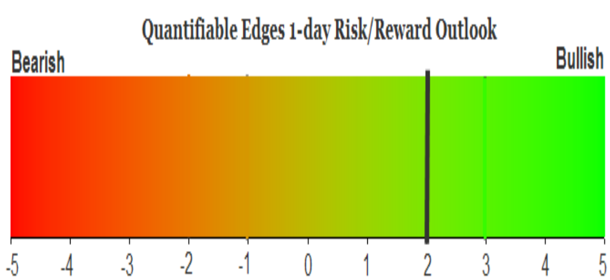
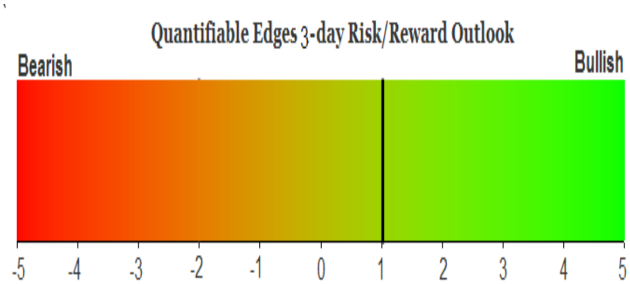
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

February 22, 2021 Volume 14 Issue 34

## Market Overview




## Signals Overview

| Aggregator | CBI Reading |
|---|---|
| Long | 0 |

### *Tonight's Research Points*

- Numbered System 11111 triggered for SPY.
- The Russell 2000 rising > 1% while SPX closes lower suggests a 1-day upside edge.
- There are sign of froth in small caps and speculative securities.
- The SOMA saw its largest increase since May last week. The liquidity pump is still on high.

### *Short-term Outlook*
### *The Bottom Line*

The Aggregator is bullish, but evidence is mixed and could start to lean bearish as soon as Monday afternoon. I am mildly bullish.

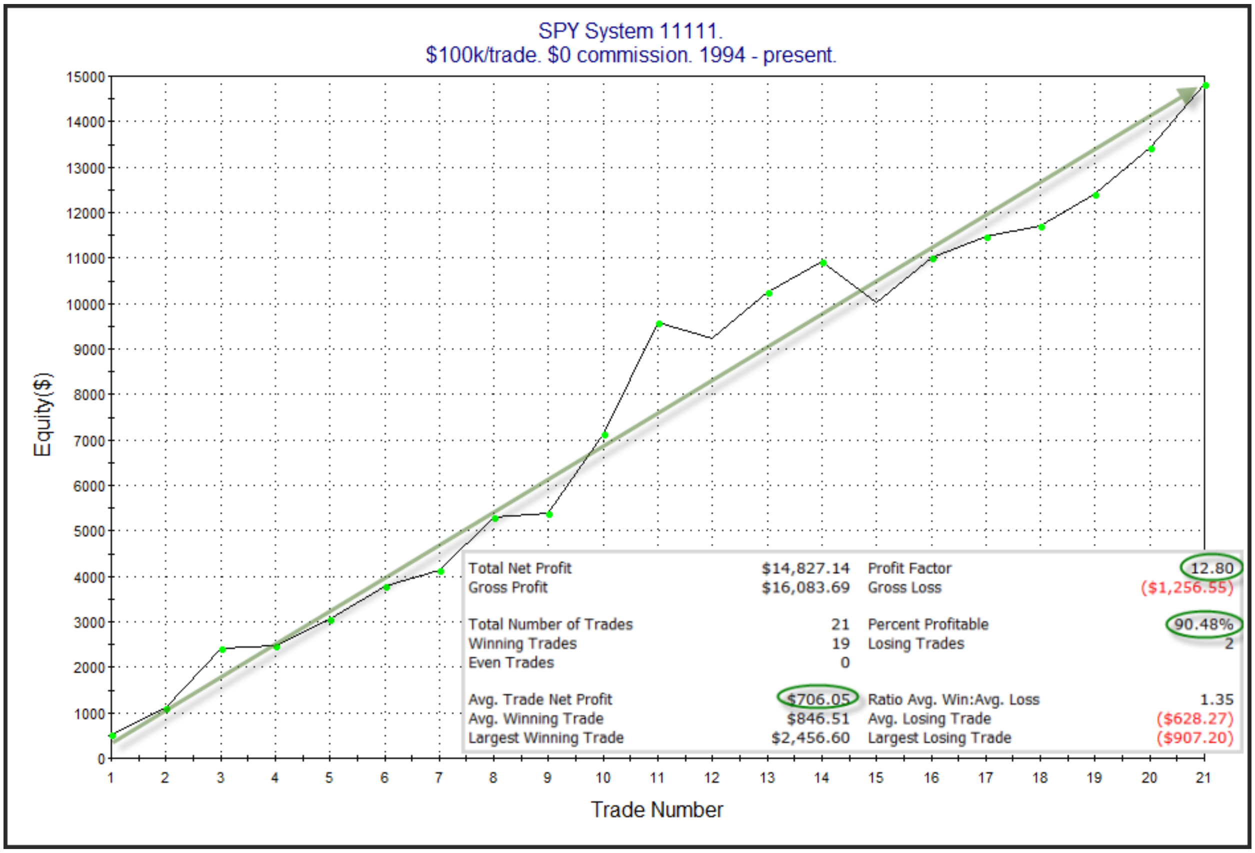
***Summary of Recent Active Studies (see Letters from listed dates for details)***

| Study Date | Description | Time span | Bias | Avg Run-up | Avg DrawDn | Avg DrawDn - 1 Std Dev |
|---|---|---|---|---|---|---|
| Active - Short Term | | | | | | |
| February 22, 2021 | System 11111 | 1-3 days | Bullish | | | |
| February 22, 2021 | RUT up 1%, SPX down | 1 day | Bullish | | | |
| February 19, 2021 | SPX dn 3. Last 2 close top 30% rng | 1-5 days | Bearish | -1.85% | 1.00% | 1.60% |
| February 19, 2021 | 3dn from 50-high. Close > 10ma | 1-3 days | Bullish | 1.05% | -0.70% | -1.50% |
| Active - Long Term | | | | | | |
| February 22, 2021 | RUT 50ma 25% above 200ma | int term | Warning | | | |
| February 10, 2021 | 5 up to 50-high then down 1 | 1-10 days | Bullish | 1.90% | -1.00% | -2.20% |
| February 8, 2021 | SPX 50-day %b crosses over 100 | 1-50 days | Bullish | 4.90% | -4.40% | -8.90% |
| December 10, 2020 | SPX 20 intra-high. NDX biggest dn 20 | 1-50 days | Bullish | 6.20% | -2.80% | -5.40% |
| November 23, 2020 | NASDAQ Leading | int term | Bullish | | | |
| November 2, 2020 | Best 6 Months | 1-6 months | Bullish | | | |
| July 9, 2020 | Golden Cross | int term | Bullish | | | |
| March 23, 2020 | QE4 | int term | Bullish | | | |
| Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded) | | | | | | |
| February 18, 2021 | SPX down 2 from 50-hi < 0.25% | 1-2 days | Bullish | | | |

### *The Evidence*

Friday started strong, but finished mixed. The SPX closed down 0.2%, the NASDAQ gained 0.1%, and the Russell 2000 rallied a very strong 2.2%. Breadth was positive with the NYSE Up Issues % coming in at 66% and the Up Volume % at 69%. NYSE total volume rose some from Thursday's level.

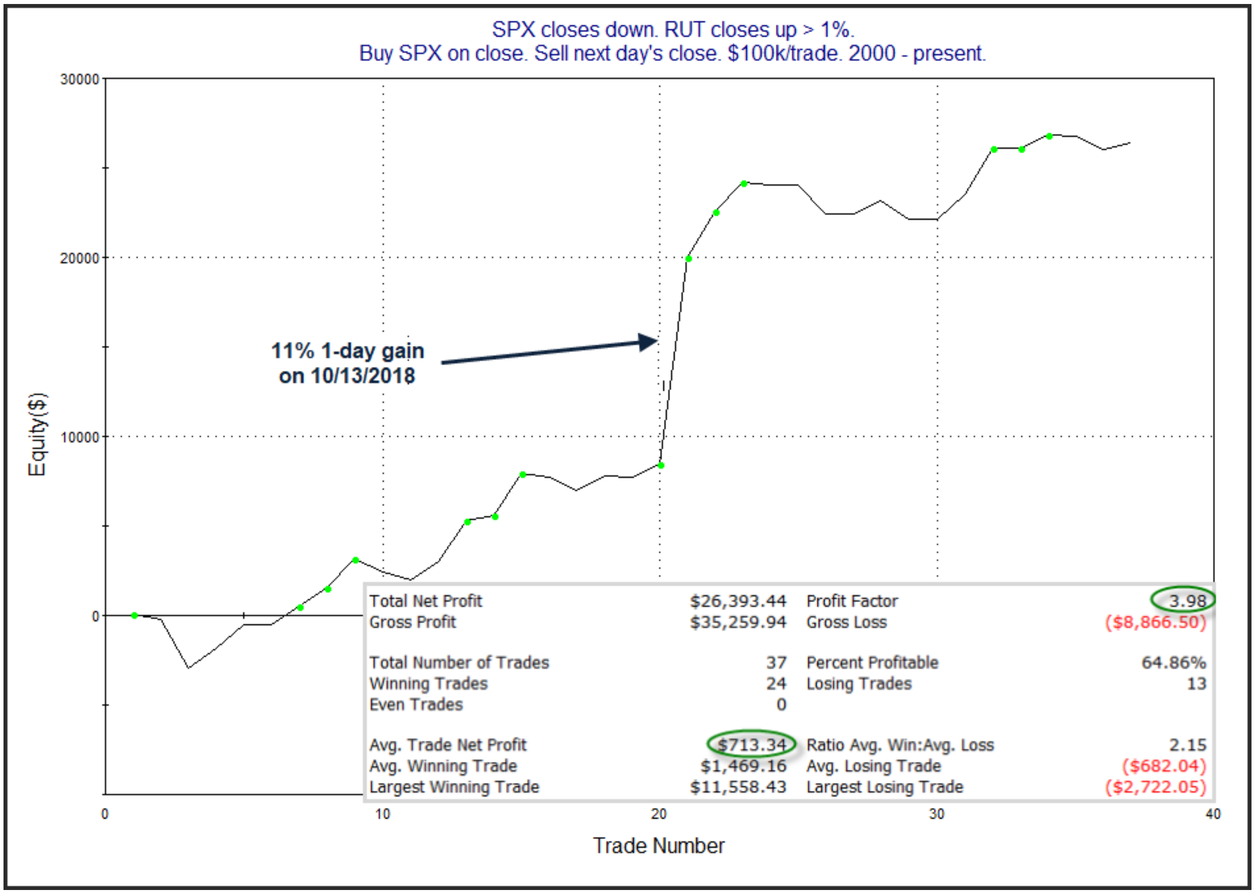
I'll note that with the pullback, SPY is now set up to trigger QE numbered system 11111 on Monday. A trade at or below SPY's closing price would mean an entry for this system. System 11111 has done fairly well over the years. With SPY, it has done very well. Below are the updated stats.



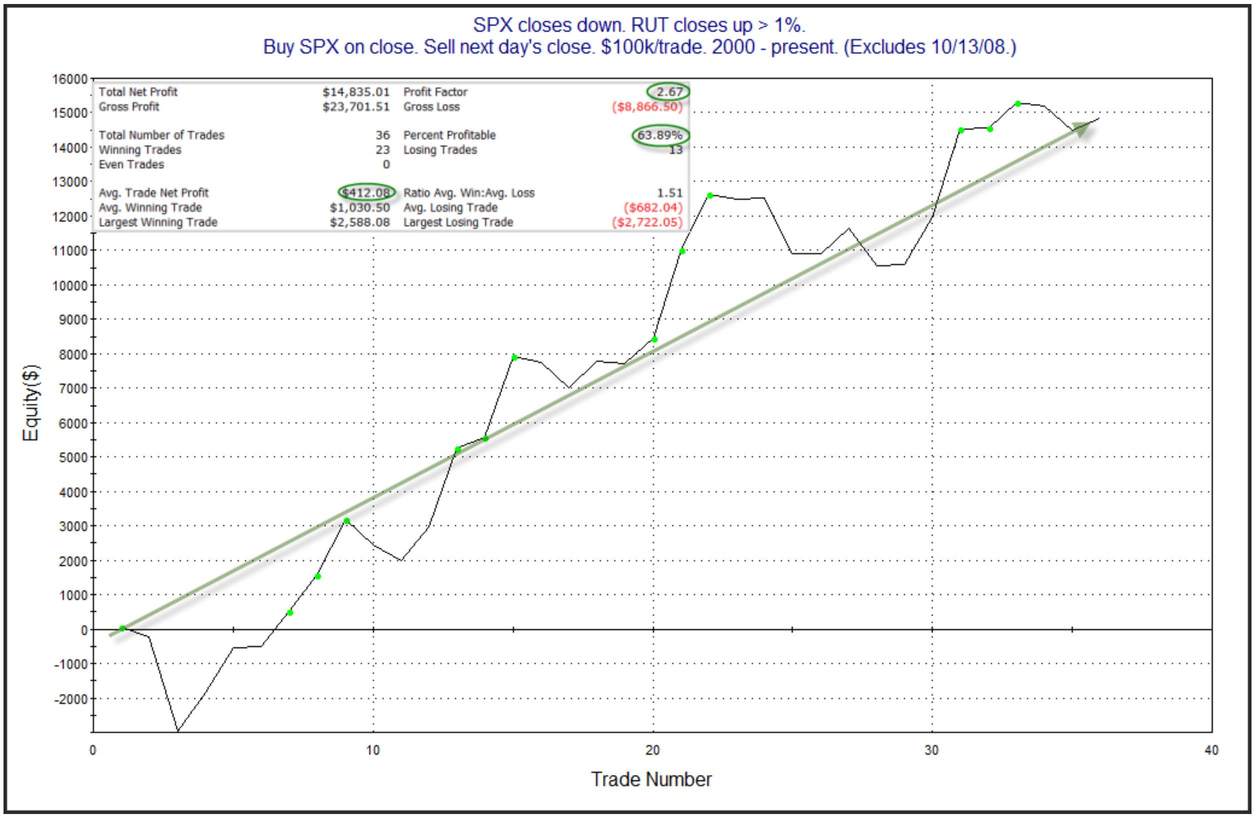

There have not been a whole lot of instances but the stats are extremely lopsided in favor of the bulls. And the profit curve is impressive as well. Also notable (but not shown) is that the average trade only lasted about 3 ½ days. The short time in these trades and the high percent that end up profitable speaks to the probability of a quick bounce here. I have incorporated this setup into the Aggregator today. Subscribers may find a link to the system 11111 page below:

*http://quantifiableedges.com/system-11111/*

The split market triggered a study I featured just recently in the 1/25/21 subscriber letter. It examined other times the SPX closed down on the same day the Russell 2000 rose at least 1%. I have updated the results below.

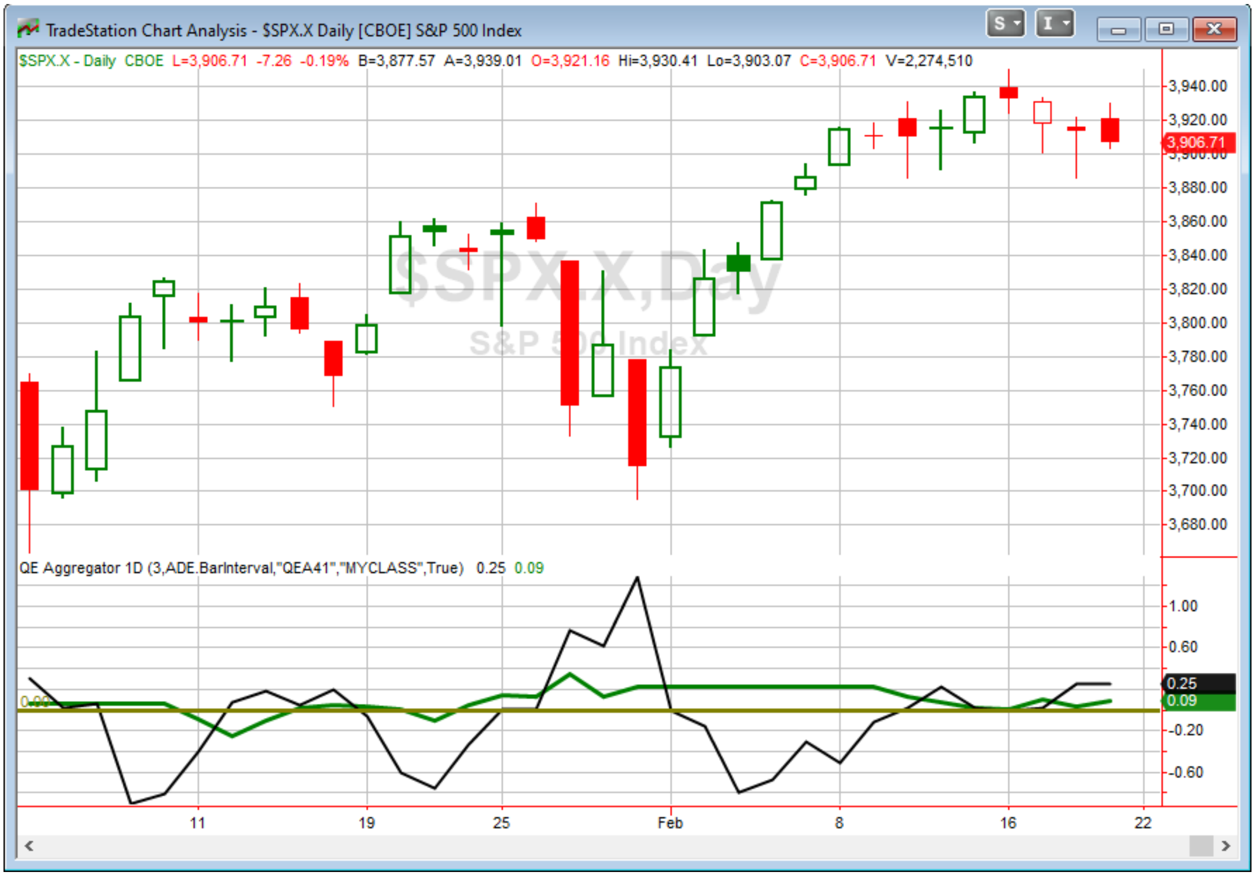



Stats here are very strong, but the one instance noted certainly inflates all the stats and skews the curve. So let's look at the results if we exclude that 2008 instance.




This seems worth paying attention to. The profit curve is persistent and the average instance has led to a 0.4% gain the next day. I have included this on the Active List.

I have updated [the Aggregator chart] below.




With tonight's evidence considered, the green Aggregator Line remained above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line held above 0. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator signal stayed long at the close.

Based on the current active studies, expectations are set to flip to negative on Monday. Of course this could change if compelling new bullish evidence emerges, or if SPX sells off enough that the bearish studies hit their targets. Meanwhile, the Differential Pivot will be 3936.38 on Monday. That is 0.8% above Friday's close. Therefore, SPX will need to close up 0.8% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. But again the edge appears very short-term. I feel like I would like to be long right now. But with evidence primed to turned negative on Monday, I'll need to exercise some patience and see how Monday unfolds. Nimble traders could consider a quick long-side trade. I'm going to give it another day before potentially starting an index position.

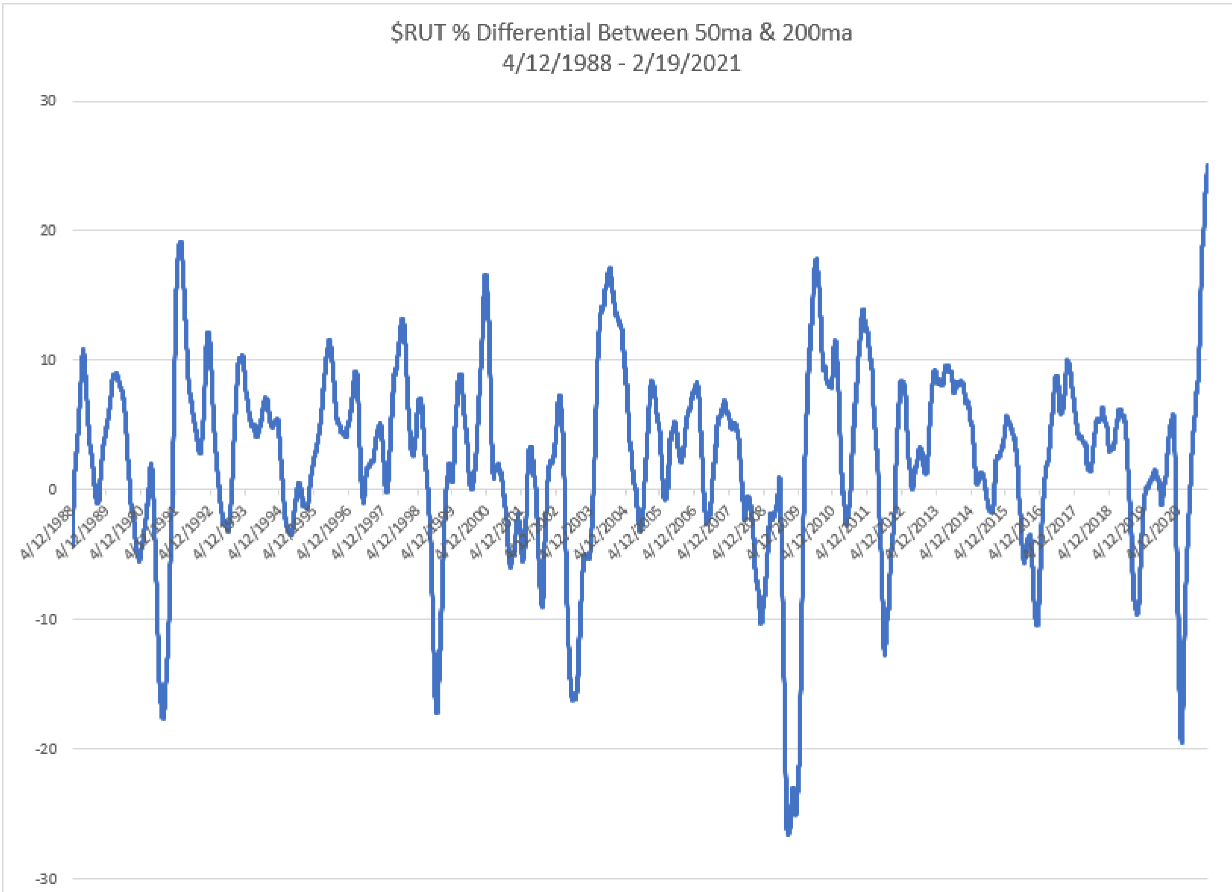
***Intermediate-term Outlook (2 weeks – 2 months) – updated 2/22 – somewhat bullish***

| 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".*

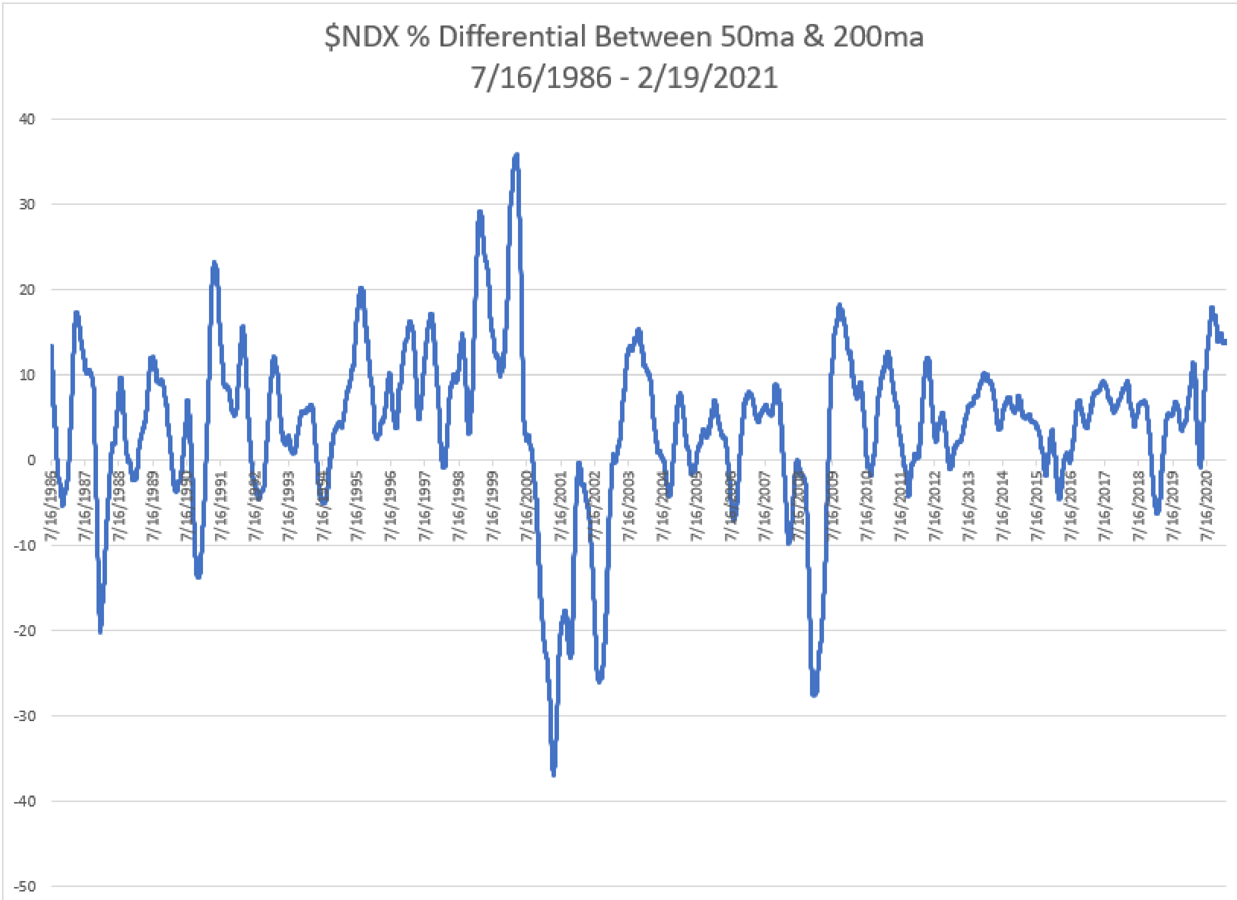
This week saw the market pull back some. The SPX fell 0.7%, the NASDAQ declined 1.6% and the Russell 2000 lost 1.0%. Despite the mild dips, the uptrends all appear intact.

Perhaps the most astounding chart I saw this week was one that Helene Meisler posted in her Saturday morning chart show on Twitter. It showed the 50-day MA vs the 200-day MA of the $RUT. I have recreated the chart below and included the full history of the Russell 2000 to provide context.



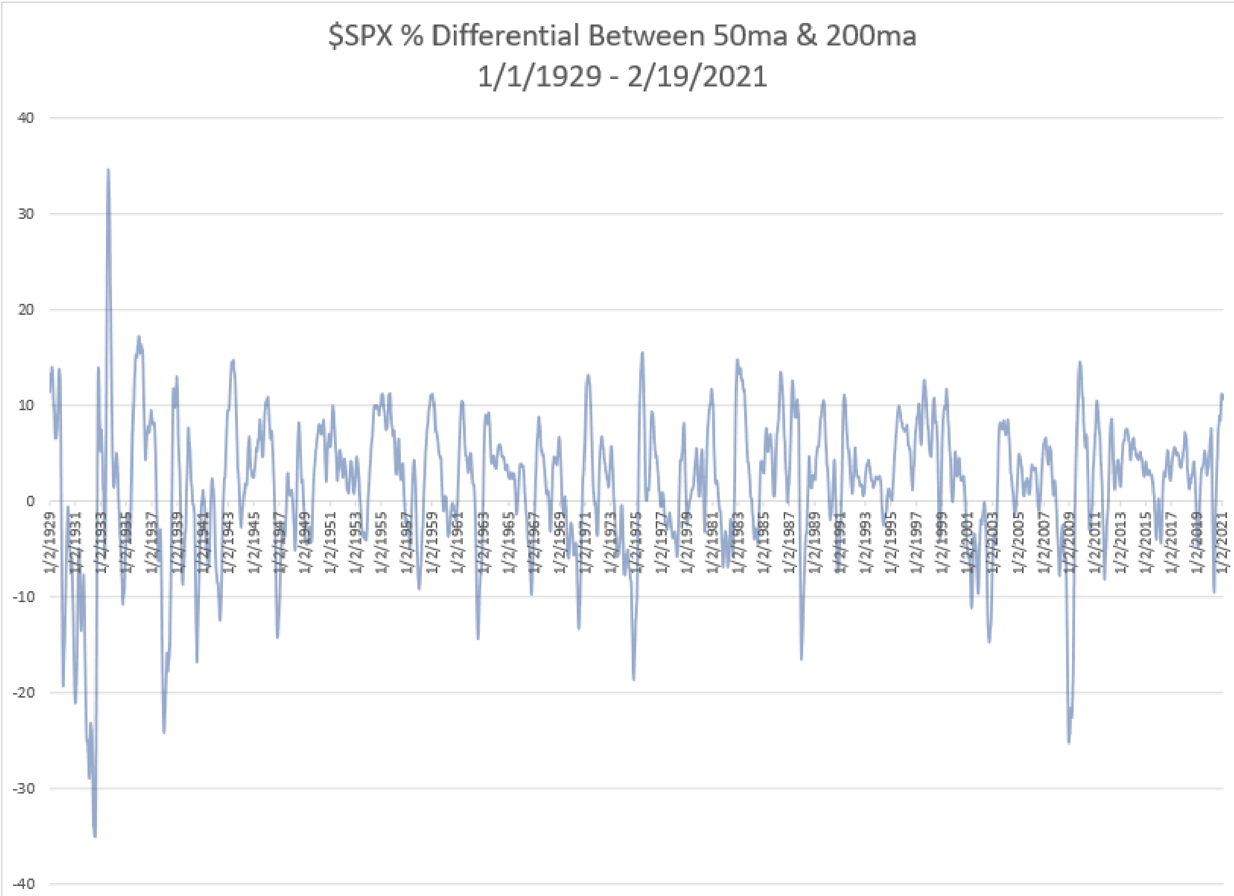

What is happening here is that the 50ma is more than 25% above the 200ma. And this is the 1st time in history that the 50ma has been this extended vs the 200ma. In fact, never before has it even exceeded 20%. So the current rally in $RUT is remarkable.

I also decided to look at a couple of other indices to see how stretched they were and what their historical charts looked like. First, let's look at the $NDX.




The $NDX has had some extreme historical readings as well. In 1999 it reached nearly 30, and in 2000, leading right up to the top, it exceeded 35. Then it went to hit its lowest extreme a little over a year later. But the current reading…not all that extreme. And in fact it topped out in September and has drifted lower since.

Lastly, let's look at the $SPX. For this index I was able to go all the way back to 1929.




The current reading here is about 11. And as you can see, that is not terribly uncommon. There are a lot of peaks on the chart that exceeded 10. But it has not exceeded 20 since the 1930s. So neither $SPX nor $NDX appear to be all that stretched based on this metric.

So what does this all mean? Well, it appears this is some froth in small caps. This does not suggest that the momentum cannot continue or that $RUT or the rest of the market has to decline right away. But I would expect to see a reversion here at some point. There has been a lot of money pumped into the economy, and over the last few months, a big chunk of that has gone into smaller and less established companies.

In fact, it is not only less established companies, it is even shell companies that are seeing massive inflows. Take a look at this Tweet from Charlie Bilello that shows SPAC investment $$ growth:

Charlie Bilello @charliebilello 1d

US SPACs, IPO capital raised...
2013: $1 billion
2014: $2 billion
2015: $4 billion
2016: $3 billion
2017: $11 billion
2018: $9 billion
2019: $13 billion
2020: $83 billion
2021 YTD: $50 billion (a billion a day)

There is a lot of investment capital out there, and an oversized chunk of it seems to be flowing into the most speculative assets. This is not a trading signal, but it is something that seems worth noting. The music is still playing, but when it stops it may be difficult finding a chair.

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

Export current release to: CSV | XML

Domestic Security Holdings as of

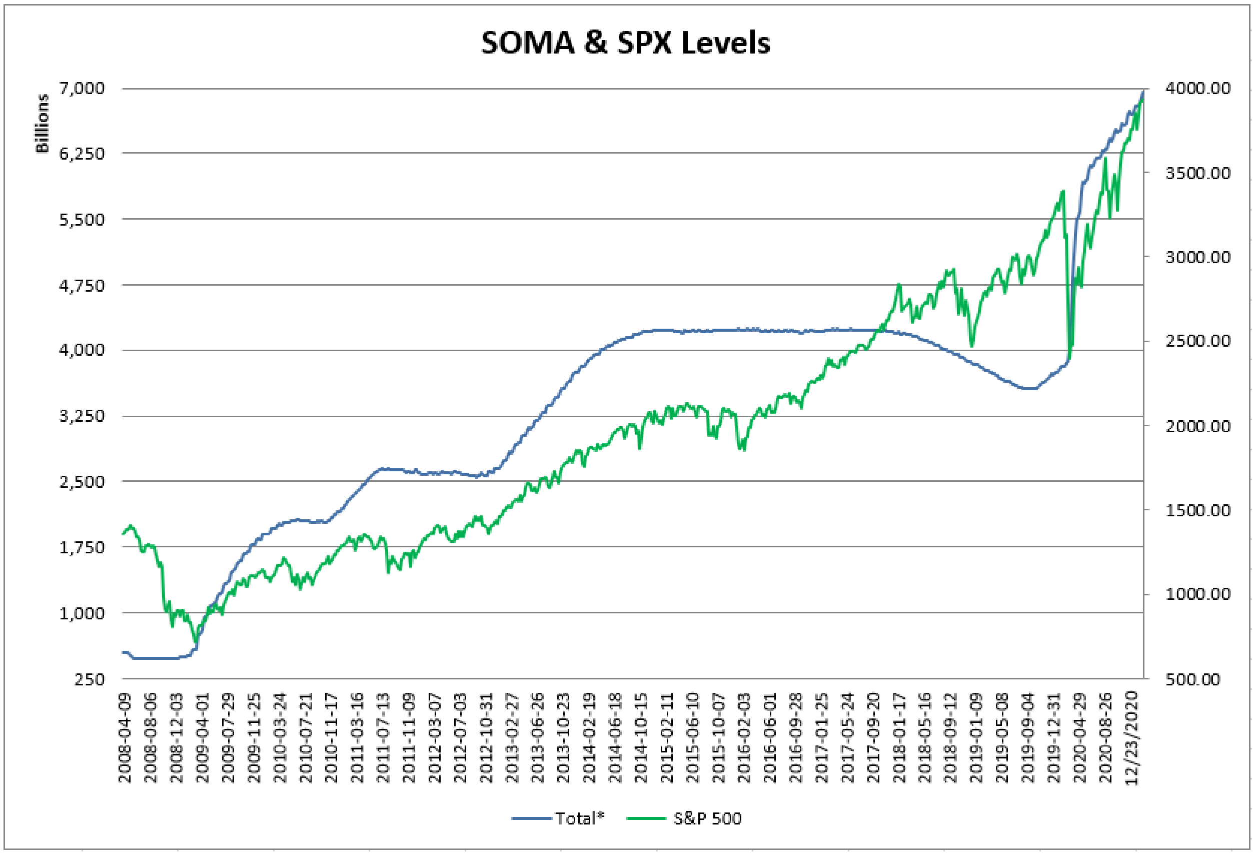
Previous **February 17, 2021**

*Posted February 18, 2021 at 4:30 PM*

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

| Security Type | Total ($Thousands) |
|---|---|
| US Treasury Bills (T-Bills) | 326,044,000.0 |
| US Treasury Notes and Bonds (Notes/Bonds) | 4,113,203,932.0 |
| US Treasury Floating Rate Notes (FRNs) | 21,038,668.5 |
| US Treasury Inflation-Protected Securities (TIPS)* | 320,422,401.0 |
| Federal Agency Securities** | 2,347,000.0 |
| Agency Mortgage-Backed Securities*** | 2,160,665,581.2 |
| Agency Commercial Mortgage-Backed Securities*** | 9,896,369.9 |
| Total SOMA Holdings | 6,953,617,952.6 |
| Change From Prior Week | 125,843,081.6 |

This past week saw the SOMA rise by a massive $126 billion. That is the largest 1-week spike since May. Below is an updated SOMA/SPX chart from 2008 – present.




The SOMA is in the midst of the largest expansion in history, and the expansion is expected to continue for the foreseeable future. We should see it cross $7 trillion in the next few weeks. To this point, the Fed has indicated they will remain aggressive in their efforts to stimulate the economy. And that is good for the market for as long as it lasts.

My intermediate-term outlook again remains leaning bullish. The NASDAQ is leading, and the long-term trends remain up. While there is certainly some froth in the market, there is no indication yet that a reversal in imminent. The Fed's continued pumping remains a massive plus for the bulls. Overall, I remain somewhat bullish, and do not see a reason to change. That basically means I will be a bit more cautious when considering short positions than with long positions.

## Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

***Open Catapult 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.**