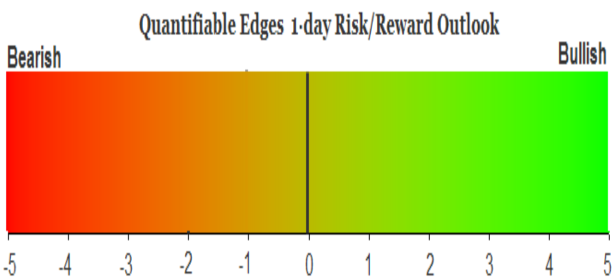
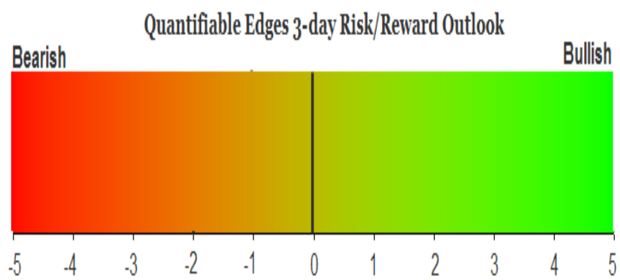
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 10, 2021 Volume 14 Issue 88

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- For breakouts to generate a short-term upside edge, they should have longer bases than what we saw with SPX.
- Moderate 2-day bounces in the NASDAQ from 10-day lows during uptrends usually have farther to go.
- The Fed is continuing to pump, and that is a plus for prices.
- But prices historically stretched in numerous asset classes and by many measures.

Short-term Outlook
The Bottom Line

The Aggregator formation is neutral. Price is overdone to the upside, but there is not compelling short-term evidence suggesting it is about to revert.

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						
May 10, 2021	COMP up 2 from 10-low. Close < 10ma	1 day	Bullish			
May 10, 2021	SPX short base breakout on low volume	1 day	Bullish			
Active - Long Term						
May 3, 2021	Worst 6 Months	1-6 months	Bearish			
April 22, 2021	% of SPX stocks > 100ma exceeds 94%	int term	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)						
May 6, 2021	NDX 20-low. SPX > 20ma	1-3 days	Bearish			
May 4, 2021	**May 1st closes up**	**1-4 days**	**Bearish**	-2.15%	0.90%	2.20%

The Evidence

Friday was a day of solid gains for the market. SPX closed up 0.7%, the NASDAQ rose 0.9%, and the Russell 2000 gained 1.35%. Breadth was positive with the NYSE Up Issues % coming in at 75% and the Up Volume % at 79%. NYSE total volume dipped some from Thursday's level.

The SPX made a new high on Friday after having what could be viewed as a short, 5-day base. By this I mean that it recently made a new high just 6 days ago. A study did appear in the Quantifinder that looked at breakouts from bases of at least 5 days that occurred on low volume. It suggested the low volume could be an advantage, and that a short-term bullish edge existed. But the real focus of that study was the volume. In the 9/29/17 I focused on the length of the base. I used the same study and broke it down by bases between 5-9 days and bases of at least 10 days. I decided to update that research today. Let's first look at longer bases.

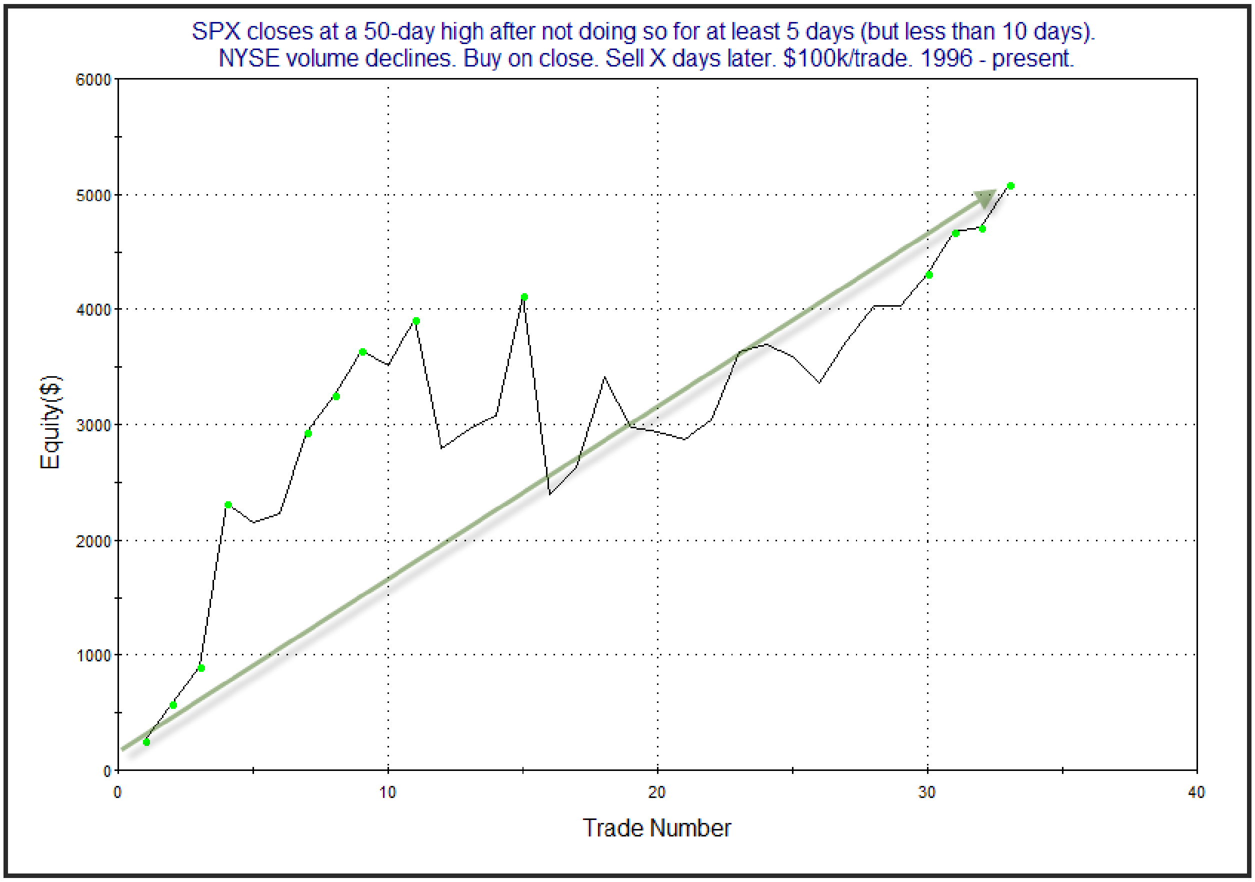
SPX closes at a 50-day high after not doing so for at least 10 days. NYSE volume declines. Buy on close. Sell X days later. $100k/trade. 1996 - present.

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	31,448.61	48	32	16	66.67	3,260.25	-3,070.40	1,340.45	-715.37	1.87	3.75	655.18
4	21,419.19	48	33	15	68.75	2,953.65	-2,913.85	1,087.43	-964.39	1.13	2.48	446.23
3	22,718.57	48	33	15	68.75	2,641.80	-1,802.37	1,035.40	-763.31	1.36	2.98	473.30
2	14,977.37	48	33	15	68.75	2,212.98	-1,912.60	703.37	-548.93	1.28	2.82	312.03
1	3,214.67	48	31	17	64.58	1,384.02	-1,921.32	356.79	-461.52	0.77	1.41	66.97

Odds here look favorable for the bulls, especially over the 3-5 day period. Next is the shorter bases like we have now.

SPX closes at a 50-day high after not doing so for at least 5 days (but less than 10 days). NYSE volume declines. Buy on close. Sell X days later. $100k/trade. 1996 - 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	10,955.01	33	18	15	54.55	3,687.06	-2,527.00	1,321.33	-855.27	1.54	1.85	331.97
4	8,981.58	33	21	12	63.64	3,349.50	-2,300.20	872.77	-778.88	1.12	1.96	272.17
3	9,088.01	33	21	12	63.64	3,803.64	-2,125.44	864.39	-755.34	1.14	2.00	275.39
2	5,840.46	33	24	9	72.73	1,658.22	-2,752.74	583.52	-907.12	0.64	1.72	176.98
1	5,084.42	33	24	9	72.73	1,415.70	-1,721.70	378.97	-445.66	0.85	2.27	154.07

After day 1, odds for these shorter bases appear very mild. Here is a look at the 1-day profit curve.



This went through a little rough patch, but over the last 20 instances has looked steadily bullish. So in a situation like we have now, with a short base, the potential edge also appears shorter.

While the SPX is hitting new highs, action in the NASDAQ has been more moderate. Despite rising the last 2 days, it has not even recovered its 10ma. This triggered the study below, from the 1/30/20 letter.

After closing at a 10-day low 2 days ago, COMP closes up the last 2 days. Close < 10ma but > 200ma. Buy COMP on close. Sell X days later. $100k/trade. 1998 - 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	35,598.61	77	49	28	63.64	8,967.60	-11,016.39	2,061.80	-2,336.77	0.88	1.54	462.32
4	48,165.86	77	49	28	63.64	6,444.48	-4,986.40	2,022.48	-1,819.13	1.11	1.95	625.53
3	29,871.48	78	46	32	58.97	6,518.80	-8,084.18	1,777.28	-1,621.36	1.10	1.58	382.97
2	37,882.12	78	53	25	67.95	5,842.88	-4,137.56	1,380.63	-1,411.64	0.98	2.07	485.67
1	23,208.41	78	50	28	64.10	3,441.68	-3,682.80	957.95	-881.75	1.09	1.94	297.54

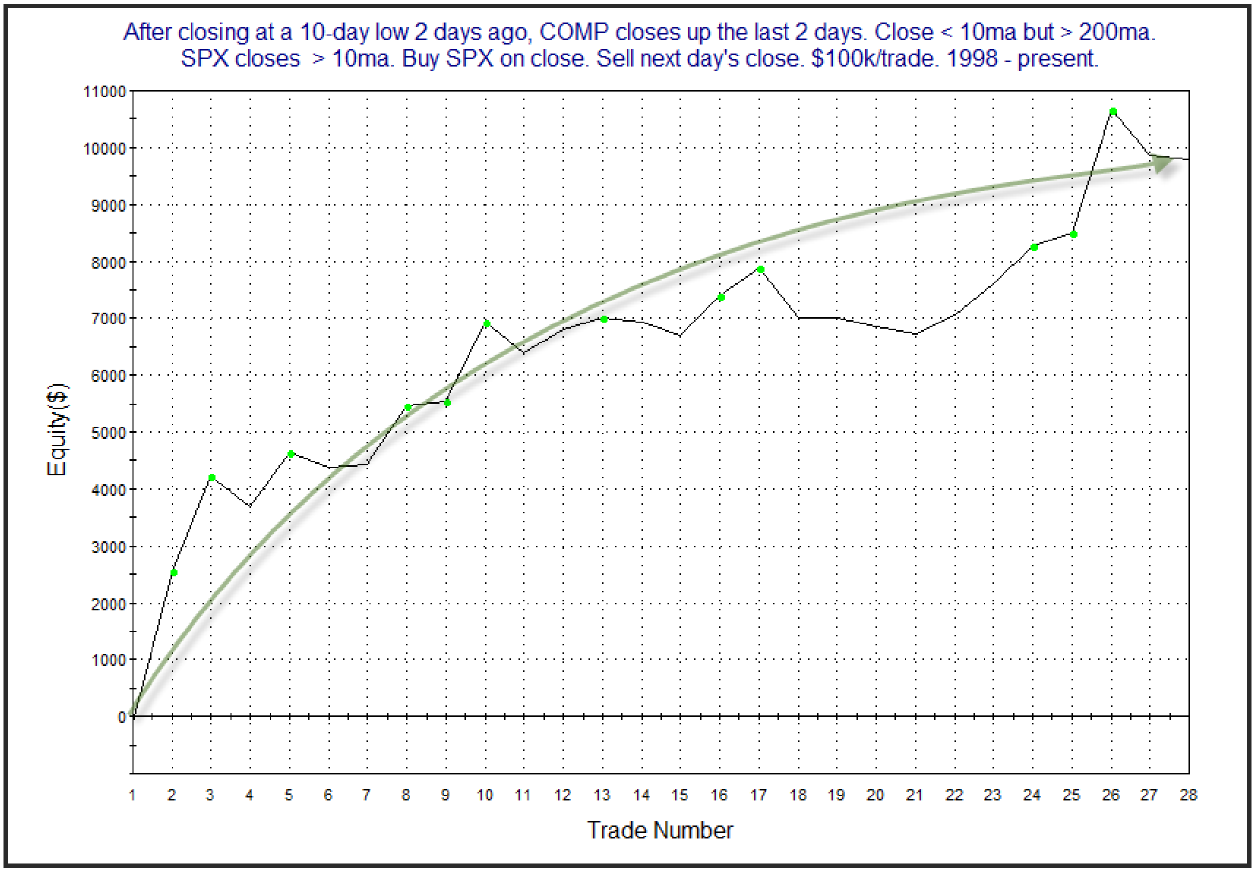
Numbers here appear to suggest the bounce should have a bit further to go over the next few days. I also looked to see how the SPX performed when the NASDAQ set up this way.

After closing at a 10-day low 2 days ago, COMP closes up the last 2 days. Close < 10ma but > 200ma. Buy SPX on close. Sell X days later. $100k/trade. 1998 - 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	31,413.75	77	46	31	59.74	6,560.78	-10,997.44	1,781.14	-1,629.64	1.09	1.62	407.97
4	39,769.69	77	49	28	63.64	5,650.00	-4,192.20	1,641.93	-1,453.04	1.13	1.98	516.49
3	20,992.09	78	50	28	64.10	4,068.12	-3,341.70	1,236.98	-1,459.18	0.85	1.51	269.13
2	30,847.85	78	49	29	62.82	4,097.41	-3,618.90	1,152.17	-883.05	1.30	2.20	395.49
1	20,625.78	78	50	28	64.10	2,636.00	-2,779.52	739.05	-583.09	1.27	2.26	264.43

Returns are a bit more muted, but SPX seems to have enjoyed further upside as well much of the time. Of course SPX is NOT below its 10ma. We already talked about how it broke out to a new high. So I filtered the above a little further to see how SPX performed when the NASDAQ had the above setup but the SPX closed above its own 10ma.

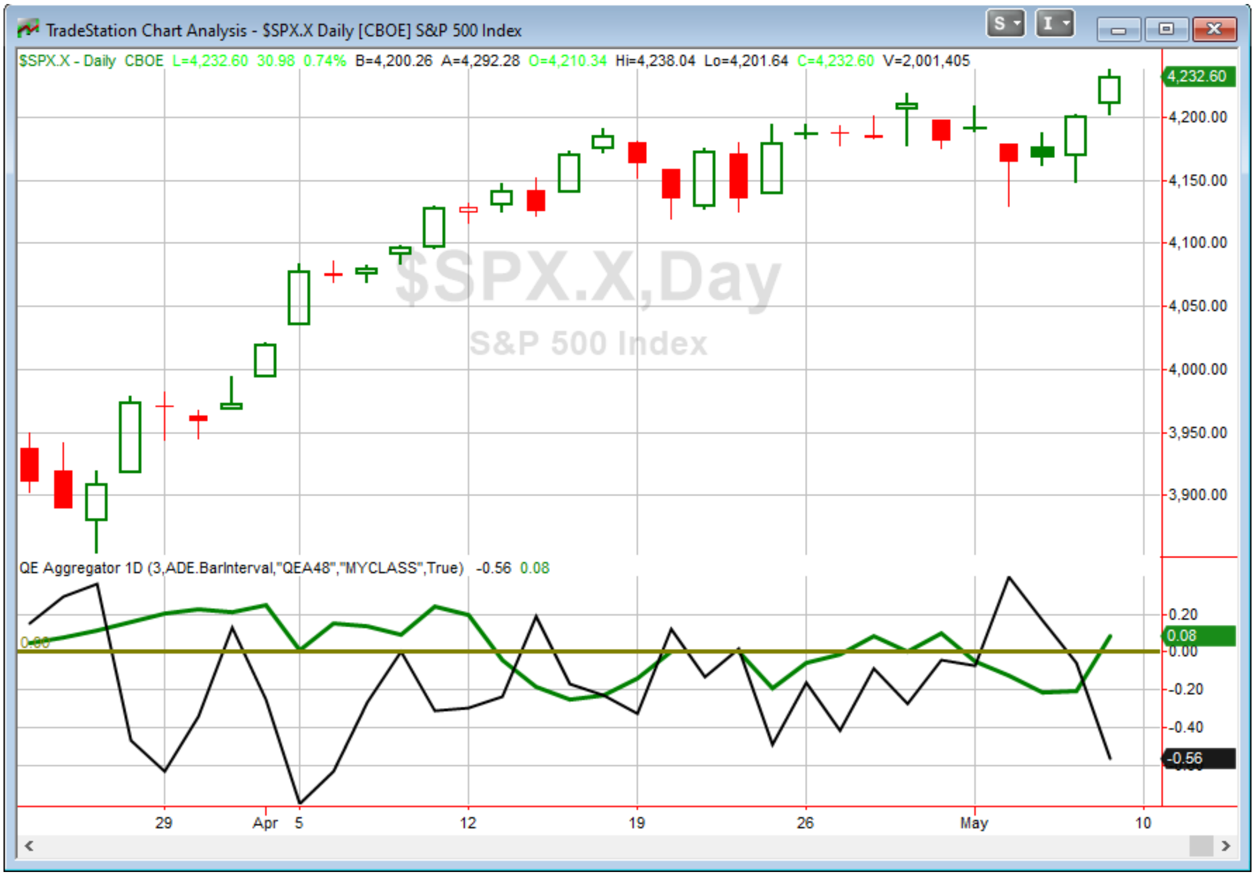
After closing at a 10-day low 2 days ago, COMP closes up the last 2 days. Close < 10ma but > 200ma. SPX closes > 10ma. Buy SPX on close. Sell X days later. $100k/trade. 1998 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	9,882.78	28	15	13	53.57	5,114.73	-3,361.39	1,773.20	-1,285.79	1.38	1.59	352.96
4	7,984.71	28	15	13	53.57	5,258.86	-4,192.20	1,683.19	-1,327.94	1.27	1.46	285.17
3	4,589.97	28	16	12	57.14	4,068.12	-3,341.70	1,365.35	-1,437.98	0.95	1.27	163.93
2	8,189.89	28	17	11	60.71	4,097.41	-3,618.90	1,211.16	-1,127.25	1.07	1.66	292.50
1	9,790.65	28	17	11	60.71	2,636.00	-862.45	797.84	-342.97	2.33	3.60	349.67

Returns here are not quite as impressive. Additionally, the upside basically all happens on Day 1. Below is a look at a 1-day profit curve.



Not ideal, but it has generally moved from lower left to upper right. Overall, I decided the NASDAQ action was worth some consideration in formulating my bias.

I have updated [the Aggregator chart] below.



With today's evidence considered, the green Aggregator line moved 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 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 on opposite sides of zero. Therefore, the Aggregator signal turned flat at the close.

Based on the current active studies, expectations are slated to turn flat on Monday. The short-term active studies are set to expire and the intermediate-term is neutral. So expectations over the next few days will be highly dependent on how the market acts and what new studies emerge. Meanwhile, the Differential Pivot will be 4150.72 on Monday. That is 1.9% below Friday's close. Therefore, SPX would need to close down a very sizable 1.9% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is now neutral. Evidence is leaning bullish, but SPX is substantially overbought. Finding high probability swing-term entries the last couple of weeks has been challenging. But that won't last forever. I will continue to exercise patience until a more compelling reward/risk setup avails itself.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/10 – neutral

Combo #1	Combo #2	Combo #3
Flat	Flat	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 all three systems remained Flat.*

The market indices were mixed this past week. The SPX gained 1.2%, the NASDAQ lost 1.5% and the Russell 2000 gained 0.2%. The long-term trends still appear up, with SPX closing at a new high on Friday. But while SPX has been pushing forward, the NASDAQ and Russell have been basically sideways since the middle of February.

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

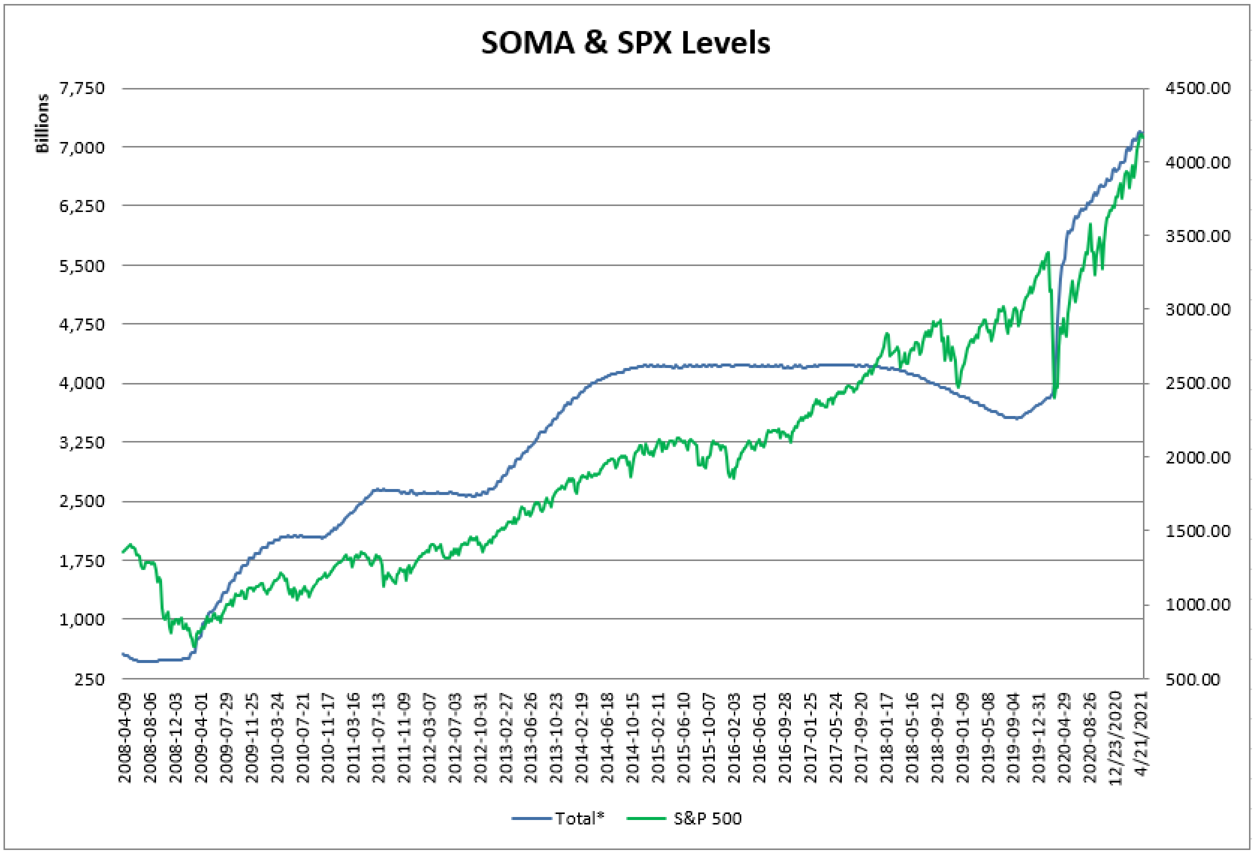
Previous May 5, 2021

Posted May 6, 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)	4,306,171,560.1
US Treasury Floating Rate Notes (FRNs)	23,871,691.1
US Treasury Inflation-Protected Securities (TIPS)*	336,053,894.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,181,448,790.3
Agency Commercial Mortgage-Backed Securities***	9,876,133.7
Total SOMA Holdings	7,185,813,069.8
Change From Prior Week	25,089,999.9

This past week saw the SOMA rise by over $25 billion. That is a fairly typical week for the current Fed policy. Overall, the Fed is still indicating it will continue pumping strongly. 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.

It is not only the stock market that has seen a boost from Fed liquidity and government stimulus. I am concerned that we are entering bubble territory in a lot of places. Price/earnings ratios are near the highest levels in history, speculative IPOs and SPACs have been coming to market in record numbers, cryptocurrency and NFTs are on a rampage, lumber costs over 4x what it did last year, and housing prices are through the roof. The chart below shows year over year % change for the US median home price. Over the last year it is up over 17%, which is the highest in my database going back to 2000.

So the government is saying we need more stimulus, while prices everywhere appear to be overstimulated. At some point the government and the Fed are going to become concerned about pricing, and they will dial back the stimulus. To put it gently, I am concerned that their timing will be less than perfect. Of course valuations tend to be lousy short, and even intermediate-term timing indicators. I believe it will be important to be diversified, open-minded, and nimble with investments in the coming weeks, months, and years in order to adjust to what could be rapidly changing conditions, both positive and negative.

From an intermediate-term perspective I remain somewhat neutral. The bulls still have momentum on their side. SPX is making new highs, and breadth of rising SPX stocks has been strong, as seen in the study discussed a couple of weeks ago. The Fed's continued pumping is also a massive plus for the bulls. The public has certainly shown an appetite for risk recently. That is a good thing…until it isn't. Bears may note that the historically high stock valuations and interest in speculative investments are suggesting excessive froth. That might not matter immediately, but it likely will at some point. Bears can also point to the weakened seasonality and the lagging NASDAQ. I will maintain a neutral bias. This means that I will be less aggressive than normal in taking on both long and short trades.

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