

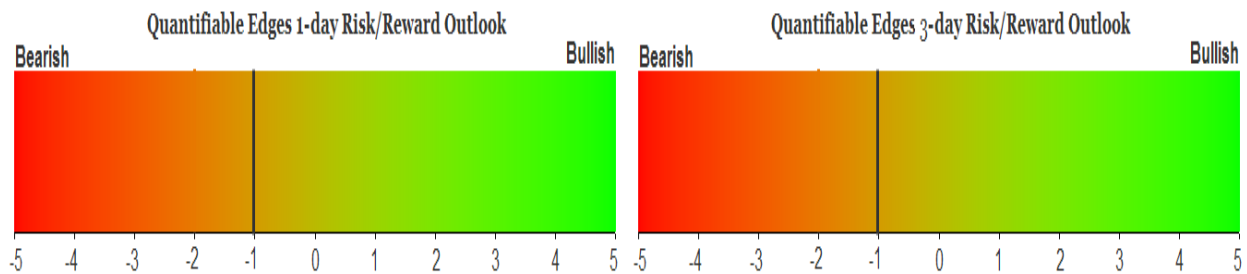
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 20, 2020

Volume 13 Issue 139

## Market Overview



## Signals Overview

Aggregator	CBI Reading
<b>Short</b>	<b>0</b>

## Tonight's Research Points

- The NASDAQ rally and leadership has been incredibly persistent by several measures. I am alert to potential hints of changes there.
- The Fed continues to flood the market with liquidity.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is short. But with mixed evidence and an inverted pivot, I don't view this as a great opportunity.

**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
<b>Active - Short Term</b>						
July 17, 2020	Unfill gap 20hi, unfill gap down	1-3 days	Bearish			
July 16, 2020	Unfill gap 20 high, close < open	1-3 days	Bullish	1.00%	-0.60%	-1.10%
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
July 15, 2020	Tax Day & Day After Bullish	1-2 days	Bullish			

***The Evidence***

Friday was a quiet trading day that saw most of the major indices finish modestly higher. The SPX finished up 0.3%, the NASDAQ also gained 0.3%, and the Russell 2000 rose 0.4%. Breadth was mixed as the NYSE Up Issues % was 55% and the Up Volume % came in at 40%. NYSE total volume was up a little from Thursday's low level.

The quiet action did not do much to trigger compelling new short-term evidence. There were a couple of studies that looked at the week after opex week showing a tendency to give back opex week gains. But more recent studies have shown that the primary give-back occurs in the weeks after quad-witching in March, June, and September. And looking at the evidence with that in mind made the studies substantially less appealing. So I have not added any new short-term studies tonight.

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



Without any new short-term studies being added, the green Aggregator Line remained below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also held below 0. The negative Differential Line reading means SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator signal stayed short at the close.

Based on the current list of active studies, expectations are set to remain negative on Monday. This could easily change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 3243.12 on Monday. That is 0.6% *above* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close up about 0.6% on Monday in order to remain overbought vs recent expectations. Anything other than that and it will flip to oversold as of Monday's close.

So the Aggregator is bearish. But as I have explained many times before, I generally do not view times with inverted pivots as favorable opportunities to take on new positions. This is because any move in the anticipated direction would only last 1 day, and in this case, even if the move was against the Aggregator, it could rise as much as 0.5% and still be the end of the short signal. So I again find myself sidelined and waiting for a more favorable reward/risk setup.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 7/20 – 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 all 3 combo systems remained “long”.*

What was notable to me this past week is that we saw some weakness among some stocks that have been leading this rally higher. MSFT, NFLX, and AMZN all saw sizable selling, falling 5%-10% this past week and closing Friday at the lowest level of the week. This caused the NASDAQ to suffer a 1.1% loss on the week, while the SPX gained 1.2% and the Russell 2000 rallied 3.6%.

Over the last several months the NASDAQ has been the clear leader for this rally, and stocks like MSFT, AMZN, and NFLX have led the way. The NASDAQ strength has been remarkable not only for the massive percent gains (up 53% since the March 23 closing low), but also for the persistency. Consider the following:

1. Friday’s up close meant the NASDAQ has now gone 45 trading days in a row since the last time it closed down 2 days in a row (5/13/20). That is the 2<sup>nd</sup> longest streak of all-time. The longest streak ended on 5/9/78 after 47 consecutive trading days.
2. Friday also marked the 91<sup>st</sup> trading day in a row that the NASDAQ has gone since it last closed down 3 days in a row (3/9/20). That is also the 2<sup>nd</sup> longest streak ever. The longest was an incredible 154 trading days that ended on 7/28/1983.
3. Friday also marked the 183<sup>rd</sup> trading day in a row (since October) that our NASDAQ/SPX Relative Strength indicator has shown the NASDAQ leading. That also is an incredibly long time. The streak will reach at least 187, since it only looks at weekly numbers. That will surpass the 1979 streak of 184 days for 2<sup>nd</sup> longest ever. The longest lasted 204 trading days and ended on March 31, 2000.

So with several of the NASDAQ leaders undergoing fairly sizable pullbacks at the moment, it will be interesting this week to see if that continues, and we start to see the NASDAQ falter, or whether these pullbacks are buying opportunities for those leaders, and they will quickly reassert their leadership. If the NASDAQ really begins to falter, I will view that as a potential warning sign for the rest of the market.

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

« As of 07/08/2020

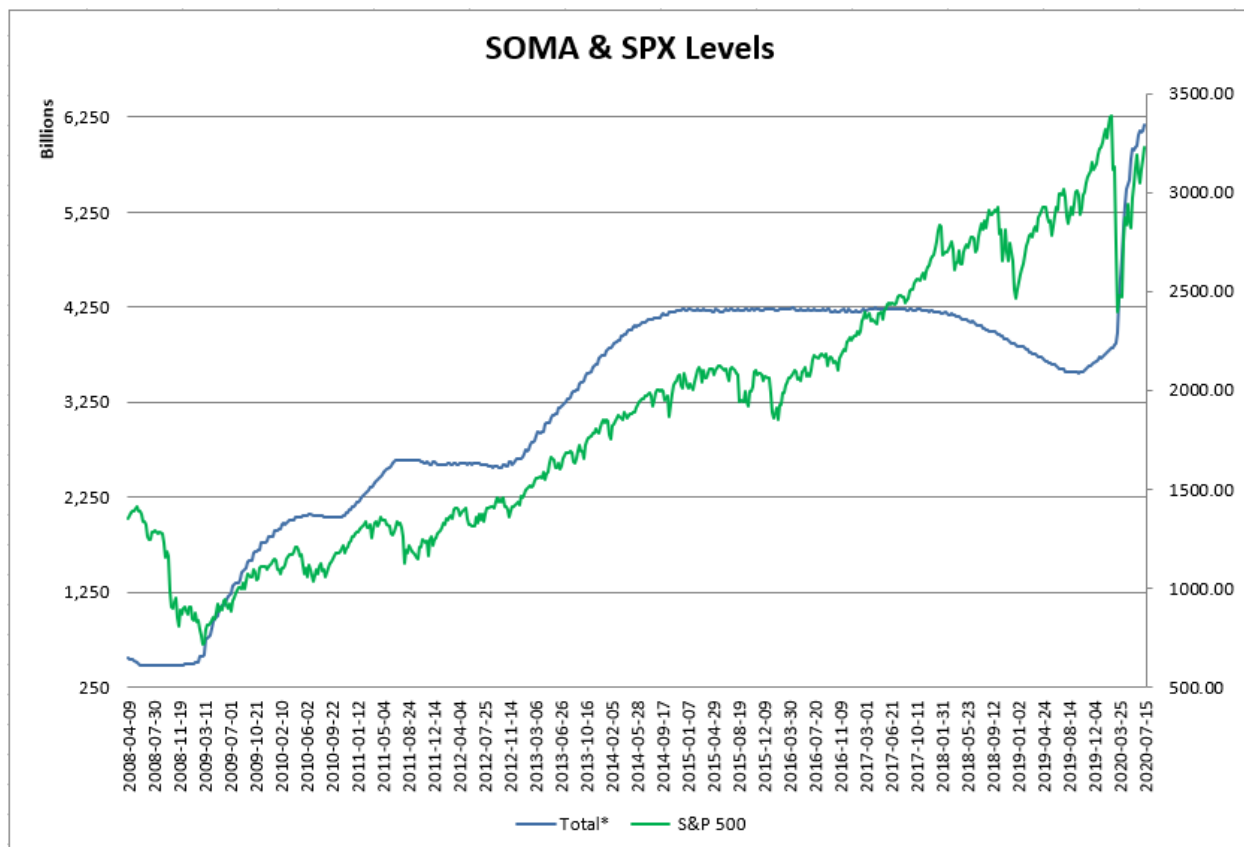
DOMESTIC SECURITIES HOLDINGS AS OF  
**July 15, 2020** 📅

Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,609,543,347.0
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	266,913,770.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,939,214,457.3
Agency Commercial Mortgage-Backed Securities***	9,173,808.1
<b>Total SOMA Holdings</b>	<b>6,168,782,128.8</b>
<b>Change From Prior Week</b>	<b>59,511,726.7</b>

\*Does not reflect inflation compensation of 35,182,435.9  
 \*\*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 07/16/2020 4:30pm.*

We saw a strong rise in the SOMA this past week – up nearly \$60 billion. The huge liquidity inflows of QE4 continue. 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. We have seen some wiggles in the last couple of months, as not every week has seen buying as strong as this past week. That appears to be normal calendar-induced wiggling, similar to what we saw with earlier QE expansions. You'll note on the chart the same type of pattern during 2009 and 2013-14. I believe the Fed will remain aggressive in their efforts to stimulate the economy. And that is good for the market for as long as it lasts.

Trend indicators continue to point up, and massive liquidity is supporting the rally. Combined with a few bullish studies based on price action and breadth, the bulls seem to have control for the time being. As I discussed, NASDAQ leadership has been important. So breaks in those current streaks could be clues that the NASDAQ is beginning to falter. I'm keeping a watchful eye there. Bears also have a lot of fundamental factors on their side that have not yet begun to matter. 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. Trade wars, social unrest, and an upcoming election could all roil markets as well. But right now the market is pushing higher, and I will remain slightly bullish until I see something change.

## **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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