

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

November 6, 2023

Volume 16 Issue 212

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- 5 up days that close below a 50-day high but $> 200ma$ are often followed by more gains.
- The Zweig Breadth Thrust suggests bullish implications in multiple time frames.
- The NASDAQ took relative leadership from the SPX, which is a positive intermediate-term sign.
- We have entered the “Best 6 Months” of the year.
- The SOMA declined a sizable amount this past week and the Fed remains a bearish market force.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. That is where I am at as well.

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						
November 6, 2023	Zweig Thrust	1-6 days	Bullish			
November 3, 2023	Up 4 days. 3 of 4 > 1%	1-4 days	Bullish	2.00%	-0.80%	-1.50%
November 3, 2023	50-low 4 ago. RSI2 up > 85 points	1-4 days	Bullish	2.10%	-1.30%	-2.70%
Active - Long Term						
November 6, 2023	5 higher closes. Up 3%. < 50-high.	1-15 days	Bullish	3.30%	-1.70%	-3.05%
November 6, 2023	Zweig Thrust	1-12 months	Bullish	29.00%	-3.20%	-7.00%
November 6, 2023	Best 6 Months	6 months	Bullish			
November 6, 2023	NASDAQ Leading	int term	Bullish			
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 the bounce continue. The SPX gained 0.9%, the NASDAQ rose 1.4%, and the Russell 2000 climbed 2.7%. Breadth was strong with the NYSE Up Issues % coming in at 83.2% and the Up Volume % at 83.1%. NYSE total volume declined some from Thursday’s level.

There were a few studies that examined the strong move we have seen over the last several days. While many measures (including our own Differential tool) will consider the market short-term overbought at this point, that does NOT mean it is primed for an immediate pullback. The study below recognized the move higher over the last few days and suggested the momentum is likely to continue. It was from the 7/7/20 letter, and it looked at 5 up days that closed above the 200ma, but failed to close at a 50-day high. I have updated the results below.

SPX closes up exactly 5 days in a row but < 50-day high. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 1980 - 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
15	82,249.04	52	37	15	71.15	8,288.00	-3,766.10	2,738.00	-1,270.46	2.16	5.32	1,581.71
14	73,322.21	52	37	15	71.15	8,272.60	-4,738.50	2,518.72	-1,324.70	1.90	4.69	1,410.04
13	76,261.40	52	39	13	75.00	6,401.50	-3,773.44	2,485.34	-1,589.75	1.56	4.69	1,466.57
12	69,735.62	53	39	14	73.58	5,925.50	-2,944.80	2,279.48	-1,368.86	1.67	4.64	1,315.77
11	53,981.15	54	36	18	66.67	3,952.96	-4,894.24	2,118.52	-1,238.08	1.71	3.42	999.65
10	57,104.89	54	40	14	74.07	4,691.28	-4,684.28	1,897.87	-1,343.57	1.41	4.04	1,057.50
9	51,003.66	54	38	16	70.37	4,722.08	-4,910.55	1,935.32	-1,408.65	1.37	3.26	944.51
8	47,480.76	54	40	14	74.07	3,781.36	-3,376.64	1,669.48	-1,378.45	1.21	3.46	879.27
7	43,798.03	54	39	15	72.22	4,385.01	-3,500.70	1,682.57	-1,454.80	1.16	3.01	811.07
6	32,888.38	54	40	14	74.07	3,770.55	-3,366.60	1,394.80	-1,635.96	0.85	2.44	609.04
5	22,257.58	54	35	19	64.81	3,044.37	-3,496.92	1,308.19	-1,238.37	1.06	1.95	412.18
4	13,818.01	54	32	22	59.26	3,138.08	-3,330.40	1,137.77	-1,026.85	1.11	1.61	255.89
3	10,781.99	54	33	21	61.11	2,742.08	-3,359.36	981.21	-1,028.47	0.95	1.50	199.67
2	3,914.86	54	28	26	51.85	2,205.03	-3,748.50	850.35	-765.19	1.11	1.20	72.50
1	3,235.17	54	31	23	57.41	2,211.54	-2,200.96	610.09	-681.63	0.90	1.21	59.91

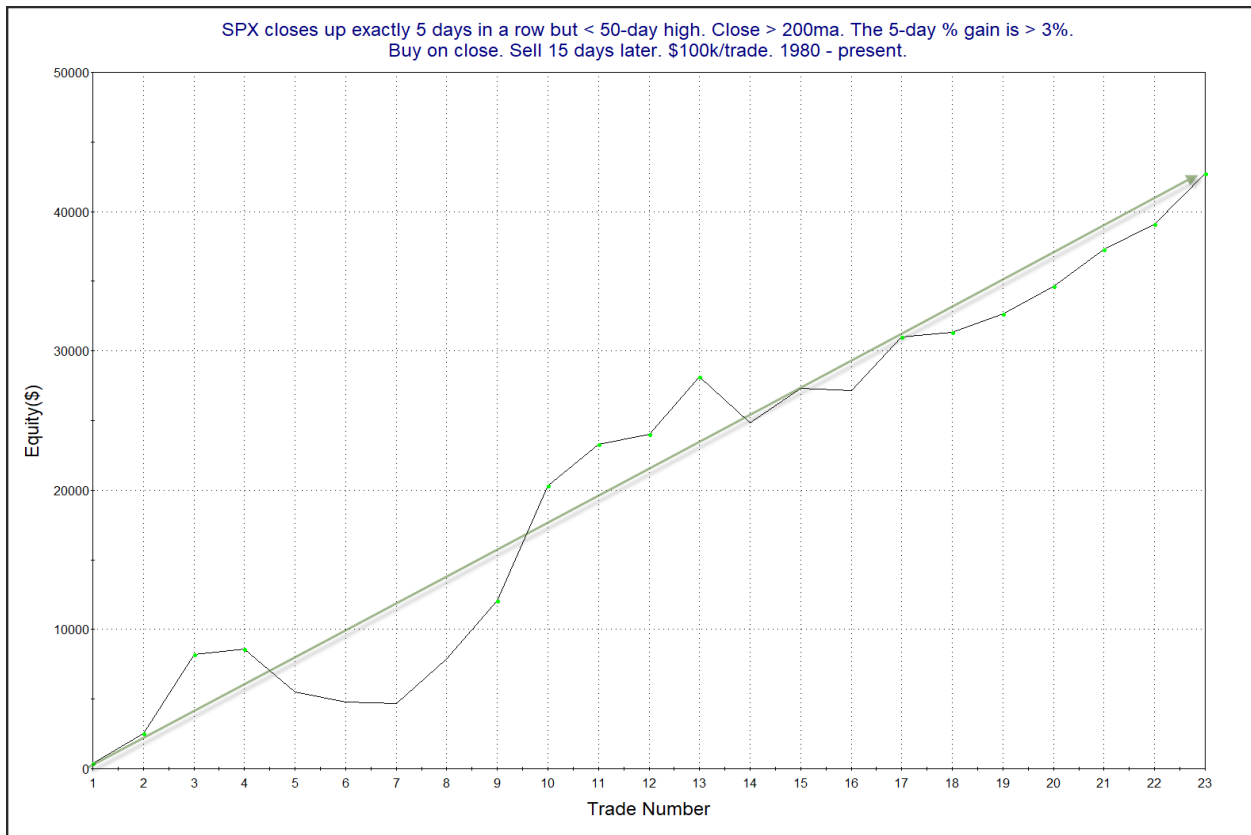
Though the 1st 4 days don’t show much of an edge, these results appear to suggest a pretty consistent upside tendency over the 2-3 week period. One thing that stands out about the current

rally is that it has been quite powerful compared to most. Many of the 5-day moves in the study above occurred in low-volatility markets. In the 7/7/20 letter I filtered to require a 5-day rally of at least 3%. I have updated those results below.

SPX closes up exactly 5 days in a row but < 50-day high. Close > 200ma. The 5-day % gain is > 3%.
Buy on close. Sell X days later. \$100k/trade. 1980 - 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
15	42,755.16	23	18	5	78.26	8,288.00	-3,282.90	2,784.49	-1,473.14	1.89	6.80	1,858.92
14	38,864.55	23	19	4	82.61	8,272.60	-3,691.52	2,361.96	-1,503.19	1.57	7.46	1,689.76
13	37,995.65	23	18	5	78.26	6,401.50	-3,773.44	2,569.26	-1,650.22	1.56	5.60	1,651.98
12	37,234.39	23	17	6	73.91	5,925.50	-2,877.44	2,523.50	-944.20	2.67	7.57	1,618.89
11	32,432.22	23	15	8	65.22	3,952.96	-2,485.76	2,582.20	-787.60	3.28	6.15	1,410.10
10	33,834.73	23	19	4	82.61	4,691.28	-2,533.02	2,108.30	-1,555.77	1.36	6.44	1,471.08
9	29,659.80	23	18	5	78.26	4,722.08	-3,125.76	2,100.78	-1,630.86	1.29	4.64	1,289.56
8	17,480.40	23	16	7	69.57	3,781.36	-3,376.64	1,781.92	-1,575.76	1.13	2.58	760.02
7	14,347.22	23	16	7	69.57	3,814.86	-3,500.70	1,659.49	-1,743.52	0.95	2.18	623.79
6	11,834.14	23	16	7	69.57	3,720.00	-2,882.56	1,443.85	-1,609.64	0.90	2.05	514.53
5	7,116.13	23	14	9	60.87	3,025.44	-2,664.96	1,330.67	-1,279.24	1.04	1.62	309.40
4	6,847.47	23	14	9	60.87	3,138.08	-2,002.44	1,171.62	-1,061.70	1.10	1.72	297.72
3	6,425.41	23	13	10	56.52	2,742.08	-2,971.50	1,266.38	-1,003.75	1.26	1.64	279.37
2	1,162.38	23	9	14	39.13	2,205.03	-3,748.50	1,152.60	-657.93	1.75	1.13	50.54
1	1,960.60	23	12	11	52.17	2,211.54	-1,252.30	633.71	-513.08	1.24	1.35	85.24

Results here are even more impressive than in the larger sample. The consistency and the size of the moves over the next 1-3 weeks is considerable. Below is a look at the 15-day profit curve.



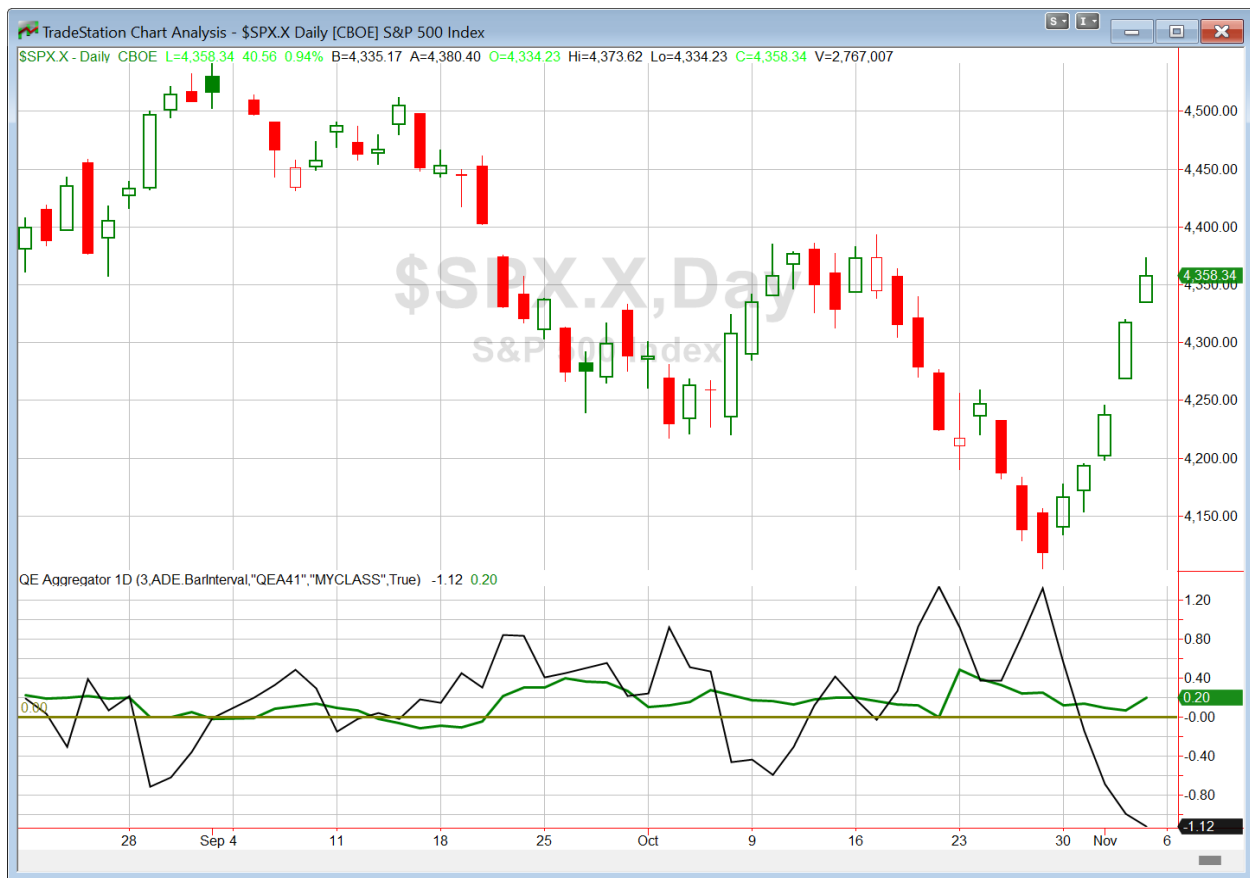
That is a nice move from lower left to upper left. I have included this study on the intermediate-term active list. I did not include it on the short-term list because the results were inconsistent over the 1st 1-5 days.

The strong breadth we have seen recently has caused the 10-day exponential moving average of the Up Issues % to rise up to 63.6%. A move through 61.5% after being below 40% within the last 2 weeks is considered a Zweig Breadth Thrust trigger. This is a signal created by Martin Zweig. I last discussed it in the 1/8/19 letter. Over the long haul Zweig Breadth Thrusts have been rare but powerful. Below is a stats table showing results of all signals since 1957 and summarizing them.

SPX Performance Following Zweig Breadth Thrusts.																	
Forward returns shown. (21 days is about 1 month). 1957 - present.																	
Ticker	Date	1-Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	6-Day %Chg	7-Day %Chg	8-Day %Chg	9-Day %Chg	10-Day %Chg	21-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg	20-Day Drawdown	20-Day Run-Up
\$SPX	7/11/1962	0.52	0.17	0.17	-1.65	-2.65	-2.27	-1.59	-1.61	-2.37	-2.2	-0.28	-0.92	12.09	20.84	-3.38%	1.63%
\$SPX	11/5/1962	0.62	-0.05	0.74	2.13	1.9	3.1	2.78	3.1	2.52	3.6	7.85	13.8	19.98	24.78	-1.13%	7.85%
\$SPX	12/3/1971	-0.57	-0.2	-0.14	-0.1	0.65	0.94	0.63	1.52	2.76	3.3	5.18	11.21	13.05	20.94	-1.75%	5.31%
\$SPX	10/10/1974	1.93	4.23	2.36	0.77	1.98	3.57	5.32	4.79	1.78	0.62	7.34	4.04	20.62	26.62	-2.13%	10.92%
\$SPX	1/3/1975	0.51	0.44	-0.95	0.65	2.69	2.26	1.37	2.02	1.9	0.35	10.06	14.38	33.45	28.55	-2.36%	11.29%
\$SPX	8/20/1982	2.73	2.06	4.03	4.89	3.62	4.11	5.74	4.63	6.43	8.55	10.49	22.4	30.45	44.71	-3.39%	10.49%
\$SPX	8/3/1984	0.15	0.23	-0.37	1.96	1.89	1.9	1.28	0.28	0.87	1.1	1.56	3.17	10.03	17.94	-2.68%	3.97%
\$SPX	3/18/2009	-1.3	-3.25	3.6	1.48	2.46	4.85	2.72	-0.86	0.44	2.11	9.47	14.65	34.55	46.77	-3.61%	8.93%
\$SPX	10/14/2011	-1.94	0.07	-1.2	-0.75	1.12	2.42	0.37	1.42	4.9	4.94	2.22	5.64	13.57	17.6	-2.70%	5.56%
\$SPX	10/18/2013	0.01	0.58	0.11	0.43	0.88	1.01	1.57	1.08	0.69	0.98	2.7	5.69	7.74	9.14	-0.50%	3.08%
\$SPX	10/8/2015	0.07	0.2	-0.48	-0.95	0.52	0.98	1	0.86	0.27	1.94	4.26	-4.54	1.42	6.97	-1.29%	5.12%
\$SPX	1/7/2019	0.97	1.38	1.84	1.83	1.29	2.38	2.6	3.38	4.75	3.26	7.13	13.57	16.86	26.96	-0.99%	7.37%
Average		0.31	0.49	0.81	0.89	1.36	2.10	1.98	1.72	2.08	2.38	5.67	8.59	17.82	24.32	-2.16%	6.79%
Win %		75%	75%	58%	67%	92%	92%	92%	83%	92%	92%	92%	83%	100%	100%		

Over the short, intermediate, and long-term there have been strong gains on a consistent basis. The AVG run-up over the next 20 days has been 6.79%. This is double the MAX drawdown, and over triple the average drawdown. Average gains over the next 6 days are 2.1%, 21-days average 5.7%, and the average gain over the next year has been 24.3%. Those are impressive moves. So yes, the market is overbought. But this is a case where the move has been so strong and so broad that strength is likely to beget more strength.

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 over the next few days. Meanwhile the black Differential Line fell further below zero. The negative Differential Line reading means that SPX is strongly overbought versus recent expectations. So expectations are positive but SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator formation stayed flat at the close.

Based on the current active studies, expectations are set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4250.40 on Monday. That is 2.5% below Friday's close. Therefore, SPX will need to close down over 2.5% on Monday in order to flip from overbought to oversold vs recent expectations. Being that we have not seen a 2% down day since February, that seems highly unlikely. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So the Aggregator is still neutral. The market is clearly overbought. But it is so overbought, that further gains appear likely. Still, this does not appear to be a great entry point for a short-term trade. I will wait for a more favorable reward/risk setup before looking to take on my next index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 11/6– *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 all changed to Long QQQ this week.

The market rocketed higher this past week. The SPX rallied 5.85%, the NASDAQ jumped 6.6%, and the Russell 2000 shot up 7.6%. Bonds were also very strong. The US Aggregate Bond ETF (AGG) posted a gain of 2.0%. TLT, the 20-year Treasury Bond ETF, rose 4.2%. The long-term market trend is still questionable. There were no new studies that emerged with intermediate-term implications.

After lagging for the last couple of weeks, the NASDAQ took the lead vs SPX according to the NASDAQ/SPX Relative Leadership indicator we use. This can be seen in the chart below.

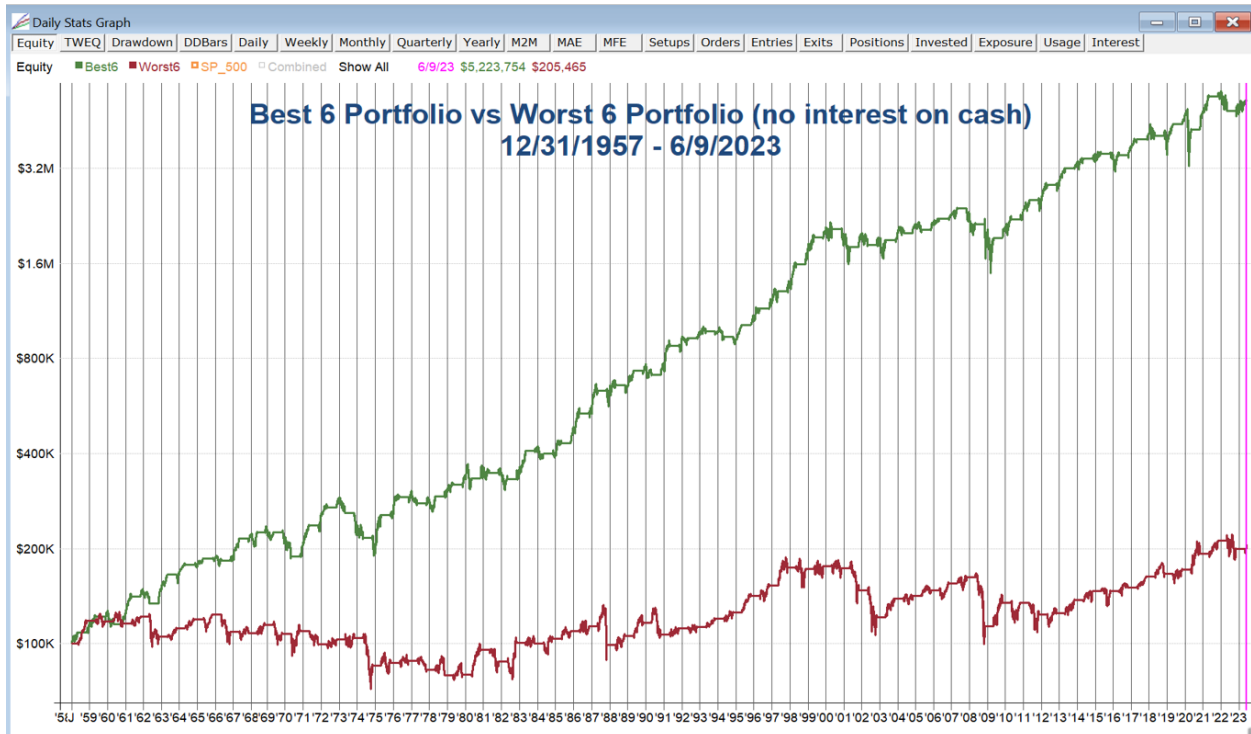


The movement of the red line (which is about to turn green) above the blue dotted line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. This can be seen in the table below.

Historical Compound Returns of \$100,000 Starting Portfolio Using the NASDAQ/SPX Relative Strength Indicator as a Filter. 12/31/71 - 10/6/23.			
	Compound Annual Growth Rate	Max Drawdown	End Value of \$100,000
S&P 500 Index	7.49%	-56.78%	\$4,220,295.92
SPX when NASDAQ lags	-0.13%	-67.21%	\$93,505.56
SPX when NASDAQ leads	7.63%	-33.92%	\$4,513,416.92
NASDAQ Composite	9.64%	-77.93%	\$11,769,487.94
NASDAQ when lagging	-1.60%	-85.53%	\$43,268.53
NASDAQ when leading	11.43%	-40.62%	\$27,201,031.55
NASDAQ when leading (with interest when in cash)*	13.94%	-37.64%	\$86,148,406.45


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

More on this indicator can be found in the Market Timing Course. Another Market Timing Course indicator that flipped this week was the “Best 6 Months” indicator. The basic idea here is that the market has performed substantially better during the months of November – April than it has from May – October. The chart below is taken from the 2023 Market Timing Course. It shows just how large the seasonal difference has been. It shows 2 hypothetical portfolios. One only invests during the Best 6Months (from November through April). The other only invests during the Worst 6 Months.

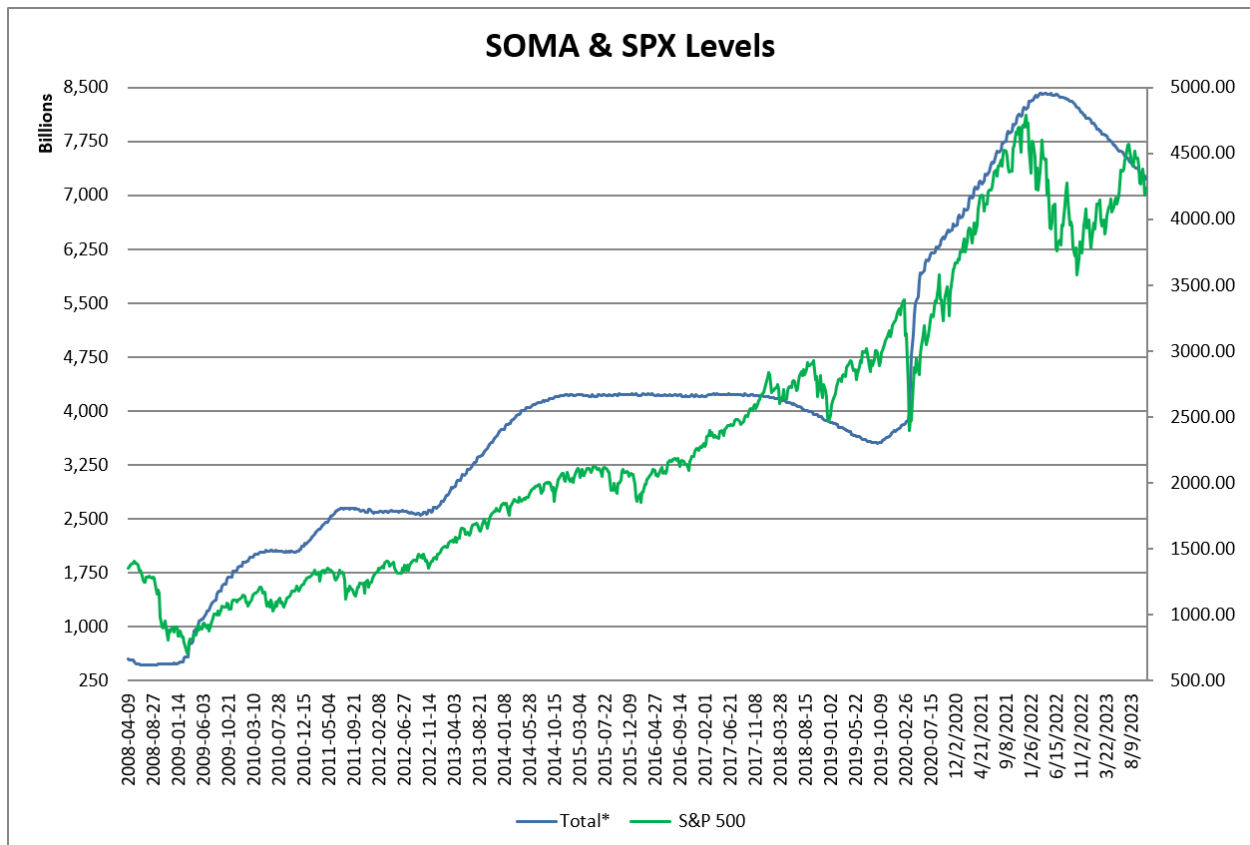


The Difference has been significant. Moving back into the Best 6 Months is a favorable cyclical event.

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

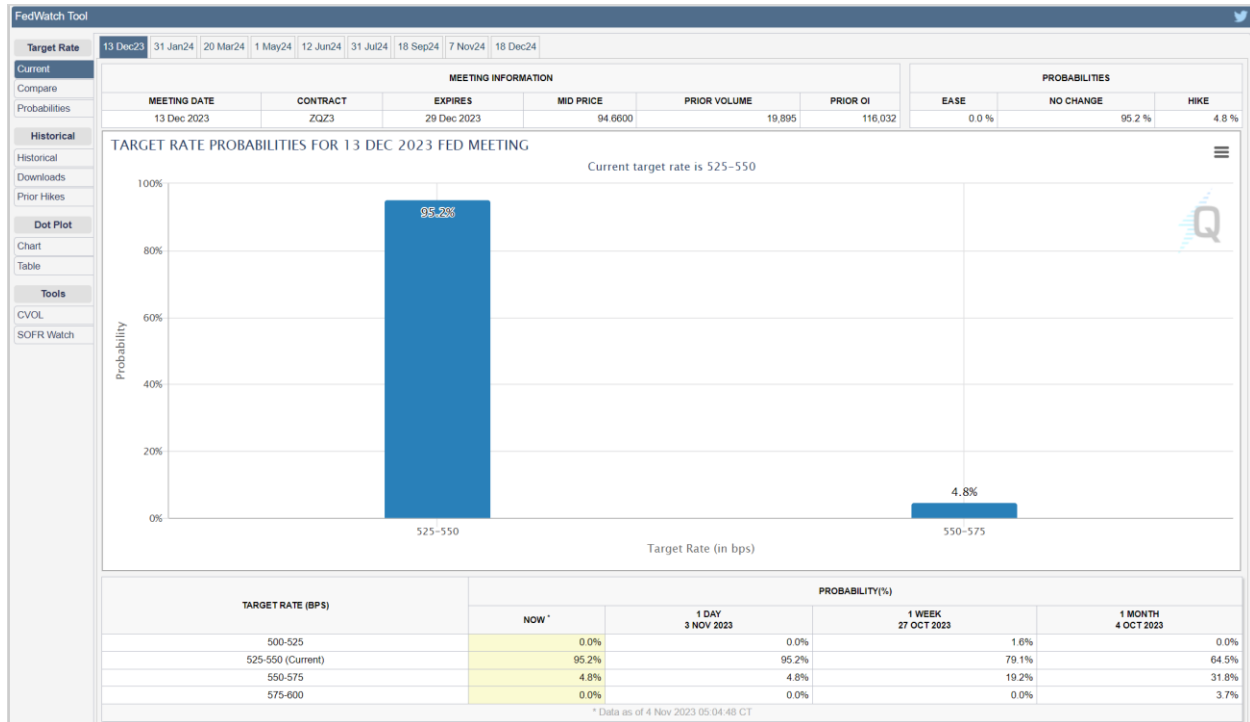
Domestic Security Holdings as of	
◀ Previous	November 1, 2023 
<i>Posted November 2, 2023 at 4:30 PM</i>	
SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	231,265,518.2
US Treasury Notes and Bonds (Notes/Bonds)	4,151,360,766.5
US Treasury Floating Rate Notes (FRNs)	11,663,111.3
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	7,224,923,604.2
Change From Prior Week	-40,040,484.4

As we expected, there was a sizable drop in the SOMA this past week, coming in at \$40 billion. For the current week, I expect to see much milder 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 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 95% chance that the Fed holds rates steady in December. This is a sizable increase from the 80% chance we were looking at last week. Odds 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.

The intermediate-term outlook improved substantially in the last week. SPX moved back above its 200ma. The calendar changed to put us in the “Best 6 Months” cyclical period. The NASDAQ took the lead vs the SPX. The strong 5-day rally triggered a price-based bullish study. And the Zweig Breadth Thrust also provided a bullish signal. All 4 of the original Market Timing Course indicators are now bullish. The only sizable detractor from the bullish outlook is the Fed. Things can change quickly. And this past week is a prime example of that. But for now, it is hard not to see recent action as anything but bullish. I have changed my intermediate-term bias from “neutral” to “bullish”. I can now be more aggressive with long entries, and will be especially conservative when considering short trades.

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>TXN(1/3)</i>	<i>10/24/2023</i>	<i>\$146.32</i>	<i>\$149.30</i>	<i>2.04%</i>	<i>sold on open</i>

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