

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 2, 2021

Volume 14 Issue 126

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	3

## Tonight's Research Points

- RSI(2) crossing above 99 bodes well for the intermediate-term.
- Employment days have been streaky over time. For the last 9 years when the market has been in a long-term uptrend, Employment Days have exhibited a bullish tendency.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is 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>						
July 2, 2021	Employment days bullish recently	1 day	Bullish			
July 1, 2021	Close month at high of month.	1-5 days	Bullish			
June 29, 2021	NYSE Up Vol < 40% with SPX up.	1-7 days	Bullish	1.80%	-1.10%	-2.20%
<b>Active - Long Term</b>						
July 2, 2021	SPX RSI <sub>2</sub> > 99	1-15 days	Bullish	2.30%	-1.50%	-3.00%
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			

***The Evidence***

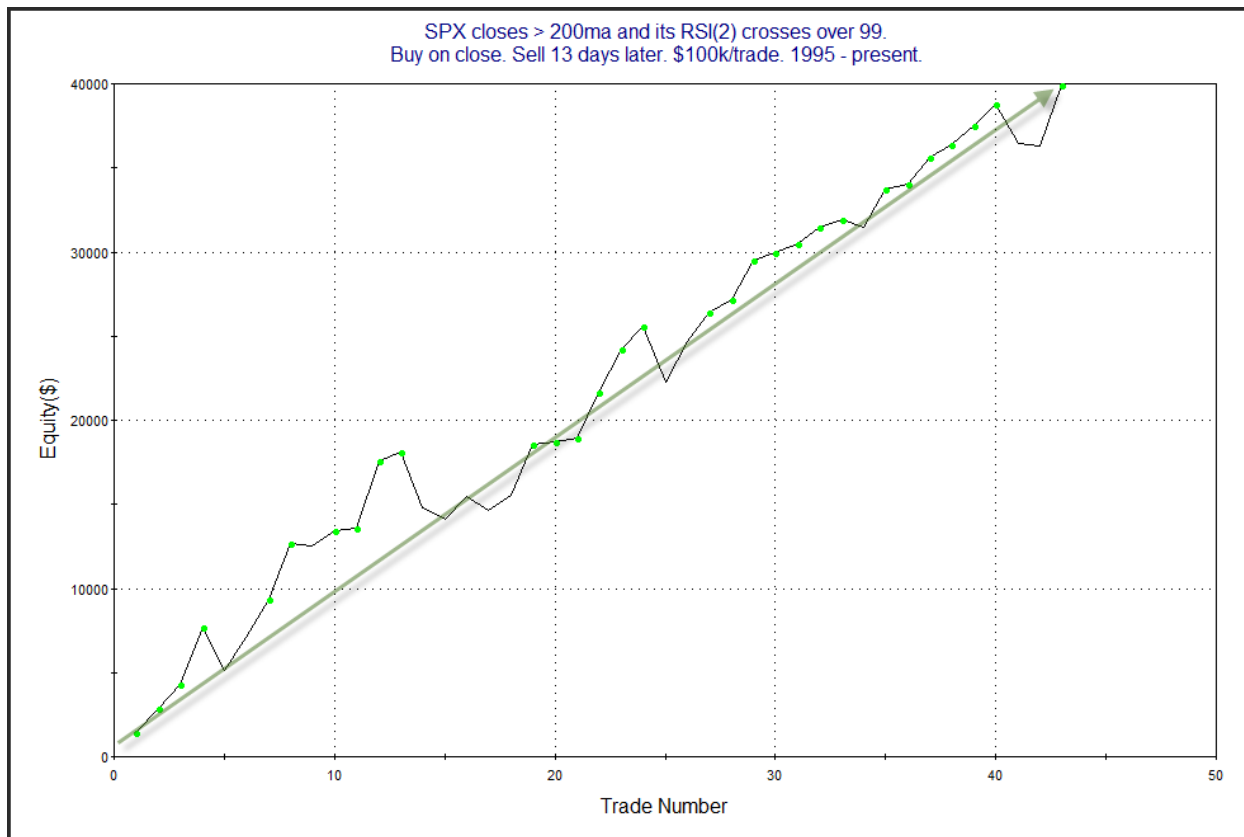
Thursday was a solid up day. The SPX finished up 0.5%, the NASDAQ rose 0.1%, and the Russell 2000 rallied 0.8%. Breadth was positive with the NYSE Up Issues % coming in at 64% and the Up Volume % at 62%. NYSE total volume declined some from Wednesday's level.

The recent rally has left the market short-term overbought by almost any measure. Short-term overbought often triggers some studies that suggest a downside edge, but when the overbought condition gets very strongly overbought, then those downside edges often disappear. And at some point, rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing the "strength begetting strength" scenario begin to unfold. It is exemplified in the study below from the 8/27/20 Letter, which uses RSI(2).

SPX closes > 200ma and its RSI(2) crosses over 99.  
Buy on close. Sell X days later. \$100k/trade. 1995 - present.

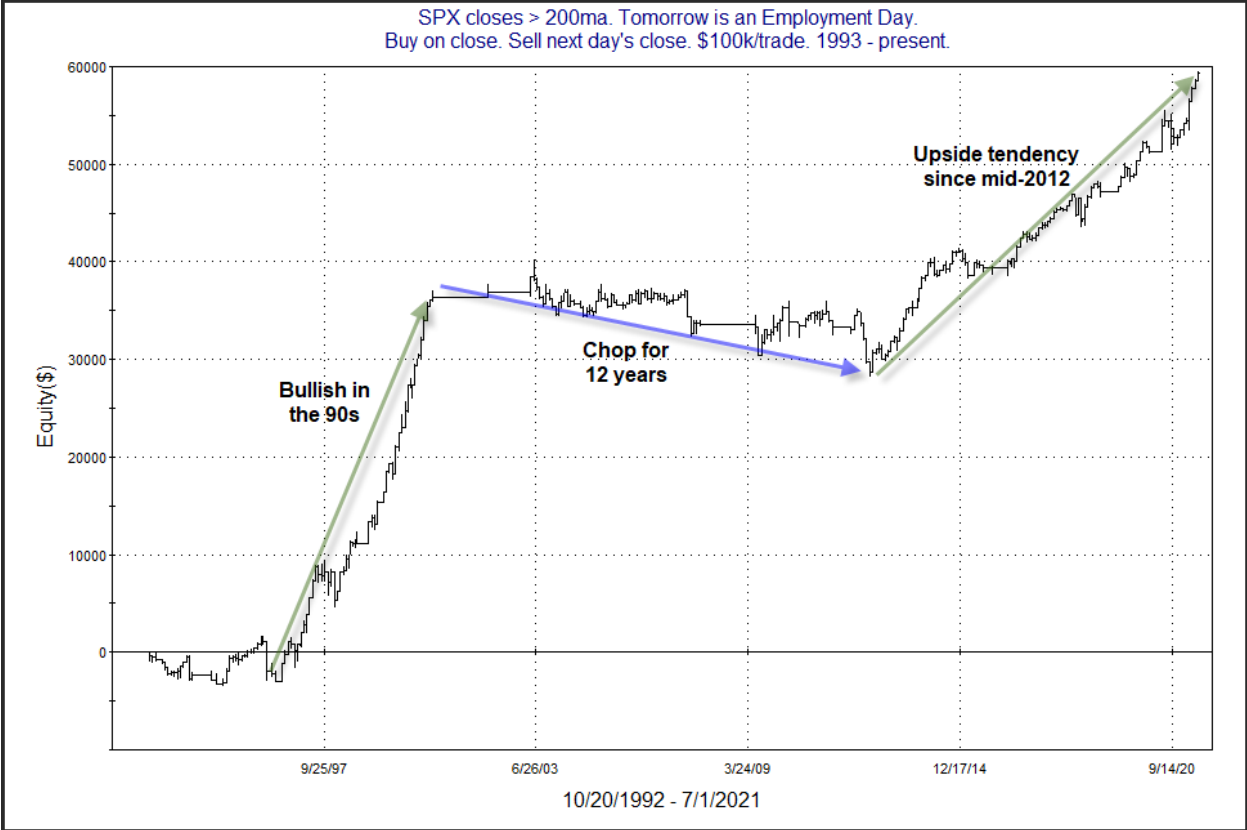
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
15	42,885.13	41	32	9	78.05	4,055.36	-3,265.02	1,805.15	-1,653.30	1.09	3.88	1,045.98
14	38,678.16	41	32	9	78.05	4,461.36	-4,024.68	1,687.72	-1,703.22	0.99	3.52	943.37
13	39,911.08	43	34	9	79.07	3,989.82	-3,320.01	1,576.58	-1,521.42	1.04	3.91	928.16
12	34,897.31	44	33	11	75.00	4,058.61	-3,175.53	1,496.59	-1,317.29	1.14	3.41	793.12
11	35,422.75	44	33	11	75.00	4,106.40	-3,857.28	1,554.77	-1,444.07	1.08	3.23	805.06
10	27,949.38	45	33	12	73.33	3,770.55	-3,907.12	1,379.43	-1,464.31	0.94	2.59	621.10
9	25,367.80	45	33	12	73.33	3,453.27	-3,440.07	1,223.75	-1,251.34	0.98	2.69	563.73
8	20,419.33	45	30	15	66.67	3,547.80	-4,112.92	1,281.85	-1,202.42	1.07	2.13	453.76
7	15,720.26	46	29	17	63.04	3,564.39	-4,153.62	1,123.84	-992.42	1.13	1.93	341.74
6	6,359.70	46	27	19	58.70	2,634.36	-5,296.92	1,032.16	-1,132.03	0.91	1.30	138.25
5	12,296.73	46	31	15	67.39	2,859.08	-3,596.40	915.21	-1,071.65	0.85	1.76	267.32
4	8,020.33	46	30	16	65.22	2,697.92	-3,039.18	862.00	-1,114.98	0.77	1.45	174.36
3	2,129.75	47	27	20	57.45	3,504.64	-2,880.45	783.62	-951.39	0.82	1.11	45.31
2	4,186.70	47	27	20	57.45	2,273.92	-2,348.76	697.93	-732.87	0.95	1.29	89.08
1	366.66	47	23	24	48.94	2,096.10	-3,515.37	499.26	-463.18	1.08	1.03	7.80

The numbers here are basically neutral for the first week or so. On a short-term basis there is no edge apparent. But once you get out 2-3 weeks, it appears the strength has re-asserted itself and the market is often higher. Below is a profit curve showing a 13-day holding period.

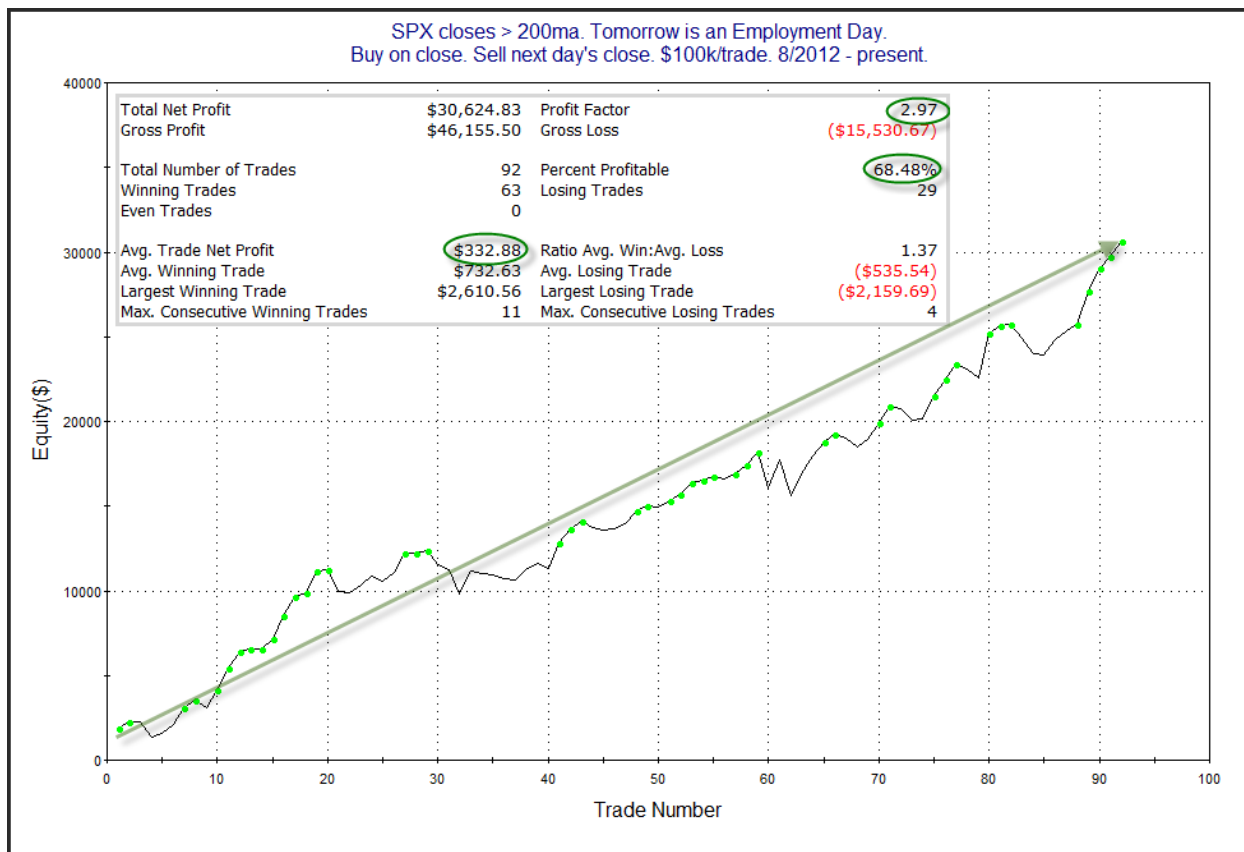


The upside edge has been apparent for a while, and it still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.

It is also notable that Friday will be the release of the BLS Employment Report. Employment days have an interesting history and they have contributed to some worthwhile studies over the years. Below is a chart of SPX performance on Employment Days. I last posted this chart in the 1/10/20 subscriber letter. For this equity curve, which is updated, I filtered to only include days where SPX was > its 200ma. Each trade was a fictional \$100k.



What I find interesting about the chart is that Employment Days in uptrends have shown such streaky performance – and the streaks lasted a long time. Here is a zoomed in look at performance since mid-2012 when the recent bullish tendency began.



Based on what we know of history, I would not expect this edge to last forever. But I've decided it may be worth factoring in for as long as the current behavior seems to persist. The broader study is also a nice reminder that market dynamics change over time. But in recent times, Employment Days have seen good results, and I'll take that into account until it stops happening.

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



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 dropped 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 turned flat at the close.

Based on the current list of active studies, expectations are slated to remain bullish on Friday. This possibly could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4292.98 on Friday. That is 0.6% below Thursday's close. So SPX will need to close down at least 0.6% in order to flip from overbought to oversold vs expectations on Friday.

So the Aggregator is neutral. And while Employment Days have been strong over the last several years, the report is a bit of a wild card. There is always the chance that the reaction is negative. Additionally, as overbought as the market is on a short-term basis, much of the upside could already have been realized. I'm content to take the long weekend without a large index position, and remain alert for the next strongly favorable reward/risk opportunity to trade.

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

The intermediate-term outlook was last updated in the 6/21/21 Letter. It can be found in the most recent weekly letter on the website.

<http://quantifiableedges.com/current-weekly-letter/>

**Catapult and Capitulative Breadth Statistics**

[Catapult & CBI Presentation Link](#)

***Open Catapult Triggers***

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

BIIB – 1/3 @ \$347.93 (bought @ Limit)

BIIB – 1/3 @ \$340.27 (buy @ Limit)

***Broad Market Large Cap CBI – 3(BIIB-3)***

**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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BIIB(1/3)	6/25/2021	\$348.67	\$348.92	0.07%		Catapult
BIIB(1/3)	6/28/2021	\$343.00	\$348.92	1.73%		Catapult
BIIB(1/3)	6/29/2021	\$338.87	\$348.92	2.97%		Catapult

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