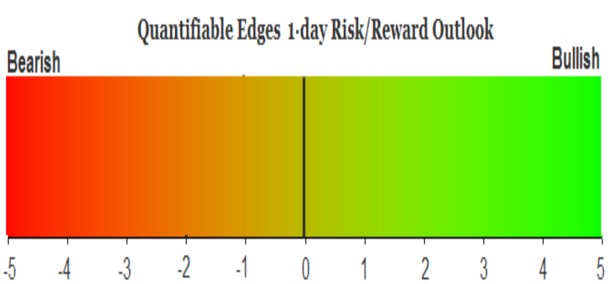
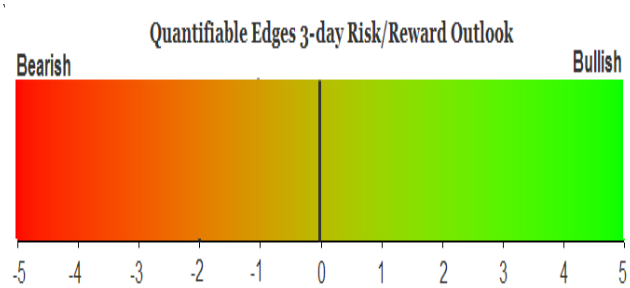
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 6, 2020 Volume 13 Issue 129

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPX up 4 days in a row above the 200ma without closing at a 10-day high is something that has consistently been followed by more gains over the last 20 years.
- Very strong quarters (15%+) have typically seen more rallying in the coming months – except in the 1930s.
- The SOMA account shrunk by a large amount this past week, but the Fed is still saying it will continue to provide liquidity. Could just be a calendar anomaly.

Short-term Outlook
The Bottom Line
The Aggregator is neutral and evidence is mixed. I don't see a strong short-term directional edge.

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						
July 6, 2020	Up 4 > 200ma but < 10-high	1-4 days	Bullish	1.80%	-0.70%	-1.45%
July 2, 2020	NDX up > 1%. SOX dn.	1-6 days	Bearish	-3.15%	1.80%	3.90%
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			
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)						
July 2, 2020	Employment tomorrow. Strg close 2day	1 day	Bullish			
June 30, 2020	2% dn to 10-low. 1% up < 2 ago. > 200	1-3 days	Bullish	2.40%	-1.20%	-2.50%

The Evidence

The market put in gains in both the SPX and the NASDAQ all 4 days this shortened week. On Thursday the SPX rose 0.5%, the NASDAQ gained 0.5%, and the Russell 2000 climbed 0.3%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 68%. NYSE total volume came in light ahead of the long weekend.

There were several that appeared in the Quantifinder that noted the low volume. Low volume can at times be a sign of complacency. So it can be a useful filter. But on the day before a long weekend, low volume is expected. It is not complacency. It is traders checking out early. So when low volume studies trigger heading into a long weekend, I tend to ignore them. And that is what I chose to do tonight as well.

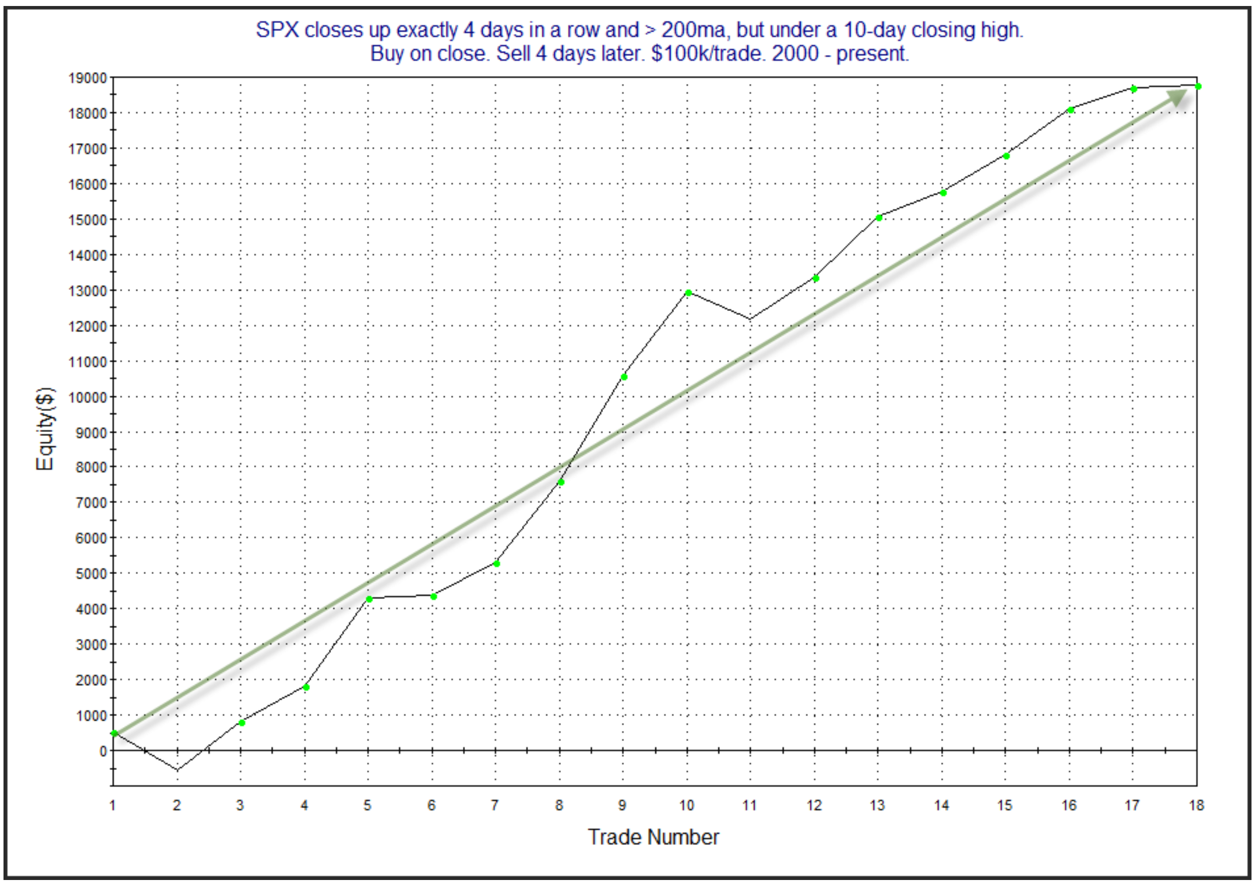
It is interesting that SPX has managed to close up four days in a row, but did not close at a 10-day high on Thursday. That suggests it is overbought very short-term, but there was some strong selling before the move up. I looked back at other times this has happened, and the results were surprisingly lopsided.

SPX closes up exactly 4 days in a row and > 200ma, but under a 10-day closing high.
Buy on close. Sell X days later. $100k/trade. 2000 - 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	15,725.20	18	13	5	72.22	2,783.52	-3,198.00	1,539.93	-858.79	1.79	4.66	873.62
4	18,787.13	18	16	2	88.89	2,964.84	-1,082.88	1,290.39	-929.57	1.39	11.11	1,043.73
3	16,958.41	18	13	5	72.22	3,000.26	-1,882.08	1,558.69	-660.92	2.36	6.13	942.13
2	15,962.28	18	15	3	83.33	2,459.85	-1,723.80	1,217.48	-766.66	1.59	7.94	886.79
1	5,524.88	18	12	6	66.67	1,973.52	-1,294.72	794.47	-668.12	1.19	2.38	306.94

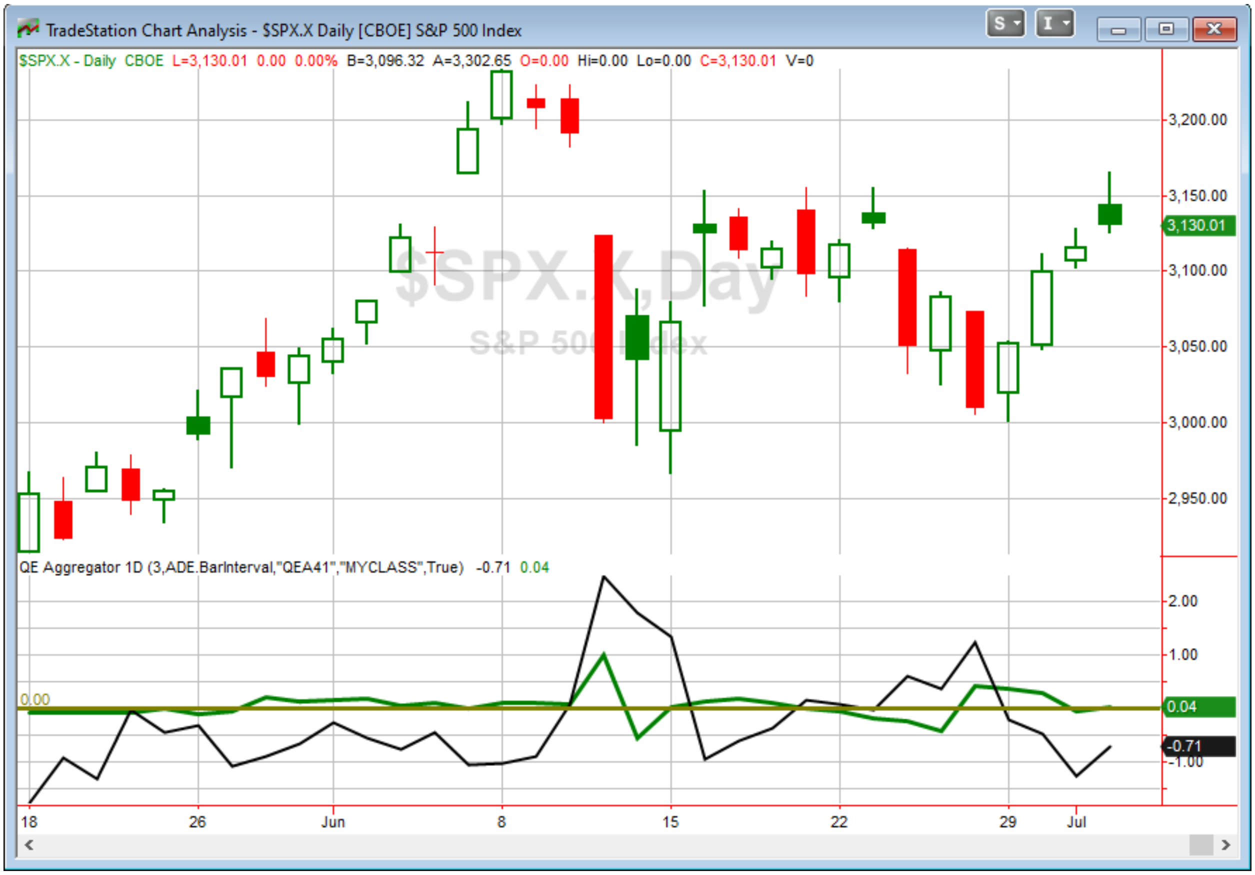
All 18 instances closed above the entry price
at some point in the next 4 days.

The short-term momentum has carried through over the next few days in every case. Looking out 4 days the record is 16-2 with an average gain of over 1%. Below is a look at the 4-day profit curve.



The curve shows a steady move from lower left to upper right, and serves as some confirmation of the bullish edge suggested by the numbers. I have added this study to the short-term active list.

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



With today’s evidence considered, the green Aggregator Line inched back above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are positive but SPX is overbought. This is a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. Therefore, the Aggregator signal turned flat 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 *inverted at* 3134.43 on Monday. That is 0.1% *above* Thursday’s close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close up a little over 4 points in order to remain overbought vs recent expectations. Anything less than that and it will be considered "oversold" as of Monday's close.

So the Aggregator is neutral. Expectations are positive but set to flip negative. And the market is overbought but set to flip to oversold. None of that suggests a strong directional edge. I am sidelined for now, and will remain so until there is a more compelling reward/risk setup.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/6 – 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.*

The market put in some strong gains this shortened week. The SPX rallied 4.0%, the NASDAQ gained 4.6 %, and the Russell 2000 climbed 3.8%. SPX is back above the 200ma and near the top of its recent range. Most indicators are suggesting an intermediate-term uptrend. One that has not flipped yet is the SPX Death/Golden Cross formation, and that could flip to a Golden Cross later this upcoming week. Meanwhile, the NASDAQ is clearly in an uptrend and at a new all-time high.

A couple of days ago on Twitter, I saw @RyanDetrick post a study showing that gains of 15% or more in a quarter, like we saw in Q2, have led to strong gains in the subsequent 1-2 quarters since 1970. I decided to expand on that study a little bit. First, I looked back to 1928.

SPX closes up > 15% for the quarter. Forward returns shown. 1928 - present. (S&P 90 data used prior to 1957.)							
Ticker	Date/Time	Next Month % Chg	2-Month % Chg	3-Month % Chg	6-Month % Chg	12-Month % Chg	24-Month % Chg
$SPX	12/31/1928	5.71	5.09	4.85	12.57	-11.91	-37
$SPX	3/31/1930	-0.95	-2.59	-18.62	-26.05	-33.61	-70.92
$SPX	9/30/1932	-13.86	-18.94	-14.36	-27.6	20.3	12.38
$SPX	6/30/1933	-8.8	1.65	-10.91	-8.62	-10.08	-6.14
$SPX	6/28/1935	8.2	9.77	13.18	31.15	44.92	50.39
$SPX	12/31/1935	6.55	8.71	11.09	10.5	27.92	-21.44
$SPX	6/30/1938	6.66	4.33	5.88	13.67	-6.06	-13.67
$SPX	9/29/1939	0.31	-4.61	-2.58	-4.77	-16.65	-20.25
$SPX	3/31/1943	0.09	4.06	6.65	4.32	3.8	17.53
$SPX	9/30/1970	-1.25	3.44	9.31	18.99	16.65	31.14
$SPX	3/31/1975	4.73	9.35	14.19	0.61	23.28	18.07
$SPX	12/31/1982	3.31	5.28	8.76	19.2	17.27	18.91
$SPX	12/31/1985	0.24	7.4	13.07	18.72	14.62	16.94
$SPX	3/31/1987	-1.15	-0.55	4.22	10.33	-11.25	1.09
$SPX	6/30/1997	7.81	1.62	7.02	9.64	28.1	55.08
$SPX	12/31/1998	4.1	0.74	4.65	11.67	19.53	7.41
$SPX	6/30/2009	7.41	11.02	14.98	21.3	12.12	43.65

As you can see, from the 1943 instance forward, gains have been quite consistent over the next 1-24 months following the setup. But prior to the 40s that did not appear to be the case.

I also looked at gains of 15%+ in any 3-month period (not requiring it be a calendar quarter). I broke these results out pre and post-1950. Those two tables can be seen below.

S&P 90 closes up > 15% over the last 3 months.
Forward returns shown. 1928 - 1950.

Ticker	Date/Time	Next Month % Chg	2-Month % Chg	3-Month % Chg	6-Month % Chg	12-Month % Chg	24-Month % Chg
$SPX	5/31/1928	-4.3	-2.85	4.35	21.4	24.15	22.45
$SPX	11/30/1928	0.29	6.01	5.4	2.27	-13.84	-32.54
$SPX	12/31/1928	5.71	5.09	4.85	12.57	-11.91	-37
$SPX	1/31/1929	-0.58	-0.82	0.78	12.2	-11.46	-37.1
$SPX	8/30/1929	-4.89	-23.84	-34.03	-26.58	-32.61	-56.29
$SPX	3/31/1930	-0.95	-2.59	-18.62	-26.05	-33.61	-70.92
$SPX	8/31/1932	-3.69	-17.04	-21.93	-32.54	32.18	9.06
$SPX	9/30/1932	-13.86	-18.94	-14.36	-27.6	20.3	12.38
$SPX	10/31/1932	-5.89	-0.57	-0.29	12.5	28.74	26.58
$SPX	5/31/1933	13.17	3.22	15.04	2.49	-0.31	-0.62
$SPX	6/30/1933	-8.8	1.65	-10.91	-8.62	-10.08	-6.14
$SPX	7/31/1933	11.46	-2.31	-9.95	12.26	-12.76	11.36
$SPX	8/31/1933	-12.35	-19.21	-10.91	-2.98	-17.49	1.35
$SPX	1/31/1934	-3.67	-4.92	-6.36	-22.29	-18.53	28.11
$SPX	6/28/1935	8.2	9.77	13.18	31.15	44.92	50.39
$SPX	7/31/1935	1.44	4.6	12.45	29.15	43.05	51.35
$SPX	8/30/1935	3.11	10.85	15.12	29.89	42.26	42.7
$SPX	11/29/1935	3.79	10.59	12.83	11.28	33.54	-14.14
$SPX	12/31/1935	6.55	8.71	11.09	10.5	27.92	-21.44
$SPX	7/31/1936	0.88	1.01	8.71	12.11	5.8	-22.21
$SPX	6/30/1938	6.66	4.33	5.88	13.67	-6.06	-13.67
$SPX	7/29/1938	-2.19	-0.73	6.81	-0.24	-2.35	-16.55
$SPX	8/31/1938	1.49	9.2	5.56	5.31	-7.3	-12.94
$SPX	9/29/1939	0.31	-4.61	-2.58	-4.77	-16.65	-20.25
$SPX	2/26/1943	5.56	5.65	9.85	7.57	7.75	30.36
$SPX	3/31/1943	0.09	4.06	6.65	4.32	3.8	17.53
$SPX	5/28/1948	0.3	-5.03	-4.31	-11.62	-14.98	12.52
	Avg	**0.29**	**-0.69**	**0.16**	**2.49**	**3.87**	**-1.69**
	Win %	**59.3%**	**51.9%**	**59.3%**	**63.0%**	**44.4%**	**48.1%**

SPX closes up > 15% over the last 3 months. Forward returns shown. 1950 - present.							
Ticker	**Date/Time**	**Next Month % Chg**	**2-Month % Chg**	**3-Month % Chg**	**6-Month % Chg**	**12-Month % Chg**	**24-Month % Chg**
$SPX	1/31/1955	0.35	-0.14	3.63	18.81	19.63	22.09
$SPX	1/31/1961	2.69	5.31	5.71	8.06	11.43	7.15
$SPX	1/31/1963	-2.89	0.56	5.44	4.43	16.37	32.27
$SPX	9/30/1970	-1.25	3.44	9.31	18.99	16.65	31.14
$SPX	1/29/1971	0.91	4.62	8.42	-0.31	8.41	21.02
$SPX	2/28/1975	2.17	7	11.72	6.48	22.21	22.34
$SPX	3/31/1975	4.73	9.35	14.19	0.61	23.28	18.07
$SPX	10/29/1982	3.6	5.17	8.66	22.97	22.31	24.21
$SPX	11/30/1982	1.52	4.89	6.88	17.22	20.12	18.08
$SPX	12/31/1982	3.31	5.28	8.76	19.2	17.27	18.91
$SPX	12/31/1985	0.24	7.4	13.07	18.72	14.62	16.94
$SPX	3/31/1987	-1.15	-0.55	4.22	10.33	-11.25	1.09
$SPX	2/29/1988	-3.33	-2.42	-2.11	-2.35	7.86	23.92
$SPX	11/29/1996	-2.15	3.85	4.46	12.06	26.21	53.71
$SPX	6/30/1997	7.81	1.62	7.02	9.64	28.1	55.08
$SPX	7/31/1997	-5.74	-0.73	-4.16	2.72	17.43	39.24
$SPX	11/30/1998	5.64	9.97	6.42	11.88	19.37	13
$SPX	12/31/1998	4.1	0.74	4.65	11.67	19.53	7.41
$SPX	1/29/1999	-3.23	0.53	4.34	3.84	8.97	6.75
$SPX	5/29/2009	0.02	7.44	11.04	19.2	18.52	46.35
$SPX	6/30/2009	7.41	11.02	14.98	21.3	12.12	43.65
	Avg	**1.18**	**4.02**	**6.98**	**11.21**	**16.15**	**24.88**
	Win %	**66.7%**	**81.0%**	**90.5%**	**90.5%**	**95.2%**	**100.0%**

Here again we see strong gains in recent times, but struggles primarily during the 1930s. So how much weight to we put on recent instances, and should we consider the 1930s in our analysis?

Tough to say. When we were looking at the selloff in March, and again when we were looking at the rally in April, we found many studies where the only matches occurred in the 1930s. So while the 1930s may not seem relevant in some respects, in other respects, in has been the only relevant comparison. The strong Q2 does not create a sure-thing setup. That is what the lesson of the 30s seems to be, and 2020 has already shown an ability to do things it has never done before. Bottom line for me is that strong momentum is generally a good thing – especially over the last 70 years or so. But I don't think it is providing the kind of edge in this case that the numbers in the last chart suggest.

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

« As of 06/24/2020

DOMESTIC SECURITIES HOLDINGS AS OF

July 1, 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)	3,565,593,465.1
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	270,205,503.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,902,206,880.1
Agency Commercial Mortgage-Backed Securities***	9,173,808.1
Total SOMA Holdings	6,091,116,402.9
Change From Prior Week	-16,191,807.3

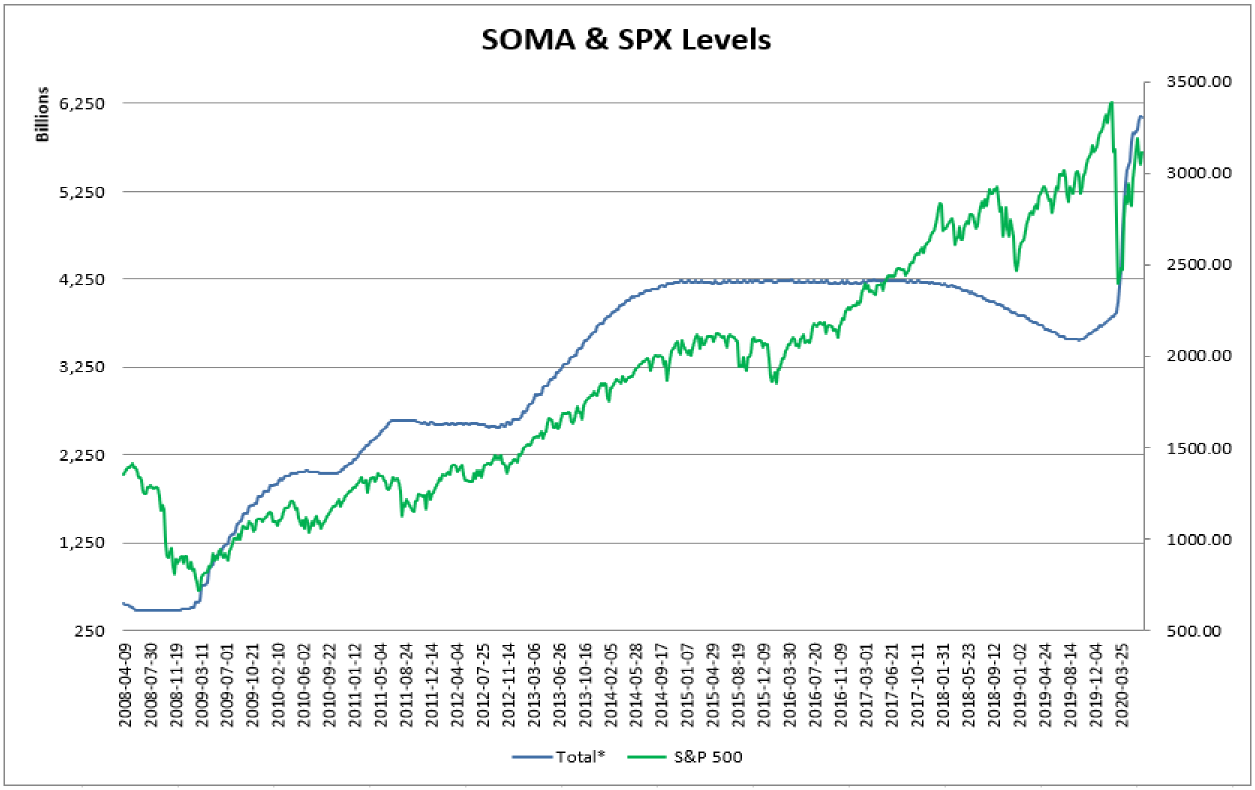
*Does not reflect inflation compensation of 35,831,311.7

**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 07/02/2020 4:30pm.

After 2 weeks of very sizable expansions, the SOMA surprisingly shrank by over $16 billion this past week. The losses were due to a large reduction in Agency Mortgage-Backed Security holdings. I suspect this is an anomaly in the data, and we will again see a substantial increase next week. The Fed has not announced any policy change suggesting it will be lightening up on QE liquidity injections. The last week in May also saw a drop in the SOMA, so it could just be a monthly roll schedule issue. We will see in the coming weeks. Past QE programs also frequently saw negative numbers around the last week of the month. I still expect a bullish liquidity environment for the market. Below is a look at our SOMA/SPX chart dating back to 2009.



The SOMA is still in the midst of the largest expansion in history, and indications from the Fed are that expansion is not likely to end anytime soon. I believe they will remain aggressive in their efforts to stimulate the economy. And that is good for the market for as long as it lasts.

I discussed COVID-19 spikes in Texas, Florida, Arizona, and California last week as a potential problem. I shared a graphic that showed 15% of US GDP came from 13 counties within those 4 states. Unfortunately, we are continuing to see spikes occur there (and elsewhere). Additional shutdowns in those areas could have a substantial negative impact on the economy. That may or may not be of immediate concern to the market, but it will certainly matter at some point.

I am getting closer to moving off my neutral outlook and back to slightly bullish. Momentum has been strong, and it is tough to fight an uptrend. But breadth studies remain mixed, COVID is spiking, and the economic outlook appears to be quite shaky. The leading NASDAQ remains a positive, and the Fed is indicating that it intends to continue providing massive amounts of liquidity. That has been more important than anything else in recent years. By next weekend the Anit-Zweig Breadth Collapse study will be nearly expired, and we could also see the SPX Golden Cross back in effect. Unless new bearish evidence emerges, I may move back to bullish at that point. For now, I'll remain neutral and conservative when considering new positions, whether 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