

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 30, 2021

Volume 14 Issue 166

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Seasonality looks positive for this upcoming week.
- The NASDAQ has taken a leading position vs the SPX. This is a positive for the the intermediate-term.
- The SOMA dipped this past week as it often does near the end of the month, but the Fed remains dovish, and liquidity is plentiful.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is leaning bullish, but the market is overbought and at new highs. A pullback could provide a long opportunity if it occurs in the next few days.

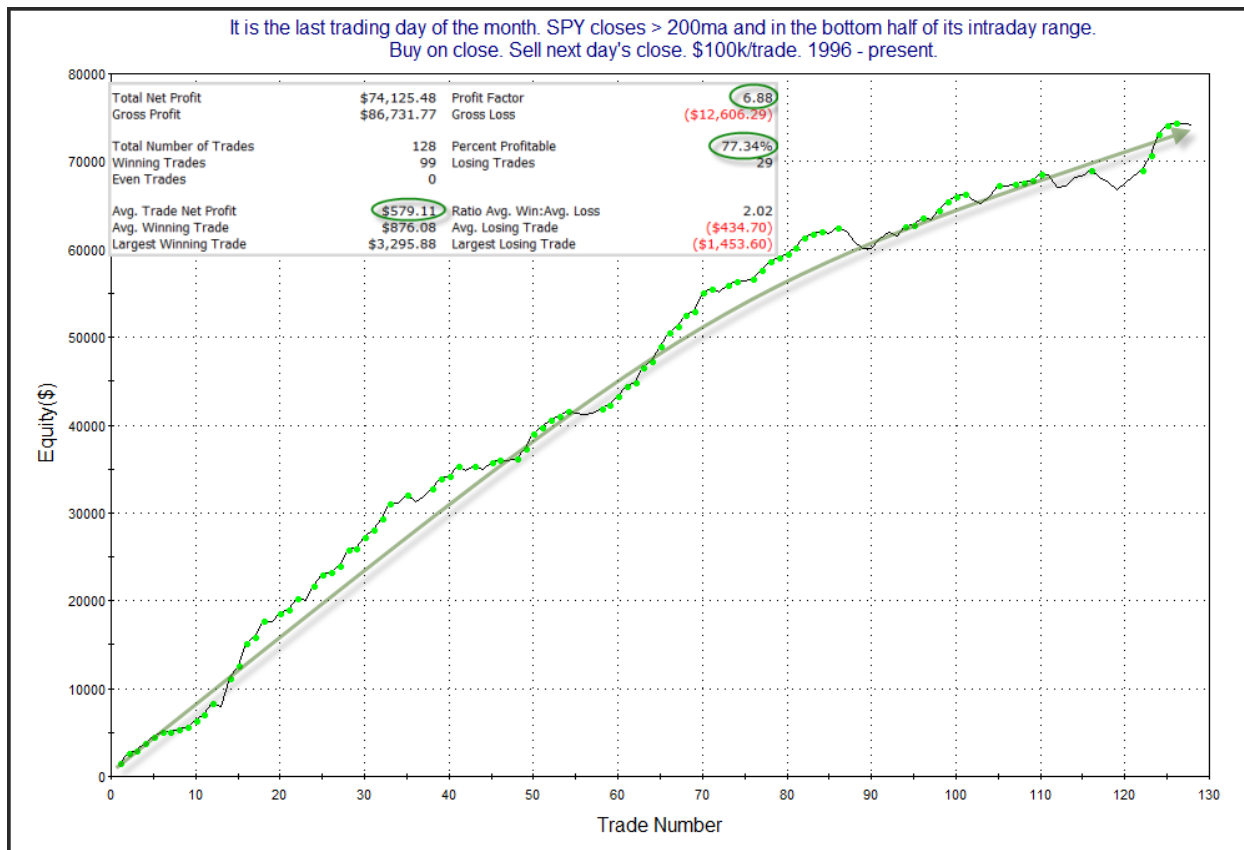
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
August 27, 2021	5+ days to 50-high, then down 1.	1-4 days	Bullish	1.10%	-0.80%	-1.65%
Active - Long Term						
August 30, 2021	NASDAQ Leading	int term	Bullish			
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%
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

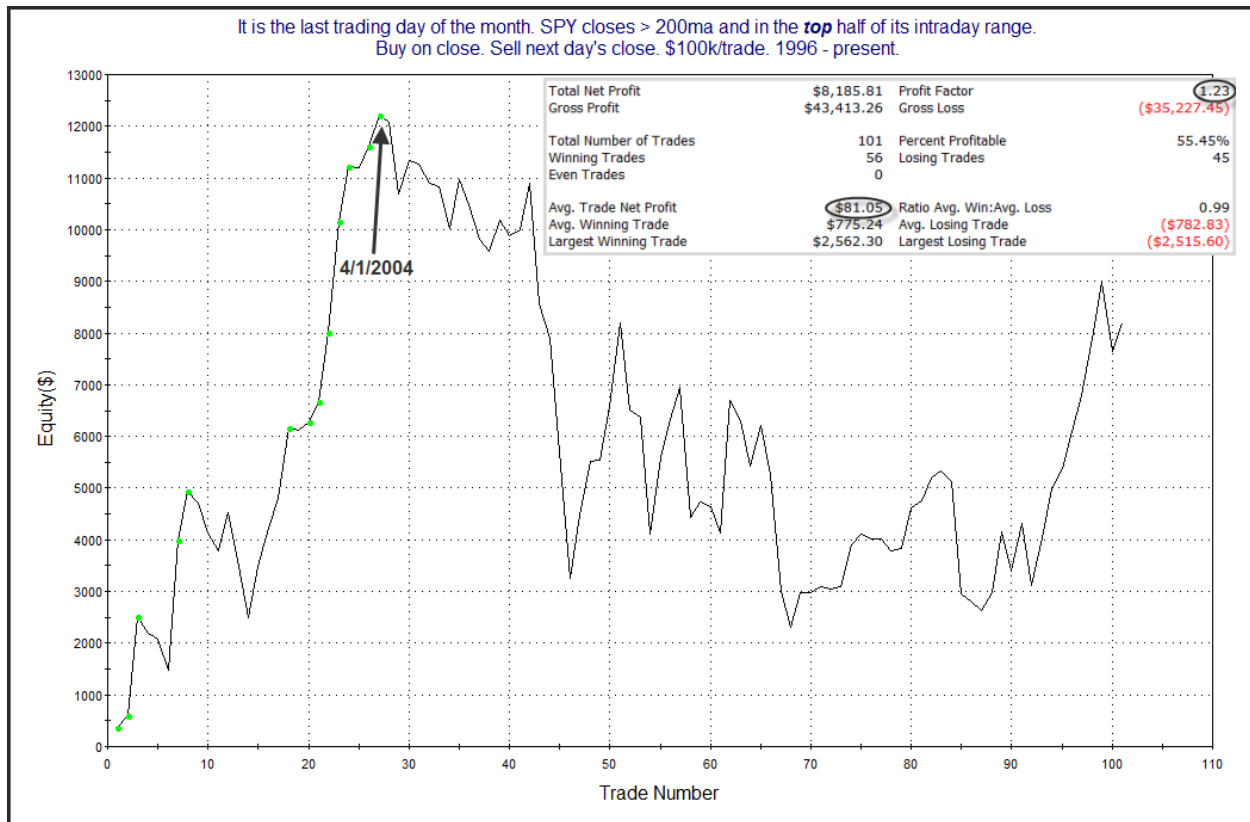
Jay Powell's speech was dovish and the market celebrated on Friday. The SPX rose 0.9%, the NASDAQ gained 1.2%, and the Russell 2000 rallied 2.85%. Breadth was positive with the NYSE Up Issues % coming in at 83% and the Up Volume % at 86%. NYSE total volume rose some from Thursday's level.

Despite some strong gains to new highs, price action did not trigger any really compelling studies to discuss for Monday. So let's talk about seasonality for this upcoming week and especially Wednesday's turn of the month. The 1st trading day of the month often plays out for the bulls. But the edge over time has been correlated to how SPY closed on the last day of the month. This can be seen in the studies below, which use a 200ma filter. First let's look at times when the market closed in the bottom half of its range on the last day of the month.



The stats here are outstanding. Gains absolutely blow away losses in every category. Gross gains are nearly 7x the size of gross losses. That's a very impressive stat when you are looking at a sample size of 128 instances. And the curve has shown progress over a long period of time. This setup certainly appears to provide a 1-day bullish edge.

But what about times where SPY closed in the top half of its intraday range?



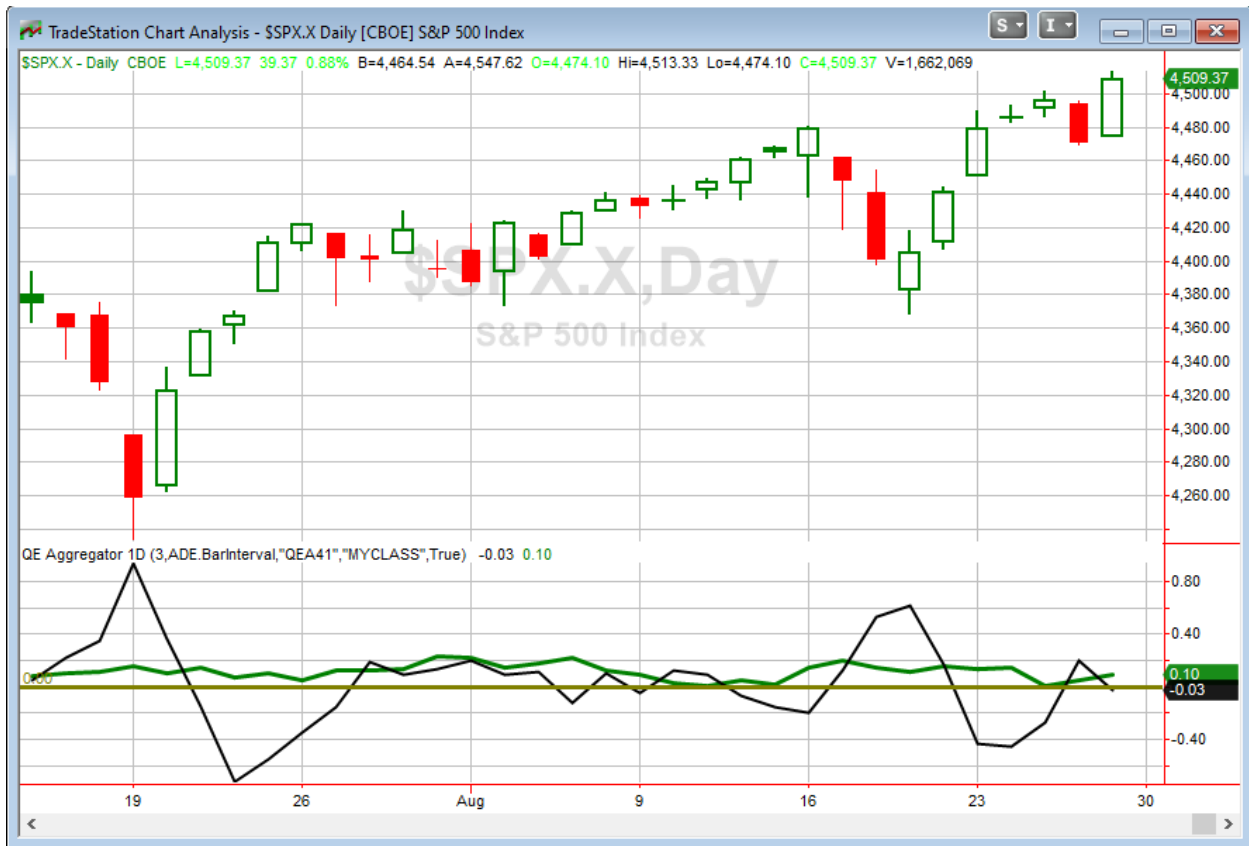
We see here the upside edge nearly completely wiped away. And since 2004 there have been (inconsistent) net losses, even with the recent hot streak. The 1st day of the month has performed much better with some afternoon selling leading up to the day. So traders may want to keep that in mind on Tuesday as we approach the close.

The QE Seasonality Calendar shows positive numbers for every day this upcoming week. Below I combined the last few days of the August Calendar and the 1st few for the preliminary September Calendar. The September numbers will be finalized and posted on Wednesday night.

Quantifiable Edges Seasonality Calendar			
SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
8/30/2021	51.62	1.023	0.004
8/31/2021	55.11	1.211	0.058
9/1/2021	61.21	1.662	0.159
9/2/2021	57.76	1.367	0.079
9/3/2021	60.57	1.523	0.104

Wednesday and Friday show the strongest odds. September has traditionally been a tough month for the market, but most of the downside has occurred in the 2nd half of the month. Bottom line is that this upcoming week looks fairly positive from a seasonality standpoint. And Wednesday could be especially positive if the market sells off some on Tuesday afternoon.

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



Without any new short-term studies being added this weekend, 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 dipped 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 turned flat at the close.

Based on the current active list, expectations are slated to remain bullish on Monday. Of course this could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot

will be 4508.98 on Monday. That is less than 1 point below Friday's close. Therefore, SPX will only need to close down a very small amount on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. Me too. Evidence is favoring the bulls, but I would much rather have an entry point with better reward/risk. Perhaps a pullback in the next few days could provide that. I'll continue to exercise patience and remain alert to any new evidence that emerges.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/30 – 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 This week Combo #2 and #3 switched to “Long”.*

The market put in a strong week. The SPX gained 1.5%, the NASDAQ climbed 2.8%, and the Russell 2000 rallied 5.05%. The NASDAQ and SPX also closed at new all-time highs. So the trend remains up.

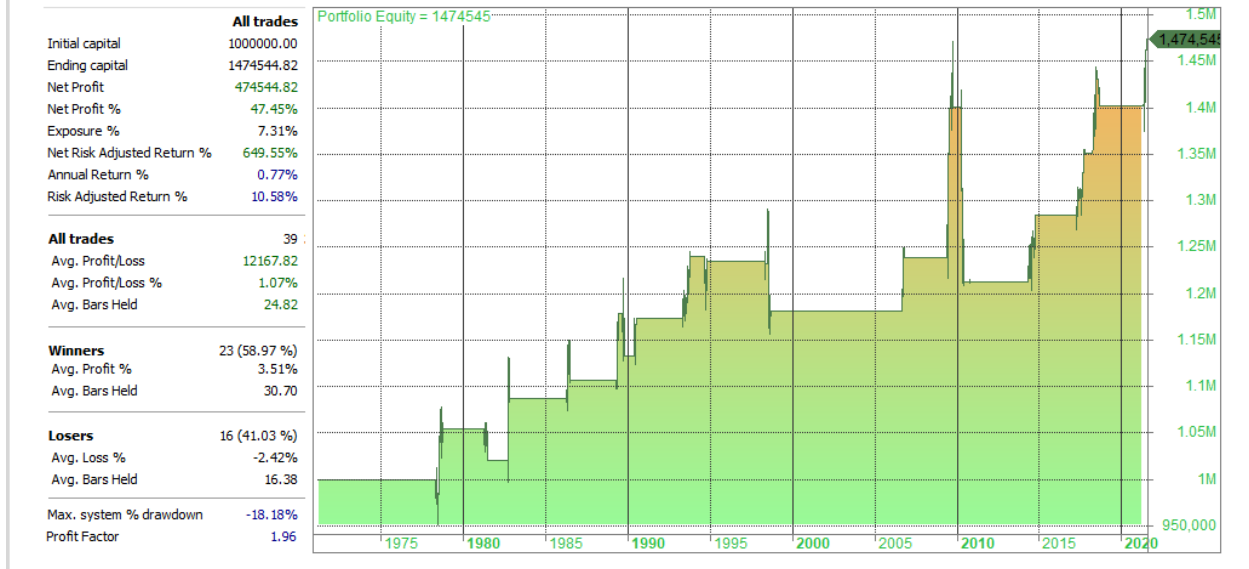
The relative outperformance of the NASDAQ vs SPX this week helped it to retake a leading position based on our NASDAQ/SPX Relative Strength Indicator. Below is a chart of the indicator from the website.



The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 1971, the market has performed substantially better when the NASDAQ has been leading. Over that time, the SPX has gained 2407.16 points when the NASDAQ has been leading versus 1416.63 points when the NASDAQ has lagged. The difference for the NASDAQ has been even more dramatic, with the point gains being 9396.17 vs. just 4191.25. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). <http://quantifiableedges.com/nasdaq-weekly-strength-model/>

I decided tonight to take a look at how the market has done when all 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX “Golden Cross” in effect, 3) unfavorable Presidential Cycle, and 4) “Worst” 6 months in effect. Below are updated stats showing SPX performance during this alignment.

Both Market Timing Course price action indicators are positive while the seasonality indicators are negative.
 \$100k compounded portfolio. 1971 - present.



We see here that similar formations have seen gains in the past. It is notable though that this chart has had some sizable drawdowns along the way, and it is not exactly a smooth ride higher. So perhaps the setup could be viewed as bullish, or perhaps your interpretation would be more neutral. In any case, it does not appear to be bearish. And as you can see near the top of this section, with both Market Timing Course price indicators now positive, two of the 3 “Combo” systems we track are now “Long”.

The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

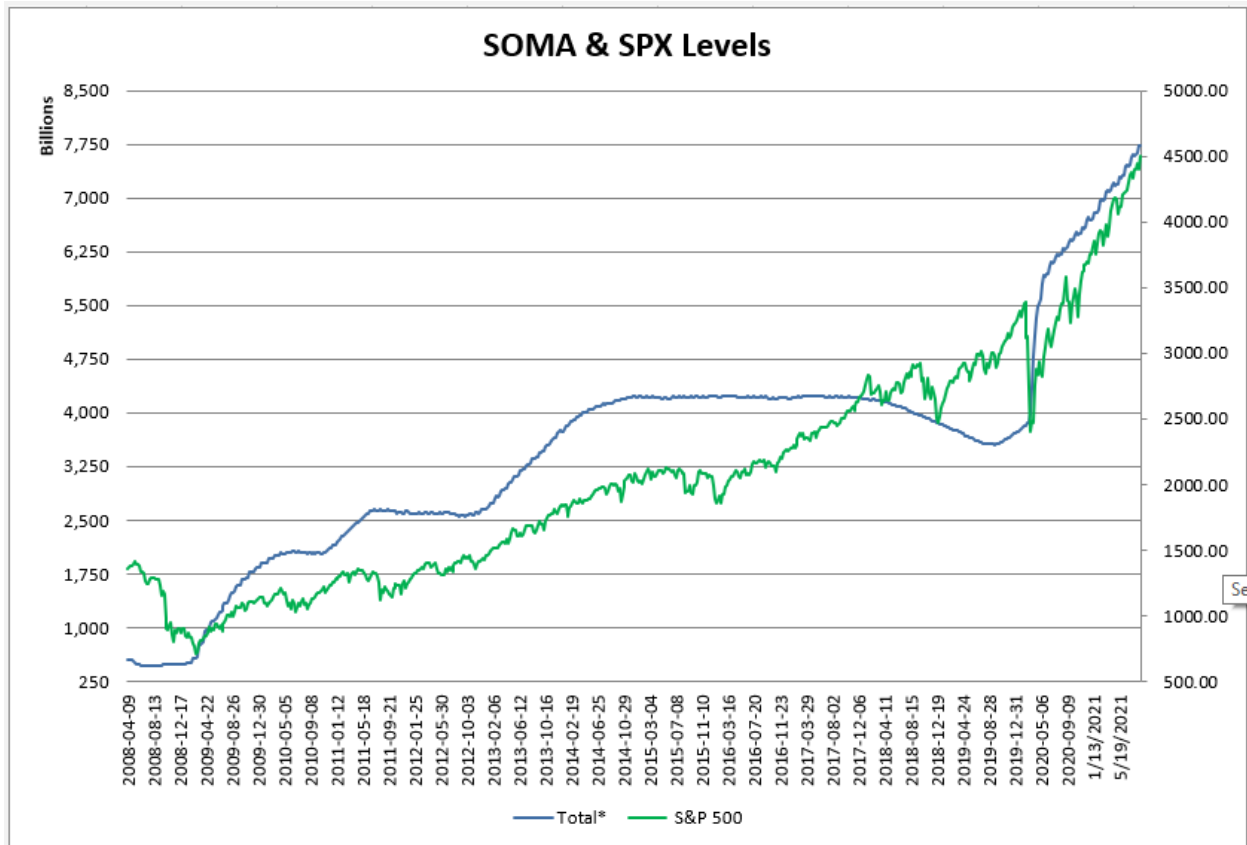
Domestic Security Holdings as of

◀ Previous **August 25, 2021** 📅
Posted August 26, 2021 at 4:30 P.M.

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)	4,579,164,363.5
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	355,344,694.8
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,428,441,526.6
Agency Commercial Mortgage-Backed Securities***	9,625,250.6
Total SOMA Holdings	7,725,846,381.4
Change From Prior Week	-5,968,412.1

This past week saw the SOMA decline by about \$6 billion. Declines tend to happen the last week of each month for QE4. It is just a calendar quirk. It is not something to be concerned about, and is not a change in policy. 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 amount of stimulus will be dialed back some in the coming months. When the massive liquidity support is eventually removed that will likely make for a much more challenging market environment. For now, the Fed is pumping at that is big positive for the SPX.

Based on Powell’s speech on Friday, he still does not view inflation as a problem. He seems intent on keeping stimulus in place for quite a bit longer. Personally, I think the Fed has a long history of overshooting, whether it be too much loosening or too much tightening. I suspect inflation will become a very hot topic at some point, and the Fed will need to tighten to try and reign it back in. Hopefully it does not become a big problem. It is not a big problem right now. And my short and intermediate-term trading deals primarily with the “now”.

The bulls still have the long-term trend on their side. The NASDAQ retaking a leading position is a positive, along with the dovish Fed and continued pumping. Most of the intermediate-term evidence we have seen lately points higher. Bears might be able to point to weak seasonality, but this upcoming week does not look bad from a seasonal standpoint. Overall, I am somewhat bullish.

Challenging times will arrive at some point, but for now I am inclined to trade the long side more aggressively than the short side. I'll continue to be alert to new evidence and open to changing my bias should the evidence change.

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

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