

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 1, 2020

Volume 13 Issue 105

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The SPY gap and reverse patten of the last couple days has typically been followed by some short-term selling.
- When months finish at a high, the next month often starts well.
- The market has not exhibited daily chop in the last few weeks.
- The Fed's SOMA account actually *declined* this past week.
- The move higher has been strong, but many wildcards exist.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and so am I. Evidence is leaning bullish, but the SPX remains overbought.

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						
June 1, 2020	Finish month at high of month	1-5 days	Bullish			
June 1, 2020	Gap reverse 2x. Today to 10-hi > 200	1-2 days	Bearish			
May 29, 2020	1% higher to 50-high then down close	1-3 days	Bullish			
May 29, 2020	Gap up, run higher, then reverse down	1-4 days	Bullish			
Active - Long Term						
May 19, 2020	Breakout on 90% Up Volume	1-40 days	Bullish	7.90%	-1.90%	-4.50%
April 30, 2020	370% Up Issues Days	1-85 days	Bullish	10.40%	-4.30%	-11.00%
April 29, 2020	Sell in May after 5% drop Jan-Apr	6 months	Bearish			
March 23, 2020	QE4	int term	Bullish			
October 28, 2019	NASDAQ Leading	int term	Bullish			
Dropped Tonight (expired or Avg move + 1 std dev exceeded)						
May 19, 2020	Up 3, lower volume breakout	1-20 days	Bearish	-7.60%	2.30%	3.65%

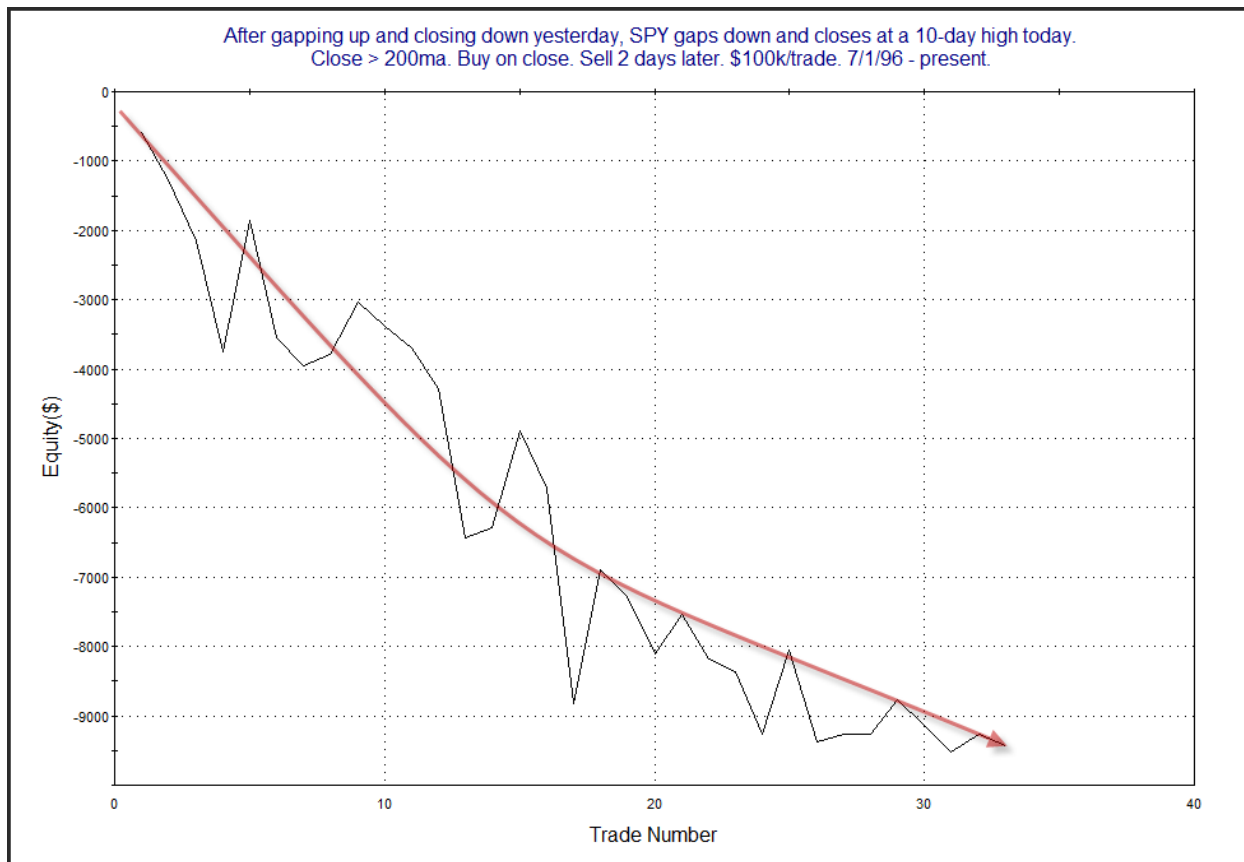
The Evidence

Friday was the last trading day of the month, and the indices finished mostly higher. The SPX rose 0.5%, the NASDAQ gained 1.3%, and the Russell 2000 declined 0.5%. Breadth was negative as the NYSE Up Issues % was 47% and the Up Volume % came in at 33%. NYSE volume was very high.

SPY recovered from a gap lower to finish at a new intermediate-term high. While that may seem like a positive, the study below saw Friday's "gap and reverse" as a potential negative. The study was last seen in the 11/9/17 letter, and results are updated.

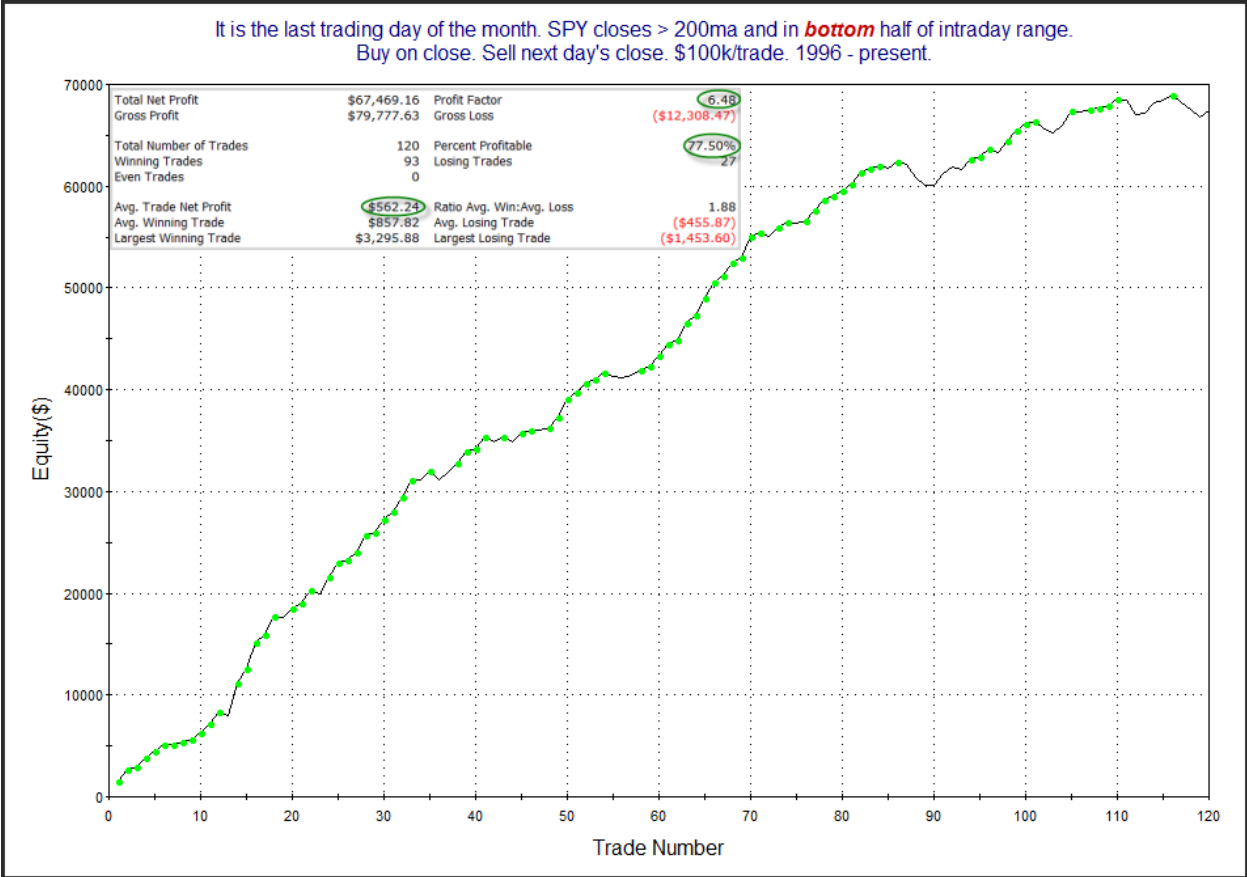
After gapping up and closing down yesterday, SPY gaps down and closes at a 10-day high today. Close > 200ma. Buy on close. Sell X days later. \$100k/trade. 7/1/96 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-14,946.87	32	14	18	43.75	1,888.77	-6,714.00	1,010.17	-1,616.07	0.63	0.49	-467.09
4	-12,514.21	32	15	17	46.88	1,803.51	-4,267.12	796.83	-1,439.22	0.55	0.49	-391.07
3	-8,357.36	33	15	18	45.45	2,657.93	-4,244.74	809.04	-1,138.50	0.71	0.59	-253.25
2	-9,427.73	33	12	21	36.36	1,935.96	-3,107.14	744.00	-874.08	0.85	0.49	-285.69
1	-1,298.16	33	15	18	45.45	2,409.00	-1,388.76	505.03	-492.98	1.02	0.85	-39.34

The numbers here look somewhat bearish, with much of the damage being done in the 1st two days. Below is a profit curve assuming a 2-day holding period.



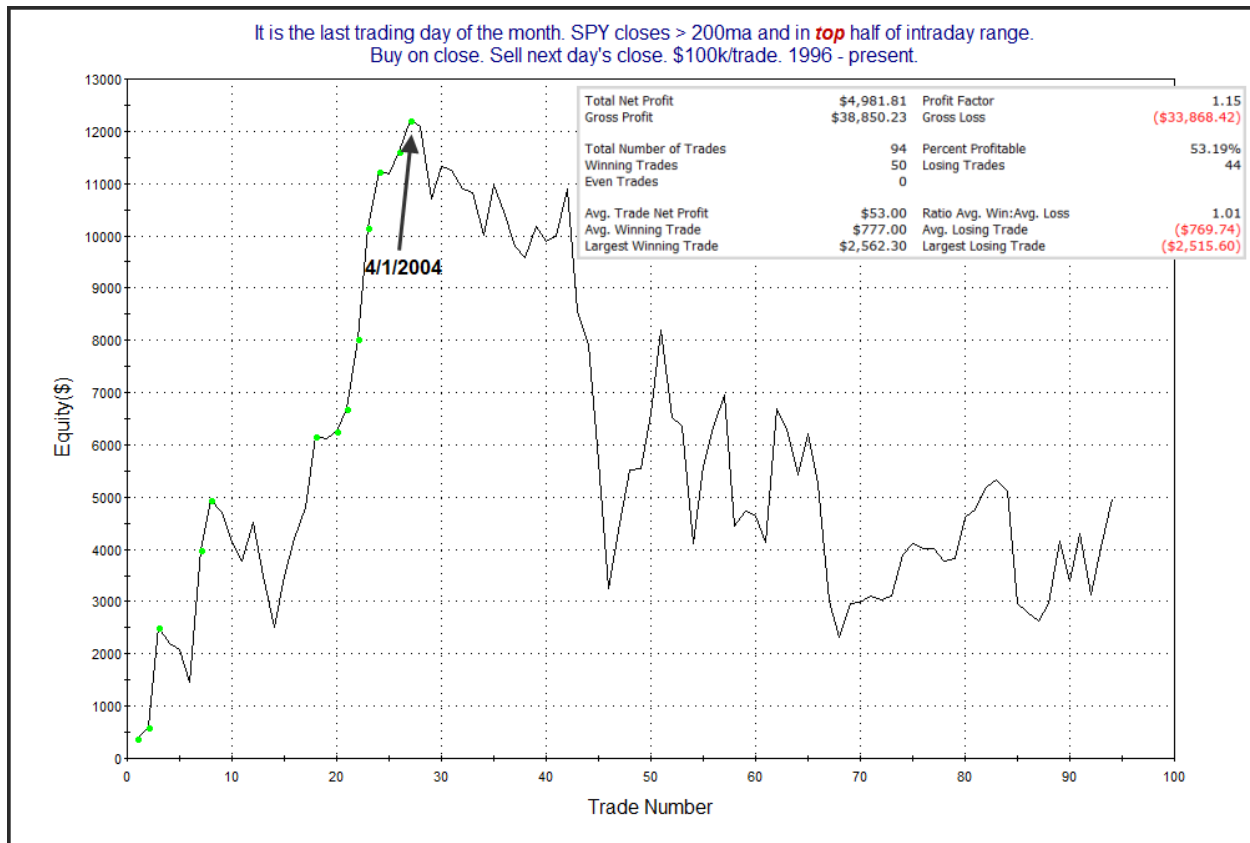
There is a decent amount of chop in this curve, but overall it appears to strong enough to merit consideration. I have added this study to the active list.

The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. I have shown them many times over the years. First let's look at times the market closed in the bottom half of its range on the last day of the month (*unlike* Friday).



The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 6.5x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 120 instances. And despite a few recent failures, the curve has shown progress over a long period of time. This setup certainly appears to provide a 1-day bullish edge.

But what about times like Friday, where SPY closed in the top half of its intraday range?

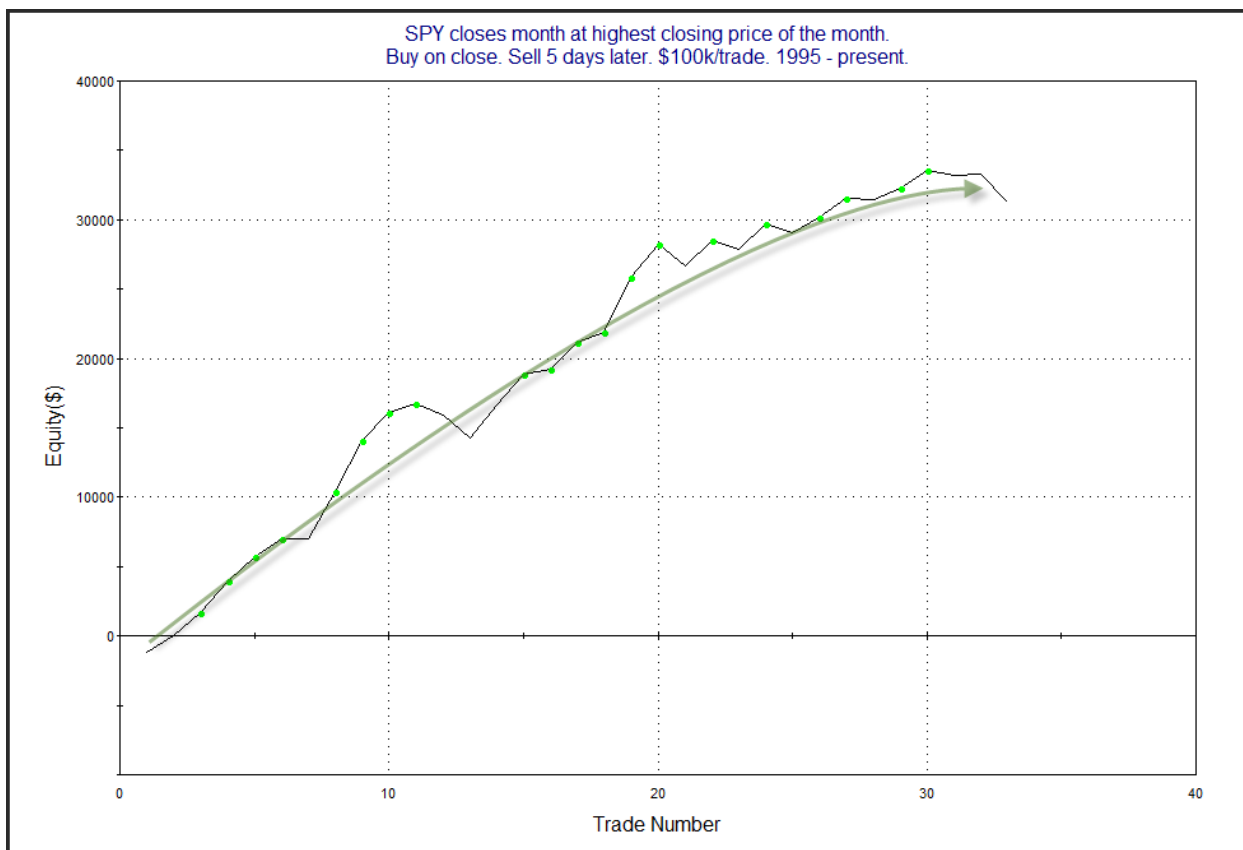


We see here the upside edge nearly completely wiped away. And since 2004 there have been (inconsistent) net losses. The 1st day of the month has performed much better with some afternoon selling leading up to the day. We don't have that this month, so the bulls don't have this seasonal edge for Monday.

But while the seasonal outlook for Monday may not be great, there are some indications that we could see further rallying in the next few days. The study below was last seen in the 5/1/19 letter. Results suggest strong end of month momentum has typically carried through into the following month.

SPY closes month at highest closing price of the month. 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	31,226.90	33	23	9	69.70	3,931.92	-2,070.60	1,745.53	-991.14	1.76	4.50	946.27
4	27,930.93	33	22	11	66.67	5,394.96	-4,338.40	1,789.20	-1,039.23	1.72	3.44	846.39
3	17,421.95	33	22	11	66.67	4,105.92	-4,678.40	1,381.69	-1,179.56	1.17	2.34	527.94
2	10,593.87	33	18	15	54.55	3,954.78	-4,848.40	1,278.55	-828.00	1.54	1.85	321.03
1	4,045.73	33	17	16	51.52	1,850.94	-1,049.76	746.81	-540.63	1.38	1.47	122.60

The numbers across the board are impressive. Below is a look at a 5-day profit curve.



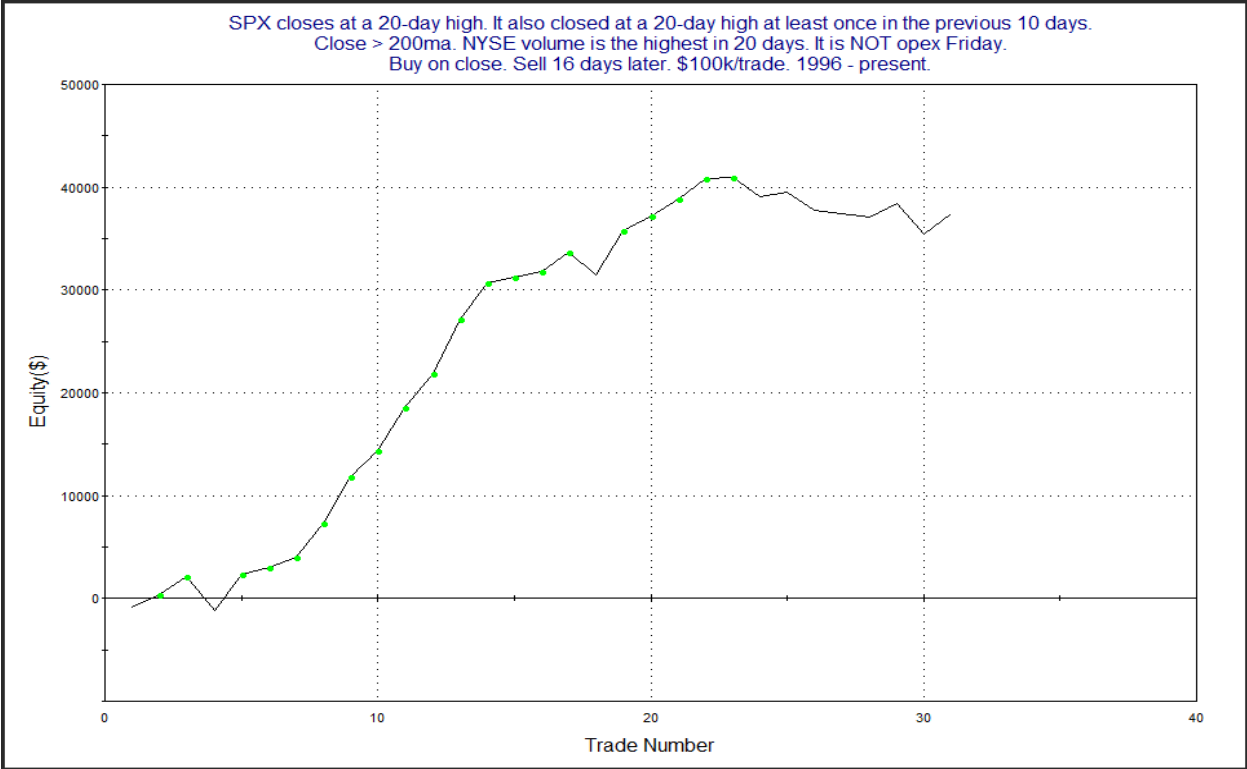
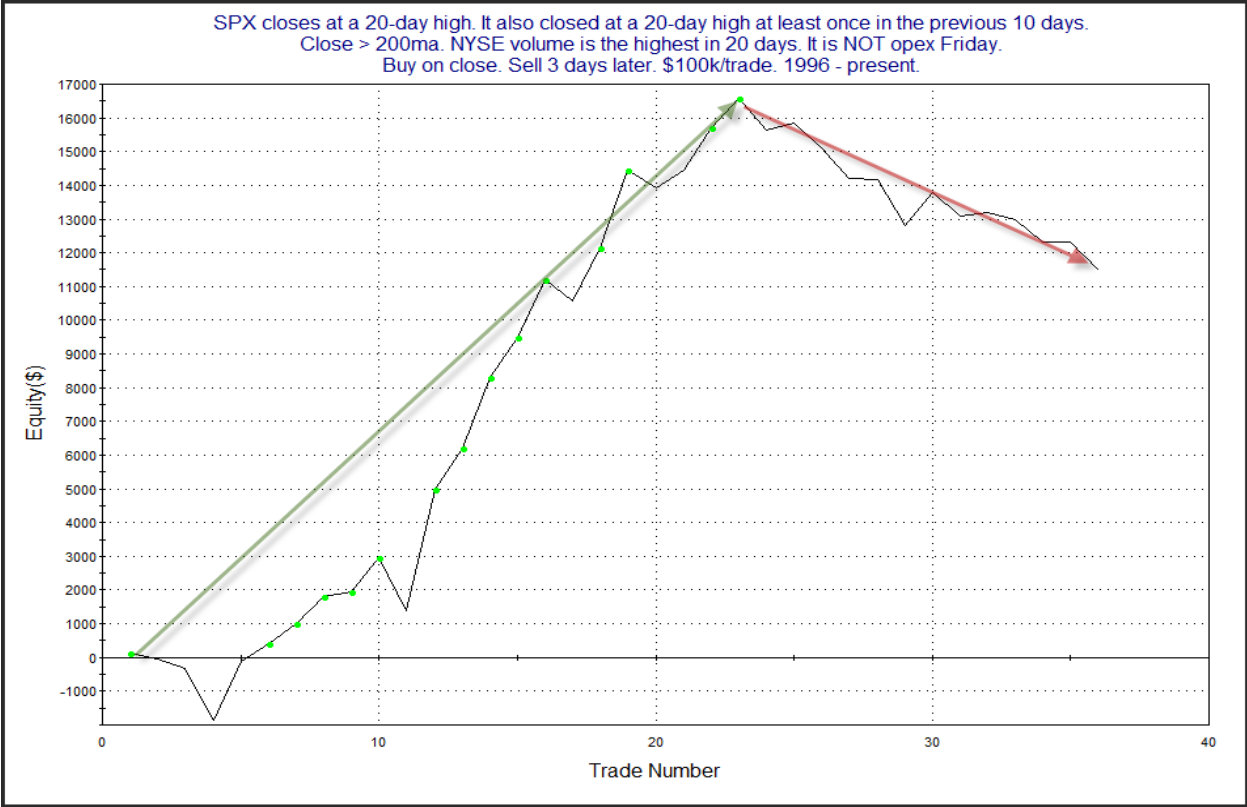
A small struggle lately, but the stats and curve appear strong enough to include this study on the active list.

Of course that is not always the case with studies. Sometimes that lose their edge and I just need to remove them from the Quantifinder. I don't always talk about them when I do this, but I noted

an interesting one this weekend, that I thought I would use as an example. It looked at big volume days that occur along with new highs that are NOT fresh breakouts from a basing pattern. There is also a filter excluding opex Fridays, since those are often the highest volume day of the month. Below is updated results of the study.

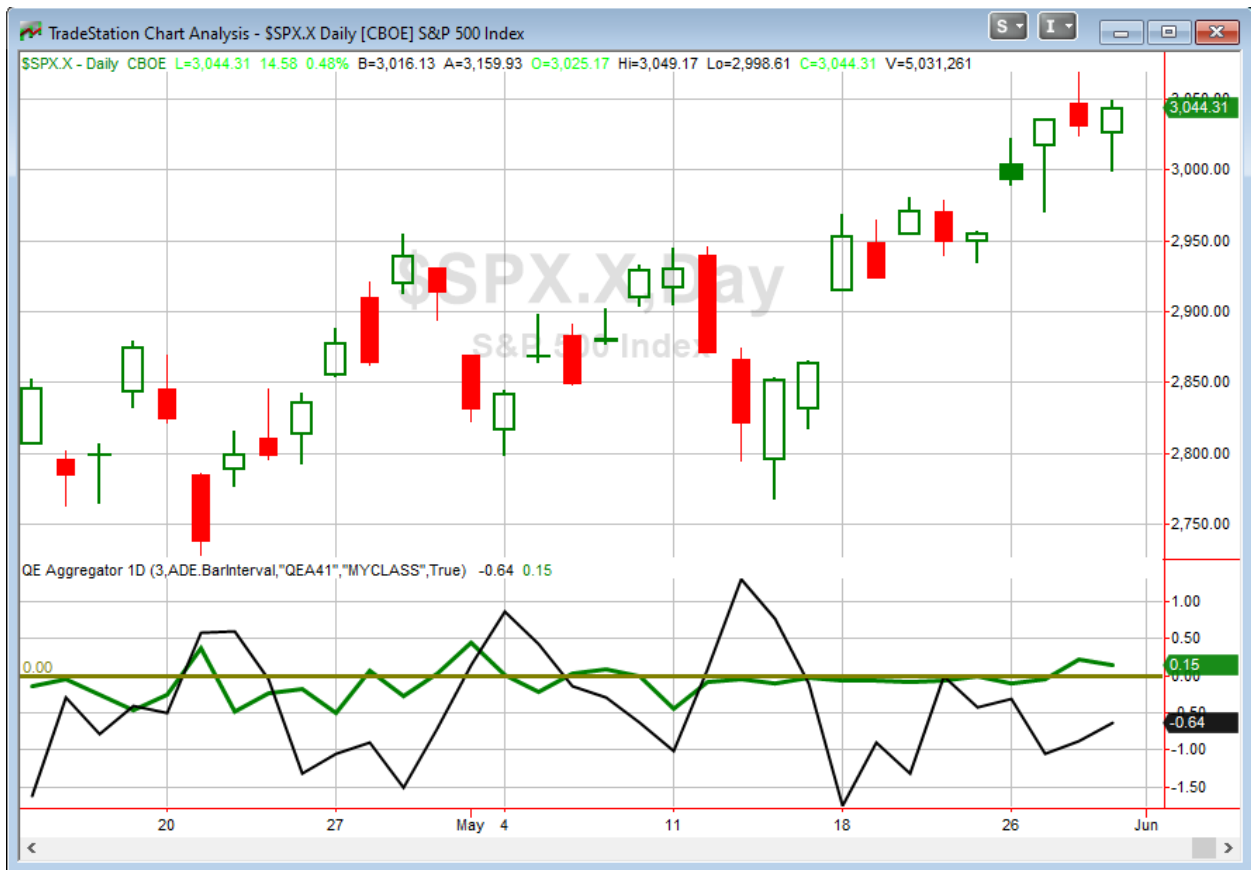
SPX closes at a 20-day high. It also closed at a 20-day high at least once in the previous 10 days. Close > 200ma. NYSE volume is the highest in 20 days. It is NOT opex Friday. Buy on close. Sell X days later. \$100k/trade. 1996 - present.													
X Days	All: Net Profit	All: Total Trades	All: Winning 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	
20	44,534.07	31	23	8	74.19	6,447.84	-5,372.73	2,709.38	-2,222.71	1.22	3.50	1,436.58	
19	42,309.80	31	23	8	74.19	6,379.16	-4,733.52	2,717.76	-2,524.84	1.08	3.09	1,364.83	
18	38,355.63	31	23	8	74.19	5,997.88	-5,186.38	2,438.61	-2,216.54	1.10	3.16	1,237.28	
17	37,697.55	31	23	8	74.19	5,665.56	-4,998.59	2,471.31	-2,392.82	1.03	2.97	1,216.05	
16	37,475.53	31	23	8	74.19	5,316.64	-3,266.28	2,222.00	-1,703.80	1.30	3.75	1,208.89	
15	36,501.24	32	21	11	65.63	5,280.54	-3,939.84	2,491.48	-1,438.18	1.73	3.31	1,140.66	
14	32,889.94	32	23	9	71.88	4,999.68	-3,993.99	2,148.41	-1,835.94	1.17	2.99	1,027.81	
13	32,968.26	32	23	9	71.88	4,789.50	-2,847.90	2,150.64	-1,832.93	1.17	3.00	1,030.26	
12	26,994.54	32	22	10	68.75	4,951.21	-2,992.08	2,007.60	-1,717.27	1.17	2.57	843.58	
11	20,904.46	32	22	10	68.75	5,026.96	-3,677.70	1,800.92	-1,871.59	0.96	2.12	653.26	
10	16,047.65	32	20	12	62.50	4,304.04	-3,676.86	1,786.54	-1,640.26	1.09	1.82	501.49	
9	16,732.54	32	21	11	65.63	3,941.96	-4,420.68	1,723.52	-1,769.21	0.97	1.86	522.89	
8	18,831.86	32	20	12	62.50	4,503.68	-2,963.67	1,788.29	-1,411.17	1.27	2.11	588.50	
7	16,097.85	33	22	11	66.67	2,907.80	-2,478.63	1,302.33	-1,141.23	1.14	2.28	487.81	
6	14,707.96	33	24	9	72.73	2,721.95	-4,691.70	1,237.18	-1,664.92	0.74	1.98	445.70	
5	7,159.33	33	19	14	57.58	2,489.51	-2,959.32	1,192.95	-1,107.62	1.08	1.46	216.95	
4	9,103.34	34	18	16	52.94	3,276.08	-2,560.74	1,253.04	-840.71	1.49	1.68	267.75	
3	11,483.56	36	20	16	55.56	3,578.64	-1,553.21	1,128.78	-693.26	1.63	2.04	318.99	
2	4,732.46	37	22	15	59.46	1,593.78	-1,421.00	616.19	-588.25	1.05	1.54	127.90	
1	-1,147.66	43	20	23	46.51	1,109.66	-1,099.82	378.22	-378.79	1.00	0.87	-26.69	

At 1st glance, such days appear to suggest an upside edge. But the profit curves tell a much different story. Below are the curves for the 3-day and 16-day holding periods.



What was once a clear upside edge has now appeared to flip. (Though I don't believe there are enough recent instances to label this a bearish edge.) There is no way I'd consider this a bullish setup anytime soon. This is not unusual to see edges fade or disappear over time. Sometimes they get arbitrated out, and sometimes it is due to something else changing with the market. I have seen this happen to volume studies more than any other kind over the last several years. I don't know why. Perhaps it is due to more off-exchange trading messing with volume numbers, or perhaps increased derivatives trading has impacted studies like this, or maybe something else has changed. In any case, what once appeared to provide an edge, no longer does. This is why I always consider it important to be constantly updating the studies so that the research continues to evolve with the market.

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



With tonight's evidence included, 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 is again below 0. The negative Differential Line reading means SPX is 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 signal stayed flat at the close.

Based on the current list of active studies, expectations are set to remain bullish on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3031.20 on Monday. That is 0.4% below Friday's close. Therefore, it will take a drop of at least 0.4% on Monday to see SPX flip from overbought to oversold vs expectations.

So the Aggregator is neutral. I am too. Evidence is somewhat mixed, and with the market short-term overbought, I am not inclined to take on new long exposure. I'll continue to wait for a more compelling reward/risk setup to emerge before jumping into my next index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/26 – neutral

Combo #1	Combo #2	Combo #3
Long	Long	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 there were no changes to the Combo system statuses.*

This last week was a strong one for the indices. The SPX gained 3.0%, the NASDAQ rose 1.8%, and the Russell 2000 climbed 2.8%. The intermediate-term trend is still a matter of interpretation. Several indices are at/near 50-day highs, but also below their 200-day moving averages. No new intermediate-term studies emerged this past week.

Below is an updated copy of the zoomed in “Trend vs Chop” chart I showed last weekend. If you want to read more about the background of this chart, you can check out the [“Daily Chop vs Trend in Bear Markets” special report I did in March](#).



Chop tends to prevail when markets are emotionally driven, and most reactions are overreactions. This is more common when the market is falling, as it was in March. The dampened volatility seen starting in April and then further in May, has also dampened the daily chop. If the market rolls over and a new leg down begins, I would expect the daily chop edge to quickly reassert itself.

The Fed posted the latest update to the SOMA holdings after the close on Thursday, and it was a somewhat surprising one.

« As of 05/20/2020

DOMESTIC SECURITIES HOLDINGS AS OF

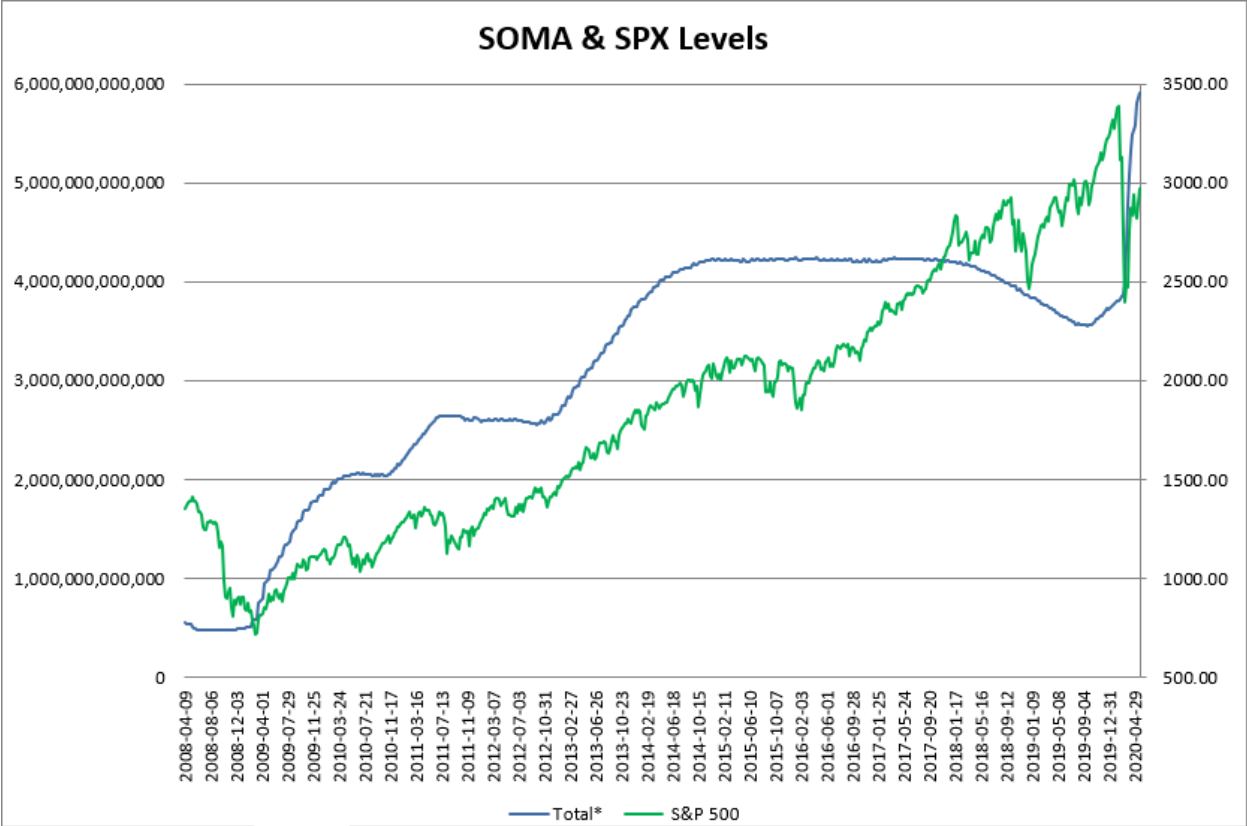
May 27, 2020

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,473,628,049.6
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	257,450,919.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,826,211,559.2
Agency Commercial Mortgage-Backed Securities***	8,898,441.3
Total SOMA Holdings	5,910,125,715.2
Change From Prior Week	-7,595,558.7

*Does not reflect inflation compensation of 36,843,449.2
**Fannie Mae, Freddie Mac and Federal Home Loan Bank
***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

Data posted on 05/28/2020 4:30pm.

For the 1st time in 2020, the SOMA account actually declined on a weekly basis. This could just be an anomaly, perhaps partially caused by the Memorial Day holiday. I expect we will see strong new increases in the SOMA over the next few weeks. But this is certainly something to keep an eye on. Our SOMA/SPX chart is updated below.



The SOMA is still near new highs, having risen over \$2 trillion in just the last 11 weeks. Massive QE stimulus in the past has always provided a huge boost for the market. And this is bigger than anything else ever seen. Of course, the battle the Fed is fighting now is different than any we have seen since Fed SOMA data has been available (2003). Having the Fed so dovish is a big positive for the market. It will be important to monitor whether their strongly dovish actions continue or whether we see a big reduction in QE as we saw this past week.

No other new and compelling intermediate-term studies hit my radar this past week. The list of factors to watch is copied from last weekend’s letter. I don’t believe the last few days have changed much, and everything on the list is still worth monitoring.

The market certainly has a lot to consider right now. Major stories that could impact the markets in the coming weeks and months include

- *the continued re-opening and recovery of the economy*
- *government stimulus (monetary and fiscal)*
- *China relations and potential trade issues*
- *COVID treatment/vaccine/spread news*
- *Market valuations (Growth vs. value, tech vs. financial, and S&P forward EPS all appear to be at extreme levels.)*

Intermediate-term I remain neutral. Fed pumping favors the bulls. We have also seen some compelling long-term evidence based on breadth thrusts in March, April, and now May. There are a lot of wildcards out there that could quickly turn the market back to selloff mode. And summer seasonality is generally not good. So can US and world governments continue to prop up economies and markets until people and businesses are able to adjust? I think it is unlikely that it is going to be continued smooth sailing without some storms arriving. I still anticipate opportunities in both directions should continue to emerge. So I will stand ready to take advantage of compelling setups both long and short.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

OpenCatapult 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

None

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