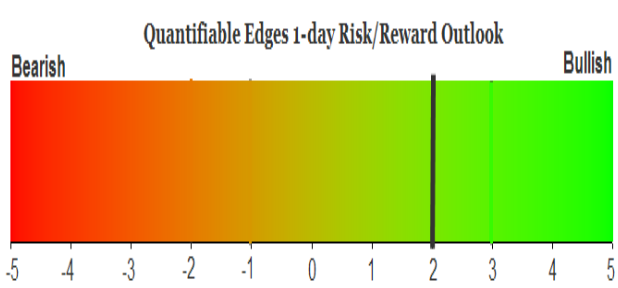
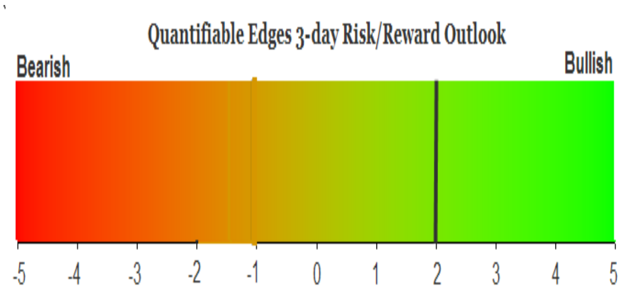
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 29, 2020 Volume 13 Issue 125

Market Overview





Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The 2nd day of strong selling in the last 3 without making a 10-day intraday low is something that is typically followed by a quick bounce.
- The Fed continues to pump at a high level.
- The NASDAQ has lead the SPX for the 3rd longest length of time in history.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. I am leaning that way as well.

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 29, 2020	2x 1.75% drop in 3 days. No 10-low	1-2 days	Bullish	3.10%	-2.10%	-4.60%
June 24, 2020	RUT outperforms SPX late Jun	thru 6/30				
June 23, 2020	NASDAQ up 15 of 17. Bullish for NAS	1-6 days	SPX neutrl			
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 70% 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, tgt hit, or avg ddn + 1 std dev exceeded)						
June 26, 2020	***1% gain on lowest volume in 10 day***	***1-3 days***	***Bearish***	***-2.40%***	***1.10%***	***2.10%***
June 25, 2020	***2% drop from 5-high to 5-low > 200***	***1-2 days***	***Bearish***			

The Evidence

Friday saw some selling ahead of the weekend as COVID spikes have begun to lead to slowdowns and closures in the south and west of the US. The SPX closed down 2.4%, the NASDAQ fell 2.6%, and the Russell 2000 declined 2.4%. Breadth was negative as the NYSE Up Issues % was 19% and the Up Volume % came in at 16%. NYSE total volume came in very high.

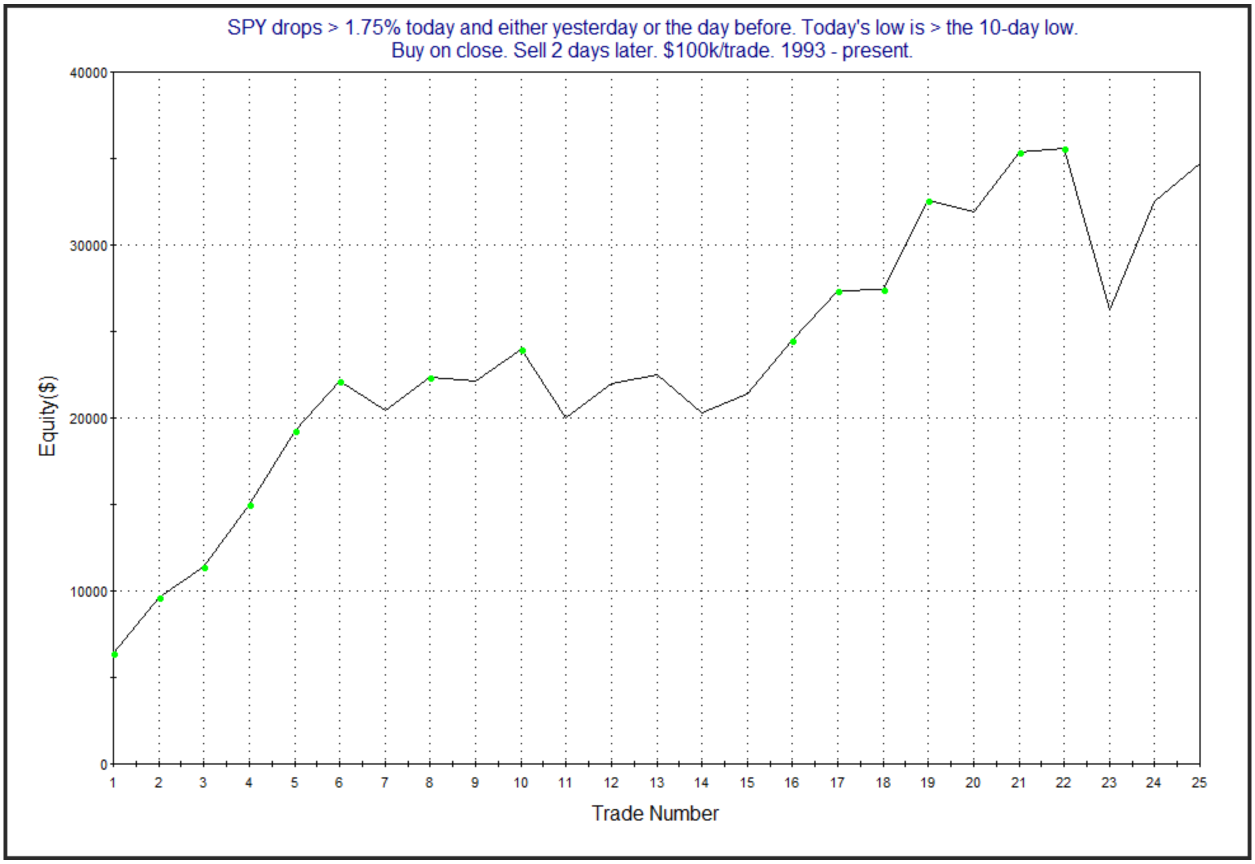
Interesting about the big selloff on Friday was that it was the 2nd one in the last 3 days, and it did not even manage to make a 10-day intraday low. This triggered the study below, which was last seen in the 4/22/20 letter.

SPY drops > 1.75% today and either yesterday or the day before. Today's low is > the 10-day low.
Buy on close. Sell X days later. $100k/trade. 1993 - 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	16,691.45	22	14	8	63.64	10,758.94	-17,935.50	3,912.39	-4,760.25	0.82	1.44	758.70
4	23,637.36	23	16	7	69.57	14,158.80	-12,890.18	4,074.44	-5,936.24	0.69	1.57	1,027.71
3	24,985.65	23	17	6	73.91	7,861.63	-7,379.07	2,998.36	-4,331.08	0.69	1.96	1,086.33
2	32,527.29	24	18	6	75.00	6,363.32	-9,315.90	2,817.40	-3,030.99	0.93	2.79	1,355.30
1	17,806.24	26	19	7	73.08	4,803.44	-3,479.04	1,703.42	-2,079.81	0.82	2.22	684.86

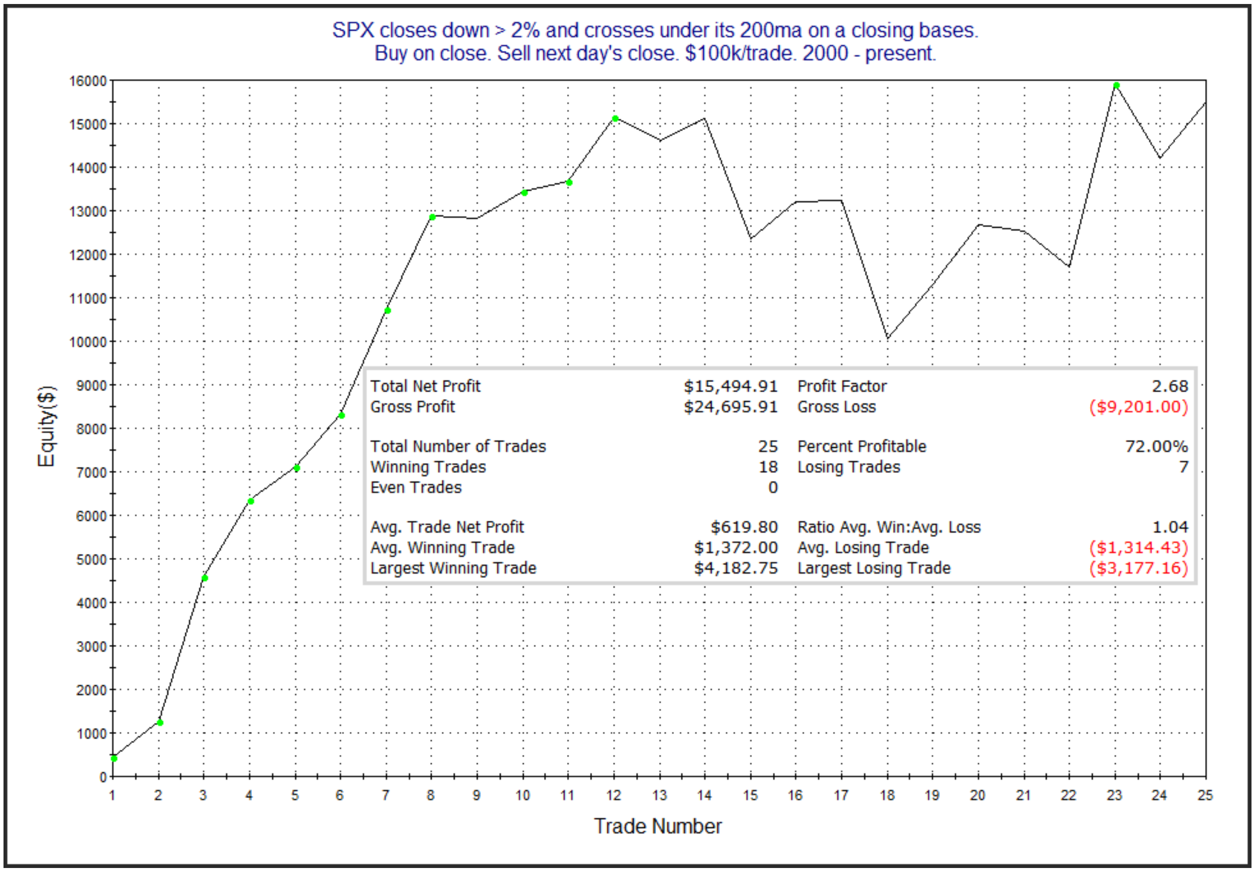
24 of 26 instances (92%) closed above the entry price
at some point in the next 3 days.

Over the 1st few days the consistency and the results were strong. Below is a profit curve for the 2-day holding period.



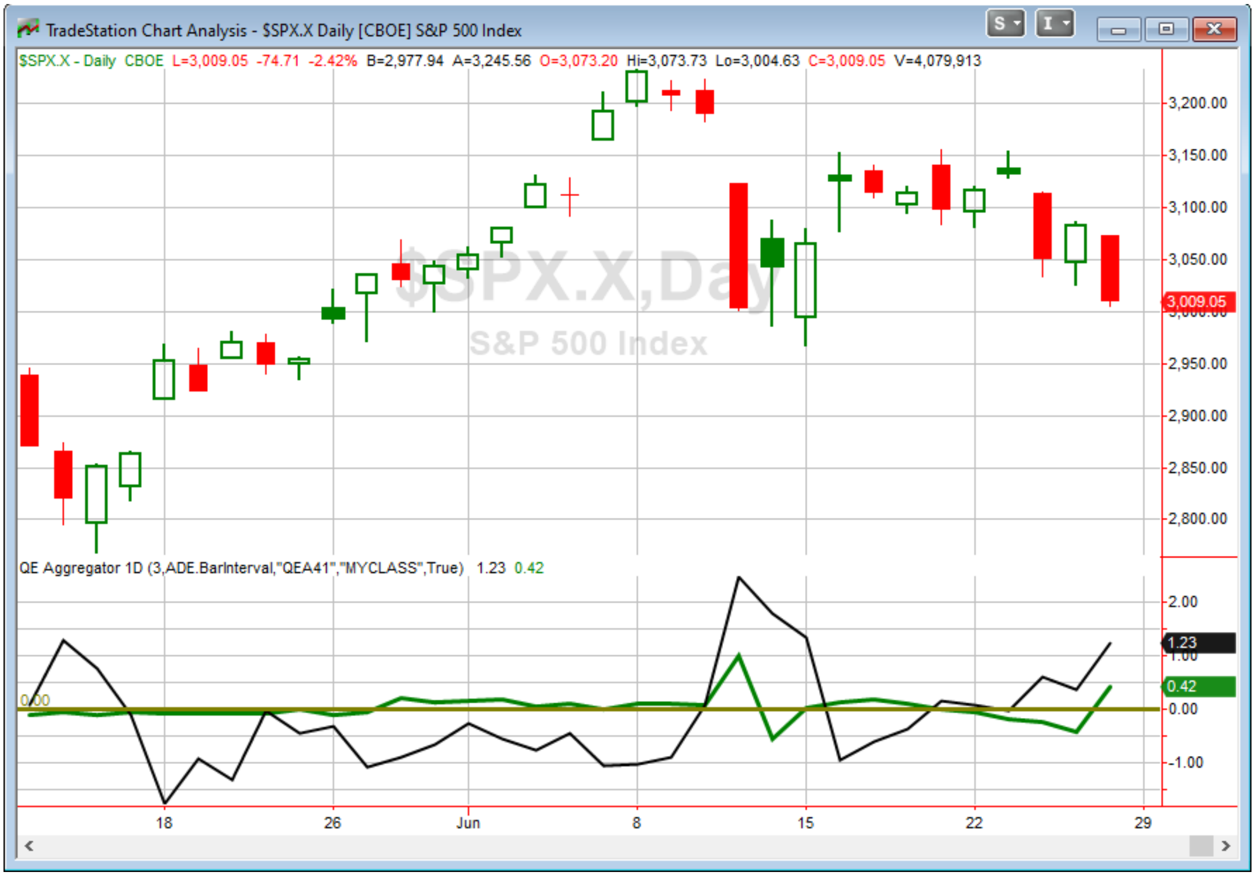
Not the greatest curve, but it is back near a new high, and I felt it was good enough to merit some consideration.

I'll also note that the strong selling pushed the SPX down through its well-watched 200-day moving average. The study below looks at other instances of strong moves down through the 200ma.



The numbers are fairly bullish for a 1-day holding period. But the curve is pretty weak, with almost all of the gains occurring in the 1st half of instances. I did not include this study on the active list tonight. But I did think it was interesting enough to share.

I have updated [the Aggregator chart] below.



With tonight's evidence factored in, and the bearish study from Thursday night reaching its target and being removed, the green Aggregator Line climbed above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is 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 remain positive on Monday. This could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3034.95 on Monday. That is 0.9% above Friday's close. Therefore, SPX would need to close up at least 0.9% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. Evidence is pointing higher, but there really is not a long of short-term evidence. I'd like to see additional bullish evidence before taking any kind of aggressive positioning – especially with the neutral intermediate-term outlook. That said, reward/risk appears favorable for longs. If I can get a favorable fill on Monday, then I will look to take on a small long position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/29 – neutral

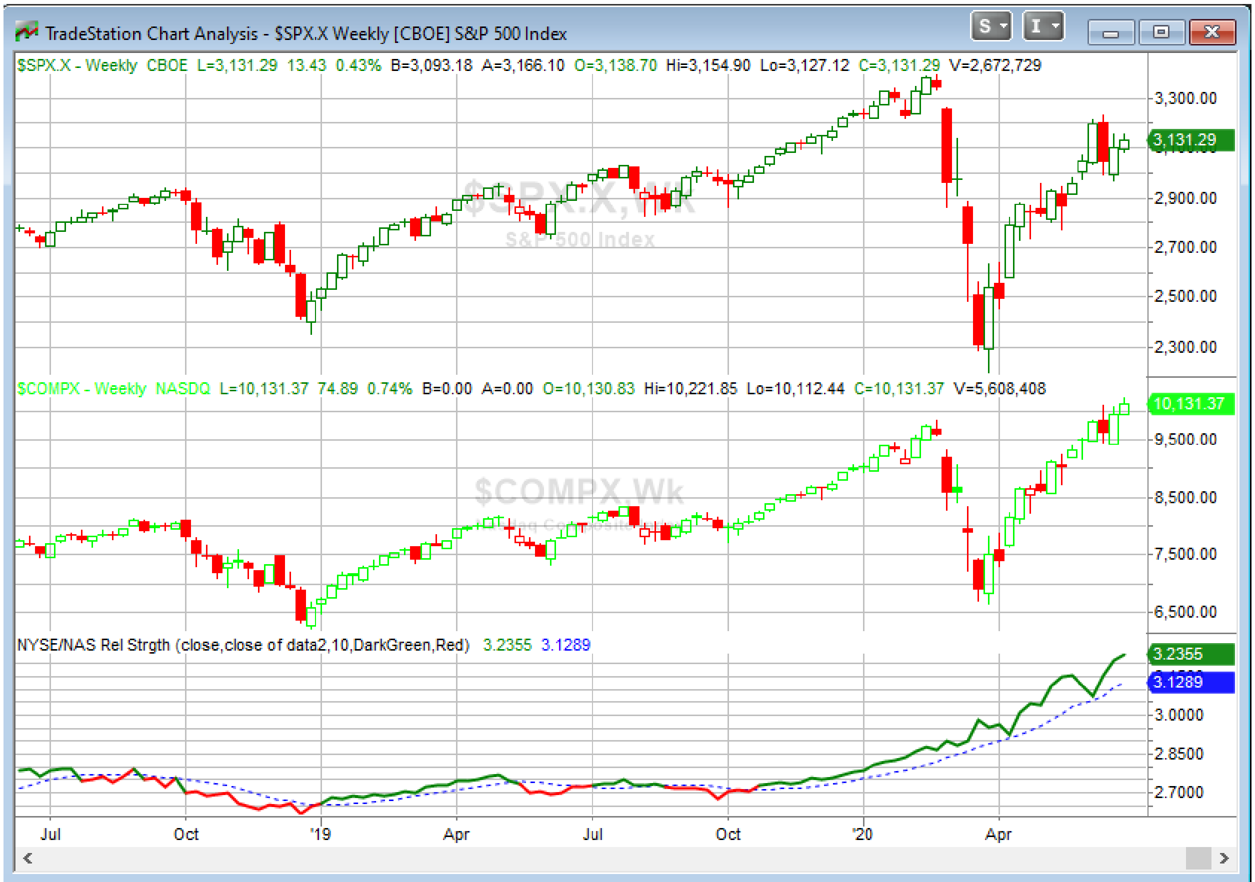
Combo #1	Combo #2	Combo #3
Long	Long	Flat

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 tough one for the market. The SPX fell 2.9%, the NASDAQ lost 1.9 %, and the Russell 2000 lost 2.8%. The intermediate-term trend is not 100% clear, but we have more indicators still pointing up than down.

In Tuesday night's letter I took a look at the NASDAQ/SPX Relative Strength Indicator. I have copied that discussion below.

One indicator I have not discussed in a long time is the NASDAQ/SPX Relative Strength Indicator. This indicator is discussed on in the website, and also in the Market Timing Course. Basically, it measures the strength of the NASDAQ vs the strength of the SPX. Times when the NASDAQ has lead, the market has done substantially better than when the NASDAQ is lagging. Below is a current chart with the indicator shown.



As you can see, the NASDAQ has been leading since October. Today marked trading day 166 that the NASDAQ has lead. This is an extremely long time for it to lead. In fact, there have only been two other instances of this length. I decided to show charts of them below. I marked when day 165 was reached, and then I also marked the day that the indicator flipped and the NASDAQ fell into a lagging position. Charts below both show the NASDAQ Composite.

Not that you necessarily want to draw a strong conclusion from just 2 instances. It is impressive that we have seen such a persistent streak of NASDAQ outperformance. I will note that in both cases when the NASDAQ finally stopped leading, it suffered a substantial decline. Something to keep in mind as we monitor this indicator in the coming weeks.

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

« As of 06/17/2020

DOMESTIC SECURITIES HOLDINGS AS OF

June 24, 2020

Summary | T-Bills | T-Notes and T-Bonds | FRN | TIPS | Agencies

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,555,378,049.6
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***	1,934,299,385.0
Agency Commercial Mortgage-Backed Securities***	9,142,110.5
Total SOMA Holdings	6,107,308,210.2
Change From Prior Week	53,235,288.5

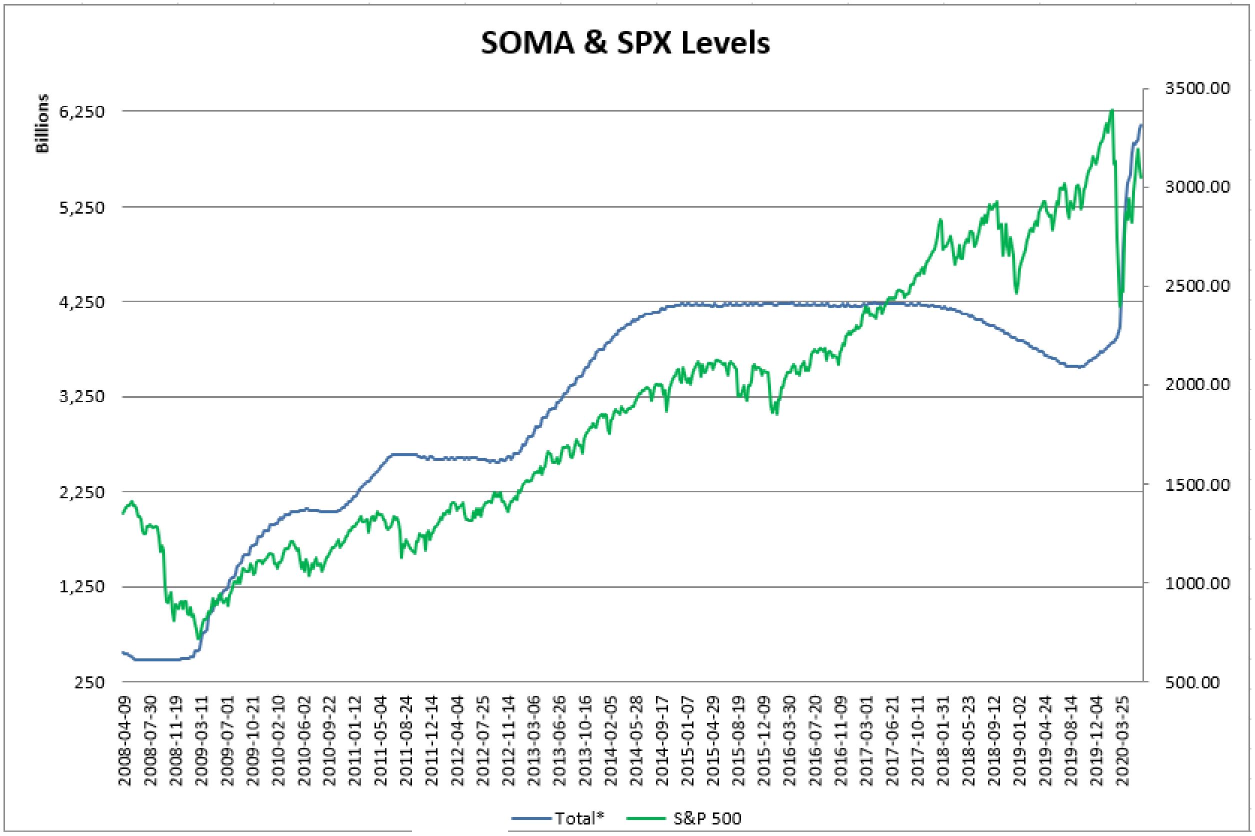
*Does not reflect inflation compensation of 35,884,411.3

**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 06/25/2020 4:30pm.

The $50 billion increase this past week was very large. 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 $2.68 trillion in just the last 15 weeks. And the Fed is still pumping strongly. Recent comments, and more importantly, huge SOMA flows over the last couple of weeks, show they remain aggressive in their efforts to stimulate the economy. And that is good for the market.

One concern are the COVID spikes currently happening. From an economic standpoint, it is especially concerning in in Texas, Florida, Arizona, and California. Dave Taggart recently had an interesting post, where he showed the top 25 counties in the US, based on GDP. Thirteen of the top 25 were in these four states. I have copied the table from his blog below.

County	State	GDP	% of USA GDP
LA County	California	7.11E+11	3.46%
NYC	NY	6E+11	2.92%
Cook	Illinois	3.62E+11	1.76%
Harris	Texas	3.61E+11	1.76%
Santa Clara	California	3.17E+11	1.54%
King	Washington	2.77E+11	1.35%
Dallas	Texas	2.41E+11	1.17%
Orange	California	2.3E+11	1.12%
Maricopa	Arizona	2.21E+11	1.08%
San Diego	California	2.19E+11	1.07%
San Francisco	California	1.63E+11	0.79%
Middlesex	Massachusetts	1.57E+11	0.76%
Fulton	Georgia	1.52E+11	0.74%
Miami-Dade	Florida	1.46E+11	0.71%
Alameda	California	1.31E+11	0.64%
Hennepin	Minnesota	1.23E+11	0.60%
Suffolk	Massachusetts	1.13E+11	0.55%
Philadelphia	Pennsylvania	1.11E+11	0.54%
Tarrant	Texas	1.09E+11	0.53%
Clark	Nevada	1.08E+11	0.53%
San Mateo	California	1.05E+11	0.51%
Travis	Texas	1.02E+11	0.50%
Oakland	Michigan	1.01E+11	0.49%
		Total	25.12%

I added the yellow highlight so you could easily see the counties that were in Florida, Texas, California, and Arizona. Those 13 counties account for about 15% of the United States GDP. So reduced economic activity or shutdowns in those states could have a substantial impact on the US economy.

With the selling this past week, the drop back below the 200ma for the SPX, and the COVID spike in key economic states, I am not inclined to move off my neutral intermediate-term outlook. Breadth has deteriorated some in recent weeks, and employment numbers and other wildcards could keep market participants on their toes for a while. We do still have several bullish studies that are active, and the leading NASDAQ remains a positive. And probably the biggest bullish influence is the supportive Fed. For now I will remain overall neutral, and demanding of strong setups 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*.

SPY – Buy ¼ index position @ $299.00 LIMIT ON OPEN. If not filled, cancel order and look to buy @ $299.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on some long exposure in SPY on Monday if there is a decent sized gap down, or a lower close (of the same amount). I am not interested in buy into an intraday SPY selloff if it does not open at/below my limit level.

Current Open Trade Ideas

None

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