

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 31, 2022

Volume 15 Issue 208

Market Overview



Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Monday has poor seasonality, but the rest of the week looks seasonally strong.
- Short-term highs on short-term low volume under the 200ma have often been followed by pullbacks.
- We are entering a very bullish 6-month period from a market cycle standpoint.
- The SPX QE Seasonality Calendar for November looks quite bullish.
- The SOMA saw a sizable decline las week, and will likely see even more Quantitative Tightening this week.

Short-term Outlook

The Bottom Line

The Aggregator is short. Evidence is pointing lower, but that will likely flip at Monday's close. So this edge appears short-lived and not overly compelling.

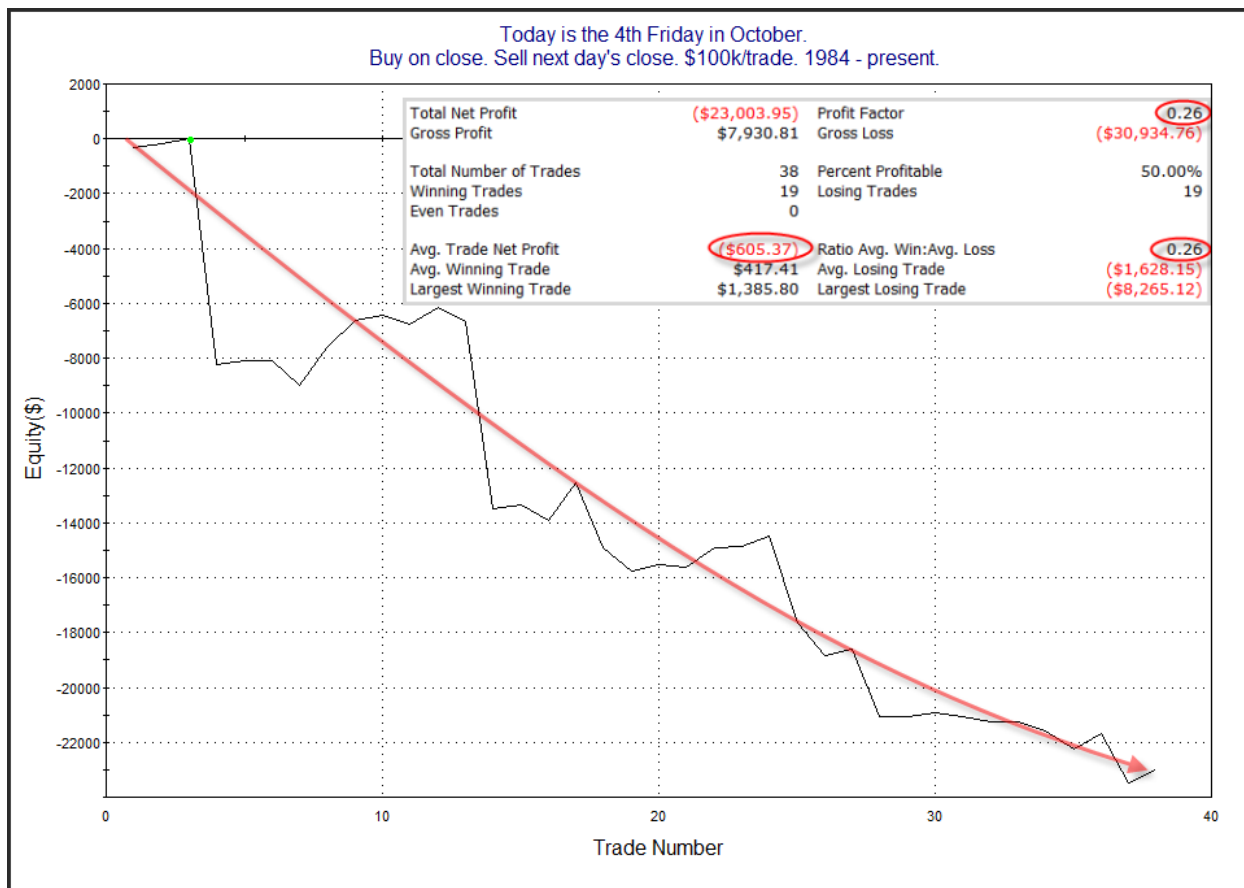
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
October 31, 2022	SPX 10-high < 200. Volume 5-low	1-2 days	Bearish			
October 31, 2022	Day After 4th Fri Oct bearish	1 day	Bearish			
October 31, 2022	Week after day after 4th Fri Oct bullish	1-5 days	Bullish			
Active - Long Term						
October 31, 2022	Best 6 Months 3rd Yr. Pres Cycle	1-6 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
October 25, 2022	SPY up 1% 2x. 10-day high & < 200ma	1-4 days	Bearish	-3.25%	1.20%	2.15%
May 2, 2022	Worst 6 Months with Jan-April selling	1-6 months	Bearish			

The Evidence

Friday started weak, but then put in some heavy buying during the day. SPX climbed 2.5%, the NASDAQ rallied 2.9%, and the Russell 2000 rose 2.25%. Breadth was positive with the NYSE Up Issues % coming in at 76% and the Up Volume % at 71%. NYSE total volume declined for the 5th day in a row.

This upcoming week being the week after the 4th Friday in October has been an interesting one historically. The studies below are updated from the 10/25/21 letter. They show that Monday has seen difficulties, but the rest of the week has been strong, and it has even carried through to the next Monday. Let's first look at the Monday after the 4th Friday:



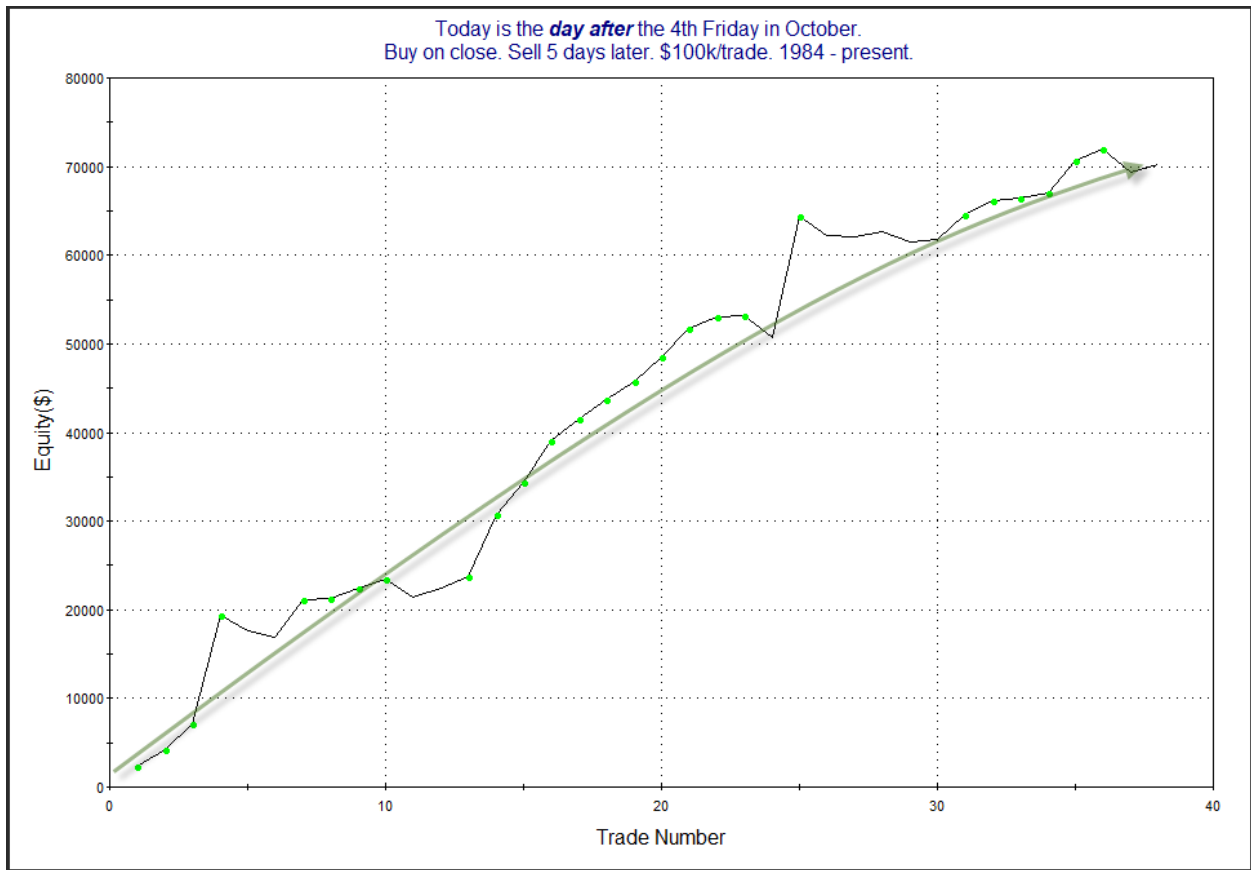
There have been the same number of Mondays here that have closed higher as lower, but the losers have been about 4x the size of the winners on average. The profit curve is choppy as you would expect with the winning % shown, but the slope has certainly been down for a long time. So Monday may carry a little extra risk to see a sizable decline. But Tuesday through the following Monday have shown very positive seasonality. This can be seen below.

Today is the **day after** the 4th Friday in October.
Buy on 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	70,292.30	38	30	8	78.95	13,733.46	-2,631.17	2,782.70	-1,648.59	1.69	6.33	1,849.80
4	55,036.64	38	28	10	73.68	14,020.11	-3,799.29	2,496.82	-1,487.43	1.68	4.70	1,448.33
3	46,879.49	38	28	10	73.68	12,304.89	-2,634.94	2,005.74	-928.12	2.16	6.05	1,233.67
2	23,921.03	38	28	10	73.68	9,496.89	-3,768.26	1,325.93	-1,320.49	1.00	2.81	629.50
1	23,129.05	38	24	14	63.16	10,716.03	-2,766.58	1,408.54	-762.57	1.85	3.17	608.66

35 of 38 instances (92%) closed above the entry price at some point in the next week.

The stats here are very strong across the board and suggestive of an upside edge. Below is a look at the 5-day profit curve.

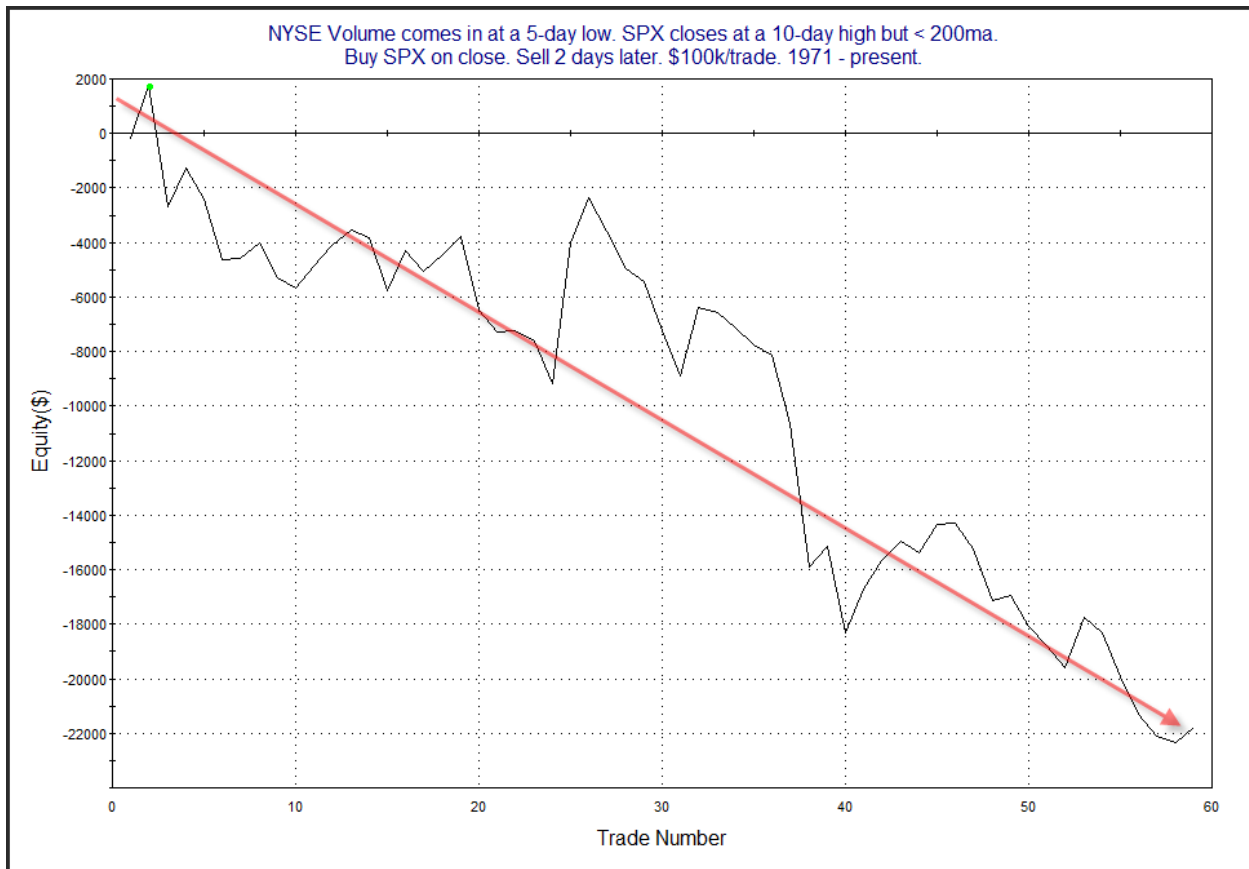


The curve has headed upwards for a long time. This short-term look at seasonality suggests the market could have some wind at its back after Monday.

From a price action standpoint, the market is short-term overbought and posting short-term highs in a long-term downtrend environment. While overbought can sometimes lead to runaway upside, more often it will be followed by a short-term pullback. The study below is from the 11/7/18 letter. It utilizes this concept. Stats are updated.

NYSE Volume comes in at a 5-day low. SPX closes at a 10-day high but < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1971 - 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	-37,318.51	57	27	30	47.37	4,166.46	-6,523.10	1,254.19	-2,372.72	0.53	0.48	-654.71
4	-24,607.97	58	29	29	50.00	5,734.40	-5,663.22	1,285.07	-2,133.62	0.60	0.60	-424.28
3	-19,917.81	58	23	35	39.66	4,243.79	-5,681.40	1,018.76	-1,238.55	0.82	0.54	-343.41
2	-21,756.03	59	23	36	38.98	5,136.87	-5,264.73	1,130.73	-1,326.74	0.85	0.54	-368.75
1	-14,757.04	66	31	34	46.97	3,850.37	-8,883.33	613.65	-993.54	0.62	0.56	-223.59

The stats suggest a bit of a downside edge over the next week, with most of the losses occurring in the 1st two days. Below is a look at the 2-day profit curve.



The strong and persistent move from upper left to lower right serves as some confirmation of the downside edge. I have included this study on the active list tonight.

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



With the new evidence considered, the green Aggregator line remained just slightly below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line dipped back below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current list of active studies, expectations are primed to flip to positive on Monday. Of course this can change if additional bearish evidence emerges. Meanwhile, the Differential Pivot will be 3800.85 on Monday. That is 2.6% below Friday's close. Therefore, SPX would need to close down at least 2.6% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is back to bearish. Evidence is mostly pointing lower, and SPX is quite overbought. This suggests a downside edge. But after Monday, those expectations are set to flip from negative to positive. That does not give much time for a new trade to work. I am inclined to sit out and wait for a more compelling setup to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – *updated 10/31 – 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 3.95%, the NASDAQ rallied 2.2%, and the Russell 2000 climbed 6.0%. Bonds even gained, with the US Aggregate Bond ETF (AGG) posting its first weekly profit since early August. AGG rose 1.55%, while TLT, the 20-year Treasury Bond ETF, rallied 3.9%. Long-term downtrends still appear intact across the board.

With the calendar about to change from October to November, the market will enter its “Best 6 Months”. The “Best 6 Months” tendency was first published by Yale Hirsch, founder of the Stock Trader’s Almanac, in 1986. The concept behind the “Best 6 Months” is simple. Hirsch’s research suggests that over the last several decades the market has made a massive portion of its gains between November and April. And during the remaining 6 months, it has generally struggled to make headway. I’ll also note that since publishing the tendency many years ago, the edge has persisted, with the “Best 6 Months” continuing to outperform the “Worst 6 Months”.

Additionally, the market is shifting into the 3rd year of the Presidential cycle. At Quantifiable Edges I measure the Presidential Cycle years from November – October rather than January – December. That allows the cycle years to better match up with the elections, which take place in early November. And while the elections are always during the 1st week of November, I always start the cycle year on November 1st. This makes for easy evaluation when combining it with the “Best 6 Months” cycles. In general, the 3rd year of the Presidential Cycle has been a strong one.

When the Best 6 Months and the 3rd Year of the Presidential Cycle have been active at the same time, the results since 1960 have been outstanding. In the table below I have listed out each instance.

**SPX Performance from Nov - Apr during 3rd Year of Presidential Cycle
1950 - present.**

Symbol	Date	Price	Exit date	Exit Price	Dawdown	Run-Up	% Change
\$\$SPX	10/31/1950	19.53	4/30/1951	22.43	-2.71%	14.85%	14.85%
\$\$SPX	10/29/1954	31.68	4/29/1955	37.96	0.00%	20.96%	19.82%
\$\$SPX	10/31/1958	51.33	4/30/1959	57.59	-0.60%	13.33%	12.20%
\$\$SPX	10/31/1962	56.52	4/30/1963	69.80	-1.10%	24.06%	23.50%
\$\$SPX	10/31/1966	80.20	4/28/1967	94.01	-1.63%	17.52%	17.22%
\$\$SPX	10/30/1970	83.25	4/30/1971	103.95	-1.23%	26.85%	24.86%
\$\$SPX	10/31/1974	73.90	4/30/1975	87.30	-13.22%	20.15%	18.13%
\$\$SPX	10/31/1978	93.15	4/30/1979	101.76	-1.48%	11.59%	9.24%
\$\$SPX	10/29/1982	133.72	4/29/1983	164.43	-0.81%	22.97%	22.97%
\$\$SPX	10/31/1986	243.98	4/30/1987	288.36	-3.47%	24.46%	18.19%
\$\$SPX	10/31/1990	304.00	4/30/1991	375.35	-0.79%	28.70%	23.47%
\$\$SPX	10/31/1994	472.35	4/28/1995	514.71	-6.24%	8.97%	8.97%
\$\$SPX	10/30/1998	1098.67	4/30/1999	1335.18	-1.16%	24.85%	21.53%
\$\$SPX	10/31/2002	885.76	4/30/2003	916.92	-10.94%	7.74%	3.52%
\$\$SPX	10/31/2006	1377.94	4/30/2007	1482.37	-1.23%	8.71%	7.58%
\$\$SPX	10/29/2010	1183.26	4/29/2011	1363.61	-0.87%	15.24%	15.24%
\$\$SPX	10/31/2014	2018.05	4/30/2015	2085.51	-2.25%	5.35%	3.34%
\$\$SPX	10/31/2018	2711.74	4/30/2019	2945.83	-13.47%	8.77%	8.63%
Average					-3.51%	16.95%	15.18%
Median					-1.36%	16.38%	16.23%

All 18 instances since 1950 have shown gains. Of course there have been drawdowns along the way. The 1974-75 period saw SPX pull back 13.2% from its October closing price before rebounding and finishing April 18.1% above the October closing price. And in 2018-2019 there was a 13.5% drawdown from the October close before finishing April 8.6% above it. But overall the stats have been incredibly lopsided. The average 6-month period saw a net gain of 16.95%. Long-term seasonality does not get any better.

This seems like a good place to take a look at the preliminary November QE Seasonality Calendar for SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
11/1/2022	52.98	1.273	0.047
11/2/2022	62.97	2.728	0.435
11/3/2022	54.39	1.233	0.038
11/4/2022	56.36	1.449	0.141
11/7/2022	56.00	1.133	-0.040
11/8/2022	51.20	1.273	0.121
11/9/2022	53.72	1.098	0.036
11/10/2022	55.57	0.981	-0.030
11/11/2022	58.02	1.397	0.134
11/14/2022	52.17	0.889	-0.139
11/15/2022	52.54	1.730	0.210
11/16/2022	52.55	1.209	0.060
11/17/2022	51.91	1.051	-0.014
11/18/2022	51.63	1.174	0.060
11/21/2022	55.66	1.185	0.060
11/22/2022	52.73	1.183	0.059
11/23/2022	59.25	1.558	0.193
11/25/2022	59.10	1.269	0.086
11/28/2022	54.00	1.260	0.095
11/29/2022	55.95	1.303	0.110
11/30/2022	50.04	1.210	0.072
Baseline	54.37	1.140	0.046

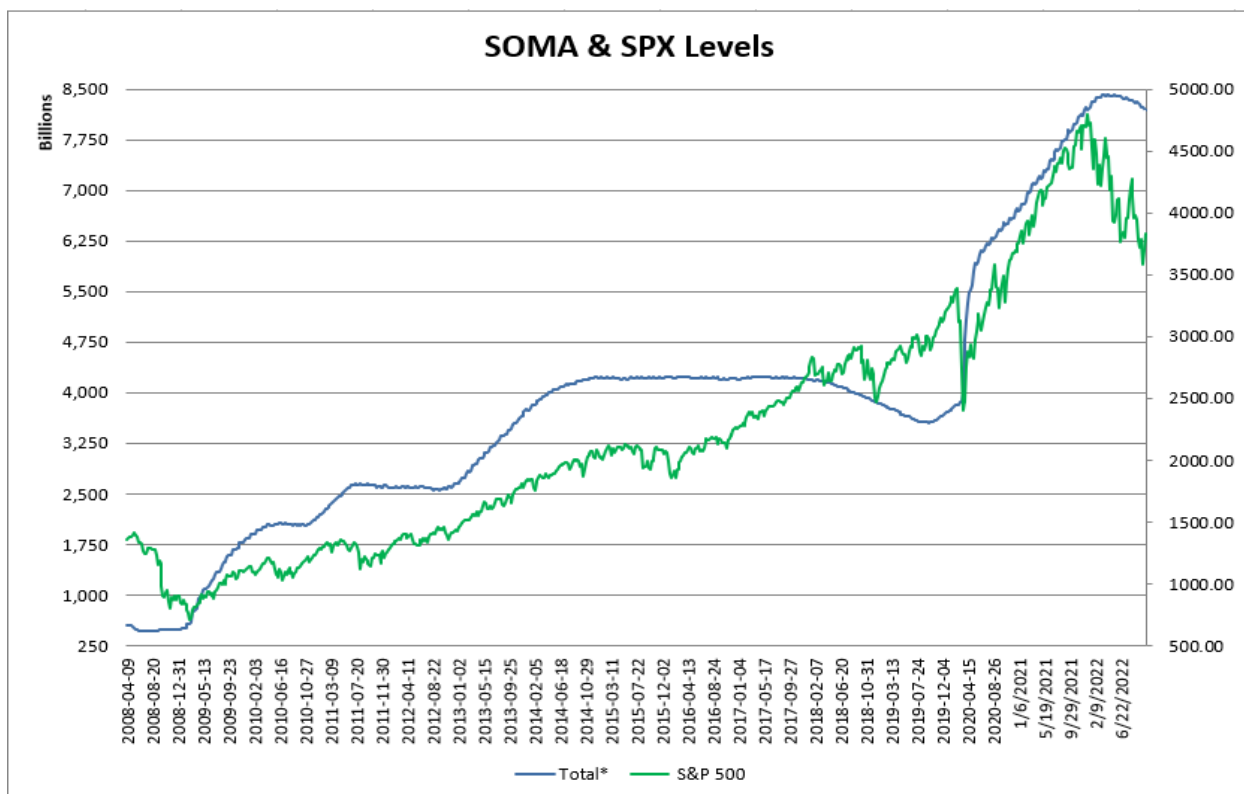
The final numbers will be run after the close on Monday, but they will not change much. November looks like it will show some of the strongest odds we have seen in several months. I'll note the 2nd through the 7th look especially strong, matching up with the study from the short-term section.

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 26, 2022** 📅
Posted October 27, 2022 at 4:30 PM

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	298,315,410.3
US Treasury Notes and Bonds (Notes/Bonds)	4,804,817,373.0
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***	2,669,965,331.6
Agency Commercial Mortgage-Backed Securities***	8,553,872.0
Total SOMA Holdings	8,189,684,313.6
Change From Prior Week	-23,308,122.1

This week the SOMA declined by \$23.3 billion. That is a sizable amount. The big weeks tend to happen around the 15th and 30th each month when many bonds mature. So this upcoming week should show even larger QT. 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.

There is a Fed meeting this week, which will wrap up on Wednesday. The Fed is expected to increase rates another 75 basis points. It is expected that this will likely be the last 75 point hike, and that they will look to scale back to 50 in December before fazing out the hikes after a few meetings in 2023. Market participants will be on the lookout for language confirming or refuting those expectations.

The last 2 weeks have been very strong for the market. And we are now heading into a seasonally strong period. But I am not seeing any compelling studies yet confirming a new uptrend. Breadth is improving, but none of my favorite breadth thrust indicators have triggered. The major indices remain well below their long-term moving averages. And the NASDAQ continues to lag. So while we are entering a seasonal period where rallies typically occur, price, breadth, and leadership need more confirmation to get me excited about the bullish case. Of course, in addition to the long-term trend and the lagging NASDAQ, bears can still point to an unfriendly Fed. Market volatility remains high. The VIX (implied volatility) has declined over the last couple of weeks, but realized volatility has not. The 21-day (1-month) historical volatility for SPX is just under 28%. At the end of July it was at 19%. At the end of August it was 20%, and at the end of September it was 23%. Even 2 weeks ago when the market was making new lows, the 21-day historical volatility was below its current reading. The recent big rally days have felt good for the bulls, but even upside volatility is volatility. And upside volatility is typically paired with downside volatility. This is not a quiet market, and big bets in either direction can still be punished. I will maintain my neutral bias once again. This means 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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
<i>SPY(S)(1/4)</i>	<i>10/25/2022</i>	<i>\$378.87</i>	<i>\$379.87</i>	<i>-0.26%</i>	<i>covered on open</i>

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