

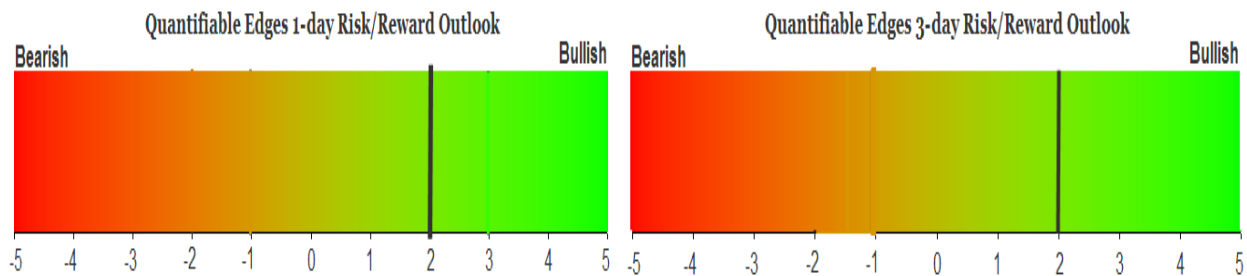
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 23, 2022

Volume 15 Issue 97

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	2

Tonight's Research Points

- Large reversals from long-term lows don't often see momentum carry through the next day.
- An exception to the above may be if the reversal happens on a Friday. A few Friday studies are suggesting a bounce this upcoming week.
- The SOMA closed up only slightly this past week, and remains down over the last 5 weeks. The market is struggling without the support of the Fed.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. But evidence is mixed and the edge does not appear huge. Still I think there is decent potential for a bounce in the next few days.

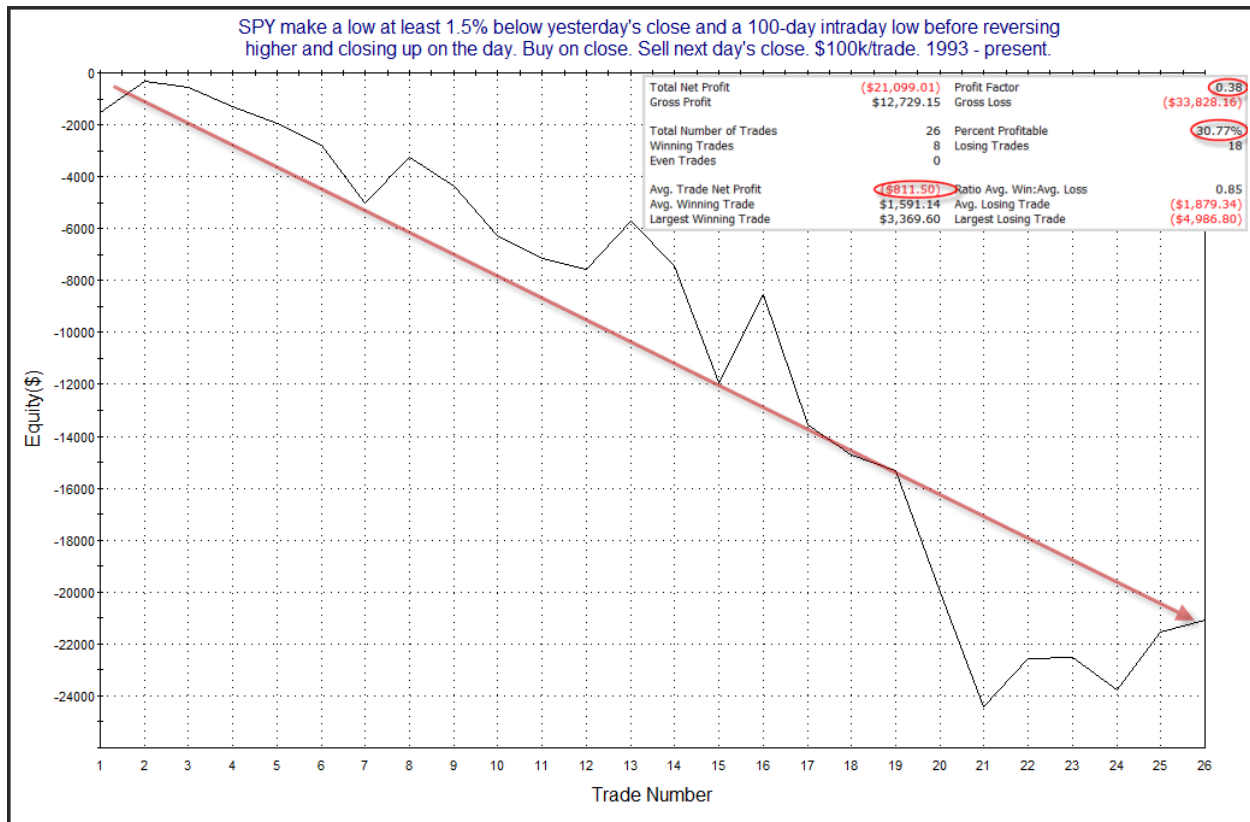
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
May 23, 2022	Fri 50-intraday low then up close	1-4 days	Bullish	3.20%	-1.30%	-2.90%
May 23, 2022	Up from 50-low on a Friday	1-2 days	Bullish			
May 23, 2022	1.5% dn & 100-day low reverses positive	1 day	Bearish			
May 12, 2022	SPX dn > 1.5%. VIX down.	1-9 days	Bullish	6.60%	-3.40%	-7.40%
Active - Long Term						
May 16, 2022	Up from 50-low on a Friday	1-25 days	Bullish	5.80%	-3.80%	-8.10%
May 12, 2022	NASDAQ breadth oversold at 100 Low	1-19 days	Bullish			
May 9, 2022	5 weeks lower and < 40-week avg	1-8 weeks	Bearish			
May 2, 2022	Worst 6 Months with Jan-April selling	1-6 months	Bearish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			

The Evidence

Friday was a wild day, as the market gapped up, sold off really hard to make new lows, and then rebounded to finish mixed on the day. The SPX ended with a gain of 0.01%, the NASDAQ lost 0.3%, and the Russell 2000 declined 0.2%. Breadth was mildly negative with the NYSE Up Issues % coming in at 46% and the Up Volume % at 46%. NYSE total volume rose some from Thursday's level.

The fact that SPY made a new long-term intraday low before reversing and finishing higher triggered some old studies. In the 12/11/18 letter I looked at other big reversals at long-term lows. I have updated that study below.



When it takes a huge rebound just to get back to positive on the day, then the afternoon momentum has rarely followed through to the next day.

But the fact that the reversal happened on a Friday could be a positive. Last weekend I showed several studies looking at reversals from long-term lows that begin on Fridays. I have copied some of that research below (not updated).

Friday is one of the least popular days for a bounce from a low to occur. But a potential positive about a Friday bounce is that they tend to be the most reliable moving forward. The below tables are updated from the 1/31/22 letter and look at performance following a bounce from a 50-day low. The 1st table looks at performance 1 day later, and the 2nd table looks at performance 5 days later.

After closing at a 50-day low yesterday SPX closes up today. Today is the day of week listed.
Buy on close. Sell 1 day later. \$100k/trade. 1985 - present.

Day of Week	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
Fri	11,449.51	38	27	11	71.05	6,420.72	-11,696.04	1,223.68	-1,962.72	0.62	1.53	301.30
Thurs	5,289.51	41	21	20	51.22	3,982.74	-3,447.40	1,350.55	-1,153.60	1.17	1.23	129.01
Wed	2,823.72	28	15	13	53.57	3,644.16	-4,761.33	1,511.09	-1,526.36	0.99	1.14	100.85
Tues	-11,239.06	57	27	30	47.37	9,089.88	-5,112.51	1,277.71	-1,524.58	0.84	0.75	-197.18
Mon	-5,732.18	42	23	19	54.76	2,691.92	-4,893.07	834.60	-1,312.00	0.64	0.77	-136.48

After closing at a 50-day low yesterday SPX closes up today. Today is the day of week listed.
Buy on close. Sell 5 days later. \$100k/trade. 1985 - present.

Day of Week	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
Fri	34,823.48	38	28	10	73.68	10,682.82	-14,619.60	2,266.86	-2,864.85	0.79	2.22	916.41
Thurs	42,392.67	39	26	13	66.67	9,334.72	-4,901.67	2,456.44	-1,651.91	1.49	2.97	1,086.99
Wed	2,627.11	28	16	12	57.14	8,658.92	-11,026.82	2,379.67	-2,953.97	0.81	1.07	93.83
Tues	282.70	55	33	22	60.00	10,340.00	-24,627.73	2,993.28	-4,477.07	0.67	1.00	5.14
Mon	-7,804.69	42	24	18	57.14	5,873.28	-11,533.34	2,037.94	-3,150.85	0.65	0.86	-185.83

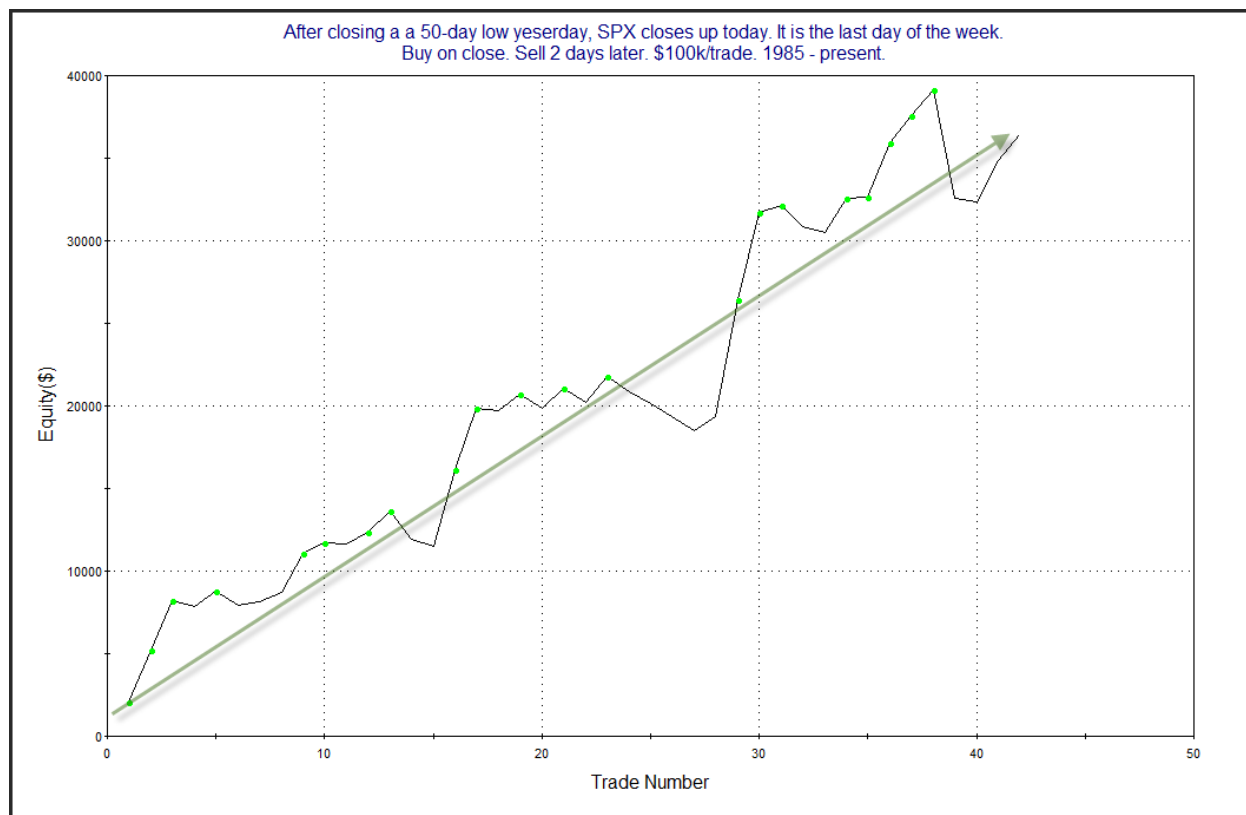
We see that Friday is the day of the week that that shows most of the strongest odds moving forward. This is true whether you are looking at Net Profits, % Profitable, Win/Loss Ratio, Profit Factor, or Avg Trade. So Tuesday is the most likely day to see a bounce occur, but Friday is the day where that bounce is most likely to stick.

The table below is just slightly different. Rather than saying Friday, I required it be the last day of the week. In other words, if it is Thursday, and Friday is a holiday, then that also qualifies for the study below. Here I look at performance over the next few days after the end-of-week bounce has occurred. (This is updated.)

After closing a 50-day low yesterday, SPX closes up today. It is the last day of the week.
Buy on close. Sell X days later. \$100k/trade. 1985 - 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	31,404.84	42	30	12	71.43	10,682.82	-14,619.60	2,161.37	-2,786.35	0.78	1.94	747.73
4	36,605.64	42	29	13	69.05	11,930.04	-10,858.68	2,293.29	-2,299.99	1.00	2.22	871.56
3	27,377.75	42	28	13	66.67	10,868.60	-11,265.12	2,033.69	-2,274.28	0.89	1.93	651.85
2	36,424.10	42	26	16	61.90	7,112.64	-6,545.88	2,057.64	-1,067.15	1.93	3.13	867.24
1	9,138.84	42	28	14	66.67	6,420.72	-11,696.04	1,195.72	-1,738.67	0.69	1.38	217.59

Much of the gains occur in the 1st 2 days. I also produced a profit curve below.



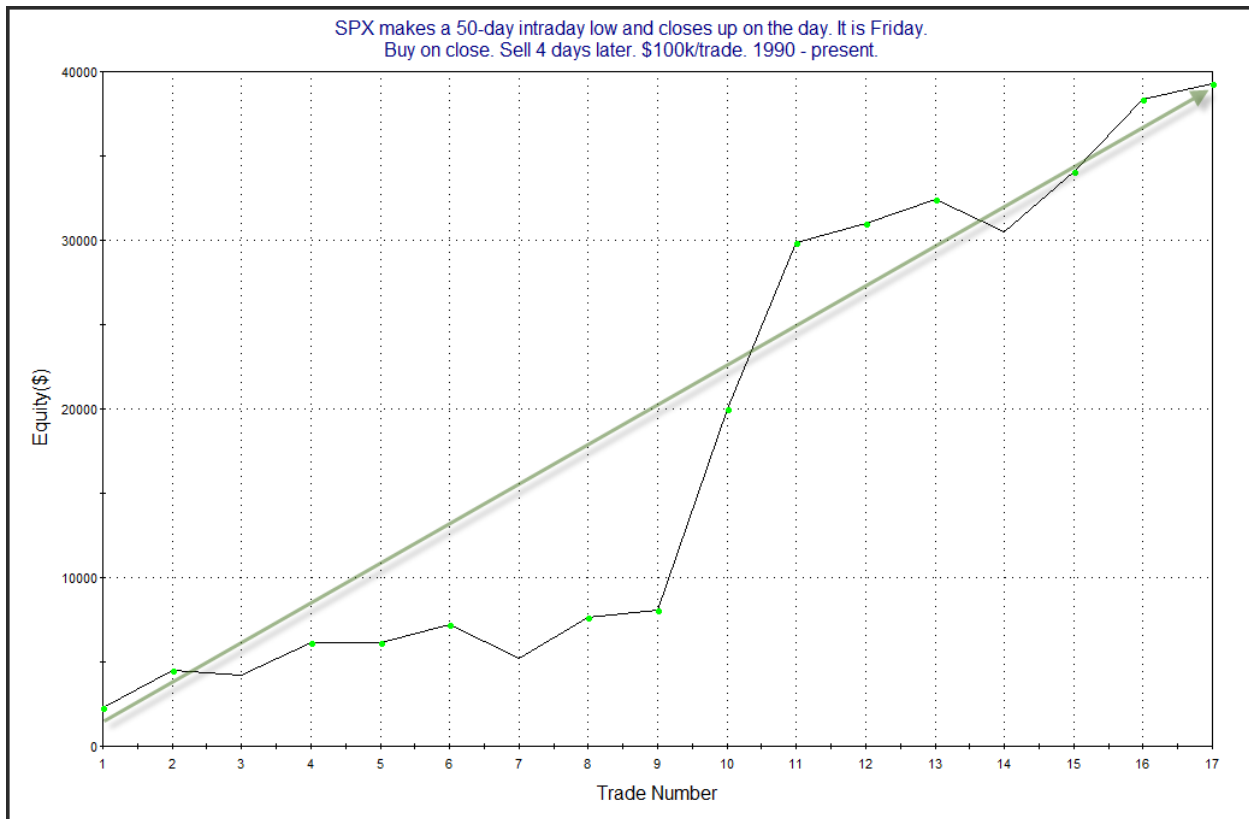
The recent instance with the big drop occurred in March 2020. Other than that, the strong upslope has persisted for a long time and serves as some confirmation of the upside edge.

I also looked this weekend at times we saw a 50-day intraday low on a Friday where the day ended higher. Results of that can be seen below.

SPX makes a 50-day intraday low and closes up on the day. It is Friday.
Buy on close. Sell X days later. \$100k/trade. 1990 - 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	24,133.88	15	12	3	80.00	10,682.82	-3,017.16	2,603.47	-2,369.25	1.10	4.40	1,608.93
4	34,805.84	15	12	3	80.00	11,930.04	-2,035.80	3,248.41	-1,391.68	2.33	9.34	2,320.39
3	17,304.79	15	9	6	60.00	10,868.60	-2,303.28	2,997.60	-1,612.27	1.86	2.79	1,153.65
2	13,683.87	15	8	7	53.33	7,112.64	-1,737.36	2,481.31	-880.94	2.82	3.22	912.26
1	9,041.98	15	10	5	66.67	6,420.72	-1,277.64	1,383.02	-957.65	1.44	2.89	602.80

These are perhaps the most compelling numbers we have seen, though instances are a little lower than I would normally prefer. Below is a look at the 4-day profit curve.



That is a strong move up from lower left to upper right.

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



With this weekend's evidence considered, green Aggregator remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line also held above zero. 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 list of active studies, expectations are set to remain positive on Monday. This could change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 3937.60 on Monday. That is 0.9% above Friday's close. Therefore, SPX will need to close up at least 0.9% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. Evidence remains mixed, but is leaning bullish. The market is certainly oversold, and I believe the odds of a bounce are good for the next few days. I'm not inclined to take a large index position, but if I can get a favorable entry on Monday, then I may look to take on a small amount of long exposure.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/23 – somewhat bearish

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 all 3 combo systems remained “flat”.*

For the 7th week in a row, the market struggled. The SPX lost 3.05%, the NASDAQ fell 3.8%, and the Russell 2000 dropped 1.1% on the week. Bonds had their 2nd up week in a row. The US Aggregate Bond ETF (AGG) gained 0.6%, while TLT, the 20-year Treasury Bond ETF rose 2.2%. Stocks and bonds both still appear to be in bear market mode. Other than the Friday reversal studies, which I [covered in detail last week](#), there were no new studies with intermediate-term implications that hit my radar this week.

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	May 18, 2022 📅 <small>Posted May 19, 2022 at 4:30 P.M.</small>
<div style="display: flex; justify-content: space-between; font-size: small;"> SUMMARY T-BILLS T-NOTES AND T-BONDS FRNS TIPS AGENCY DEBTS MBS CMBS </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,944,893,440.9
US Treasury Floating Rate Notes (FRNs)	30,569,681.8
US Treasury Inflation-Protected Securities (TIPS)*	380,861,729.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,724,920,281.7
Agency Commercial Mortgage-Backed Securities***	8,902,565.3
Total SOMA Holdings	8,418,538,699.4
Change From Prior Week	18,801,541.9

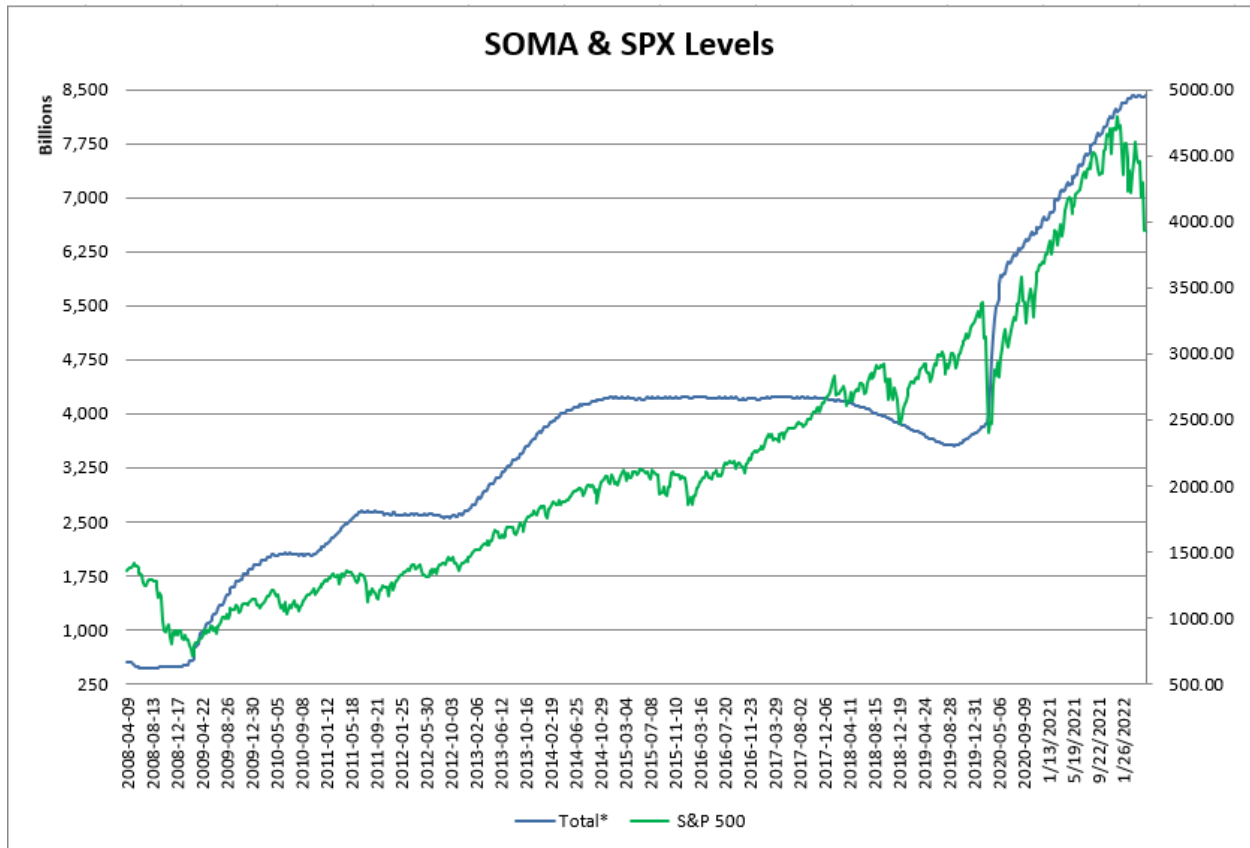
This week the SOMA saw a moderate increase. It has still seen net losses over the last 5 weeks. This can be seen in the table below.

SPX & SOMA changes over the last 5 weeks.

Date	\$SPX close	SOMA change from previous week
4/13/2022	4446.59	
4/20/2022	4459.45	(\$7,891,616,385.30)
4/27/2022	4183.96	(\$15,675,082,238.20)
5/4/2022	4300.17	\$8,030,508.40
5/11/2022	3935.18	\$999,798.70
5/18/2022	3923.68	\$18,801,541,914.00
Net Chg	(\$522.91)	(\$4,756,126,402.40)

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Active Quantitative Tightening (QT) will see substantially larger reductions than the \$4.7 billion net total we have seen last over the last 5 weeks. We have not yet seen what active removal of liquidity will look like this year, but if it is anything like what has occurred in anticipation of it, and in simply stopping liquidity infusions, it won't be a fun ride for the bulls. The official run-off is now set to commence on June 1, but the last week of each month has generally seen a dip in the number, so I expect to see a decline this upcoming week as well. Below is an updated SOMA/SPX chart from 2008 – present.



The largest expansion in the history of the SOMA is over. So the blue line has flattened and will now begin to head lower in a more noticeable way. We are about to see a sizable liquidity drain. The Fed is no longer a friend to the market, and they won't be for as long as they are fighting inflation and the economy appears stable. So far, the market has not done well without the Fed on its side.

Nothing really changed with regards to my intermediate-term outlook. Market action remains volatile. There is some evidence in the bulls' favor, including the Friday reversal studies I discussed last week which triggered again. But the bearish case still appears stronger. The long-term trend is clearly down. The Fed is hawkish, the NASDAQ is lagging, seasonality is unfavorable, inflation is raging, and there is a ton of uncertainty with regards to geopolitics and the global economy. I'm still inclined to lean bearish. From a trading perspective, I am willing to take short-term trades in either direction, but I'll be more cautious with my long entries and quicker with my long exits than if we were in a bullish environment.

Catapult and Capitulative Breadth Statistics

[Catapult & CBI Presentation Link](#)

Open Catapult Triggers

COST – 1/3 @ \$422.93 (bought @ limit)

New

COST – 1/3 @ \$416.43 (buy @ limit)

Broad Market Large Cap CBI – 2(COST-2)

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.

COST – Buy 1/3 Catapult position @ \$416.43 LIMIT. From the Catapult section above, this is the 2nd of up to 3 possible lots of COST.

SPY – Buy ¼ index position @ \$385.00 LIMIT. Based on the short-term outlook above, I'll look to take a small long position if we see the market pull back about halfway from Friday's close to Friday's low.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
COST(1/3)	5/20/2022	\$422.93	\$416.43	-1.54%	Catapult

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