

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 10, 2020

Volume 13 Issue 154

## Market Overview



## Signals Overview

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

## Tonight's Research Points

- No new compelling short-term evidence emerged.
- The NASDAQ continues to lead, and the leadership streak has been historical.
- The Fed continues to pump liquidity.

### *Short-term Outlook*

#### *The Bottom Line*

The Aggregator is bearish, but reward/risk does not appear great right here. Expectations are currently slated to flip to bullish on Monday unless new bearish evidence emerges. I am basically neutral.

**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>						
August 3, 2020	NDX up 1% with SOX down	1-6 days	Bearish	-3.10%	1.80%	3.90%
<b>Active - Long Term</b>						
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 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***

The market finished up a strong week with a mixed day on Friday. The SPX gained 0.1%, the NASDAQ lost 0.9%, and the Russell 2000 rose 1.6%. Breadth was positive as the NYSE Up Issues % was 63% and the Up Volume % came in at 57%. NYSE total volume declined some from Thursday's level.

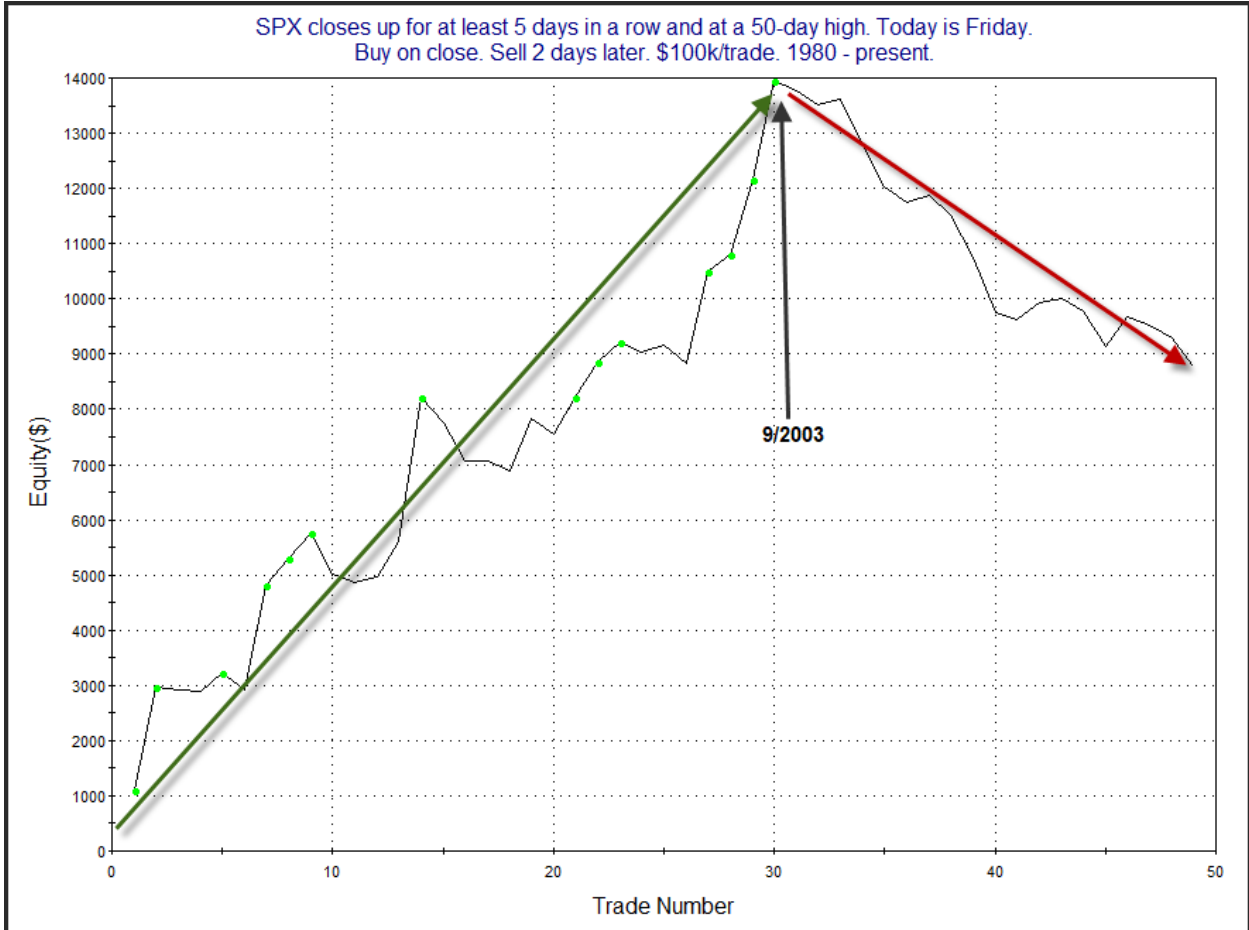
The employment day study I featured on Thursday night turned out correct, with SPX posting a gain. But it came down to the last few seconds of the day. I looked today at times the SPX has closed at an intermediate-term high on an employment report day. Over the long run, there have been some struggles in the following days. But the edge was not consistent and it was also not prevalent in the last several years. So I decided not to show the study in detail.

The persistent move higher recently has failed to generate any real compelling short-term studies for this weekend. Often when a market initially becomes short-term overbought, you will see some studies emerge that suggest a short-term downside edge. But if the market continues to power higher, then the edge may flip to the upside. We seem to be past the point of new studies emerging suggesting a downside edge, but we are not quite at the point where SPX is so overbought that it is suggesting more short-term strength. While not compelling, I did find the study below to be interesting. It looked at times SPX closed up every day of the week and at a 50-day high on a Friday.

SPX closes up for at least 5 days in a row and at a 50-day high. Today is Friday.  
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
5	8,589.25	48	30	18	62.50	2,918.16	-6,988.92	1,058.84	-1,287.56	0.82	1.37	178.94
4	18,520.75	49	31	18	63.27	3,170.94	-2,965.30	982.31	-662.83	1.48	2.55	377.97
3	11,483.09	49	25	24	51.02	2,659.26	-1,464.06	826.50	-382.48	2.16	2.25	234.35
2	8,788.06	49	24	25	48.98	2,617.44	-1,008.45	773.23	-390.78	1.98	1.90	179.35
1	9,379.81	49	26	23	53.06	2,135.28	-912.33	626.77	-300.70	2.08	2.36	191.42

The numbers suggest a short-term upside edge. But the curves tell a different story. Here is the 2-day curve as an example.

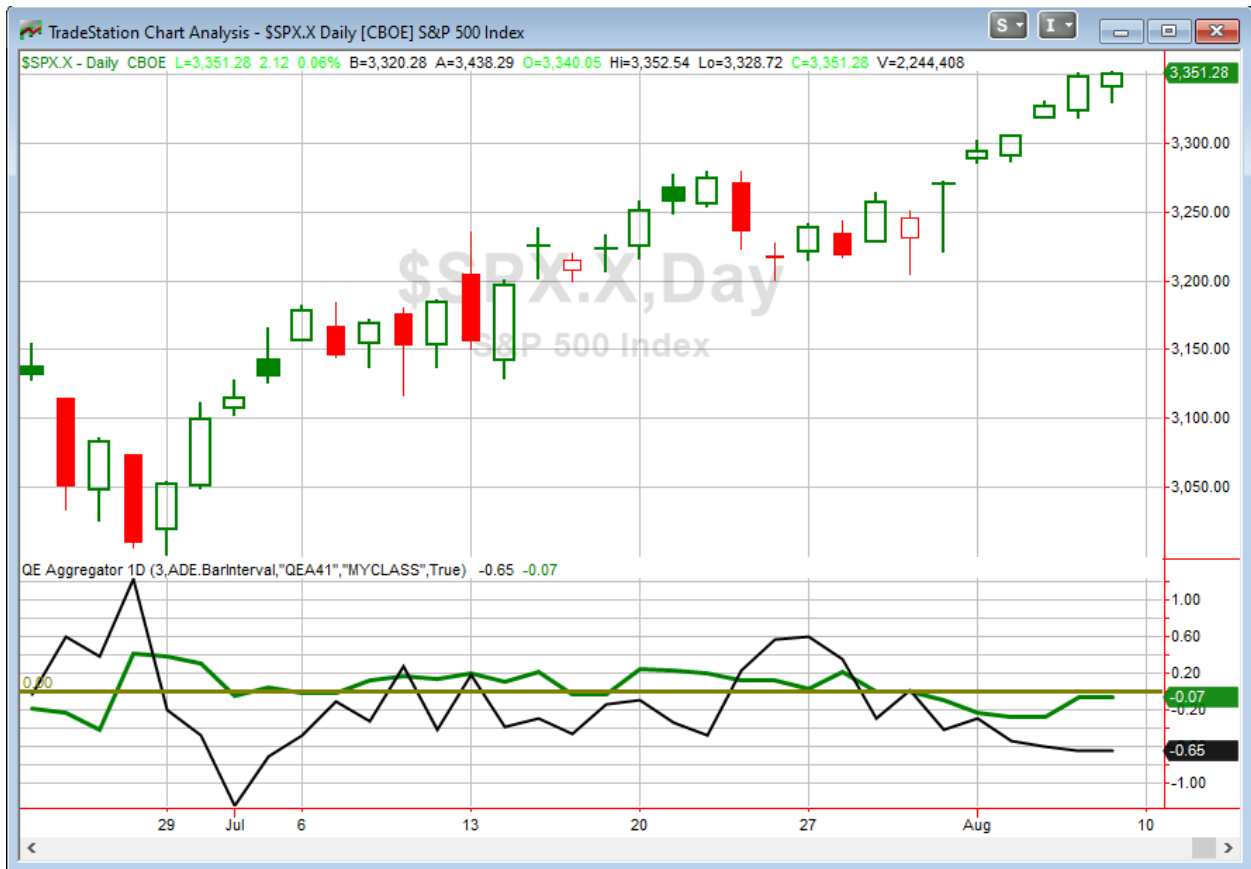


Over the last 17 years, this setup has actually seen a pullback over the next couple of days. I might consider this a downside edge if not for 1) the bullish tendency prior to 2003, and 2) the low

number of instances (19) since then. It is interesting how such persistent moves to new highs used to see follow through on a consistent basis, but that has not been the case in recent years.

So Friday's action did not trigger any new, compelling, short-term evidence. Therefore, no new studies will be added to the short-term active list.

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



Even with tonight's evidence considered, 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.

With the last of the short-term studies expiring on Monday, expectations are slated to flip to slightly positive. This is thanks to the intermediate-term outlook. Of course any new evidence that

emerges would have a large impact on expectations over the next few days. Meanwhile, the Differential Pivot will be 3301.15 on Monday. That is 1.5% below Friday's close. Therefore, SPX would need to close down at least 1.5% on Monday in order to flip from short-term overbought to short-term oversold versus recent expectations.

So the Aggregator is again bearish. But with expectations set to flip on Monday afternoon, the prospect of a short-term counter-trend trade are not very appealing. I am content to remain sidelined and watchful. When the next favorable opportunity arises, I will be ready to pounce.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 8/10 – slightly bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Long</b>

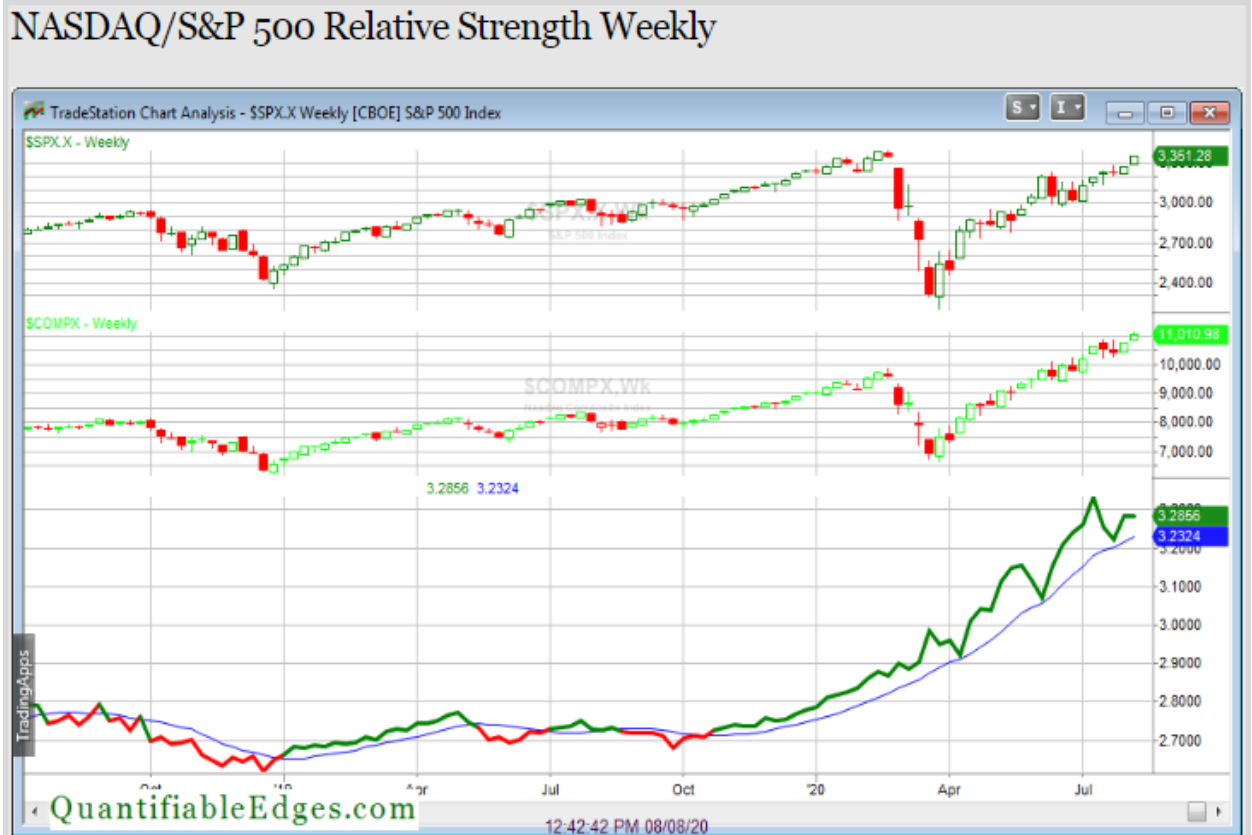
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 2.5%, the NASDAQ rallied 2.5%, and the Russell 2000 rose 6.0%. The indices all remain well above their longer-term averages, so the intermediate-term uptrend still appears to be in place.

The last few weeks I have discussed NASDAQ leadership. A couple of weeks ago it appeared near a tipping point, but that has corrected over the last two weeks, and the NASDAQ continues to lead the way for SPX and the rest of the market. Let's update two indications of NASDAQ strength that I have been discussing:

- 1) The NASDAQ still has not posted a 3-day losing streak since March 9<sup>th</sup>. That encompasses 106 trading days. This is the 2<sup>nd</sup> longest streak of all time. The longest ended near the end of July, 1983 after 154 days. The lack of pullbacks demonstrates how strong and persistent the rally has been.

- 2) Our NASDAQ / SPX relative strength indicator remains firmly showing the NASDAQ in the lead. This has been the case since October. You can see this in the chart below.



This current streak is 198 trading days. That is the second longest streak of all time. The longest lasted 204 days, and ended on 3/31/2000 as the NASDAQ was beginning its collapse from the March 2000 top into a multi-year bear market. The current readings appear strong enough that there is a good chance we will break that 2000 record streak.

I will certainly be on alert when these indicators give way. For now, they continue to favor the bullish case.

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

« As of 07/29/2020

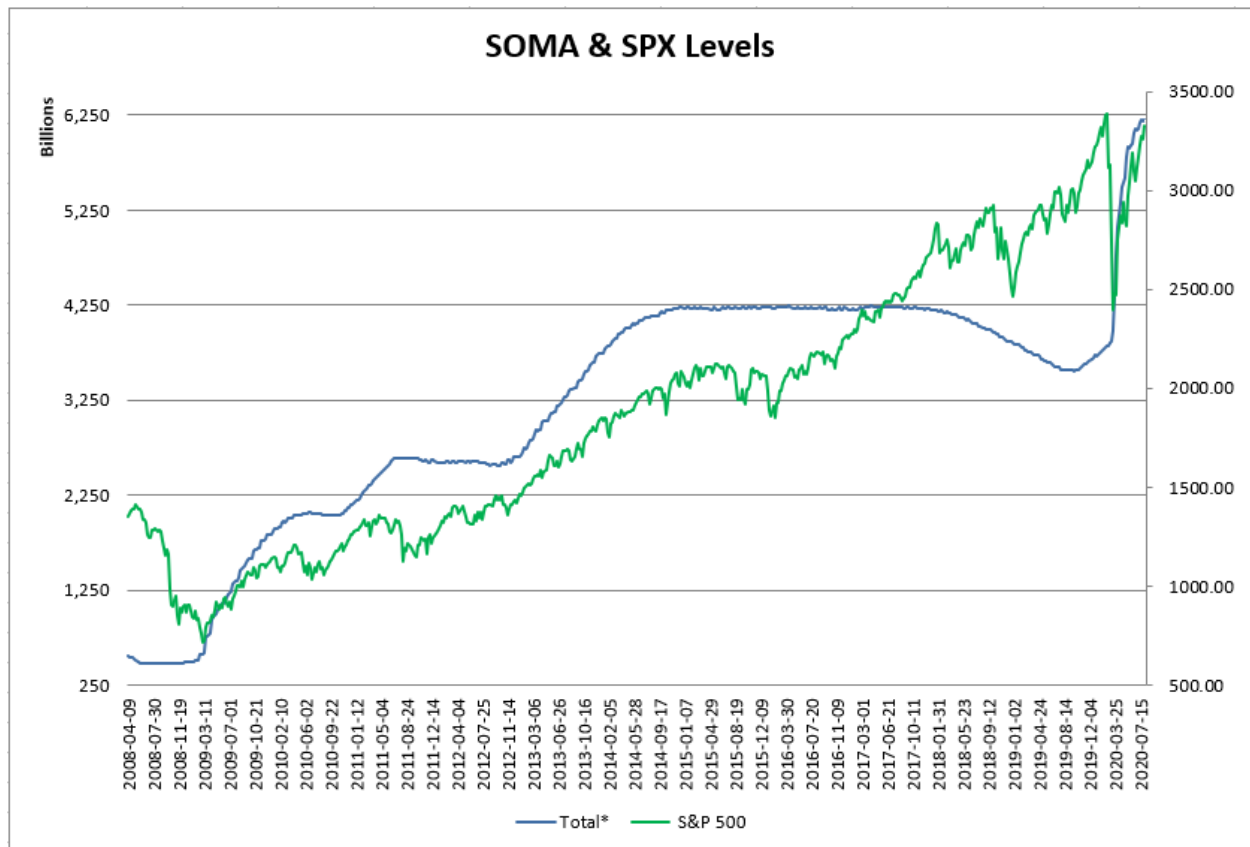
DOMESTIC SECURITIES HOLDINGS AS OF  
**August 5, 2020**

<a href="#">Summary</a> <a href="#">T-Bills</a> <a href="#">T-Notes and T-Bonds</a> <a href="#">FRN</a> <a href="#">TIPS</a> <a href="#">Agencies</a>	
Security Type	Total (in Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	3,654,338,679.2
US Treasury Floating Rate Notes (FRN)	16,096,475.3
US Treasury Inflation-Protected Securities (TIPS)*	273,305,708.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,924,219,061.3
Agency Commercial Mortgage-Backed Securities***	9,246,612.2
<b>Total SOMA Holdings</b>	<b>6,205,597,536.7</b>
<b>Change From Prior Week</b>	<b>11,820,298.4</b>

\*Does not reflect inflation compensation of 35,866,292.9  
 \*\*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 08/06/2020 4:30pm.

This past week saw the SOMA rise by nearly \$12 billion. That is a decent-sized move. I expect we will see even larger ones in the next couple of weeks. The Fed is still pumping, and I am not seeing anything that would lead me to believe that is about to stop. 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 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.

China relations and COVID news remain potential market movers this week. But stimulus package negotiations remain front and center. Personally, I was surprised that the market was able to rally as well as it did this past week with the negotiations going so poorly. I think the economy will need more beyond the limited scope of the executive orders we saw over the weekend. I certainly hope Democrats and Republicans can come to a favorable deal. I believe it will be important for the economy. But they sure don't seem to like each other. So this could drag on a while longer.

Overall, my intermediate-term outlook remains much the same as it did last week. We have several bullish studies on the intermediate-term active list, and NASDAQ leadership is holding strong. 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

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