

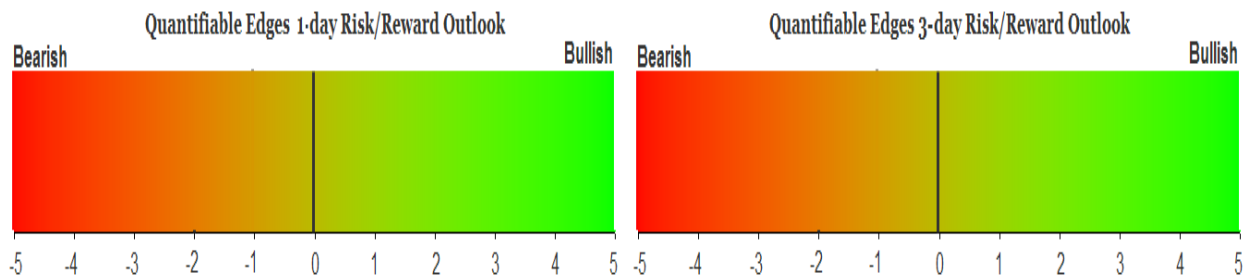
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 5, 2021

Volume 14 Issue 63

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- SPY's breakout on a gap higher could be a short-term positive.
- April has been a bullish month for the market historically.
- The SOMA declined this past week, but that is just a calendar quirk. The Fed remains supportive.

Short-term Outlook

The Bottom Line

The Aggregator is now neutral. Evidence says up is more likely than down over the next few days, but the market is already overbought. This leaves reward/risk somewhat lacking.

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						
April 1, 2021	Early April bullish	1-4 days	Bullish	1.80%	-1.30%	-3.05%
March 29, 2021	Week after 4th Fri in March bullish	1-5 days	Bullish	2.10%	-1.10%	-2.30%
Active - Long Term						
March 25, 2021	RUT down 9% from 200hi in < 10 days	int term	Warning			
March 16, 2021	DJI closes up 7 days in a row	1-19 days	Bullish			
March 8, 2021	Rally from 1-month low starts on Fri	1-20 days	Bullish	4.70%	-3.20%	-6.90%
February 22, 2021	RUT 50ma 25% above 200ma	int term	Warning			
February 8, 2021	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.90%
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			

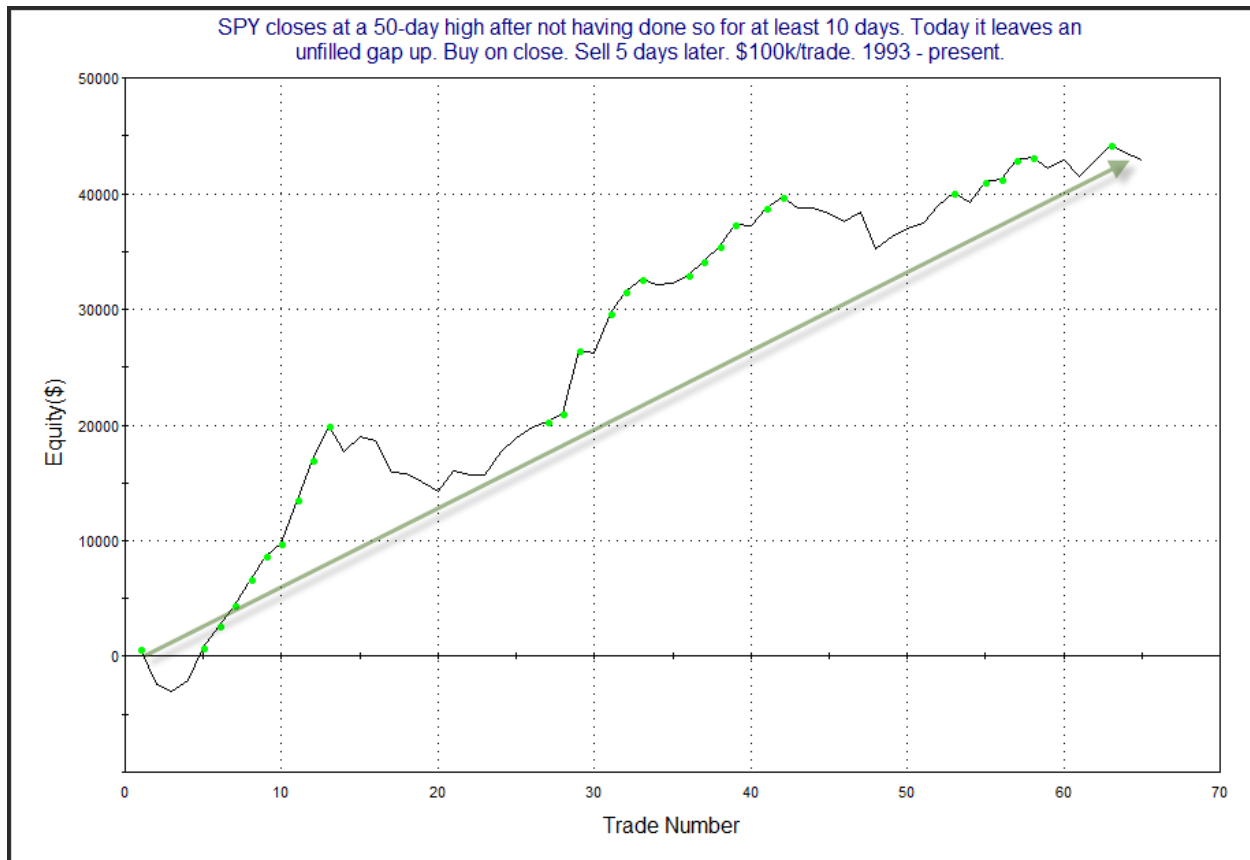
The Evidence

Seasonal tendencies played out on Holy Thursday/1st of the month and the market put in solid gains Thursday. SPX closed up 1.2%, the NASDAQ rallied 1.8%, and the Russell 2000 rose 1.5%. Breadth was positive with the NYSE Up Issues % coming in at 78% and the Up Volume % at 68%. NYSE total volume declined some heading into the long weekend.

SPY broke out to a new high for the first time in a few weeks. Its breakout action provided some bullish evidence. This is because the breakout came with an unfilled gap up. I last showed the importance of an unfilled gap fairly recently in the 3/12/21 subscriber letter. I have updated that research below.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it leaves an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	42,914.79	65	44	21	67.69	5,434.00	-3,218.88	1,470.72	-1,037.96	1.42	2.97	660.23
4	28,569.79	65	44	21	67.69	3,637.92	-3,267.84	1,133.36	-1,014.20	1.12	2.34	439.54
3	21,320.35	65	43	22	66.15	3,992.56	-2,538.18	976.62	-939.74	1.04	2.03	328.01
2	19,126.22	65	43	22	66.15	2,545.92	-2,293.20	742.87	-582.60	1.28	2.49	294.25
1	7,441.65	65	45	20	69.23	1,816.10	-2,591.68	458.22	-658.92	0.70	1.56	114.49

Results here are strong across the board. Below is an equity curve using a 5-day holding period.



The strong move from lower left to upper right is impressive.

Technicians will often use the term “breakaway gap”. This suggests the gap occurs on the same day as a base breakout. The idea is that the new high causes excitement and the gap leaves a good amount of people sidelined or stuck short. When it doesn’t immediately fill, it leads these people to chase and helps to propel the market even higher.

Now let’s look at instances where the 50-day high breakout was *not* accompanied by an unfilled gap. Interestingly, the number of instances was a bit lower here. This study also appeared in the 3/12/21 letter.

SPY closes at a 50-day high after not having done so for at least 10 days. Today it does NOT leave an unfilled gap up. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	4,416.79	47	28	19	59.57	2,671.20	-4,285.26	1,035.78	-1,293.95	0.80	1.18	93.97
4	-285.30	47	27	20	57.45	2,072.07	-4,518.34	964.12	-1,315.83	0.73	0.99	-6.07
3	5,283.71	47	28	19	59.57	2,927.90	-5,133.72	988.84	-1,179.15	0.84	1.24	112.42
2	-816.35	47	25	22	53.19	2,324.90	-3,640.86	643.16	-767.97	0.84	0.95	-17.37
1	2,977.38	47	26	21	55.32	1,586.97	-2,448.72	470.61	-440.88	1.07	1.32	63.35

Moves to new highs that don't start with an unfilled gap are much less reliable. I have been showing this study for 12 ½ years or so, and I still find it amazing how more breakouts occur with an unfilled gap up than without one.

An important note on this study today is that while SPY made its 1st 50-day high since 3/17, SPX posted one on 3/26 (barely). So SPX did not have a 10-day base. The reason for the difference is that SPY went ex-dividend on 3/19. Because it is only a fresh breakout due to a dividend, I elected not to include this study on the active list. I still thought it was noteworthy, and perhaps others might want to consider it a bullish piece of evidence.

So I am not seeing great new bullish evidence today, but sometimes even more significant when you reach new highs is lack of bearish evidence. We are in a bullish seasonal period, the market is showing solid upside momentum, and the lack of bearish studies suggest it could continue. There is more about bullish seasonality in the intermediate-term section.

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



Without any new studies being added, 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 dropped below 0. The negative Differential Line reading means that 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 above zero. Therefore, the Aggregator signal turned flat at the close.

Expectations are currently set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3981.42 on Monday. That is 1.0% below Thursday's close. Therefore, SPX will need to close down at least 1.0% on Friday in order to change to oversold vs expectations.

So the Aggregator is neutral. Evidence suggests more upside is likely, but the market is overbought and at new highs. We could see a continued rally, but short-term reward/risk is not great here. I'll wait for a pullback to offer a more enticing short-term entry opportunity (or for evidence to flip to bearish).

Intermediate-term Outlook (2 weeks – 2 months) – updated 4/5 – somewhat bullish

Combo #1	Combo #2	Combo #3
Long	Long	Flat

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 there were no changes to the Combo systems.*

This past week saw solid gains for the major indices. The SPX rose 1.1%, the NASDAQ gained 2.6% and the Russell 2000 climbed 1.5%. The long-term trends still appear up, especially the SPX which closed at an all-time high on Thursday. One-day in and April is off to a strong start. But that is not a huge surprise. Below is a look at the Seasonality Calendar for April, which can be found on the Seasonality page.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
4/1/2021	55.79	1.322	0.088
4/5/2021	54.46	1.482	0.146
4/6/2021	52.23	1.335	0.098
4/7/2021	56.58	1.589	0.165
4/8/2021	56.88	1.228	0.069
4/9/2021	56.46	1.489	0.141
4/12/2021	53.11	1.033	0.001
4/13/2021	53.21	1.395	0.109
4/14/2021	53.78	1.019	-0.005
4/15/2021	57.36	1.422	0.082
4/16/2021	56.53	1.411	0.080
4/19/2021	60.74	1.262	0.056
4/20/2021	60.51	1.804	0.164
4/21/2021	59.97	1.257	0.054
4/22/2021	59.36	1.400	0.091
4/23/2021	59.44	1.249	0.051
4/26/2021	48.26	0.929	-0.026
4/27/2021	53.08	1.202	0.053
4/28/2021	50.48	1.220	0.066
4/29/2021	52.89	1.115	0.028
4/30/2021	52.98	0.964	-0.012
Baseline	54.72	1.154	0.050

Early and mid-month numbers appear especially strong for the \$SPX this month. *Side note: The \$CCI Index, which I had previously tracked, is no longer available through my data provider. Therefore, I switched it out with the \$CRB Index, which also tracks commodity prices. In the next few weeks, I will look to post historical data and some analysis for the \$CRB like we have for the other indices.*

Looking at seasonality on just a monthly basis, I'll note that April has seen great strength over the last 15 years. Below is a look at April returns from 2006 – 2020.

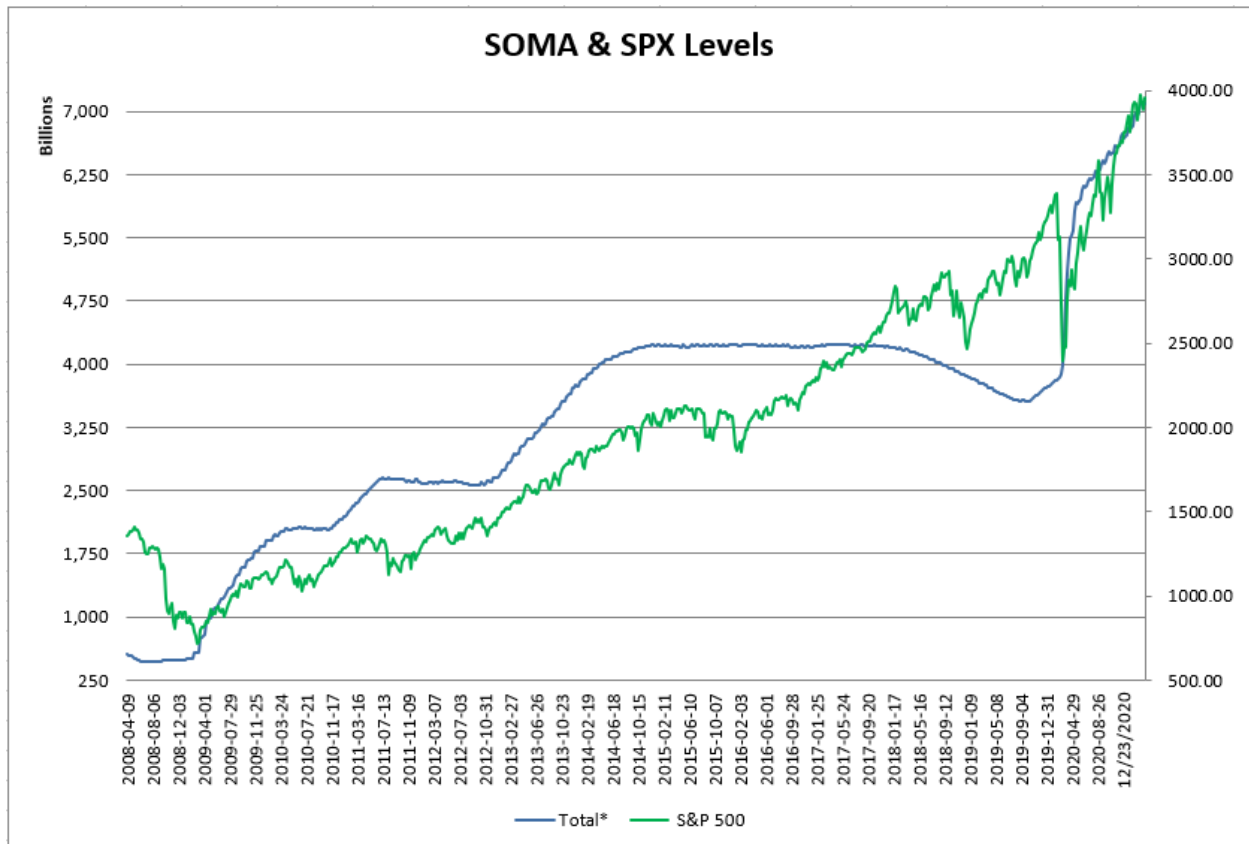
April Performance Since 2006		
Index	Year	April % Chg
\$SPX	2006	1.22%
\$SPX	2007	4.33%
\$SPX	2008	4.75%
\$SPX	2009	9.39%
\$SPX	2010	1.48%
\$SPX	2011	2.85%
\$SPX	2012	-0.75%
\$SPX	2013	1.81%
\$SPX	2014	0.62%
\$SPX	2015	0.85%
\$SPX	2016	0.27%
\$SPX	2017	0.91%
\$SPX	2018	0.27%
\$SPX	2019	3.93%
\$SPX	2020	12.68%

Barely a hiccup here with 2012 down less than 1%. So based on a few different views, April appears to be offering a bullish seasonal wind.

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

Domestic Security Holdings as of	
Previous	March 31, 2021 <i>Posted April 1, 2021 at 4:30 P.M.</i>
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)	4,214,354,507.5
US Treasury Floating Rate Notes (FRNs)	21,038,668.5
US Treasury Inflation-Protected Securities (TIPS)*	334,756,825.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,174,740,173.9
Agency Commercial Mortgage-Backed Securities***	9,943,086.4
Total SOMA Holdings	7,083,224,261.8
Change From Prior Week	-29,587,453.0

This past week saw the SOMA shrink by a sizable \$29 billion. As I mentioned last week, the last week of the month often sees SOMA outflows. It is simply a calendar quirk, and not suggestive of a change in policy. 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. 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 and is much the same as last week. I would prefer to see the NASDAQ and Russell 2000 retake leadership, but SPX has managed to plow forward even without their help. The long-term trend remains up, and the Fed’s continued pumping is a massive plus for the bulls. We also have positive seasonality as a potential plus over the next few weeks. Overall, I remain somewhat bullish. I will still 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.

Current Open Trade Ideas

None.

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