

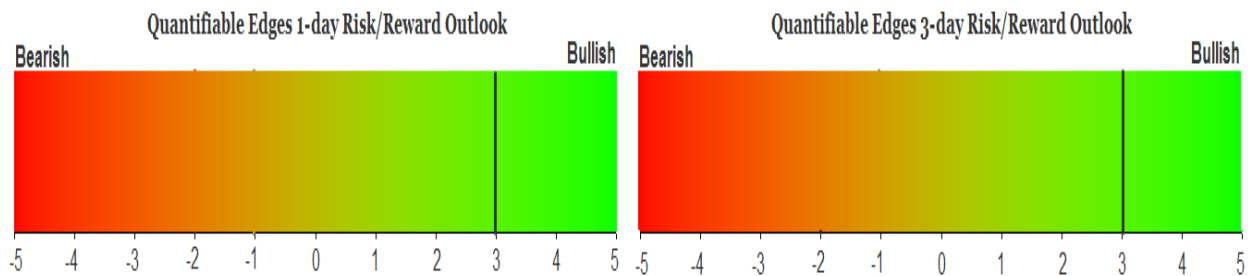
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 19, 2021

Volume 14 Issue 136

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- The first drop below the 10ma in quite a while will often be followed by another leg up.
- Weak closes at 5-day lows often lead to a bounce.
- Seasonality this upcoming week is moderately bullish.
- The SOMA account saw a huge jump this past week. The next week should be more muted.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. The market appears oversold and primed for a bounce.

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 19, 2021	SPX 5-low and btm 10% daily range	1-5 days	Bullish	1.60%	-1.40%	-2.90%
July 19, 2021	1st close < 10ma in 15+ days	1-3 days	Bullish	1.05%	-0.80%	-1.70%
July 16, 2021	SPY 1st 5 low in 10 days. Close >10ma	1-5 days	Bullish			
July 15, 2021	SPX up. Up Vol % < 40%. SPX > 200	1-7 days	Bullish	1.80%	-1.10%	-2.20%
July 14, 2021	SPX 20-high & close btm 10% daily rng	1-6 days	Bullish	1.60%	-1.10%	-2.10%
Active - Long Term						
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			

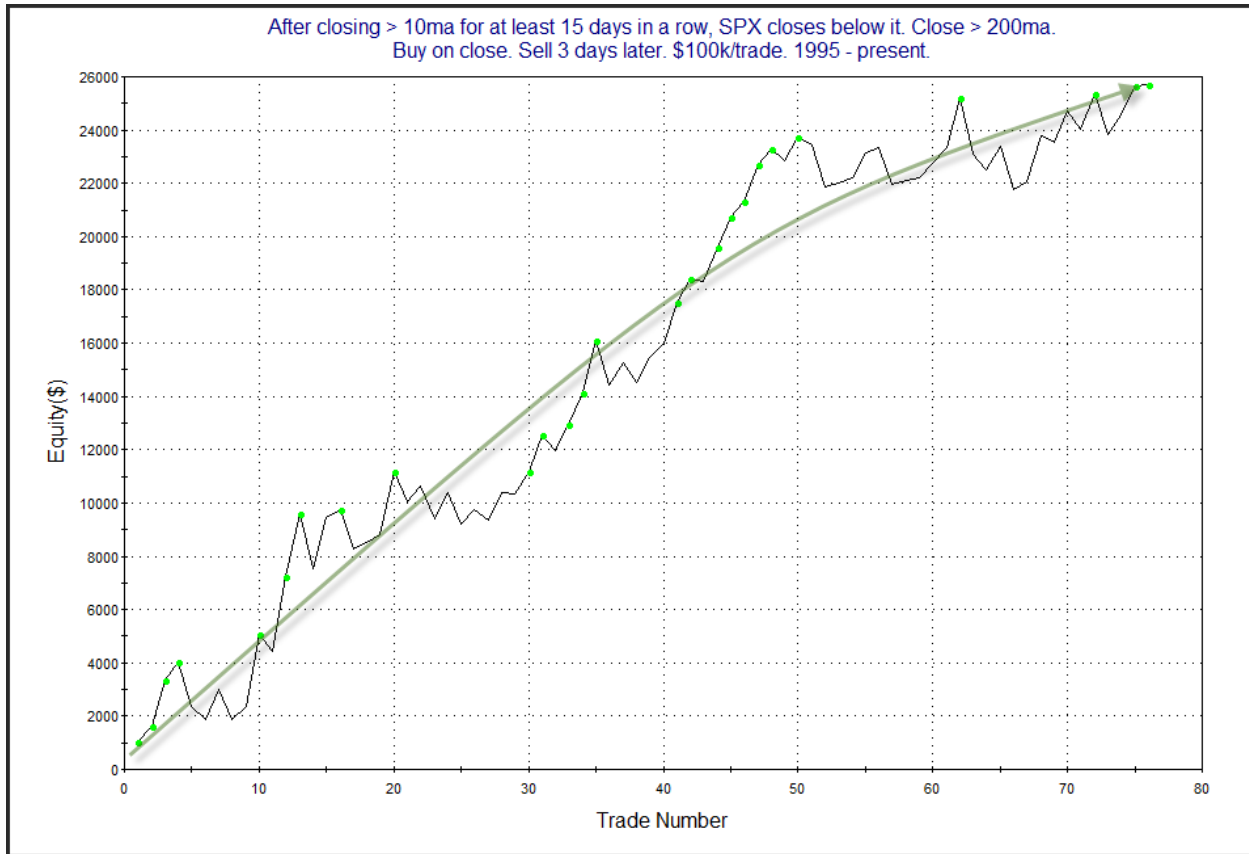
The Evidence

Friday saw some fairly sizable selling. The SPX lost 0.75%, the NASDAQ declined 0.8%, and the Russell 2000 fell 1.2%. Breadth was negative with the NYSE Up Issues % coming in at 30% and the Up Volume % at 19%. NYSE total volume declined some from Wednesday's level.

The lack of pullbacks lately had kept SPX above its short-term moving averages for an extended period. Wednesday, after 17 consecutive closes above the 10ma, SPX dipped down and closed below it. In the 6/17/21 letter I looked at performance following other instances where SPX closed below its 10ma for the first time over 15 days. Results are updated below.

After closing > 10ma for at least 15 days in a row, SPX closes below it. Close > 200ma. 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
5	32,952.80	76	46	30	60.53	3,505.74	-4,455.15	1,438.94	-1,107.95	1.30	1.99	433.59
4	30,401.65	76	49	27	64.47	3,206.40	-6,072.15	1,306.57	-1,245.20	1.05	1.90	400.02
3	25,691.26	76	51	25	67.11	2,805.12	-2,110.50	995.55	-1,003.27	0.99	2.02	338.04
2	15,303.72	76	48	28	63.16	2,682.72	-3,450.16	877.30	-957.38	0.92	1.57	201.36
1	15,797.50	76	48	28	63.16	2,097.92	-1,555.20	617.10	-493.70	1.25	2.14	207.86

The numbers suggest a good chance of a bounce in the next few days. Below is a look at the 3-day profit curve.



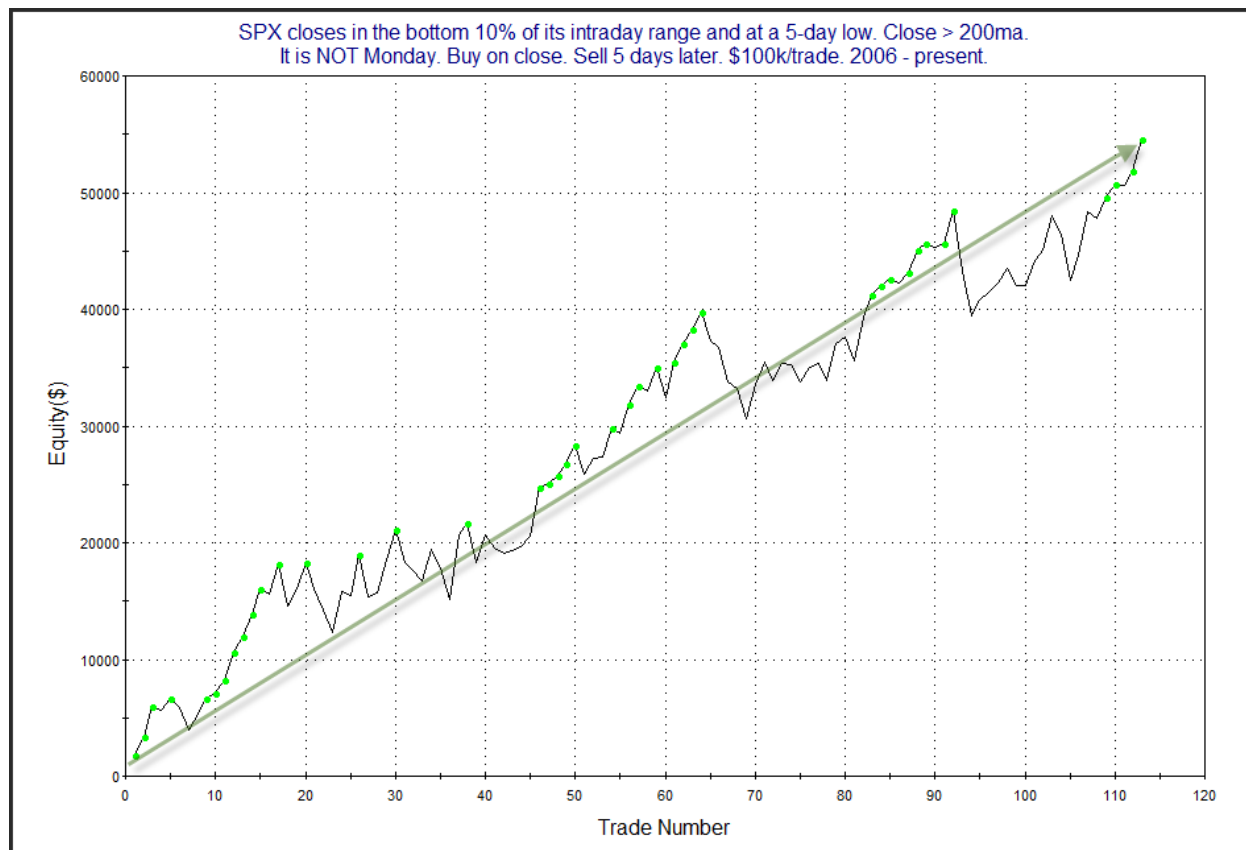
The move up has been somewhat choppy, but it has persisted higher for a long time and is again at a new high. The curve seems to offer some confirmation of the upside tendency suggested by the stats table. I have included this study on the active list tonight.

Another interesting study that triggered was last seen in the 3/19/21 letter. It looked at times SPX closed at a 5-day low and near the lows of the day. Mondays were excluded, because in a separate study it was found that Mondays showed an even greater edge. Below are updated results.

SPX closes in the bottom 10% of its intraday range and at a 5-day low. Close > 200ma.
It is NOT Monday. Buy on close. Sell X days later. \$100k/trade. 2006 - present.

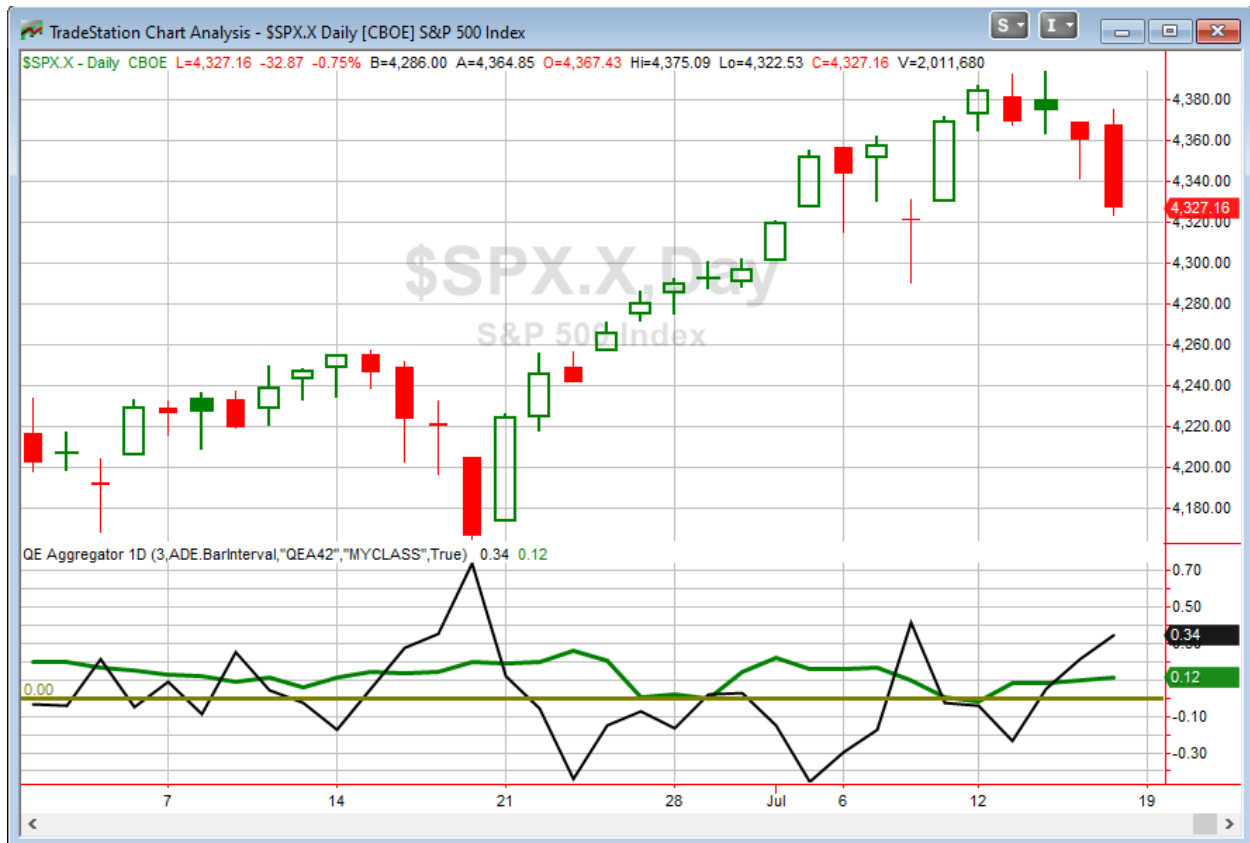
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	54,613.22	113	72	41	63.72	5,555.16	-5,132.88	1,730.97	-1,707.73	1.01	1.78	483.30
4	48,885.78	119	75	44	63.03	5,290.00	-6,520.68	1,574.30	-1,572.42	1.00	1.71	410.80
3	35,125.73	121	78	43	64.46	4,895.50	-5,393.69	1,223.75	-1,402.95	0.87	1.58	290.30
2	34,313.11	130	78	52	60.00	4,424.50	-4,632.95	1,106.34	-999.65	1.11	1.66	263.95
1	21,068.71	141	86	55	60.99	2,671.02	-4,074.84	773.56	-826.51	0.94	1.46	149.42

The stats table shows moderate odds of a move higher over the next few days. Below is a look at the 5-day profit curve.



The stats were not overwhelming, but I do like the profit curve. While it is certainly choppy, it is also very persistent in its move higher. The curve strengthens my confidence in the study. I have included it on the Active List tonight.

Below is a look at the SPX Seasonality Calendar for July.



With tonight's evidence considered, the green Aggregator Line held above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained above 0. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator formation stayed long at the close.

Based on the current active list, expectations are set to remain positive on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4380.19 on Monday. That is 1.2% above Friday's close. Therefore, SPX will need to close up over 1.2% if it is to flip from oversold to overbought vs recent expectations on Monday afternoon.

So the Aggregator is bullish. We are seeing bullish evidence building here, and the SPX is getting fairly oversold. There are certainly risks. I did not show anything breadth-related above, but RUT continues to underperform SPX and the other large-caps. Breadth studies have been mixed lately. The breadth has been so weak, that it has triggered "oversold and likely to bounce", as well as bearish warnings. But momentum for large caps has been strong until the current pullback. So I expect to see a bounce before the market completely rolls over. I started building a long position on Friday. I may continue to build that position over the next few days if I can get favorable fills.

Intermediate-term Outlook (2 weeks – 2 months) – updated 7/19 – somewhat bullish

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

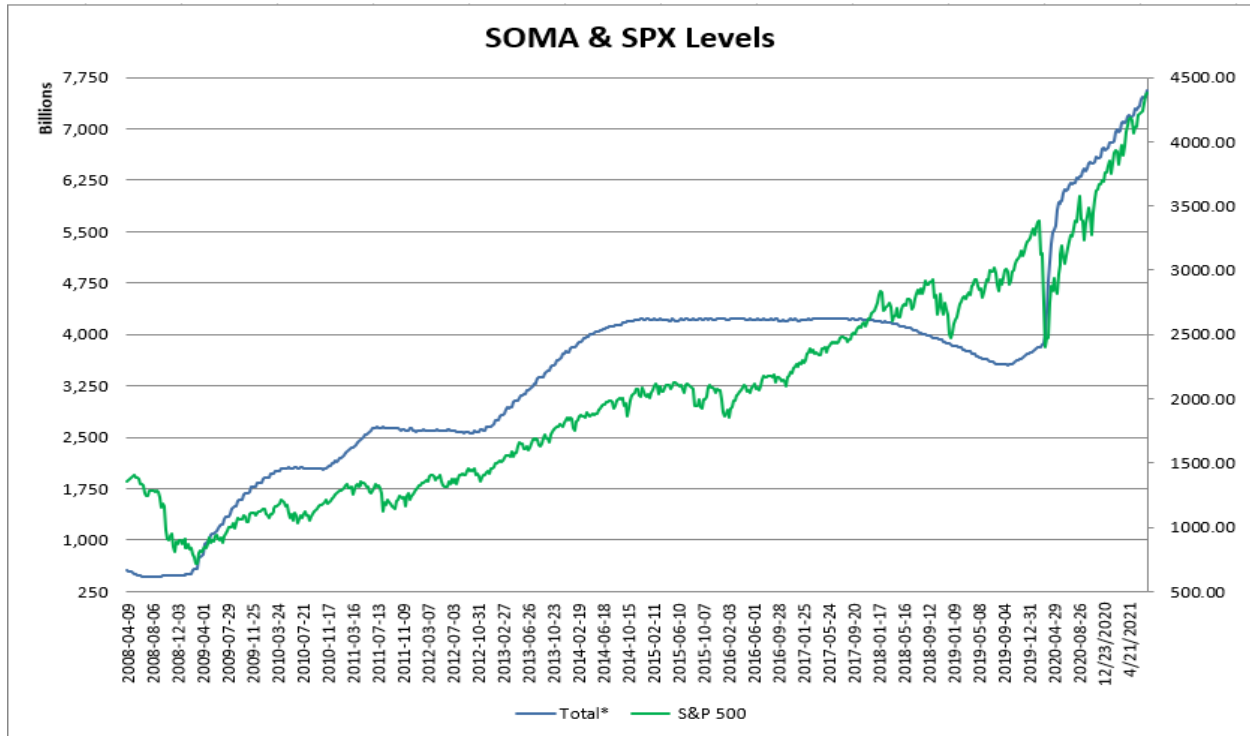
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 sold off this past week. The SPX declined 1.0%, the NASDAQ dropped 1.9%, and the Russell 2000 tumbled an outsized 5.1%. The SPX and NASDAQ are not far off their all-time highs. And even with the big selloff in the Russell, it remains above its 200-day moving average. So the overall market uptrend appears to remain in place. There were no new studies the past few days with intermediate-term implications.

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 14, 2021 📅 <i>Posted July 15, 2021 at 4:30 P.M</i>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,460,904,892.7
US Treasury Floating Rate Notes (FRNs)	23,846,691.1
US Treasury Inflation-Protected Securities (TIPS)*	354,886,562.0
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,392,591,797.9
Agency Commercial Mortgage-Backed Securities***	9,769,885.7
Total SOMA Holdings	7,570,390,829.3
Change From Prior Week	102,527,270.7

This past week saw the SOMA rise by a whopping \$102.5 billion. That is a huge amount, but pretty typical for this time of the month. Next week's numbers should come in substantially lower. 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 talking 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.

This week's action did not have a big impact on my intermediate-term view. Evidence is mixed but still seems to be leaning bullish. The trend is up and momentum is favorable. The leading NASDAQ is also a positive, but that could flip next week if the NASDAQ does not firm up vs the S&P 500. Lastly for the bulls, the Fed's continued pumping should remain a massive plus 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. Either a weak bounce, or a downward acceleration could get me to come off my bullish outlook next week. But not yet.

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.

SPY – Buy ¼ index position @ \$430.50 LIMIT ON CLOSE. Based on the short-term section above, I'll look to take some long SPY exposure if it closes down much on Monday.

LRCX – Buy @ \$588.48 LIMIT. LRCX is triggering Numbered Systems 80402, 81119, and 110524. It has shown good results with all three systems. If filled, I will look to exit it on a close above the 10ma.

Current Open Trade Ideas

None

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