

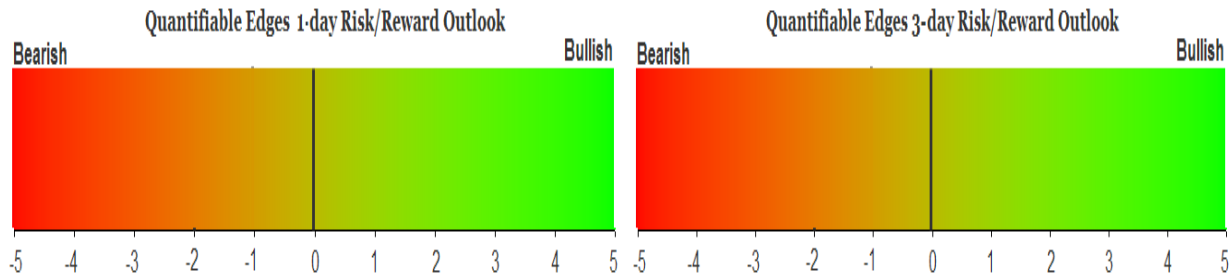
# QUANTIFIABLE EDGES WEEKLY RESEARCH

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 17, 2021

Issue 619

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>CBI Reading</b>
<b>Flat</b>	<b>0</b>

## Tonight's Research Points

- 2 unfilled gaps higher after a 20-day low suggests a short-term upside edge.
- Tax Day (and the day after) have been bullish for the market historically.
- The Fed pumping continues and is supportive of the market long-term.

## *Short-term Outlook*

### *The Bottom Line*

The strong bounce over the last two days was expected, and it has now overshot expectations. So SPX is now overbought and the Aggregator is neutral.

**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>						
May 17, 2021	Tax Time	1-2 days	Bullish			
May 17, 2021	2 unfilled up gaps from 20-low	1-7 days	Bullish	2.60%	-0.80%	-1.60%
May 14, 2021	2% dn to 10-low then 1% up	1-5 days	Bullish	3.00%	-1.40%	-2.70%
May 13, 2021	3 dn from 50-high to 10 low	1-8 days	Bullish	2.45%	-1.40%	-3.50%
<b>Active - Long Term</b>						
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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
May 13, 2021	VIX 35% over 10ma	1-2 days	Bullish			
May 13, 2021	System 110524	1-7 days	Bullish	2.40%	-1.60%	-3.40%
May 12, 2021	1st 10-low close in > 30 days	1-8 days	Bullish	2.55%	-1.90%	-4.20%

**The Evidence**

Friday was a 2<sup>nd</sup> strong day for the market. SPX finished up 1.5%, the NASDAQ gained 2.3%, and the Russell 2000 climbed 2.5%. Breadth was strongly positive with the NYSE Up Issues % coming in at 80% and the Up Volume % at 90%. NYSE total volume declined from Thursday's levels.

Coming off the 20-day low close on Wednesday, we have now seen SPY leave an unfilled gap higher for two days in a row. That is quite unusual to see that kind of overnight strength hold up so well for multiple days following an intermediate-term low. It is something I examined last year in the 2/5/20 letter. I went back and updated that study tonight.

After closing at a 20-day low 2 days ago, SPY leaves an unfilled gap up the last 2 days. Close > 200ma. 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
10	21,752.67	12	9	3	75.00	7,303.23	-2,443.98	3,022.83	-1,817.60	1.66	4.99	1,812.72
9	20,951.81	12	9	3	75.00	7,882.38	-2,937.00	2,786.02	-1,374.14	2.03	6.08	1,745.98
8	20,867.37	12	9	3	75.00	6,554.79	-2,055.90	2,731.98	-1,240.14	2.20	6.61	1,738.95
7	19,854.69	12	11	1	91.67	5,102.46	-1,440.00	1,935.88	-1,440.00	1.34	14.79	1,654.56
6	19,232.78	12	9	3	75.00	6,130.08	-1,019.94	2,360.51	-670.59	3.52	10.56	1,602.73
5	15,840.80	12	10	2	83.33	5,348.97	-1,425.78	1,803.70	-1,098.09	1.64	8.21	1,320.07
4	13,559.92	12	9	3	75.00	5,503.41	-490.88	1,611.79	-315.41	5.11	15.33	1,129.99
3	9,249.69	12	10	2	83.33	4,196.61	-897.00	1,079.80	-774.18	1.39	6.97	770.81
2	6,955.98	12	9	3	75.00	4,220.37	-1,252.80	1,173.81	-1,202.78	0.98	2.93	579.66
1	5,228.62	12	8	4	66.67	2,230.47	-1,188.00	946.99	-586.83	1.61	3.23	435.72

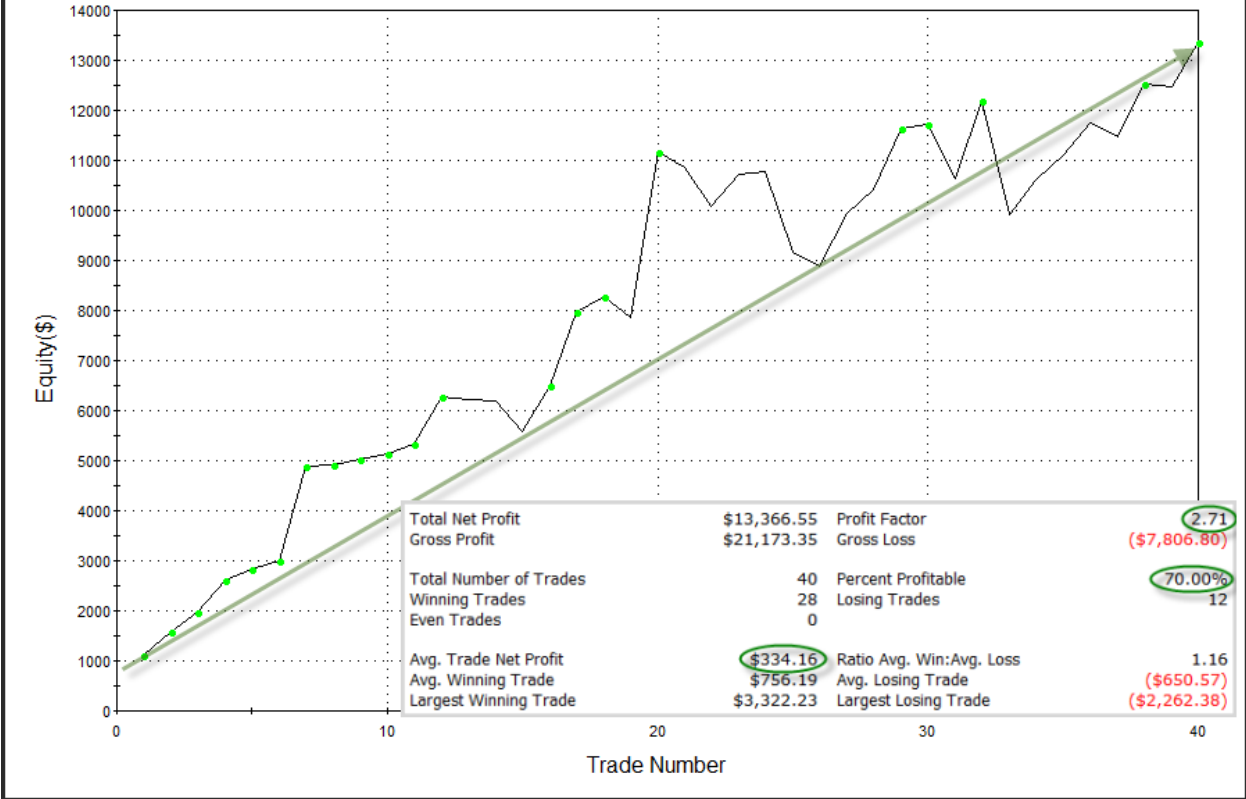
Instances remain low, but the upside consistency is quite impressive. Below is a list of all the trades along with the 7-day results.

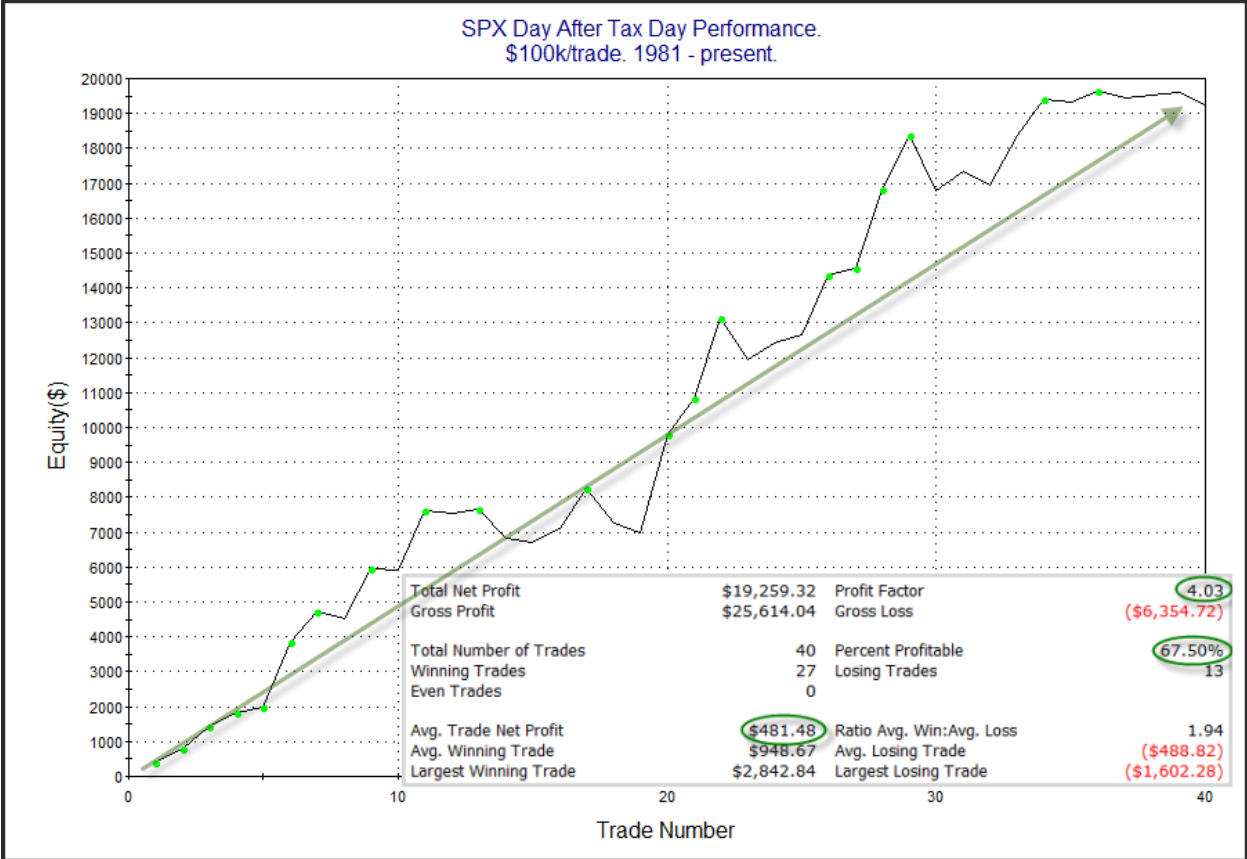
After closing at a 20-day low 2 days ago, SPY leaves an unfilled gap up the last 2 days. Close > 200ma. Buy on close. Sell 2 days later. \$100k/trade. 1993 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
4/15/1996	Buy	\$64.25	1.17%	\$2,053.92
4/24/1996	Sell	\$65.00		(\$622.40)
6/17/1998	Buy	\$111.38	1.80%	\$2,771.73
6/26/1998	Sell	\$113.38		(\$1,569.75)
1/26/2005	Buy	\$117.23	2.56%	\$2,729.60
2/4/2005	Sell	\$120.23		(\$528.86)
4/12/2012	Buy	\$138.79	-1.44%	\$410.40
4/23/2012	Sell	\$136.79		(\$2,052.00)
6/26/2013	Buy	\$160.14	2.38%	\$2,652.00
7/8/2013	Sell	\$163.95		(\$174.72)
3/31/2014	Buy	\$187.01	0.04%	\$1,436.46
4/9/2014	Sell	\$187.09		(\$1,826.28)
12/18/2014	Buy	\$206.78	0.40%	\$1,057.77
12/30/2014	Sell	\$207.60		(\$565.11)
6/11/2015	Buy	\$211.63	0.12%	\$807.12
6/22/2015	Sell	\$211.89		(\$1,812.48)
7/10/2015	Buy	\$207.48	2.06%	\$2,741.70
7/21/2015	Sell	\$211.75		\$0.00
6/29/2016	Buy	\$206.66	3.26%	\$3,579.03
7/11/2016	Sell	\$213.40		(\$48.30)
2/4/2020	Buy	\$329.06	2.43%	\$2,745.18
2/13/2020	Sell	\$337.06		\$0.00
11/3/2020	Buy	\$336.03	5.11%	\$8,419.95
11/12/2020	Sell	\$353.21		\$0.00

This list is impressive, and the 2 instances since I last featured this study saw strong upside follow through. This setup has been unusual, but the consistent gains to this point intrigue me enough to pay the study some attention and put it on the Active List tonight.

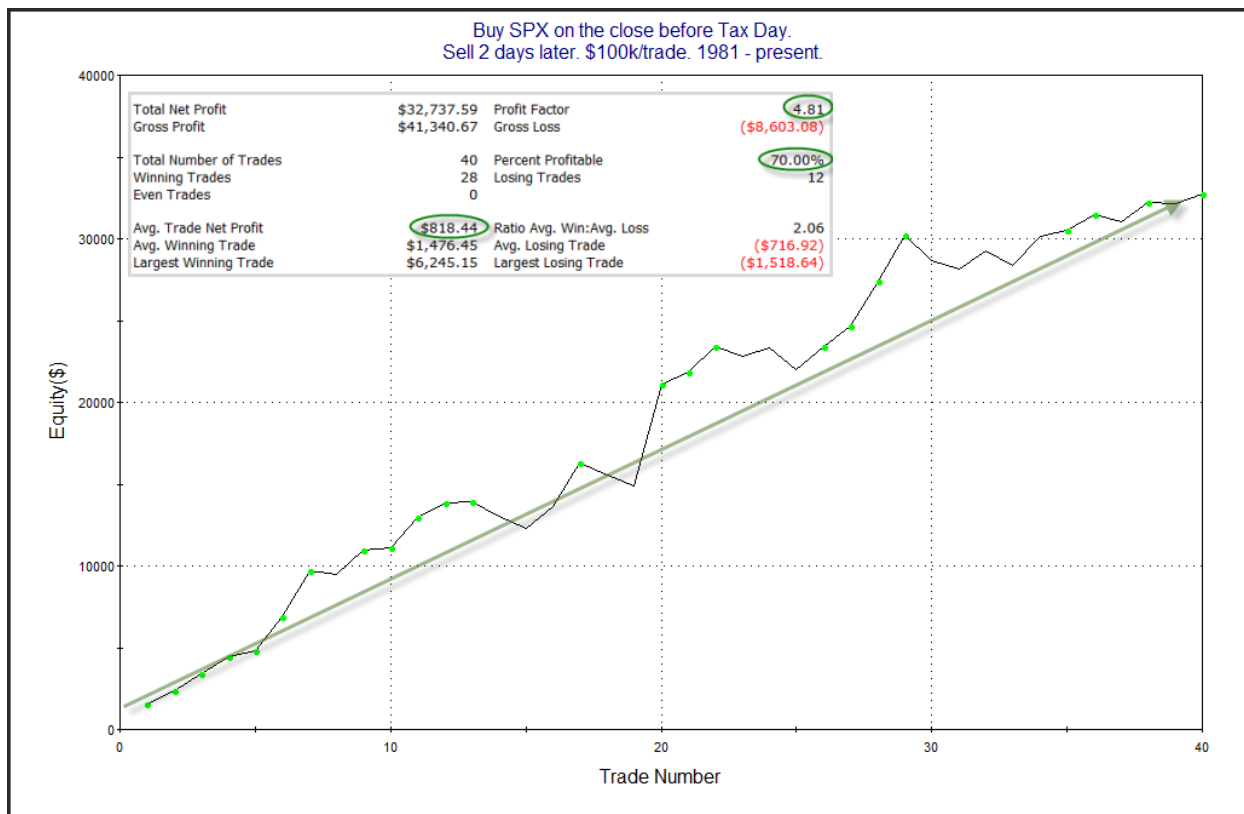
In the 7/15/20 letter (and many times over the years) I showed that there has been a strong historical tendency on tax day (normally April 15<sup>th</sup>, but May 17<sup>th</sup> this year) and the day immediately after. The reason tax day may be important is that it is the last day that people can make IRA contributions to count for the previous tax year. This can create a last-minute rush and you will often have an inflow of funds heading into the market right around and on April 15<sup>th</sup> (or May 17<sup>th</sup>). Fund managers will often put this money to work immediately and it creates a positive bias for the market. Below are some updated studies that demonstrate this.

SPX Tax Day Performance.  
\$100k/trade. 1981 - present.





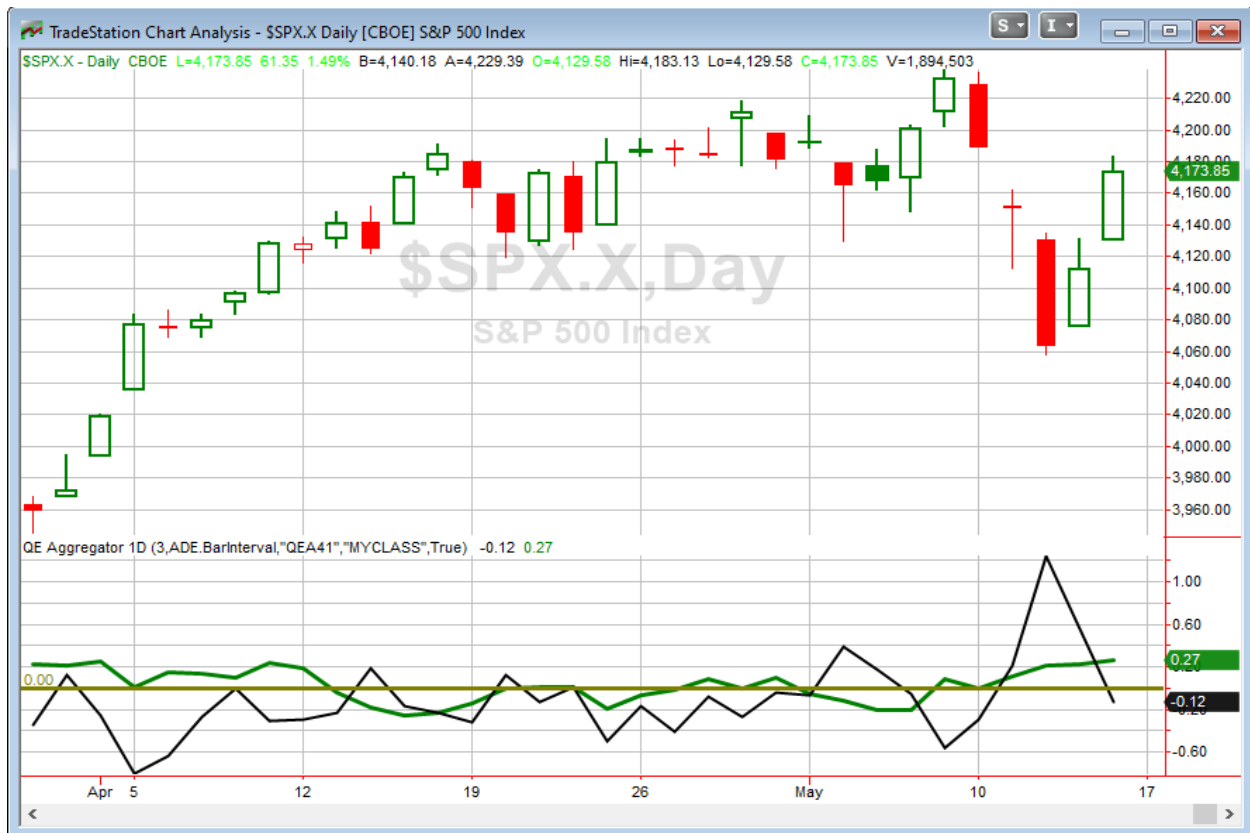
As you can see, both of these days seem to contain very solid upside edges. The study below looks at what happens if you hold for both days instead of just one.



As you would expect, the numbers and the profit curve are impressive. This study has been added to the active list tonight.

In looking at the current seasonality Calendar for SPX, Wed, Thurs, and Fri this week have some of the weakest numbers of the month. This can be seen in the table below, copied from the Seasonality Calendar page.





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 dove down below 0. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are positive but SPX is now 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. This could change if strong bearish evidence emerges. Meanwhile, the Differential Pivot will be 4074.18 on Monday. That is 2.4% below Friday's close. Therefore, SPX would need to close down at least 2.4% on Monday in order to flip from overbought to oversold vs recent expectations. That is an unlikely 1-day drop. A more likely scenario for working off the overbought condition would be a multi-day decline or consolidation.

So the Aggregator is now neutral. The bounce that was expected the last couple of days showed up in a big way. Which means it is time for me to flatten out and wait for the next favorable reward/risk setup to emerge. There has been a lot of action in the market lately, and that has made for some decent trading opportunities. With all the crosswinds that exist between sentiment, valuations, COVID, inflation, tax changes, and more this could be an opportune swing trading market for a while.


**Intermediate-term Outlook (2 weeks – 2 months) – *updated 5/17 – neutral***

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

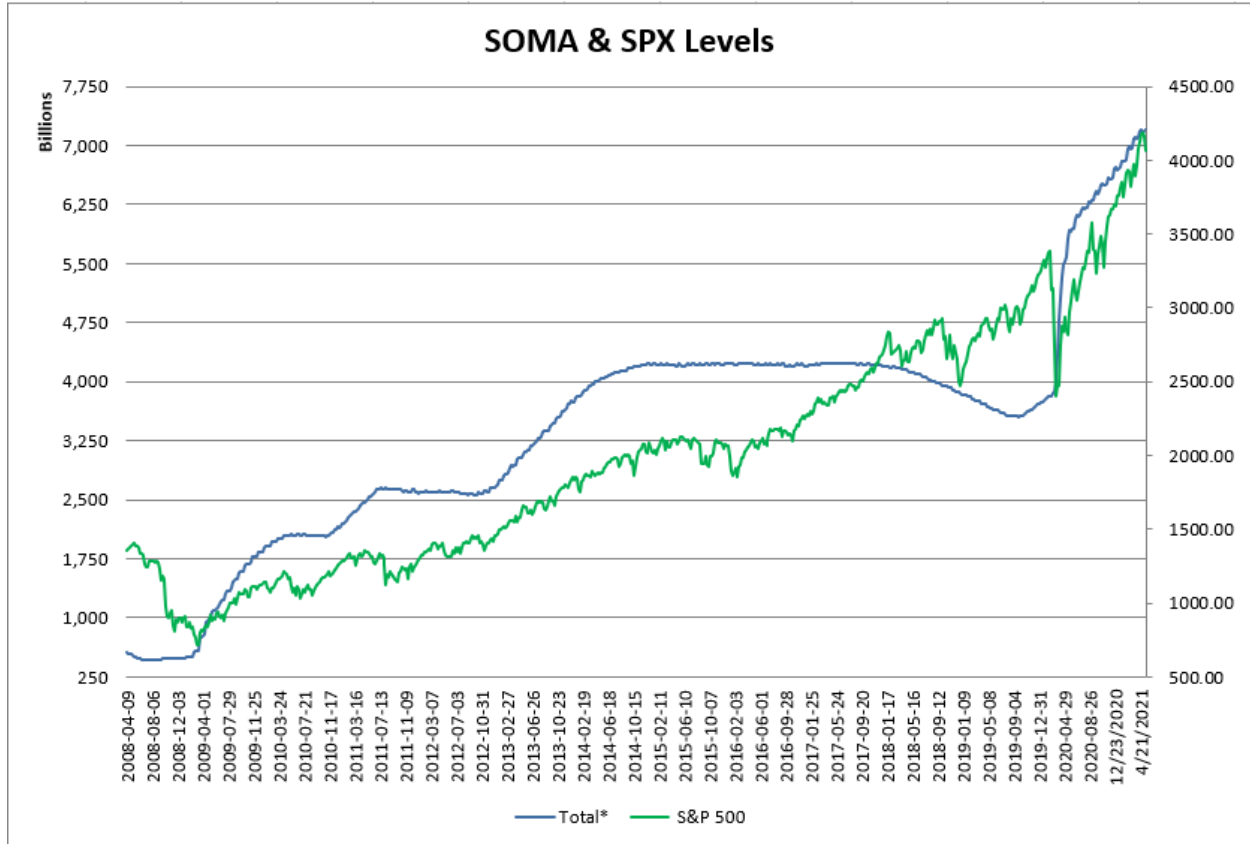
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 Combo systems remained Flat.*

Despite the rally the last 2 days, the market indices all finished with losses on the week. The SPX fell 1.4%, the NASDAQ tumbled 2.3% and the Russell 2000 dropped 2.1%. All the indices are above their long-term moving averages, but it is not necessarily a clear uptrend for everything. SPX is not far off its all-time high, but the NASDAQ has now closed down 4 weeks in a row. And after a massive rally from October to early February, the Russell 2000 has basically chopped sideways for the last 3 months.

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 12, 2021  <small>Posted May 13, 2021 at 4:30 P.M.</small>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> <span>SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,315,773,560.1
US Treasury Floating Rate Notes (FRNs)	23,871,691.1
US Treasury Inflation-Protected Securities (TIPS)*	339,655,894.6
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	7,199,017,069.8
Change From Prior Week	13,204,000.0

This past week saw the SOMA rise by over \$13 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. The timing of this will become more and more a discussion point as the year moves on. And economic numbers may have strong reactions due to their potential to influence Fed policy. To this point, the Fed remains dovish. 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.

From an intermediate-term perspective I remain somewhat neutral. The bulls still have momentum on their side. SPX is near new highs, and breadth of rising SPX stocks has been strong, as seen in the study discussed a few 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. I discussed this in some detail last week. 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. But as I mentioned in the short-term section, all these crosswinds could make for some very playable swings. So when a favorable reward/risk opportunity presents itself in either direction, I'll be prepared to try and take advantage.

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