

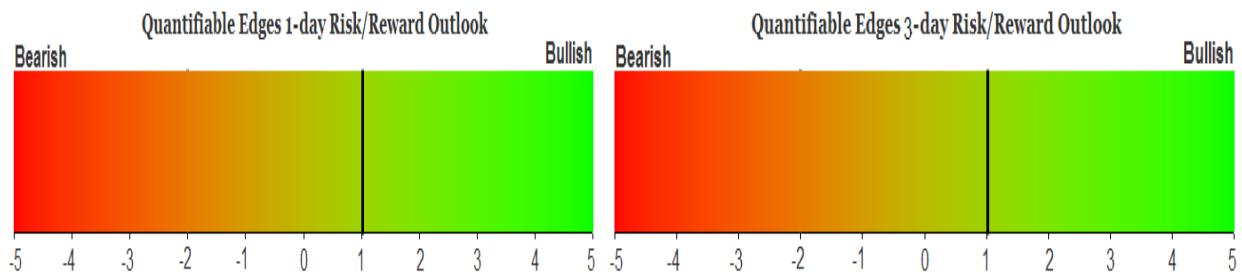
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 23, 2023

Volume 16 Issue 202

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Compelling short-term evidence is lacking.
- SPX would likely be showing a bullish edge if the CBI was not dormant, but it is stuck at 0.
- The SPX closed at an intermediate-term low, and below the 200ma.
- The week after October opex has historically seen high volatility in both directions.
- The SOMA continues to drop substantially. Rate increase odds are getting low. Overall Fed policy remains hawkish.
- The NASDAQ fell into a lagging position vs the SPX. This is generally an unfavorable condition.

Short-term Outlook

The Bottom Line

Evidence is lacking. The market is strongly oversold, but I am not seeing strong indications of an immediate bounce. So risks are elevated.

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						
None						
Active - Long Term						
October 23, 2023	NASDAQ Lagging	int term	Neutral			
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			

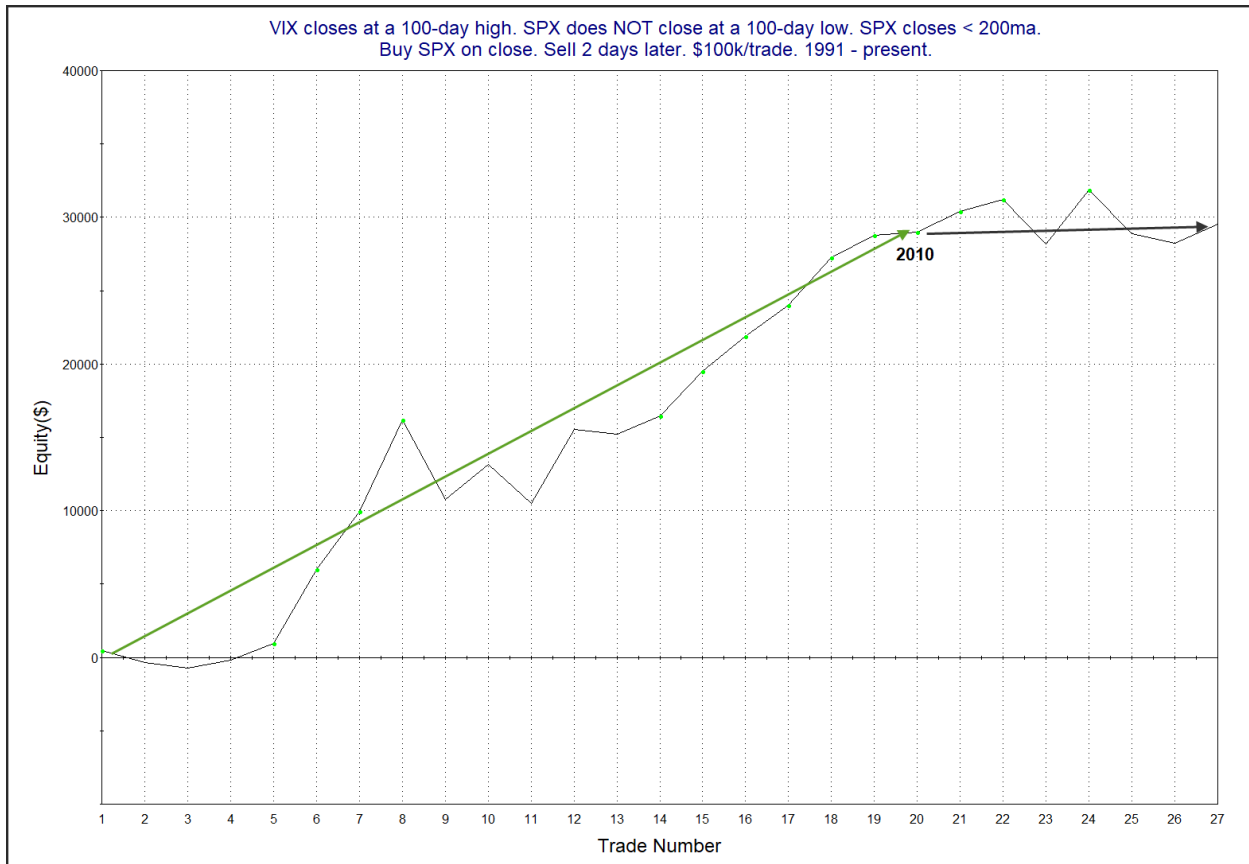
The Evidence

Friday was more pain for the bulls. The SPX closed down 1.3%, the NASDAQ lost 1.5%, and the Russell 2000 fell 1.3%. Breadth was negative with the NYSE Up Issues % coming in at 27% and the Up Volume % at 20%. NYSE total volume spiked higher as it typically does on opex Friday.

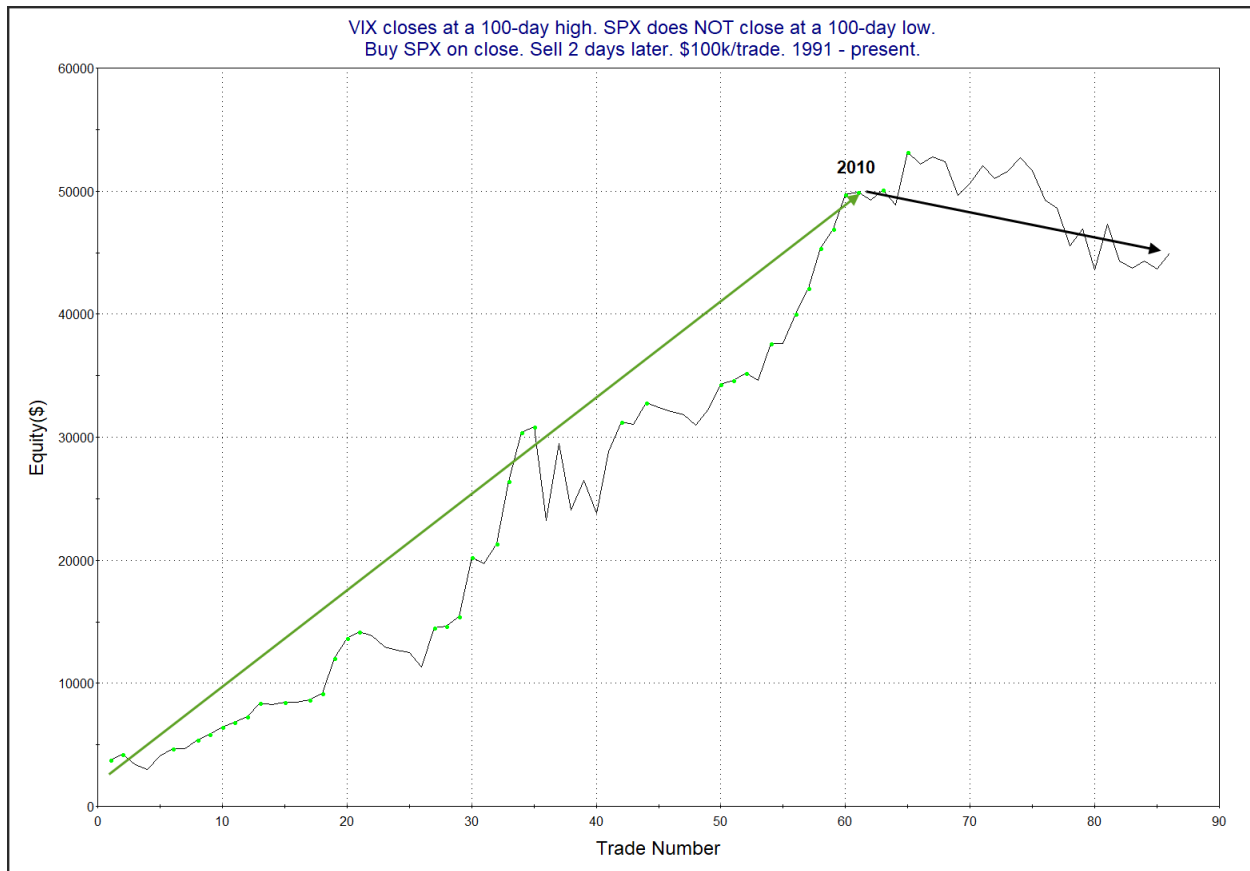
There was a surprising lack of bullish evidence that emerged, considering the pullback we have seen lately. One study that initially looked somewhat promising is the one below, which was last seen in the 3/2/22 letter.

VIX closes at a 100-day high. SPX does NOT close at a 100-day low. SPX closes < 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 1991 - 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	14,634.59	25	15	10	60.00	9,157.20	-11,533.34	3,481.16	-3,758.28	0.93	1.39	585.38
4	6,469.73	25	15	10	60.00	8,810.76	-16,227.09	3,493.98	-4,594.00	0.76	1.14	258.79
3	16,109.40	26	19	7	73.08	8,432.34	-7,622.67	2,332.70	-4,030.26	0.58	1.57	619.59
2	29,523.73	27	19	8	70.37	6,245.15	-5,441.80	2,414.24	-2,043.36	1.18	2.81	1,093.47
1	23,444.48	31	20	11	64.52	4,754.10	-7,451.73	2,244.04	-1,948.76	1.15	2.09	756.27

The stats table suggests a possible upside edge. But the curves were not as rosy. Below is a look at the 2-day profit curve.



As you can see, there have been very few instances, and no progress over the last 13 years. Of course we are only just barely below the 200ma, and just for one day so far. So I also decided to look and see how this study would look without that filter.



This is even less encouraging. I am not inclined to rely on this study as a bullish indication at the time being.

Another concern about calling for a quick bounce is that the Quantifiable Edges Capitulative Breadth Indicator (CBI) remains at 0. I found in the past that a lack of capitulation among individual issues will reduce the chances of a quick bounce. Below are a couple of studies that demonstrate this. They look at fresh breakdowns to 50-day lows. The 1st shows times when the CBI was at 0. The 2nd study shows CBI readings of 5 or higher.

SPX closes at a 50-day low after not having done so for at least 10 days. Quantifiable Edges CBI = 0.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	-9,748.76	15	7	8	46.67	3,410.03	-6,440.08	1,726.69	-2,729.45	0.63	0.55	-649.92
4	-8,255.65	15	8	7	53.33	3,016.44	-10,632.61	1,575.11	-2,979.51	0.53	0.60	-550.38
3	-2,529.39	15	9	6	60.00	2,970.24	-4,318.93	1,254.09	-2,302.70	0.54	0.82	-168.63
2	-2,613.50	15	7	8	46.67	2,660.40	-4,264.42	1,155.48	-1,337.74	0.86	0.76	-174.23
1	-3,042.87	15	6	9	40.00	1,455.75	-2,358.50	795.60	-868.50	0.92	0.61	-202.86

SPX closes at a 50-day low after not having done so for at least 10 days. Quantifiable Edges CBI >= 5.
Buy SPX on close. Sell X days later. \$100k/trade. 1995 - 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	41,143.24	26	17	9	65.38	9,975.30	-3,870.04	3,165.33	-1,407.49	2.25	4.25	1,582.43
4	27,633.59	26	17	9	65.38	6,249.63	-2,598.00	2,369.64	-1,405.59	1.69	3.18	1,062.83
3	21,608.49	26	18	8	69.23	5,563.29	-5,393.69	2,091.19	-2,004.12	1.04	2.35	831.10
2	4,799.62	26	13	13	50.00	3,585.76	-4,632.95	1,477.72	-1,108.52	1.33	1.33	184.60
1	-958.01	26	15	11	57.69	2,886.27	-6,659.22	1,138.60	-1,639.72	0.69	0.95	-36.85

The numbers differ greatly. With a CBI of 0, there is no upside edge.

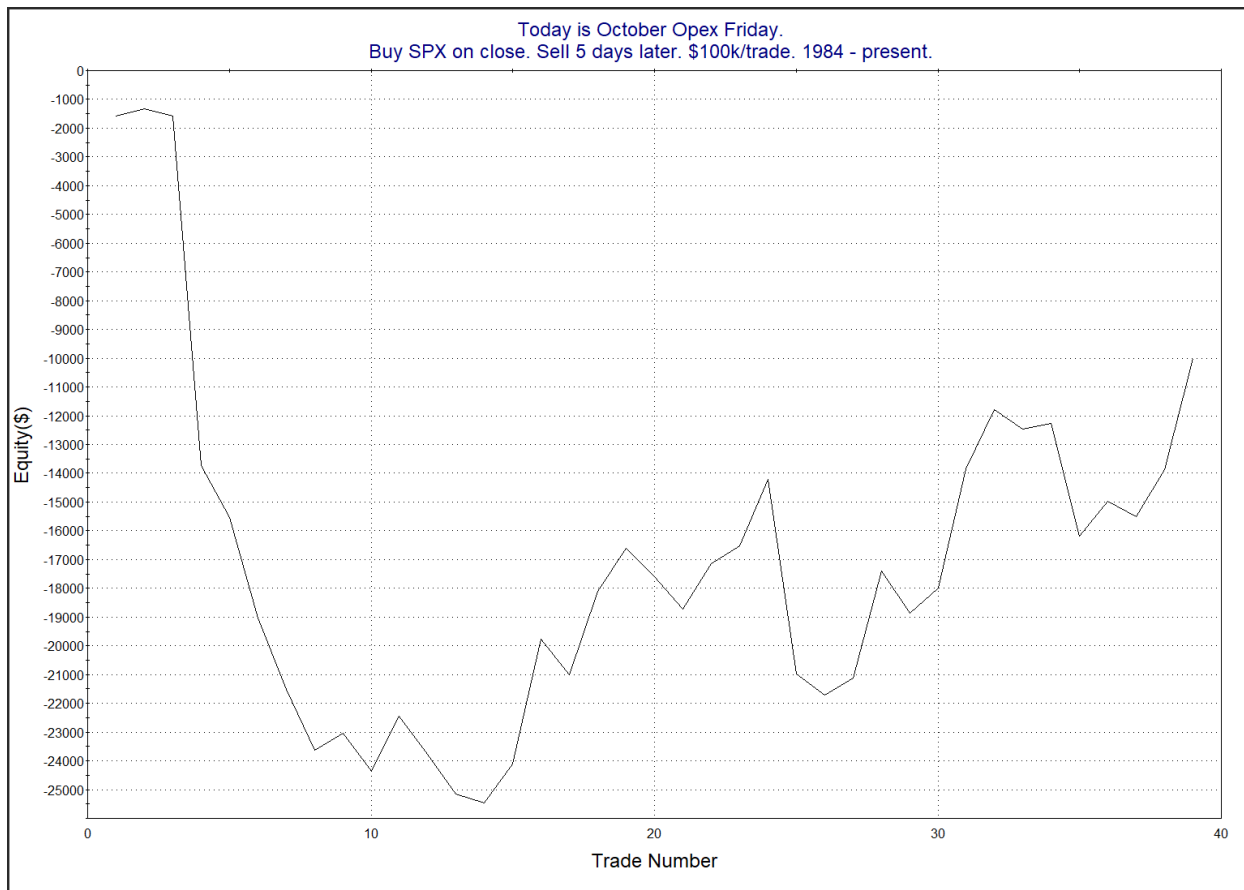
Traders might also be curious about the fact that we have closed down several days in a row to get to this 50-day low. Below is a look at other times this has happened with SPX below its 200ma on a Friday.

SPX closes down for at least the 3rd day in a row and at a 50-day low and < 200ma. It is Friday.
Buy on close. Sell X days later. \$100k/trade. 1995 - 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	-2,809.43	27	17	10	62.96	7,739.42	-18,000.90	2,820.57	-5,075.91	0.56	0.94	-104.05
4	-8,718.61	27	15	12	55.56	5,439.43	-17,037.90	2,414.04	-3,744.10	0.64	0.81	-322.91
3	-4,500.26	27	12	15	44.44	5,804.70	-10,286.10	2,786.12	-2,528.91	1.10	0.88	-166.68
2	-1,413.15	27	15	12	55.56	10,965.69	-9,270.00	2,057.39	-2,689.50	0.76	0.96	-52.34
1	-3,145.18	27	17	10	62.96	11,558.43	-6,760.90	1,596.04	-3,027.79	0.53	0.90	-116.49

It is basically just one study after another saying a potential bounce right now seems unreliable. None of these numbers are bearish either. Just unreliable.

So we have an unreliable setup and volatility is already high. It is also notable that we are going into a week with traditionally high volatility. Below is a look at 5-day performance following opex Friday in October.



That early 12% drop was the Crash of '87 week. Since the late 90s we have actually seen decent gains. But there has still been wild chop in both directions. The average winning week has risen 1.9% and the average losing week has lost 2.3%. Those are sizable average 1-week moves. This suggests we are also in a time of elevated risk.

The QE Seasonality Calendar is the one bright spot.

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

So I guess that is encouraging. But it is not nearly enough to get me excited all on its own.

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



With the lack of compelling short-term evidence we are seeing, the green Aggregator Line finished right at zero. Zero readings mean net expectations are flat for the next few days. Meanwhile the black Differential Line closed far above zero. The positive Differential Line reading means that SPX is strongly oversold versus recent expectations. So expectations are flat and SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator formation turned flat at the close.

With the short-term evidence lacking and the intermediate-term outlook now neutral. Expectations over the next few days will be dependent on any new evidence that emerges. Meanwhile, the Differential Pivot will be 4333.97 on Monday. That is 2.6% above Friday's close. Therefore, SPX will need to close up over 2.6% on Monday in order to flip from oversold to overbought vs recent expectations. That's unlikely. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator formation is neutral. I believe reward/risk does favor the bulls slightly here, being as oversold as the market is. But evidence is certainly lacking. I took a small amount of long exposure at the close on Friday, based on Thursday's bullish Aggregator formation. I will look to

exit that on Monday if we see a decent sized gap higher in the morning, or if the market closes positive. I'm not inclined to just exit otherwise. While we don't have compelling bullish evidence right now, I think there is a good chance some "Turnaround Tuesday" studies trigger if SPX closes down again on Monday. So the Aggregator could quickly turn bullish again early this week.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/23– neutral

Combo #1	Combo #2	Combo #3	Combo #4
Long SPY	Long SPY	Flat	Long SPY

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 all saw changes this week.*

It was a tough week for the market. The SPX fell 2.4%, the NASDAQ tumbled 3.2%, and the Russell 2000 declined 2.3%. Bonds were just as bad. The US Aggregate Bond ETF (AGG) posted a loss of 1.75%. TLT, the 20-year Treasury Bond ETF, crumbled 5.0% and made new multi-year lows. The SPX closed below its 200-day moving average, and the Russell 2000 is now very close to breaking below its 2022 lows. So the long-term market trend is now questionable.

A few weeks ago the NASDAQ took the lead according to our NASDAQ/SPX Relative Leadership indicator. But this week it flipped back to SPX leading and NASDAQ lagging. This can be seen in the chart below.



The movement of the green line (which is about to turn red) below the blue line is our indication that the NASDAQ is in a lagging position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

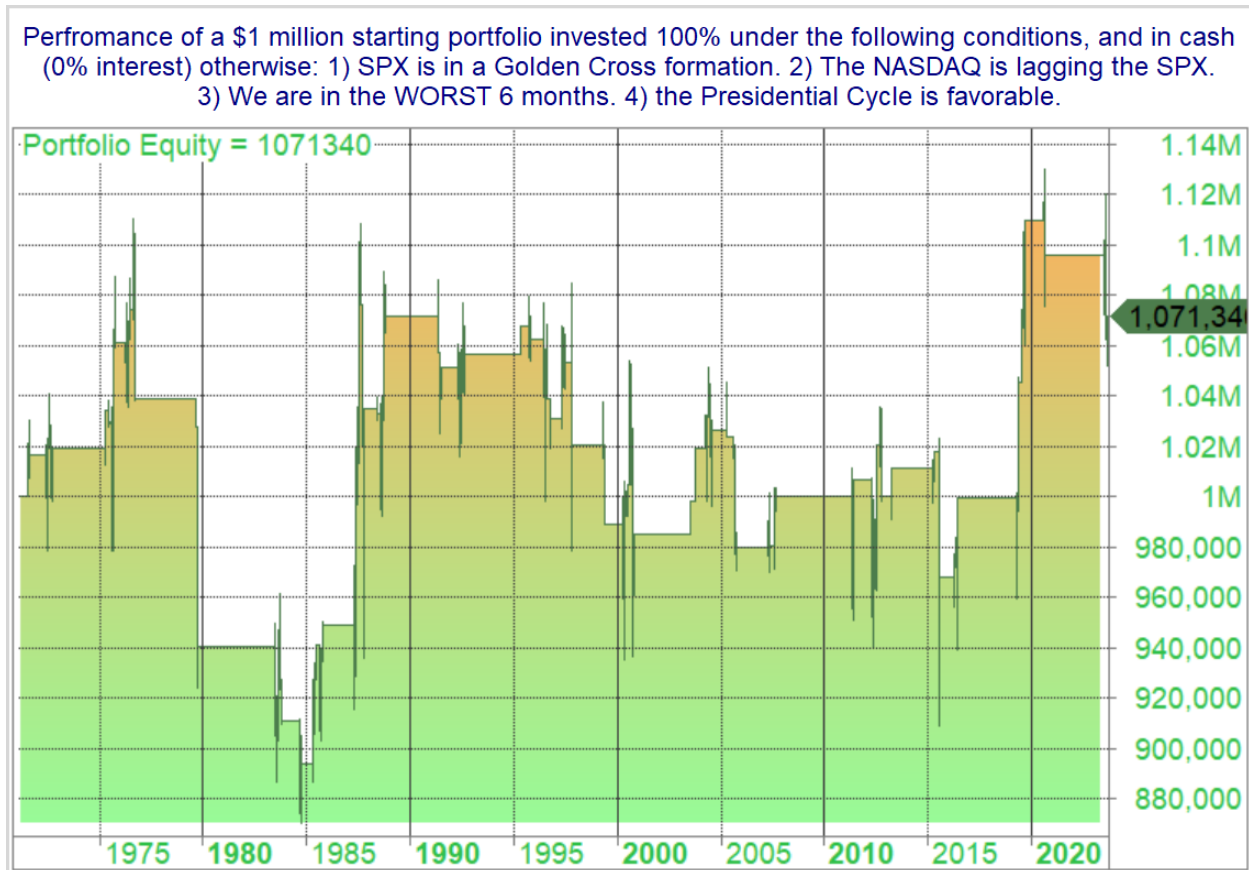
Historical Compound Returns of \$100,000 Starting Portfolio Using the NASDAQ/SPX Relative Strength Indicator as a Filter. 12/31/71 - 10/20/23.

	Compound Annual Growth Rate	Max Drawdown	End Value of \$100,000
S&P 500 Index	7.44%	-56.78%	\$4,137,682.54
SPX when NASDAQ lags	-0.13%	-67.21%	\$93,505.56
SPX when NASDAQ leads	7.58%	-33.92%	\$4,425,065.62
NASDAQ Composite	9.56%	-77.93%	\$11,377,330.58
NASDAQ when lagging	-1.60%	-85.53%	\$43,268.53
NASDAQ when leading	11.43%	-40.62%	\$26,194,697.75
NASDAQ when leading (with interest when in cash)*	13.94%	-37.64%	\$83,314,004.99

*interest on cash calculated at historical 30-day Fed Funds rate

More on this indicator can be found in the Market Timing Course.

I decided also to take a look at how the market has done when all original 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX “Golden Cross” in effect, 3) favorable Presidential Cycle, and 4) “Worst” 6 months in effect. Below is a chart showing SPX performance during this alignment.



This curve has not made any real progress in the last 45-50 years. Not very encouraging. So despite several of the Combo models being on a buy signal, the configuration seems to be barely bullish if at all. Of course we only have a max of a week and a half left of this configuration. And then we will be moving into the “Best 6 Months” of the year.

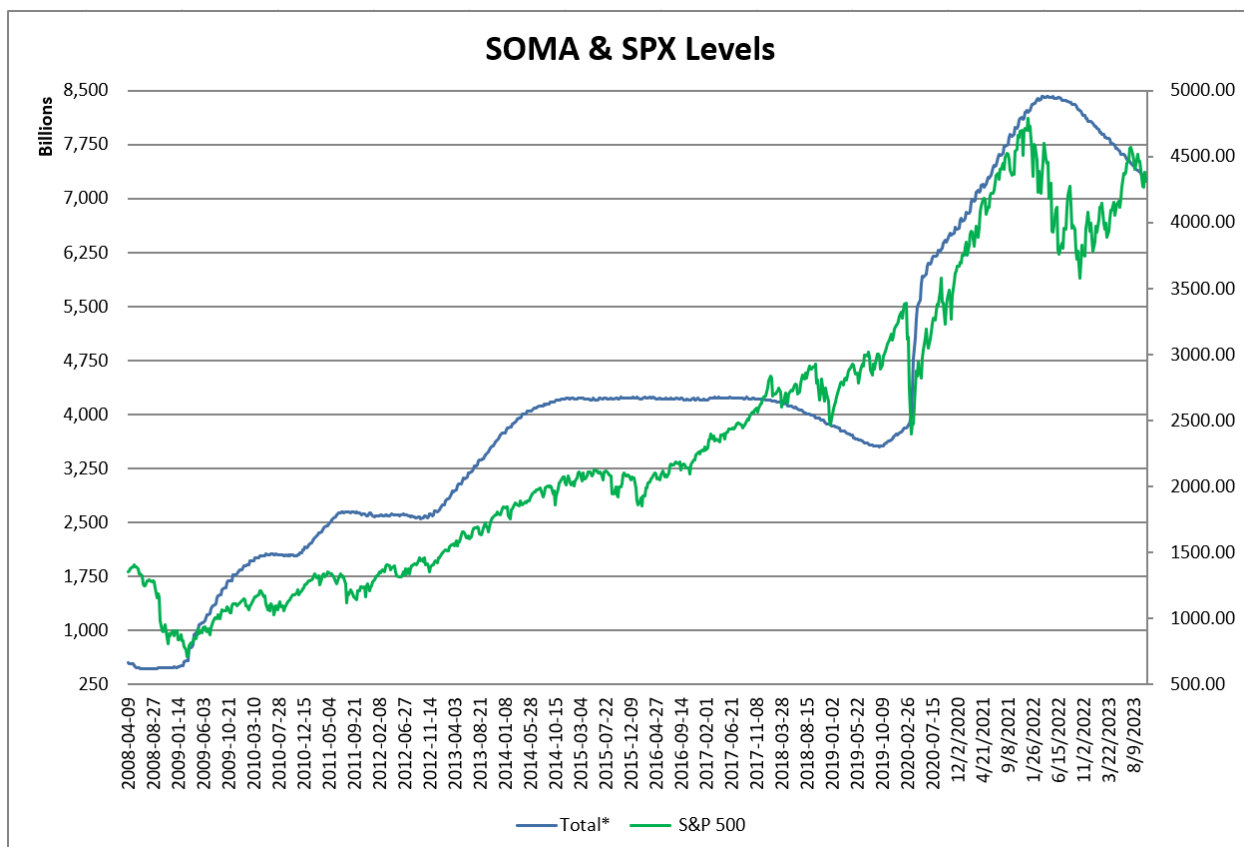
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
 ◀ Previous **October 18, 2023** 📅
 Posted October 19, 2023 at 4:30 PM

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

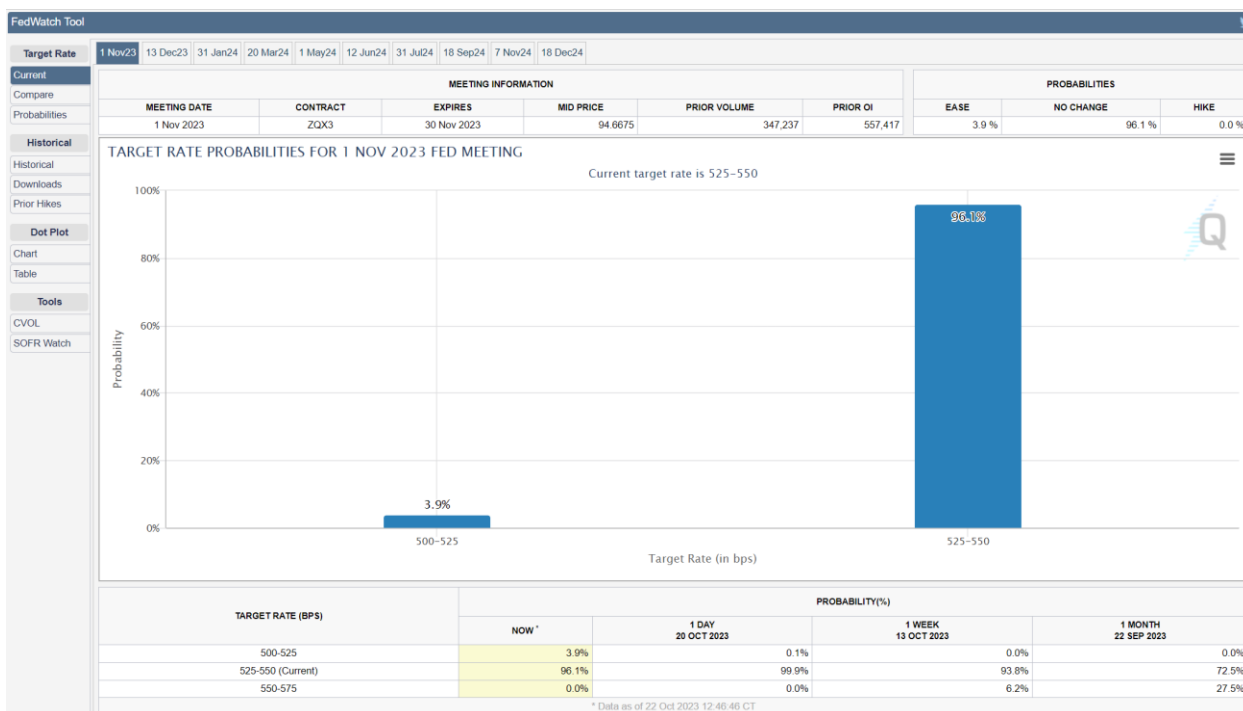
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	234,531,044.9
US Treasury Notes and Bonds (Notes/Bonds)	4,183,755,415.9
US Treasury Floating Rate Notes (FRNs)	17,770,390.6
US Treasury Inflation-Protected Securities (TIPS)*	365,380,447.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,471,339,432.3
Agency Commercial Mortgage-Backed Securities***	8,312,359.3
Total SOMA Holdings	7,283,436,090.4
Change From Prior Week	-15,593,863.5

As we expected, there was a sizable drop in the SOMA this past week, coming in at \$15.6 billion. For the current week, I expect to see a more modest decline. Then we should see another sizable decline the following week. 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 are now showing a 96% chance that the Fed holds rates steady, and a 4% chance that they CUT rates. This can be seen in the screenshot below of the CME Fedwatch Tool:



The Fed remains “data dependent”. But there is not much more data to come out between now and Nov 1. December is another story. Odds there are scattered. They suggest a 24% chance of a rate hike, a 73% chance that the Fed holds, and a 3% chance of a cut. That will obviously fluctuate in the coming weeks.

So we saw a few things occur this week that hurt the bullish case. For one, the NASDAQ fell into a lagging position versus the SPX. Additionally, the SPX made new closing lows in the move

lower it has undergone since July. It also closed below its 200ma for the 1st time since March. We do still have a Golden Cross in effect. But with SPX below its 50ma and 200ma and making new intermediate-term lows, the long-term trend is questionable at best. Of course the hawkish Fed policy remains perhaps the largest headwind the market is facing. Bulls do have a study in effect from earlier this month. And seasonality will be improving further when November arrives. But right now, there just is not enough bullish evidence to maintain a bullish stance. I have switched my intermediate-term bias back to neutral. This means I will be willing but conservative when considering short-term trades in either direction.

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.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	10/20/2023	\$421.19	\$421.19	0.00%	see note below

Note: I will look to sell my SPY position @ \$421.75 LIMIT ON OPEN. If not filled on open, I will look to sell @ \$421.20 LIMIT ON CLOSE.

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