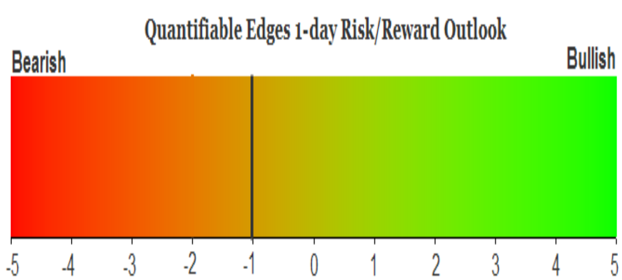
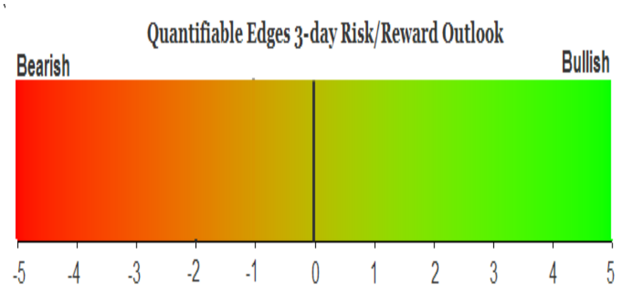
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 16, 2021 Volume 14 Issue 156

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	0

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.
- The NASDAQ has fallen into a lagging position vs the SPX. This is not a positive for the market.
- The Fed continues to pump and the SOMA is again hitting new highs along with the market.

Short-term Outlook
The Bottom Line
The Aggregator is neutral. That is my take as well.

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

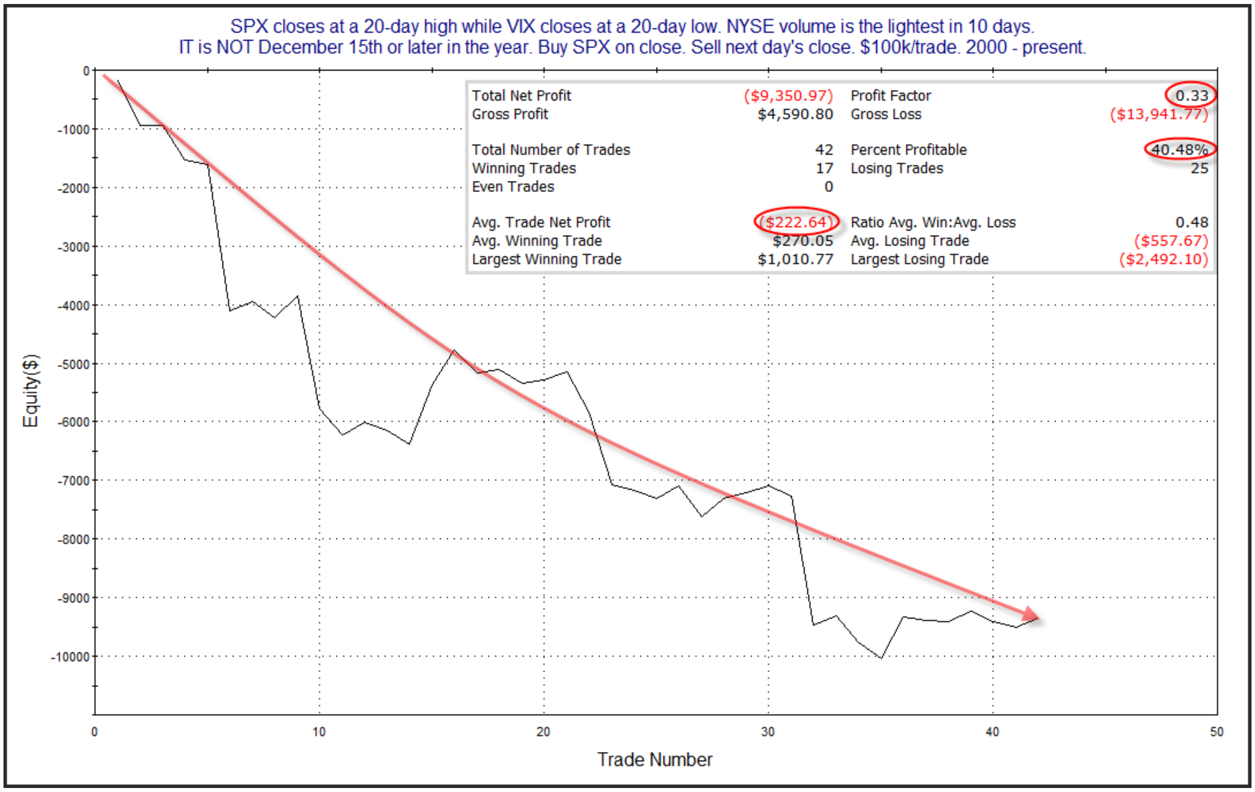
Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
August 16, 2021	SPX high. VIX and volume low.	1 day	Bearish			
August 13, 2021	SPX up. NYSE Up Volume < 40%	1-7 days	Bullish	1.70%	-1.10%	-2.25%
Active - Long Term						
July 8, 2021	Russell btm 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%
June 28, 2021	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.40%	-8.80%
May 3, 2021	Worst 6 Months	1-6 months	Bearish			
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)						
June 14, 2021	NASDAQ leading	int term	Bullish			

The Evidence

Friday saw more mixed and mostly mild returns. The SPX rose 0.16%, the NASDAQ gained 0.04%, and the Russell 2000 declined 0.93%. Breadth was negative with the NYSE Up Issues % coming in at 46% and the Up Volume % at 40.5%. NYSE total volume came in at the lightest level in while.

There were a few studies that noted the very light volume on a day where SPX was a making a short or intermediate-term high. Most of them formerly suggested bearish implications. But over the last several years, these low-volume setups simply have not shown a bearish tendency.

There was a repeat study that I discussed Thursday night. It looked at not only the low volume, but also the low VIX close. I have updated it again below.



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.

From a seasonality standpoint, below is a look at the QE Seasonality Calendar, with this upcoming week shown in blue.

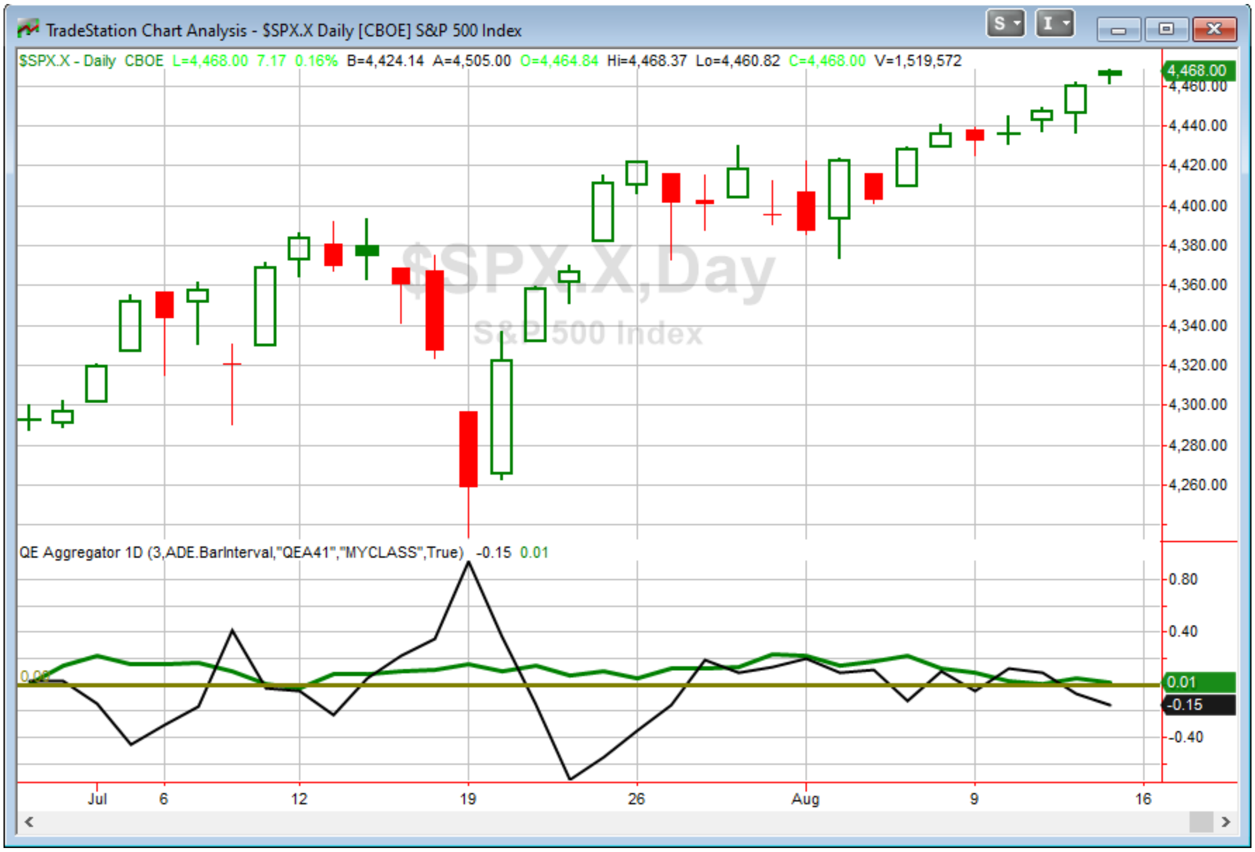
Quantifiable Edges Seasonality Calendar			
$SPX S&P 500 Index			
Date	**Win%**	**Profit Factor**	**Avg % Chg**
8/2/2021	55.15	1.356	0.083
8/3/2021	49.49	0.919	-0.032
8/4/2021	54.92	1.174	0.026
8/5/2021	51.35	0.866	-0.046
8/6/2021	52.58	1.004	-0.001
8/9/2021	52.60	0.901	-0.040
8/10/2021	52.45	1.198	0.049
8/11/2021	52.67	0.860	-0.057
8/12/2021	55.67	0.972	-0.012
8/13/2021	56.40	1.352	0.082
8/16/2021	54.48	0.867	-0.067
8/17/2021	53.45	1.276	0.017
8/18/2021	53.39	0.843	-0.075
8/19/2021	52.22	0.813	-0.085
8/20/2021	51.22	0.832	-0.079
8/23/2021	52.57	1.211	0.058
8/24/2021	56.06	1.399	0.112
8/25/2021	55.09	1.300	0.088
8/26/2021	56.75	1.373	0.104
8/27/2021	56.52	1.252	0.073
8/30/2021	51.62	1.023	0.004
8/31/2021	55.11	1.211	0.058
Baseline	***54.88***	***1.167***	***0.053***

This week is not showing very strong numbers. I will note that it is Opex week. Opex week is often bullish for the market. But this has not been true in August. Below is a study from the 3/15/21 letter that breaks down Opex week performance by month. (Note the stats are not updated for the last few months.)

Opex Week SPX Performance By Month. 1984 - present. (Excludes September 2001)												
Month	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
12	24,931.38	37	28	9	75.68	5,868.16	-6,968.06	1,456.23	-1,760.35	0.83	2.57	673.82
11	4,352.46	37	22	15	59.46	3,718.25	-8,351.64	1,394.28	-1,754.78	0.79	1.17	117.63
10	26,981.62	37	28	9	75.68	7,282.10	-9,109.98	1,939.17	-3,035.03	0.64	1.99	729.23
9	14,887.05	36	22	14	61.11	5,313.08	-4,975.04	1,492.41	-1,281.85	1.16	1.83	413.53
8	-1,678.50	37	20	17	54.05	4,329.72	-5,670.55	1,353.60	-1,691.20	0.80	0.94	-45.36
7	1,544.58	37	20	16	54.05	6,921.25	-7,953.12	1,339.26	-1,577.54	0.85	1.06	41.75
6	1,991.94	37	22	15	59.46	3,786.09	-3,998.19	1,193.36	-1,617.47	0.74	1.08	53.84
5	-1,176.19	37	17	20	45.95	4,850.40	-4,959.45	1,821.90	-1,607.43	1.13	0.96	-31.79
4	34,714.35	37	25	12	67.57	5,731.96	-3,580.15	2,114.57	-1,512.48	1.40	2.91	938.23
3	17,487.45	37	25	12	67.57	7,515.60	-14,619.60	1,970.53	-2,647.99	0.74	1.55	472.63
2	16,710.45	38	22	16	57.89	4,281.46	-6,814.80	1,643.32	-1,215.17	1.35	1.86	439.75
1	8,768.23	38	18	20	47.37	5,389.00	-5,383.93	2,125.65	-1,474.67	1.44	1.30	230.74

The August record is 20-17, but with losing months outsizing winning months. So the opex bullishness we see in some other months cannot be relied upon in August.

I have updated the Aggregator chart below.



Even with tonight's evidence considered, the green Aggregator Line held slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line remained 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 formation stayed flat at the close.

Based on the current active list, expectations are slated to remain bullish on Monday. Of course that could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4453.33 on Monday. That is 0.3% below Friday's close. Therefore, SPX would need to close down at least 0.3% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Evidence remains mixed and SPX is just moderately overbought. I am still not seeing a compelling setup to take on new index positions. So I will continue to wait until a compelling setup emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/16 – neutral

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

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 Combo #2 and Combo #3 joined Combo #1 and are now flat..*

The market put in a mixed performance this past week. The SPX rose 0.7%, the NASDAQ declined 0.1%, and the Russell 2000 lost 1.1%. The SPX closed at a new all-time high on Friday, so the uptrend does appear to be in place.

You'll note above that all the Market Timing Course systems are now flat. The only bullish indicator of the 4 utilized is the Golden Cross. The change this week was due to the NASDAQ falling from a leading to a lagging position for the 1st time since June. This can be seen in the chart below, taken from the charts page on Quantifiable Edges.

The green line in the bottom pane is now turning red, showing the NASDAQ is in a lagging position. Historically, nearly all of the gains the market has achieved since 1971 have come when the NASDAQ was leading. When SPX has been in a leading position, the market has struggled to make much headway.

The table below looks at other times that the Golden Cross was in effect while the other indicators from the Market Timing Course were all unfavorable.

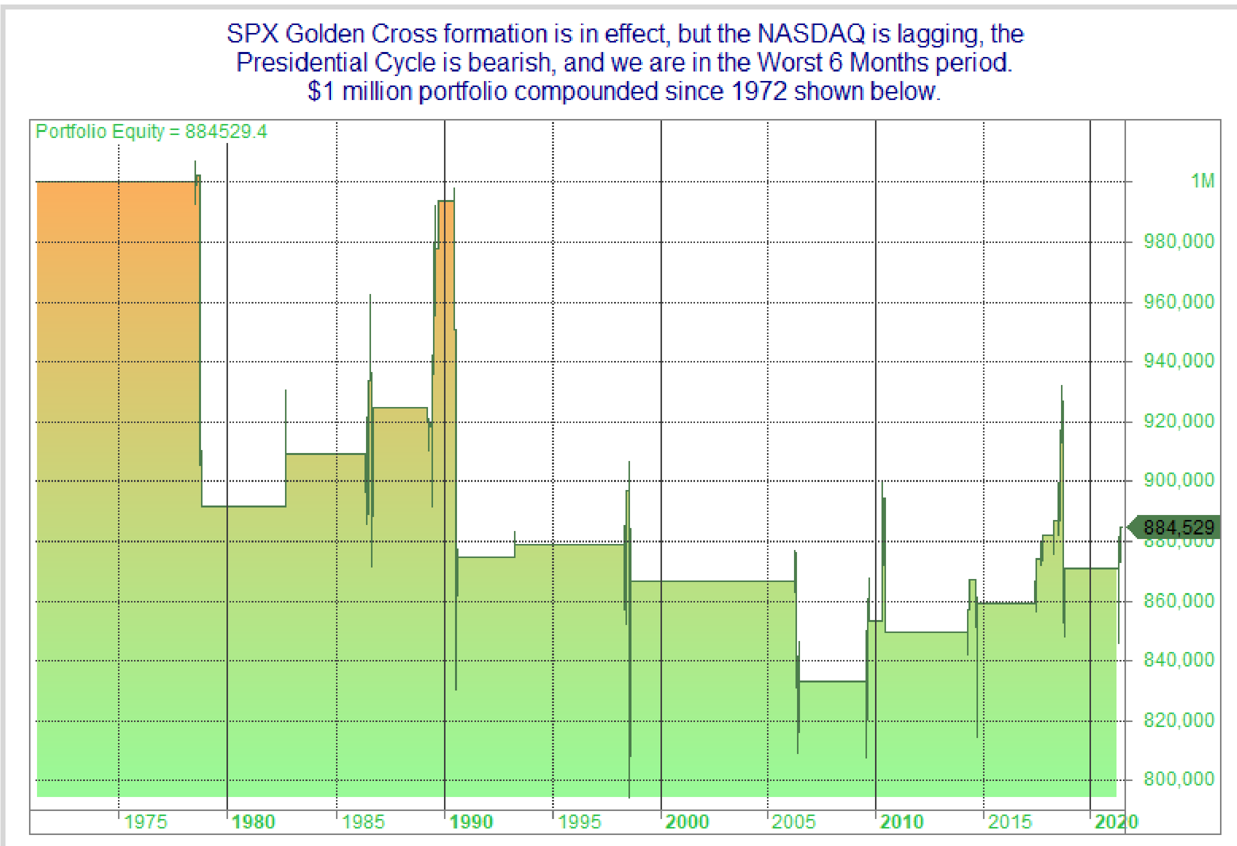
SPX Golden Cross formation is in effect, but the NASDAQ is lagging, the Presidential Cycle is bearish, and we are in the Worst 6 Months period. All instances since 1972 shown.

Symbol	Date	Price	Ex. date	Ex. Price	% chg	MAE	MFE
$SPX	7/14/1978	97.58	7/21/1978	97.75	0.17%	-1.73%	1.64%
$SPX	8/4/1978	103.92	8/11/1978	103.96	0.04%	-1.27%	1.73%
$SPX	10/13/1978	104.66	10/31/1978	93.15	-11.00%	-12.43%	0.65%
$SPX	10/8/1982	131.05	10/15/1982	133.57	1.92%	-1.72%	5.28%
$SPX	5/30/1986	247.35	6/6/1986	245.67	-0.68%	-1.92%	0.74%
$SPX	6/20/1986	247.58	7/3/1986	251.79	1.70%	-1.45%	2.27%
$SPX	7/11/1986	242.22	10/31/1986	243.98	0.73%	-5.84%	4.96%
$SPX	4/28/1989	309.64	5/5/1989	307.61	-0.66%	-0.82%	0.26%
$SPX	5/19/1989	321.24	5/26/1989	321.59	0.11%	-1.14%	0.57%
$SPX	6/23/1989	328	9/8/1989	348.76	6.33%	-4.15%	7.97%
$SPX	10/27/1989	335.06	10/31/1989	340.36	1.58%	-0.54%	1.58%
$SPX	7/13/1990	367.31	9/7/1990	323.4	-11.95%	-16.64%	0.67%
$SPX	4/30/1993	440.19	5/7/1993	442.31	0.48%	-0.44%	1.34%
$SPX	5/22/1998	1110.47	6/26/1998	1133.2	2.05%	-3.64%	2.84%
$SPX	8/21/1998	1081.18	9/25/1998	1044.75	-3.37%	-13.06%	2.35%
$SPX	4/28/2006	1310.61	7/19/2006	1259.81	-3.88%	-6.97%	1.23%
$SPX	8/7/2009	1010.48	9/11/2009	1042.73	3.19%	-3.16%	3.33%
$SPX	10/16/2009	1087.68	10/23/2009	1079.6	-0.74%	-1.23%	1.26%
$SPX	5/7/2010	1110.88	5/14/2010	1135.68	2.23%	-1.51%	5.64%
$SPX	5/21/2010	1087.69	5/28/2010	1089.41	0.16%	-4.31%	1.46%
$SPX	6/11/2010	1091.6	6/18/2010	1117.51	2.37%	-1.33%	2.49%
$SPX	6/25/2010	1076.76	7/2/2010	1022.58	-5.03%	-6.12%	0.63%
$SPX	4/30/2014	1883.95	5/30/2014	1923.57	2.10%	-1.28%	2.10%
$SPX	9/26/2014	1982.85	10/24/2014	1964.58	-0.92%	-8.18%	0.18%
$SPX	6/16/2017	2433.15	6/23/2017	2438.3	0.21%	-0.42%	0.85%
$SPX	6/30/2017	2423.41	7/14/2017	2459.27	1.48%	-0.65%	1.48%
$SPX	9/22/2017	2502.22	9/29/2017	2519.36	0.68%	-0.57%	0.68%
$SPX	10/20/2017	2575.21	10/27/2017	2581.07	0.23%	-1.21%	0.23%
$SPX	4/30/2018	2648.05	5/4/2018	2663.42	0.58%	-2.02%	1.32%
$SPX	7/27/2018	2818.82	8/31/2018	2901.52	2.93%	-0.80%	3.47%
$SPX	9/7/2018	2871.68	9/28/2018	2913.98	1.47%	-0.26%	2.41%
$SPX	10/5/2018	2885.57	10/31/2018	2711.74	-6.02%	-9.77%	0.83%
$SPX	4/30/2021	4181.17	6/11/2021	4247.44	1.58%	-2.97%	1.64%
				Average	-0.30%	-3.62%	2.00%

A few notes on the above results:

- While there have been more winners than losers, the losing instances have been much larger, so the net over the last 49 years has been a loss for the SPX.
- MAE (Max Adverse Excursion / Drawdown) and MFE (Max Favorable Excursion / Runup) that exceed 6% are highlighted. You'll notice 7 instances where the drawdown exceeded 6%, but only once where the run-up was greater than 6%. This suggests that not only is risk elevated, but waiting for conditions to change generally won't cost you much, even though you'll miss out on small gains a decent portion of the time.

Below is a look at how $1,000,000 reinvested over time would have done with the above setup, with a 0% interest rate assumption when out of the market:



Somewhat bearish, and generally a setup that would not cost you much by sidestepping the market during these times.

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

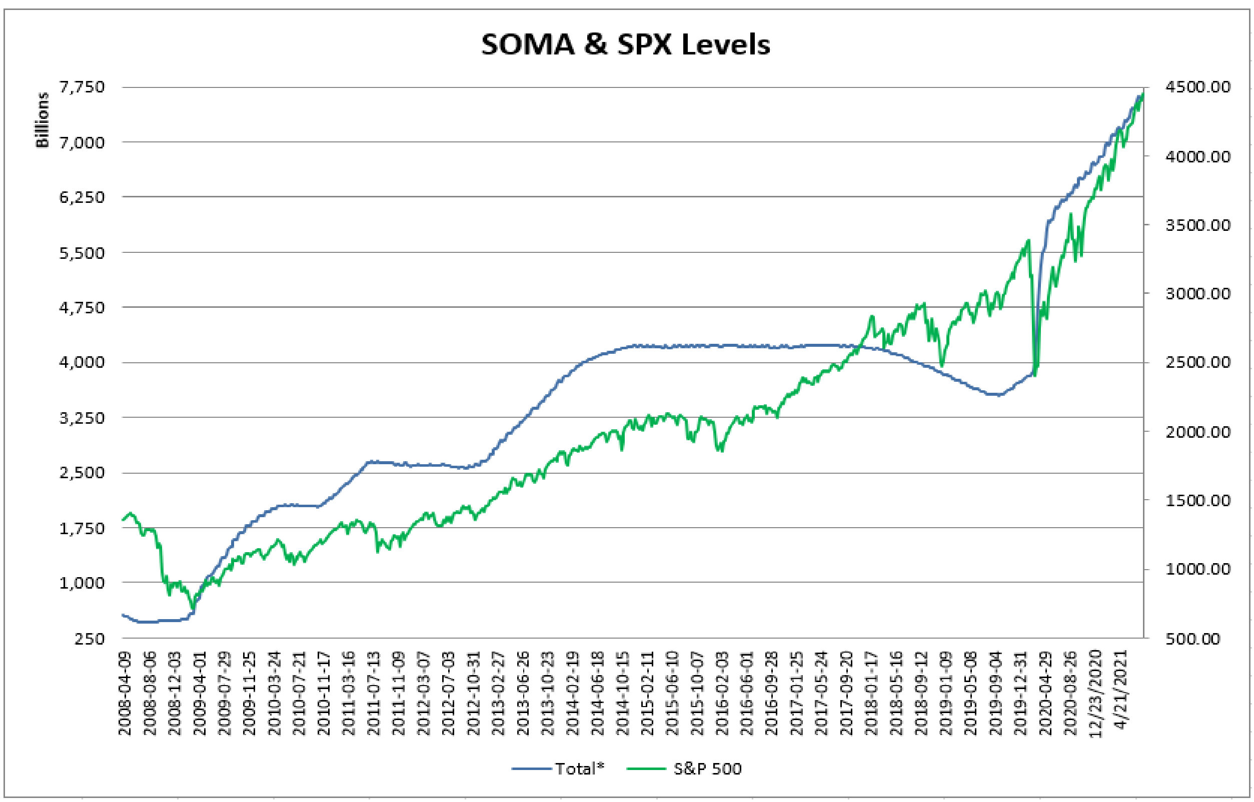
Previous **August 11, 2021**

Posted August 12, 2021 at 4:30 PM

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)	4,543,759,363.5
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	350,141,694.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,375,072,782.3
Agency Commercial Mortgage-Backed Securities***	9,712,643.5
Total SOMA Holdings	7,631,957,029.9
Change From Prior Week	25,005,000.0

This past week saw the SOMA rise by about $25 billion. That is a fairly typical amount for the current cycle. We should see the SOMA continue to rise substantially in the coming weeks. 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.

The bulls still have momentum on their side. SPX is making new highs, and that means the uptrend is intact. The Fed's continued pumping is also a massive plus for the bulls. Bears can point to the weak seasonality and the lagging NASDAQ as we discussed above. This upcoming week's seasonality is not strong as show in the QE Seasonality Calendar. And September is on the horizon. September has historically been the weakest month of the year, though most of the weakness has occurred in the 2nd half of the month. Breadth indications have been mixed lately. I'm dialing back my optimism right now and taking a neutral bias. This means that I will be less aggressive than normal in taking on both long and short trades. I could easily move back to a bullish outlook if the NASDAQ retakes leadership or we see other bullish evidence emerge over the next week. But it has been a few weeks since a bullish new intermediate-term study emerged. A little extra caution and a neutral outlook seem prudent for now.

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.

Current Open Trade Ideas

None