

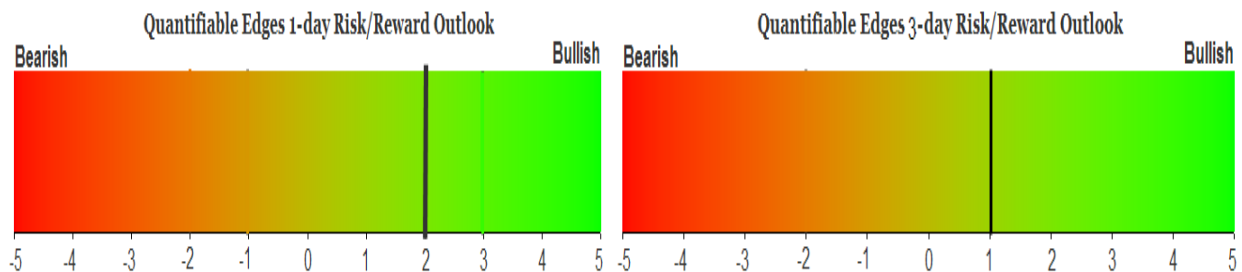
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 22, 2020

Volume 13 Issue 120

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The Russell has consistently outperformed the SPX in late June since the turn of the century.
- The weeks after opex in March, June, and September have been the worst of the year.
- SOMA flows increased greatly, which is supportive of a continued rally.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but the edge is only set to last 1 day.

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 22, 2020	June post-opex week weak	1-5 days	Bearish	-1.80%	1.00%	1.70%
June 17, 2020	Up 2% + in 3 days. 3/10 HV < 0.25	1-6 days	Bullish			
Active - Long Term						
June 15, 2020	Anti-Zweig Breadth Collapse	1-21 days	Bearish			
June 8, 2020	3 Breadth Sigs (BAM/90%Day/A-D Hi)	1-63 days	Bullish			
June 4, 2020	SPX RSI2 crosses 99	1-18 days	Bullish			
April 30, 2020	3 7 0% 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			

The Evidence

Friday started strong but ended with mixed results. The SPX closed down 0.6%, the NASDAQ rose 0.03%, and the Russell 2000 lost 0.6%. Breadth was negative as the NYSE Up Issues % was 35% and the Up Volume % came in at 28%. NYSE total volume saw a huge spike as it often does on opex Friday.

Interesting about late June is that we have Russell rebalancing at the end of the month. In the past, this period has also seen the Russell 2000 outperform the S&P 500 by a sizable margin. This is something I looked at last year in the 6/24/19 letter. The table below shows how the Russell 2000 has done versus the SPX from the close the Tuesday after June Opex until the close on the last trading day of June.

% Change from close on Tuesday after June			
Opex through last day of June. 2001 - 2019			
Year	RUT	SPX	Difference
2001	4.89%	0.97%	3.92%
2002	2.25%	1.40%	0.85%
2003	1.70%	-0.91%	2.61%
2004	3.43%	0.56%	2.87%
2005	-0.22%	-1.84%	1.62%
2006	6.75%	2.45%	4.30%
2007	-1.76%	-1.98%	0.22%
2008	-2.56%	-2.61%	0.05%
2009	3.76%	2.71%	1.06%
2010	-5.64%	-5.90%	0.26%
2011	2.62%	1.94%	0.68%
2012	1.53%	0.31%	1.23%
2013	1.69%	1.15%	0.54%
2014	1.68%	0.53%	1.16%
2015	-3.23%	-2.88%	-0.35%
2016	-0.17%	0.48%	-0.65%
2017	0.88%	-0.56%	1.44%
2018	-2.97%	-1.59%	-1.38%
2019	2.99%	0.84%	2.15%

For much of the last 19 years the Russell 2000 has outperformed the SPX during this late June period, though the last few years there have been a few stumbles. The average outperformance over the 19 year period has been 1.19%. This would seem worth keeping in mind as we close out June. A spread trade is one way to play it. I don't generally suggest spread trades here in the letter. But I might consider taking a long in the RUT rather than the SPX if we have a setup where I am considering an index trade.

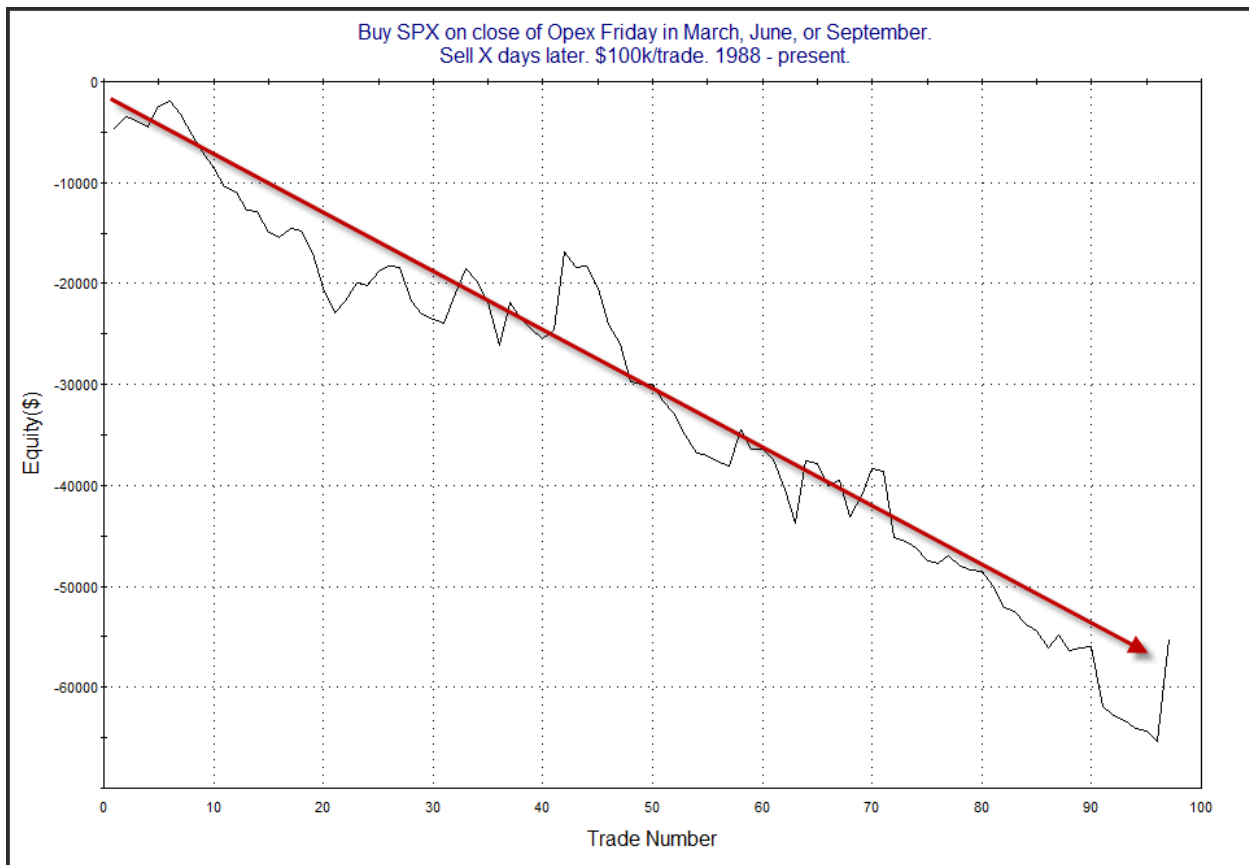
Also worth noting from a seasonal standpoint is that the week after Opex is sometimes bearish. This has often been the case following Quad-witching, which is March, June, September, and December. Of course the 2nd half of December has shown bullish seasonality historically (ignore 2018), but those other 3 have NOT been good weeks for the market. I actually ran the below studies in Wednesday night's letter, and have copied them here.

Below is a look at results if someone were to have bought opex Friday's close in March, June, and September since 1988...The table below is updated from the 6/24/19 letter.

Buy SPX on close of Opex Friday in March, June, or September.
Sell X days later. \$100k/trade. 1988 - 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	-55,193.44	97	25	72	25.77	10,171.65	-6,525.56	2,219.97	-1,537.40	1.44	0.50	-569.00
4	-33,169.32	97	31	66	31.96	13,981.45	-7,088.90	1,966.32	-1,426.14	1.38	0.65	-341.95
3	-25,606.83	97	34	63	35.05	7,337.52	-5,455.74	1,440.47	-1,183.86	1.22	0.66	-263.99
2	-22,272.16	97	36	61	37.11	6,123.63	-5,283.52	1,101.81	-1,015.36	1.09	0.64	-229.61
1	-16,161.14	97	36	61	37.11	7,069.40	-3,791.21	894.67	-792.94	1.13	0.67	-166.61

The numbers all point south. Below is a look at the profit curve.

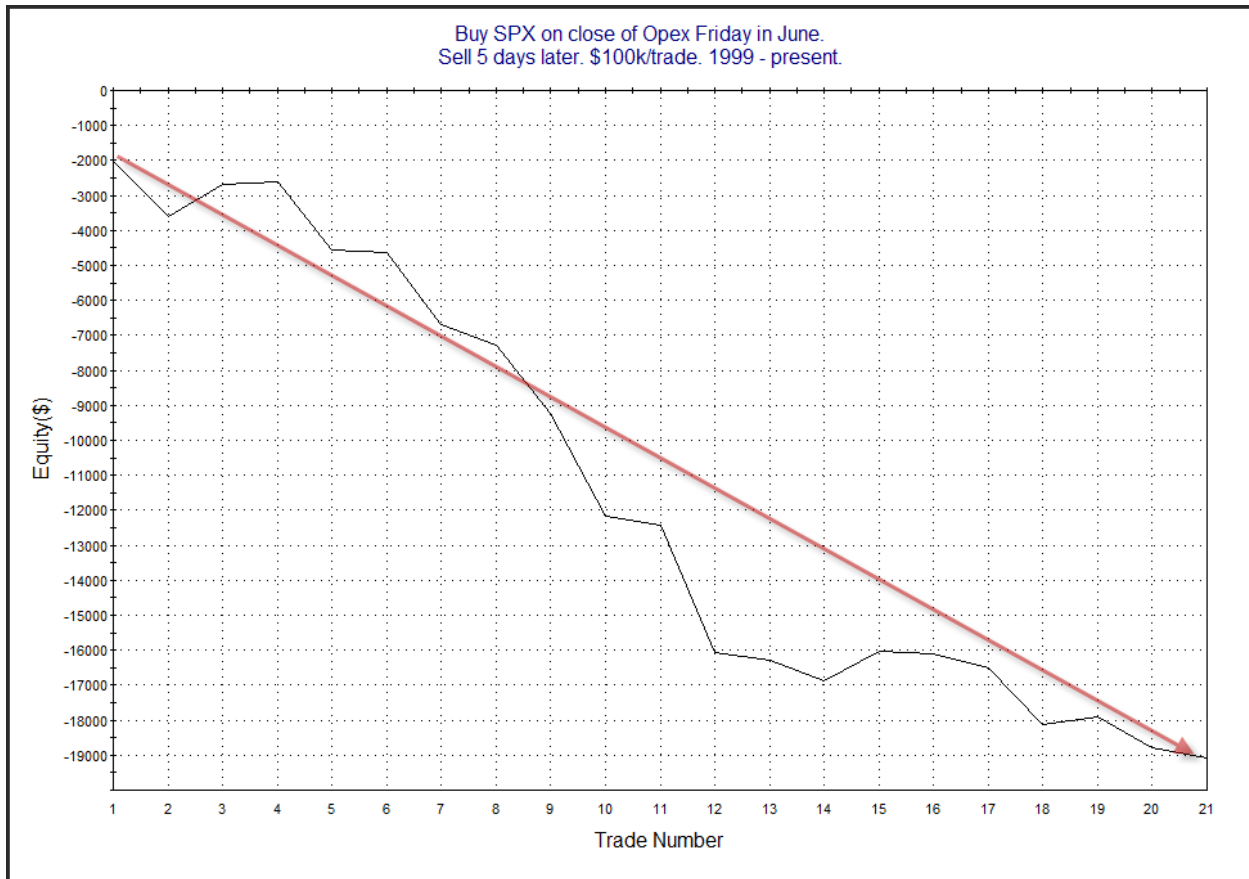


The strong, steady downslope is also supportive of the idea of a seasonally bearish edge. The last instance was in March, and the bearish seasonality there was overwhelmed by the massive oversold bounce.

I also examined June dating back to 1999, when its bearish tendency really seemed to kick in.

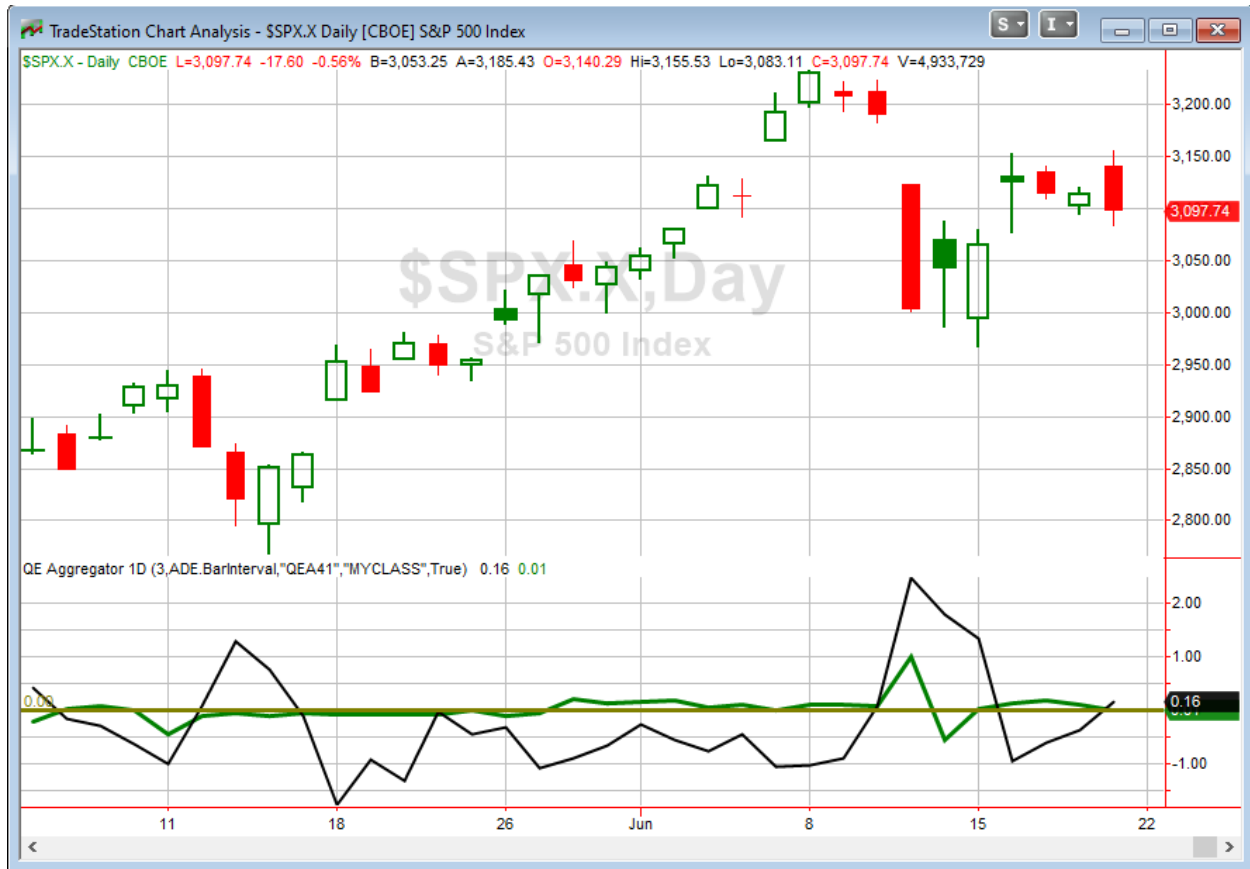
Buy SPX on close of Opex Friday in June. Sell X days later. \$100k/trade. 1999 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-19,065.21	21	4	17	19.05	906.92	-3,626.75	511.36	-1,241.80	0.41	0.10	-907.87
4	-9,917.54	21	7	14	33.33	2,020.80	-3,899.98	971.99	-1,194.39	0.81	0.41	-472.26
3	-5,713.32	21	10	11	47.62	1,219.92	-2,266.83	649.57	-1,109.91	0.59	0.53	-272.06
2	-6,558.77	21	7	14	33.33	1,873.56	-2,822.04	790.58	-863.77	0.92	0.46	-312.32
1	-3,403.15	21	9	12	42.86	1,463.36	-3,044.52	555.20	-700.00	0.79	0.59	-162.05

June stats are even more bearish. Below is a look at the profit curve.



That is an impressive downslope. Something to keep in mind for next week.

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



Even with tonight's evidence considered, the green Aggregator remained slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line inched above 0. The positive Differential Line reading means 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 signal turned long at the close.

Based on the current list of active studies, expectations are set to flip to negative on Monday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3124.74 on Monday. That is 0.9% above Friday's close. So SPX would need to close up at least 0.9% on Monday in order to flip from oversold to overbought vs recent expectations.

While the Aggregator is bullish, expectations are set to flip to bearish as early as Monday afternoon. A move up on Monday would likely not change that. So there seems to be very limited room to profit here. Limited upside in a volatile environment is not a terribly appealing setup. I'll wait for a more compelling reward/risk opportunity before putting on a new index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/22 - 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 saw solid gains for the market. The SPX rose 1.9%, the NASDAQ jumped 3.7 %, and the Russell 2000 climbed 2.2%. The intermediate-term trend is not 100% clear, but we have more indicators still pointing up than 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.

« As of 06/10/2020

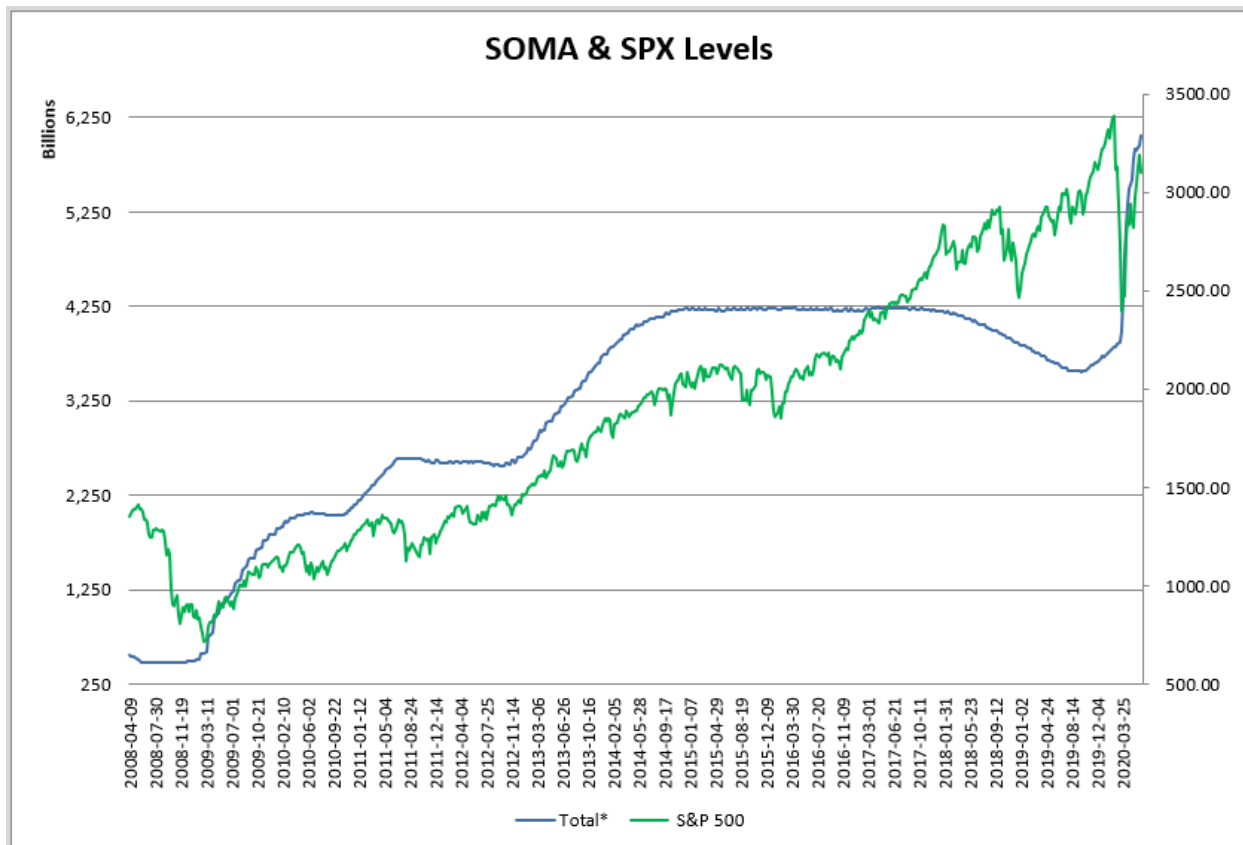
DOMESTIC SECURITIES HOLDINGS AS OF
June 17, 2020

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,526,843,049.6
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	264,551,919.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,909,627,876.5
Agency Commercial Mortgage-Backed Securities***	9,113,330.5
Total SOMA Holdings	6,054,072,921.7
Change From Prior Week	102,162,032.9

*Does not reflect inflation compensation of 36,355,567.9
 **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 06/18/2020 4:30pm.

After seeing an average rise of just \$11 billion over the previous 3 weeks, the Fed did a tremendous amount of buying this past week, and the SOMA rose over \$100 billion. It appears the Fed is determined to continue pumping strongly. This means a bullish liquidity environment for the market. Below is a look at our SOMA/SPX chart dating back to 2009.



The SOMA is again at new highs, having risen over \$2.18 trillion in just the last 14 weeks. And while the Fed looked like it might be taking its foot off the gas over the previous few weeks, that no longer seems to be the case. Recent comments, and more importantly, huge SOMA flows over the last week and a half, show they remain aggressive in their efforts to stimulate the economy. And that is good for the market.

Powell has hinted that continued congressional support is also important. Unemployment remains extremely high, and there were again 1.5 million new claims this past week. One concern now about the new claims is that they are in jobs that are unlikely to get quickly hired back. Layoffs in

March were seen as temporary while the economy was in a forced shutdown. But now that the economy is ramping back up, new layoffs are generally not of the type where staff is really expecting to come back to work in a few weeks. The \$600 extra in unemployment benefit payments is set to expire at the end of July. And state and local governments are all seeing budget cuts. (Nearly every town in Massachusetts is laying off teachers.) So more Federal stimulus will almost certainly be needed. As we get closer to the election it may get more difficult to get Democrats and Republicans to agree on anything. It is a tough political landscape right now, and hopefully that does not prevent congress from getting additional stimulus passed as needed.

My biggest concerns last week that brought me from slightly bullish to neutral were 1) SOMA increases had slowed dramatically, and 2) breadth had quickly turned sour. Breadth still is not great, but at least the Fed confirmed it still is on the side of the market. So I considered inching the intermediate-term outlook back up to “slightly bullish”. But there are still a lot of wildcards out there. And COVID-19 spikes in the south and west are starting to generate more concern. With this week being seasonally bearish, I decided to leave the outlook at neutral for now. But I could easily flip it back to “slightly bullish” or stronger next weekend. For now I will remain demanding before take on new positions either long or 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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