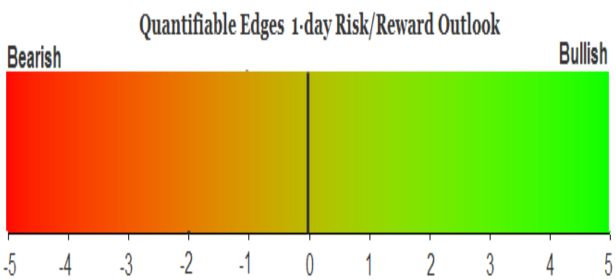
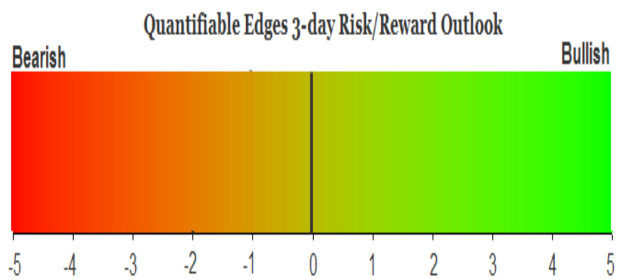
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 31, 2020 Volume 13 Issue 169

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPX is up for the 7th day in a row. That has often mean more gains over the next few weeks.
- 3+ days higher to a new high on 3+ days of increasing volume has been short-term bullish historically.
- This past week saw the SOMA decline, but the Fed remains strongly dovish, and this should continue to help the market.

Short-term Outlook
The Bottom Line
The Aggregator neutral. The market is at a point where it has been so strong, that betting against further strength is risky.

Quantifiable Edges, LLC 10 Boyden Rd., Medfield, Massachusetts 02052 781-956-6952

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 31, 2020	SPX up 3 to 50-hi. Volume up 3.	1-2 days	Bullish			
Active - Long Term						
August 31, 2020	SPX up 7 days in a row > 200	1-20 days	Bullish	3.00%	-2.00%	-4.20%
August 27, 2020	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
August 27, 2020	RSI2 crosses over 99	1-11 days	Bullish	1.80%	-1.30%	-2.70%
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
August 21, 2020	NDX up > 1%. SOX down	1-6 days	Bearish	-3.00%	1.80%	3.90%

The Evidence

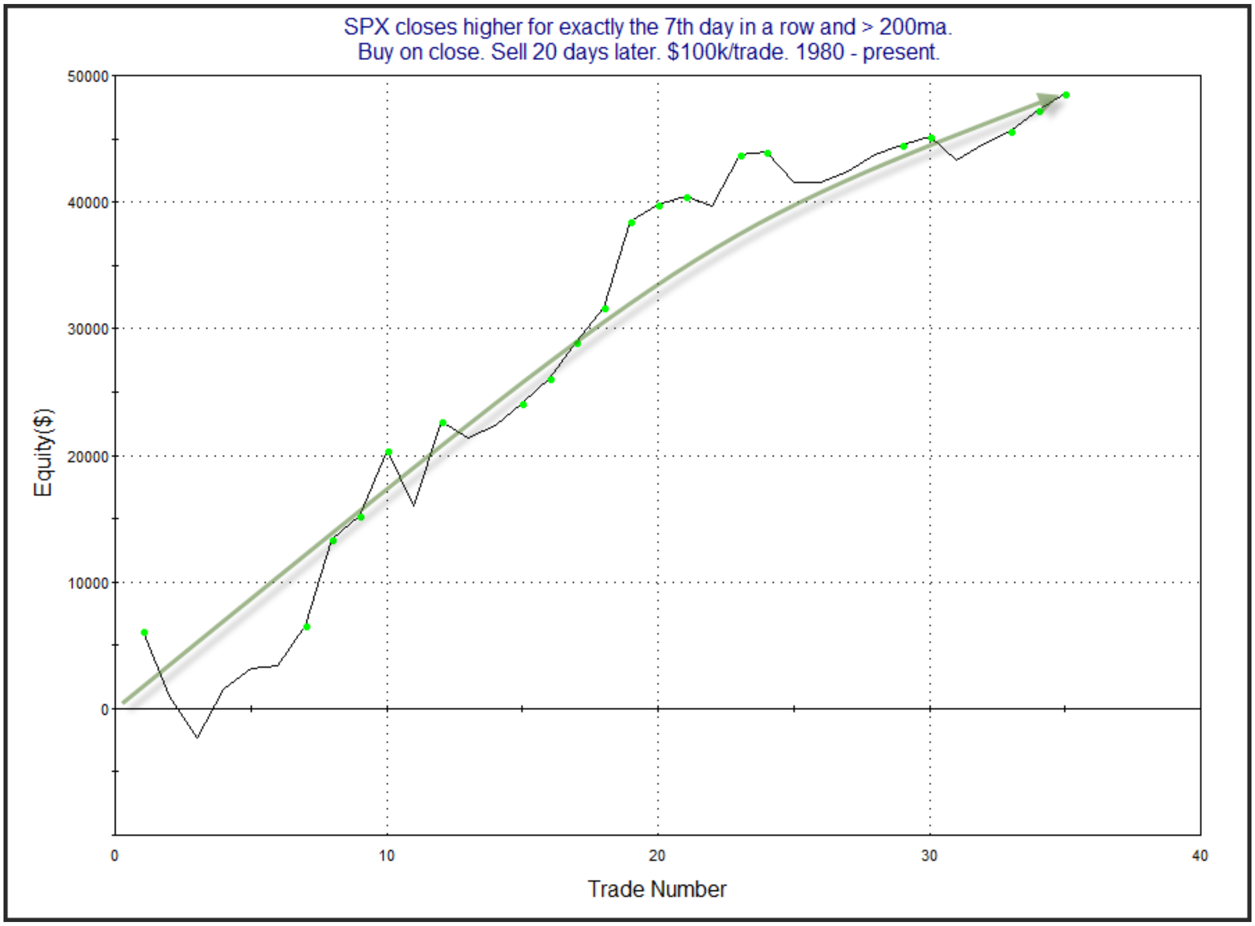
Up, up and up is what the market has been doing, and it did again on Friday. The SPX finished up 0.7%, the NASDAQ gained 0.6%, and the Russell 2000 rose 0.9%. Breadth was positive as the NYSE Up Issues % was 68% and the Up Volume % came in at 78%. NYSE total volume rose some from Thursday's level.

The persistent move higher in SPX is fairly remarkable. Friday was the 7th day in a row in which it closed higher. Looking back to 1980, there have only been 37 previous streaks of 7-day rallies where SPX closed above the 200ma. This is the 2nd one THIS MONTH. The study below was last seen in the 8/11/20 letter. It had been on the intermediate-term active list but was removed a few days ago, since it had already met its price objective. With it now triggering again, I have updated the stats below.

SPX closes higher for exactly the 7th day in a row and > 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
20	48,564.94	35	28	7	80.00	6,854.40	-5,183.75	2,424.67	-2,760.82	0.88	3.51	1,387.57
19	46,022.32	35	26	9	74.29	7,580.16	-6,017.50	2,713.73	-2,726.07	1.00	2.88	1,314.92
18	40,967.08	35	24	11	68.57	8,006.40	-6,177.00	2,549.89	-1,839.12	1.39	3.03	1,170.49
17	36,048.32	36	26	10	72.22	7,422.72	-7,532.75	2,312.46	-2,407.57	0.96	2.50	1,001.34
16	31,838.98	36	23	13	63.89	6,021.12	-6,880.25	2,420.91	-1,833.99	1.32	2.34	884.42
15	31,594.65	36	25	11	69.44	6,197.76	-5,270.75	2,199.72	-2,127.12	1.03	2.35	877.63
14	32,589.29	37	29	8	78.38	5,439.96	-5,176.50	1,937.05	-2,948.13	0.66	2.38	880.79
13	29,760.26	37	25	12	67.57	5,349.12	-3,388.00	1,892.36	-1,462.40	1.29	2.70	804.33
12	33,048.68	37	26	11	70.27	5,794.56	-4,104.27	1,846.36	-1,359.69	1.36	3.21	893.21
11	29,457.13	37	24	13	64.86	5,750.00	-3,463.18	1,963.10	-1,358.26	1.45	2.67	796.14
10	24,332.30	37	23	14	62.16	5,076.56	-4,247.60	1,858.20	-1,314.74	1.41	2.32	657.63
9	26,924.20	37	27	10	72.97	4,669.08	-4,418.40	1,534.02	-1,449.44	1.06	2.86	727.68
8	21,112.16	37	25	12	67.57	5,222.40	-4,141.53	1,461.96	-1,286.40	1.14	2.37	570.60
7	15,431.72	37	27	10	72.97	3,635.40	-6,521.20	1,263.38	-1,867.96	0.68	1.83	417.07
6	15,933.53	37	25	12	67.57	3,501.08	-3,359.07	1,135.63	-1,038.09	1.09	2.28	430.64
5	18,338.73	37	29	8	78.38	3,582.84	-2,665.71	942.18	-1,123.06	0.84	3.04	495.64
4	13,593.20	37	25	12	67.57	3,720.08	-3,022.92	902.80	-748.06	1.21	2.51	367.38
3	11,652.58	37	24	13	64.86	2,917.08	-2,626.02	877.80	-724.21	1.21	2.24	314.93
2	2,765.56	37	18	19	48.65	1,998.39	-1,508.17	615.89	-437.92	1.41	1.33	74.74
1	-1,545.55	37	18	19	48.65	1,606.89	-840.84	360.32	-422.70	0.85	0.81	-41.77

No real edge over the 1st few days, but the market has typically pressed higher over the intermediate term. Momentum this strong often sees follow through. It certainly has since the 8/10 instance. Below is a look at the 20-day profit curve. (Note the 8/10 instance is not on here, yet since it has not yet been 20 days since it triggered.)



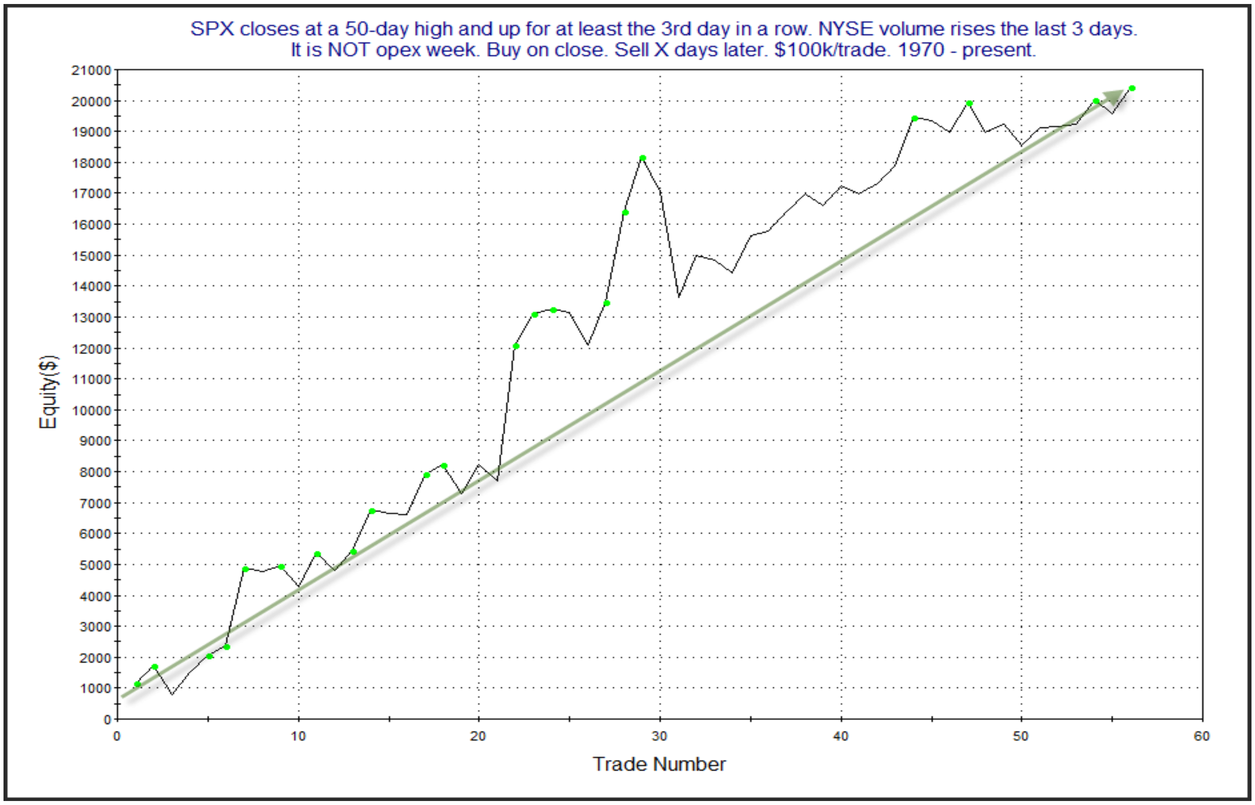
I probably should have put this study in the intermediate-term section. But you'll see there that we have other studies from earlier this week with a similar message. Momentum is strong, and that is generally an intermediate-term positive.

There was one study from the Quantifinder that suggested bullish short-term implications as well. It was from the 7/25/14 letter, and examined new 50-day highs that occurred in conjunction with 3 positive and increasing volume days. All stats are updated.

SPX closes at a 50-day high and up for at least the 3rd day in a row. NYSE volume rises the last 3 days. It is NOT opex week. Buy on close. Sell X days later. $100k/trade. 1970 - 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	18,082.97	56	33	23	58.93	4,771.60	-3,827.55	1,455.11	-1,301.55	1.12	1.60	322.91
4	11,061.91	56	34	22	60.71	6,138.16	-3,898.65	1,133.49	-1,248.95	0.91	1.40	197.53
3	15,529.07	56	36	20	64.29	4,376.64	-4,388.45	995.18	-1,014.87	0.98	1.77	277.30
2	20,441.00	56	35	21	62.50	4,399.92	-3,412.80	965.36	-635.55	1.52	2.53	365.02
1	12,221.13	63	40	23	63.49	2,755.52	-1,071.43	562.87	-447.55	1.26	2.19	193.99

The numbers suggest bullish implications. I used to include opex week in this study. But I found a while back that excluding opex weeks from the pattern made for more consistent results, since opex weeks often have screwy volume patterns. Below is a look at the profit curve assuming a 2-day holding period.

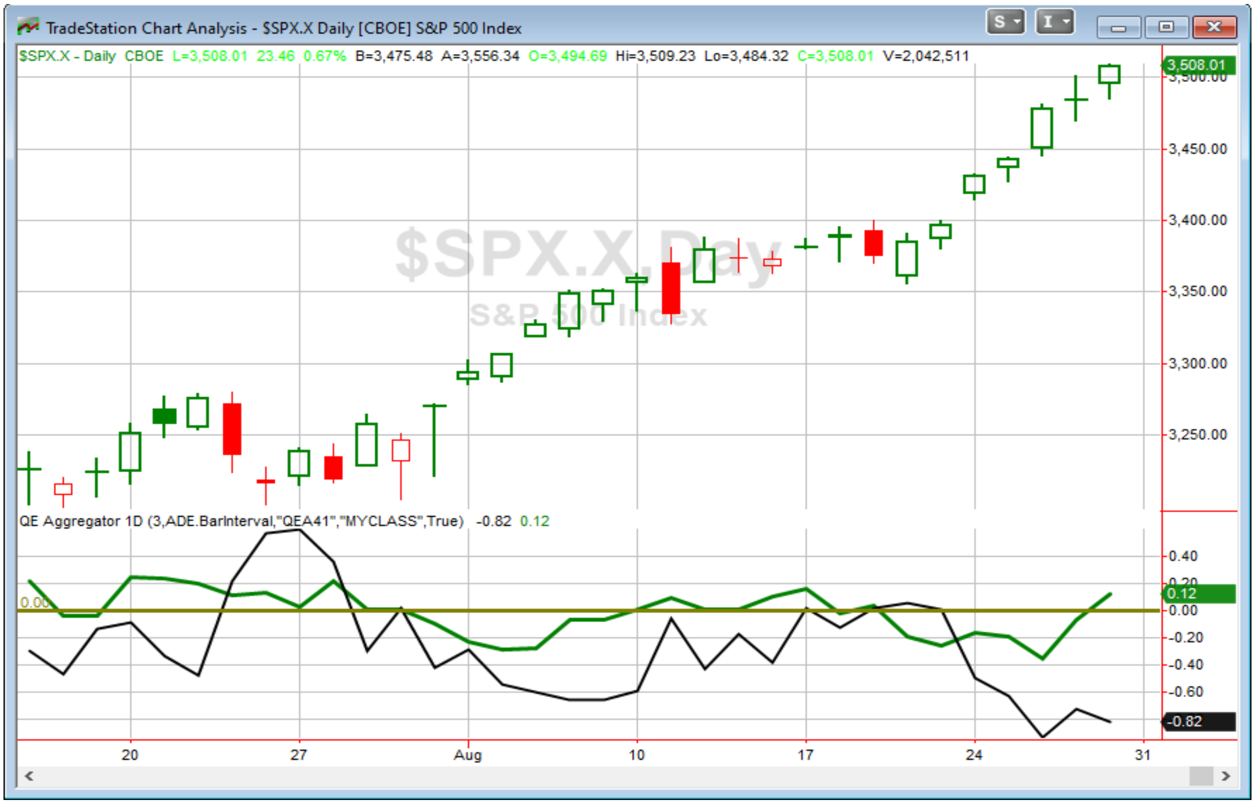


There has certainly been chop along the way, but it still looks fairly healthy and is back at new highs. Overall, the study seems worth consideration.

There are a number of other extremes that are occurring that I have been watching, but they are failing to produce strong directional evidence based on my analysis. Still, they are notable, and may help me uncover clues in the coming days and weeks. Here are a few to note:

- The SPX rally has not led to a decline in the VIX. We saw this examined a few ways in Thursday night's letter. Today I will note that while SPX has closed up 7 days in a row, the VIX is actually higher than it was 7 days ago. The only other dates that has happened are 12/31/91, 9/3/2003, and 2/15/17. I see nothing remarkable about forward performance following those dates.
- Breadth has failed to keep up with the market gains. More stocks hitting highs would be preferable, but I do not have anything suggesting recent breadth is giving a compelling short-term edge.
- TLT (the long-term treasury ETF) is having its worst month since 11/2016.

I have updated the Aggregator chart below.



With tonight's evidence considered, the green Aggregator Line moved up above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held 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. Of course, this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3453.99 on Monday. That is 1.5% below Friday's close. Therefore, SPX would need to close down a sizable 1.5% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. The market is so overbought that it is likely to continue heading in that direction, and betting against it appears to be a low-probability play. But betting long does not offer great reward/risk for the short-term. A multi-day pullback might be the next strongly favorable short-term opportunity. Of course the market will have to actually pull back at some point for that to set up. I'll continue to exercise patience.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/31 – 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".*

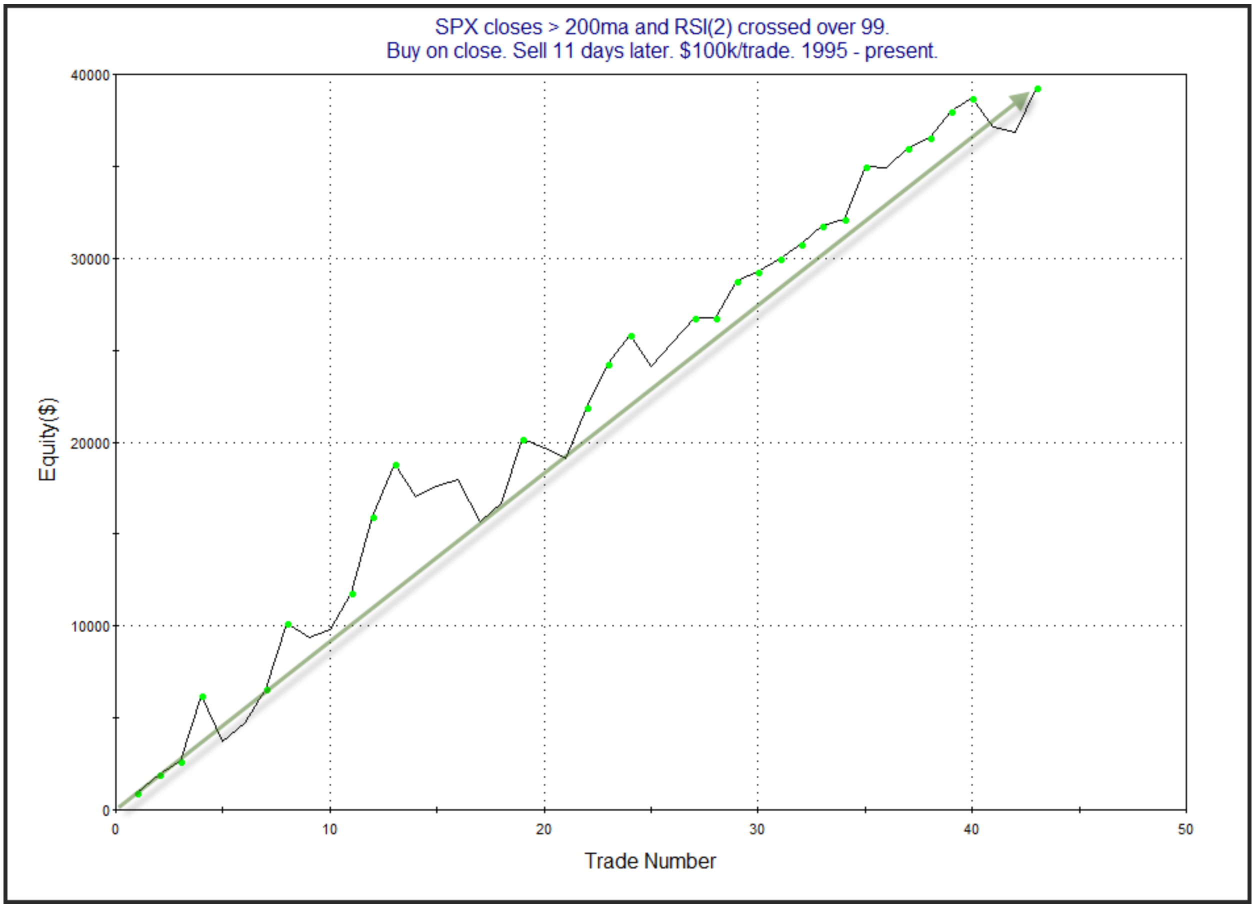
The major indices rose strongly this past week. The SPX gained 3.3%, the NASDAQ rose 3.4%, and the Russell 2000 climbed 1.7%. The large-cap indices are at new highs, and clearly in an uptrend. The Russell is lagging.

There were a few studies from the 8/27 nightly letter that had intermediate-term implications. I have copied them below.

The recent rally has left the market short-term overbought by most measures. Short-term overbought often triggers some studies that suggest a downside edge, but when the overbought condition gets very strongly overbought, then those downside edges often disappear. And at some point, rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 8/11/20 Letter, which uses RSI(2).

SPX closes > 200ma and RSI(2) crossed over 99. Buy on close. Sell X days later. $100k/trade. 1995 - 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	38,829.77	40	31	9	77.50	3,782.11	-3,265.02	1,732.56	-1,653.30	1.05	3.61	970.74
14	34,399.50	40	31	9	77.50	4,461.36	-4,024.68	1,604.14	-1,703.22	0.94	3.24	859.99
13	36,312.76	42	33	9	78.57	3,989.82	-3,320.01	1,515.32	-1,521.42	1.00	3.65	864.59
12	37,562.63	43	33	10	76.74	4,058.61	-3,175.53	1,496.59	-1,182.48	1.27	4.18	873.55
11	39,280.03	43	33	10	76.74	4,106.40	-2,523.21	1,554.77	-1,202.74	1.29	4.27	913.49
10	31,856.50	44	33	11	75.00	3,770.55	-2,793.28	1,379.43	-1,242.24	1.11	3.33	724.01
9	27,601.36	44	33	11	75.00	3,453.27	-3,440.07	1,223.75	-1,162.05	1.05	3.16	627.30
8	24,532.25	44	30	14	68.18	3,547.80	-3,460.32	1,281.85	-994.53	1.29	2.76	557.55
7	17,169.82	45	29	16	64.44	3,564.39	-4,153.62	1,123.84	-963.85	1.17	2.11	381.55
6	7,022.46	45	27	18	60.00	2,634.36	-5,296.92	1,032.16	-1,158.10	0.89	1.34	156.05
5	9,437.65	45	30	15	66.67	2,152.64	-3,596.40	850.41	-1,071.65	0.79	1.59	209.73
4	6,678.57	45	29	16	64.44	2,697.92	-3,039.18	845.46	-1,114.98	0.76	1.37	148.41
3	1,525.51	46	26	20	56.52	3,504.64	-2,880.45	790.52	-951.39	0.83	1.08	33.16
2	3,366.86	46	26	20	56.52	2,273.92	-2,348.76	693.24	-732.87	0.95	1.23	73.19
1	203.70	46	22	24	47.83	2,096.10	-3,515.37	514.54	-463.18	1.11	1.02	4.43

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 11-day holding period.



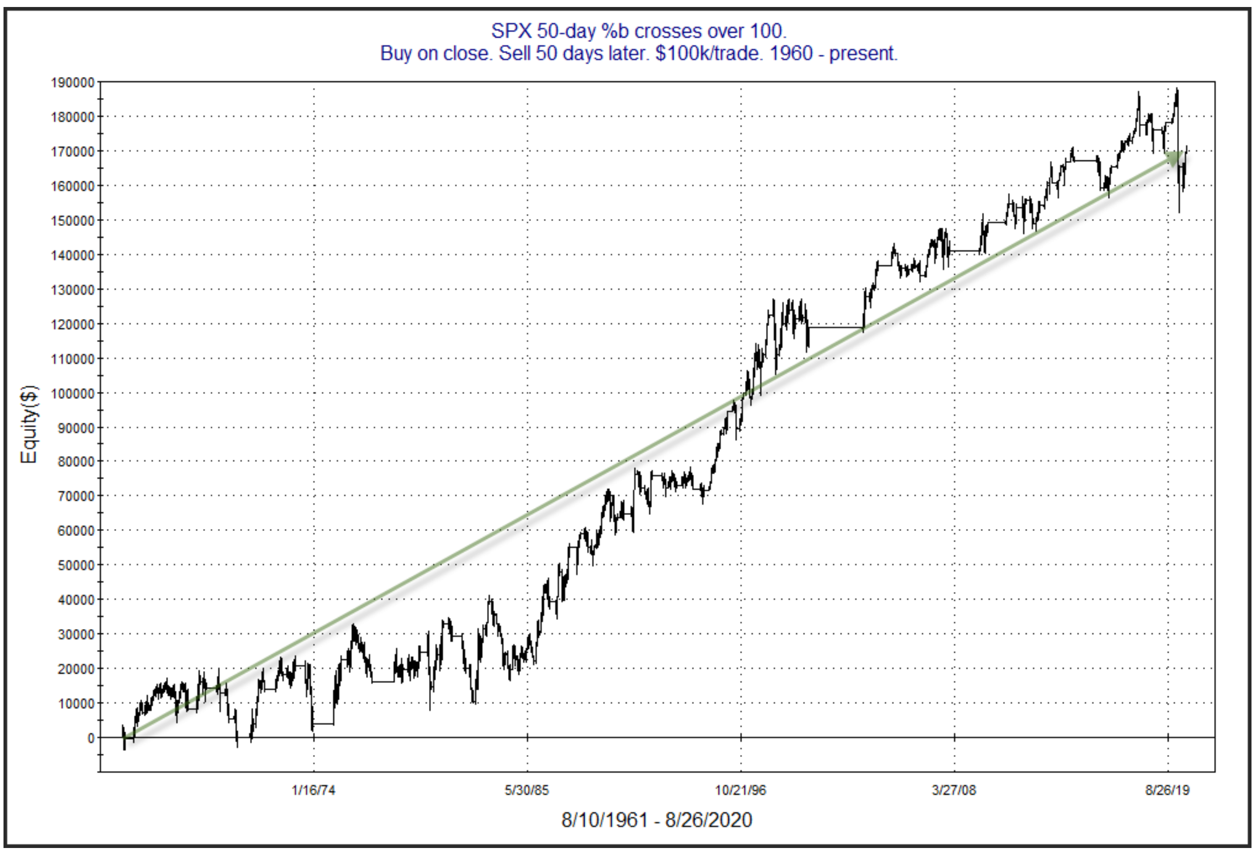
The upside edge has been apparent for a while, and it still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

This last study looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. An updated results table for this study is below.

SPX 50-day %b crosses over 100.
Buy on close. Sell X days later. $100k/trade. 1960 - 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
50	171,084.97	140	84	56	60.00	18,408.18	-20,704.80	4,858.86	-4,233.20	1.15	1.72	1,222.04
45	124,439.41	146	83	63	56.85	15,816.57	-32,382.30	4,963.40	-4,563.86	1.09	1.43	852.32
40	137,938.19	151	90	61	59.60	17,624.67	-27,920.40	4,446.33	-4,298.88	1.03	1.53	913.50
35	148,407.47	158	95	63	60.13	15,782.13	-13,617.00	4,035.38	-3,729.42	1.08	1.63	939.29
30	99,262.63	165	98	67	59.39	11,920.74	-10,485.00	3,338.21	-3,401.23	0.98	1.44	601.59
25	63,080.66	173	98	75	56.65	10,859.94	-8,732.16	2,999.31	-3,078.02	0.97	1.27	364.63
20	58,996.09	184	105	79	57.07	9,501.30	-10,205.38	2,584.99	-2,688.96	0.96	1.28	320.63
15	60,148.63	203	119	84	58.62	7,843.46	-9,763.44	2,321.46	-2,572.68	0.90	1.28	296.30
10	44,317.47	227	139	88	61.23	8,239.16	-9,133.53	1,685.07	-2,158.04	0.78	1.23	195.23
5	20,054.06	277	156	121	56.32	5,030.81	-5,817.77	1,118.68	-1,276.53	0.88	1.13	72.40

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over a possible reversal. The "% Profitable" is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That's a pretty steady upslope for a study without a very high "% Profitable". Overall, I like this study enough to add it to the intermediate-term active list.

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

« As of 08/19/2020

DOMESTIC SECURITIES HOLDINGS AS OF
August 26, 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)	3,702,072,679.2
US Treasury Floating Rate Notes (FRN)	16,096,475.3
US Treasury Inflation-Protected Securities (TIPS)*	276,905,708.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	1,939,919,413.5
Agency Commercial Mortgage-Backed Securities***	9,309,060.7
Total SOMA Holdings	6,272,694,337.5
Change From Prior Week	-16,135,474.1

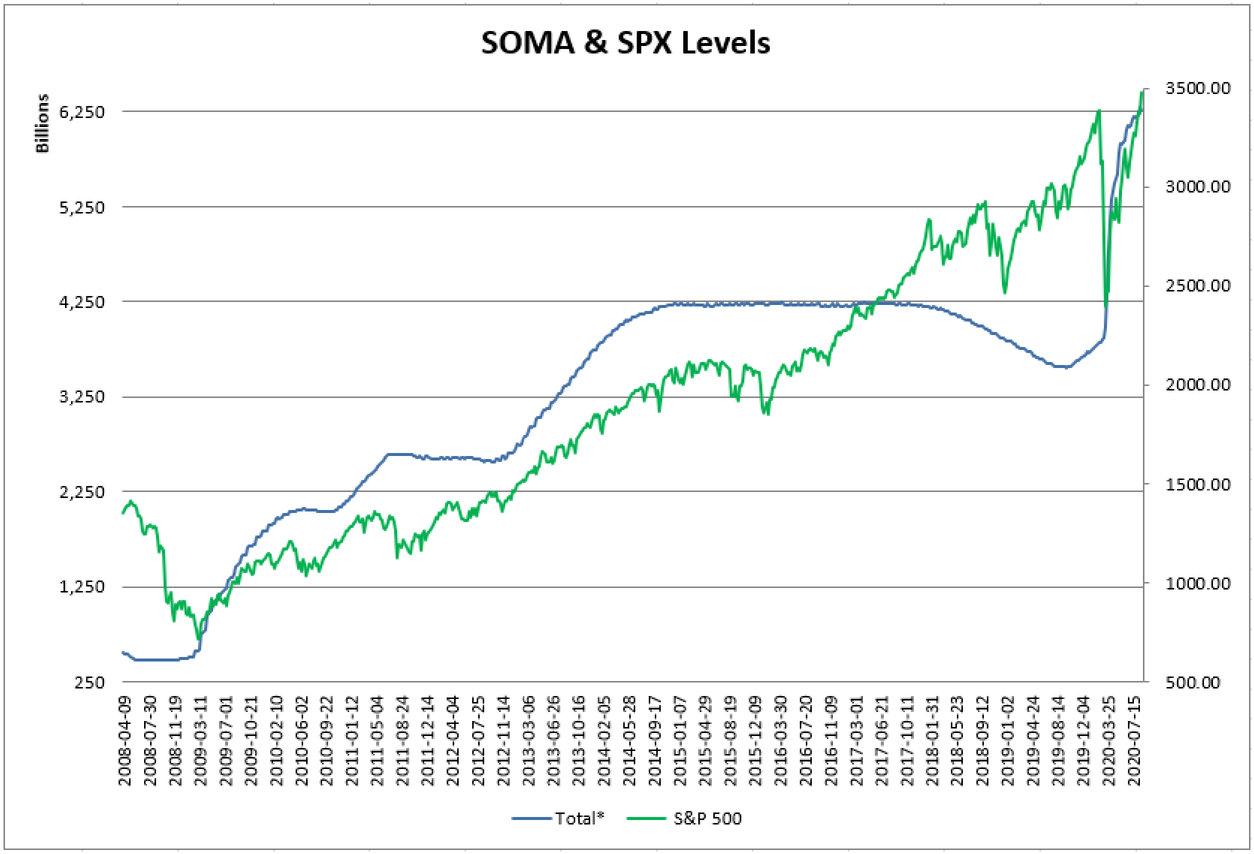
*Does not reflect inflation compensation of 37,439,847.9

**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 08/27/2020 4:30pm.

This past week saw the SOMA decline by over $16 billion. That is a big number. But it is not a concern to me. We have seen the last week of each month has generally seen a decline in the SOMA. It is not policy change. It is simply a calendar quirk. Overall, 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.

In a policy release Thursday, the Fed indicated that employment is its #1 concern as of right now. Containing inflation is secondary. They have used a 2% inflation target for a long time now. But Thursday they indicated that " **…following periods when inflation has been running persistently below 2 percent, appropriate monetary policy will likely aim to achieve inflation moderately above 2 percent for some time."** My interpretation of this is that they are focused on job growth and that increased inflation could be a result, and they are ok with that for the time being. Now is a time for stimulus.

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. It has continued to grow with the strong momentum we've seen lately. 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