

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

October 30, 2023

Volume 16 Issue 207

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	9

Tonight's Research Points

- Monday has poor seasonality, but the rest of the week looks seasonally strong.
- The 3-day pullback to a new intermediate-term low is suggested a bounce on Monday.
- The SPX Seasonality Calendar for November looks solidly bullish.
- The SOMA declined a substantial amount again this past week, and the Fed remains a large headwind for the market.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. More evidence is pointing higher and SPX is strongly oversold, making reward/risk look favorable for the bulls.

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 30, 2023	4th Friday in October	1 day	Bearish			
October 30, 2023	Dn 3 to 20-low < 200ma. Mild drop today	1 day	Bullish			
October 27, 2023	SPX 50-low < 200. CBI between 7-9.	1-7 days	Bullish	4.80%	-2.85%	-5.80%
October 24, 2023	5 down days & close < 200ma	1-8 days	Bullish	4.30%	-2.05%	-4.85%
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			

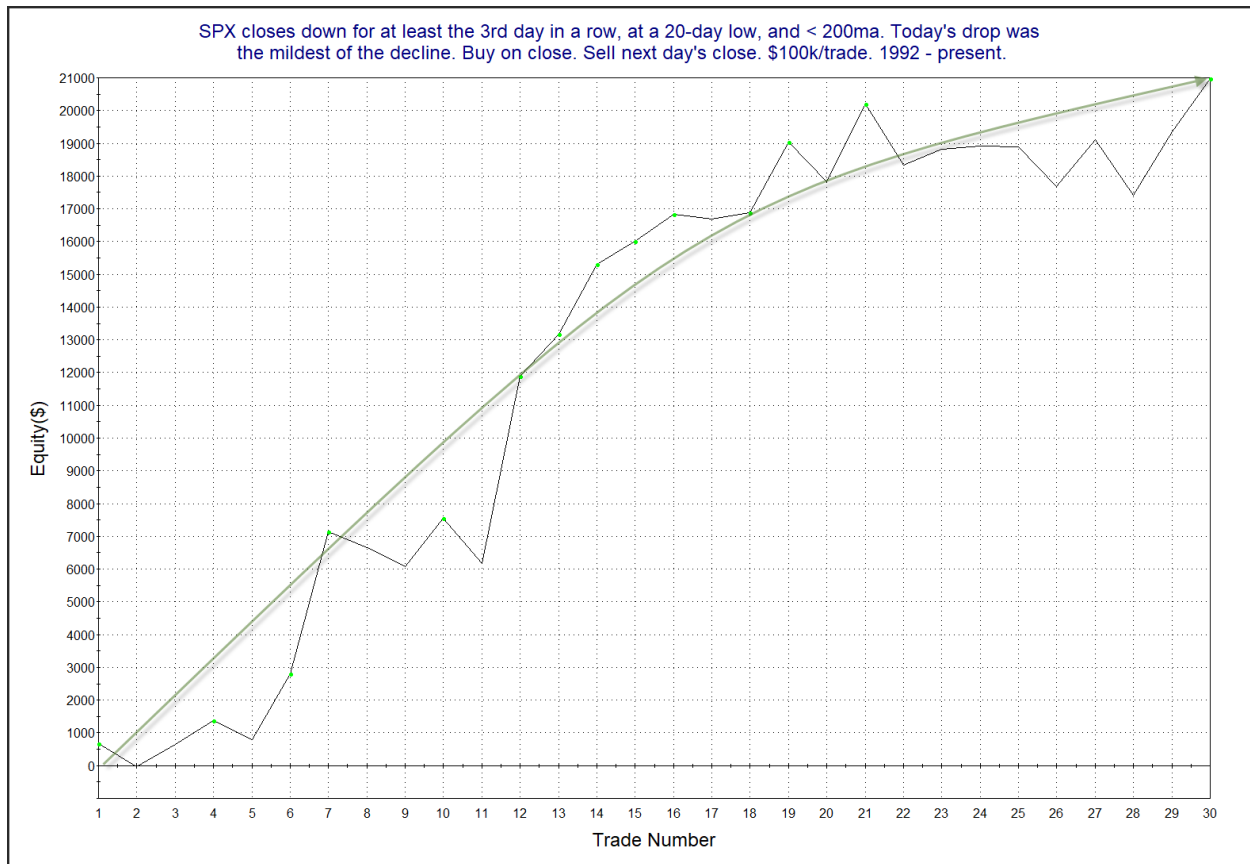
The Evidence

Friday was mostly lower for the indices. The SPX dropped 0.5%, the NASDAQ rose 0.4%, and the Russell 2000 fell 1.2%. Breadth was weak with the NYSE Up Issues % coming in at 26% and the Up Volume % at 18%. NYSE total volume declined some from Thursday's level.

There were a few studies that looked at the 3-day pullback and certain characteristics of it that suggested a possible upside edge. The fact that Tuesday's drop was the mildest of the decline was one of those characteristics. The study below is from the 11/16/21 Letter and it combined the mild decline with the fact that the SPX also closed at a 20-day low. Results are updated.

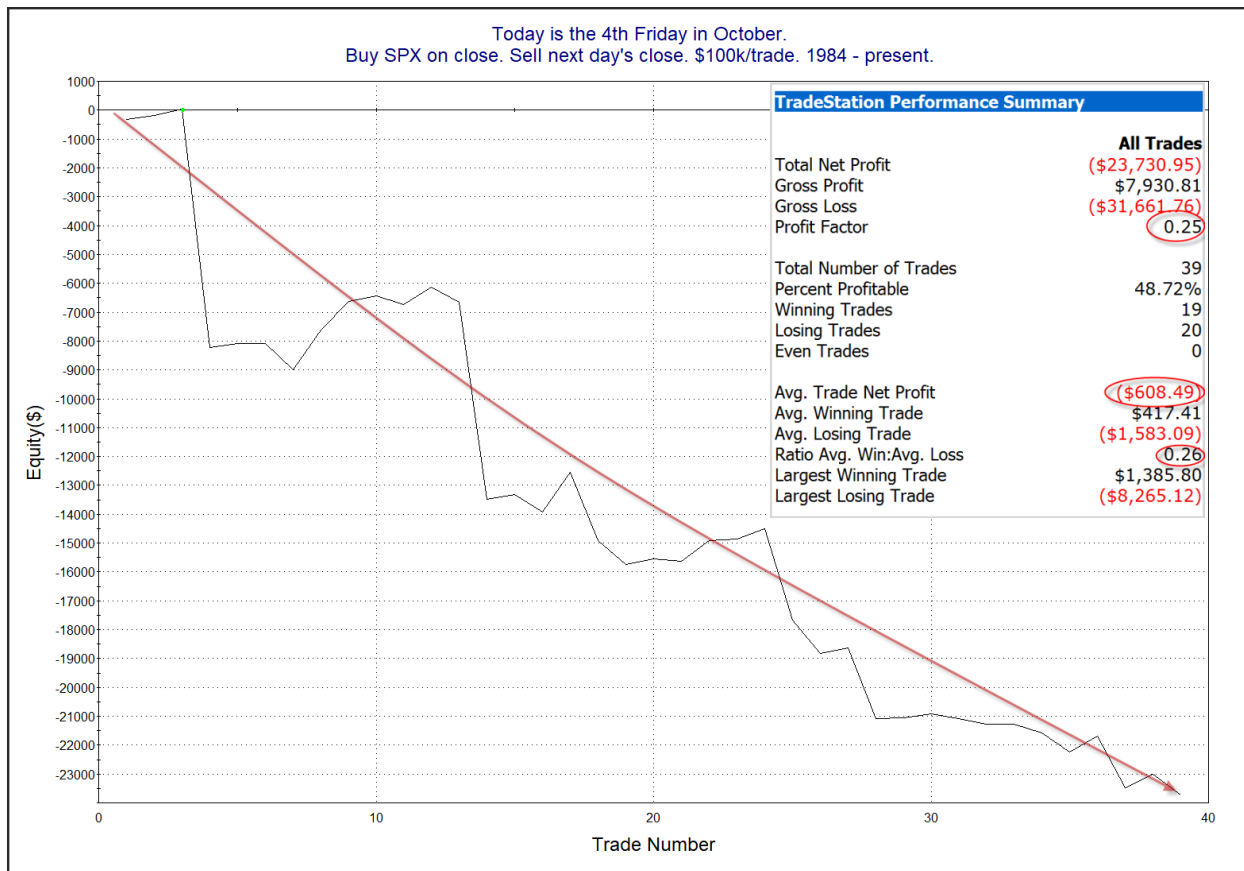
SPX closes down for at least the 3rd day in a row, at a 20-day low, and < 200ma. Today's drop was the mildest of the decline. Buy on close. Sell X days later. \$100k/trade. 1992 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	35,989.71	24	18	6	75.00	7,733.75	-9,519.30	2,962.69	-2,889.80	1.03	3.08	1,499.57
9	46,537.30	26	20	6	76.92	12,144.60	-11,603.34	3,133.83	-2,689.90	1.17	3.88	1,789.90
8	42,677.34	26	19	7	73.08	8,611.46	-11,037.60	3,292.93	-2,841.19	1.16	3.15	1,641.44
7	44,488.79	26	18	8	69.23	10,870.00	-6,719.58	3,499.21	-2,312.11	1.51	3.41	1,711.11
6	34,839.96	26	17	9	65.38	14,240.00	-4,484.34	3,192.98	-2,160.08	1.48	2.79	1,340.00
5	28,805.65	26	16	10	61.54	13,135.00	-3,055.52	2,862.96	-1,700.18	1.68	2.69	1,107.91
4	27,345.08	26	17	9	65.38	12,657.50	-4,672.36	2,454.62	-1,598.17	1.54	2.90	1,051.73
3	8,944.35	27	16	11	59.26	6,892.50	-5,681.34	2,022.54	-2,128.75	0.95	1.38	331.27
2	11,520.71	28	16	12	57.14	5,122.50	-2,676.70	1,811.28	-1,454.98	1.24	1.66	411.45
1	20,972.31	30	19	11	63.33	5,716.25	-1,858.94	1,622.24	-895.47	1.81	3.13	699.08

Here it appears there is a decent upside edge both right off the bat and over the next couple of weeks. Much of the edge has been realized on day 1. I have produced that profit curve below.



Despite some recent hiccups, the curve is back to a new high. The 7 day curve was even more impressive. But with the 2 and 3-day stats being poor, I decided to just include this as a 1-day edge on the Active List.

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:

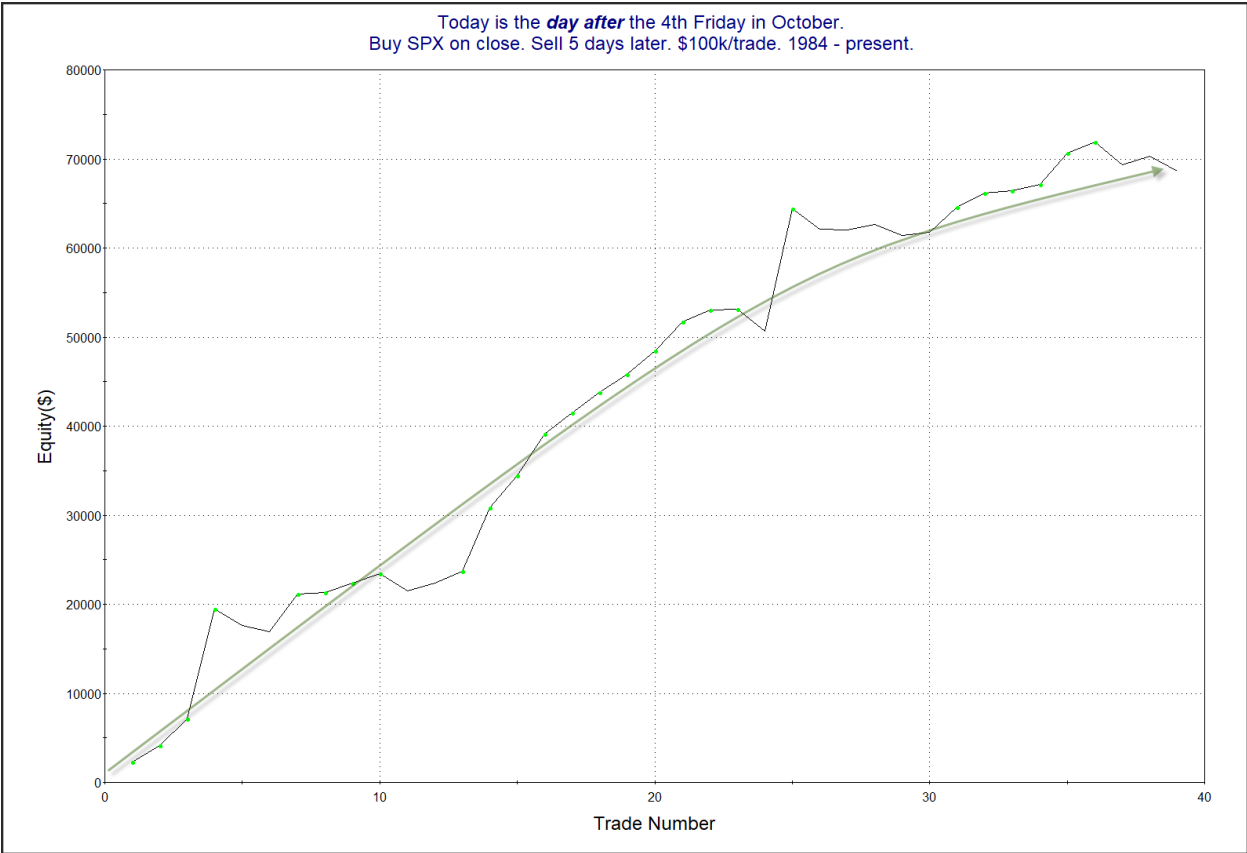


There have been almost the same number of Mondays here that have closed higher as lower, but the losers have been about 4x the size of the winners on average. The profit curve is choppy as you would expect with the winning % shown, but the slope has certainly been down for a long time. So Monday may 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 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	68,662.80	39	30	9	76.92	13,733.46	-2,631.17	2,782.70	-1,646.47	1.69	5.63	1,760.58
4	52,500.89	39	28	11	71.79	14,020.11	-3,799.29	2,496.82	-1,582.73	1.58	4.02	1,346.18
3	43,077.24	39	28	11	71.79	12,304.89	-3,802.25	2,005.74	-1,189.41	1.69	4.29	1,104.54
2	21,113.78	39	28	11	71.79	9,496.89	-3,768.26	1,325.93	-1,455.65	0.91	2.32	541.38
1	22,732.05	39	24	15	61.54	10,716.03	-2,766.58	1,408.54	-738.20	1.91	3.05	582.87

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.



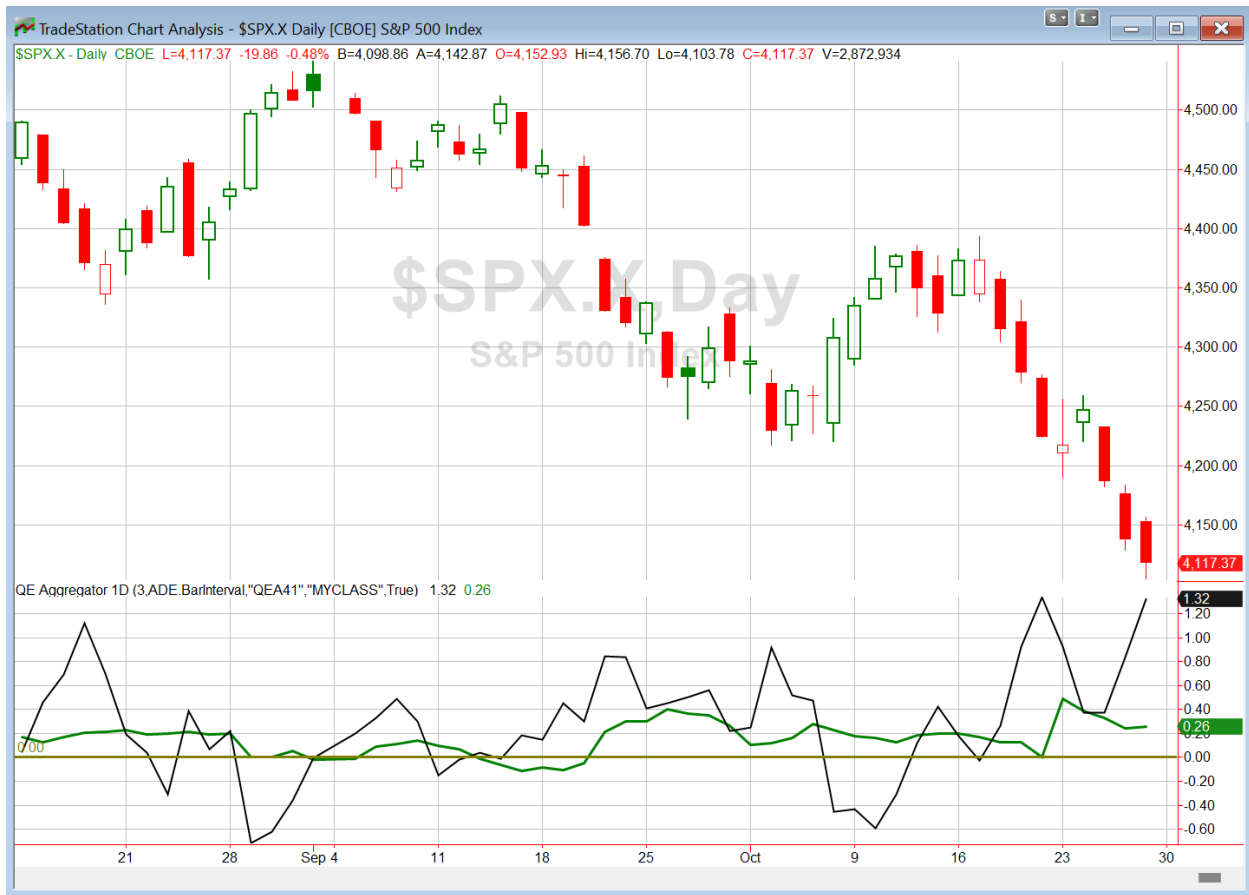
The curve has headed upwards for a long time. This short-term look at seasonality suggests the market could have some wind at its back after Monday.

I'll also note that I posted the preliminary Seasonality Calendars for November. I have pasted the SPX one below.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
<u>Date</u>	<u>Win%</u>	<u>Profit Factor</u>	<u>Avg % Chg</u>
11/1/2023	53.41	1.354	0.096
11/2/2023	53.25	1.115	0.029
11/3/2023	54.07	1.269	0.080
11/6/2023	58.97	1.594	0.160
11/7/2023	53.24	1.330	0.075
11/8/2023	55.98	1.297	0.066
11/9/2023	57.40	1.276	0.055
11/10/2023	57.54	1.512	0.130
11/13/2023	54.26	1.129	0.012
11/14/2023	51.58	1.245	0.056
11/15/2023	53.87	1.176	0.037
11/16/2023	52.79	1.105	0.012
11/17/2023	50.20	1.072	0.000
11/20/2023	59.52	1.252	0.059
11/21/2023	57.04	1.525	0.121
11/22/2023	56.52	1.415	0.081
11/24/2023	51.23	0.983	-0.008
11/27/2023	47.20	1.044	0.015
11/28/2023	47.19	1.060	0.021
11/29/2023	50.77	1.181	0.057
11/30/2023	52.41	1.229	0.070
Baseline	53.37	1.118	0.040

Just after Thanksgiving we see a few weak days. Other than that, November is showing favorable seasonality for SPX.

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



With this weekend's evidence considered, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside for the next few days. Meanwhile the black Differential Line remained 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 active studies, expectations are set to remain positive on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4235.39 on Monday. That is a sizable 2.9% above Friday's close. So SPX will need to close up over 2.9% on Monday if it is to flip from oversold to overbought versus recent expectations. A more likely scenario for working off the oversold condition would be a multi-day rally or consolidation.

So the Aggregator is again bullish. While evidence is a bit mixed today, there is substantially more suggesting a bounce. I have some long exposure already. I will look to add a 3rd lot on Monday if SPX closes down from Friday's close and the CBI closes at 10 or higher. (It finished at 9 on Friday.) A bounce in the coming days appears likely, and I am looking to take advantage of it.

Intermediate-term Outlook (2 weeks – 2 months) – updated 10/30– neutral

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

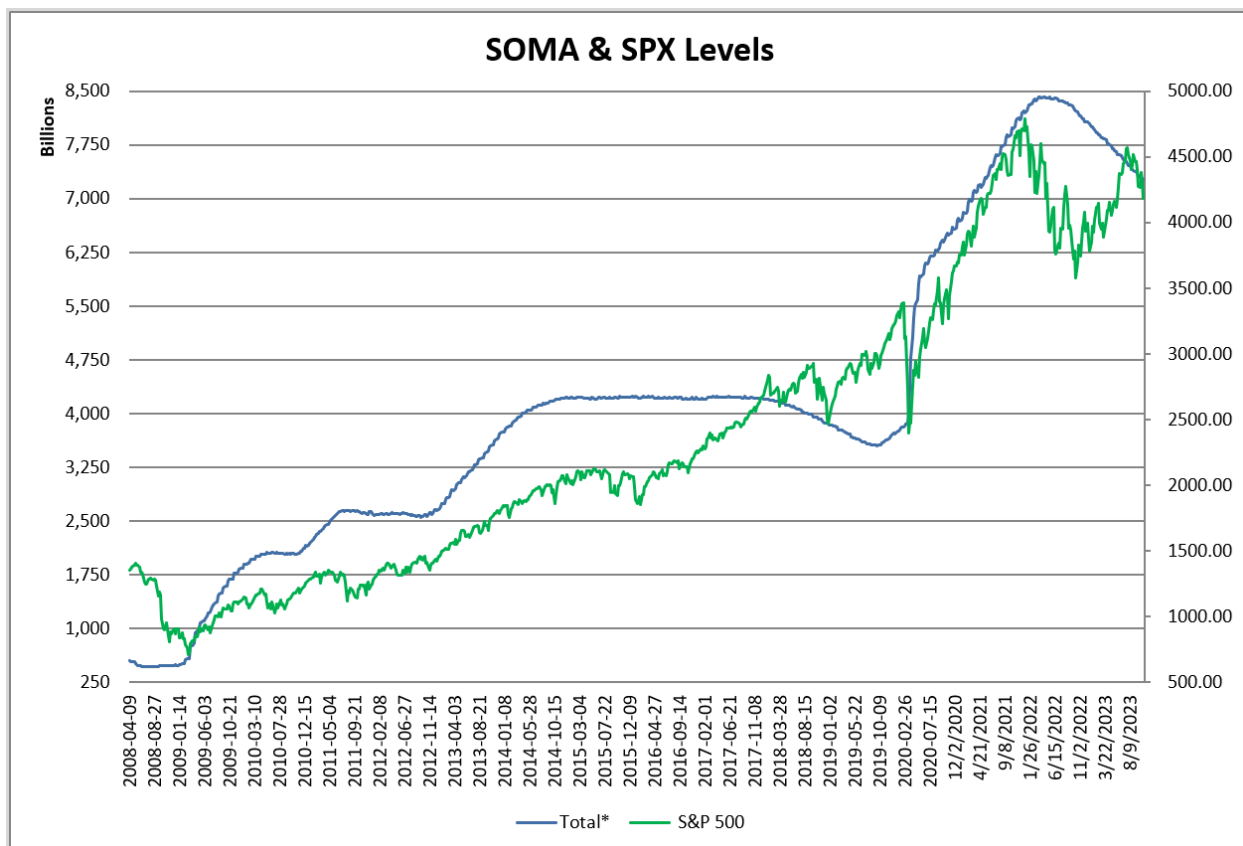
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course – **Updated and Expanded for 2023!** Signals are long-term in nature. All 4 can be either flat or long. None of them look to short. More information on these signals can be found in the Quantifiable Edges Market Timing Course, which is included with all annual subscriptions. *The Combo Systems all remained the same this week.*

It was another tough week for the market. The SPX fell 2.53%, the NASDAQ lost 2.62%, and the Russell 2000 declined 2.61%. This occurred despite the fact that bonds had a bit of a rebound. The US Aggregate Bond ETF (AGG) posted a gain of 0.64%. TLT, the 20-year Treasury Bond ETF, rose 1.36%. The long-term market trend is now questionable with long-term indicators now mixed (though most are pointing down). There were no new studies that emerged with intermediate-term implications.

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

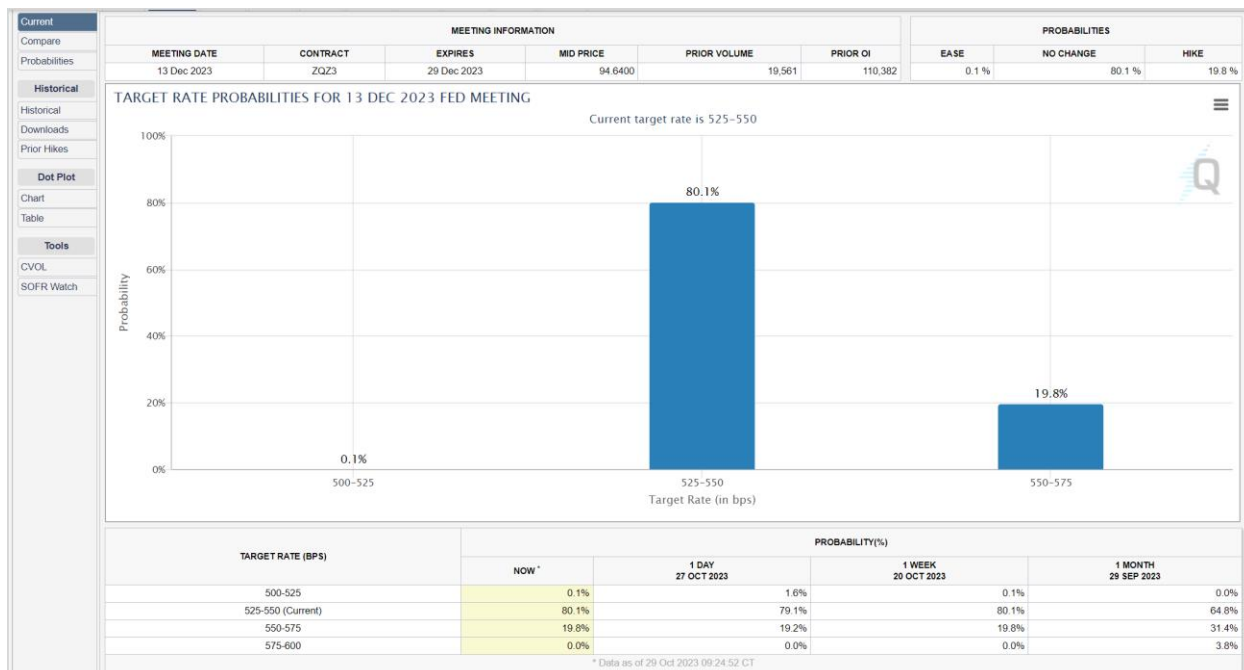
Domestic Security Holdings as of	
◀ Previous	October 25, 2023 📅 <i>Posted October 26, 2023 at 4:30 PM</i>
SUMMARY	T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	232,804,073.9
US Treasury Notes and Bonds (Notes/Bonds)	4,183,755,415.9
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***	2,454,617,609.4
Agency Commercial Mortgage-Backed Securities***	8,289,151.3
Total SOMA Holdings	7,264,964,088.6
Change From Prior Week	-18,472,001.8

As we expected, there was a sizable drop in the SOMA this past week, coming in at \$18.5 billion. For the current week, I expect to see an even larger decline. Then we should see a more moderate 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 quite a bit lower 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 99.9% chance that the Fed holds rates steady on Wednesday. The December meeting is showing an 80% chance the Fed hold rates steady again and a 20% chance of a hike. This can be seen in the screenshot below of the CME Fedwatch Tool:



The Fed remains “data dependent”. Odds will obviously fluctuate in the coming weeks, and I’ll continue to monitor Fed action going forward. For now, policy is hawkish and is exerting a bearish influence on the market.

Nothing substantial emerged this past week that would move me off my neutral bias. Bulls are hoping long-term trend indicators, like the SPX Golden Cross, hold up. They can also draw some optimism from the fact that Wednesday we will move into the “Best 6 Months” of the year and the 4th year of the presidential cycle. Both of these have been historically favorable times for investors. But SPX is now 10.3% below its July 31st closing high. The NASDAQ is down 11.9% over the same period, and the Russell 2000 has lost a whopping 18.3% during this time. The Russell also fell below its 2022 lows this past week, and is now trading at levels not seen since 2020. The charts look ugly. The NASDAQ also continues to lag the SPX. Of course the hawkish Fed policy remains perhaps the largest headwind the market is facing. It seems difficult to build a compelling bullish case right now. I will remain neutral. I’m open to taking on short-term trades in either direction, but with a less aggressive posture.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

TXN – 1/3 @ \$146.32 (bought @ limit)

LOW – 1/3 @ \$186.24 (bought @ limit)

LOW – 1/3 @ \$186.09 (bought @ limit)

HD – 1/3 @ \$280.93 (bought @ limit)

TMO – 1/3 @ \$433.18 (bought @ limit)

LOW – 1/3 @ \$184.73 (bought @ limit)

HD – 1/3 @ \$278.00 (bought @ limit)

New

BLK – 1/3 @ \$598.08 (buy @ limit)

HD – 1/3 @ \$276.46 (buy @ limit)

Broad Market Large Cap CBI – 9(TXN, LOW-3, HD-3, TMO, BLK)

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.

BLK – Buy 1/3 Catapult position @ \$598.08 LIMIT. From the Catapult section above, this is the 1st of up to 3 possible lots of BLK.

HD – Buy 1/3 Catapult position @ \$276.46 LIMIT. From the Catapult section above, this is the 3rd and final lot of HD.

SPY – Buy ¼ index position @ \$410.67 LIMIT ON CLOSE IF THE QUANTIFIABLE EDGES CBI CLOSES AT 10 OR HIGHER. Based on the short-term outlook, I will look to add a 3rd lot of SPY under these circumstances. Traders can check the website near the close to see where the CBI is at. I will also try and post the CBI reading on Twitter as we approach the close.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	10/20/2023	\$421.19	\$410.68	-2.50%	Aggregator
TXN(1/3)	10/24/2023	\$146.32	\$143.12	-2.19%	Catapult
LOW(1/3)	10/25/2023	\$185.55	\$183.62	-1.04%	Catapult
LOW(1/3)	10/26/2023	\$186.09	\$183.62	-1.33%	Catapult
HD(1/3)	10/26/2023	\$280.27	\$276.46	-1.36%	Catapult
TMO(1/3)	10/26/2023	\$431.13	\$431.41	0.06%	Catapult
SPY(1/4)	10/27/2023	\$410.68	\$410.68	0.00%	Aggregator
LOW(1/3)	10/27/2023	\$184.73	\$183.62	-0.60%	Catapult
HD(1/3)	10/27/2023	\$278.00	\$276.46	-0.55%	Catapult

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