

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 13, 2020

Volume 13 Issue 134

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Short-term chop has led to a lack of new short-term evidence.
- Multiple studies, including Thursday's Golden Cross formation are favoring the long side for the intermediate-term.
- The Fed liquidity pump is still on high.
- Liquidity and trend are trouncing COVID, economic, valuation, and election fears for the time being.

Short-term Outlook

The Bottom Line

The Aggregator is neutral and I am 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						
July 8, 2020	Up 5 < 50 high, then down 1	1-5 days	Bullish	1.70%	-1.00%	-2.00%
Active - Long Term						
July 9, 2020	Golden Cross	int term	Bullish			
July 7, 2020	5 up < 50-high. > 3% gain.	1-15 days	Bullish	3.20%	-1.80%	-3.10%
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	NDX up > 1%. SOX dn.	1-6 days	Bearish	-3.15%	1.80%	3.90%

The Evidence

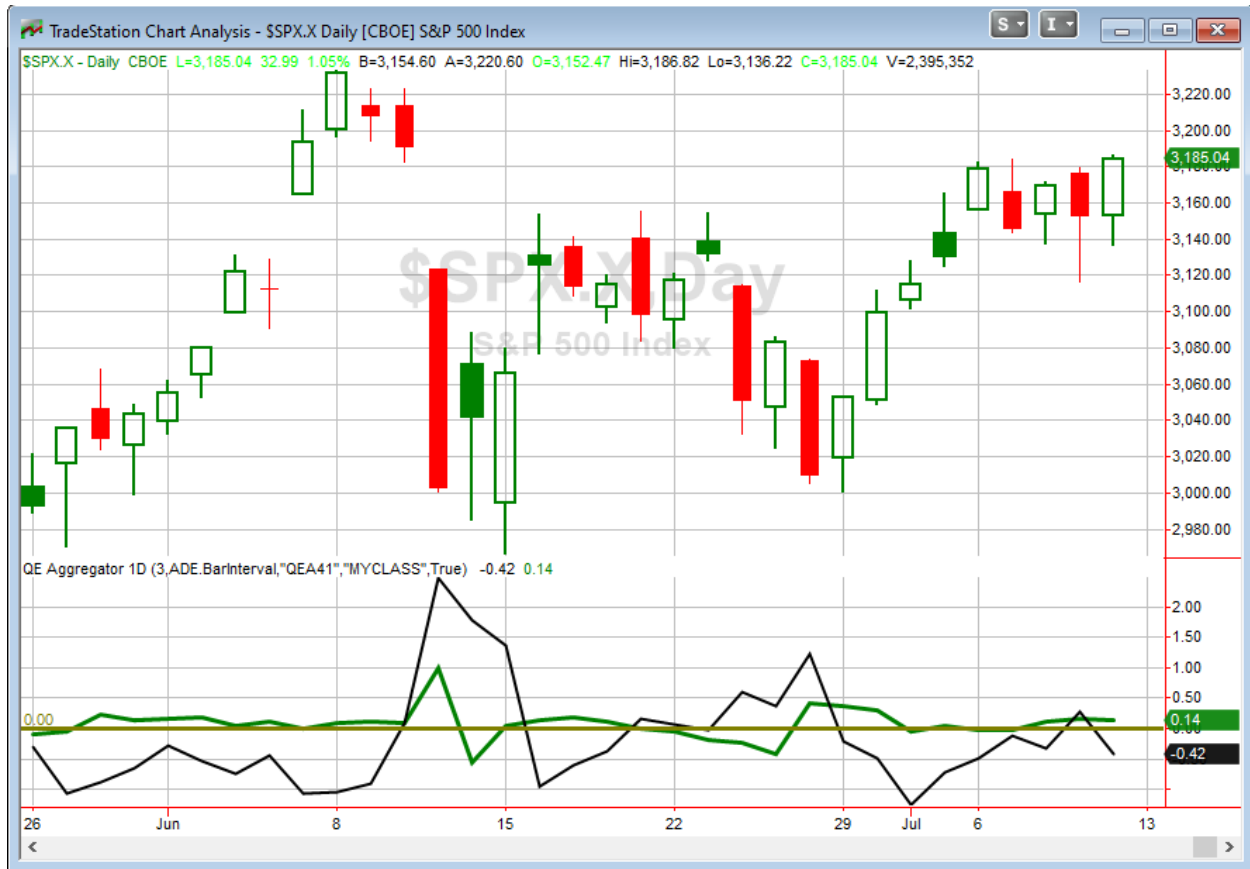
Friday saw the market rally. The SPX finished up 1.05%, the NASDAQ gained 0.7%, and the Russell 2000 rallied 1.7%. Breadth was positive as the NYSE Up Issues % was 76% and the Up Volume % came in at 83%. NYSE total volume declined some from Thursday's level.

It has been quite choppy the last few days. SPX on Friday reversed direction for the 4th day in a row. The move on Friday did manage to have the SPX close at its highest level since the huge drop on June 11th. But chop like we have seen the last few days rarely generates compelling directional studies. And this seems to be the case right now. Below I looked at other similar instances where the market chopped around the last several days and finished at a 20-day high.

SPX changes direction for at least the 4th day in a row. It closes at a 20-day high and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1990 - 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
10	4,191.88	60	35	25	58.33	7,830.30	-7,891.63	1,660.02	-2,156.36	0.77	1.08	69.86
9	389.53	60	35	25	58.33	7,974.78	-11,100.62	1,581.71	-2,198.82	0.72	1.01	6.49
8	6,142.79	61	36	25	59.02	8,333.40	-8,581.68	1,552.62	-1,990.06	0.78	1.12	100.70
7	-5,367.70	63	35	28	55.56	7,796.76	-12,525.97	1,278.05	-1,789.27	0.71	0.89	-85.20
6	-259.60	65	38	27	58.46	7,752.90	-11,814.31	1,126.99	-1,595.74	0.71	0.99	-3.99
5	2,587.07	65	35	30	53.85	7,247.22	-7,823.04	1,200.54	-1,314.39	0.91	1.07	39.80
4	-5,875.74	66	37	29	56.06	5,007.78	-7,480.26	904.24	-1,356.29	0.67	0.85	-89.03
3	-9,615.18	66	34	32	51.52	4,592.40	-4,647.54	771.21	-1,119.89	0.69	0.73	-145.68
2	1,707.08	77	44	33	57.14	3,170.82	-2,222.85	590.52	-735.63	0.80	1.07	22.17
1	-804.42	77	37	40	48.05	2,523.24	-1,721.70	444.43	-431.20	1.03	0.95	-10.45

This is about as useless as it gets if you are trying to predict odds over the next few days. There are no short-term studies that made the active list today.

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



Without any new short-term studies kicking in tonight, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dropped 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 turned flat 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 3172.28 on Monday. That is 0.4% below Friday's close. Therefore, SPX will need to close down 0.4% or more in order to flip from overbought to oversold on Monday.

So the Aggregator is back to neutral. And this back and forth action is not doing anything to generate the kind of short-term edges that would help constitute a compelling setup. So I will continue to wait until a more compelling reward/risk setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/13 – slightly bullish

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

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 with the Golden Cross formation triggering, Combo #3 turned from “flat” to “long”.*

The market put in a mixed week. The SPX rallied 1.8%, and the NASDAQ gained 4.0%, but the Russell 2000 declined 0.6%. SPX is at its highest level in nearly a month, and the NASDAQ is at all-time highs. So the trend certainly appears up at the moment, and we had a Golden Cross formation for the SPX this week that serves as some confirmation of the uptrend. (More about that shortly.)

In Monday night’s letter I shared some studies suggesting bullish intermediate-term implications based on the 5-day rally the SPX had undergone at the time. I have copied that research below.

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 6/11/19 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.

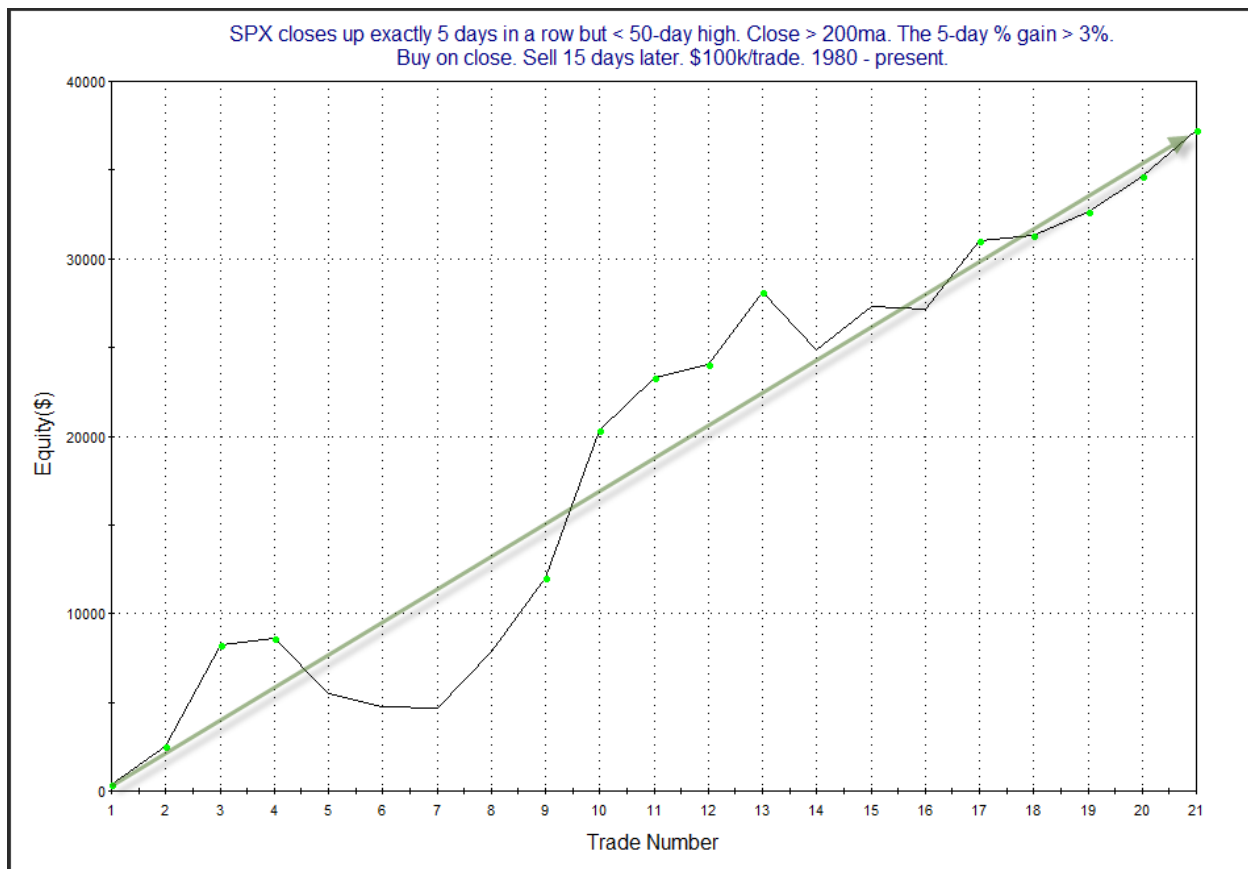
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	76,755.01	50	35	15	70.00	8,288.00	-3,766.10	2,737.48	-1,270.46	2.15	5.03	1,535.10
14	68,203.46	50	35	15	70.00	8,272.60	-4,738.50	2,516.40	-1,324.70	1.90	4.43	1,364.07
13	70,613.46	50	37	13	74.00	6,401.50	-3,773.44	2,467.03	-1,589.75	1.55	4.42	1,412.27
12	63,220.86	51	37	14	72.55	5,925.50	-2,944.80	2,226.62	-1,368.86	1.63	4.30	1,239.62
11	48,475.50	52	34	18	65.38	3,952.96	-4,894.24	2,081.20	-1,238.08	1.68	3.18	932.22
10	52,426.73	52	38	14	73.08	4,691.28	-4,684.28	1,874.65	-1,343.57	1.40	3.79	1,008.21
9	47,539.46	52	36	16	69.23	4,722.08	-4,910.55	1,946.61	-1,408.65	1.38	3.11	914.22
8	44,482.91	52	38	14	73.08	3,781.36	-3,376.64	1,678.45	-1,378.45	1.22	3.31	855.44
7	40,656.61	52	37	15	71.15	4,385.01	-3,500.70	1,688.61	-1,454.80	1.16	2.86	781.86
6	31,631.48	52	38	14	73.08	3,770.55	-3,366.60	1,435.13	-1,635.96	0.88	2.38	608.30
5	21,803.56	52	34	18	65.38	3,044.37	-3,496.92	1,310.97	-1,264.98	1.04	1.96	419.30
4	12,622.39	52	30	22	57.69	3,138.08	-3,330.40	1,173.77	-1,026.85	1.14	1.56	242.74
3	11,083.82	52	32	20	61.54	2,742.08	-3,359.36	994.50	-1,037.00	0.96	1.53	213.15
2	3,554.74	52	27	25	51.92	2,205.03	-3,748.50	857.28	-783.67	1.09	1.18	68.36
1	3,937.25	52	30	22	57.69	2,211.54	-2,200.96	618.28	-664.15	0.93	1.27	75.72

Though the 1st 4 days don't show much of an edge, these results appear to suggest a pretty consistent upside tendency over the 1-3 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. So I decided to filter further to see how results appeared when the move was fairly strong. The current move has gained about 5.6%. To get a decent sampling I used a 3% threshold.

SPX closes up exactly 5 days in a row but < 50-day high. Close > 200ma. The 5-day % gain > 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	37,261.13	21	16	5	76.19	8,288.00	-3,282.90	2,769.18	-1,473.14	1.89	6.06	1,774.34
14	33,745.80	21	17	4	80.95	8,272.60	-3,691.52	2,338.74	-1,503.19	1.56	6.61	1,606.94
13	32,347.71	21	16	5	76.19	6,401.50	-3,773.44	2,537.42	-1,650.22	1.54	4.92	1,540.37
12	30,719.63	21	15	6	71.43	5,925.50	-2,877.44	2,425.65	-944.20	2.57	6.42	1,462.84
11	26,926.56	21	13	8	61.90	3,952.96	-2,485.76	2,555.95	-787.60	3.25	5.27	1,282.22
10	29,156.56	21	17	4	80.95	4,691.28	-2,533.02	2,081.15	-1,555.77	1.34	5.69	1,388.41
9	26,195.61	21	16	5	76.19	4,722.08	-3,125.76	2,146.87	-1,630.86	1.32	4.21	1,247.41
8	14,482.55	21	14	7	66.67	3,781.36	-3,376.64	1,822.35	-1,575.76	1.16	2.31	689.65
7	11,205.80	21	14	7	66.67	3,814.86	-3,500.70	1,672.17	-1,743.52	0.96	1.92	533.61
6	10,577.24	21	14	7	66.67	3,720.00	-2,882.56	1,560.34	-1,609.64	0.97	1.94	503.68
5	6,662.11	21	13	8	61.90	3,025.44	-2,664.96	1,339.68	-1,344.21	1.00	1.62	317.24
4	5,651.85	21	12	9	57.14	3,138.08	-2,002.44	1,267.26	-1,061.70	1.19	1.59	269.14
3	6,727.24	21	12	9	57.14	2,742.08	-2,971.50	1,325.58	-1,019.97	1.30	1.73	320.34
2	802.26	21	8	13	38.10	2,205.03	-3,748.50	1,213.76	-685.22	1.77	1.09	38.20
1	2,662.68	21	11	10	52.38	2,211.54	-1,252.30	658.19	-457.75	1.44	1.58	126.79

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.

In Wednesday night's letter I discussed the Golden Cross formation. I have copied that discussion below.

Of possible significance for the longer term is the fact that SPX will post a Golden Cross on Thursday afternoon. A Golden Cross occurs when the 50ma crosses over the 200ma. Having the 50ma above the 200ma is commonly considered a bullish market condition – and generally it is. I covered Golden Crosses in detail in the *Quantifiable Edges Market Timing Course (Lesson 2)*. In the 4/2/19 letter I looked at SPX Golden Crosses dating all the way back to 12/31/1928. I have updated that research tonight.

SPX Golden Cross Trade
Performance 12/31/28 - 7/8/2020.

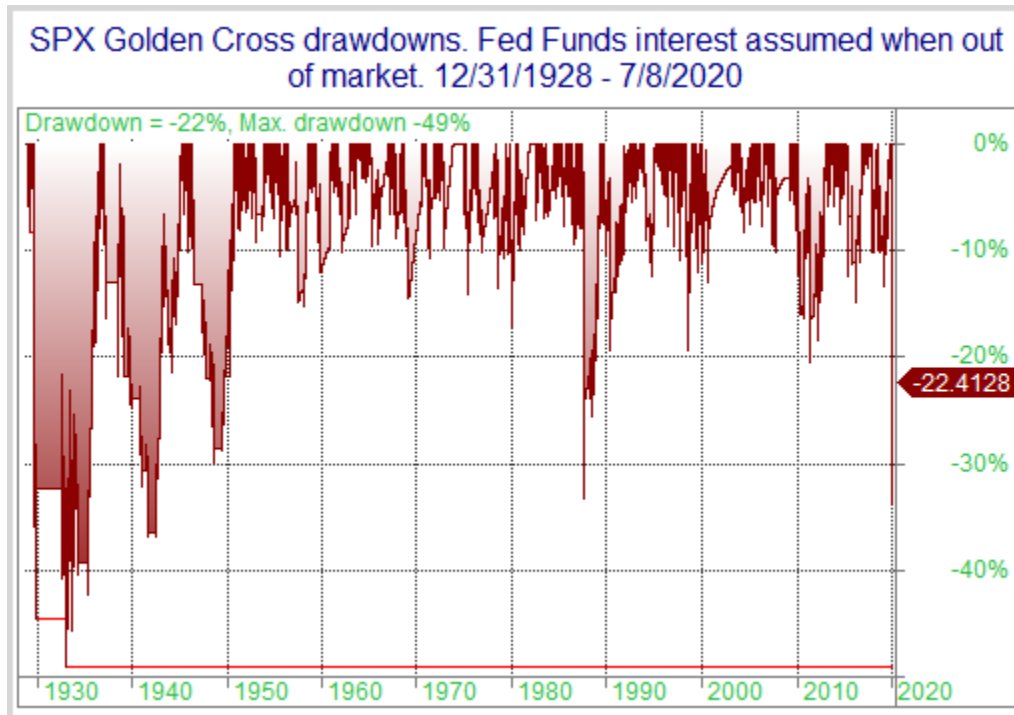
All trades	48
Avg. Profit/Loss	1022332.89
Avg. Profit/Loss %	14.19%
Avg. Bars Held	321.79
Profit Factor	6.95
<hr/>	
Winners	31 (64.58 %)
Avg. Profit %	26.25%
Avg. Bars Held	437.71
Max. Consecutive	8
# bars in largest win	901
<hr/>	
Losers	17 (35.42 %)
Avg. Loss %	-7.80%
Avg. Bars Held	110.41
Max. Consecutive	4
# bars in largest loss	252

Below is the full list of all SPX Golden Crosses since 12/31/1928.

SPX Golden Cross Returns
12/31/28 - 7/8/2020.

Symbol	Trade	Date	Price	Ex. date	Exit Price	% chg	Max Drawdown
SPX	Golden Cross	12/31/1928	24.35	11/22/1929	21.53	-11.58%	-27.47%
SPX	Golden Cross	9/19/1932	7.34	3/27/1933	6.09	-17.03%	-24.66%
SPX	Golden Cross	5/18/1933	8.89	5/31/1934	9.61	8.10%	-3.15%
SPX	Golden Cross	5/23/1935	10.07	5/21/1937	16.27	61.57%	-4.87%
SPX	Golden Cross	7/27/1938	12.25	3/31/1939	10.98	-10.37%	-10.37%
SPX	Golden Cross	9/18/1939	12.47	3/20/1940	12.14	-2.65%	-3.77%
SPX	Golden Cross	12/13/1940	10.69	2/21/1941	9.76	-8.70%	-10.85%
SPX	Golden Cross	8/18/1941	10.13	11/18/1941	9.26	-8.59%	-9.08%
SPX	Golden Cross	8/14/1942	8.58	12/1/1943	11.13	29.72%	-0.47%
SPX	Golden Cross	3/13/1944	12.24	8/28/1946	16.73	36.68%	-4.66%
SPX	Golden Cross	7/25/1947	16.08	1/22/1948	14.42	-10.32%	-10.32%
SPX	Golden Cross	5/14/1948	16.39	12/1/1948	15.01	-8.42%	-10.01%
SPX	Golden Cross	8/31/1949	15.22	5/11/1953	24.91	63.67%	-0.20%
SPX	Golden Cross	12/21/1953	24.95	10/26/1956	46.27	85.45%	-1.60%
SPX	Golden Cross	6/3/1957	47.37	9/26/1957	42.57	-10.13%	-10.13%
SPX	Golden Cross	5/8/1958	43.99	10/30/1959	57.52	30.76%	-1.98%
SPX	Golden Cross	12/30/1959	59.77	2/15/1960	55.17	-7.70%	-7.70%
SPX	Golden Cross	1/4/1961	58.36	5/7/1962	66.02	13.13%	0.00%
SPX	Golden Cross	1/3/1963	63.72	7/22/1965	83.85	31.59%	-1.65%
SPX	Golden Cross	9/17/1965	90.05	4/28/1966	91.13	1.20%	-3.73%
SPX	Golden Cross	2/3/1967	87.36	2/27/1968	90.53	3.63%	-2.00%
SPX	Golden Cross	5/17/1968	96.9	3/13/1969	98.39	1.54%	-1.15%
SPX	Golden Cross	5/27/1969	103.57	6/23/1969	96.23	-7.09%	-7.09%
SPX	Golden Cross	10/22/1970	83.38	9/24/1971	98.15	17.71%	-1.38%
SPX	Golden Cross	1/26/1972	102.5	4/18/1973	111.54	8.82%	-0.67%
SPX	Golden Cross	3/6/1975	83.69	12/1/1976	102.49	22.46%	-4.82%
SPX	Golden Cross	1/4/1977	105.7	3/3/1977	100.88	-4.56%	-6.51%
SPX	Golden Cross	5/22/1978	99.09	12/13/1978	96.06	-3.06%	-7.51%
SPX	Golden Cross	3/21/1979	101.25	4/22/1980	103.43	2.15%	-6.93%
SPX	Golden Cross	6/17/1980	116.03	7/2/1981	128.64	10.87%	-2.51%
SPX	Golden Cross	9/28/1982	123.24	2/3/1984	160.91	30.57%	-2.52%
SPX	Golden Cross	9/12/1984	164.68	11/18/1986	236.78	43.78%	-2.83%
SPX	Golden Cross	11/25/1986	248.17	11/5/1987	254.48	2.54%	-12.78%
SPX	Golden Cross	6/28/1988	272.31	2/26/1990	328.67	20.70%	-5.79%
SPX	Golden Cross	5/25/1990	354.58	9/7/1990	323.4	-8.79%	-13.65%
SPX	Golden Cross	2/15/1991	369.06	4/19/1994	442.54	19.91%	-1.86%
SPX	Golden Cross	9/15/1994	474.81	9/29/1998	1049.02	120.93%	-6.72%
SPX	Golden Cross	12/8/1998	1181.38	11/4/1999	1362.64	15.34%	-3.77%
SPX	Golden Cross	11/11/1999	1381.46	10/30/2000	1398.66	1.25%	-5.48%
SPX	Golden Cross	5/14/2003	939.28	8/18/2004	1095.17	16.60%	-2.90%
SPX	Golden Cross	11/5/2004	1166.17	7/19/2006	1259.81	8.03%	-2.57%
SPX	Golden Cross	9/12/2006	1313.11	12/21/2007	1484.46	13.05%	-1.03%
SPX	Golden Cross	6/23/2009	895.1	7/2/2010	1022.58	14.24%	-2.88%
SPX	Golden Cross	10/22/2010	1183.08	8/12/2011	1178.81	-0.36%	-6.89%
SPX	Golden Cross	1/31/2012	1312.41	8/28/2015	1988.87	51.54%	-3.48%
SPX	Golden Cross	12/21/2015	2021.15	1/11/2016	1923.67	-4.82%	-5.08%
SPX	Golden Cross	4/25/2016	2087.79	12/7/2018	2633.08	26.12%	-4.60%
SPX	Golden Cross	4/1/2019	2867.19	3/30/2020	2626.65	-8.39%	-23.55%

The most recent Golden Cross formation got slammed by the March COVID crash. But since the 1961 trigger, the Golden Cross has generally served as a fairly good timing device to sidestep large portions of bear markets. Prior to that it was not nearly as effective. This can be seen in the drawdown chart below.



While drawdowns have been mostly fairly moderate since the mid-50s, prior to that there were some very large drawdown to endure. Of course, the 2020 drawdown is the biggest since 1940 – and we still have a good ways to go for the system to dig out of it. Despite some fairly sizable drawdowns, the Golden Cross would have beaten “Buy and Hold” handily. It is a bullish long-term trend indication. But it is not a bulletproof long signal.

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

« As of 07/01/2020

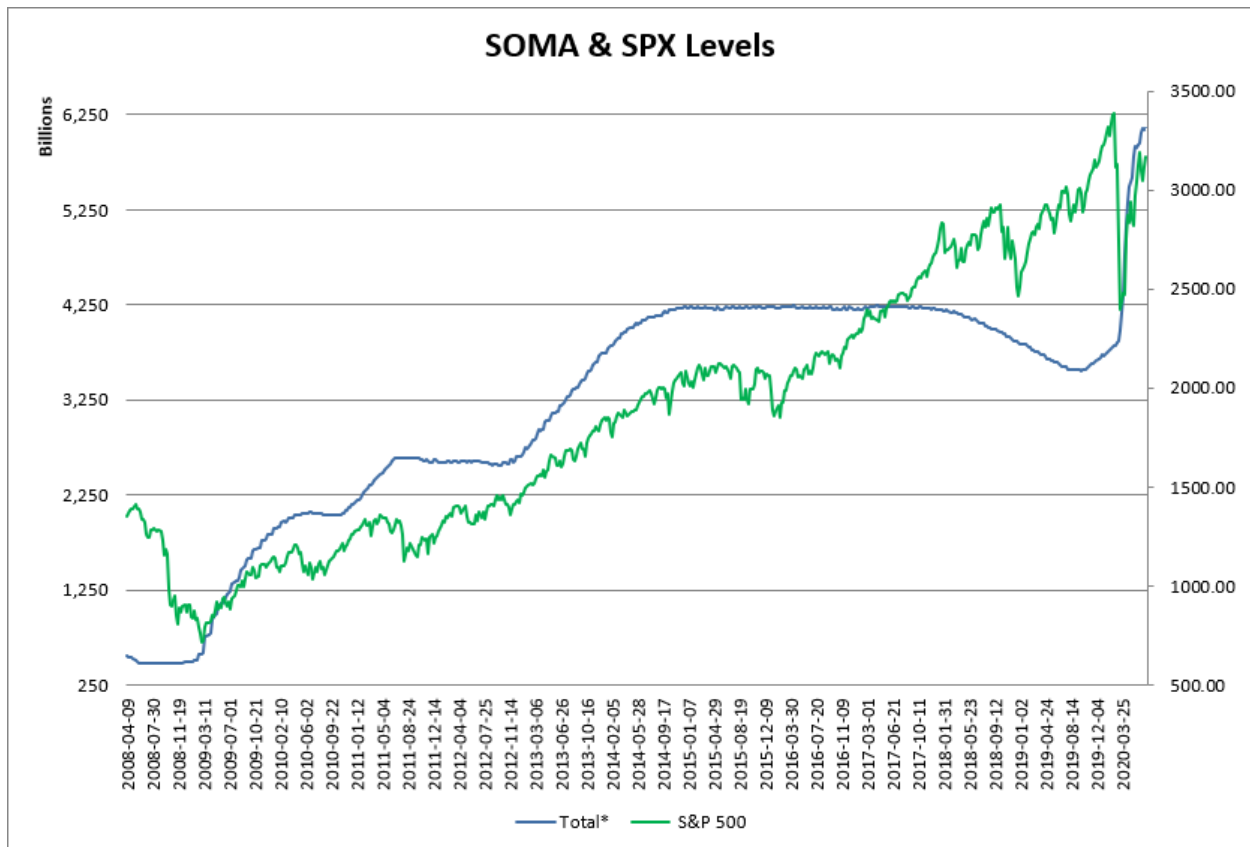
DOMESTIC SECURITIES HOLDINGS AS OF
July 8, 2020

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,583,727,465.1
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***	1,902,226,879.3
Agency Commercial Mortgage-Backed Securities***	9,173,808.1
Total SOMA Holdings	6,109,270,402.1
Change From Prior Week	18,153,999.2

*Does not reflect inflation compensation of 35,832,563.5
**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 07/09/2020 4:30pm.

The growth in the SOMA is back on track, as it increased by over \$18 billion this past week. We have seen oscillations in the past few weeks, which appear to be calendar-induced. But the bottom line is that the Fed is continuing to support the market with very high liquidity. The increase in the SOMA over the last few months is larger than has ever been seen before. Below is an updated SOMA/SPX chart from 2008 – present.



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.

So trend indicators and massive liquidity are supporting the market rally for the time being. And there seems to be little point in fighting the trend. So I have moved my outlook back to slightly bullish. That means I will more easily look to take long trades, and will be extra cautious about taking short trades. I do not expect I will get aggressively bullish anytime soon. Market valuations are very high, the economy is terrible, and COVID-19 news has been getting progressively worse in the US. Those things will matter at some point. They just aren't mattering right now. Trade wars, social unrest, and an upcoming election could all roil markets as well. The NASDAQ has been the clear leader, and this has been the case for a very extended period of time (since October). A faltering NASDAQ could be a sign that more damage is on the way. So I will be keeping a close eye on that as well. But as I said, for now, I'll approach my trades with a slightly bullish intermediate-term bias.

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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