

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 2, 2021

Volume 14 Issue 146

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- Friday's action suggests a decent shot at an up day on Monday.
- Historically, August has not been a good month for the market.
- The SOMA declined this past week, but that is just a calendar quirk.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish. I believe there is good chance we see a bit of a bounce in the coming days.

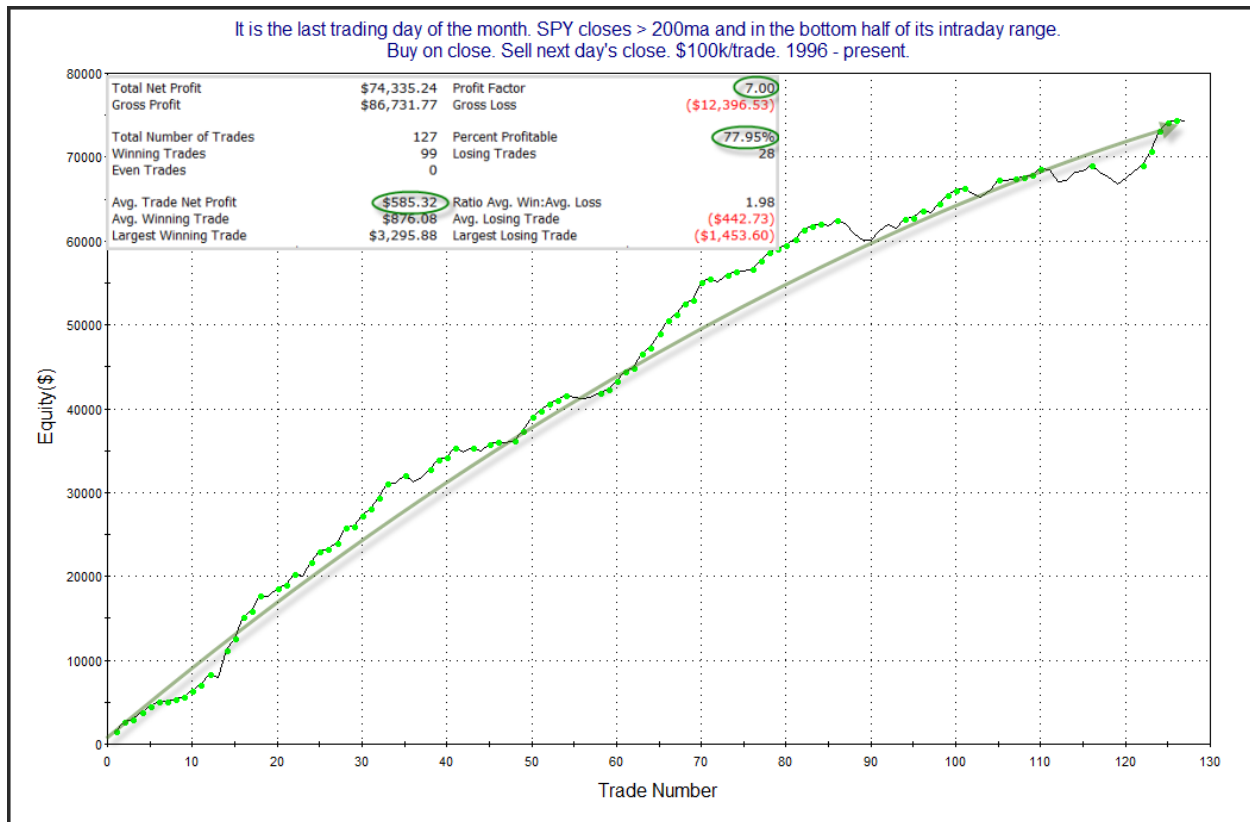
**Summary of Recent Active Studies (see Letters from listed dates for details)**

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
<b>Active - Short Term</b>						
August 2, 2021	Weak afternoon to end month on Fri	1 day	Bullish			
July 29, 2021	Fed Day. SPX down 2+ days	1-6 days	Bullish			
July 27, 2021	1st down day after 5 up to 50-high	1-4 days	Bullish	1.10%	-0.80%	-1.65%
July 23, 2021	SPX up. Up Vol % < 40%. SPX > 200	1-7 days	Bullish	1.80%	-1.10%	-2.20%
<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%
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***

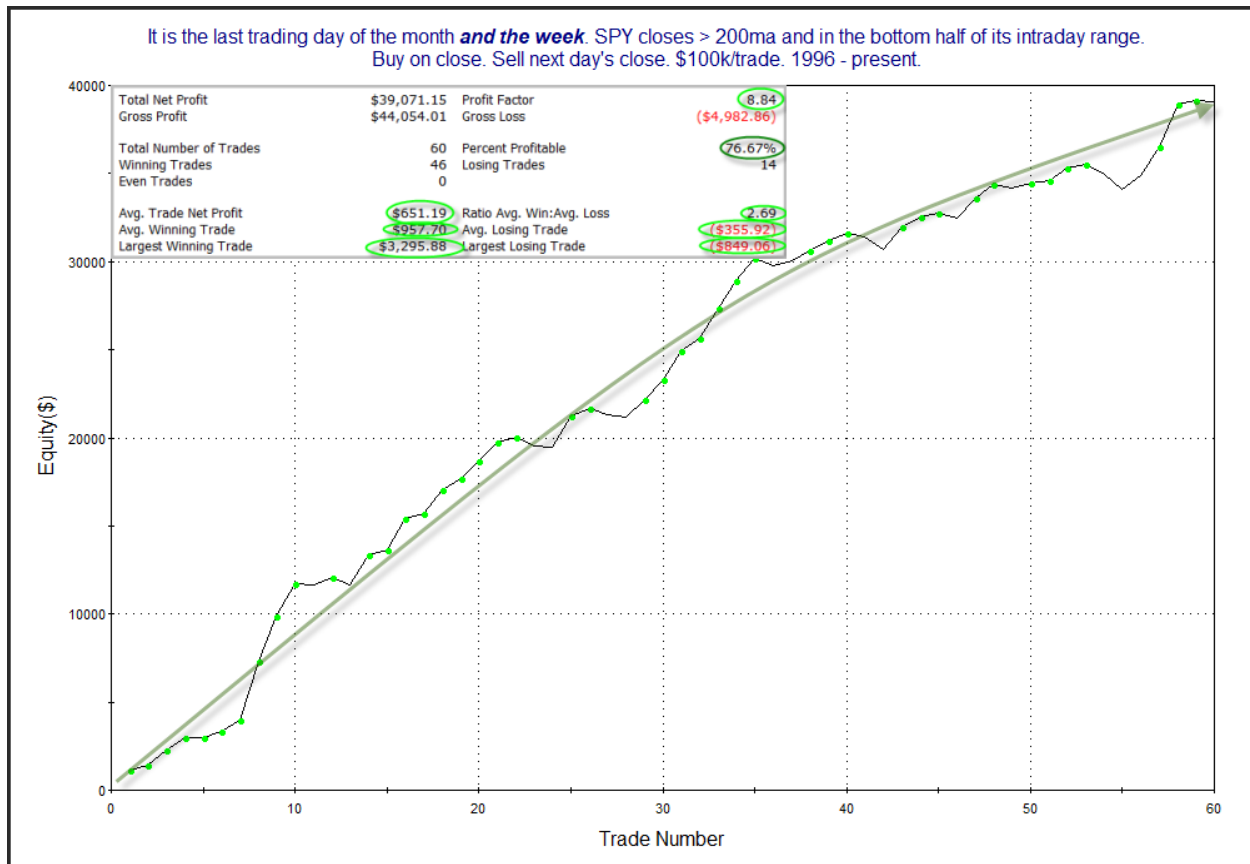
Friday was negative for the major averages. The SPX closed down 0.5%, the NASDAQ fell 0.7%, and the Russell 2000 declined 0.6%. Breadth was negative with the NYSE Up Issues % coming in at 42% and the Up Volume % at 28%. NYSE total volume rose some from Thursday's level.

Thursday night I showed how the 1<sup>st</sup> day of the month has been strongly bullish when SPY closed in the lower half of intraday range the day before, but strong closes led to neutral/bearish 1<sup>st</sup> day returns. Friday SPY closed in the lower 50% of its range. Below I have copied that study.



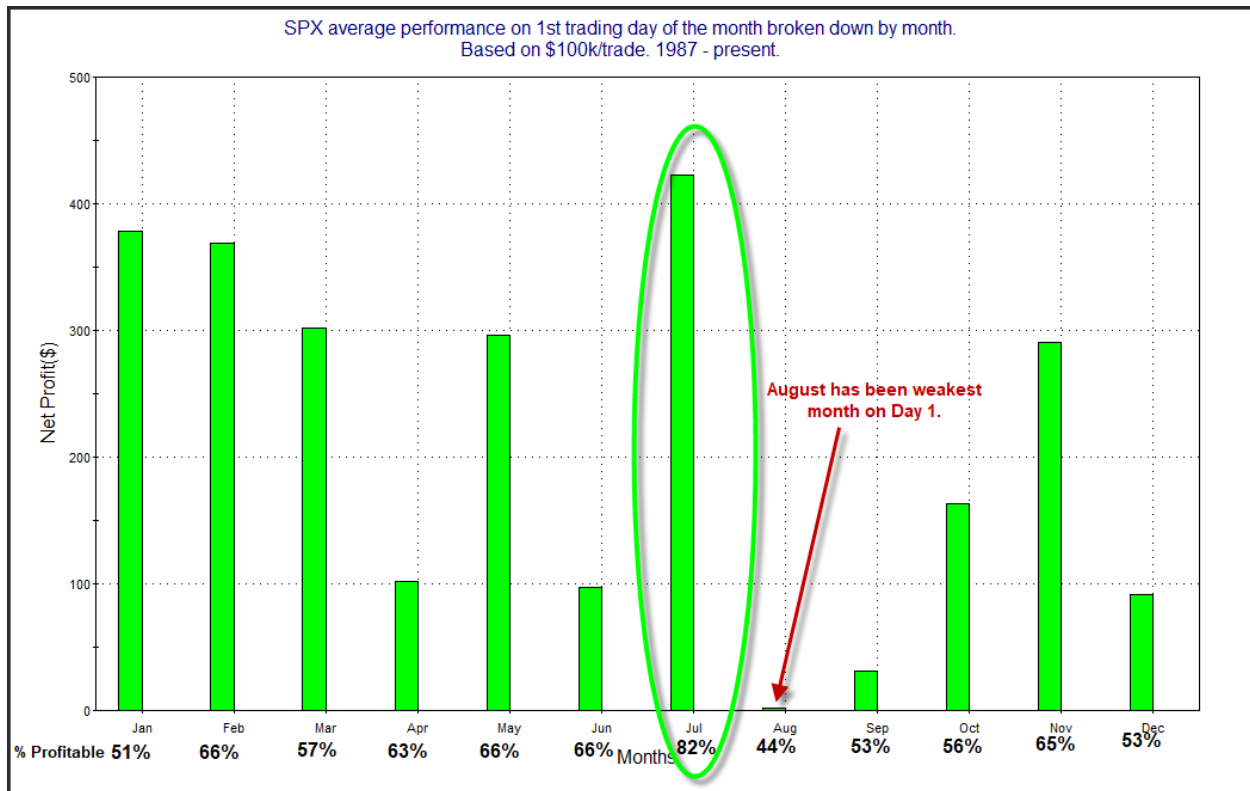
As I noted Thursday...*the stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are over 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 126 instances. And the curve has shown progress over a long period of time and is again at a new high. This setup certainly appears to provide a 1-day bullish edge.*

In the past I have also noted that times where the last trade day of the month coincides with a weekend the results have generally been better than midweek changes to new months. Today I decided to filter the above study further to see results when the last trade day of the month was also the last trade day of the week.



Results here appear even stronger. The stats that I circled in bright green (almost everything) are all improvements over the 1<sup>st</sup> study. So the dip on Friday seems to have set Monday up nicely. I have added this study to the Active List tonight.

Of course it might be even more encouraging if we were not entering August. Also from Thursday night...*As far as "1<sup>st</sup> day of month" goes, August is notable. The study below looks at all 1<sup>st</sup> days of months, and breaks down returns (since 1987) by month. I have it copied from the 7/1/20 letter. (Not updated.)*



*Last month I pointed out that July was the strongest and most reliable for a Day 1 rally. August, on the other hand, has been the worst. It has barely broken even over the years.*

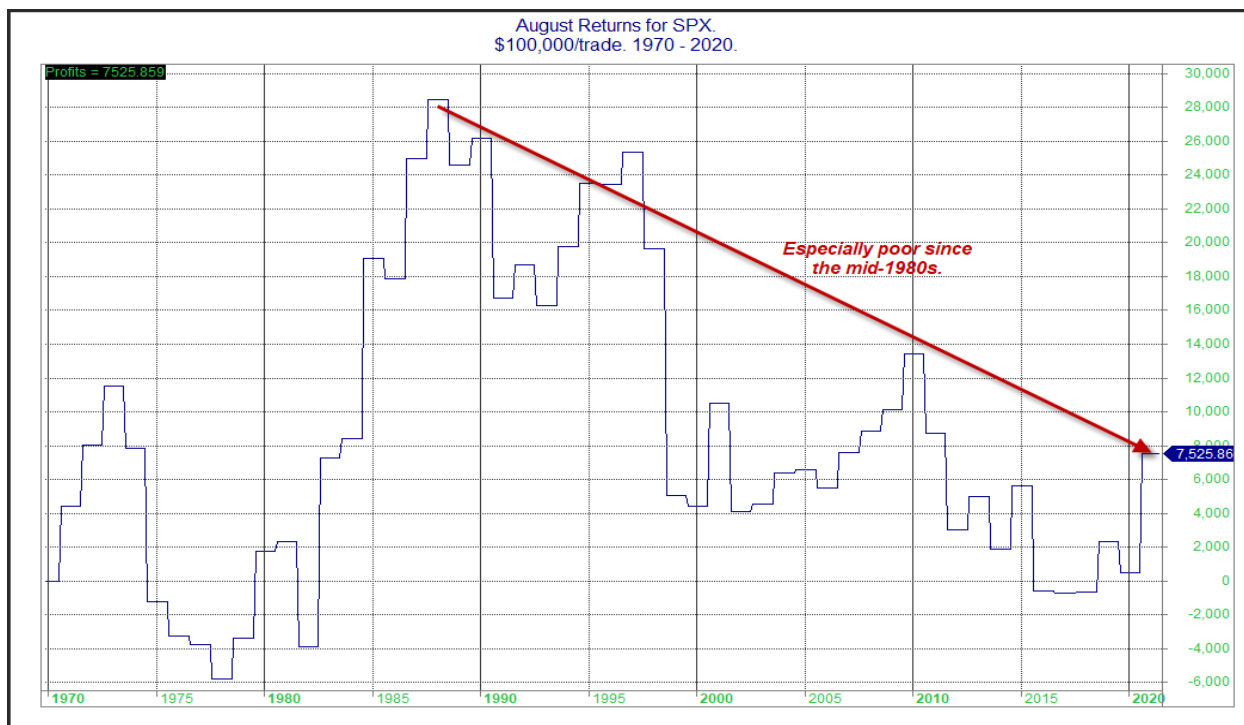
I'll also not that I updated the Seasonality Calendars for August. Below is a look at the SPX Calendar.



### SPX Returns by Month. 1970 - July, 2021

Month	# Trades	# of winners	# of losers	% Profitable	Avg % Rtn
Jan	52	30	22	57.69	1.04%
Feb	52	30	22	57.69	0.20%
Mar	52	33	19	63.46	0.93%
Apr	52	37	15	71.15	1.56%
May	52	32	20	61.54	0.41%
Jun	52	30	22	57.69	0.35%
Jul	52	26	26	50	0.72%
Aug	51	29	22	56.86	0.15%
Sep	51	23	28	45.1	-0.61%
Oct	51	29	22	56.86	0.72%
Nov	51	36	15	70.59	1.55%
Dec	51	38	13	74.51	1.49%

September has been the worst. But the 2<sup>nd</sup> worst average return has been August. Below is a chart showing how August has played out over time.



While the table from 1970 showed positive returns, we see that the profits peaked in the mid-80s.




**Intermediate-term Outlook (2 weeks – 2 months) – *updated 8/2 – somewhat bullish***

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

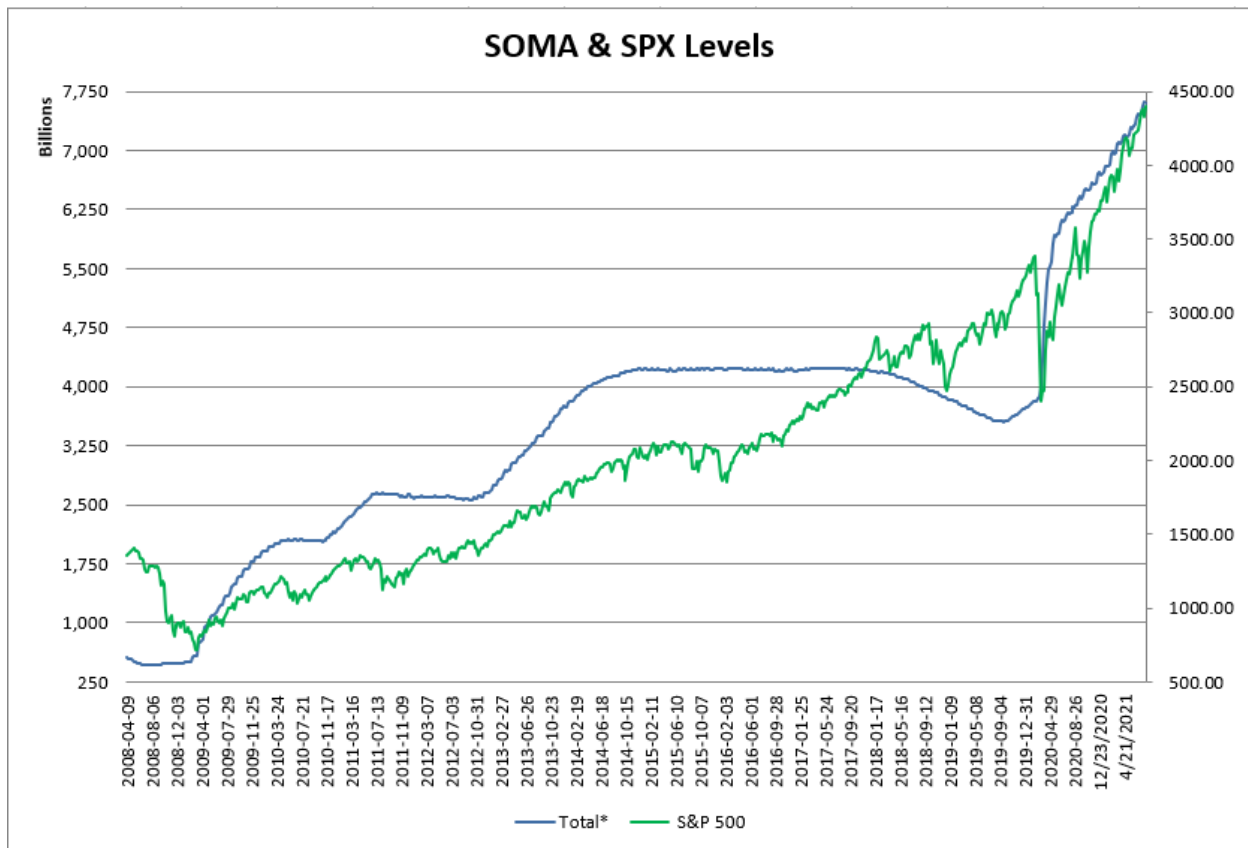
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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 were mixed this past week. The SPX declined 0.4%, the NASDAQ dropped 1.1%, and the Russell 2000 rose 0.75%. The SPX and NASDAQ both made new highs early in the week, so the uptrend certainly appears to be in place. Other than the August seasonality discussed above, there were no new studies that emerged 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 28, 2021  <small>Posted July 29, 2021 at 4:30 PM</small>
<div style="display: flex; justify-content: space-between; border-bottom: 1px solid black; padding-bottom: 5px;"> <span>SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,507,984,218.3
US Treasury Floating Rate Notes (FRNs)	23,846,691.1
US Treasury Inflation-Protected Securities (TIPS)*	348,942,694.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,375,066,782.0
Agency Commercial Mortgage-Backed Securities***	9,712,643.5
Total SOMA Holdings	7,593,944,029.7
Change From Prior Week	-17,594,217.5

This past week saw the SOMA decline by almost \$18 billion. That is not concerning. It is typical for the last week of the month. We should see the SOMA start to rise again when this upcoming week’s numbers are released. 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.

Not much changed this week from an intermediate-term perspective. 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 soon 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 had some struggles, 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.*

**SPY – Buy ¼ index position @ \$437.50 LIMIT ON CLOSE.** Based on the short-term outlook above, I will look to add to my SPY position if it closes at \$437.50 or lower. That would put it down about \$1.00 and below its 10ma.

### **Current Open Trade Ideas**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	7/30/2021	\$438.51	\$438.51	0.00%		bought on close

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