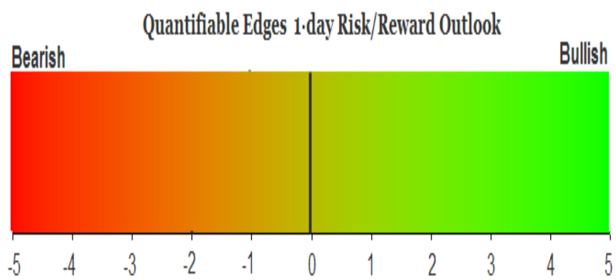
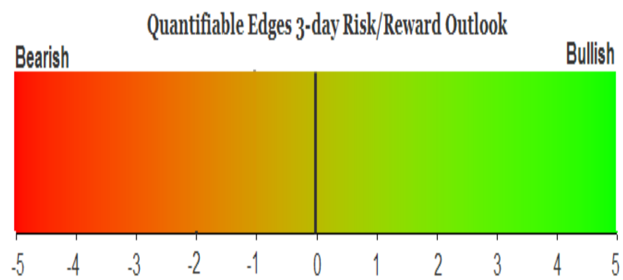
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 8, 2021 Volume 14 Issue 129

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The Russell / SPX divergence of late might seem concerning, but most often such action has been followed by strong returns for SPX – both short and intermediate-term.
- VXX closing at a 5-day high while SPX closes at a 50-day high could be a harbinger of something scary in the next few days.

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 8, 2021	Russell 2000 dn 3 days. SPX 3-day high	1-4 days	Bullish			
July 8, 2021	SPX 50-high. VXX 5-high.	1-4 days	Bearish			
July 7, 2021	5+ to 50-high then down 1	1-4 days	Bullish	1.10%	-0.80%	-1.65%
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 8, 2021	Russell tm 25% 20-day rng. SPX top 25%	1- 40 days	Bullish			
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			

The Evidence

Wednesday was another day of mixed action. The SPX finished up 0.3%, the NASDAQ rose 0.01%, and the Russell 2000 declined 0.95%. Breadth was weak with the NYSE Up Issues % coming in at 48% and the Up Volume % at 35%. NYSE total volume declined some from Tuesday's level.

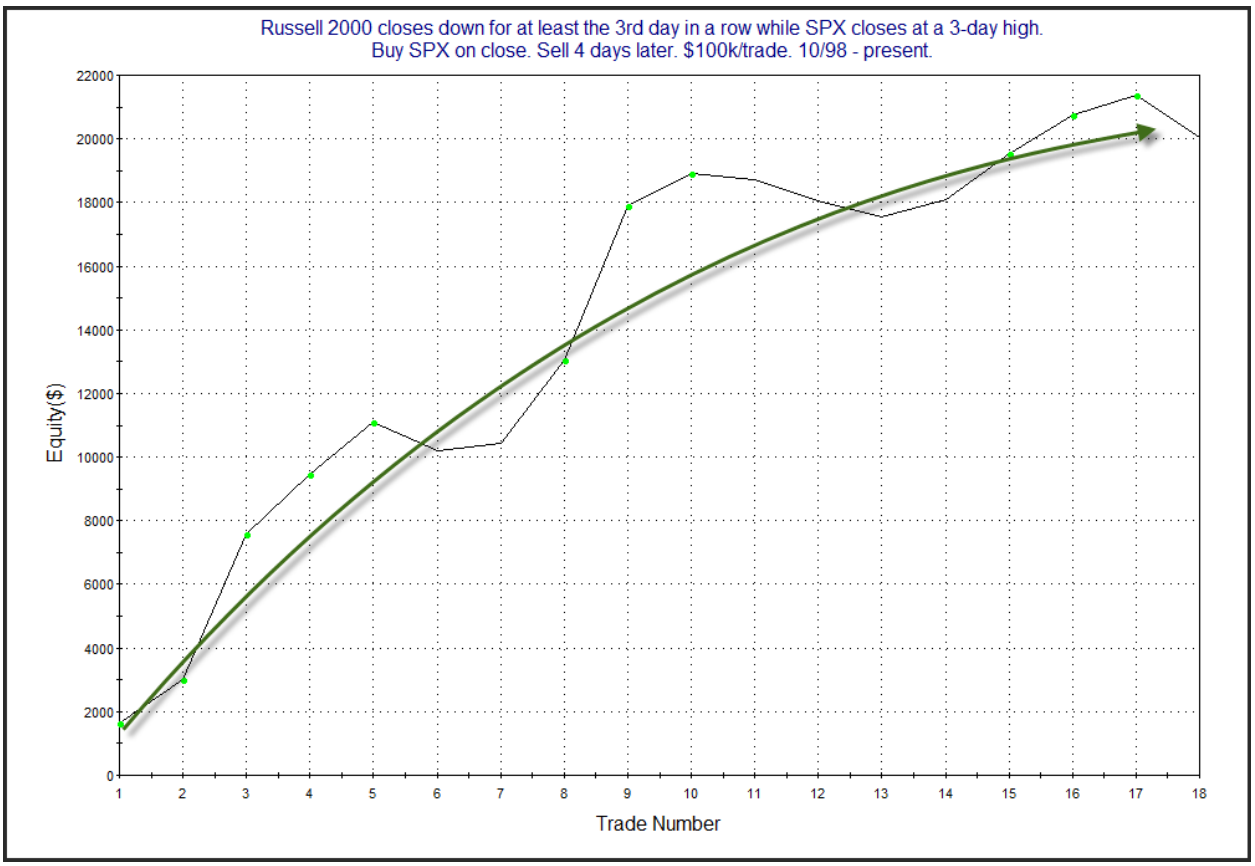
The rotten breadth has been a persistent theme lately. Not only are we seeing it in the advance/decline numbers, but the selloff in the Russell 2000 also shows that there are a lot of stocks struggling right now. If that does not get righted, then there is concern that the selling could spill over into the SPX and other largecap indices. But a couple of studies tonight suggest that more often the oversold Russell 2000 tends to bounce and the SPX will continue higher along with it.

This first study looks at 3-day Russell declines that coincide with a 3-day SPX high. It was last seen in the 9/20/19 letter, and has been updated.

Russell 2000 closes down for at least the 3rd day in a row while SPX closes at a 3-day high.
Buy SPX on close. Sell X days later. $100k/trade. 10/98 - 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	42,651.42	18	15	3	83.33	10,577.93	-3,173.28	3,277.64	-2,171.07	1.51	7.55	2,369.52
9	34,982.61	18	13	5	72.22	8,209.02	-3,932.94	3,237.85	-1,421.89	2.28	5.92	1,943.48
8	33,156.70	18	13	5	72.22	9,347.15	-2,195.82	2,923.71	-970.31	3.01	7.83	1,842.04
7	35,105.63	18	12	6	66.67	9,614.11	-2,783.20	3,351.66	-852.37	3.93	7.86	1,950.31
6	31,020.73	18	13	5	72.22	9,598.49	-3,491.60	2,990.23	-1,570.45	1.90	4.95	1,723.37
5	26,025.10	18	13	5	72.22	7,700.66	-2,075.04	2,569.05	-1,474.51	1.74	4.53	1,445.84
4	26,431.51	18	13	5	72.22	7,217.86	-1,680.10	2,393.83	-937.65	2.55	6.64	1,468.42
3	20,035.24	18	13	5	72.22	4,839.33	-1,326.27	1,816.89	-716.86	2.53	6.59	1,113.07
2	18,819.11	18	13	5	72.22	5,134.01	-551.73	1,576.66	-335.48	4.70	12.22	1,045.51
1	12,648.59	19	13	6	68.42	4,708.01	-764.46	1,153.10	-390.28	2.95	6.40	665.72

Numbers here suggest an upside edge over the next couple of weeks. And much of the edge has played out in just the 1st four days. Below is a look at a 4-day profit curve.



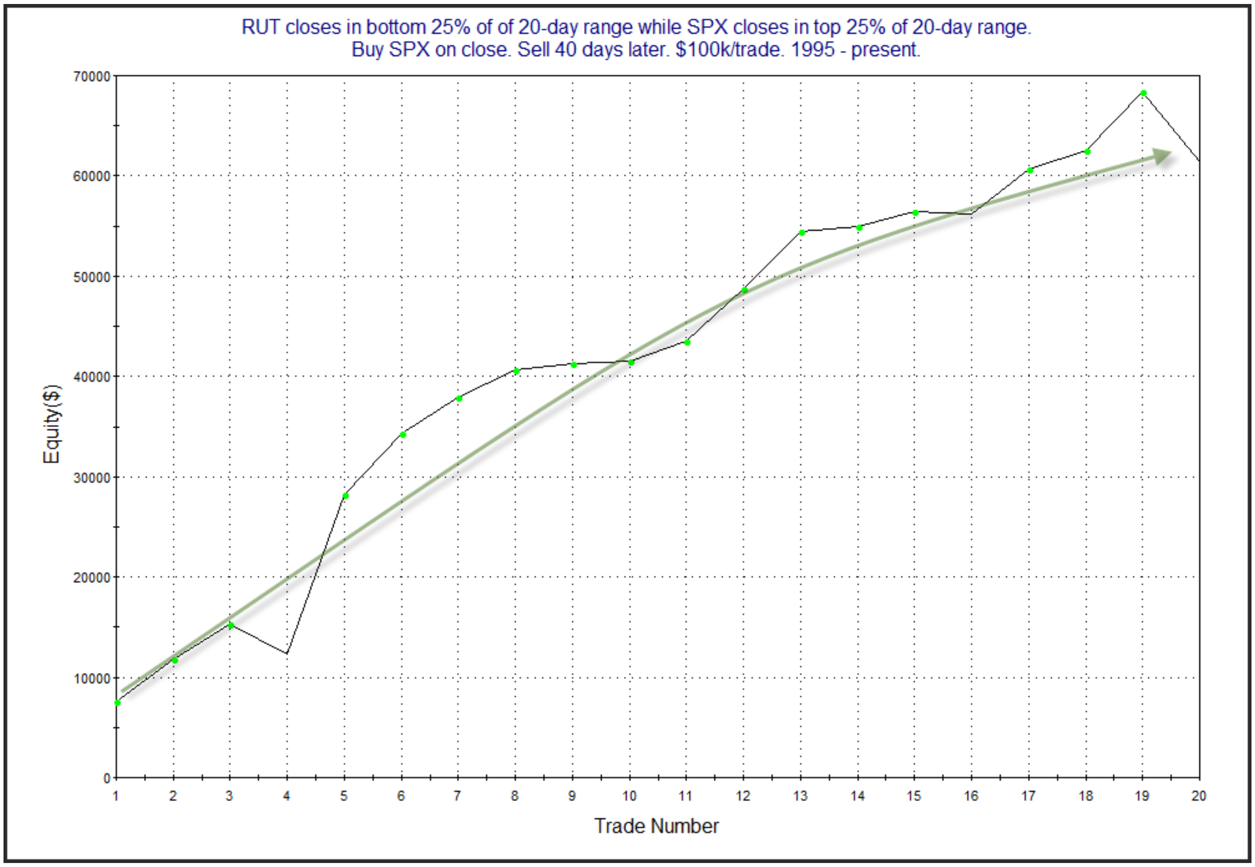
The curve is a little choppy, but the move from lower left to upper right seems strong enough to merit some consideration. So I have added this study to the active list tonight.

Of course the split between the SPX and RUT has gone on longer than just three days. In fact, while the SPX closed at a new high, RUT closed down near the bottom of its 20-day range. This triggered the study below, which looked at times SPX closed high in its 20-day range while RUT closed low in its range. It is updated from the 9/20/18 letter.

RUT closes in bottom 25% of of 20-day range while SPX closes in top 25% of 20-day range.
Buy SPX 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
50	56,697.02	18	12	6	66.67	17,360.82	-5,785.10	5,878.17	-2,306.83	2.55	5.10	3,149.83
45	54,486.44	19	14	5	73.68	15,231.03	-8,772.68	5,335.64	-4,042.52	1.32	3.70	2,867.71
40	61,361.70	20	17	3	85.00	15,916.02	-7,016.58	4,208.54	-3,394.47	1.24	7.03	3,068.09
35	53,646.39	20	15	5	75.00	15,668.34	-3,769.92	4,302.10	-2,177.02	1.98	5.93	2,682.32
30	53,387.38	20	17	3	85.00	11,907.99	-6,671.14	3,574.75	-2,461.13	1.45	8.23	2,669.37
25	36,517.23	20	15	5	75.00	9,355.08	-8,562.90	3,236.00	-2,404.55	1.35	4.04	1,825.86
20	30,003.84	20	14	6	70.00	9,900.75	-6,058.36	3,309.22	-2,720.87	1.22	2.84	1,500.19
15	28,074.13	20	15	5	75.00	7,779.99	-5,109.23	2,850.16	-2,935.65	0.97	2.91	1,403.71
10	18,217.77	25	17	8	68.00	8,346.30	-6,893.04	2,160.87	-2,314.63	0.93	1.98	728.71
5	11,654.85	26	10	16	38.46	7,383.96	-2,806.44	2,666.78	-938.31	2.84	1.78	448.26

It appears the lagging RUT in similar circumstances has not been a drag going forward, and that SPX has continued to flourish. Below is a look at a profit curve with a 40-day holding period.



The last instance did not pan out, but that is a solid looking curve overall. I also checked to see how the Russell 2000 did going forward.

RUT closes in bottom 25% of of 20-day range while SPX closes in top 25% of 20-day range.
Buy **RUT** 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
50	22,617.86	18	12	6	66.67	18,203.13	-13,291.46	5,850.86	-7,932.08	0.74	1.48	1,256.55
45	24,320.36	19	13	6	68.42	17,231.94	-16,401.84	5,303.94	-7,438.47	0.71	1.54	1,280.02
40	44,951.18	20	13	7	65.00	16,988.40	-11,624.36	5,606.19	-3,989.89	1.41	2.61	2,247.56
35	38,131.99	20	14	6	70.00	16,765.65	-10,617.88	4,843.27	-4,945.63	0.98	2.29	1,906.60
30	41,279.13	20	13	7	65.00	15,209.37	-11,108.16	5,303.38	-3,952.12	1.34	2.49	2,063.96
25	17,706.11	20	12	8	60.00	14,012.46	-13,585.34	4,458.08	-4,473.86	1.00	1.49	885.31
20	10,445.54	20	13	7	65.00	12,067.11	-16,370.90	3,984.59	-5,907.73	0.67	1.25	522.28
15	14,581.53	20	12	8	60.00	11,066.88	-8,143.20	4,178.92	-4,445.68	0.94	1.41	729.08
10	-5,347.78	25	11	14	44.00	8,215.02	-10,958.54	3,513.31	-3,142.44	1.12	0.88	-213.91
5	-230.90	26	12	14	46.15	7,817.04	-4,524.56	2,347.89	-2,028.97	1.16	0.99	-8.88

Results still lean bullish over the intermediate-term, but nowhere near to the degree that we see with the SPX. This suggests the leading SPX has a good chance to rally, and in doing so, continue to outperform the RUT.

So while breadth has been weak, and there is a largecap/smallcap divergence happening, most of the time the weak breadth has only been temporary…or to steal a word I've almost never used before from the Fed…transitory. But I did notice some other action that has me a bit concerned.

That action was in VXX, the ETN that utilizes VIX futures. In general, VXX will most often move in the same direction as the VIX, and also in the opposite direction of SPX. But on Wednesday, while SPX was closing at a new high, and VIX was closing down on the day, VXX closed at the highest level in a week. Now VIX futures closed up slightly, so that would cause some upward action in VXX. But it is unusual for either the futures or VXX to be closing up on a day like Wednesday. I looked back at other times that SPX closed at a 50-day high while VXX closed at a 5-day high. There have only been 14 instances in the last 12 years. Below are all the dates along with SPX performance in the following days.

SPX closes at a 50-day high while VXX (original or current) closes at a 5-day high. (Duplicate instances within 10 days removed.) Forward returns for SPX shown. 2009 - present.

Date/Time	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	10-Day %Chg
8/26/2009	0.28	0.08	-0.73	-2.93	-3.25	1.56
3/11/2010	-0.02	0.02	0.8	1.39	1.36	1.35
2/17/2011	0.19	-1.86	-2.46	-2.56	-1.53	-1.44
2/9/2012	-0.69	-0.01	-0.11	-0.64	0.45	1.02
2/28/2014	-0.74	0.78	0.77	0.95	1	-0.99
8/27/2014	-0.17	0.16	0.11	0.03	-0.12	-0.13
11/14/2014	0.07	0.59	0.44	0.63	1.16	0.67
12/13/2016	-0.81	-0.43	-0.6	-0.4	-0.04	-0.96
2/21/2017	-0.11	-0.07	0.08	0.18	-0.07	0.13
11/30/2017	-0.2	-0.31	-0.68	-0.69	-0.4	0.17
1/25/2018	1.18	0.5	-0.59	-0.54	-0.61	-9.1
12/27/2019	-0.58	-0.29	0.55	-0.16	0.19	1.48
8/26/2020	0.17	0.84	0.62	1.38	2.94	-4.01
1/25/2021	-0.15	-2.71	-1.76	-3.66	-2.11	1.56
Avg	**-0.11**	**-0.19**	**-0.25**	**-0.50**	**-0.07**	**-0.62**
% Rise	**35.7%**	**50.0%**	**50.0%**	**42.9%**	**42.9%**	**57.1%**

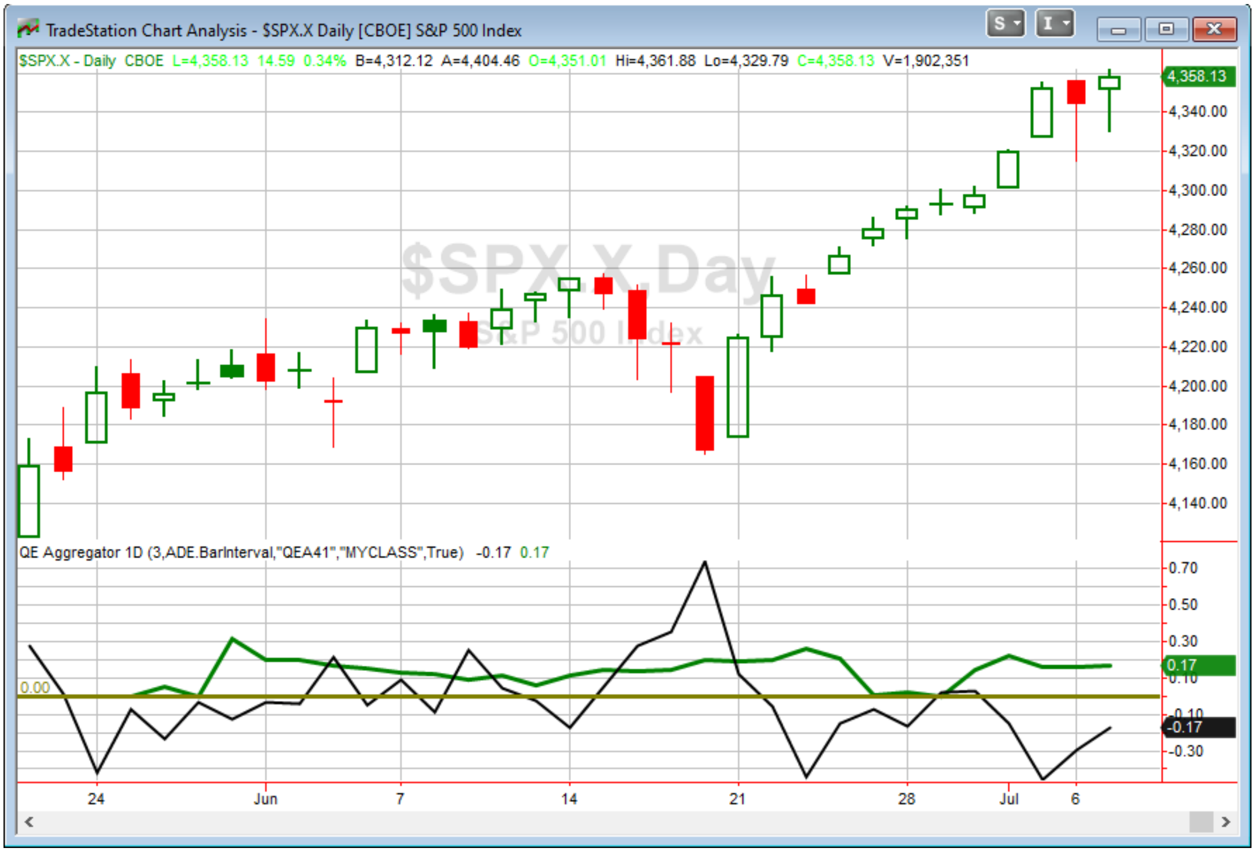
SPX results have been mixed and somewhat weak over the next week or so. I also looked at VXX returns after these same instances.

SPX closes at a 50-day high while VXX (original or current) closes at a 5-day high. (Duplicate instances within 10 days removed.)
Forward returns for VXX shown. 2009 - present. Yellow highlight shows notable spikes. Green highlighted instances are those with little or no spike higher.

Ticker	Date/Time	Next Day % Chg	2-Day % Chg	3-Day % Chg	4-Day % Chg	5-Day % Chg	6-Day %Chg	7-Day % Chg	8-Day % Chg	9-Day % Chg	10-Day % Chg
VXX-old	8/26/2009	-2.44	-0.75	0.37	5.78	6.34	1.29	-1.59	-4.89	-7.96	-11.6
VXX-old	3/11/2010	-0.96	-0.75	-3.78	-7.02	-8.31	-7.23	-8.93	-10.67	-8.39	-7.35
VXX-old	2/17/2011	0.83	13.06	18.13	16.99	9.45	4.83	12.71	12.99	7.26	9.97
VXX-old	2/9/2012	8.57	0.35	3.31	9.15	4.95	3.62	3.47	0.55	-6	-2.42
VXX-old	2/28/2014	5.49	-1.44	-1.53	-2.05	0.07	-0.34	1.05	1	5.08	8.05
VXX-old	8/27/2014	1.58	1.01	1.62	0.43	0.65	-1.37	-1.15	1.44	0.86	0.61
VXX-old	11/14/2014	-0.21	-1.95	0.42	-0.63	-2.58	-4.71	-5.37	-6.84	-4.4	-0.32
VXX-old	12/13/2016	-0.38	-1.67	-3.03	-6.4	-8.18	-9.77	-8.1	-8.56	-9.81	-6.78
VXX-old	2/21/2017	0.45	2.93	1.86	1.24	3.72	1.63	1.69	-1.24	-3.1	-3.1
VXX-old	11/30/2017	2.69	1.94	1.5	1.38	-1.91	-5.13	-8.38	-8.1	-8.35	-8.91
VXX	1/25/2018	0	6.94	10.45	10.81	5.23	18.76	58.57	55.88	61.03	99.49
VXX	12/27/2019	3.48	-0.72	-4.73	0.39	-0.98	-1.44	-2.82	-6.89	-7.29	-9.65
VXX	8/26/2020	3.17	2.61	7.7	9.39	12.07	27.2	16	13.44	7.62	8.82
VXX	1/25/2021	0.82	18.7	16	23.56	16.53	6.62	1.11	-3.28	-3.46	-4.28
	Avg	**1.65**	**2.88**	**3.45**	**4.50**	**2.65**	**2.43**	**4.16**	**2.49**	**1.65**	**5.18**
	% Rise	**64.3%**	**57.1%**	**71.4%**	**71.4%**	**64.3%**	**50.0%**	**50.0%**	**42.9%**	**35.7%**	**35.7%**

Ten of the fourteen instances saw a pretty sizable spike in VXX in the following days. And a few of the instances saw very strong moves. I don't know why VXX has risen over the last few days while SPX has been rallying. Sometimes, like the instances highlighted in green, it has meant nothing. Other times, such action has preceded an event that caused a substantial spike in fear. 2011, 2018, 2019, and Jan 2021 are good examples of that. And while 8/27/2014 shows relative calm over the next 10 days, September and October that year did get wild. Perhaps there is smart money buying VIX futures or VXX right now. Or perhaps this will turn to nothing, like 2010 and 2016. But there is enough evidence in the data above to make me extra cautious over the next week or so. Something might be brewing that the market does not know about yet.

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 held 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.

Based on the current list of active studies, expectations are slated to remain bullish on Thursday. This possibly could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at* 4375.46 on Thursday. That is 0.4% *above* Wednesday'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 up about 0.4% on Thursday in order to remain "overbought". Anything shy of that and it will be considered "oversold" vs recent expectations as of Thursday's close.

So the Aggregator is again neutral. We could see it change to bullish on Thursday if SPX does not rally again. I'm not likely to get excited about that at this point. The VXX study has me a little spooked, and I would prefer to wait for a pullback before seeking out a long index position.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/6 – somewhat bullish

The intermediate-term outlook was last updated in the 7/6 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

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 tonight.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
BIIB(1/3)	6/25/2021	$348.67	$355.33	1.91%		*sell on open*
BIIB(1/3)	6/28/2021	$343.00	$355.33	3.59%		*sell on open*
BIIB(1/3)	6/29/2021	$338.87	$355.33	4.86%		*sell on open*