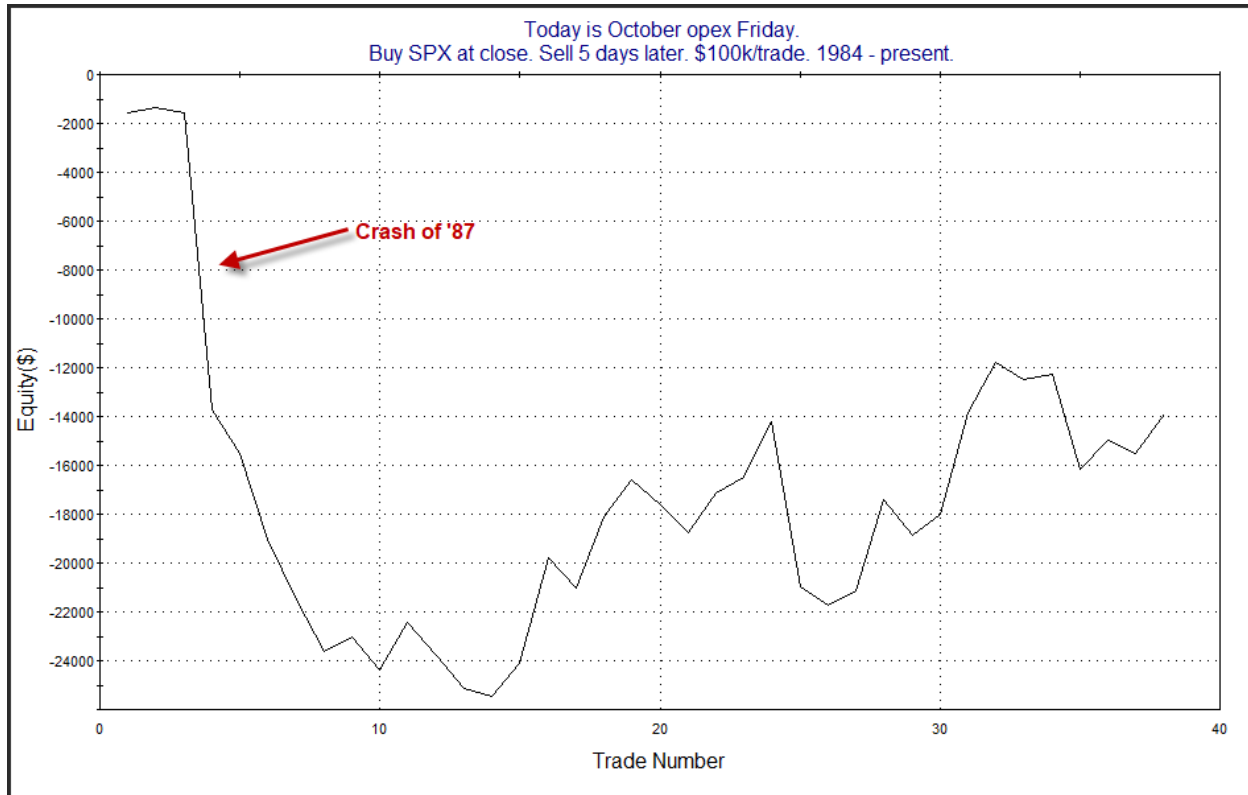
I don't see anything alarming here. While I don't often include studies with such low instances on the Active List, the numbers could not be better for this one. Additionally, if I eliminate the 10-day high filter, results following back-to-back outside days still show a bullish tendency over the next 1-4 days. So I did add this study to the Active List.

I have discussed October's strong volatility the last few weeks. Notably, the week after the 2nd and 4th Friday is often strong. But the week following opex (the 3rd Friday) is where we are headed, so let's look briefly at that.

Today is October opex Friday.
Buy SPX at 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	-13,879.82	38	18	20	47.37	4,339.20	-12,167.91	1,764.05	-2,281.63	0.77	0.70	-365.26
4	-12,380.35	38	18	20	47.37	3,707.20	-12,157.32	1,350.16	-1,834.16	0.74	0.66	-325.80
3	-13,816.60	38	17	21	44.74	3,361.60	-8,584.96	1,142.93	-1,583.16	0.72	0.58	-363.59
2	-9,921.73	38	19	19	50.00	2,950.50	-16,188.58	987.36	-1,509.55	0.65	0.65	-261.10
1	-6,993.87	38	23	15	60.53	4,754.10	-20,424.58	909.94	-1,861.50	0.49	0.75	-184.05

The numbers here are fairly negative. I also decided to look at an equity curve. This can be seen below.



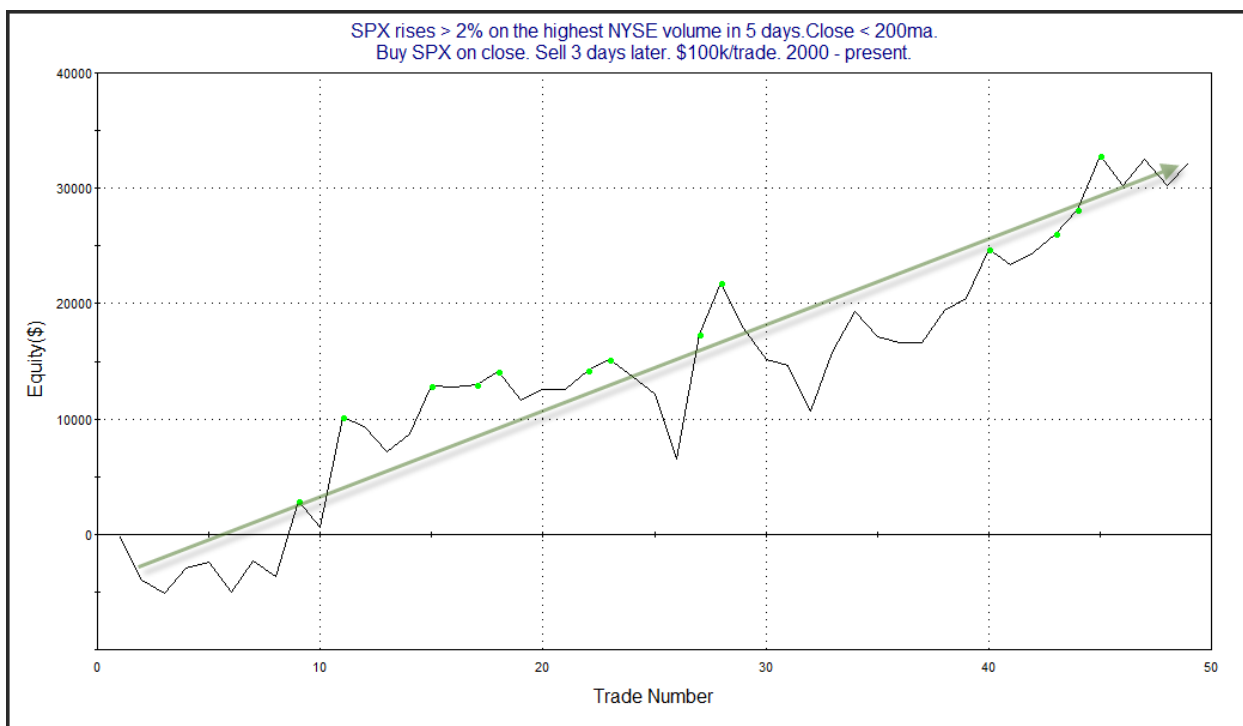
We see here a few things: 1) The downside was realized in the early years. Since the 90s the week after October opex has actually posted gains. 2) Sizable moves have occurred in both directions. While the study does not show a strong directional edge, it does suggest the moves at this time of year are somewhat exaggerated. (Not a surprise.) So...not necessarily bearish, but risks may be elevated, because moves in either direction could be outsized.

Back in the 4/20/20 letter I examined 2% up days, and the impact that volume had over the next few days. I found those that came on the highest volume of the last 5 days had positive results over the short-term, while lower volume rallies often struggled. The high-volume filter triggered on Friday, and I have updated those results.

SPX rises > 2% on the highest NYSE volume in 5 days. Close < 200ma.
Buy SPX on close. Sell X days later. \$100k/trade. 2000 - 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	38,165.02	48	34	14	70.83	9,334.72	-17,314.65	2,616.53	-3,628.35	0.72	1.75	795.10
4	36,399.90	48	30	18	62.50	11,930.04	-11,413.39	2,725.83	-2,520.84	1.08	1.80	758.33
3	32,205.79	49	27	22	55.10	10,868.60	-5,686.53	2,887.16	-2,079.43	1.39	1.70	657.26
2	2,191.50	51	24	27	47.06	7,112.64	-6,598.86	2,087.05	-1,773.99	1.18	1.05	42.97
1	1,002.58	51	24	27	47.06	6,420.72	-4,142.00	1,181.17	-1,012.79	1.17	1.04	19.66

The numbers here look moderately bullish. In looking at the drift curves, the 3-day was the smoothest.



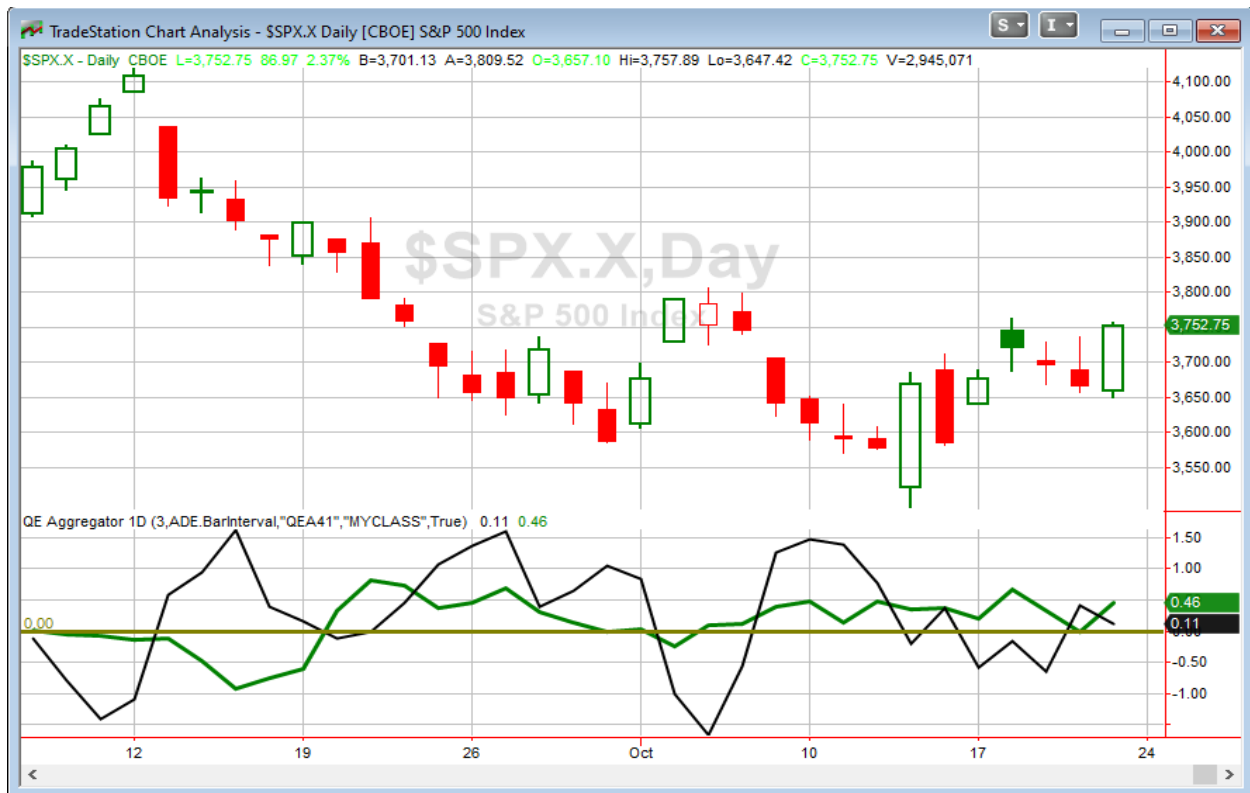
Choppy, but somewhat confirming. Of course the real trouble I have with this study is that it is predicated on high volume. And the high volume was thanks to opex, and it wasn't even that high. In fact, while it was the highest in 5 days, it was NOT the highest in 20 days. So I am not terribly comfortable including this as evidence. I did look for other times the setup triggered on opex Friday. There was not many, so that really doesn't give me valuable information.

Lastly, let's take a quick look at the Quantifiable Edges Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
10/3/2022	54.18	1.045	-0.033
10/4/2022	49.39	1.125	0.070
10/5/2022	57.47	1.284	0.095
10/6/2022	55.17	0.961	-0.027
10/7/2022	56.26	1.218	0.087
10/10/2022	51.22	0.717	-0.196
10/11/2022	47.85	1.126	0.069
10/12/2022	52.57	1.029	0.025
10/13/2022	53.57	0.865	-0.068
10/14/2022	55.41	1.354	0.117
10/17/2022	55.87	1.032	-0.102
10/18/2022	52.51	1.728	0.203
10/19/2022	55.02	1.295	0.098
10/20/2022	53.23	1.098	0.002
10/21/2022	52.08	1.204	0.070
10/24/2022	51.66	0.896	-0.135
10/25/2022	50.86	1.206	0.093
10/26/2022	53.98	1.266	0.096
10/27/2022	56.09	1.239	0.048
10/28/2022	54.70	1.113	0.049
10/31/2022	50.95	1.069	-0.101
Baseline	54.40	1.128	0.042

Other than Monday, the numbers this week look fairly positive. So seasonality may be a gentle wind at the market's back this upcoming week.

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



With this weekend's evidence considered, the green Aggregator line moved above zero. Positive readings mean expectations point up over the next few days. Meanwhile the black Differential Line held above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator formation turned long at the close.

Based on current evidence, expectations are set to remain positive on Monday. Of course this could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 3738.72* on Monday. That is 0.4% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down at least 0.4% in order to remain oversold vs recent expectations. Anything other than that and it will be considered overbought as of Monday's close.

So the Aggregator is long. But evidence is fairly light. And more significant to me is the fact that the Differential Pivot is inverted. I view inverted pivots as a good time to talk profits. I don't view them as an opportune time to take on new positions. This is because upside is very limited. And with the volatile market we are in, risks are high. So while a rise over the next few days seems more likely than a decline, reward/risk does not appear favorable. I'll remain sidelined until odds improve.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/24 – neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

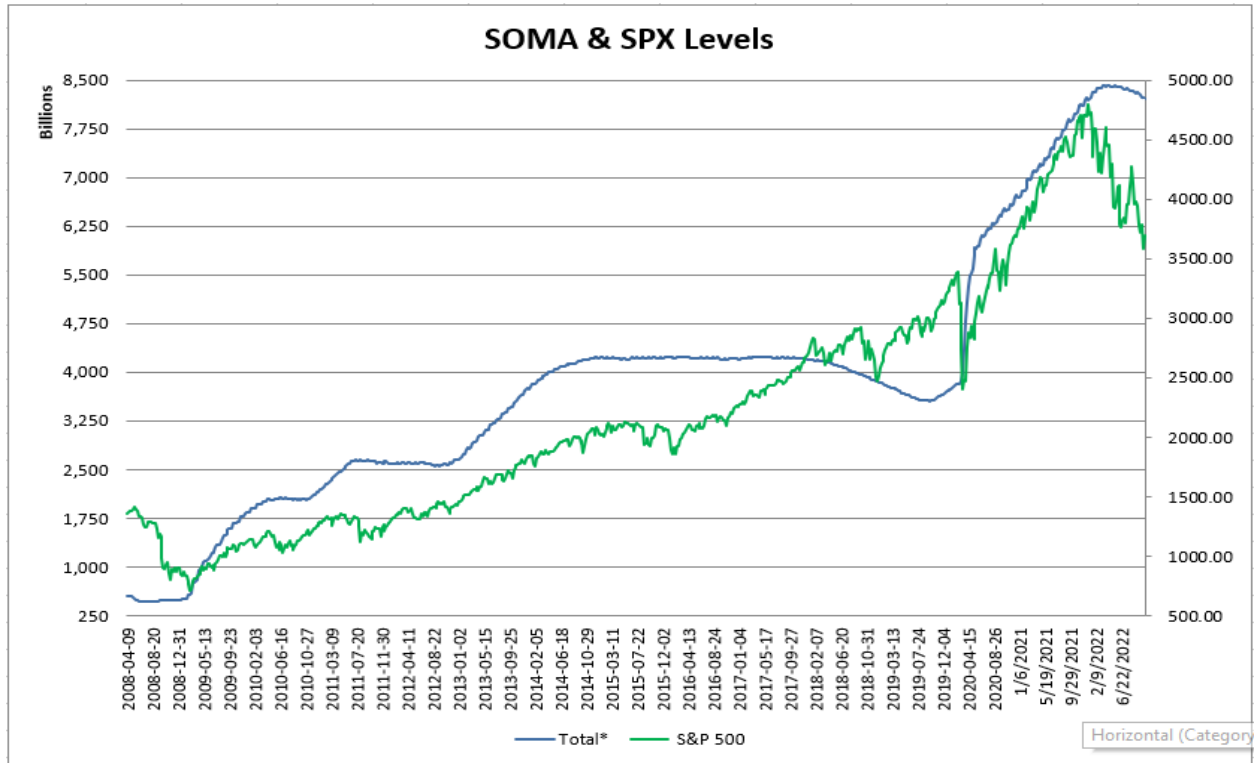
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 all 3 combo systems remained “flat”.*

This past week was a strong one for the stock market. The SPX rose 4.7%, the NASDAQ rallied 5.2%, and the Russell 2000 climbed 3.6%. But bonds again continued their streak of losing weeks and also closed Friday at new bear market lows. The US Aggregate Bond ETF (AGG) lost 0.9%, while TLT, the 20-year Treasury Bond ETF dropped 5.5%. It has now closed down 12 of the last 13 weeks. It has never done that before. Additionally, TLT is now down 36.1% on the year. There were no new studies with intermediate-term implications that triggered the last few days.

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 19, 2022 📅 Posted October 20, 2022 at 4:30 PM
SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	301,567,050.6
US Treasury Notes and Bonds (Notes/Bonds)	4,804,742,373.0
US Treasury Floating Rate Notes (FRNs)	29,924,645.1
US Treasury Inflation-Protected Securities (TIPS)*	375,760,681.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,690,064,401.9
Agency Commercial Mortgage-Backed Securities***	8,586,283.5
Total SOMA Holdings	8,212,992,435.7
Change From Prior Week	-17,357,735.8

This week the SOMA declined by \$17.4 billion. That is a sizable amount. The big weeks tend to happen around the 15th and 30th each month when many bonds mature. November appears likely to be the first month where the Fed’s \$95 billion cap could be approached. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is now in the midst of what could end up as the largest ever reduction in the size of the SOMA. The pace of the decline has recently accelerated and is expected to remain high for a while. Overall, the Fed is no friend to the market, and they won’t be for as long as they remain hawkish.

This past week was a good one for the bulls in that the market put in a strong bounce. But I have not yet seen convincing evidence that a new and sustainable uptrend is underway. Seasonality should improve starting in November. I will discuss this more next weekend, but [here is a preview from an old blog post](#). October volatility has been high as is typical. Bears can still point to Fed policy, a clear downtrend, and a lagging NASDAQ to build their case. I also believe we may need to see bonds stabilize if stocks are going to mount sizable rally. I am going to maintain my neutral stance. While the bears have a better case, the upcoming November seasonality may help the bulls, and with the market so volatile, I really have no desire to get very aggressive in either direction. I’ll remain fairly cautious when considering both long and short positions.

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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