

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 16, 2023

Volume 16 Issue 197

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	1

Tonight's Research Points

- October opex week has historically been one of the best of the year.
- A Russell Death cross triggered, but that does not appear intermediate-term bearish for the SPX.
- The SOMA saw a modest decline this past week. I expect this week to be a much larger decline. Fed policy remains a bearish force.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. There appears to be a moderate upside edge.

Summary of Current 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 16, 2023	October Opex week bullish	1-4 days	Bullish	2.15%	-1.25%	-2.70%
October 13, 2023	3-day hi, 3-day low, 3-day low close.	1-5 days	Bullish	1.90%	-1.20%	-2.25%
Active - Long Term						
October 9, 2023	NASDAQ Leading	int term	Bullish			
October 6, 2023	20-low. Up day. Then inside down.	1-10 days	Bullish	4.60%	-2.50%	-6.10%
October 2, 2023	SPX down 4 weeks but above 40-week ma	1-10 weeks	Bullish			
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

Friday saw some selling. The SPX lost 0.5%, the NASDAQ fell 0.6%, and the Russell 2000 declined 0.8%. Breadth was negative with the NYSE Up Issues % coming in at 37% and the Up Volume % at 42%. NYSE total volume rose some from Thursday's level.

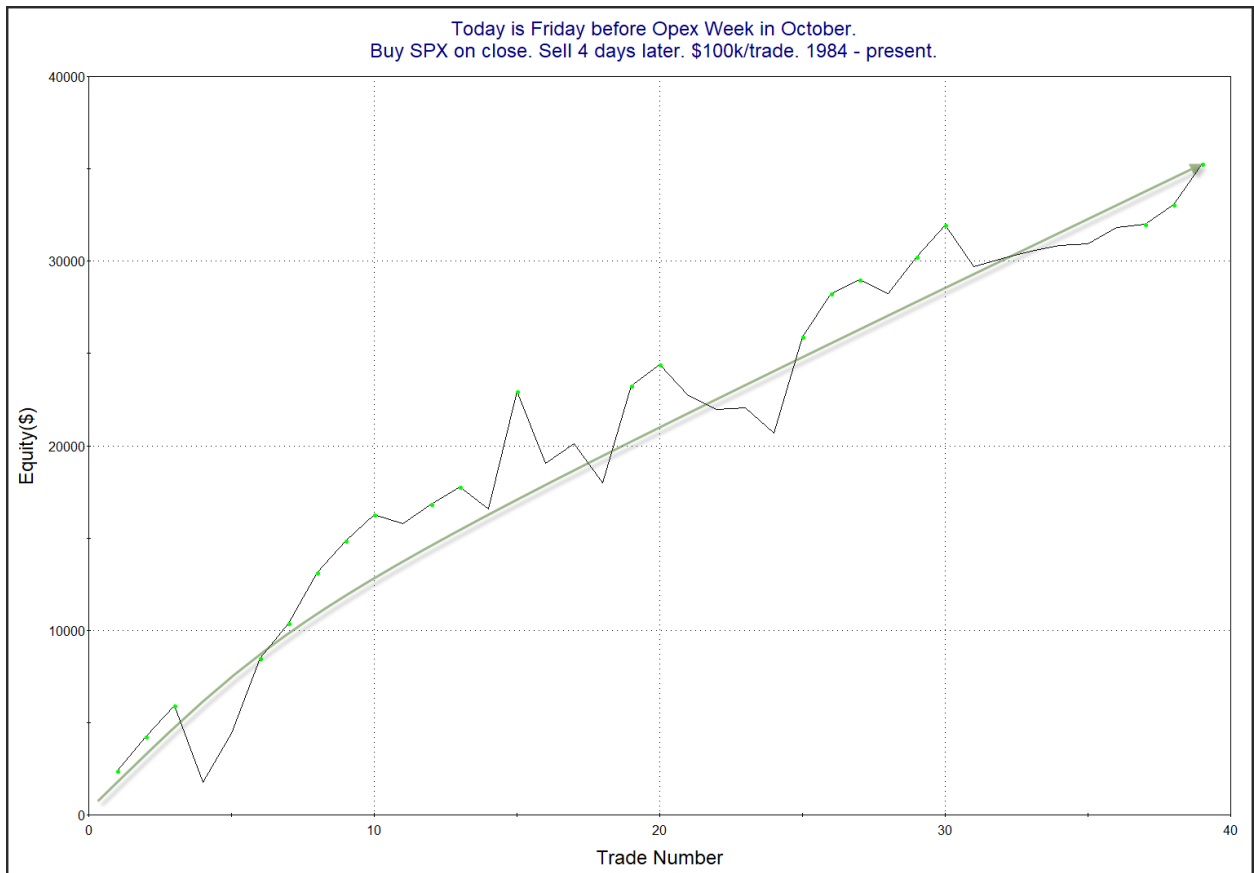
Price action did not manage to generate any compelling studies. But it is notable that next week is options expiration. October Opex has seen the 4th best average gains of any week of the year, looking back to 1985. This can be seen in the chart below, which I copied from the 10/2/23 letter a few weeks ago.

SPX Performance in the Week that Followed the Month and Friday Specified. \$100k/trade. 1985 - present. Top 10 and bottom 11 results shown.													
Month of Year	Fri of Month	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
10	5	20,984.09	16	12	4	75.00	7,184.40	-3,889.28	2,286.54	-1,613.59	1.42	4.25	1,311.51
1	5	15,765.61	17	12	5	70.59	5,169.12	-3,138.72	2,339.80	-2,462.40	0.95	2.28	927.39
4	2	33,419.51	39	25	14	64.10	5,731.96	-3,580.15	2,150.94	-1,453.85	1.48	2.64	856.91
10	2	31,021.62	38	29	9	76.32	7,282.10	-9,109.98	2,011.62	-3,035.03	0.66	2.14	816.36
1	4	30,674.43	39	25	14	64.10	4,860.00	-3,765.16	2,130.70	-1,613.80	1.32	2.36	786.52
5	4	28,943.09	39	26	13	66.67	7,145.28	-2,983.50	1,867.32	-1,508.26	1.24	2.48	742.13
11	4	25,269.90	38	28	10	73.68	7,362.46	-6,830.72	1,481.00	-1,619.80	0.91	2.56	665.00
10	4	25,077.06	38	27	11	71.05	10,485.72	-5,472.04	1,941.62	-2,486.07	0.78	1.92	659.92
5	5	10,062.95	17	11	6	64.71	4,787.84	-3,683.73	1,914.87	-1,833.43	1.04	1.91	591.94
3	4	21,991.19	39	27	12	69.23	4,194.44	-4,297.04	1,482.53	-1,503.10	0.99	2.22	563.88
10	3	-8,435.11	38	19	19	50.00	4,339.20	-12,167.91	1,874.15	-2,318.11	0.81	0.81	-221.98
8	5	-3,886.62	16	8	8	50.00	3,283.38	-4,206.40	1,374.80	-1,860.62	0.74	0.74	-242.91
11	5	-2,801.11	11	7	4	63.64	1,717.40	-4,574.88	952.18	-2,366.60	0.40	0.70	-254.65
9	1	-10,194.98	39	19	20	48.72	3,778.72	-11,038.16	1,710.37	-2,134.60	0.80	0.76	-261.41
6	1	-10,884.35	39	18	21	46.15	4,090.16	-4,984.32	1,189.31	-1,537.71	0.77	0.66	-279.09
6	3	-11,166.54	39	15	24	38.46	6,396.30	-3,626.75	1,510.79	-1,409.52	1.07	0.67	-286.32
10	1	-15,836.87	38	21	17	55.26	5,944.32	-18,000.90	1,849.22	-3,215.92	0.58	0.71	-416.76
7	5	-9,682.89	17	8	9	47.06	2,404.80	-7,153.30	1,213.42	-2,154.47	0.56	0.50	-569.58
2	3	-25,825.41	39	18	21	46.15	2,106.80	-11,122.37	848.98	-1,957.48	0.43	0.37	-662.19
4	5	-7,963.05	11	4	7	36.36	1,247.86	-6,368.04	909.67	-1,657.39	0.55	0.31	-723.91
9	3	-34,208.21	39	10	29	25.64	7,739.42	-6,525.56	1,625.43	-1,740.09	0.93	0.32	-877.13

The study below looks at October Opex from 1984 – present. It is updated from the 10/12/20 letter.

Today is Friday before Opex Week in October. Buy SPX 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	33,323.64	39	30	9	76.92	7,282.10	-9,109.98	2,021.30	-3,035.03	0.67	2.22	854.45
4	35,283.42	39	29	10	74.36	6,383.20	-4,169.79	1,859.75	-1,864.95	1.00	2.89	904.70
3	15,951.34	39	26	13	66.67	3,026.43	-3,734.78	1,266.05	-1,305.08	0.97	1.94	409.01
2	30,900.95	39	26	13	66.67	10,965.69	-1,737.36	1,562.39	-747.79	2.09	4.18	792.33
1	23,631.95	39	27	12	69.23	11,558.43	-1,921.32	1,142.63	-601.59	1.90	4.27	605.95

Results 1-4 days out look solid. I found the profit curve for the 4-day hold the most compelling. It can be found below.



That is an impressive move from lower left to upper right. I have included this study on the active list tonight.

The Seasonality Calendar is also suggesting a bullish seasonal tendency for this upcoming week. (And the rest of October.) The Calendar below is from the Seasonality section of the website.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
10/2/2023	57.39	1.474	0.119
10/3/2023	50.43	0.988	-0.008
10/4/2023	55.83	1.190	0.048
10/5/2023	53.57	0.956	-0.018
10/6/2023	54.26	1.101	0.031
10/9/2023	53.53	0.951	-0.025
10/10/2023	50.58	1.057	0.016
10/11/2023	52.65	0.976	-0.010
10/12/2023	54.67	0.980	-0.011
10/13/2023	54.69	1.204	0.057
10/16/2023	58.45	1.397	0.097
10/17/2023	54.41	1.637	0.153
10/18/2023	54.81	1.369	0.089
10/19/2023	54.06	1.290	0.062
10/20/2023	51.35	1.249	0.048
10/23/2023	55.48	1.259	0.069
10/24/2023	53.91	1.248	0.067
10/25/2023	55.17	1.358	0.100
10/26/2023	57.36	1.418	0.116
10/27/2023	55.44	1.190	0.048
10/30/2023	53.09	1.183	0.049
10/31/2023	51.53	1.171	0.047
Baseline	53.53	1.127	0.043

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



With this weekend's evidence considered, the green Aggregator Line is again above zero. Positive readings mean net expectations are for upside 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 stayed long 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 4396.75 on Monday. That is 1.6% above Friday's close. Therefore, SPX will need to close up at least 1.6% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator formation is bullish. Evidence is pointing to a bounce and there is ample room to the upside before SPX would flip to overbought. Therefore reward/risk appears favorable. I will look to start taking on a small index position on Monday. But it has not been much of a pullback yet. SPX is still above its 10ma. So there could be a bit further to go. Another down day would likely trigger some "Turnaround Tuesday" studies. But for now, I am only willing to take on a small amount of index exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/16– bullish

Combo #1	Combo #2	Combo #3	Combo #4
Long QQQ	Long QQQ	Long QQQ	Long QQQ

Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – ***Updated and Expanded for 2023!*** Signals are long-term in nature. All 4 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. *The Combo Systems did not change this week.*

It was a mixed week for the market. The SPX rose 0.45%, the NASDAQ fell 0.2%, and the Russell 2000 declined 1.5%. The huge bond selloff finally saw a bounce. The US Aggregate Bond ETF (AGG) posted a gain of 1.1%. TLT, the 20-year Treasury Bond ETF, rose 3.3%. Long-term uptrends for the SPX and NASDAQ remain in place. But the Russell 2000 is another story.

A Russell “Death Cross” occurred on Friday. A “Death Cross” is a catchy (though not terribly accurate) term for when the 50-day moving average of a security cross below its 200-day moving average. It is sometimes promoted as a warning of a potential bear market. Of course all bear markets will see this happen at some point, because a bear market is an extended decline. But the real question when considering the implications of the Death Cross are whether it serves any value in *predicting* a more substantial decline. In the past I did an examination of past Russell Death Crosses, and what they meant for the S&P 500. I have updated that study from the 4/24/23 letter below.

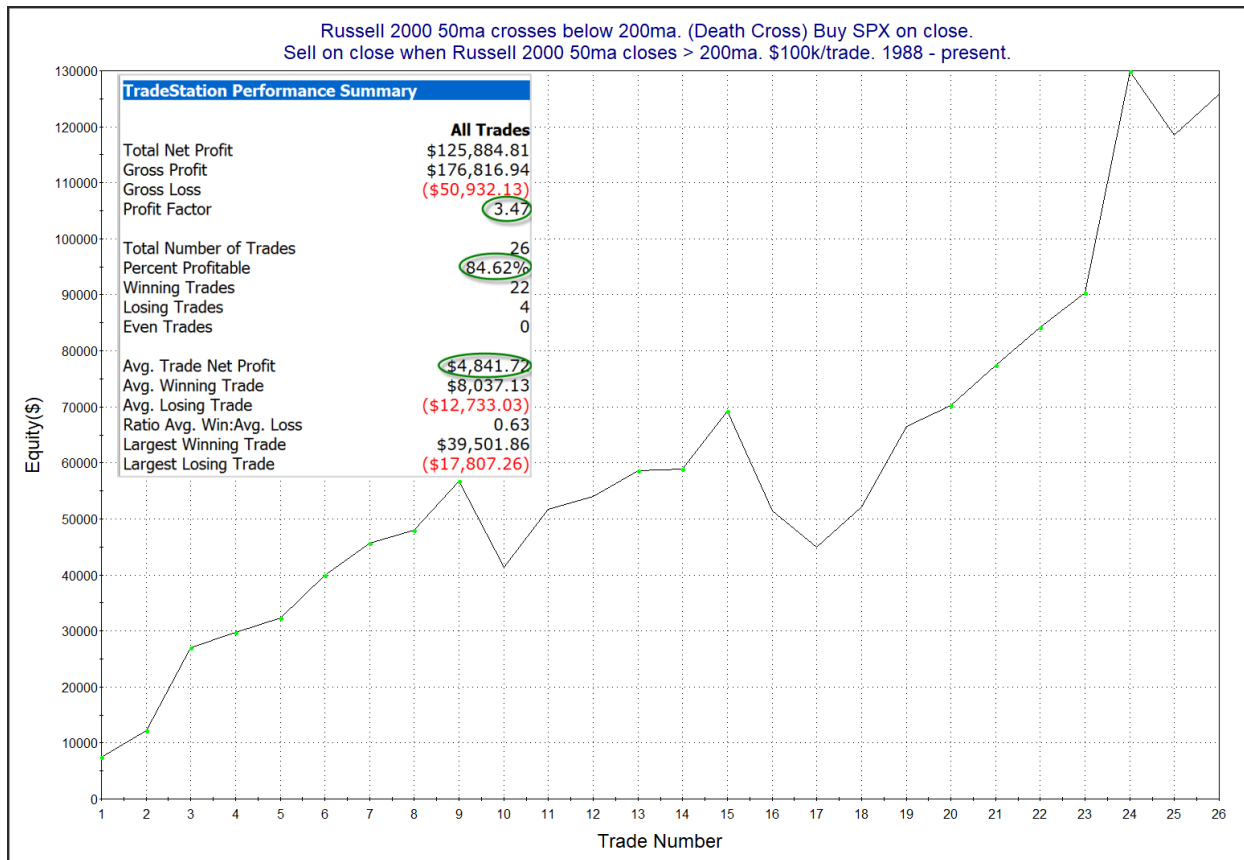
Both of my data sources show Russell data back to late 1987. And since I need 200 days to calculate a 200-day moving average, the earliest the study could look back to was 1988.

Here is the list of all Russell Death Crosses and how the SPX performed from the time of the initial cross until the Russell Death Cross was no longer in effect (meaning the 50-day moving average closed back above the 200-day moving average).

Russell 2000 50ma crosses < 200ma.(Death Cross) Buy SPX on close.
 Sell on close when Russell 50ma closes > 200ma. \$100k/trade. 1988 - now

Date	Signal	Price	% Profit	Runup/ Drawdown
12/13/1988	Buy	\$276.31	7.52%	\$7,949.22
2/1/1989	Sell	\$297.09		(\$902.50)
12/18/1989	Buy	\$343.68	4.79%	\$7,279.00
7/3/1990	Sell	\$360.15		(\$6,916.50)
8/17/1990	Buy	\$327.83	14.66%	\$15,805.10
3/7/1991	Sell	\$375.89		(\$10,162.60)
7/16/1992	Buy	\$417.54	2.79%	\$2,834.54
11/25/1992	Sell	\$429.18		(\$4,956.86)
5/23/1994	Buy	\$453.20	2.58%	\$5,365.80
10/21/1994	Sell	\$464.89		(\$2,941.40)
11/25/1994	Buy	\$452.29	7.65%	\$8,154.90
2/23/1995	Sell	\$486.91		(\$2,079.61)
9/3/1996	Buy	\$654.73	5.81%	\$6,093.68
10/3/1996	Sell	\$692.78		(\$887.68)
5/16/1997	Buy	\$829.75	2.23%	\$2,654.40
5/30/1997	Sell	\$848.28		(\$400.80)
7/30/1998	Buy	\$1,142.86	8.83%	\$12,247.86
2/8/1999	Sell	\$1,243.77		(\$19,101.72)
9/29/2000	Buy	\$1,436.48	-15.46%	\$1,265.46
6/15/2001	Sell	\$1,214.36		(\$24,515.01)
9/17/2001	Buy	\$1,038.77	10.28%	\$13,267.20
1/11/2002	Sell	\$1,145.60		(\$9,025.92)
7/15/2002	Buy	\$917.93	2.33%	\$5,083.56
5/14/2003	Sell	\$939.28		(\$16,120.08)
8/5/2004	Buy	\$1,080.70	4.61%	\$5,644.20
11/2/2004	Sell	\$1,130.56		(\$1,838.16)
5/25/2005	Buy	\$1,190.01	0.37%	\$2,484.72
7/1/2005	Sell	\$1,194.44		(\$143.64)
7/21/2006	Buy	\$1,240.29	10.35%	\$10,606.40
10/20/2006	Sell	\$1,368.60		\$0.00
9/5/2007	Buy	\$1,472.29	-18.05%	\$6,954.60
9/18/2008	Sell	\$1,206.51		(\$22,698.93)
10/8/2008	Buy	\$984.94	-6.47%	\$5,996.37
6/19/2009	Sell	\$921.23		(\$32,133.15)
7/28/2010	Buy	\$1,106.13	7.19%	\$8,100.90
10/25/2010	Sell	\$1,185.62		(\$5,978.70)
8/12/2011	Buy	\$1,178.81	14.52%	\$14,463.96
2/8/2012	Sell	\$1,349.96		(\$8,739.36)
9/22/2014	Buy	\$1,994.29	3.83%	\$4,259.00
12/19/2014	Sell	\$2,070.65		(\$8,681.50)
9/2/2015	Buy	\$1,948.86	7.25%	\$8,548.62
5/26/2016	Sell	\$2,090.10		(\$7,076.76)
11/14/2018	Buy	\$2,701.58	6.75%	\$9,344.35
5/7/2019	Sell	\$2,884.05		(\$13,135.00)
10/3/2019	Buy	\$2,910.63	6.23%	\$6,527.32
11/12/2019	Sell	\$3,091.84		(\$610.98)
3/19/2020	Buy	\$2,409.39	39.99%	\$40,118.50
8/14/2020	Sell	\$3,372.85		(\$8,918.73)
1/19/2022	Buy	\$4,532.76	-11.40%	\$2,299.88
1/25/2023	Sell	\$4,016.22		(\$22,905.96)
4/21/2023	Buy	\$4,133.52	7.40%	\$7,799.04
7/11/2023	Sell	\$4,439.26		(\$2,045.76)

Twenty-two winners. Only four losers. So 85% of the “predictions” were wrong. The biggest winner of the group came in 2020. The most recent instance, from earlier this year, saw a nice rally from April into July. Here is a look at the summary stats and a profit curve for this setup.



I am having a hard time seeing the Russell 2000 Death Cross as a bearish indication. You would have a much easier time convincing me this is a bullish indication for the intermediate-term. (I don't really view it as bullish though. Drawdowns were generally sizable, even for a good portion of the “winners”.)

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

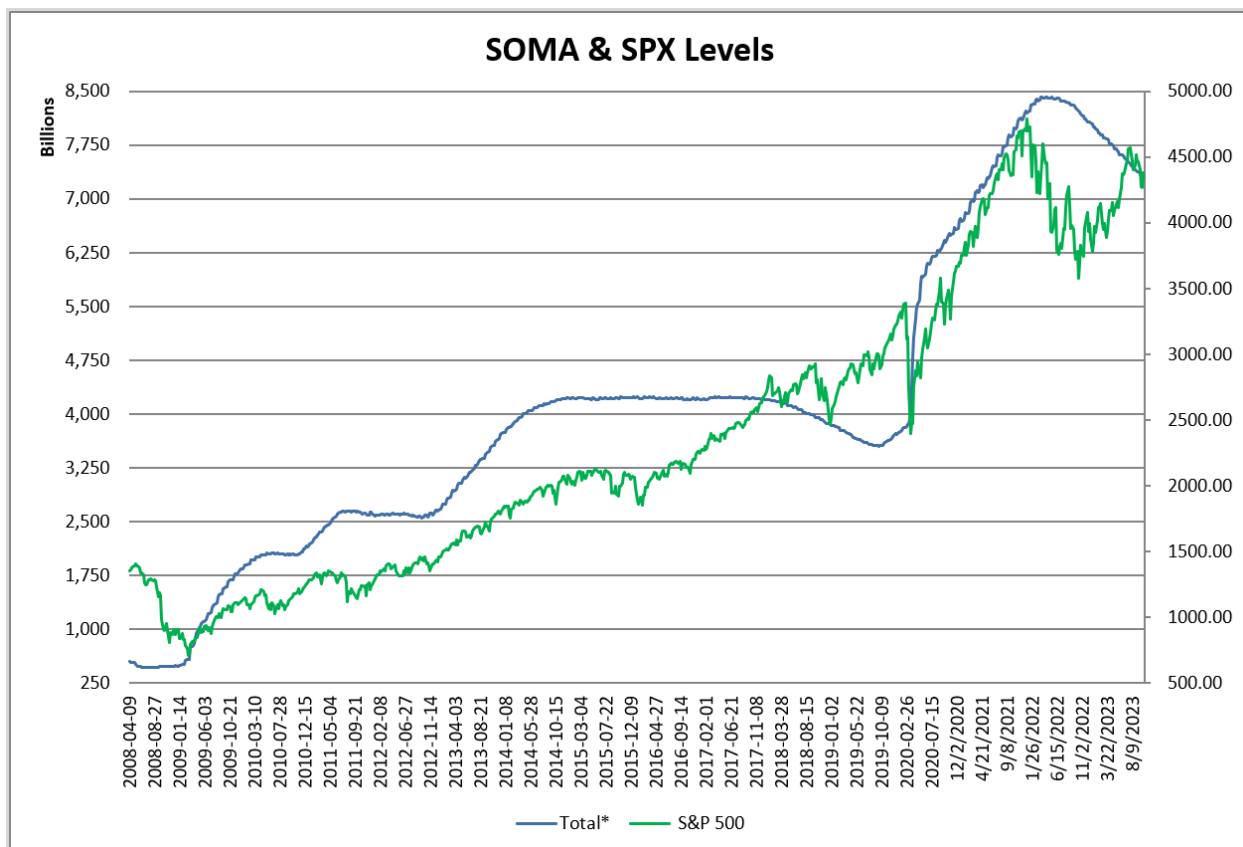
Domestic Security Holdings as of

◀ Previous **October 11, 2023** 📅
Posted October 12, 2023 at 4:30 PM

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

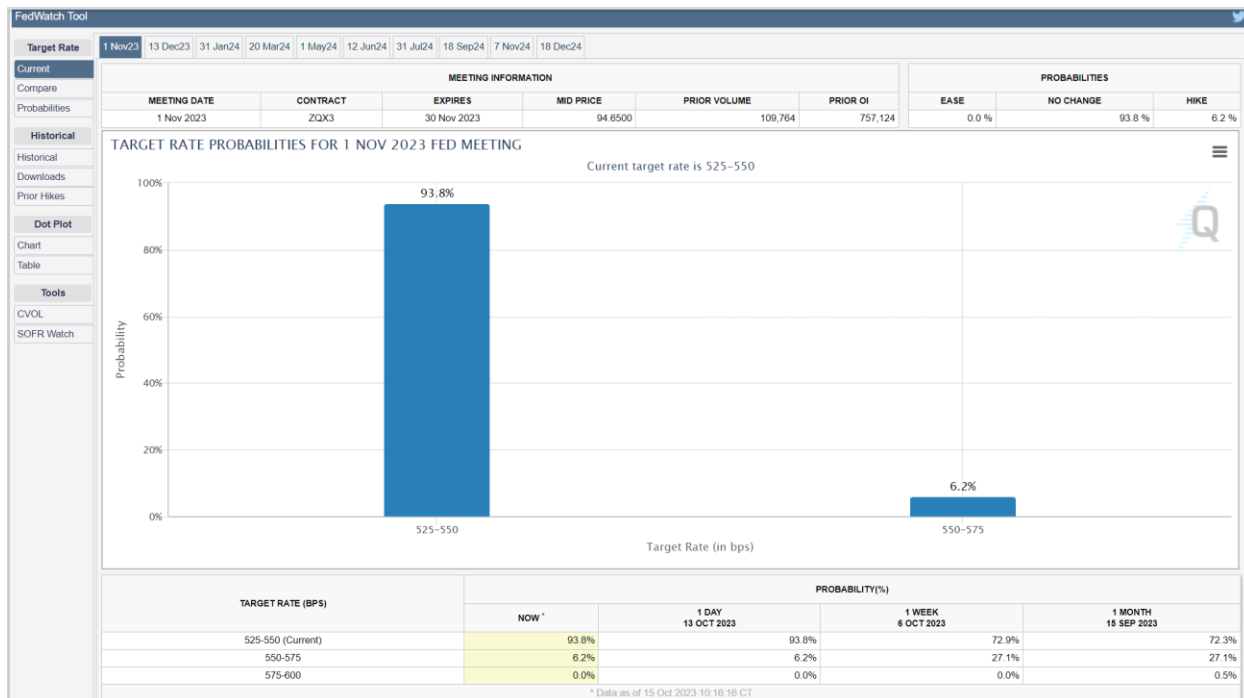
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	236,159,998.9
US Treasury Notes and Bonds (Notes/Bonds)	4,197,645,997.8
US Treasury Floating Rate Notes (FRNs)	17,770,390.6
US Treasury Inflation-Protected Securities (TIPS)*	365,380,447.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,471,406,562.7
Agency Commercial Mortgage-Backed Securities***	8,319,556.5
Total SOMA Holdings	7,299,029,953.9
Change From Prior Week	-2,372,554.8

As we expected, there was a modest drop in the SOMA this past week, coming in at \$2.4 billion. For the current week, I expect to see a much larger decline. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is in the midst of what is now the largest ever reduction in the size of the SOMA. The pace of the decline is high and the Fed has given no indication that it is planning to dial back Quantitative Tightening (QT) anytime soon. SPX is about breakeven since QT began in early 2022. Looking back to 2003, the market has posted net mild losses during times that the SOMA was shrinking. The gains have all come during periods that the SOMA was growing. The shrinking SOMA remains a headwind for the market.

With regards to rates, odds of additional hike at the November meeting decreased quite a bit this week. Odds of an increase currently stand at about 6%, which is down from 27% last week. This can be seen in the screenshot below of the CME Fedwatch Tool:



The Fed remains “data dependent”. But there is not much time between now and Nov 1, so another increase seems unlikely. December is another story. Odds there suggest a 29% chance of a rate hike. We will see how that changes over the next couple of months.

Nothing occurred this week to take me off my bullish bias. The Russell Death Cross certainly does not deter me. Bullish studies still dominate the active list. The NASDAQ leading continues to be favorable. The SPX and NASDAQ remain above their long-term moving averages, so the longer-term trends still appear up. Combined with the fact that we are in a favorable part of the Presidential Cycle, this has all 4 Combo Models from the Market Timing Course leaning long QQQ. Still, there remain challenges for the bulls. The Fed remains hawkish and that is the largest headwind the market is facing. And while the Seasonality Calendar looks bullish, October has seen some wild swings in the past. The political and geopolitical atmosphere has also become substantially more volatile in the past couple of weeks. But while significant risks remain, most of the current evidence is bullish. So that is where I will keep my intermediate-term bias. I am willing to take short-term trades in either direction but will be more aggressive with longs and more conservative with short trades.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

BMY – 1/3 @ \$56.42 (bought @ limit)

Broad Market Large Cap CBI – 1(BMY)

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.

SPY – Buy ¼ index position @ \$431.50 LIMIT. Based on the short-term outlook above, I will look to get long some SPY if I can get filled at Friday's close or better.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
BMY(1/3)	10/6/2023	\$56.25	\$56.47	0.39%	Catapult

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