

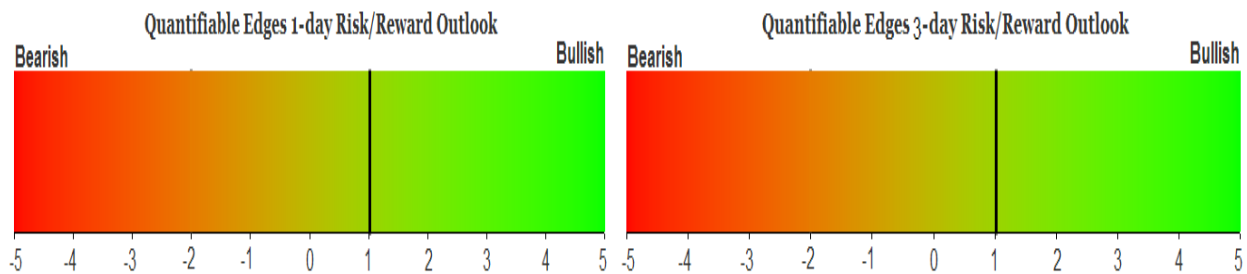
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

September 7, 2021

Volume 14 Issue 171

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Labor Day week has done poorly when there has been a rally leading up to it.
- September has been the worst month, but all of the downside can be attributed to the week after options expiration.
- The Fed is still pumping and the market is continuing to make new highs, suggesting the bulls are still in charge.

Short-term Outlook

The Bottom Line

The Aggregator is bullish, but it is about as weak of a signal as you'll see. I'm not inclined to try and take advantage unless reward/risk improves.

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						
September 7, 2021	Rally into Labor Day week	1-4 days	Bearish	-1.60%	1.00%	2.00%
September 3, 2021	20-high and partial reversal	1-5 days	Bullish	1.60%	-0.70%	-1.30%
September 3, 2021	20-high and partial reversal	1-2 days	Bullish			
Active - Long Term						
August 30, 2021	NASDAQ Leading	int term	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

Friday finished with mixed results for the indices. The SPX lost 0.03%, the NASDAQ gained 0.2%, and the Russell 2000 declined 0.5%. Breadth was negative with the NYSE Up Issues % coming in at 41.5% and the Up Volume % at 41.6%. NYSE total volume came in light ahead of the long weekend.

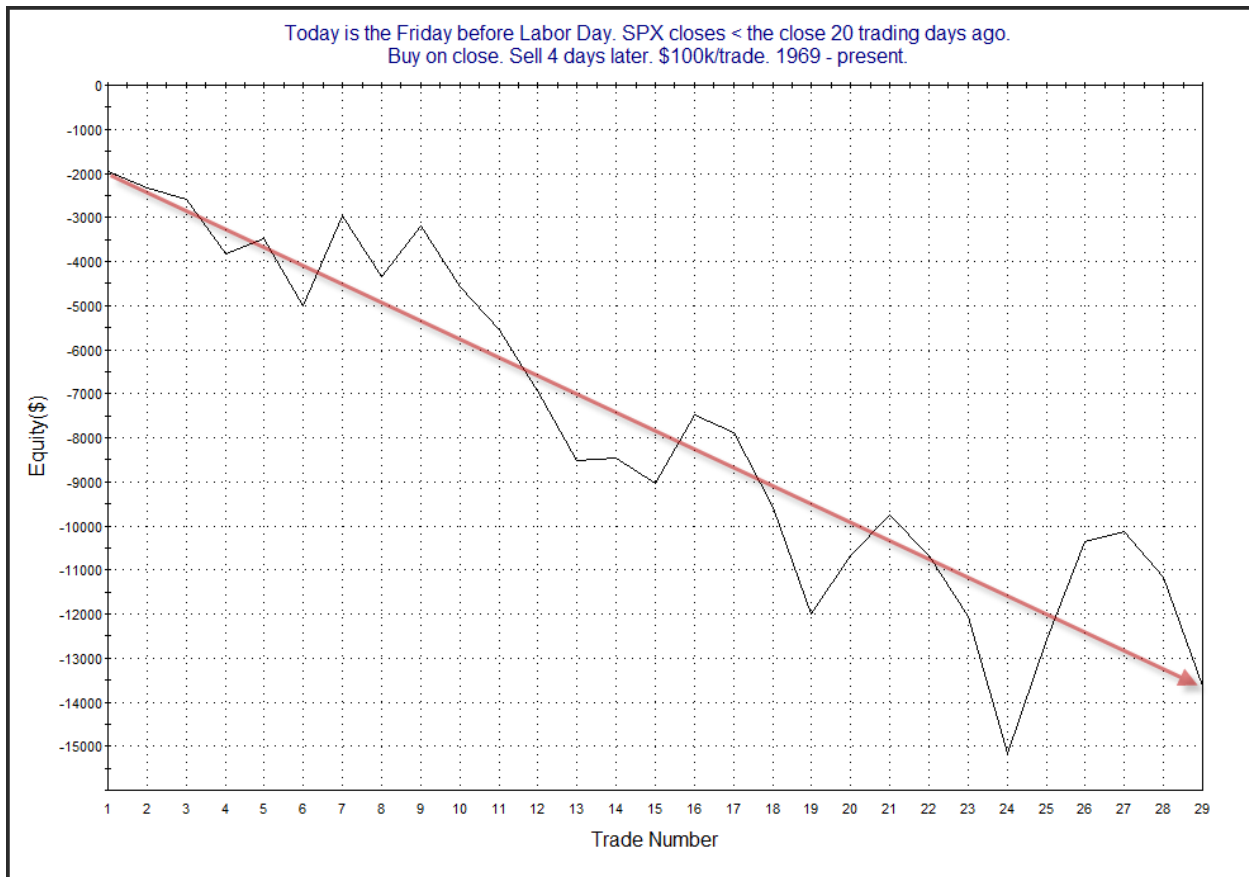
The dull action failed to generate any meaningful price-action based studies. But there is some seasonality-based evidence to discuss. Over the last several years I have demonstrated that the performance during the week of Labor Day has been impacted by the performance in the month leading up to it. Interestingly, it has been somewhat of a momentum reversal week. When SPX has rallied up to Labor Day, then it has struggled that week. And declines into Labor Day have seen positive performance. Below is an updated look at the two scenarios.

Today is the Friday before Labor Day. SPX closes < the close 20 trading days ago. Buy on close. Sell X days later. \$100k/trade. 1969 - 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	16,679.91	23	14	9	60.87	5,691.60	-3,611.52	2,076.36	-1,376.57	1.51	2.35	725.21
4	10,580.31	23	15	8	65.22	3,585.30	-4,206.40	1,546.26	-1,576.70	0.98	1.84	460.01
3	7,547.52	23	14	9	60.87	3,485.40	-2,391.84	1,065.51	-818.85	1.30	2.02	328.15
2	7,256.27	23	14	9	60.87	3,294.60	-4,795.56	1,232.17	-1,110.46	1.11	1.73	315.49
1	3,967.87	23	12	11	52.17	5,054.10	-2,259.18	1,245.95	-998.50	1.25	1.36	172.52

Today is the Friday before Labor Day. SPX closes > the close 20 trading days ago.
Buy on close. Sell X days later. \$100k/trade. 1969 - 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	-14,369.46	29	8	21	27.59	3,228.12	-2,942.07	1,404.70	-1,219.38	1.15	0.44	-495.50
4	-13,651.33	29	10	19	34.48	2,580.34	-3,113.11	1,244.67	-1,373.58	0.91	0.48	-470.74
3	-11,292.98	29	12	17	41.38	2,718.52	-4,024.28	1,130.03	-1,461.96	0.77	0.55	-389.41
2	-8,209.37	29	8	20	27.59	3,055.58	-2,668.88	1,366.76	-957.17	1.43	0.57	-283.08
1	-7,057.07	29	13	16	44.83	1,751.34	-4,147.45	737.09	-1,039.95	0.71	0.58	-243.35

The 4-day numbers are basically inverted. So the Tues-Thurs after Labor Day have not seen any consistency without the delineator. But the trend filter reveals a striking difference. Over the last several weeks the market has rallied nicely, so we are currently facing the 2nd scenario. Below is a look at the profit curve for the 4-day exit following the current setup.

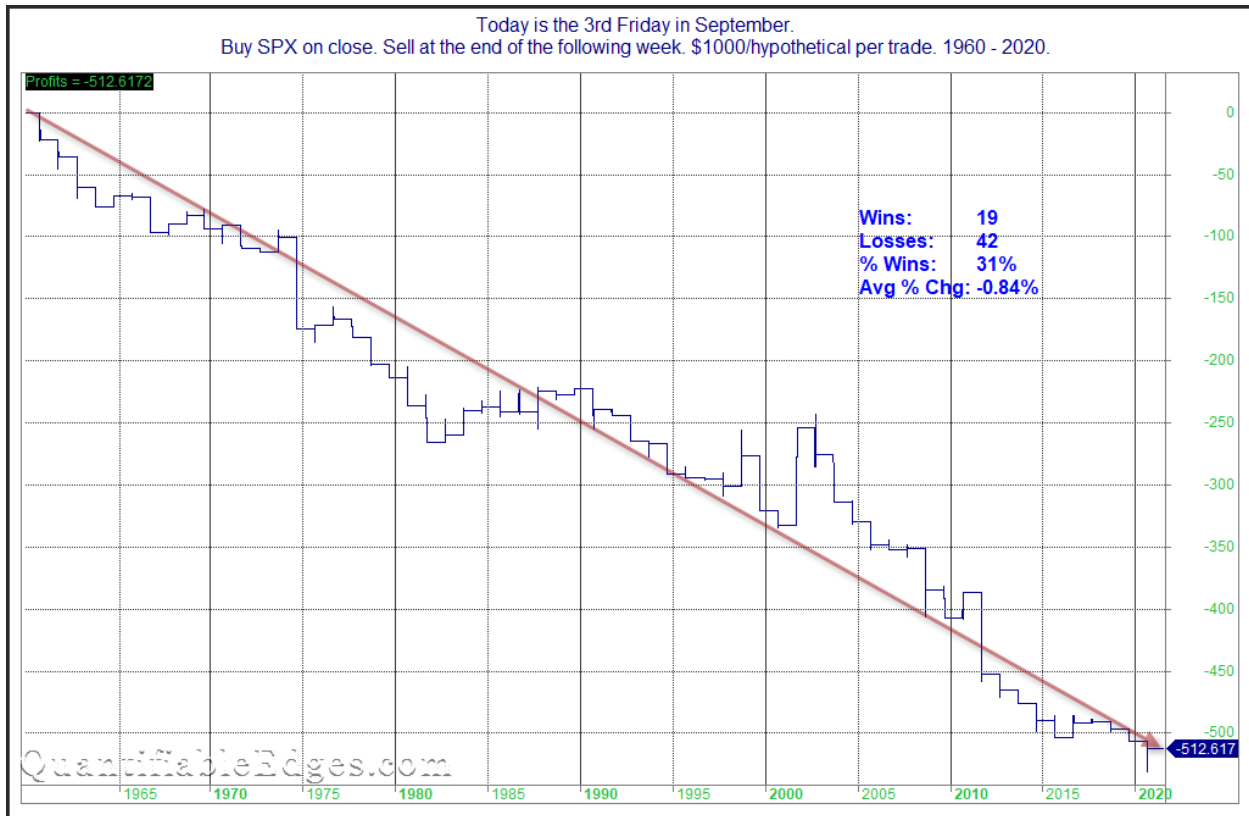


Choppy but an obvious downslope. This seems to be worth some consideration and I have added it to the Active List tonight. Of course September as a whole has been a tough month for the

market. I wrote about this, and the “Weakest Week”, which is the week after options expiration, for an article that will be coming out in [ProActive Advisor Magazine](#) this week. Below is a copy of the article:

September has a reputation for being the worst month of the year for the stock market. And that is deserved. Since 1960, the average September return is -0.59%. The only other month with a negative average return is June, which was basically breakeven with an average return of -0.01%. The best month over this timeframe has been April, which averaged a gain of 1.61%. What most people don't realize about September is that the struggles can all be attributed to just 1 week. Years ago I dubbed it the “Weakest Week”, and the weakness has continued to persist. The week I am referring to is the week following the 3rd Friday in September.

Many people will note that the 3rd Friday of the month is when monthly options expire. And there are seasonal tendencies that occur around this. The week of options expiration is often bullish for the market and the week following often sees some of those gains given back. But what is interesting about the week after the 3rd Friday in September is that the bearish bias has been in place since well before options expiration was even an event. (S&P Index options began trading in 1984.) The bearish tendency can be seen in the chart below, which looks back to 1960. (Data from Norgate Data. Chart produced in Amibroker.)



You'll note the average return this particular week has been -0.84% since 1960. I already mentioned the average September return over the same period was -0.59%. So all the net losses and more are attributable to this one particular week. The downward persistency of the curve shows that the bearish tendency has been quite consistent over the last 61 years. There was a stretch in the late 80's where there was a series of mild up years. Since 1990 it has been pretty much all downhill. Below is a table showing results of buying at the close of the 3rd Friday in September and then selling X days later from 1990 – 2020. (Date source: Tradestation)

Today is the 3rd Friday of the month in September.
Buy SPX on close. Sell X days later. \$100k/trade. 1990 - 2020

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	-28,843.66	31	6	25	19.35	7,739.42	-6,525.56	2,250.53	-1,693.87	1.33	0.32	-930.44
4	-30,478.84	31	6	25	19.35	5,439.43	-7,088.90	1,818.60	-1,655.62	1.10	0.26	-983.19
3	-22,837.14	31	7	24	22.58	4,508.00	-5,455.74	1,702.58	-1,448.13	1.18	0.34	-736.68
2	-17,837.91	31	9	22	29.03	4,786.41	-5,283.52	880.33	-1,170.95	0.75	0.31	-575.42
1	-10,801.01	31	8	23	25.81	3,877.95	-3,791.21	872.04	-772.93	1.13	0.39	-348.42

2001 & 2017 were the only years that SPX failed to close below its entry price at some point in the next week.

The bearish tendency appears quite strong. Four and five days later the SPX has been lower over 80% of the time. I note below the table that the only instances not to post a lower close at some point during the following week were in 2001 and 2017. The 9/11 attacks certainly made for unusual circumstances in 2001, and 2017 did not see a decline, but it only rose 2 points, so it was not much of a victory for the bulls.

Overall, September has been the weakest month, but the weakest week in September has been the real market villain.

I'll mention the "Weakest Week" influence again in a few weeks when we get near it.

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



With tonight's evidence considered, the green Aggregator Line held just slightly above zero. Positive readings mean net expectations are for upside over the next few days. Meanwhile the black Differential Line finished an indistinguishable amount 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 turned long at the close.

Based on the current list of active studies, expectations are set to remain positive on Monday. Of course this could easily change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 4533.36 on Monday. That is 0.05% *below* Friday's close. An inverted pivot means that the Differential Line will cross through zero if SPX closes flat. In this case, SPX is going to need to close down about 2 points in order to remain oversold vs expectations. Anything other than that and it will flip to overbought as of Monday's close.

So the Aggregator formation is bullish, but the signal is about as weak as you could get. Evidence is mixed and expectations are barely positive. Meanwhile the "oversold" reading is as small as you can get and the Differential Pivot is inverted. This does not scream of some great upside edge to look to play. I'm willing to take a trade in either direction, but I'd want more supporting evidence and a more overbought/oversold reading before getting excited about a new index trade.

Intermediate-term Outlook (2 weeks – 2 months) – updated 9/7 – 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 were no changes to the Combo System signals.*

The market put in a solid week. The SPX gained 0.6%, the NASDAQ climbed 1.55%, and the Russell 2000 rallied 0.65%. The NASDAQ and SPX also posted new all-time highs. So the trend remains up. No new studies with intermediate-term implications emerged over the last few days.

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	September 1, 2021 <small>Posted September 2, 2021 at 4:30 PM</small>
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)	4,595,363,229.8
US Treasury Floating Rate Notes (FRNs)	24,879,545.9
US Treasury Inflation-Protected Securities (TIPS)*	357,550,828.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,428,442,526.6
Agency Commercial Mortgage-Backed Securities***	9,625,250.6
Total SOMA Holdings	7,744,252,381.4
Change From Prior Week	18,406,000.0

This past week saw the SOMA rise by about \$18 billion. This is a typical amount for the current QE environment. 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.

The long-term trend, the leading NASDAQ, and the strong liquidity support from the Fed is enough to keep me leaning bullish. Seasonality is a challenge. September and October can be volatile. There have been indications that the Fed policy will soon be changing, and that could take a big positive away from the bulls. So I will continue to lean bullish for the time being, but I am prepared to come off that stance if evidence weakens.

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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