

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 6, 2021

Volume 14 Issue 127

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	3

Tonight's Research Points

- The high SPX, low VIX and low volume seen on Friday are a combination that has often led to a dip the next day.
- Friday's big move up after SPX has already been streaking higher suggests strong momentum could carry further the next few days.
- DJI moving from a 50-day low to a 50-day high in 10 days is rare, and has generally seen upside follow through in the following days and weeks.
- The McClellan Oscillator has remained below zero despite SPX hitting new high. That is potentially bearish for both the short and intermediate-term.
- The SOMA declined this past week, but that is just a calendar quirk. The strong Fed buying should continue this week.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Me too.

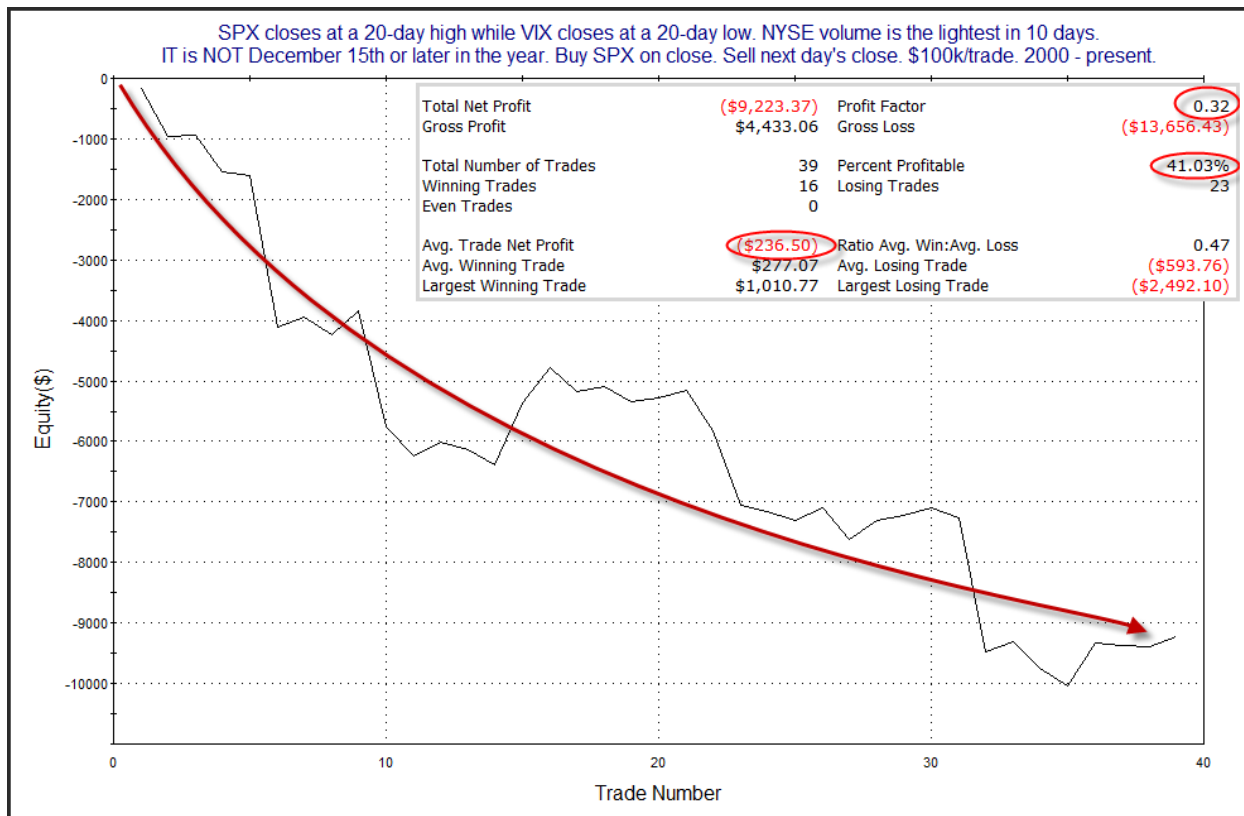
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
July 6, 2021	SPX 20-hi VIX 20-lo Volume 10-lo	1 day	Bearish			
July 6, 2021	SPX 200 hi. Mc Osc < 0 12 days in row	1-3 days	Bearish	-1.90%	0.70%	1.50%
July 6, 2021	SPX 6+ to 50 high. Today biggest gain	1-4 days	Bullish	1.60%	0.45%	0.90%
July 6, 2021	DJI 50-low to 50-hi in 10 days	1-5 days	Bullish			
July 1, 2021	Close month at high of month.	1-5 days	Bullish	1.65%	-1.20%	-2.40%
June 29, 2021	NYSE Up Vol < 40% with SPX up.	1-7 days	Bullish	1.80%	-1.10%	-2.20%
Active - Long Term						
July 6, 2021	SPX 200 hi. Mc Osc < 0 12 days in row	1-45 days	Bearish	-6.50%	2.45%	4.50%
July 2, 2021	SPX RSI2 > 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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
July 2, 2021	Employment days bullish recently	1 day	Bullish			

The Evidence

Friday saw mixed action. The SPX finished up 0.75%, the NASDAQ rose 0.8%, and the Russell 2000 declined 1.0%. Breadth was mixed with the NYSE Up Issues % coming in at 51% and the Up Volume % at 47%. NYSE total volume declined some from Thursday's level.

Some notables about Friday are that 1) SPX closed at a long-term high, 2) VIX closed at an intermediate-term low, and 3) NYSE volume was light. Low volume and a low VIX can both be potential signs of complacency and suggest a short-term pullback. This triggered the study below, which was last seen recently in the 6/14/21 letter.



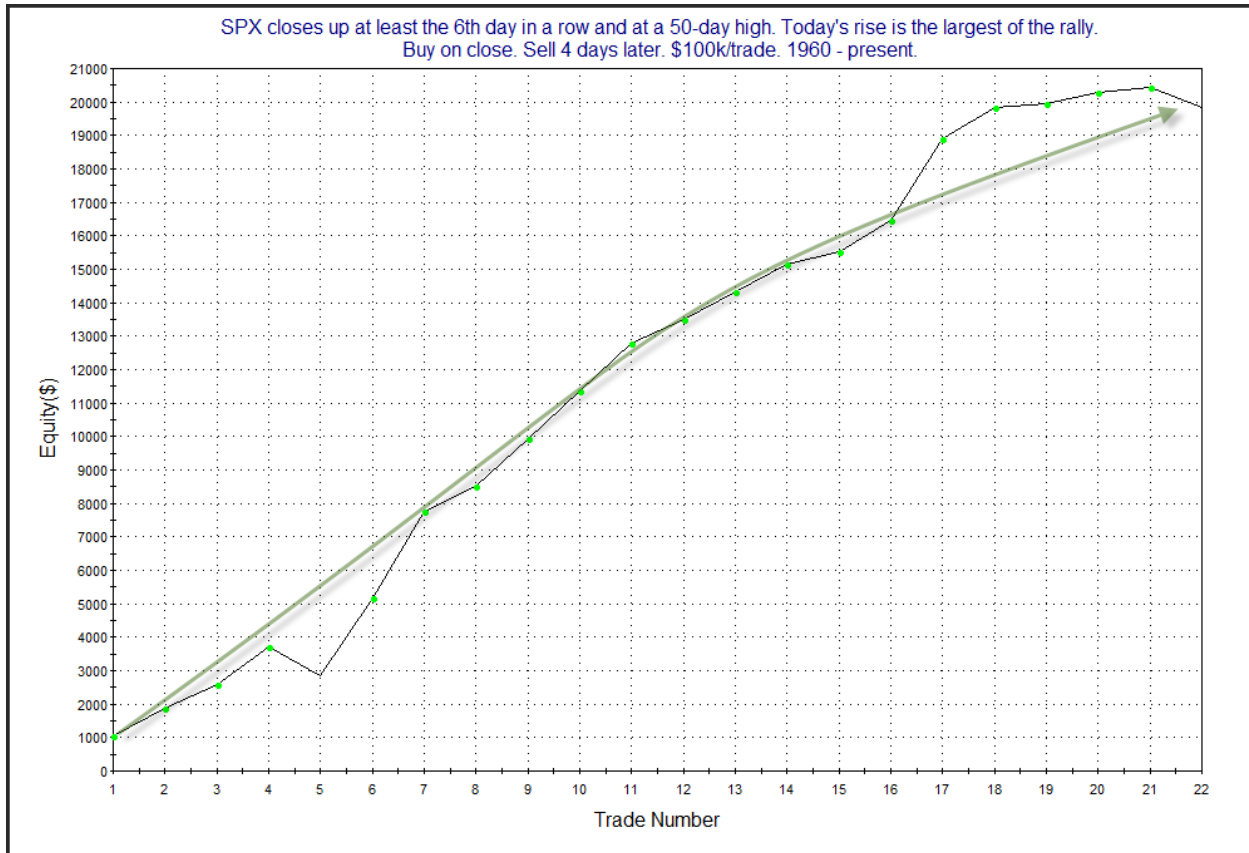
Beyond day 1 there did not appear to be a substantial edge. But the odds and curve for the 1-day hold suggest a downside edge. I have included this study on the Active List tonight.

But I saw some bullish evidence as well. Friday marked the 7th higher close for the SPX. It was also the strongest move up of any of the 7 days. Strong thrusts after the market is already extended are unusual. This is something that I examined back in the 10/23/17 letter. I have updated that study below.

SPX closes up at least the 6th day in a row and at a 50-day high. Today's rise is the largest of the rally.
 Buy on close. Sell X days later. \$100k/trade. 1960 - 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	20,390.20	22	19	3	86.36	3,303.82	-1,210.23	1,149.51	-483.50	2.38	15.06	926.83
4	19,856.24	22	20	2	90.91	2,589.96	-854.28	1,063.67	-708.53	1.50	15.01	902.56
3	18,242.34	23	19	4	82.61	2,484.17	-686.28	1,022.05	-294.14	3.47	16.51	793.15
2	14,059.80	23	19	4	82.61	2,370.68	-286.26	789.14	-233.45	3.38	16.06	611.30
1	9,336.15	26	19	7	73.08	2,206.75	-438.48	562.58	-193.27	2.91	7.90	359.08

Those are some very impressive numbers. It strongly suggests that a market as strong as the current one will often see it momentum continue a bit further. Below is a look at the equity curve.



The last instance was one of the 2 failures looking out 4 days. But the overall persistent move higher is quite impressive. I like this study and have included it on the active list today.

While the SPX and NASDAQ closed at all-time highs, the Dow fell a bit short. But it did close at a 50-day high. And just 10 days ago it closed at a 50-day low. That is quite an accomplishment. In the 11/10/16 letter I looked at other times the Dow managed to move from a 50-day closing low to a 50-day closing high within 10 days. Below is an updated results table.

\$DJI Rallies from a 50-day closing low to a 50-day closing high within 10 days.
Forward performance shown. 1920 - present.

Ticker	Date/Time	Close	Days Since 50-Low	Next Day % Chg	2-Day % Chg	3-Day % Chg	4-Day % Chg	5-Day % Chg	10-Day %Chg	15-Day % Chg	20-Day % Chg
\$DJI	9/9/1921	70.6	10	0.14	1.56	1.56	0.14	0.57	0.42	-3.97	0.14
\$DJI	10/5/1938	148.3	7	-0.13	0.07	0.88	0.74	2.83	2.16	2.97	2.7
\$DJI	3/31/1948	177.2	10	0.23	0.06	0.4	0.9	0.62	1.07	2.37	2.14
\$DJI	8/1/1961	713.9	10	-0.49	0.25	0.94	0.78	0.88	0.32	1.65	0.04
\$DJI	11/7/1962	615.8	10	-1.09	0.05	1.4	1.19	2.37	3.48	5.98	5.83
\$DJI	12/5/1963	763.9	7	-0.47	-0.63	-0.6	-0.88	-0.85	0	-0.12	0.73
\$DJI	4/3/1968	869.1	9	0.39	-0.38	1.76	2.7	4.21	3.29	4.25	5.76
\$DJI	10/16/1969	838.8	6	-0.32	0.05	0.97	2.58	2.01	1.39	1.96	1.32
\$DJI	11/13/1980	982.42	9	0.4	0.39	1.58	0.88	1.81	1.11	-2.67	-6.64
\$DJI	8/19/1982	838.57	5	3.66	6.27	4.33	5.52	6.42	8.45	8.14	9.35
\$DJI	8/1/1984	1134.61	6	2.77	5.95	6.02	6.17	5.42	5.67	8.56	8.14
\$DJI	8/23/1991	3040.25	4	-0.03	-0.46	0.49	0.31	0.11	-1.09	-0.82	-0.98
\$DJI	4/14/1992	3306.1	4	1.44	1.83	0.91	1.13	0.99	0.82	1.91	2.6
\$DJI	5/20/1996	5748.82	9	-0.22	0.51	0.23	0.24	-0.68	-1.45	-1.39	-2.1
\$DJI	11/5/2004	10387.54	9	0.04	-0.01	-0.02	0.79	1.46	0.67	0.85	1.54
\$DJI	7/20/2009	8848.15	6	0.77	0.37	2.5	2.77	2.94	4.95	5.54	3.25
\$DJI	10/14/2011	11644.49	9	-2.13	-0.58	-1.2	-0.88	1.41	5.04	2.91	4.37
\$DJI	7/8/2016	18146.74	8	0.44	1.11	1.24	1.98	2.04	2.34	1.57	2.19
\$DJI	11/9/2016	18589.69	3	1.17	1.39	1.5	1.79	1.5	2.65	3.24	5.51
\$DJI	11/9/2020	29157.97	6	0.9	0.82	-0.27	1.1	2.72	1.49	2.28	3.48
Average				0.37	0.93	1.23	1.50	1.94	2.14	2.26	2.47
% Profitable				60.0%	75.0%	80.0%	90.0%	90.0%	85.0%	75.0%	85.0%

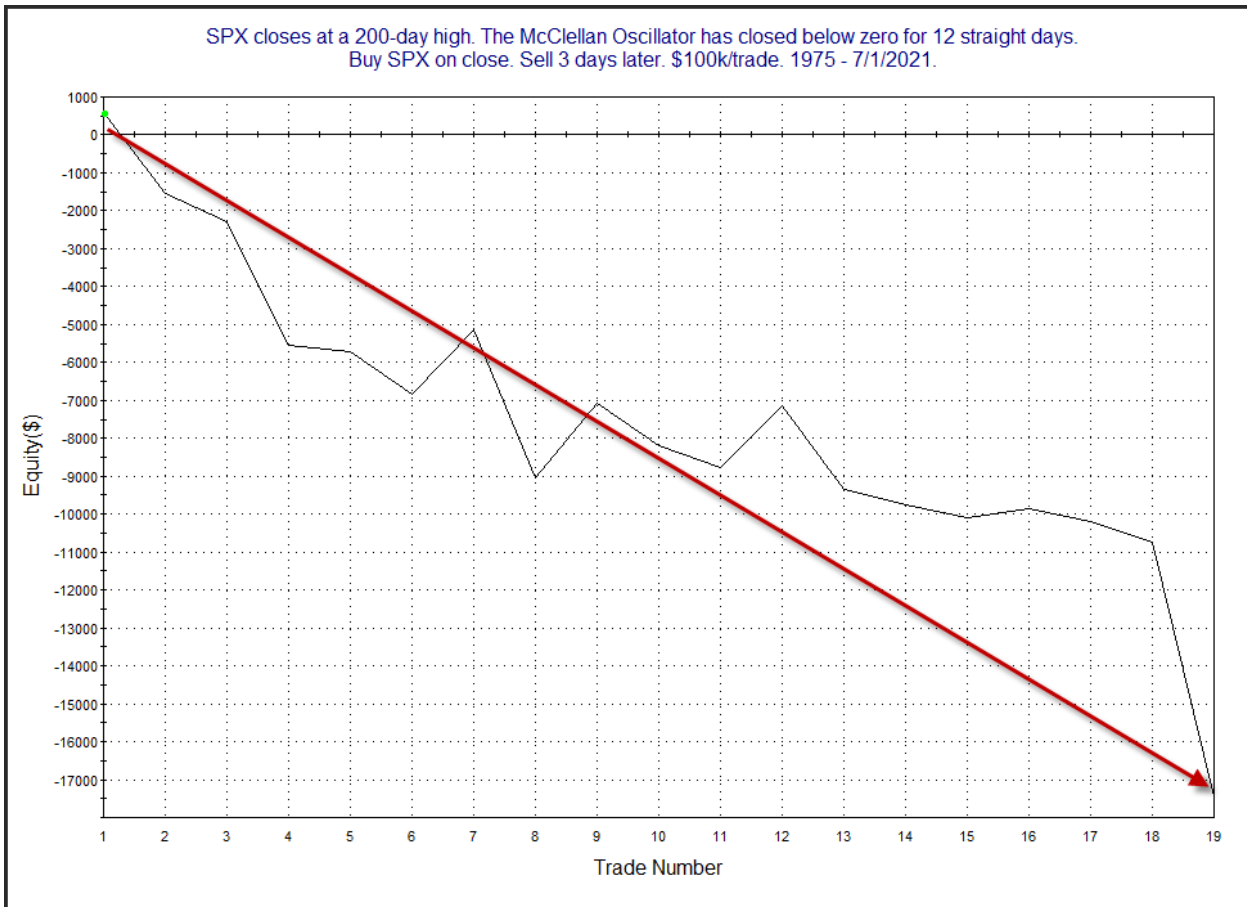
The Dow has generally seen the upward momentum continue. Those are some impressive gains over the first 1-5 days, and even out through 20 days.

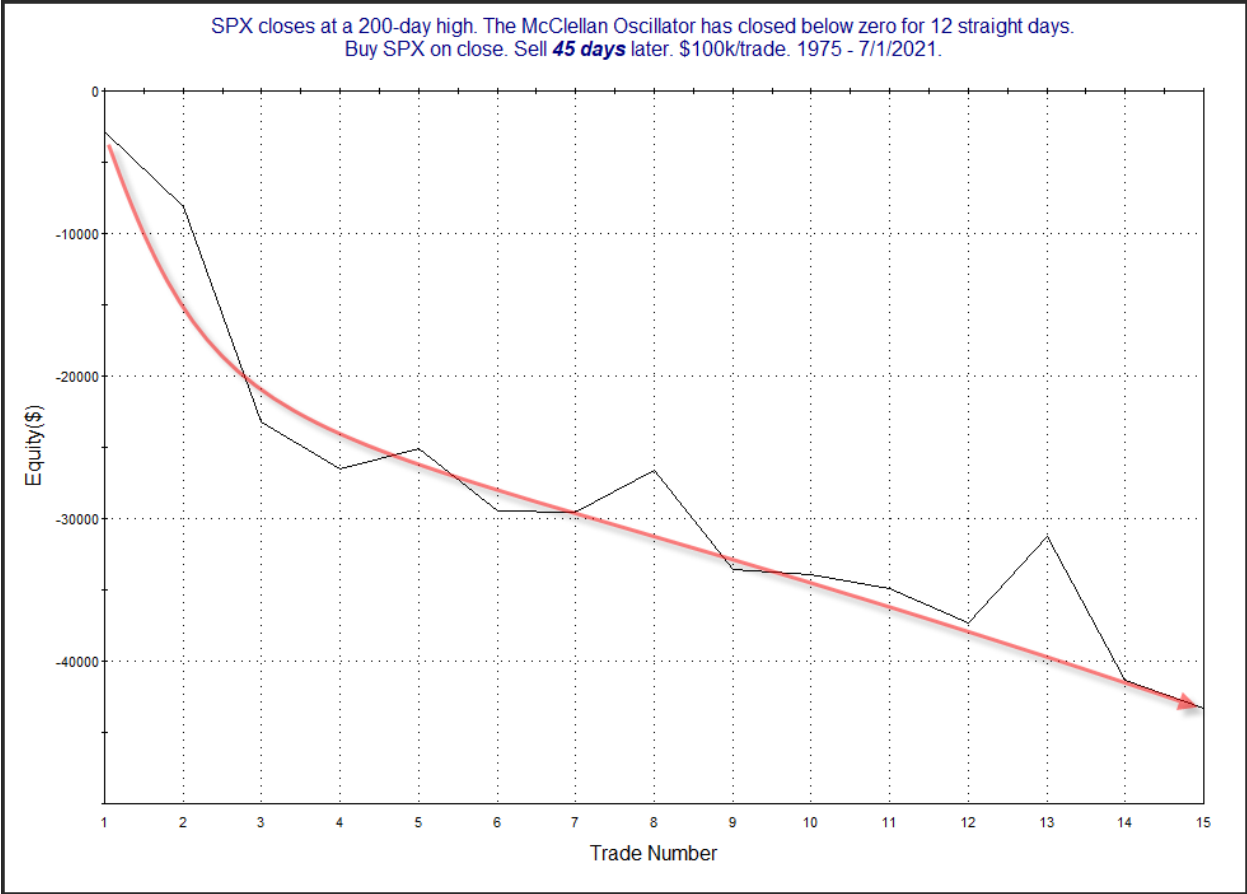
While momentum is strong for the Dow, NASDAQ and SPX, the struggle of the Russell 2000 is a little bit concerning. It has led to poor breadth numbers over the last few weeks. Thursday night we saw SPX hit a new high, while the McClellan Oscillator remained below zero for the 12th day in a row. This brought about the study below, which I failed to notice Thursday night, but have updated this weekend.

SPX closes at a 200-day high. The McClellan Oscillator has closed below zero for 12 straight days.
Buy SPX on close. Sell X days later. \$100k/trade. 1975 - 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	-23,522.97	15	3	12	20.00	7,987.22	-11,208.32	5,139.70	-3,245.17	1.58	0.40	-1,568.20
45	-43,263.13	15	3	12	20.00	6,094.82	-15,099.16	3,503.55	-4,481.15	0.78	0.20	-2,884.21
40	-33,353.74	15	5	10	33.33	4,758.36	-12,364.60	2,393.12	-4,531.94	0.53	0.26	-2,223.58
35	-34,563.55	15	5	10	33.33	4,248.77	-13,748.76	1,825.97	-4,369.34	0.42	0.21	-2,304.24
30	-31,326.13	15	5	10	33.33	3,888.16	-17,065.68	2,074.64	-4,169.93	0.50	0.25	-2,088.41
25	-30,186.94	16	7	9	43.75	5,189.99	-12,930.08	1,724.52	-4,695.40	0.37	0.29	-1,886.68
20	-26,619.00	16	6	10	37.50	3,035.34	-10,820.08	1,945.71	-3,829.33	0.51	0.30	-1,663.69
15	-30,418.46	16	5	11	31.25	2,619.48	-9,024.75	1,160.02	-3,292.59	0.35	0.16	-1,901.15
10	-12,338.15	16	5	11	31.25	5,768.50	-6,043.41	2,732.82	-2,363.84	1.16	0.53	-771.13
5	-12,641.63	18	6	12	33.33	3,233.68	-6,524.55	1,719.65	-1,913.30	0.90	0.45	-702.31
4	-13,069.83	18	6	12	33.33	2,806.02	-4,910.76	1,204.10	-1,691.20	0.71	0.36	-726.10
3	-17,451.20	19	5	14	26.32	1,943.86	-6,723.00	1,217.19	-1,681.23	0.72	0.26	-918.48
2	-11,331.71	21	6	15	28.57	2,133.10	-4,154.76	803.68	-1,076.92	0.75	0.30	-539.61
1	-5,260.02	27	8	19	29.63	2,073.34	-3,396.06	740.58	-588.67	1.26	0.53	-194.82

Numbers here appear bearish, not just over the next few days, but over the intermediate-term as well. Below you will find both the 3-day and 45-day profit curves.





The curves are shaped a bit differently, but the moves have both gone from upper left to lower right. They support the idea of a downside edge. I have added this to the short-term and intermediate-term active lists.

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



With tonight's evidence considered, the green Aggregator Line remained well above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line dropped further below 0 than it has been in a long time. The negative Differential Line reading means that SPX is strongly overbought versus recent expectations. So expectations are positive but SPX is quite 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.

Based on the current list of active studies, expectations are slated to remain bullish on Tuesday. This possibly could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4304.44 on Tuesday. That is 1.1% below Friday's close. So SPX will need to close down at least 1.1% in order to flip from overbought to oversold vs expectations on Tuesday.

So the Aggregator is neutral. Evidence is mixed, but the bullish evidence is more compelling. It appears there is a decent chance that the momentum could continue this upcoming week. Unfortunately, with the market so overbought, a low-risk, high-reward entry point is not what we have right now. If the market pulls back some in the next few days we could get that kind of entry. For now, I am not inclined to chase the market in search of a short-term gain. I'll wait for a more favorable reward/risk setup to emerge.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/6 – 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 saw some split action this week. The SPX rose 1.7%, the NASDAQ gained 1.9% and the Russell 2000 lost 1.2%. The SPX and NASDAQ both made new all-time highs this past week, so the long-term uptrend is currently in place. As I noted in the study earlier, the weak breadth could be an issue for the intermediate-term. But for now, it is hard to go against new highs.

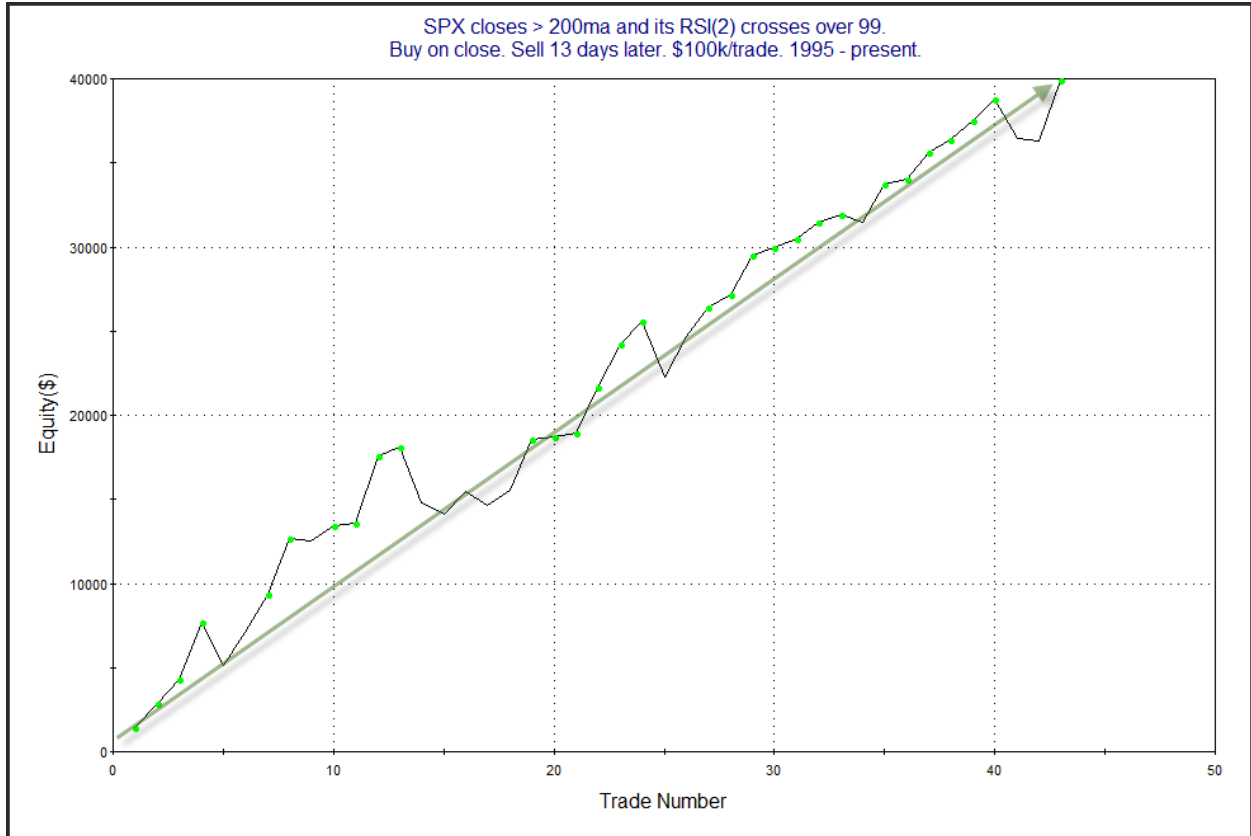
In Thursday night's letter we saw the study below, which noted the short-term upside momentum could be a positive for the next few weeks.

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.

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 **June 30, 2021** 📅
 Posted July 1, 2021 at 4:30 P.M

SUMMARY

T-BILLS

T-NOTES AND T-BONDS

FRNS

TIPS

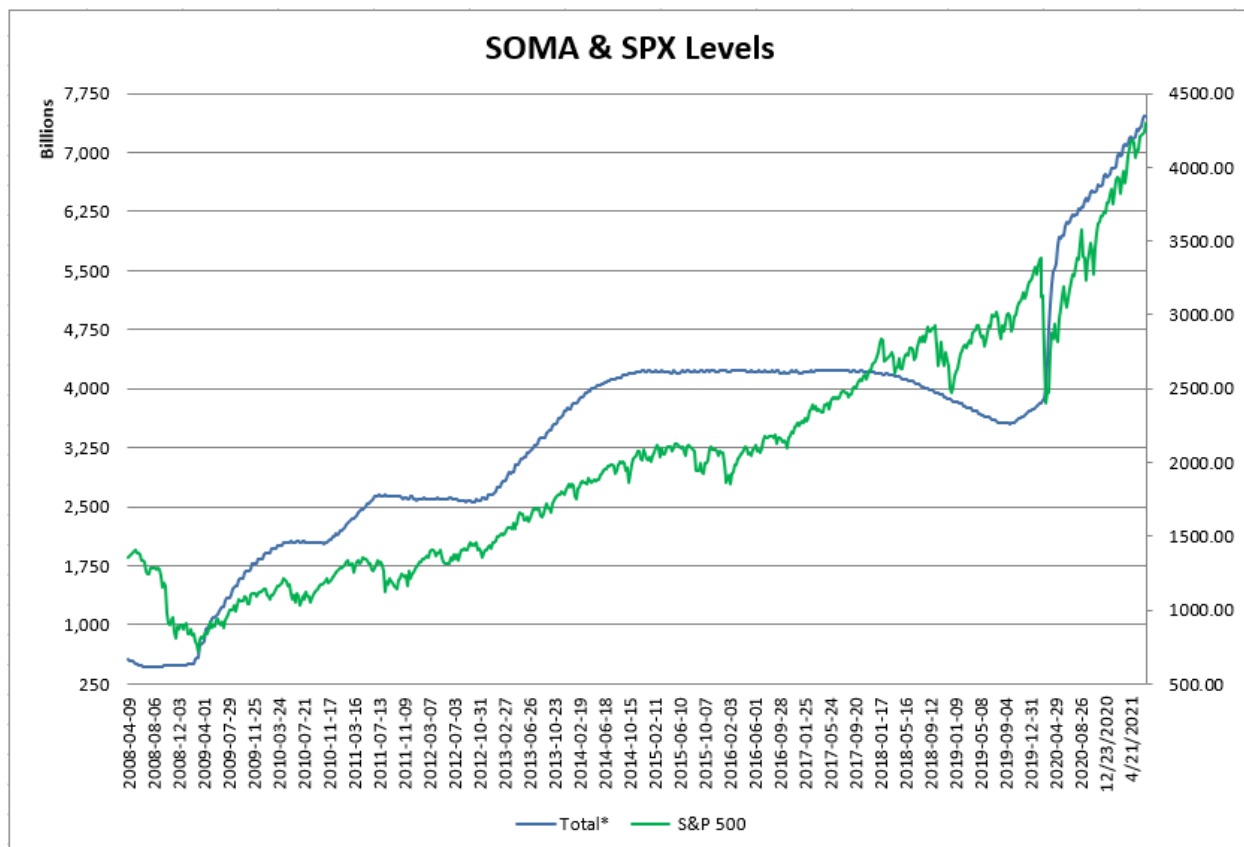
AGENCY DEBTS

MBS

CMBS

SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,425,501,892.7
US Treasury Floating Rate Notes (FRNs)	23,846,691.1
US Treasury Inflation-Protected Securities (TIPS)*	352,885,562.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,309,867,527.2
Agency Commercial Mortgage-Backed Securities***	9,769,885.7
Total SOMA Holdings	7,450,262,558.7
Change From Prior Week	-15,514,459.7

This past week saw the SOMA decline by about \$15 billion. That sounds alarming when the Fed has been implementing Quantitative Easing, but it is really just a calendar quirk. The last week of every month for the last year-plus has seen the SOMA decline. We should start seeing increases in the SOMA again this upcoming week. 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. 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. These are aggressive estimates, as it may be even later than suggested. 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.

Evidence is mixed but still seems to be leaning bullish. The trend is up, the market is at new highs, and momentum is favorable. The RSI(2) > 99 study is an example of this. 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, and they can also look at today's McClellan Oscillator study, which suggests a pullback is likely. Overall, I still give the bulls the edge for the time being. This means that I will remain 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)

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	\$348.72	0.01%		Catapult
BIIB(1/3)	6/28/2021	\$343.00	\$348.72	1.67%		Catapult
BIIB(1/3)	6/29/2021	\$338.87	\$348.72	2.91%		Catapult

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