

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 12, 2021

Volume 14 Issue 131

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- SPX 1% gain on the lowest volume in over a month suggests a short-term downside edge.
- Breadth was good on Friday, but still has a ways to go before turning longer-term breadth measures positive.
- The SOMA rose by a fairly typical amount for the current round of QE.

## *Short-term Outlook*

### *The Bottom Line*

Evidence is mixed and the Aggregator is neutral. I don't see a substantial short-term 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
<b>Active - Short Term</b>						
July 12, 2021	SPX up 1%. Lowest volume 20 days	1-2 days	Bearish			
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	DJI 50-low to 50-hi in 10 days	1-5 days	Bullish			
<b>Active - Long Term</b>						
July 8, 2021	Russell btm 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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
July 9, 2021	Gap down from 50-high	1 day	Bearish			

**The Evidence**

Friday gapped higher and never looked back. The SPX finished up 1.1%, the NASDAQ gained 1.0%, and the Russell 2000 rallied 2.2%. Breadth was strong with the NYSE Up Issues % coming in at 78% and the Up Volume % at 87%. NYSE total volume was extremely light.

A few quick notes about breadth before getting into some studies:

- Friday's 87% Up Volume number is among the top 2% of readings over the last year.
- Despite the S&P 500 making a new all-time high, only 45% of the stocks in the broad S&P 1500 even closed above their 50-day moving average.
- Only 125 Russell 3000 stocks made new 52-week highs. Since 1990, only about 10% of all SPX 200-day high closes saw this few stocks make 52-week highs.

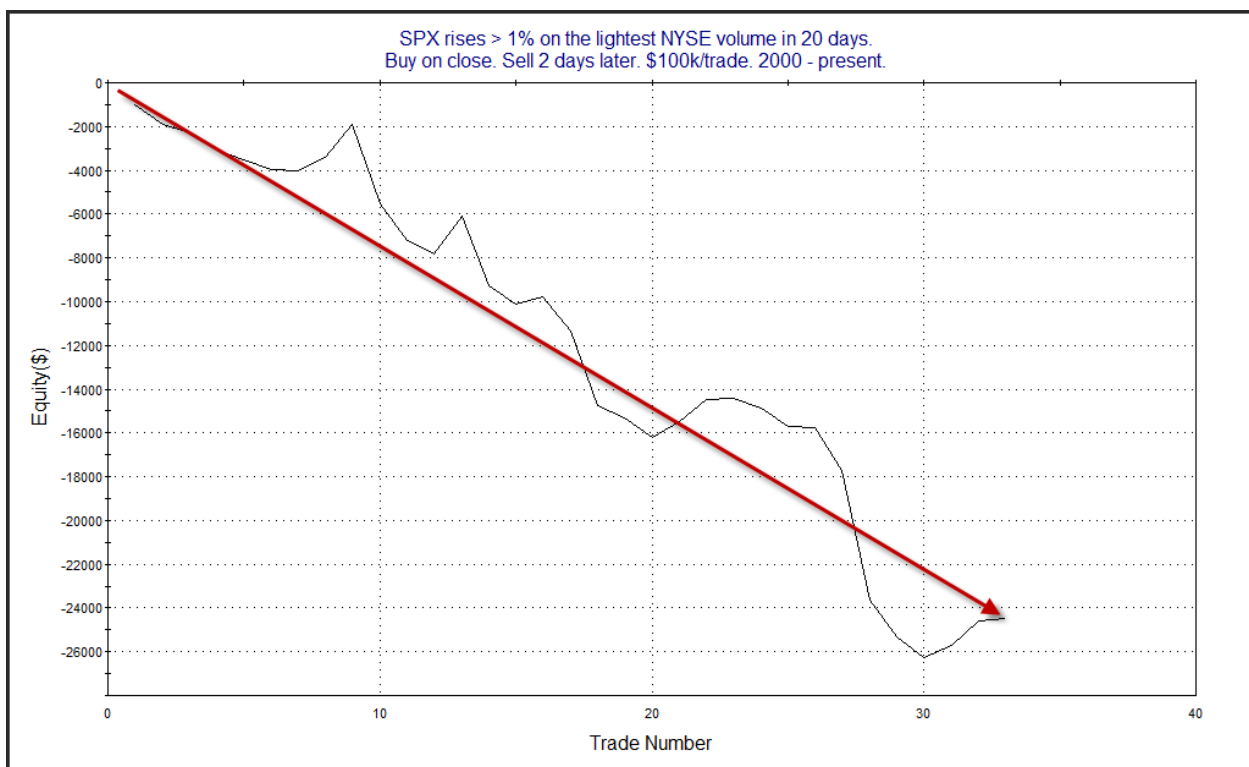
So despite the broad rally on Friday, it appears breadth still has a ways to go to look healthy. I explored some study ideas regarding the points above and similar observations. I did not find anything to be a reliable "trigger", but the conditions are worth noting, even though they may not be immediately actionable.

But the bears could point to Friday's light volume as a potential problem. The study below was last seen in the 4/26/21 letter. Results are updated.

SPX rises > 1% on the lightest NYSE volume in 20 days.  
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-26,804.98	32	16	16	50.00	2,927.68	-10,421.45	1,399.74	-3,075.05	0.46	0.46	-837.66
4	-23,858.84	33	15	18	45.45	2,978.79	-6,227.66	1,200.78	-2,326.14	0.52	0.43	-723.00
3	-24,719.15	33	15	17	45.45	2,201.31	-8,419.83	966.55	-2,306.91	0.42	0.37	-749.07
2	-24,465.29	33	10	23	30.30	1,688.95	-5,933.70	778.79	-1,402.31	0.56	0.24	-741.37
1	-15,819.37	33	12	21	36.36	2,112.96	-2,390.72	641.77	-1,120.03	0.57	0.33	-479.37

Numbers here appear to suggest a downside edge. Below is an equity curve.



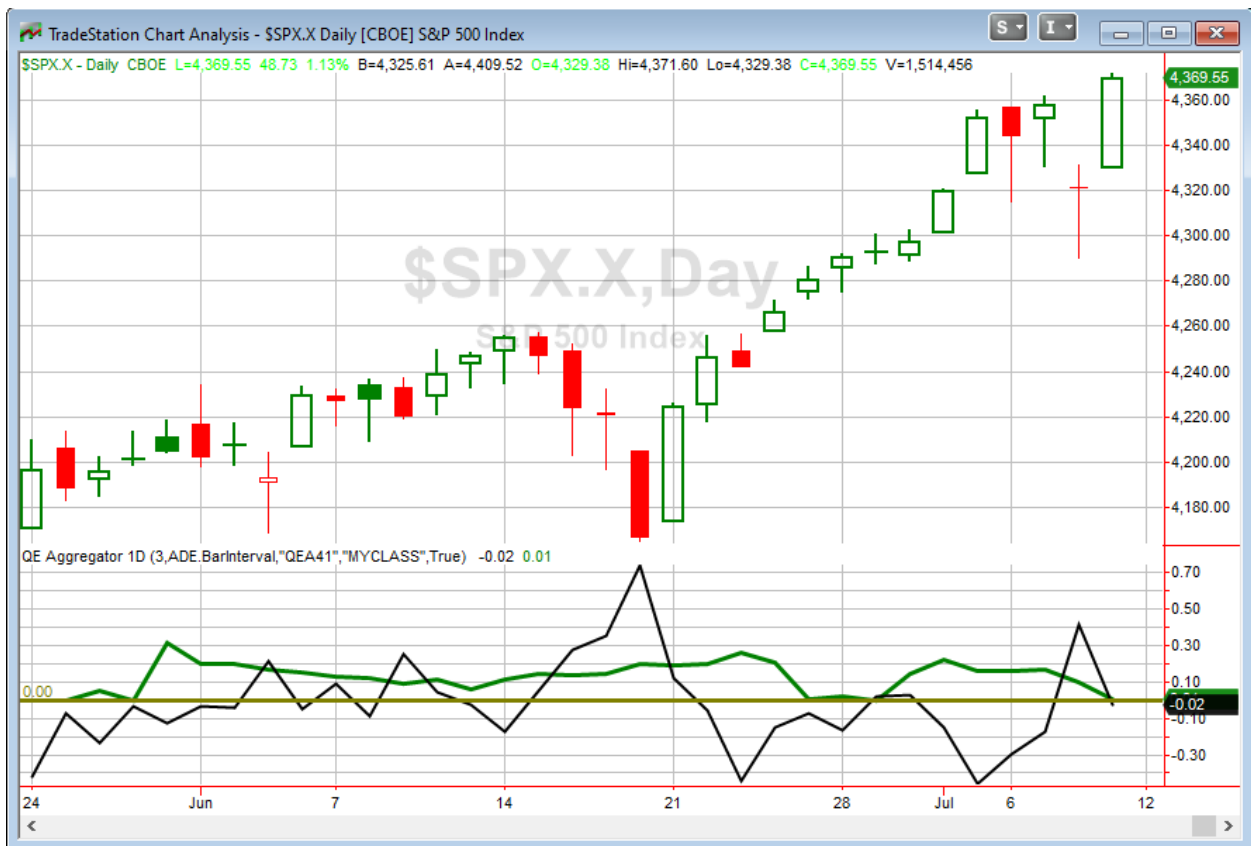
The curve appears to serve as confirmation of the bearish edge suggested by the numbers. You may note there is no long-term trend filter with this study. I normally use one. In this case, many odds were similar above and below the 200ma, but the swings have been smaller during uptrends. Below is a results table with the 200ma filter added.

SPX rises > 1% on the lightest NYSE volume in 20 days. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 2000 - 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	-458.96	15	11	4	73.33	2,927.68	-10,421.45	1,314.33	-3,729.15	0.35	0.97	-30.60
4	-1,162.76	15	9	6	60.00	2,005.15	-4,929.60	915.45	-2,233.63	0.41	0.61	-344.18
3	-5,909.69	15	8	7	53.33	2,158.15	-3,195.40	809.82	-1,769.75	0.46	0.52	-393.98
2	-7,815.02	15	4	11	26.67	1,688.95	-3,149.67	873.85	-1,028.22	0.85	0.31	-521.00
1	-3,333.16	15	7	8	46.67	1,162.80	-2,390.72	594.25	-936.62	0.63	0.56	-222.21

The average trade is not quite as pronounced, but the odds of a decline remain similar. Overall, the study seems worthy of consideration and has been added to the short-term active list.

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



Even with today's evidence considered, the green Aggregator Line remained slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line closed just under 0. The negative Differential Line reading means that SPX

is overbought versus recent expectations. So expectations are slightly positive but SPX is mildly overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close on opposite sides of zero. And they don't get any more neutral than this, with both lines also closing so close to zero. Therefore, the Aggregator turned flat at the close.

Based on the current list of active studies, expectations are slated to change to bearish on Monday. This could easily change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted at 4378.77* on Monday. That is *0.2% above* 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 up more than 0.2% in order to remain "overbought". Anything less than that and it will flip to "oversold" vs recent expectations on Monday.

The Aggregator is neutral. The evidence is mixed. The Differential Pivot is slightly inverted. None of this suggests a strong edge. And we could easily see a bullish, neutral, or bearish Aggregator formation after the close on Monday. Therefore, I'll remain sidelined awaiting the next favorable opportunity.

***Intermediate-term Outlook (2 weeks – 2 months) – updated 7/12 – somewhat bullish***

<b>Combo #1</b>	<b>Combo #2</b>	<b>Combo #3</b>
<b>Flat</b>	<b>Long</b>	<b>Long</b>

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 0.4%, the NASDAQ gained 0.4% and the Russell 2000 lost 1.1%. The SPX and NASDAQ both made new all-time highs this past week, so the long-term uptrend is currently in place.

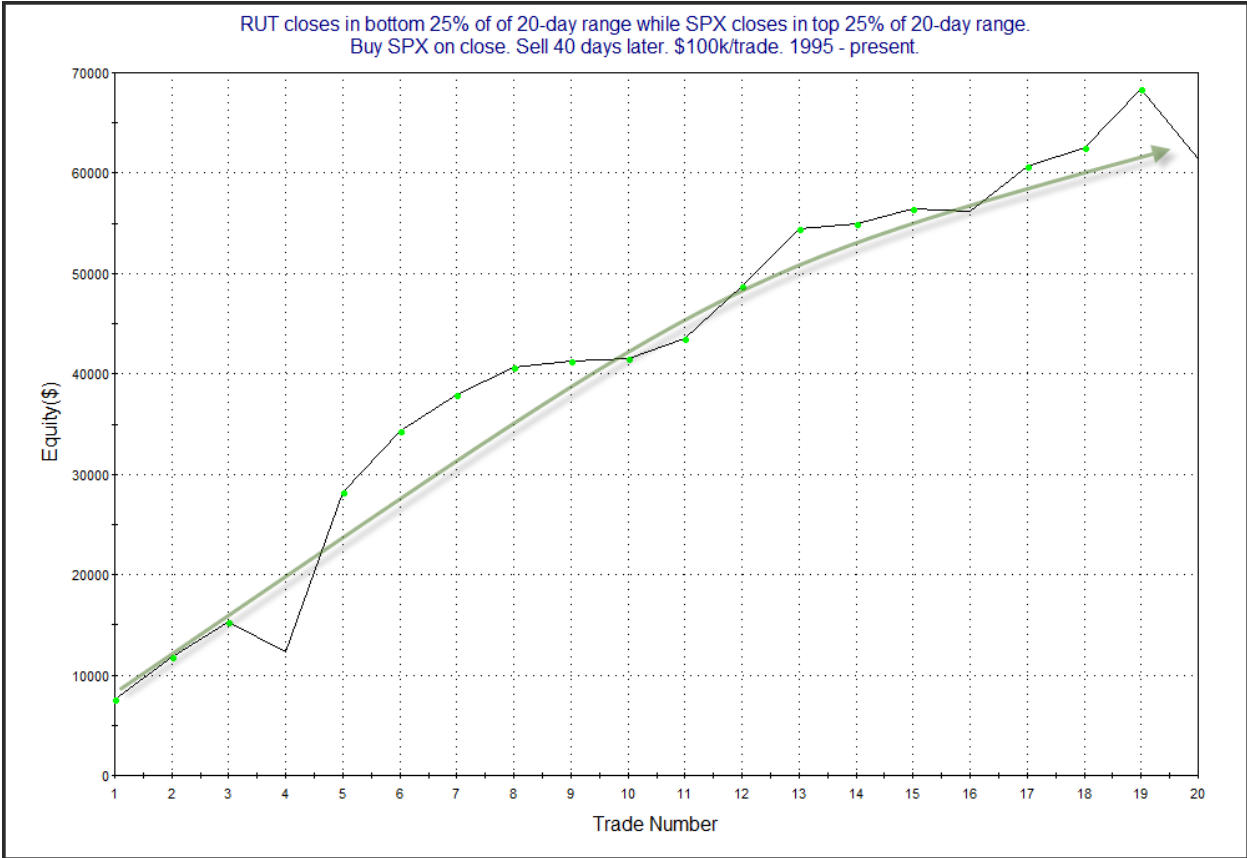
In Wednesday night's letter we saw the study below, which noted the recent split between SPX and RUT price action.

*In fact, while the SPX closed at a new high (on Wednesday), 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

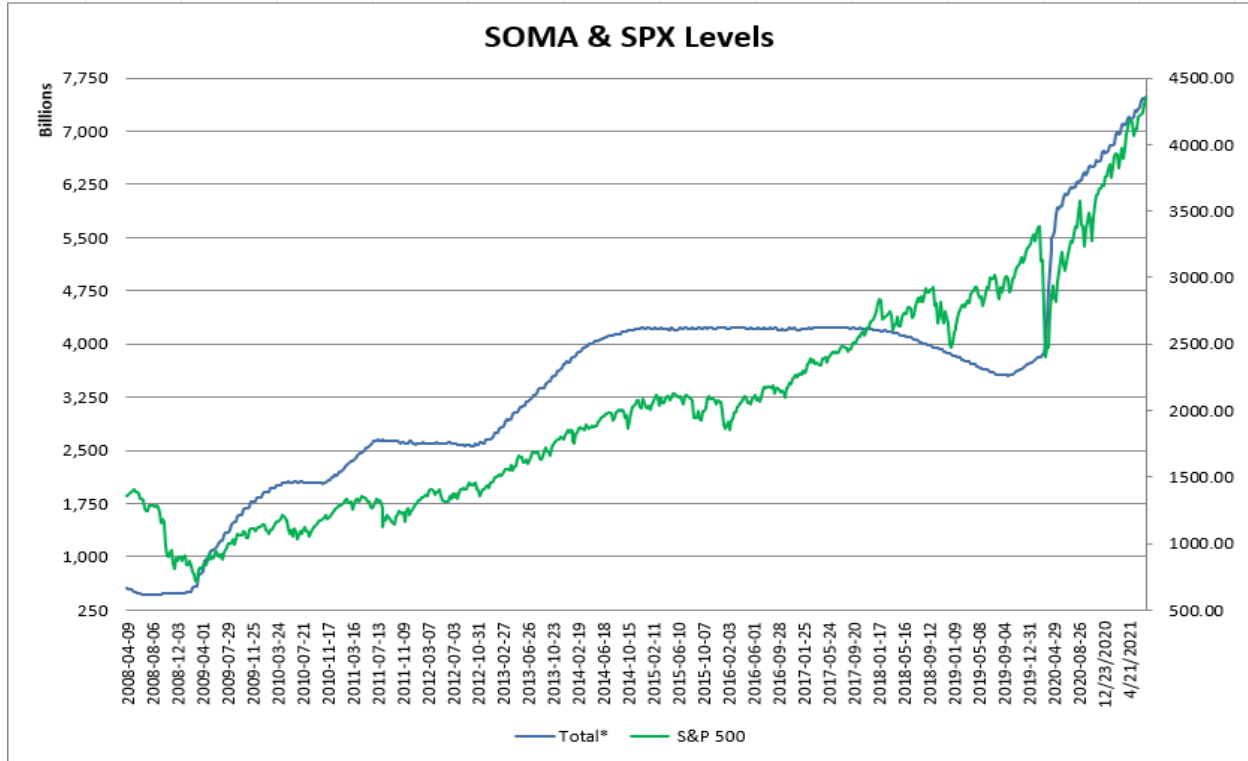
Results still lean bullish over the intermediate-term, but nowhere near to the degree that we see with the SPX. This suggests the leading SPX has a good chance to rally, and in doing so, continue to outperform the RUT.

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...

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	July 7, 2021 
Posted July 8, 2021 at 4:30 PM	
<b>SUMMARY</b>	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)	4,443,102,892.7
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	7,467,863,558.7
Change From Prior Week	17,601,000.0

This past week saw the SOMA rise by about \$18 billion. That is pretty typical of the current QE program and in line with what we would expect. 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 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. Breadth has not been good, and we have seen mixed studies with regards to that. 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***

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**

None

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