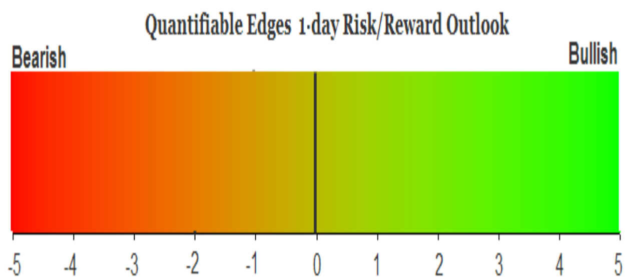
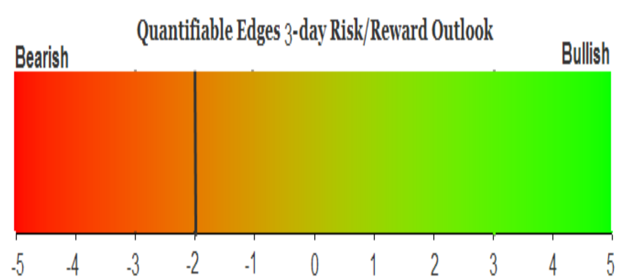
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 3, 2020 Volume 13 Issue 149

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- A SOX decline combined with a strong NDX has often been followed by a market pullback.
- Turn of the month odds do not appear nearly as strong as usual.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. But evidence is light and the market is only mildly overbought, so it does not appear to be a compelling short-side setup.

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						
August 3, 2020	NDX up 1% with SOX down	1-6 days	Bearish	-3.10%	1.80%	3.90%
Active - Long Term						
July 24, 2020	NDX big dn day. SPX new high.	1-50 days	Bullish	6.00%	-2.85%	-5.50%
July 9, 2020	Golden Cross	int term	Bullish			
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			

The Evidence

An afternoon flurry of buying to close out the month left most of the indices higher on Friday. The SPX gained 0.8%, and the NASDAQ rallied 1.5%, but the Russell 2000 declined 1.0%. Breadth was negative as the NYSE Up Issues % was 41% and the Up Volume % came in at 32%. NYSE total volume rose a good bit from Thursday's level.

An interesting aspect of Friday's action was the discrepancy between the NDX and the SOX. While the NDX rose 1.8% on Wednesday, the SOX declined 0.5%. This is somewhat unusual action. It brought about a study last seen in the 7/2/20 Letter, which I have updated below.

NDX rises > 1% while SOX closes down on the day.
Buy NDX on close. Sell X days later. $100k/trade. 2000 - present.

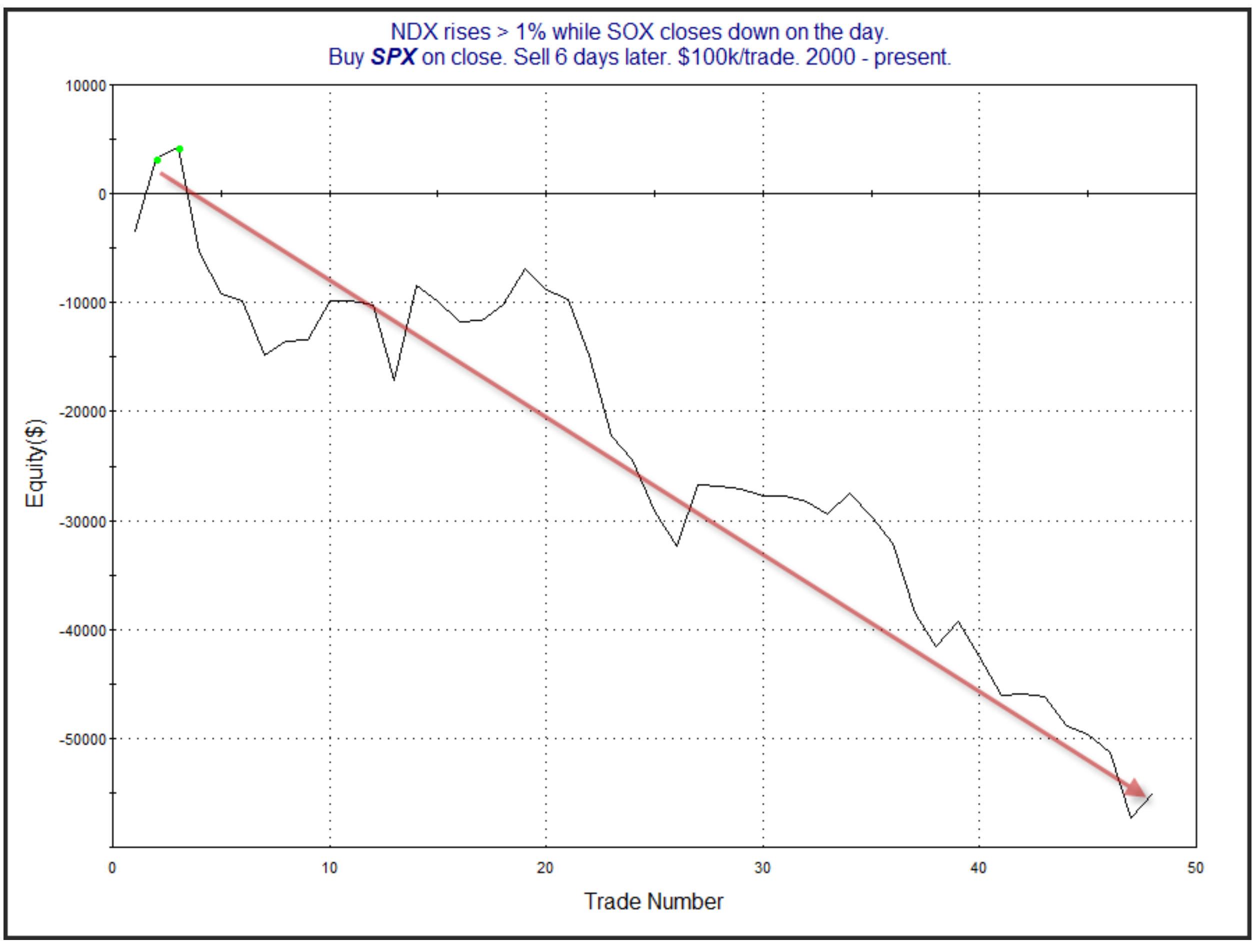
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-94,882.26	46	17	29	36.96	18,826.33	-13,954.56	4,781.71	-6,074.87	0.79	0.46	-2,062.66
9	-89,044.35	46	14	32	30.43	22,154.89	-15,780.45	5,440.40	-5,162.81	1.05	0.46	-1,935.75
8	-88,541.91	47	13	34	27.66	30,307.45	-13,288.50	5,955.25	-4,881.18	1.22	0.47	-1,883.87
7	-101,620.80	48	11	37	22.92	31,628.02	-17,436.00	7,141.74	-4,869.73	1.47	0.44	-2,117.10
6	-127,907.84	48	11	37	22.92	23,421.19	-21,090.48	6,625.28	-5,426.65	1.22	0.36	-2,664.75
5	-88,488.45	49	16	33	32.65	12,749.43	-12,790.08	4,169.34	-4,702.97	0.89	0.43	-1,805.89
4	-55,357.75	49	21	28	42.86	11,322.33	-12,796.24	3,074.20	-4,282.71	0.72	0.54	-1,129.75
3	-30,933.83	50	20	30	40.00	15,615.69	-15,779.50	4,010.50	-3,704.79	1.08	0.72	-618.68
2	-3,733.73	52	24	28	46.15	16,624.43	-9,160.50	3,220.57	-2,893.84	1.11	0.95	-71.80
1	-1,474.18	54	25	29	46.30	9,397.52	-6,256.64	2,442.81	-2,156.70	1.13	0.98	-27.30

Six days later 77% of the instances were losers and the average occurrence was a 2.7% loss. That seems to be a fairly substantial edge. I also updated how the SPX performed while this was all going on.

NDX rises > 1% while SOX closes down on the day.
Buy ***SPX*** on close. Sell X days later. $100k/trade. 2000 - present.

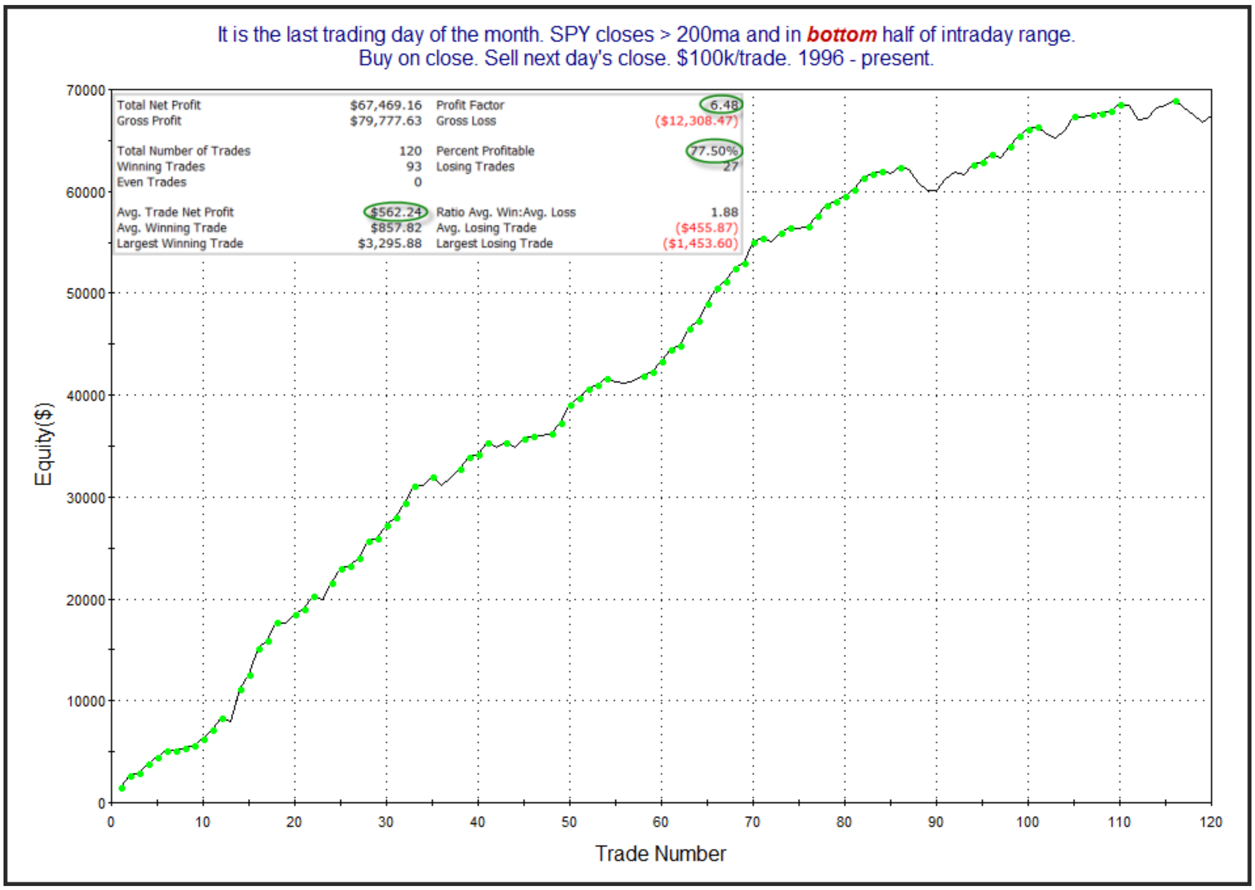
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	-26,909.09	46	18	28	39.13	9,774.70	-8,478.02	2,851.03	-2,793.85	1.02	0.66	-584.98
9	-32,044.23	46	19	27	41.30	9,278.30	-8,963.07	2,688.67	-3,078.85	0.87	0.61	-696.61
8	-42,297.92	47	20	27	42.55	9,165.45	-7,574.41	2,240.41	-3,226.15	0.69	0.51	-899.96
7	-51,752.12	48	20	28	41.67	10,101.57	-11,391.59	2,060.09	-3,319.78	0.62	0.44	-1,078.17
6	-55,068.38	48	14	34	29.17	8,753.07	-9,589.14	2,760.27	-2,756.24	1.00	0.41	-1,147.26
5	-46,253.57	49	20	29	40.82	6,877.04	-7,519.22	1,691.17	-2,761.28	0.61	0.42	-943.95
4	-28,649.71	49	23	26	46.94	5,068.10	-11,917.40	1,633.54	-2,546.97	0.64	0.57	-584.69
3	-14,404.78	50	22	28	44.00	6,877.26	-9,480.90	1,782.69	-1,915.14	0.93	0.73	-288.10
2	-4,542.22	52	22	30	42.31	5,842.98	-6,411.90	1,658.84	-1,367.89	1.21	0.89	-87.35
1	5,201.95	54	27	27	50.00	5,396.04	-2,692.80	1,240.23	-1,047.57	1.18	1.18	96.33

The pullbacks haven't been quite as reliable or as strong as the NDX but there still appears to be a decent downside edge. Below is an equity curve that assumes a 6-day holding period.



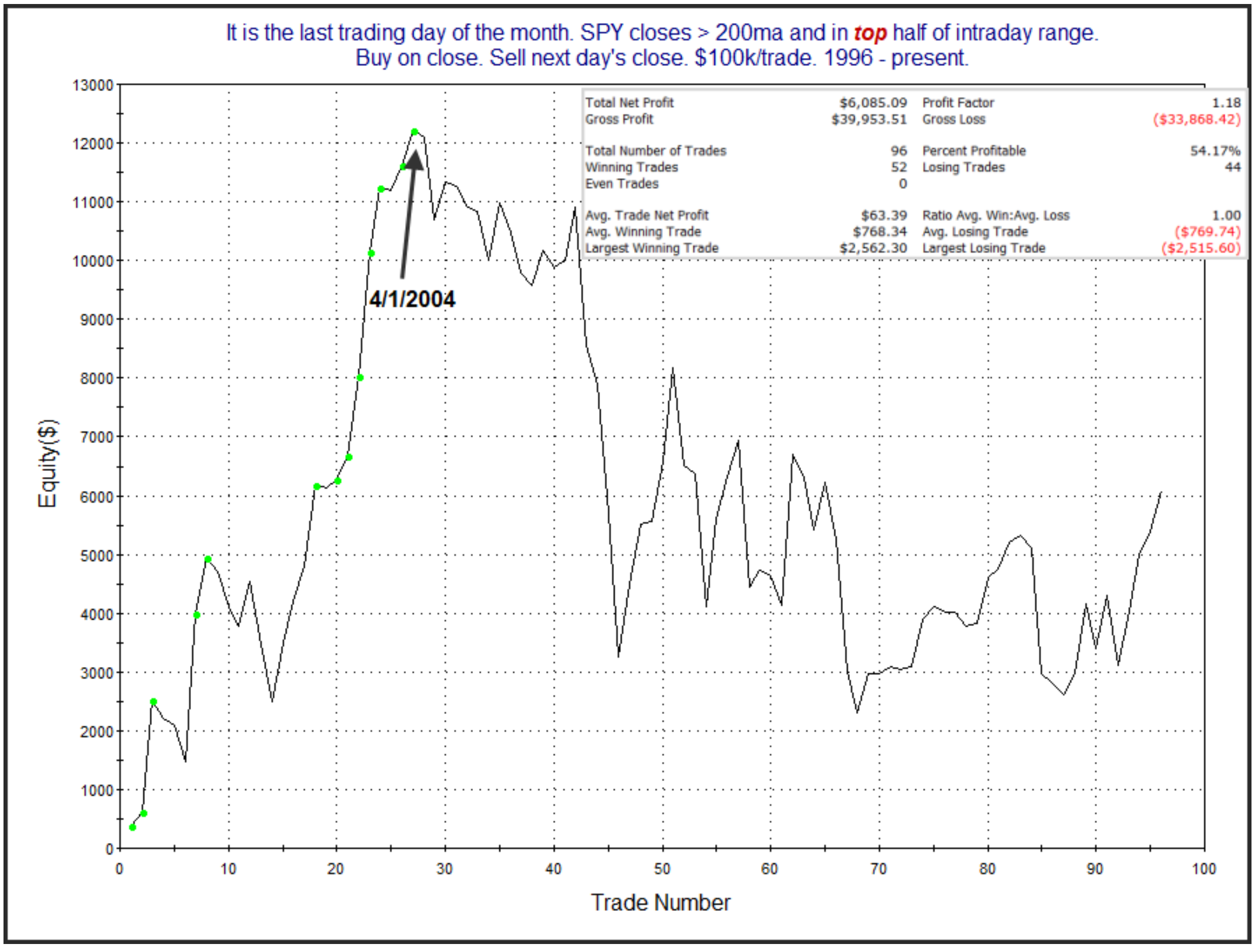
That is a fairly steady downslope. Overall, this study appears worthy of consideration.

The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which also use a 200ma filter. I have shown them many times over the years. First let's look at times the market closed in the bottom half of its range on the last day of the month (*unlike* Friday).



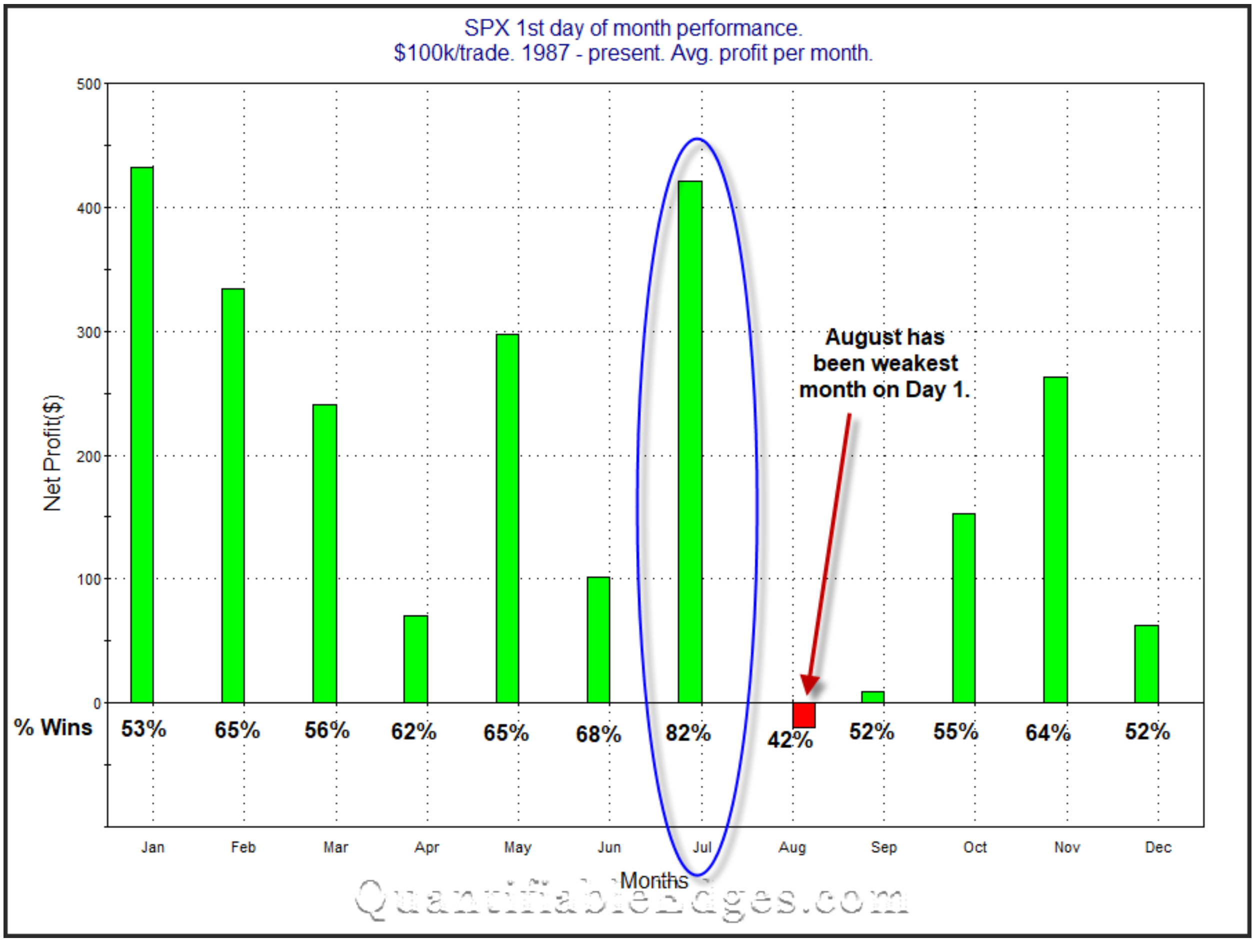
The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are 6.5x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 120 instances. And despite a few recent failures, the curve has shown progress over a long period of time. This setup certainly appears to provide a 1-day bullish edge.

But what about times like Friday, where SPY closed in the top half of its intraday range?



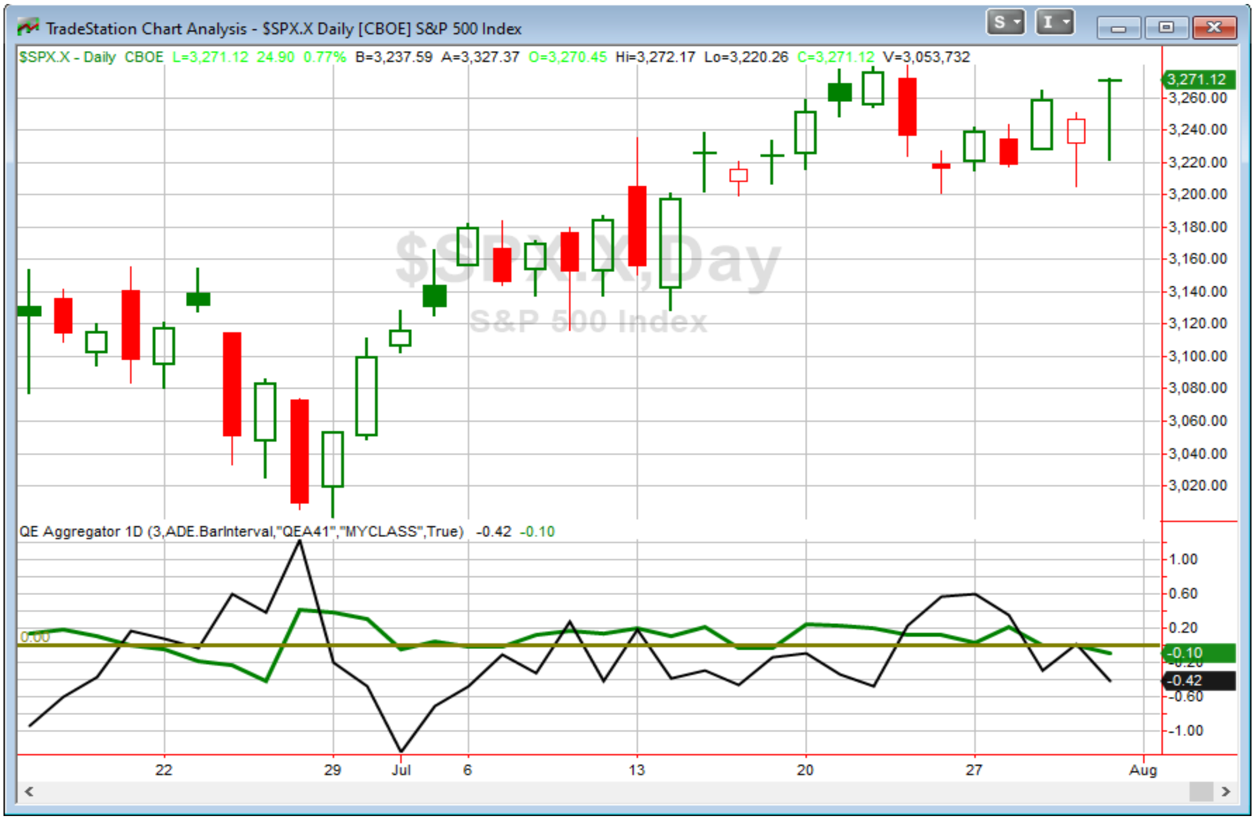
We see here the upside edge nearly completely wiped away. And since 2004 there have been (inconsistent) net losses. The 1st day of the month has performed much better with some afternoon selling leading up to the day. We don't have that this month, so the bulls may not have this seasonal edge for Monday.

The study below looks at all 1st days of months, and breaks down returns (since 1987) by month. I have it copied from the 7/1/20 letter. (Not updated.)



Last month I pointed out that July was the most reliable for a Day 1 rally. August, on the other hand, has been the worst. And we have actually seen mild net losses over the years. So by a couple of measures, Monday does not appear to have the typical "Day 1" edge.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line dropped below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also moved 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 turned short at the close.

Based on the current list of active studies, expectations are slated to remain negative on Monday. This could certainly change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 3266.35 on Monday. That is just 0.15% below Friday's close. Therefore, SPX would only need to close down about 0.15% on Monday in order to flip from short-term overbought to short-term oversold versus recent expectations.

So the Aggregator is bearish. A short index trade here is a possibility, but I am not excited by the prospect. Today's study is compelling, but there is nothing really confirming the short-term downside edge. And with the Differential Pivot so close by, there is not much room to profit before SPX would flip to oversold. Additionally, while 3-day expectations are negative, expectations for Monday are actually slightly positive. And of course, any short trade here would be considered counter-trend. With a counter-trend trade, I like to see reward/risk strongly in my favor. I am not seeing that here. So I will continue to exercise patience and see what Monday's action brings.

Intermediate-term Outlook (2 weeks – 2 months) – ***updated 8/3 – 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".*

The major indices all closed higher this past week. The SPX gained 1.7%, the NASDAQ rallied 3.7%, and the Russell 2000 rose 0.9%. The averages all remain well above their longer-term averages, so the intermediate-term uptrend still appears to be in place.

Near the beginning of July I posted some studies that looked a performance following 3-month periods of strong gains. Those triggered again at the July close. I have copied the info below (not updated).

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 last couple of weeks I have discussed NASDAQ leadership. It had been near a tipping point. But with the strong move up this past week, the NASDAQ is again the clear leader, and the powerful uptrend remains intact. I'll continue to keep an eye on NASDAQ leadership, but for now, it is looking positive.

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

« As of 07/22/2020

DOMESTIC SECURITIES HOLDINGS AS OF

July 29, 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)	3,645,946,347.0
US Treasury Floating Rate Notes (FRN)	15,545,746.1
US Treasury Inflation-Protected Securities (TIPS)*	270,513,770.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,924,203,060.9
Commercial Agency Mortgage-Backed Securities***	9,177,314.2
Total SOMA Holdings	6,193,777,238.3
Change From Prior Week	-9,751,271.8

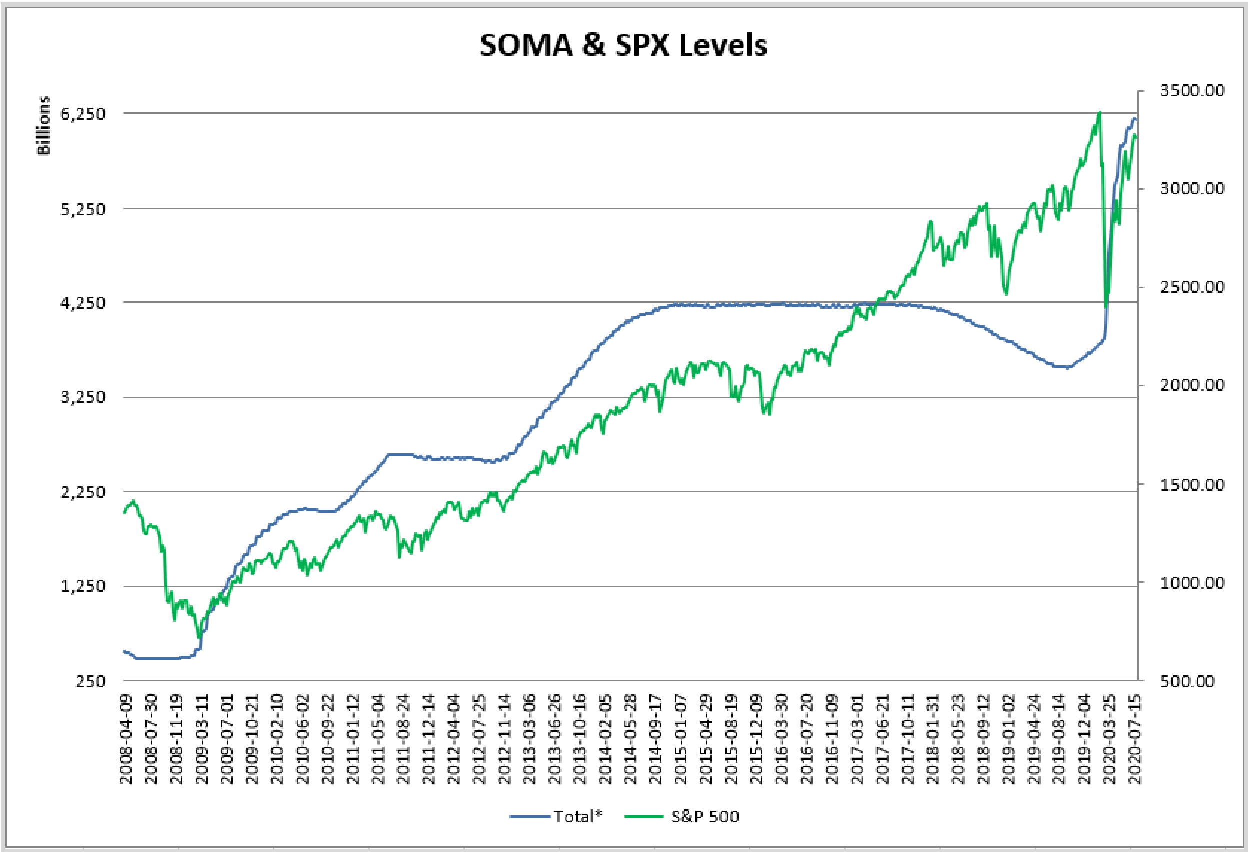
*Does not reflect inflation compensation of 35,513,382.5

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

This past week saw the SOMA contract by nearly $10 billion. That is a sizable contraction, but it is not of great concern to me. It is calendar-induced, rather than a policy change. We also saw contractions at the end of May and the end of June. The Fed is still pumping, and we should see a big rise this upcoming week. Below is an updated SOMA/SPX chart from 2008 – present.



The SOMA is still in the midst of the largest expansion in history, and the Fed confirmed at their meeting this week that the expansion is not likely to end anytime soon. We have seen some wiggles in the SOMA in the last couple of months, as not every week has seen strong buying. 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.

Potential market movers this upcoming week include COVID news, senate and congressional stimulus packages, and China relations (TikTok?). There certainly remains strong potential for a news-induced pullback.

I am again keeping my intermediate-term outlook "slightly bullish". We have several bullish studies on the intermediate-term active list. The NASDAQ leadership is holding strong, and I am continuing to watch that. Bears can point to all the uncertainties related to COVID, social unrest, government stimulus changes, unemployment, and the economy in general. We also have an upcoming election. Massive liquidity and momentum has mattered more than any of these uncertainties. At some point that may change. I will remain slightly bullish and alert to potential changes. This means I will be taking a more conservative approach to potential shorts than to long trades.

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