

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 28, 2021

Volume 14 Issue 122

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	2

## Tonight's Research Points

- 5 higher highs is not indicative of a rally in need of a pullback when SPX is at an intermediate-term high.
- SPX has strong momentum, closing above its 50-day Bollinger Band. This has typically been an intermediate-term positive for the market.
- An initial look at the July Seasonality Calendar shows Thursday and Friday the 1<sup>st</sup> and 2<sup>nd</sup> to have the strongest numbers of the month.
- The Fed is continuing to pump liquidity, and that is bullish.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is still neutral. Me too.

**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>						
None						
<b>Active - Long Term</b>						
June 28, 2021	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.80%
June 14, 2021	NASDAQ leading	int term	Bullish			
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>						
June 17, 2021	Fed today. SPX down 2.	1-6 days	Bullish			
<b>June 21, 2021</b>	<b>Down 4. Biggest drop today. &gt; 200</b>	<b>1-5 days</b>	<b>Bullish</b>			

**The Evidence**

Friday saw mixed and mild returns for the major indices. The SPX closed up 0.3%, the NASDAQ lost 0.1%, and the Russell 2000 inched up 0.03%. Breadth was positive with the NYSE Up Issues % coming in at 54% and the Up Volume % at 55%. NYSE total volume spiked to the highest level in a while.

SPX managed to make an intraday high for the 5<sup>th</sup> day in a row. An interesting study from the Quantifinder looked at the possible impact of 5 higher highs occurring. I last looked at this in the 1/15/20 letter. The studies examined the impact of the position of the market when the 5 higher highs occurred. I broke it down again tonight. I wanted to see all times the 5 higher highs were accompanied by a 50-day high versus times they weren't. First let's look at times where 5 higher highs occur *without* a 50-day high.

SPY makes a higher high for the 5th day in a row but not a 50-day intraday high. 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	-18,486.98	76	41	35	53.95	8,382.48	-6,714.00	1,331.55	-2,088.02	0.64	0.75	-243.25
4	-38,583.17	76	36	40	47.37	3,317.60	-7,879.83	1,029.76	-1,891.37	0.54	0.49	-507.67
3	-6,293.96	76	43	33	56.58	4,059.44	-4,560.85	1,054.24	-1,564.44	0.67	0.88	-82.82
2	1,784.29	76	41	35	53.95	5,364.26	-2,399.36	890.29	-991.93	0.90	1.05	23.48
1	1,838.67	76	37	39	48.68	3,057.76	-2,245.23	622.99	-543.90	1.15	1.09	24.19

Stats over the 1st few days suggest a possible mild downside edge. After 5 higher highs the market will sometimes need a breather.

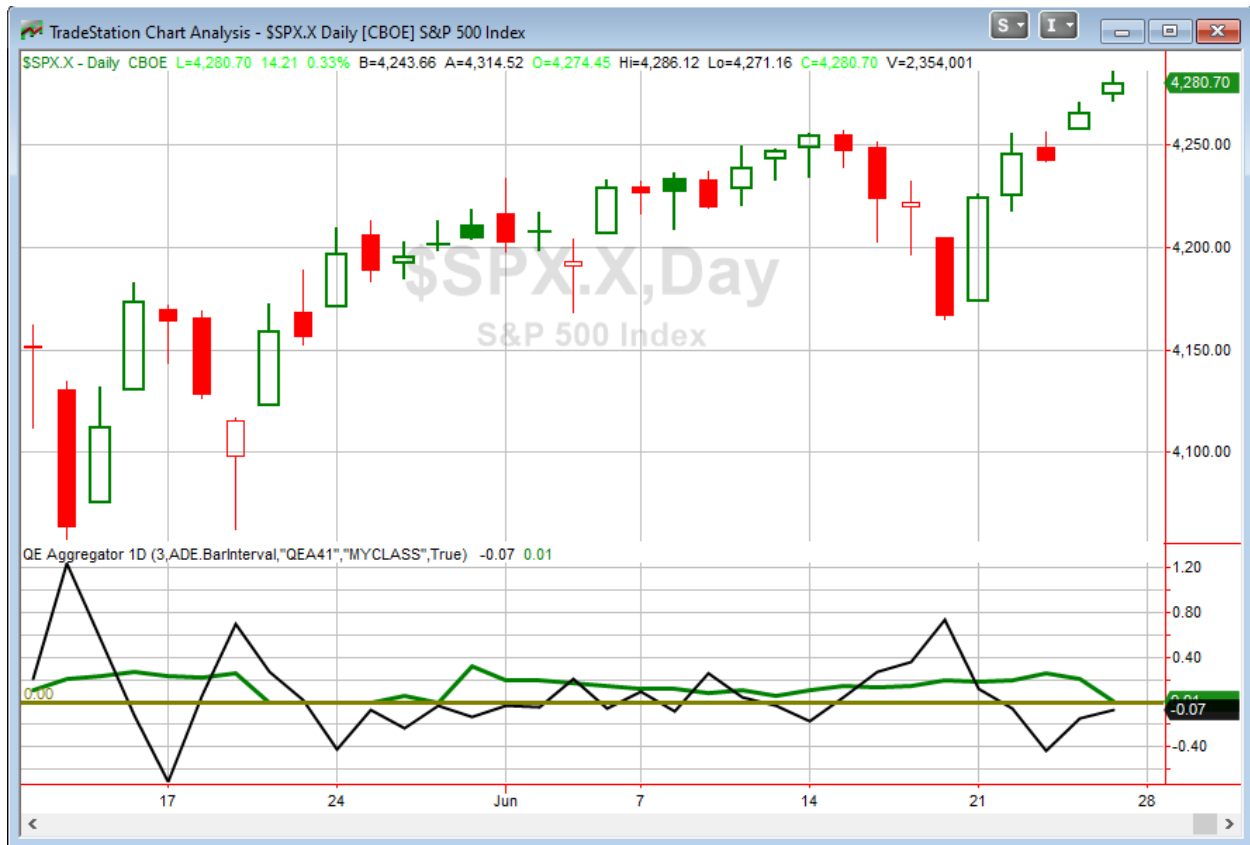
But what of times (like now) when a strong uptrend exists, and the market is also making a 50-day high? Those stats can be found below.

SPY makes a higher high for the 5th day in a row and a 50-day intraday high. 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	7,112.13	85	45	40	52.94	3,452.80	-3,514.00	1,039.16	-991.25	1.05	1.18	83.67
4	10,595.21	85	52	33	61.18	2,689.19	-3,646.08	843.93	-1,008.75	0.84	1.32	124.65
3	4,032.32	85	49	35	57.65	2,362.10	-3,561.68	720.06	-892.88	0.81	1.13	47.44
2	7,026.83	85	54	30	63.53	2,545.92	-2,585.46	547.22	-750.76	0.73	1.31	82.67
1	-1,031.85	85	42	43	49.41	1,495.81	-1,745.63	359.97	-375.60	0.96	0.94	-12.14

Interestingly, the number of instances has been nearly the same. But with an intermediate-term rally also occurring the tendency to pull back no longer exists. So the 5 higher highs are really of no concern in situations like the current one. No short-term studies are being added to the active list tonight.

It is notable that the remaining short-term studies from Thursday night are also being removed – either for expiring or for reaching their target. The rally over the last few days has reached the levels suggested by the short-term studies leading up to it. But while the upside objectives are all being reached and the SPX is now “overbought”, there is not yet any compelling bearish evidence emerging.

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



Without any new studies being added tonight, the green Aggregator Line remained just barely above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained slightly 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 stayed flat at the close.

With the short-term active list blank, and the intermediate-term leaning bullish, expectations are slated to remain bullish on Monday. Of course this could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4269.20 on Monday. That is 0.3% below Friday's close. Therefore, SPX will need to close down 0.3% or more on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Short-term evidence is lacking. And the Differential Line is very close to zero, meaning the SPX performed almost exactly as expected over the last few days and is not strongly overbought. This is not a combination that suggests a strong directional market edge. I'm neutral and awaiting a more favorable reward/risk scenario before taking on new index positions.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/28 – somewhat bullish**

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

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 was no change to the combo systems.*

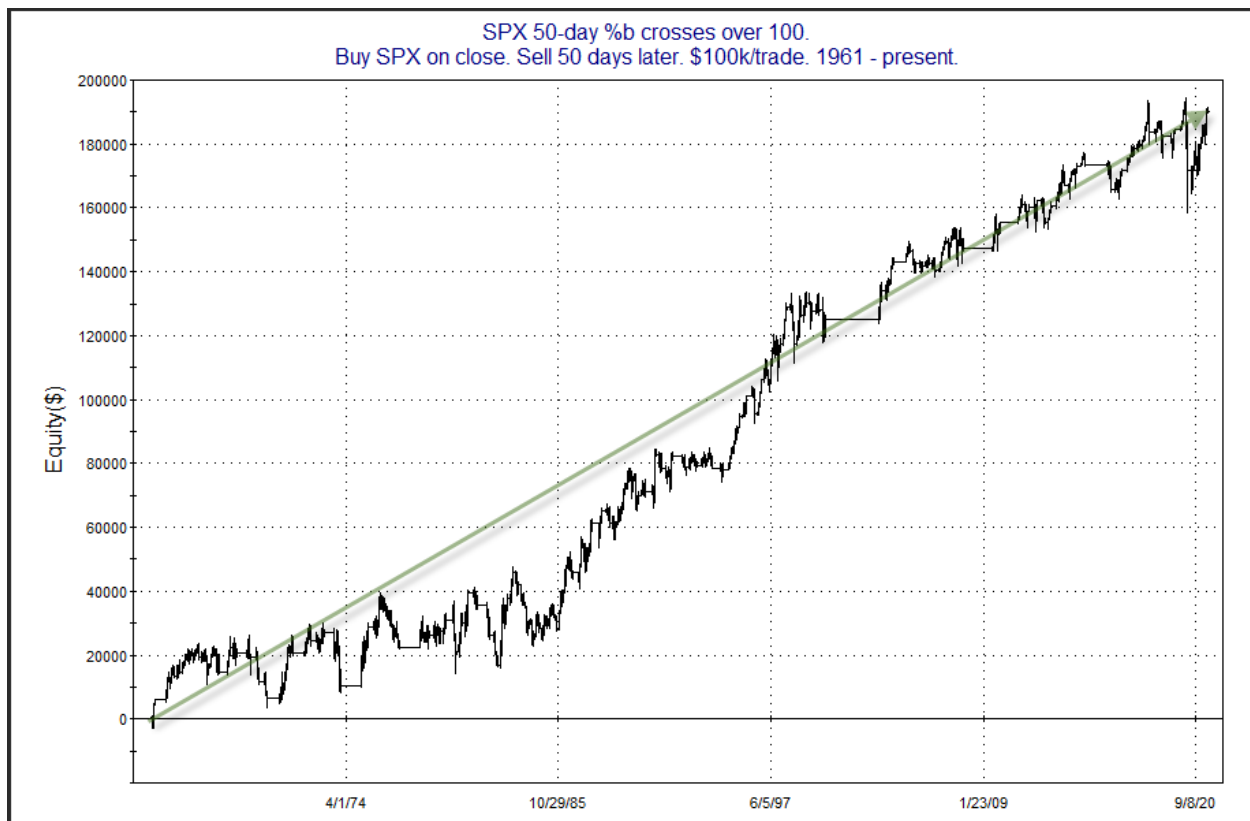
The major averages all posted strong gains this week. The SPX rose 2.7%, the NASDAQ gained 2.35% and the Russell 2000 rallied 4.3%. The SPX and NASDAQ both made new all-time highs this past week, and the Russell is now not far from making one of its own. Obviously, the long-term uptrend is currently in place.

One interesting study that triggered in the Quantifinder looked at the SPX closing price in relation to its 50-day Bollinger Bands. In it I used 2 standard deviations in the Bollinger Band calculation. I used %b to measure where we fell. For those unaware, %b simply measures the distance between the 2 bands. So a reading of 0 means price is right at the lower band. A reading of 100 is right at the upper band. A reading of 50 would be right at the moving average being used – in this case the 50ma. So a move 2 standard deviations above the 50ma would be a %b reading of 100. I last featured this study in the 2/8/21 letter. Updated results are below.

SPX 50-day %b crosses over 100. Buy SPX on close. Sell X days later. \$100k/trade. 1961 - 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
50	190,020.22	143	88	55	61.54	18,408.18	-20,704.80	4,849.44	-4,304.19	1.13	1.80	1,328.81
45	146,781.88	149	86	63	57.72	15,816.57	-32,382.30	5,050.06	-4,563.86	1.11	1.51	985.11
40	154,167.28	155	94	61	60.65	17,624.67	-27,920.40	4,429.77	-4,298.88	1.03	1.59	994.63
35	155,988.31	163	99	64	60.74	15,782.13	-13,617.00	3,973.50	-3,709.20	1.07	1.66	956.98
30	103,216.31	170	102	68	60.00	11,920.74	-10,485.00	3,266.50	-3,381.86	0.97	1.45	607.15
25	70,694.28	178	102	76	57.30	10,859.94	-8,732.16	2,961.85	-3,044.92	0.97	1.31	397.16
20	67,332.41	191	110	81	57.59	9,501.30	-10,205.38	2,605.26	-2,706.75	0.96	1.31	352.53
15	55,223.05	210	122	88	58.10	7,843.46	-9,763.44	2,331.44	-2,604.69	0.90	1.24	262.97
10	40,867.98	234	142	92	60.68	8,239.16	-9,133.53	1,684.61	-2,155.94	0.78	1.21	174.65
5	13,102.88	286	160	126	55.94	5,030.81	-6,524.55	1,136.39	-1,339.04	0.85	1.08	45.81

Results generally appear moderately bullish. They seem to suggest that the kind of strong momentum that would have SPX closing above its 50-day Bollinger Band favors more upside over

a possible reversal. The “% Profitable” is not terribly high, but I produced a profit curve below to see how the edge has played out over time.



That’s a pretty steady upslope for a study without a very high “% Profitable”. Overall, I like this study enough to add it to the intermediate-term active list.

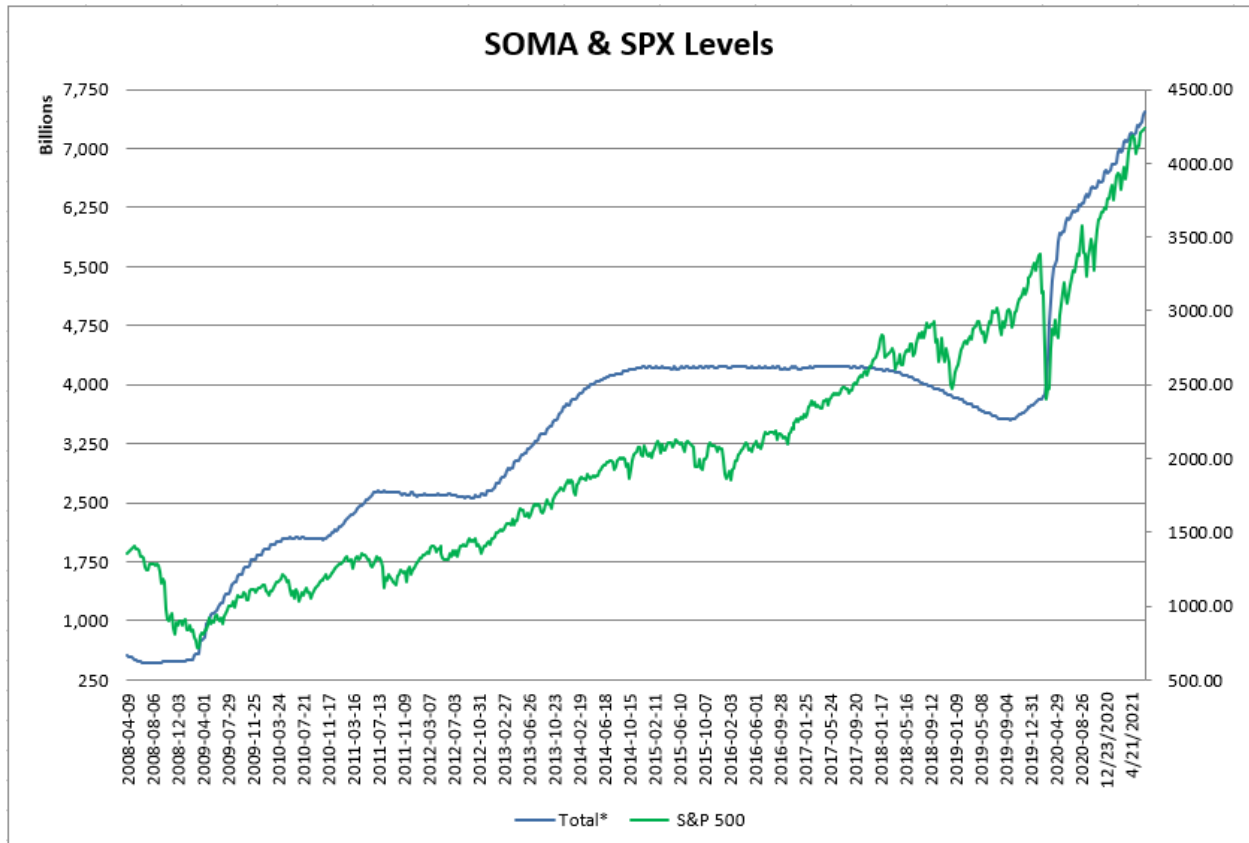
In looking at the [“Next Month Preliminary” seasonality calendar page](#) on Quantifiable Edges, you’ll see the following July calendar for SPX.



**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)	4,410,126,560.1
US Treasury Floating Rate Notes (FRNs)	23,846,691.1
US Treasury Inflation-Protected Securities (TIPS)*	349,257,894.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,344,382,599.8
Agency Commercial Mortgage-Backed Securities***	9,772,272.7
Total SOMA Holdings	7,465,777,018.4
Change From Prior Week	34,630,797.5

This past week saw the SOMA rise by about \$35 billion. That is a sizable amount, but fairly typical for this time of the month. 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. That should continue to benefit the market for a while longer. But the Fed is now starting to talk about when they will dial back the stimulus. That will first be in the form of reduced Quantitative Easing amounts. Then we could see a rise in short-term interest rates. It appears the QE taper could begin later this year and we might have a rise in interest rates at some point next year. When the massive liquidity support is removed from the market, that would likely make it much more difficult for market advances. For now, the Fed is pumping at that is big positive for the SPX.

The bullish case continues to strengthen. The trend is up, the market is at new highs, and momentum is favorable as indicated by the %b study I shared above. The leading NASDAQ is also a positive. And the Fed's continued pumping should remain a massive plus for the bulls for a while longer. Bears can point to the weak intermediate-term seasonality. But I am not seeing bearish indications otherwise at this point. Of course that could change quickly, and we will need to remain alert. I am still inclined to utilize a somewhat bullish intermediate-term bias. This means that I will be more cautious with short-side trades than long trades.

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

[Catapult & CBI Presentation Link](#)

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

BIIB – 1/3 @ \$349.16 (bought @ Limit)

*New*

BIIB – 1/3 @ \$347.93 (buy @ Limit)

***Broad Market Large Cap CBI – 2(BIIB-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.

**BIIB - Buy 1/3 Catapult position @ \$347.93 LIMIT.** From the Catapult section above, this is the 2<sup>nd</sup> of up to 3 potential lots of BIIB.

## Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
ALL(1/3)	6/15/2021	\$131.00	\$130.78	-0.17%		<i>sell on open</i>
BIIB(1/3)	6/25/2021	\$348.67	\$347.93	-0.21%		Catapult

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