

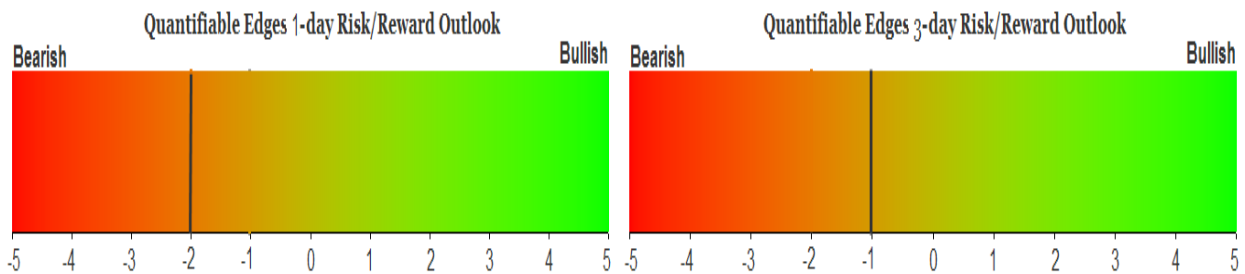
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

April 26, 2021

Volume 14 Issue 78

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Short	2

## Tonight's Research Points

- SPX 1% gain on the lowest volume in over a month suggests a short-term downside edge.
- The upcoming week is the weakest of April (though still somewhat positive) from a seasonality standpoint, and May seasonality is expected to be more neutral.
- The Fed continues to promote market-supporting policies.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bearish, but the signal is moderate and it is against the intermediate-term trend. Therefore, I am a wary are getting aggressive on the short side.

**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>						
April 26, 2021	SPX up 1% on lowest volume in 20 days	1-2 days	Bearish			
<b>Active - Long Term</b>						
April 22, 2021	% of SPX stocks > 100ma exceeds 94%	int term	Bullish			
April 19, 2021	SPX 4 weekly 1% gains and new highs	1-2 weeks	Bearish			
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			

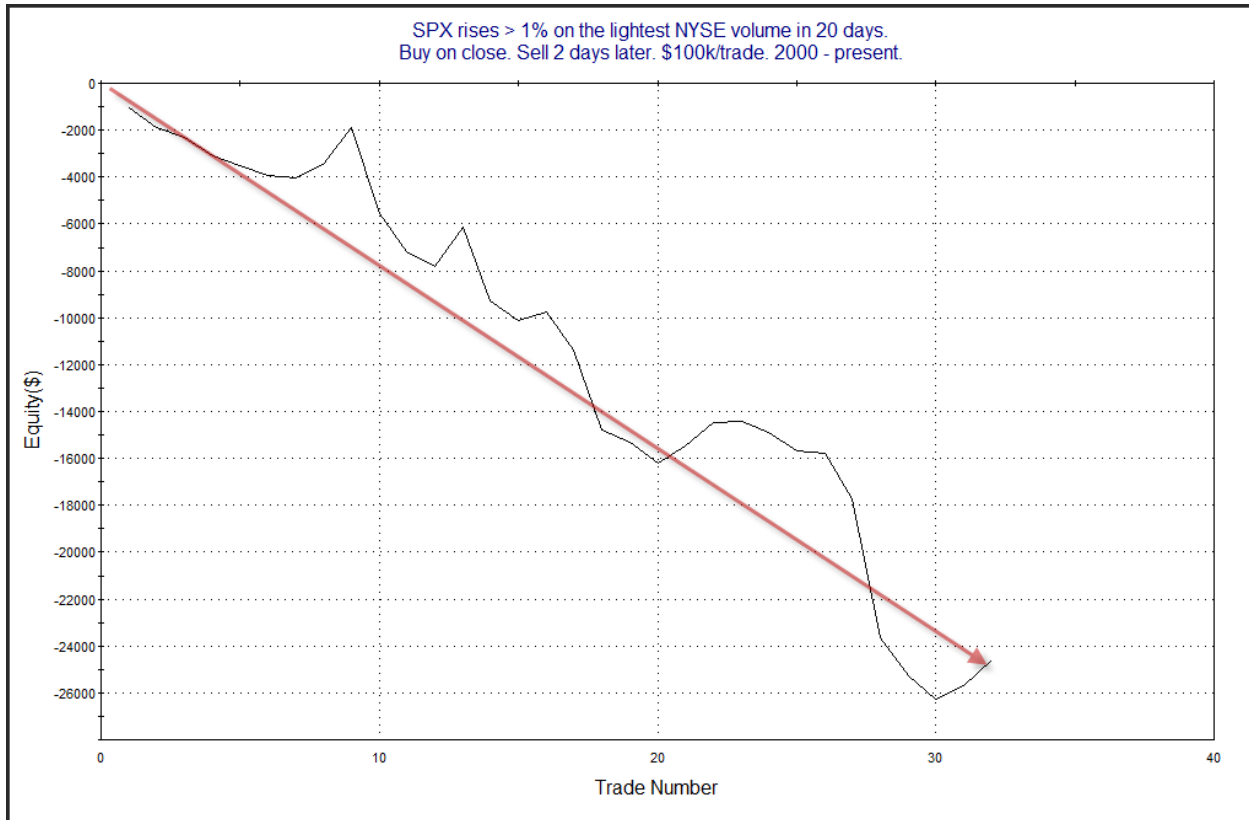
**The Evidence**

Friday was a rally day for the market, reversing Thursday's losses. SPX closed up 1.1%, the NASDAQ gained 1.4%, and the Russell 2000 rallied 1.8%. Breadth was positive with the NYSE Up Issues % coming in at 77% and the Up Volume % at 84%. But NYSE total volume was the lightest in a good while.

The back and forth action over the last few days has not triggered much in the way of compelling evidence. But the bears might be able to point to Friday's light volume as a potential problem. The study below was last seen in the 2/5/21 letter. Results are updated.

SPX rises > 1% on the lightest NYSE volume in 20 days. Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-26,827.98	31	15	16	48.39	2,927.68	-10,421.45	1,491.53	-3,075.05	0.49	0.45	-865.42
4	-24,578.74	32	14	18	43.75	2,978.79	-6,227.66	1,235.13	-2,326.14	0.53	0.41	-768.09
3	-24,788.38	32	14	17	43.75	2,201.31	-8,419.83	1,030.64	-2,306.91	0.45	0.37	-774.64
2	-24,615.94	32	9	23	28.13	1,688.95	-5,933.70	848.59	-1,402.31	0.61	0.24	-769.25
1	-15,990.72	32	11	21	34.38	2,112.96	-2,390.72	684.54	-1,120.03	0.61	0.32	-499.71

Numbers here appear to suggest a downside edge. Below is an equity curve.



The curve appears to serve as confirmation of the bearish edge suggested by the numbers. You may note there is no long-term trend filter with this study. I normally use one. In this case, many odds were similar above and below the 200ma, but the swings have been small during uptrends. Below is a results table with the 200ma filter added.

SPX rises > 1% on the lightest NYSE volume in 20 days. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 2000 - present.

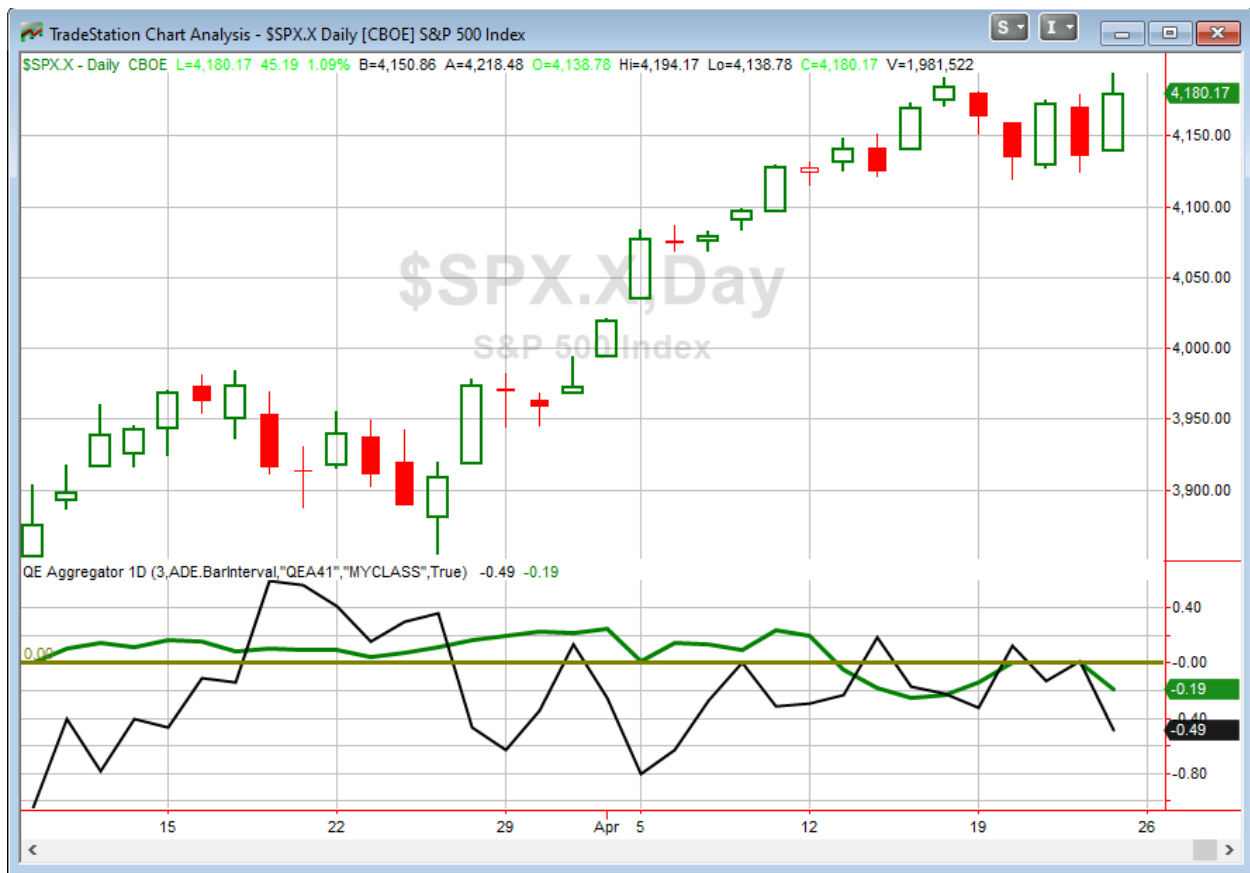
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	-481.96	14	10	4	71.43	2,927.68	-10,421.45	1,443.46	-3,729.15	0.39	0.97	-34.43
4	-5,882.66	14	8	6	57.14	2,005.15	-4,929.60	939.89	-2,233.63	0.42	0.56	-420.19
3	-5,978.92	14	7	7	50.00	2,158.15	-3,195.40	915.62	-1,769.75	0.52	0.52	-427.07
2	-7,965.67	14	3	11	21.43	1,688.95	-3,149.67	1,114.92	-1,028.22	1.08	0.30	-568.98
1	-3,504.51	14	6	8	42.86	1,162.80	-2,390.72	664.74	-936.62	0.71	0.53	-250.32

The average trade is not quite as pronounced, but the odds of a decline remain similar. Overall, the study seems worthy of consideration and has been added to the short-term active list.

Below is another look at the April QE Seasonality Calendar for SPX:







With today's evidence considered, the green Aggregator Line fell below zero. Negative readings mean net expectations are for downside over the next few days. Meanwhile the black Differential Line also crossed below 0. The negative Differential Line reading means that 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 above zero. Therefore, the Aggregator signal turned short at the close.

Expectations are currently set to remain negative on Monday. That could easily change if new bullish evidence emerges. Meanwhile, the Differential Pivot will be 4167.58 on Monday. That is 0.3% below Friday's close. Therefore, SPX will only need to close down about 0.3% in order to flip from overbought to oversold vs recent expectations.

So the Aggregator formation is bearish. And it may be time for a pullback. But evidence is light, the SPX is only moderately overbought, and the intermediate-term outlook is still leaning bullish. So I am not very excited about this bearish setup. I'll wait for a more compelling reward/risk setup to emerge before taking on a new index trade.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 4/26 – somewhat bullish**

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Long</b>	<b>Long</b>	<b>Flat</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 there were no changes to the Combo systems.*

This past week did not see much change for the indices. The SPX lost 0.1%, the NASDAQ lost 0.25% and the Russell 2000 rose 0.4%. The long-term trends still appear up. There was one study that appeared in the 4/22 letter that suggested intermediate-term implications. I have copied it below.

*Scrolling through several indicators I was surprised to see how many SPX stocks were trading above their 100-day moving average. It is over 94%. Everyone knows how strong the rally has been since the March 2020 bottom. So having almost all stocks above their 250-day or 200-day moving averages seems obvious. But having such a high percentile above their 100-day averages is something I found surprising. This 1<sup>st</sup> triggered last Friday (4/16). But prior to that it had not triggered since 2009. So as strong as the rally was off the lows last summer, we never saw this many SPX stocks above their 100ma until the last few days. Below is a look at results following all 12 previous instances since 1957 when more the 94% of SPX stocks closed above their 100ma.*

% of SPX Stocks above their 100-day Moving Average Exceeds 94% for the 1st time in 20 days.  
Forward SPX Performance Shown. 1957 - 4/21/2021.

Ticker	Date/Time	Close	21-Day %Chg	42-Day %Chg	63-Day %Chg	126-Day %Chg	252-Day %Chg
\$SPX	2/28/1961	63.44	2.35	2.95	4.92	6.48	10.66
\$SPX	1/8/1963	64.74	2.56	0.91	5.84	8.19	17.83
\$SPX	2/6/1967	87.18	1.25	2.5	8.49	9.64	5.41
\$SPX	1/20/1971	93.78	3.16	7.29	10.22	5.86	10.95
\$SPX	3/17/1975	86.01	0.69	6.28	6.34	-3.64	16.03
\$SPX	1/23/1976	99.21	2.84	4.24	3.1	4.89	4.14
\$SPX	7/14/1980	120.01	3.15	4.71	8.57	11.07	8.03
\$SPX	10/12/1982	134.44	5	3.82	8.43	15.9	28.42
\$SPX	1/10/1983	146.78	-0.74	3.42	5.7	14.53	15.07
\$SPX	2/13/1991	369.02	1.24	5.04	-0.12	5.66	13.04
\$SPX	6/4/2003	986.24	-0.05	-0.35	4.06	8.15	13.22
\$SPX	9/16/2009	1068.76	2.6	2.31	3.66	9.08	5.23
\$SPX	4/16/2021						
		<b>Average</b>	<b>2.00</b>	<b>3.59</b>	<b>5.77</b>	<b>7.98</b>	<b>12.34</b>
		<b>% Wins</b>	<b>83%</b>	<b>92%</b>	<b>92%</b>	<b>92%</b>	<b>100%</b>

*Such strong participation has typically been followed by further SPX gains over the next 1,2,3,6, and 12 months. Of course this rally has gone on a lot longer than 100 days. So highlighted in yellow are the 4 instances (including Friday) where more than 94% of SPX stocks also closed above their 200ma. Its been rare, but it does not seem to raise any red flags. In general, the strong participation seems to be a positive for the intermediate-term.*

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

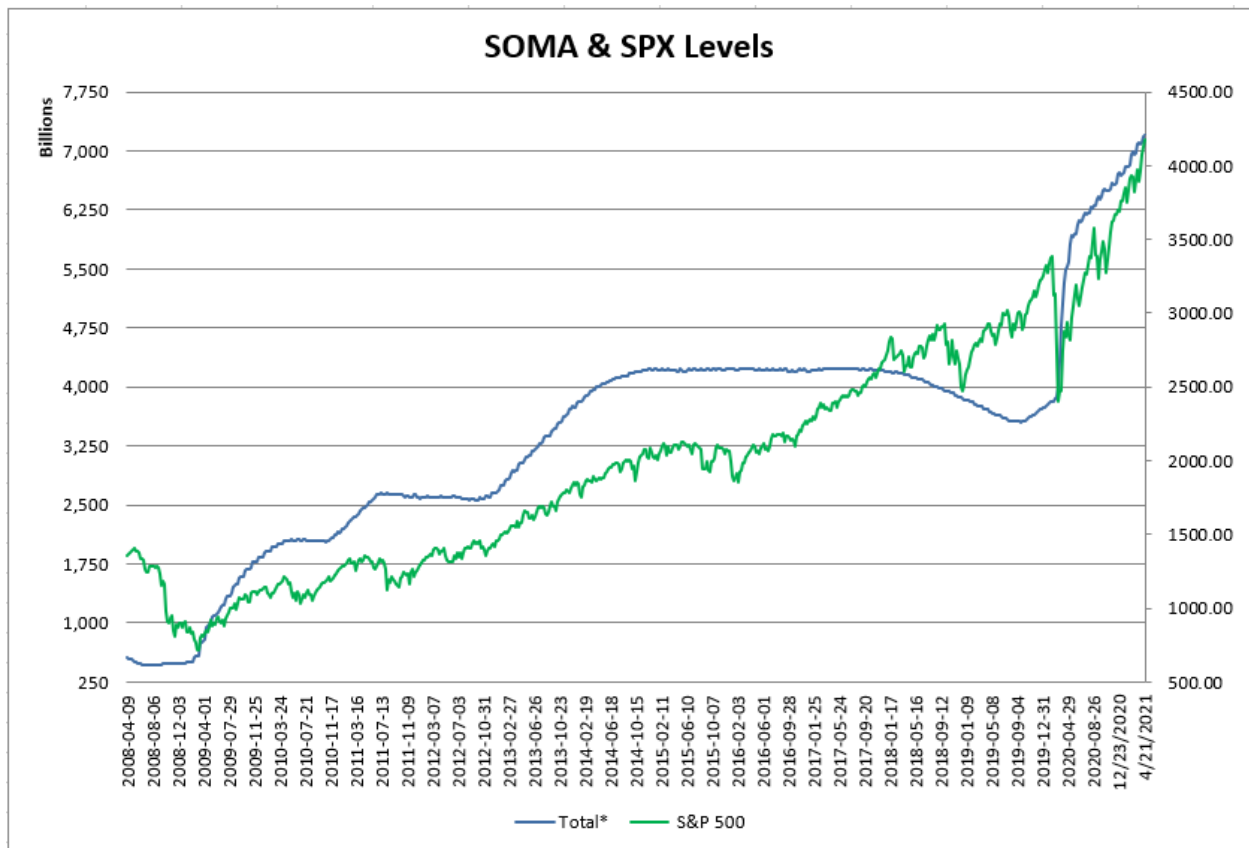
Domestic Security Holdings as of

◀ Previous **April 21, 2021**  
 Posted April 22, 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)	4,276,035,087.6
US Treasury Floating Rate Notes (FRNs)	21,038,668.5
US Treasury Inflation-Protected Securities (TIPS)*	330,215,389.7
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,237,110,598.5
Agency Commercial Mortgage-Backed Securities***	9,878,465.2
Total SOMA Holdings	7,202,669,209.5
Change From Prior Week	25,101,767.7

This past week saw the SOMA rise by \$25 billion. The Fed is certainly not backing off the bond purchases yet. 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. Before it cuts off the flow of liquidity, its expected the Fed will reduce the size of the flows. There has been no real indication of a timetable yet, but it appears it could become a discussion point as we get into the later part of the year. 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. Of course, we'll be watching closely for hints of any change in policy that could disrupt the market.

My intermediate-term outlook again remains leaning bullish, though there are some potentially bearish issues to deal with. Seasonality will weaken some as we head into May and the summer months. We also have the momentum study from last week suggesting a possible pause. And I would still prefer to see the NASDAQ and Russell 2000 retake leadership, but SPX continues to plug along even without their help. The breadth of rising SPX stocks has been incredibly strong, as seen in the study discussed above from a few days ago. The long-term trend remains up, and the Fed's continued pumping is a massive plus for the bulls. Overall, I remain somewhat bullish. I will still be more cautious when considering short positions than with long positions.

### **Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

#### ***Open Catapult Triggers***

LMT @ \$379.88 (bought @ Limit)

New

LMT @ \$377.29 (buy @ Limit)

#### ***Broad Market Large Cap CBI – 2(LMT-2)***

### **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.*

**LMT – Buy 1/3 Catapult position @ \$377.29.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 possible lots for LMT.

## **Current Open Trade Ideas**

<b>Symbol</b>	<b>Entry Date</b>	<b>Entry Price</b>	<b>Current Price</b>	<b>% Gain/Loss</b>	<b>Stop</b>	<b>Notes</b>
LMT(1/3)	4/23/2021	\$378.59	\$377.29	-0.34%		Catapult

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