

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 24, 2020

Volume 13 Issue 164

Market Overview



Signals Overview

| Aggregator | CBI Reading |
|------------|-------------|
| Flat | 0 |

Tonight's Research Points

- Such negative breadth on an up day is rare, but has often been followed by some selling the next day.
- SPX hitting new highs while NYSE New Lows is also making a high is unusual and potentially short-term bearish.
- The NASDAQ is continuing to lead, which is a positive.
- The Fed is continuing to keep liquidity flowing...another positive.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is pointing lower, but SPX is still oversold. That could change Monday, but I don't see great reward/risk right now.

Summary of Recent Active Studies (see Letters from listed dates for details)

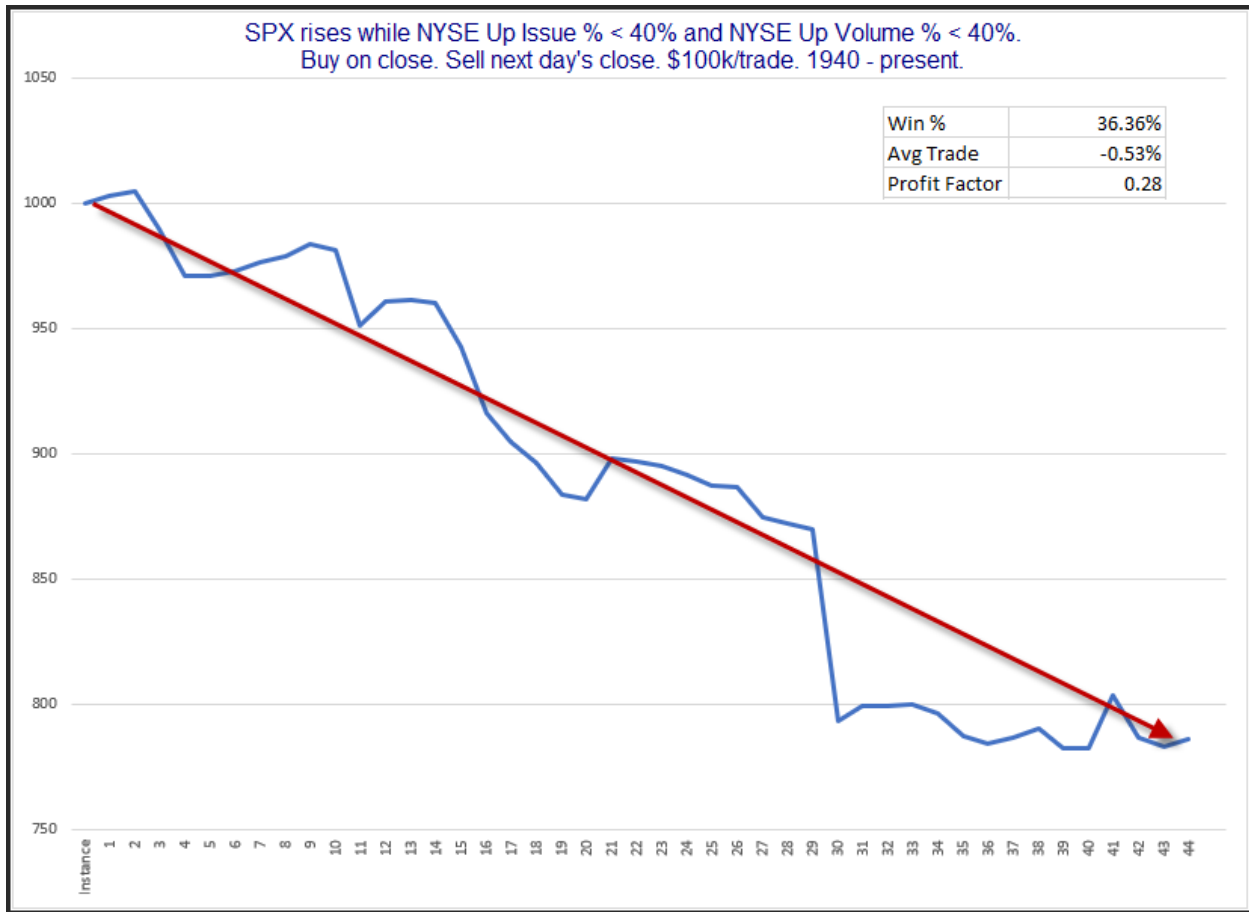
| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|----------------------------|------------------------------------|-----------|---------|------------|------------|------------------------|
| Active - Short Term | | | | | | |
| August 24, 2020 | SPX new high. NYSE NLS 50-day high | 1-2 days | Bearish | | | |
| August 24, 2020 | SPX up on weak breadth | 1 day | Bearish | | | |
| August 21, 2020 | NDX up > 1%. SOX down | 1-6 days | Bearish | -3.00% | 1.80% | 3.90% |
| Active - Long Term | | | | | | |
| August 12, 2020 | SPX Dn 1 after 5+ up to 50-high | 1-10 days | Bullish | 1.90% | -1.00% | -2.10% |
| August 11, 2020 | DJI & SPX up 7 days in a row > 200 | 1-20 days | Bullish | 3.00% | -2.00% | -4.20% |
| August 11, 2020 | RSI2 crosses over 99 | 1-15 days | Bullish | 2.20% | -1.50% | -3.00% |
| 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

Action was again mixed on Friday. The SPX rose 0.3%, the NASDAQ gained 0.4%, and the Russell 2000 lost 0.8%. Breadth was negative as the NYSE Up Issues % was 33% and the Up Volume % came in at 36%. NYSE total volume rose as you would expect on opex Friday.

Action this week has been interesting. We have continually seen the SPX and NASDAQ rising on poor breadth. Large-caps are getting love, while small-cap stocks are struggling. In the Tuesday night, and again in the Thursday night letter I showed a study that looked at other instances of SPX closing higher while the NYSE Up Issue % and the Up Volume % both closed below 40%. Prior to this week the setup had only triggered 42 times since 1940. But Friday marked the 3rd instance in 4 days. That's fairly remarkable. The only other time the setup triggered twice in 1 week was 7/17/15 & 7/20/15.

Below is another updated look at the next-day results.



One instance “worked” this past week and one did not. We will see if the apparent downside edge plays out again on Monday.

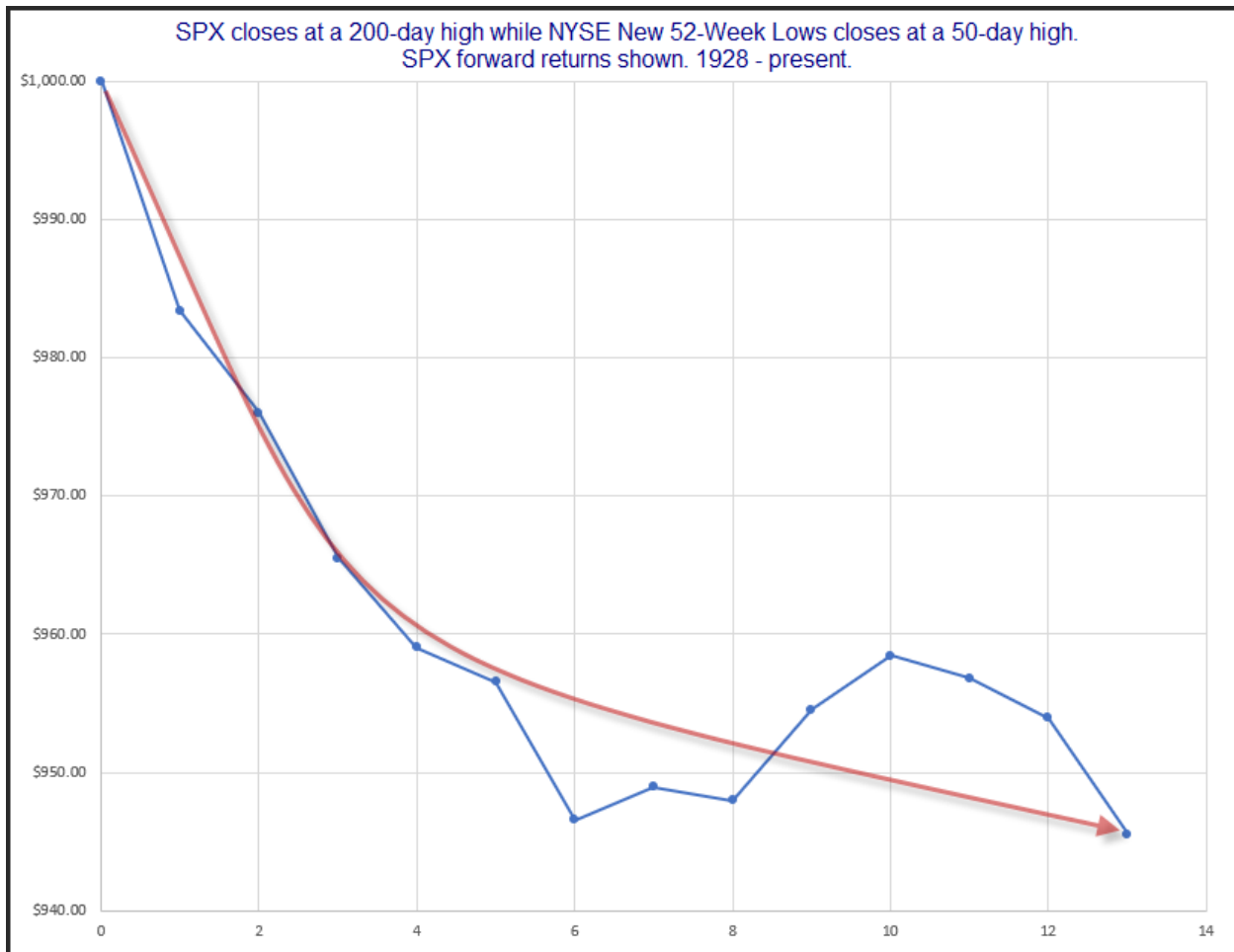
But it is not just this measure of negative breadth that is showing up. Beyond lots of stocks closing lower, we also have a rising number making 52-week lows. Friday saw twenty-nine 52-week lows in the NYSE. That is the largest number since April. I looked back at other times SPX was making new highs while NYSE New Lows were also making a new high. Below is the study I concocted.

SPX closes at a 200-day high while NYSE New 52-Week Lows closes at a 50-day high.
 SPX forward returns shown. 1928 - present.

| Ticker | Date/Time | Next Day % Chg | 2-Day %Chg | 3-Day %Chg | 4-Day %Chg | 5-Day %Chg | 10-Day %Chg |
|---------|----------------------|----------------|--------------|--------------|--------------|--------------|--------------|
| \$\$SPX | 3/10/1937 | -1.55 | -1.66 | -2.84 | -2.36 | -3 | -5.2 |
| \$\$SPX | 3/6/1950 | -0.69 | -0.75 | -1.44 | -1.33 | -1.15 | 0.69 |
| \$\$SPX | 6/17/1957 | -0.41 | -1.08 | -1.68 | -2.26 | -3.03 | -1.68 |
| \$\$SPX | 8/8/1958 | 0.23 | -0.67 | -0.5 | -0.29 | -1.14 | -0.67 |
| \$\$SPX | 3/13/1959 | -1.08 | -0.26 | -0.49 | -0.58 | -0.49 | -2.15 |
| \$\$SPX | 2/18/1963 | -0.48 | -1.04 | -0.9 | -1.59 | -1.58 | -2.68 |
| \$\$SPX | 4/5/1963 | 0.35 | 0.25 | 0.01 | 0.72 | 1.19 | 1.49 |
| \$\$SPX | 10/27/1965 | -0.32 | -0.1 | -0.3 | -0.22 | -0.05 | -0.43 |
| \$\$SPX | 3/22/1967 | 0.76 | 0.69 | 0.73 | 0.53 | 0.5 | -0.34 |
| \$\$SPX | 3/15/1971 | 0.5 | 0.41 | 0.48 | 0.3 | -0.09 | -0.68 |
| \$\$SPX | 11/8/1996 | 0.14 | -0.17 | 0.04 | 0.69 | 0.93 | 2.45 |
| \$\$SPX | 12/11/2003 | 0.27 | -0.3 | 0.37 | 0.49 | 1.68 | 2.3 |
| \$\$SPX | 1/14/2011 | 0.14 | -0.88 | -1 | -0.76 | -0.19 | -0.55 |
| | Avg | -0.16 | -0.43 | -0.58 | -0.51 | -0.49 | -0.57 |
| | Median | 0.14 | -0.3 | -0.49 | -0.29 | -0.19 | -0.55 |
| | Win % | 53.8% | 23.1% | 38.5% | 38.5% | 30.8% | 30.8% |
| | Profit Factor | 0.53 | 0.20 | 0.18 | 0.29 | 0.40 | 0.48 |

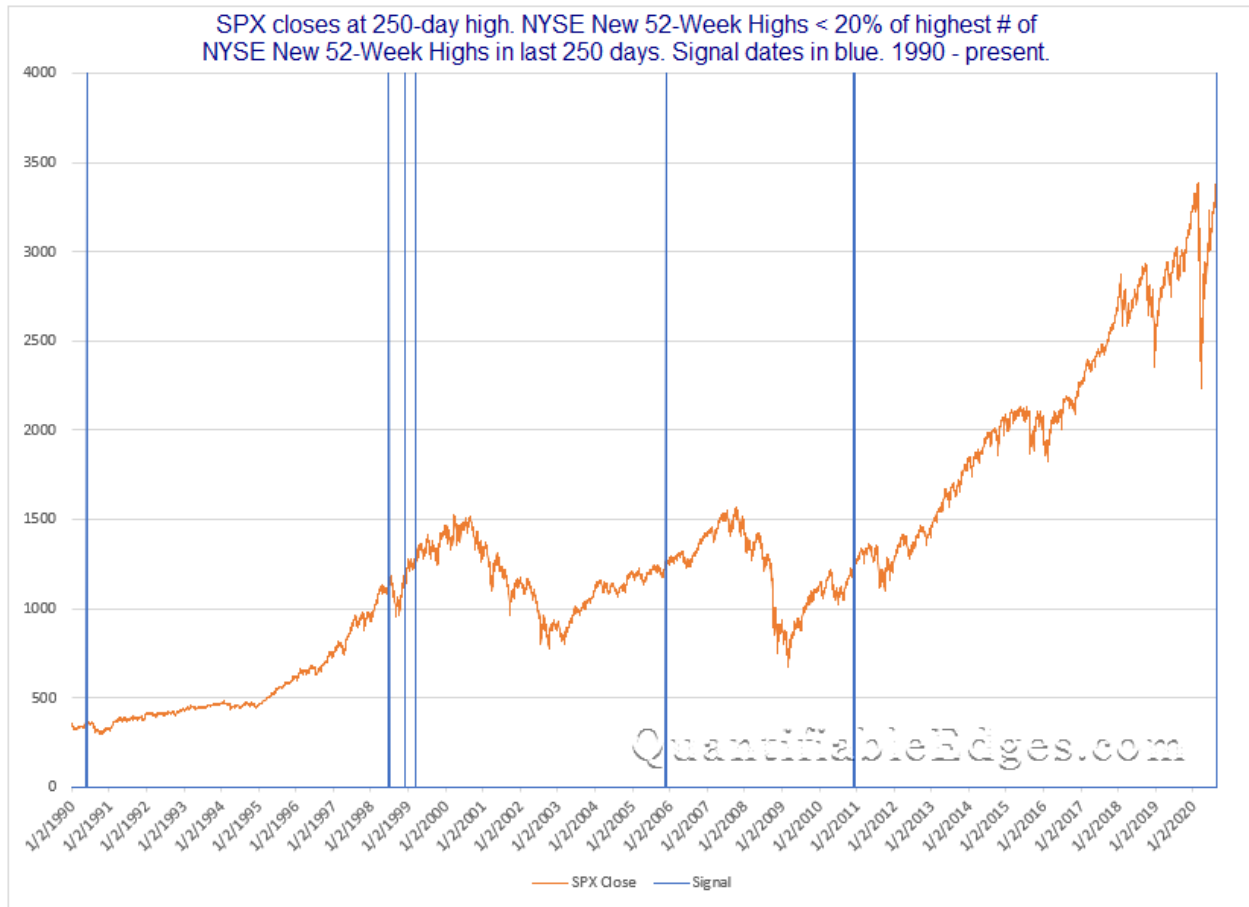
QuantifiableEdges.com

Quite a bit of red there in the results. Interesting how rare it is to see. The 2-day results appear to the most consistent. Below is a profit curve for the 2-day.



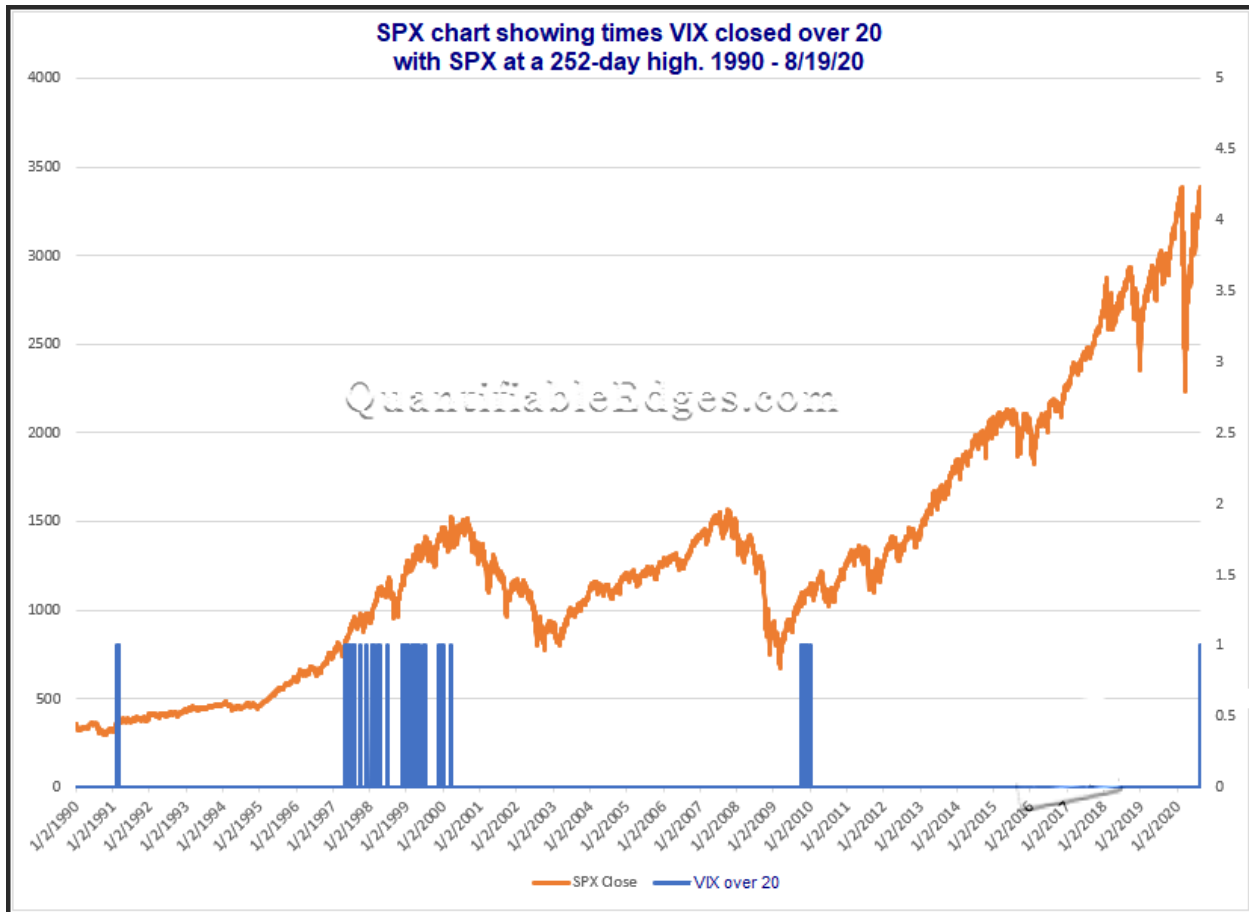
Much of the downside happened a long time ago, so we'll see if it continues, but I have added this to the Active List for today.

I also noted the number of new highs was very low on Friday. It came in at just 65, which is especially low considering the number was 345 in February. The chart below shows all other times SPX hit a new 250-day high while new highs lagged so badly.



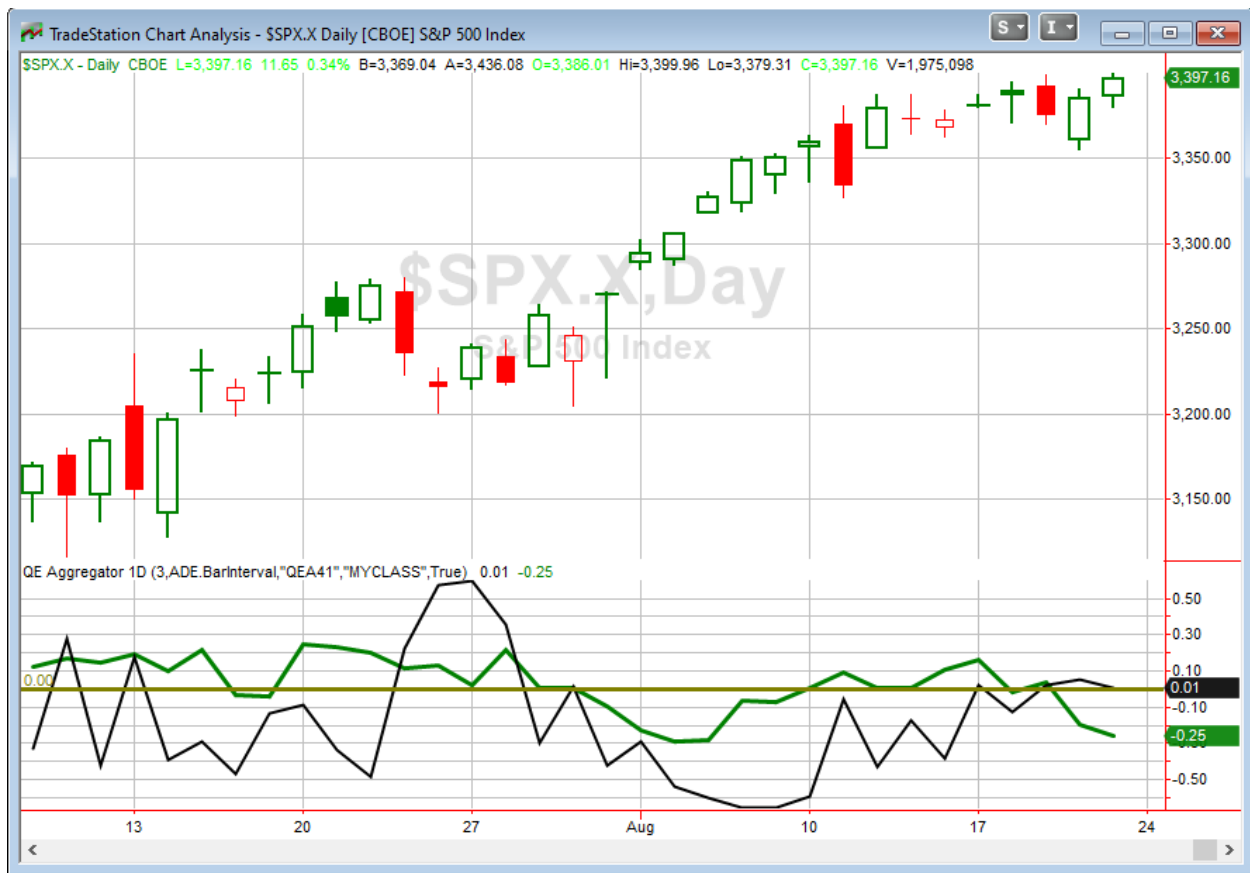
I did not find a huge edge in looking at this data, but as my friend and colleague Tom McClellan likes to point out about divergences...they can repair themselves. An expansion of new highs would be a good thing. The current setup may not necessarily be a “bad thing”, but we would rather see the “good thing” for uptrend confirmation.

I also noted that the SPX is making new highs with the VIX over 20. Below is a chart showing other times this has happened.



Unusual activity once again. Not necessarily predictive. Interesting that 1998-99 saw this happening similar to the new high chart. That was another period of time where we saw a narrow rally along with some anxiety for options traders. Neither of these observations are “signals”, but I thought they were both noteworthy.

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



With tonight's new 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 held above 0. The positive Differential Line reading means SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 stayed flat at the close.

Based on the current list of active studies, short-term expectations are set to remain negative on Monday. Of course, this could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 3380.93 on Monday. That is 0.5% *below* Friday'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 down at least 0.5% in order to remain "oversold" vs expectations. Anything less than that and it will flip to "overbought" as of Monday's close.

So the Aggregator is neutral. We are seeing some evidence that the market could be susceptible to a pullback in the next few days, but with SPX already "oversold" vs expectations, reward/risk is weak. So I will give it another day, see how things play out on Monday, and consider any new evidence that emerges.

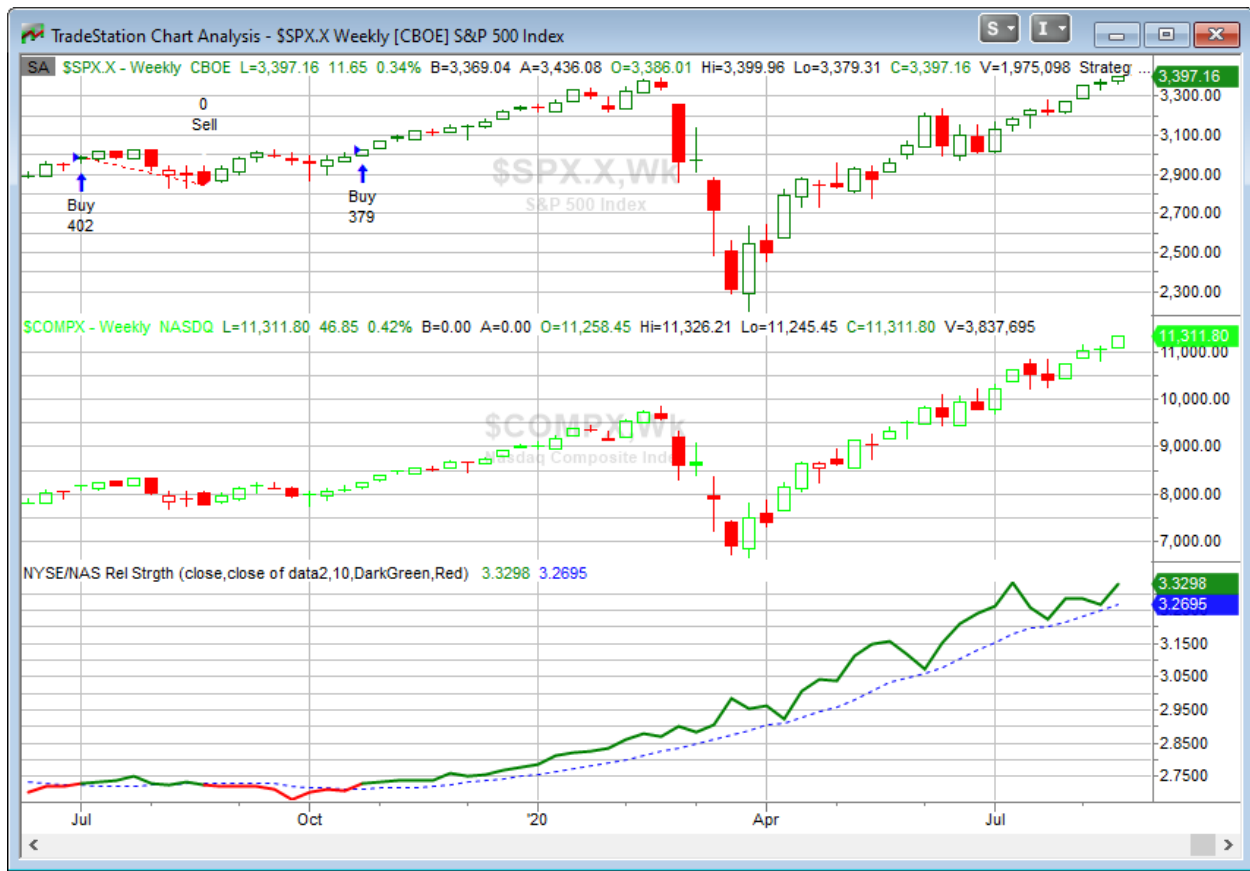
Intermediate-term Outlook (2 weeks – 2 months) – *updated 8/24 – slightly bullish*

| 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 had a mixed week. The SPX gained 0.7%, the NASDAQ rose 2.7%, and the Russell 2000 lost 1.6%. The large-cap indices are at new highs, and clearly in an uptrend. The Russell is clearly lagging.

I have been keeping a close eye on our NASDAQ/SPX Weekly Relative Strength indicator. Once again this week the NASDAQ finished in a leading position. That means it has now led for 208 trading days – surpassing the former record of 204 days that ended in March of 2000. Below is an updated look at the indicator.



The leading NASDAQ has generally been a positive for the overall market. Action this past week caused some separation between the green and dotted-blue lines. This means there is a bit of a cushion that could allow for the NASDAQ to lead a while longer even if it underperforms some in the next week or two. It has certainly been tough to bet against the uptrend since March and the leading NASDAQ historically. I'll continue to watch this indicator for signs of potential weakening leadership.

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

« As of 08/12/2020

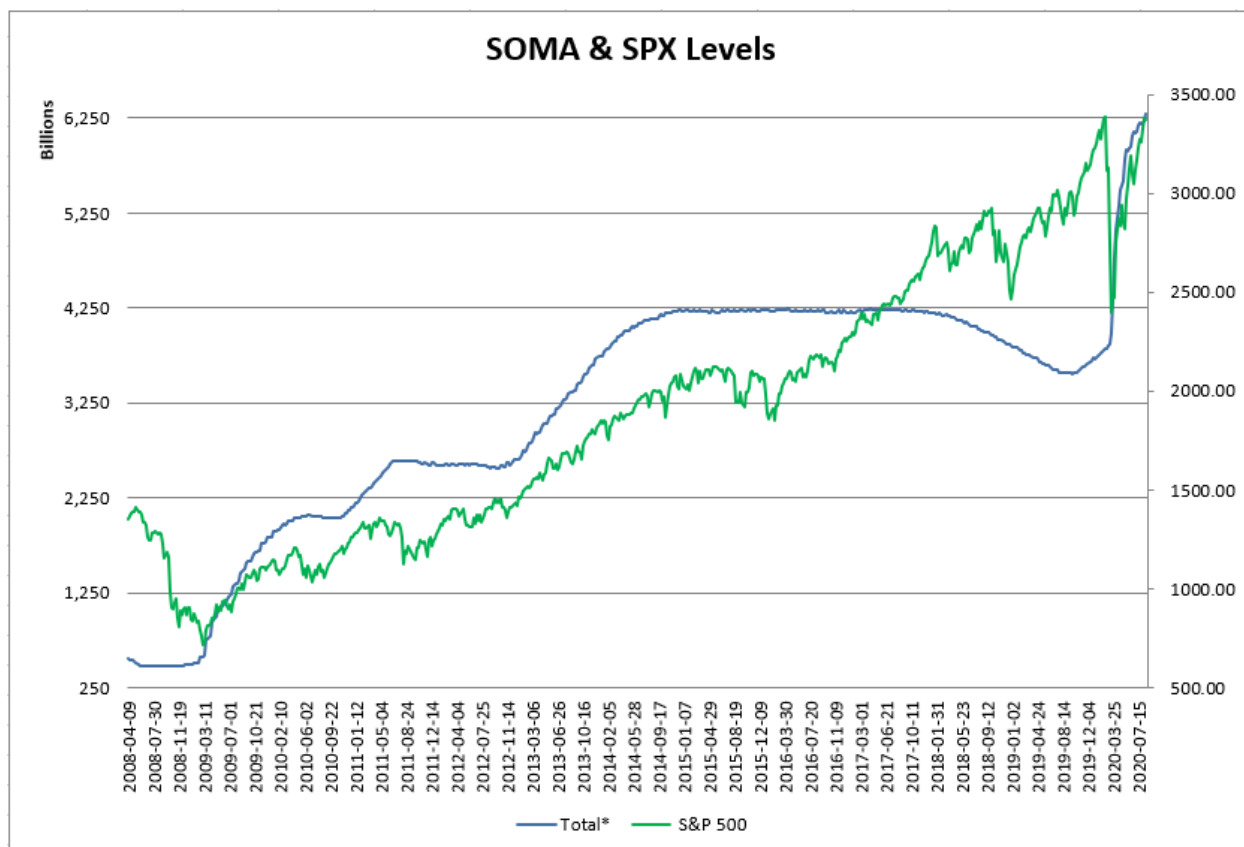
DOMESTIC SECURITIES HOLDINGS AS OF
August 19, 2020

| Security Type | Total (in Thousands) |
|--|----------------------|
| US Treasury Bills (T-Bills) | 326,044,000.0 |
| US Treasury Notes and Bonds (Notes/Bonds) | 3,690,738,679.2 |
| US Treasury Floating Rate Notes (FRN) | 16,096,475.3 |
| US Treasury Inflation-Protected Securities (TIPS)* | 275,706,708.8 |
| Federal Agency Securities** | 2,347,000.0 |
| Agency Mortgage-Backed Securities*** | 1,968,594,178.6 |
| Agency Commercial Mortgage-Backed Securities*** | 9,302,769.8 |
| Total SOMA Holdings | 6,288,829,811.6 |
| Change From Prior Week | 69,415,169.8 |

*Does not reflect inflation compensation of 36,958,000.9
**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 08/20/2020 4:30pm.

This past week saw the SOMA rise by over \$69 billion. That is a massive amount. The Fed is still pumping strongly, 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 is 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.

Overall, my intermediate-term outlook remains much the same as it did last week. The intermediate-term list has a good number of active bullish studies. And NASDAQ leadership remains in place. Bears can point to all the uncertainties related to COVID, social unrest, government stimulus changes, unemployment, and the economy in general. Massive liquidity and momentum has mattered more than any of these uncertainties. At some point that may change, but it has not yet. 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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