

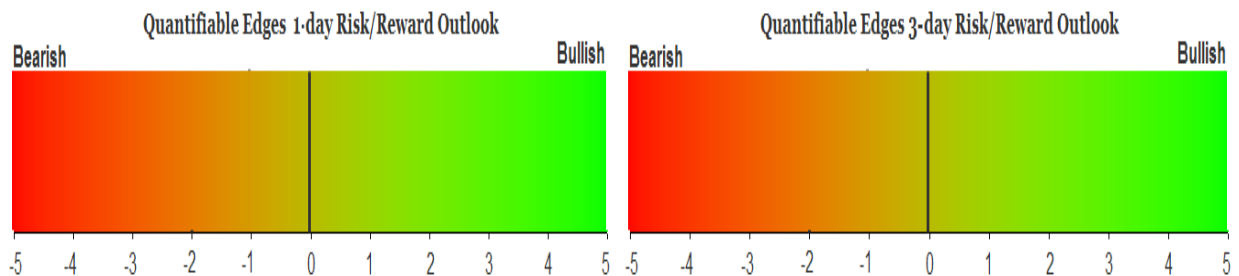
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 24, 2021

Volume 14 Issue 98

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Sideways price action has failed to generate compelling new studies over the last few days.
- We are entering a seasonally strong period of the month.
- The SOMA saw a huge increase this past week, but the Fed officially (and weakly) indicated it will start talking about dialing back QE purchases in the coming months.

Short-term Outlook

The Bottom Line

The Aggregator is neutral, and could easily swing in either direction on Monday. There does not appear to be a substantial multi-day directional edge.

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						
None						
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			

The Evidence

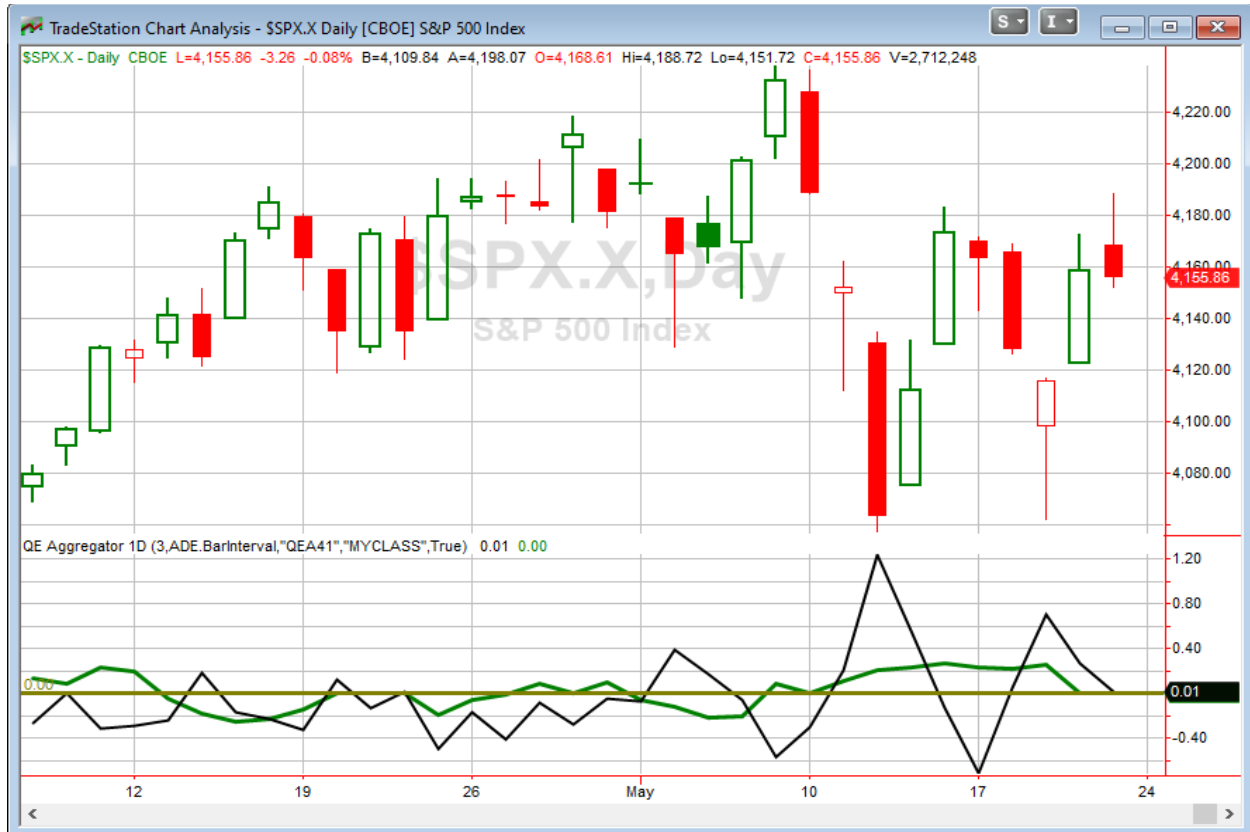
Friday saw some typical opex action, with the market gapping up to start, and then trading lower after the open. SPX finished down 0.1%, the NASDAQ lost 0.5%, and the Russell 2000 gained 0.3%. Breadth was positive with the NYSE Up Issues % coming in at 59% and the Up Volume % at 58%. NYSE total volume rose but was not extremely high like we sometimes see on opex Friday.

Price action has failed to generate anything in the way of compelling short-term evidence the last few days. That in itself is abnormal, since there is usually some “extreme” being reached that will suggest a short-term edge. But it is not terribly surprising considering the state of the market. Check out the SPX chart below.



There has not been any progress since the middle of April. Just some swings above and below the level that the index was at then. The blue line is the 20-day moving average. That flattened out in the 1st few days of May and has been almost completely sideways since. When the index moves

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



With the lack of compelling short-term evidence, the green Aggregator line finished at zero. Zero readings mean net expectations are flat over the next few days. Meanwhile the black Differential Line held just barely above 0. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are flat and SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator signal stayed flat at the close.

With the short-term active studies list blank and the intermediate-term neutral, expectations over the next few days will be largely dependent on any new evidence that emerges. Meanwhile, the Differential Pivot will be *inverted* at 4144.82 on Monday. That is 0.3% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down nearly 0.3% on Monday in order to remain oversold. Anything other than that and it will be considered "overbought" vs recent expectations as of Monday's close.

So the Aggregator is neutral. Evidence is lacking. And the outlook could easily flip either way based on Monday's action. Seasonality looks pretty good this upcoming week, but I'd like more evidence than just that in order to initiate an index trade. So from a short-term perspective, I remain in "Wait and See" mode.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/24 – 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.*

Action was back and forth over the course of the week, and the indices finished mixed. The SPX fell 0.4%, the NASDAQ gained 0.3% and the Russell 2000 dropped 0.4%. All the indices are above their long-term moving averages, but it is not necessarily a clear uptrend for everything. SPX appears to be the strongest of the group. The NASDAQ and Russell have been moving sideways for the last few months.

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

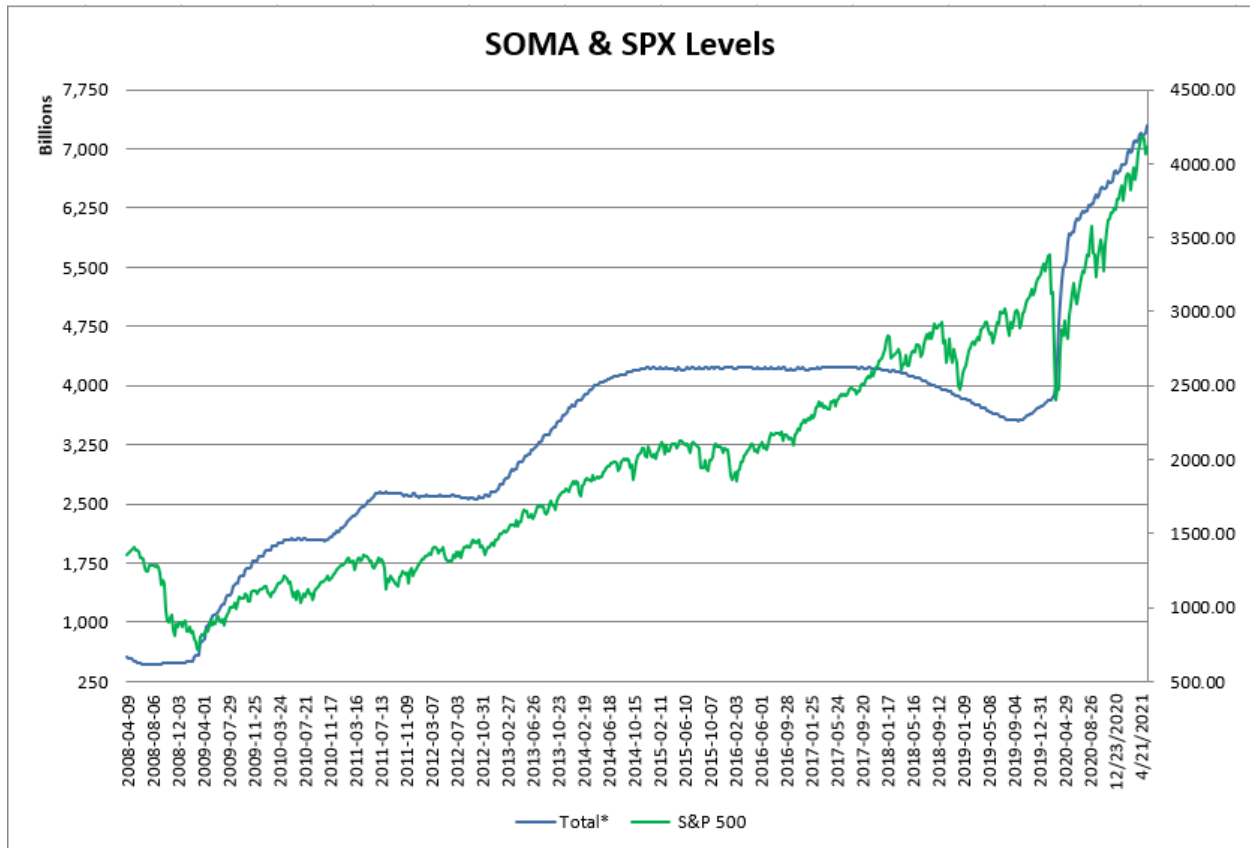
Domestic Security Holdings as of

◀ Previous **May 19, 2021** 📅
Posted May 20, 2021 at 4:30 P.M

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)	4,331,310,560.1
US Treasury Floating Rate Notes (FRNs)	23,871,691.1
US Treasury Inflation-Protected Securities (TIPS)*	340,854,894.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,267,735,648.4
Agency Commercial Mortgage-Backed Securities***	9,825,698.7
Total SOMA Holdings	7,301,989,492.9
Change From Prior Week	102,972,423.1

This past week saw the SOMA rise by a whopping \$102 billion. That is a very large rise – even under the current policy. But it is also just that time of the month where they do more purchases than others. There is a decent chance this Wednesday’s number will come in negative. 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 a while longer. But this week we got the first hint that the Fed will soon be considering dialing back the Quantitative Easing. In their minutes, which were released on Wednesday, the following statement was included: “A number of participants suggested that if the economy continued to make rapid progress toward the Committee’s goals, it might be appropriate at some point in the upcoming meetings to begin discussing a plan for adjusting the pace of asset purchases.” That is about as weak of hint as you can get, but it is the 1st official mention of a possible tapering of QE purchases.

Overall, the market handled that little hint quite well. There was not a substantial correction. In fact, there were a few notables this past week that the market managed to mostly shrug off. These include headline inflation numbers of 4.1%, and the median US housing price rising over 19% from last year – which is the largest increase in my database going back to 2000. This can be seen in the chart below.



We also saw a very large correction in many of the cryptocurrencies like Bitcoin, Ethereum, and Dogecoin. Many are now down over 50% from their highs. This hit some stocks that are associated with crypto, but did not have a major impact on the broad market. Over time we have seen these cryptos gain more attention, more investor dollars, and more corporate acceptance. If this continues, then wild swings in cryptos in the future could have a more significant impact on the market and the economy. Of course I am not the only one that recognizes this. Regulators do too. And fear of regulation – especially in China, is one of the things that prompted the crypto selling this past week.

The message I take from the above is that despite the messaging from the Fed, the high inflation numbers, and the crypto crash, the market held up nicely. And that would seem to be a positive.

From an intermediate-term perspective I remain somewhat neutral. The bulls still have momentum on their side. SPX is still not far from new highs. The Fed’s continued pumping is also a massive plus for the bulls, and while they are thinking about slowing the liquidity, it is still strong. Bears can still point to the weak intermediate-term 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 lots of crosswinds can make for lots of short-term market swings. And I’ll be on the lookout for favorable reward/risk opportunities in which to try and take advantage.

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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