

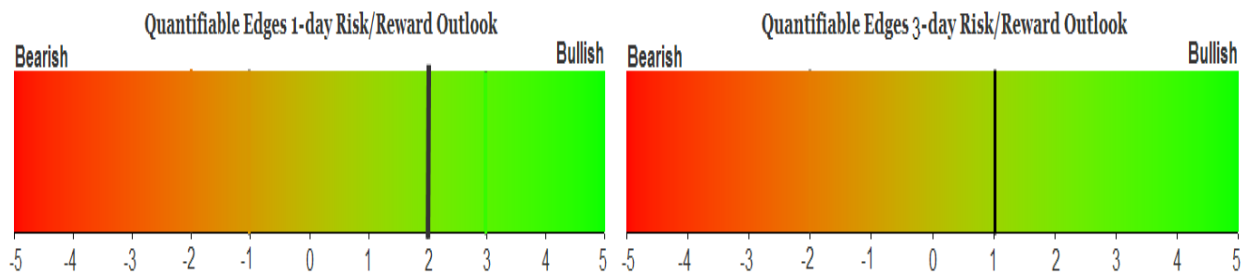
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 23, 2021

Volume 14 Issue 161

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Long	0

## Tonight's Research Points

- The bounce over the last day and a half appears like it has more to go in the short-term, based a few studies.
- The Fed continues to pump massive amounts.
- The Seasonality Calendar looks bullish over the next couple of weeks.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is bullish, but with the Differential Pivot inverted, there is a good chance the Aggregator will change to neutral on Monday.

**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 23, 2021	SPX up 2 from 10 low < 10ma	1-2 days	Bullish			
August 23, 2021	SPY up 2 < 3 ago	1-2 days	Bullish			
August 20, 2021	4 Lower Lows. 20 Low.. Up close	1-6 days	Bullish			
August 18, 2021	5 up to 50-high then down 1	1-4 days	Bullish			
August 18, 2021	Bottom 10% range & 5-day low	1-5 days	Bullish			
August 13, 2021	SPX up. NYSE Up Volume < 40%	1-7 days	Bullish	1.70%	-1.10%	-2.25%
<b>Active - Long Term</b>						
August 18, 2021	Up 5 days then down < 3 days ago	1-11 days	Bullish			
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			

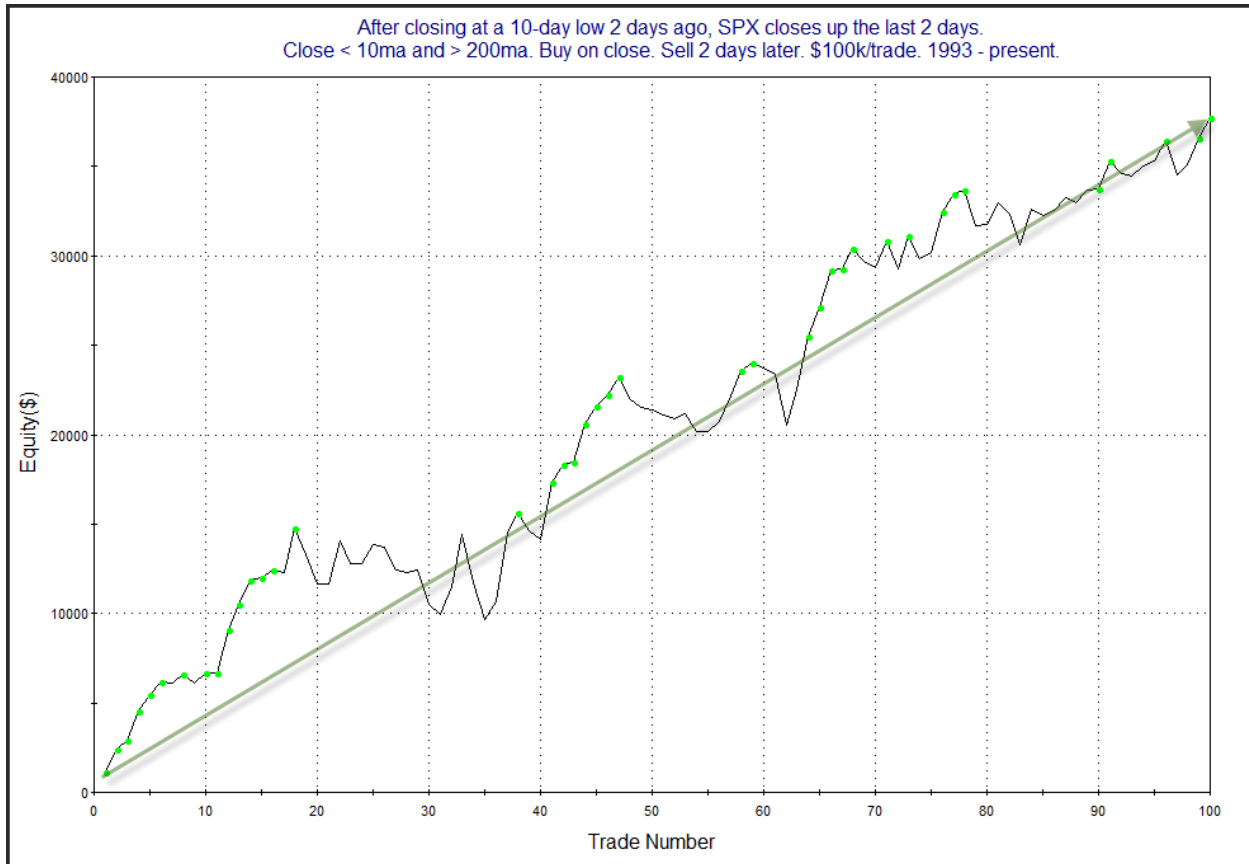
**The Evidence**

Friday was a strong rally day. The SPX closed up 0.8%, the NASDAQ rose 1.2%, and the Russell 2000 jumped 1.65%. Breadth was positive with the NYSE Up Issues % coming in at 71% and the Up Volume % at 78%. NYSE total volume declined, which is unusual for an opex Friday.

While SPX has risen fairly strongly the last day and a half, the rally still did not manage to close above its 10-day moving average. In the 10/7/19 letter I looked at other 2-day bounces from 10-day lows that failed to exceed the 10ma. I have updated that study below.

After closing at a 10-day low 2 days ago, SPX closes up the last 2 days. Close < 10ma and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	32,370.04	97	60	37	61.86	4,522.00	-4,385.11	1,569.55	-1,670.35	0.94	1.52	333.71
4	40,594.21	98	62	36	63.27	4,528.65	-4,255.02	1,506.41	-1,466.75	1.03	1.77	414.23
3	38,747.89	100	68	32	68.00	3,167.68	-3,993.04	1,215.92	-1,372.95	0.89	1.88	387.48
2	37,730.59	100	63	37	63.00	3,844.65	-2,822.04	1,137.43	-916.95	1.24	2.11	377.31
1	19,685.30	100	61	39	61.00	2,699.42	-3,044.52	751.25	-670.28	1.12	1.75	196.85

Stats here seem to suggest a bit of an upside edge, especially over the 1st couple of days. Below is a look at a profit curve that assumes a 2-day holding period.

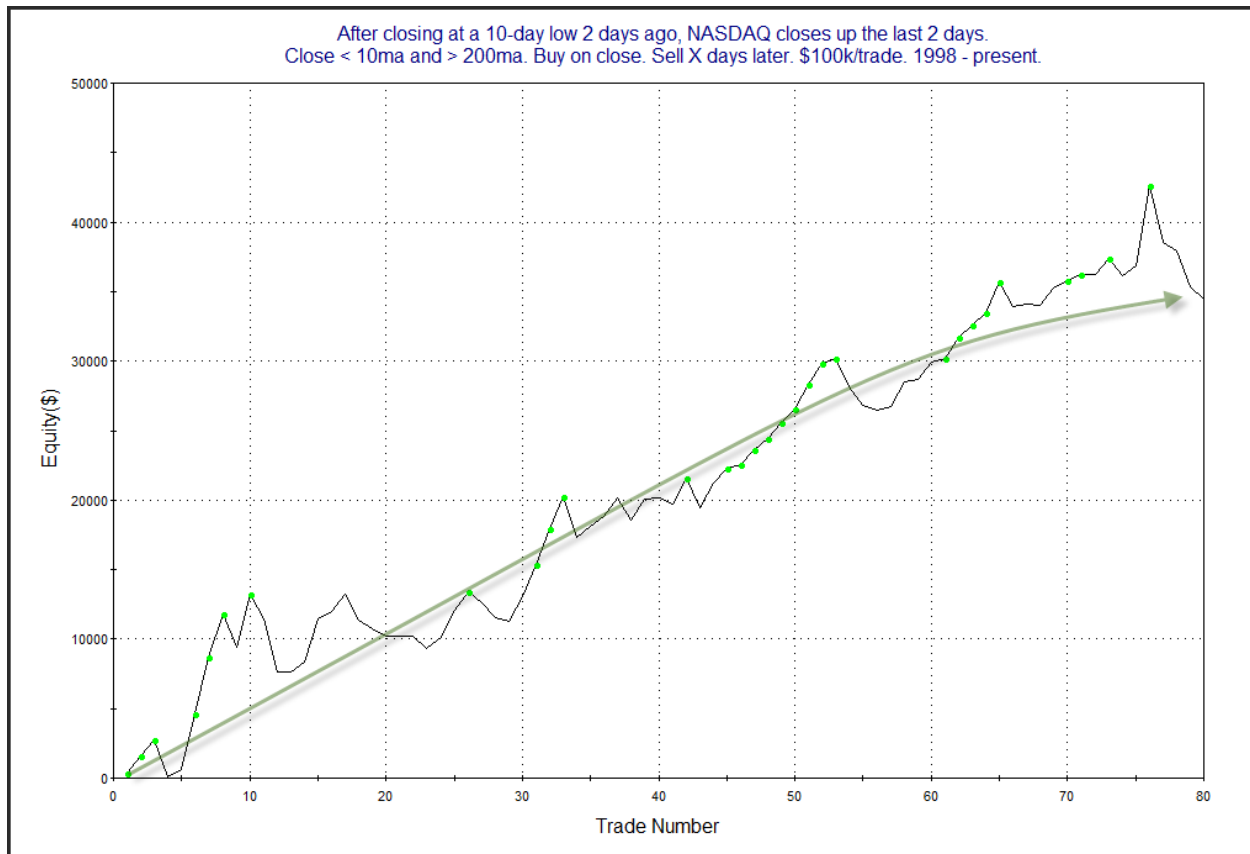


It has moved from lower left to upper right on a fairly steady basis for a very long time. This serves as some confirmation of the potential bullish edge. Further confirmation can be seen if we look at the NASDAQ Composite. The NASDAQ set up in the same pattern over the last few days. I last looked at the NASDAQ this way in the 1/30/20 letter, and have updated that research below.

After closing at a 10-day low 2 days ago, NASDAQ closes up the last 2 days.  
Close < 10ma and > 200ma. Buy on close. Sell X days later. \$100k/trade. 1998 - 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	33,629.87	79	50	29	63.29	8,967.60	-11,016.39	2,026.30	-2,333.97	0.87	1.50	425.69
4	44,515.43	79	50	29	63.29	6,444.48	-4,986.40	1,996.84	-1,907.81	1.05	1.80	563.49
3	23,915.88	80	46	34	57.50	6,518.80	-8,084.18	1,777.28	-1,701.15	1.04	1.41	298.95
2	34,458.07	80	53	27	66.25	5,842.88	-4,137.56	1,380.63	-1,433.90	0.96	1.89	430.73
1	20,399.24	80	50	30	62.50	3,441.68	-3,682.80	957.95	-916.61	1.05	1.74	254.99

Numbers here also look strong. And here is the curve.



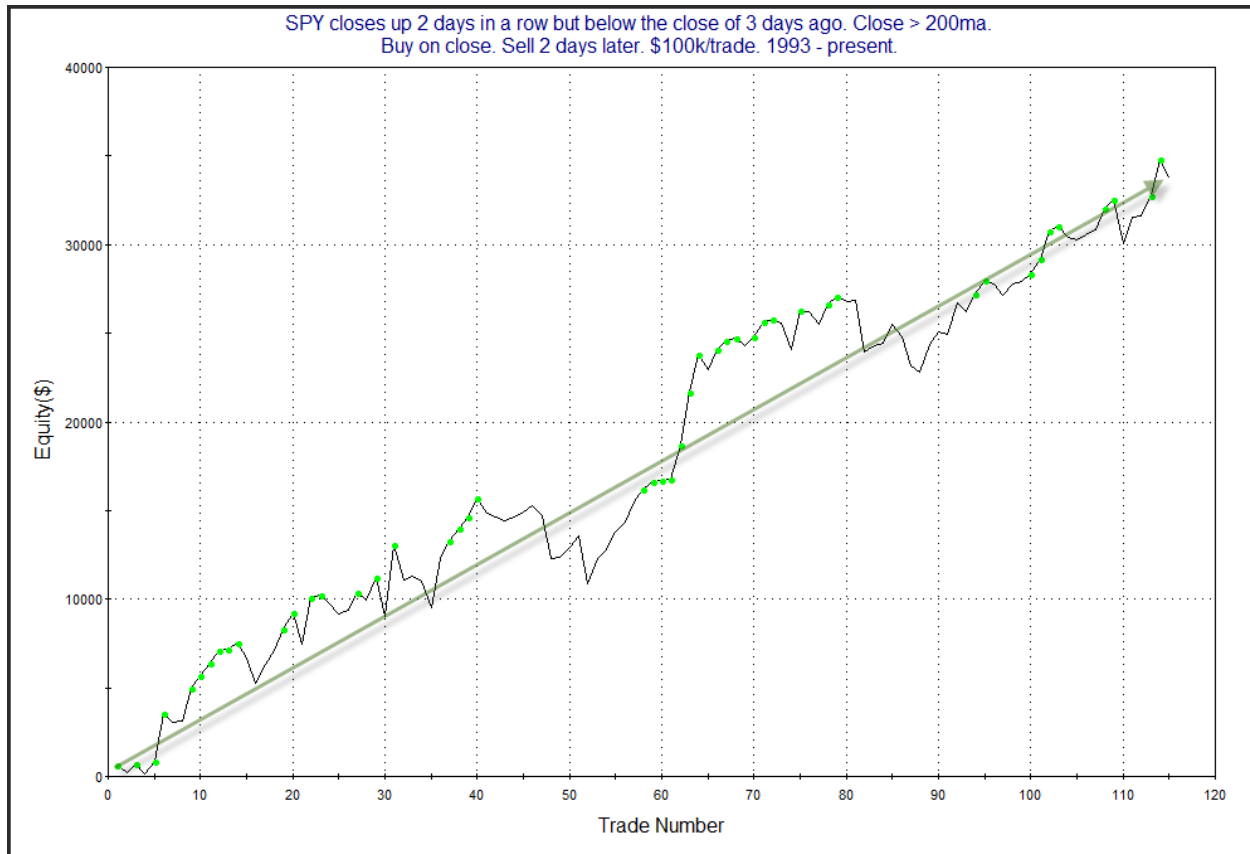
Some fails in the last few instances, but overall this gives the same message as the SPX version. There appears to be a 2-day upside edge.

Another way to look at the bounce over the last couple of days is noting that the rally failed to closed above the close of 3 days ago. In other words, the last 2 days have failed to make up for the losses of the 1-day drop on Wednesday. This triggered the below study from the 1/24/20 letter.

SPY closes up 2 days in a row but below the close of 3 days ago. Close > 200ma.  
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

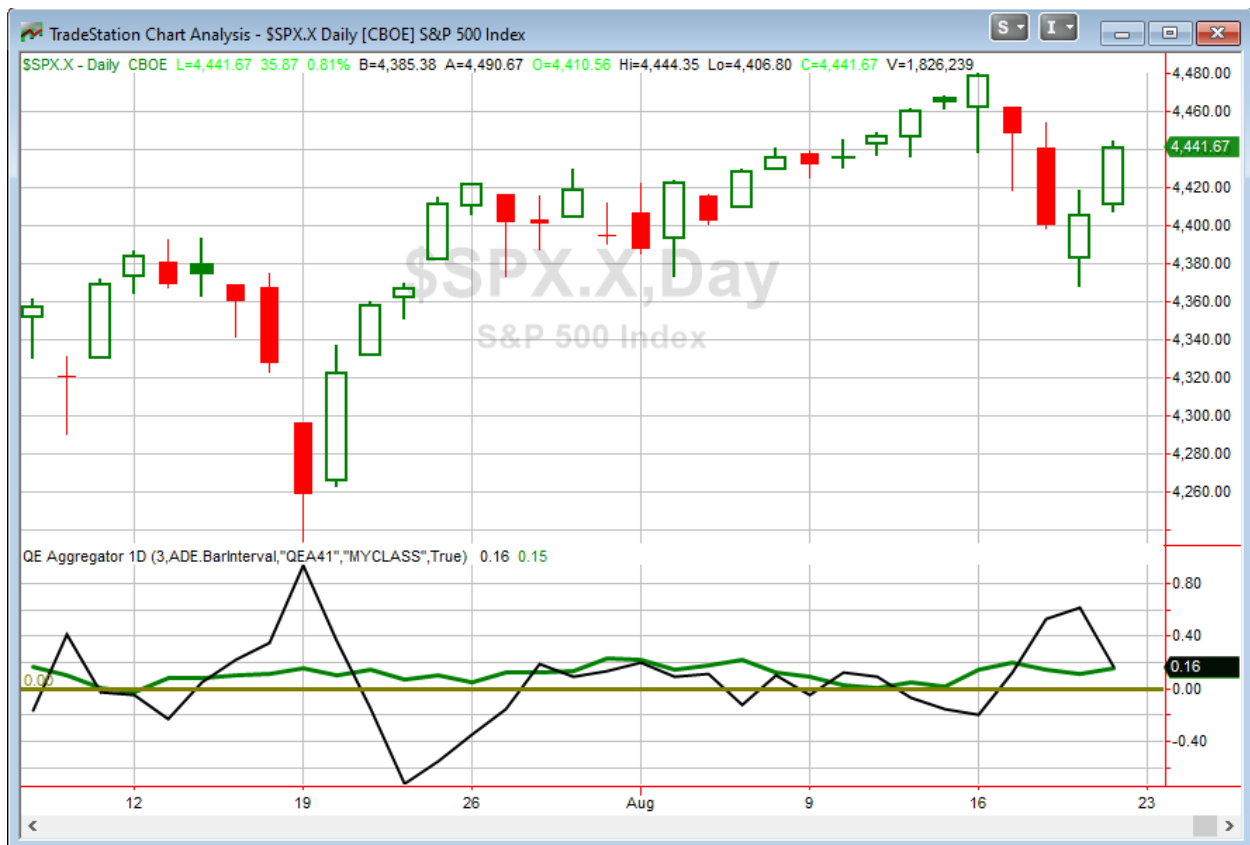
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	22,580.88	112	65	46	58.04	4,717.70	-6,549.84	1,465.29	-1,579.62	0.93	1.31	201.62
4	34,244.41	114	75	39	65.79	4,698.60	-4,384.89	1,279.77	-1,583.04	0.81	1.55	300.39
3	29,048.99	115	73	42	63.48	3,000.00	-4,092.24	1,131.01	-1,274.15	0.89	1.54	252.60
2	33,725.18	115	77	38	66.96	4,088.25	-2,932.22	900.24	-936.67	0.96	1.95	293.26
1	19,596.77	115	68	45	59.13	3,732.75	-1,777.90	681.05	-593.65	1.15	1.73	170.41

This also suggests a 2-day upside edge. Let's check the curve for confirmation.



This is another appealing curve. So it appears this bounce has a pretty good chance of continuing higher over the next day or two.

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



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 slated to remain bullish on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be *inverted* at 4421.47 on Monday. That is 0.45% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX will need to close down almost 0.5% in order to remain "oversold". Anything other than that and it will be considered overbought vs expectations as of Monday's close.

So the Aggregator is still bullish. But that will change to neutral on Monday unless there is a bit of a selloff. I often look at inverted pivots as opportune times to take profits. This is because upside is limited to just one day. So you can take it early in the day or late in the day. Either way, I will be looking to close out my SPY position on Monday if I see a good opportunity to do so.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 8/23 – slightly bullish**

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 lost some headway this past week. The SPX fell 0.6%, the NASDAQ declined 0.7%, and the Russell 2000 dropped 2.5%. The SPX is still very close to an all-time high. But the Russell 2000 is near the bottom of its 6-month range. So the trend is not certain and breadth divergences have been abundant.

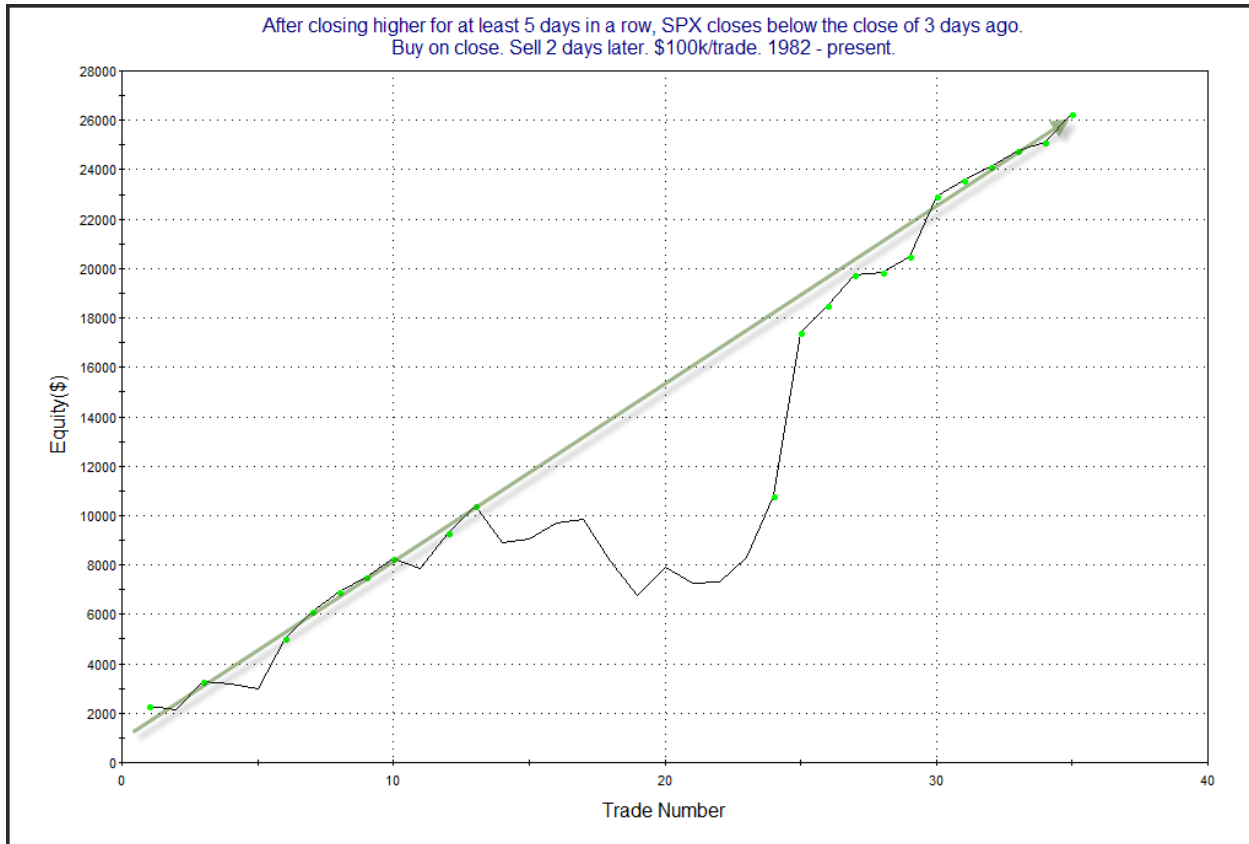
There was one study week with intermediate-term implications. It was seen in the Tuesday night letter. I have copied it below.

*Another study noted that the selloff Tuesday wiped out a few days worth of gains. Below I show results since 1982 where 3+ days of gains were erased after a rally of 5+ days. This study is updated from the 12/29/11 letter.*

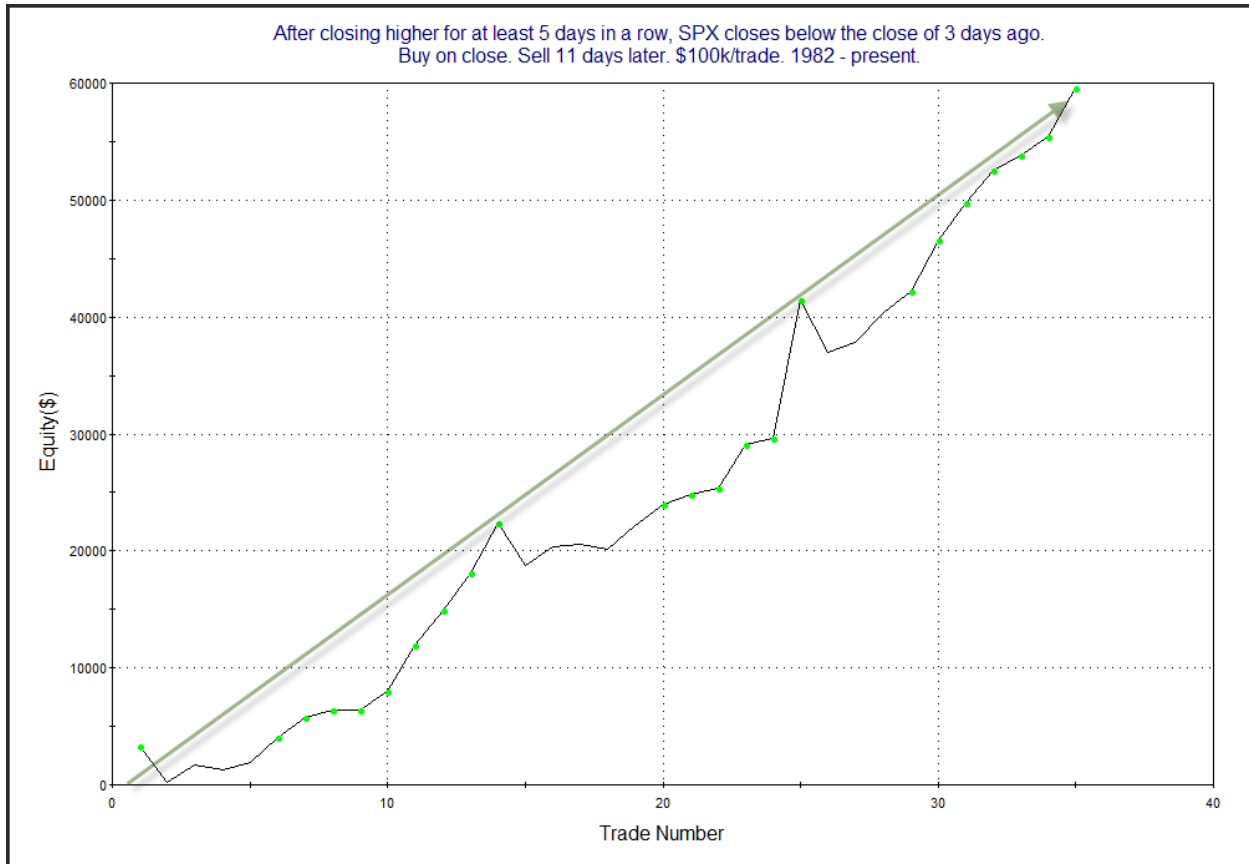
After closing higher for at least 5 days in a row, SPX closes below the close of 3 days ago. Buy on close. Sell X days later. \$100k/trade. 1982 - present.												
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
12	54,918.29	35	27	8	77.14	10,761.62	-5,486.80	2,615.54	-1,962.65	1.33	4.50	1,569.09
11	59,603.95	35	30	5	85.71	11,830.34	-4,548.72	2,390.40	-2,421.61	0.99	5.92	1,702.97
10	53,688.28	35	29	6	82.86	6,387.92	-3,672.90	2,285.17	-2,096.95	1.09	5.27	1,533.95
9	53,773.53	35	30	5	85.71	7,749.44	-4,151.40	2,226.82	-2,606.22	0.85	5.13	1,536.39
8	49,058.98	35	27	8	77.14	7,000.36	-4,874.10	2,320.18	-1,698.24	1.37	4.61	1,401.69
7	49,521.42	35	27	8	77.14	10,129.66	-3,912.48	2,261.26	-1,441.58	1.57	5.29	1,414.90
6	41,256.05	35	27	8	77.14	8,840.12	-2,726.46	1,875.35	-1,172.31	1.60	5.40	1,178.74
5	40,251.99	35	26	9	74.29	11,405.78	-1,858.50	1,886.66	-977.91	1.93	5.57	1,150.06
4	32,231.07	35	25	10	71.43	7,302.92	-3,102.30	1,671.20	-954.89	1.75	4.38	920.89
3	19,490.37	35	24	11	68.57	3,539.22	-3,214.80	1,313.43	-1,093.81	1.20	2.62	556.87
2	26,251.46	35	27	8	77.14	6,652.66	-1,709.10	1,194.43	-749.76	1.59	5.38	750.04
1	19,396.32	35	29	6	82.86	3,977.20	-777.48	736.64	-327.73	2.25	10.86	554.18

**33 of 35 instances (94%) closed above their entry price at some point in the next 5 days.**

*These results also appear to provide a solid upside edge. Below is a profit curve that assumes a 2-day holding period.*



*It isn't a terribly consistent curve, but it sure has been hot lately. The profit curve below assumes an 11-day hold.*

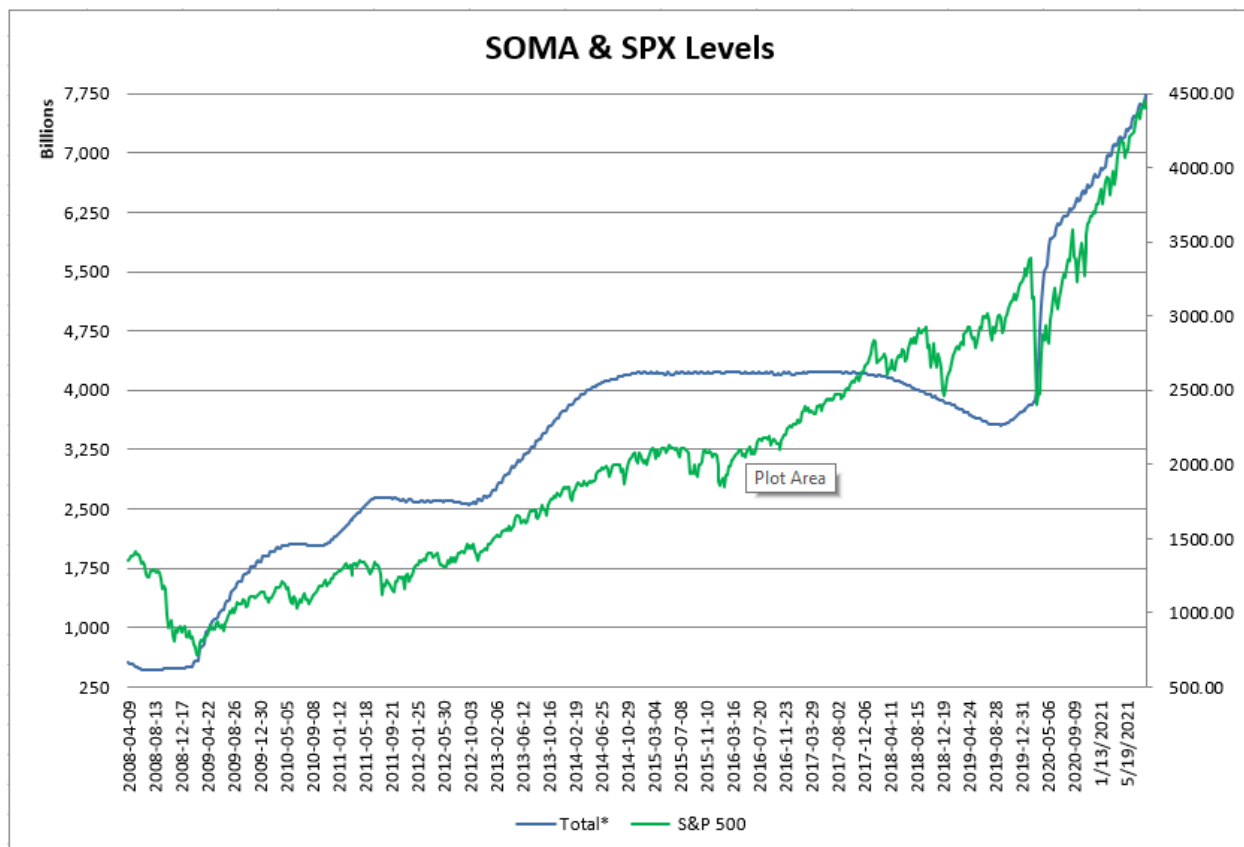


*This one does appear nicely consistent. I have added this study to the short and intermediate-term active list.*

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	
<a href="#">Previous</a>	<b>August 18, 2021</b> <i>Posted August 19, 2021 at 4:30 PM</i>
<a href="#">SUMMARY</a>   <a href="#">T-BILLS</a>   <a href="#">T-NOTES AND T-BONDS</a>   <a href="#">FRNS</a>   <a href="#">TIPS</a>   <a href="#">AGENCY DEBTS</a>   <a href="#">MBS</a>   <a href="#">CMBS</a>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,559,562,363.5
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	353,343,694.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,455,979,762.8
Agency Commercial Mortgage-Backed Securities***	9,658,426.5
Total SOMA Holdings	7,731,814,793.5
Change From Prior Week	99,857,763.5

This past week saw the SOMA rise by about \$100 billion. That is a massive amount, but fairly typical for this time of the month. We should see the SOMA continue to rise 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 (tapering). Taper talk has intensified recently. Many people are now anticipating an announcement of future tapering in the September Fed statement, followed by reduced asset purchases beginning in the 4<sup>th</sup> quarter of this year. 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.

Last thing to note is the SPX Seasonality Calendar for the rest of August. As you can see below, the rest of the month is all “green”, meaning average historical stats for the models are above breakeven in both Win % and Profit Factor. The 1<sup>st</sup> three days in September all look positive as well, with the 1<sup>st</sup> and 3<sup>rd</sup> showing the strongest numbers of the month (based on preliminary stats, which will change slightly).



## **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**

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Stop	Notes
SPY(1/4)	8/18/2021	\$439.18	\$443.36	0.95%		<i>see below</i>

*I will look to take profits on the SPY position if there is an intraday rally. So I will sell @ \$444.00 LIMIT. If not filled by the close, I will sell @ \$442.00 LIMIT ON CLOSE. If neither are filled, I will hold overnight and re-evaluate.*

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