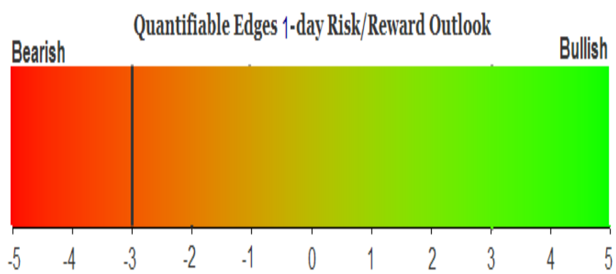
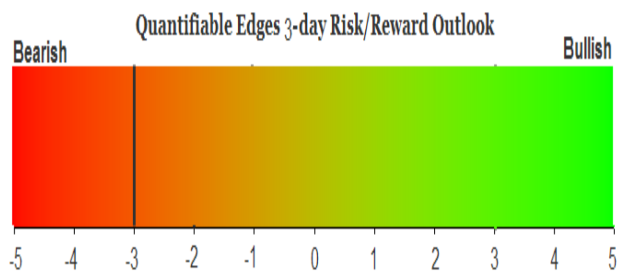
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 31, 2022 Volume 15 Issue 102

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	0

Tonight's Research Points

- Memorial Day week used to be quite bullish. In recent years, only Thursday has seen the bullish tendency persist.
- 3+ days of strong Nasdaq breadth are often followed by a down day.
- Multiple strong up days to a 10-day high under the 200ma are often followed by a pullback.
- The 3-day rally under the 200ma is also suggesting a pullback in the next few days.
- The strong breadth the last few days may be a good intermediate-term sign.
- The SOMA saw a sizable decline, and more are on the way. The Fed is no friend to the market.

Short-term Outlook

The Bottom Line

The Aggregator is bearish. Evidence is now suggesting the move of the las few days is overdone and there is a good chance of a pullback in the next few days. I'm leaning bearish, but not inclined to get aggressive against such a sharp rally.

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 31, 2022	NASDAQ 3:2 Up Issues 3x	1 day	Bearish			
May 31, 2022	Up 3. Today big. No 50-low. < 200	1-3 days	Bearish	-2.30%	1.00%	1.90%
May 31, 2022	SPY up 1% 2x. 10-high < 200.	1-4 days	Bearish	-3.20%	1.20%	2.20%
May 26, 2022	SPX down > 3% mtd w/ 3 days left	1-3 days	Bullish			
Active - Long Term						
May 31, 2022	70% Up Issue % 3 days in a row	1-85 days	Bullish	11.10%	-4.50%	-10.90%
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 another day of strong buying. The SPX closed up 2.5%, the NASDAQ gained 3.3%, and the Russell 2000 rallied 2.7%. Breadth was positive with the NYSE Up Issues % coming in at 85% and the Up Volume % at 89%. NYSE total volume was light heading into the long weekend.

There were a good number of studies that triggered in the Quantifinder – most of them pointing to the market being short-term overbought in a longer-term downtrend. I have chosen a few of the more compelling ones to highlight. I'll note there were also a good number that noted the low volume. I ignored those because low volume heading into a 3-day weekend is normal, and not a sign of something deeper.

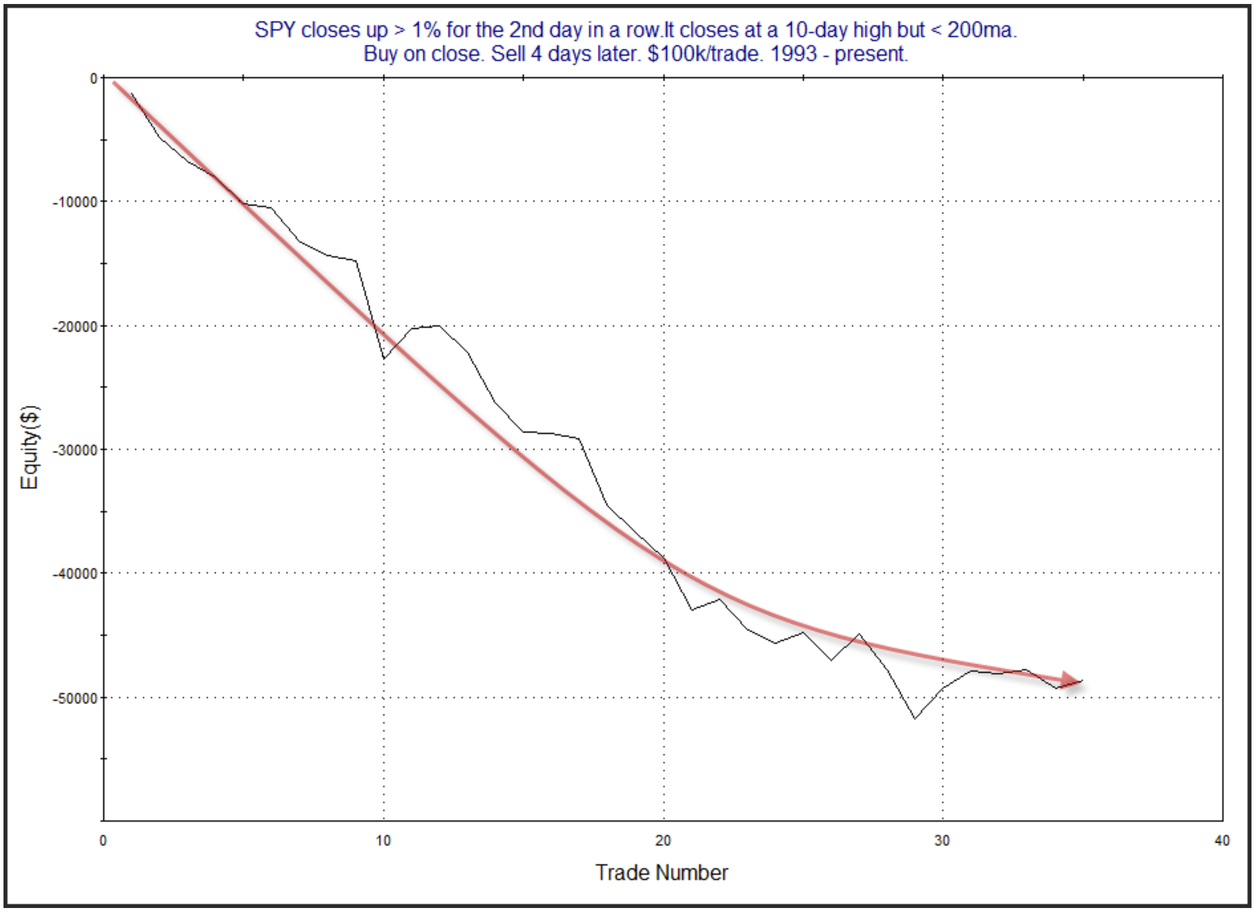
This first study looks at strong multi-day moves below the 200ma. It requires 2 days of 1% gains and a 10-day high. It was last seen in the 10/6/15 letter. All stats are updated.

SPY closes up > 1% for the 2nd day in a row.It closes at a 10-day high but < 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	-34,877.90	34	14	20	41.18	3,399.42	-7,053.11	1,585.05	-2,853.43	0.56	0.39	-1,025.82
4	-48,677.05	35	9	26	25.71	2,475.56	-7,879.83	1,251.47	-2,305.40	0.54	0.19	-1,390.77
3	-36,019.35	35	10	25	28.57	2,864.79	-5,502.64	1,382.85	-1,993.91	0.69	0.28	-1,029.12
2	-31,662.90	35	13	22	37.14	2,505.60	-5,350.20	1,044.98	-2,056.71	0.51	0.30	-904.65
1	-22,970.21	36	13	23	36.11	2,052.00	-8,857.80	605.77	-1,341.10	0.45	0.26	-638.06

33 of 35 instances (94%) closed below the entry price
at some point in the next 3 days.

The numbers here all suggest a downside edge. The equity curve is below.



The strong, fairly steady downslope serves as some confirmation of the bearish edge.

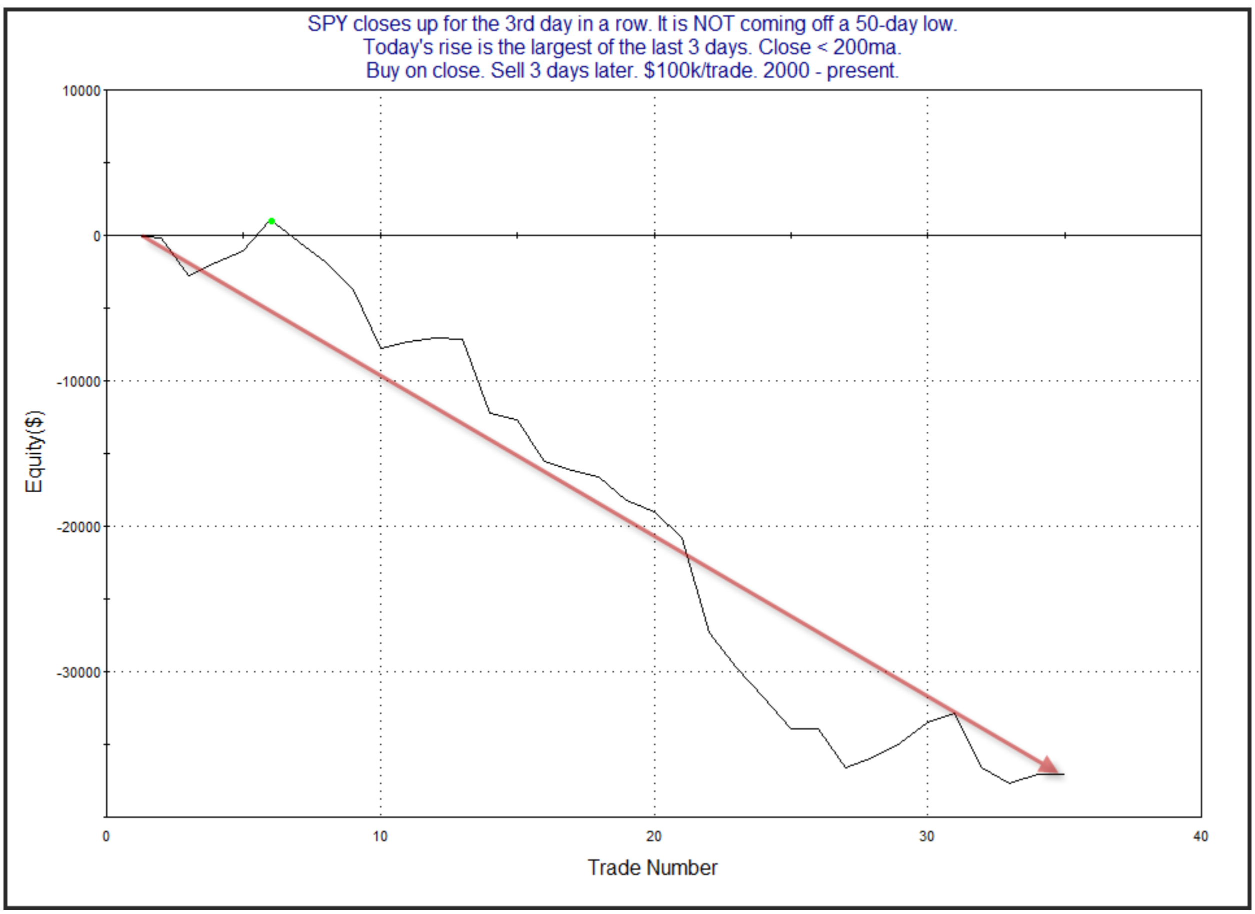
Friday was the 3rd day higher day in a row for SPY. And it was also saw the strongest rise of the last 3 days. There were a few studies that appeared in the Quantifinder tonight that looked at 3-day rallies while under the 200ma. The one below also considered the strength of the most recent day. It was last seen in the 5/19/20 letter. Stats are updated.

SPY closes up for the 3rd day in a row. It is NOT coming off a 50-day low.
Today's rise is the largest of the last 3 days. Close < 200ma.
Buy on close. Sell X days later. $100k/trade. 2000 - 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
10	-44,255.19	30	12	18	40.00	4,421.04	-13,263.35	2,074.85	-3,841.85	0.54	0.36	-1,475.17
9	-44,963.14	30	12	18	40.00	4,557.92	-14,865.30	2,297.12	-4,029.37	0.57	0.38	-1,498.77
8	-45,876.92	30	12	18	40.00	3,150.16	-13,721.05	1,860.20	-3,788.85	0.49	0.33	-1,529.23
7	-45,926.75	31	13	18	41.94	2,693.86	-9,309.76	973.63	-3,254.66	0.30	0.22	-1,481.51
6	-53,309.54	32	11	21	34.38	2,964.38	-14,517.05	1,449.79	-3,297.96	0.44	0.23	-1,665.92
5	-37,169.60	32	11	20	34.38	3,702.72	-10,586.80	1,499.05	-2,682.96	0.56	0.31	-1,161.55
4	-36,793.28	34	12	22	35.29	2,310.00	-7,741.10	1,229.86	-2,343.26	0.52	0.29	-1,082.16
3	-37,077.26	35	10	24	28.57	2,092.50	-6,517.25	906.68	-1,922.67	0.47	0.20	-1,059.35
2	-25,023.30	35	16	19	45.71	1,799.55	-9,502.25	610.19	-1,830.86	0.33	0.28	-714.95
1	-18,538.42	38	11	27	28.95	3,383.38	-4,198.90	796.25	-1,011.00	0.79	0.32	-487.85

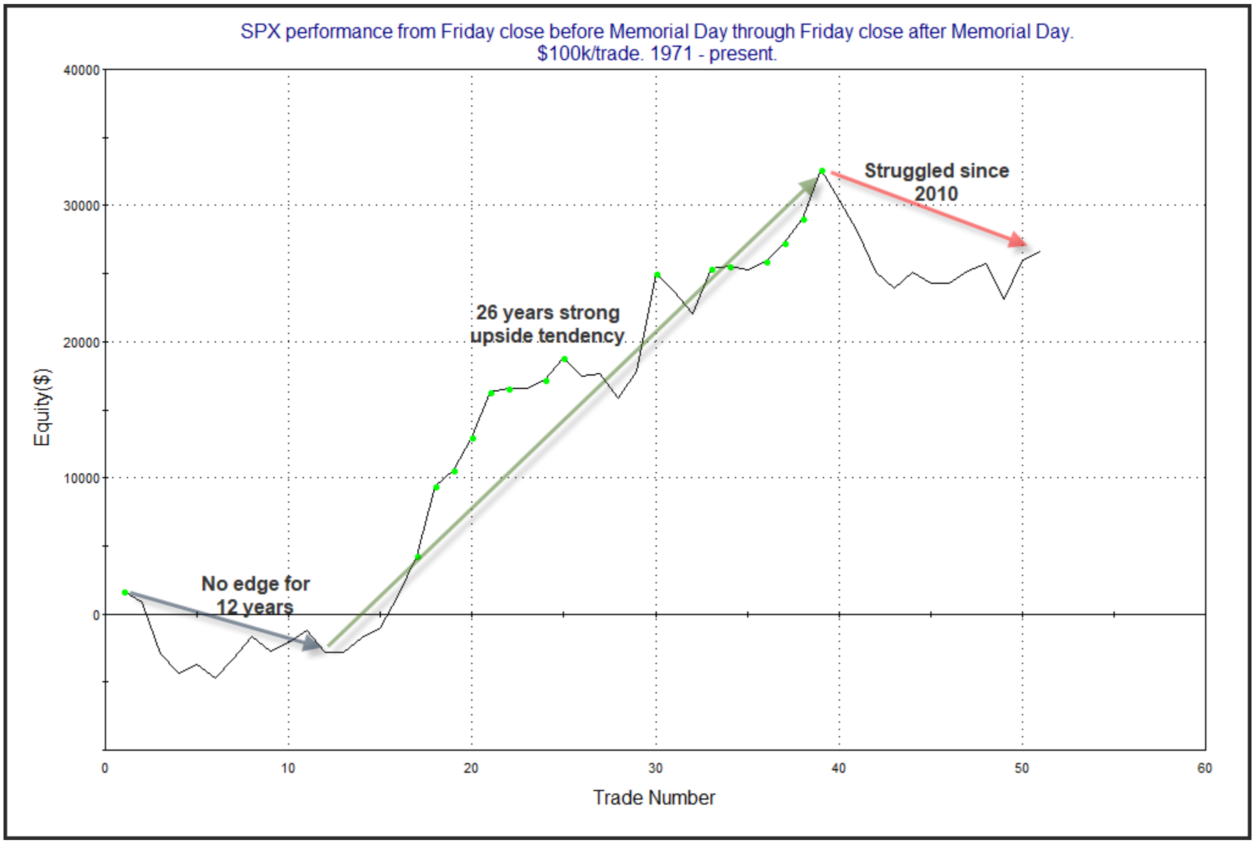
97% of instances closed below the entry price a some point in the next 5 trading days.

The numbers all point lower. And the consistency of a decline at some point in the following days has been especially impressive. Below is a look at a 3-day profit curve.



That curve has been headed lower for a long time and is again near new lows. The strong, steady downslope serves as some confirmation of the bearish edge.

Of course Monday is Memorial Day. The week of Memorial Day has shown some interesting tendencies over the years. But it has been less consistent recently. The chart below is from the 6/1/21 subscriber letter and has been updated. It examines SPX performance from the Friday before Memorial Day to the Friday after it.

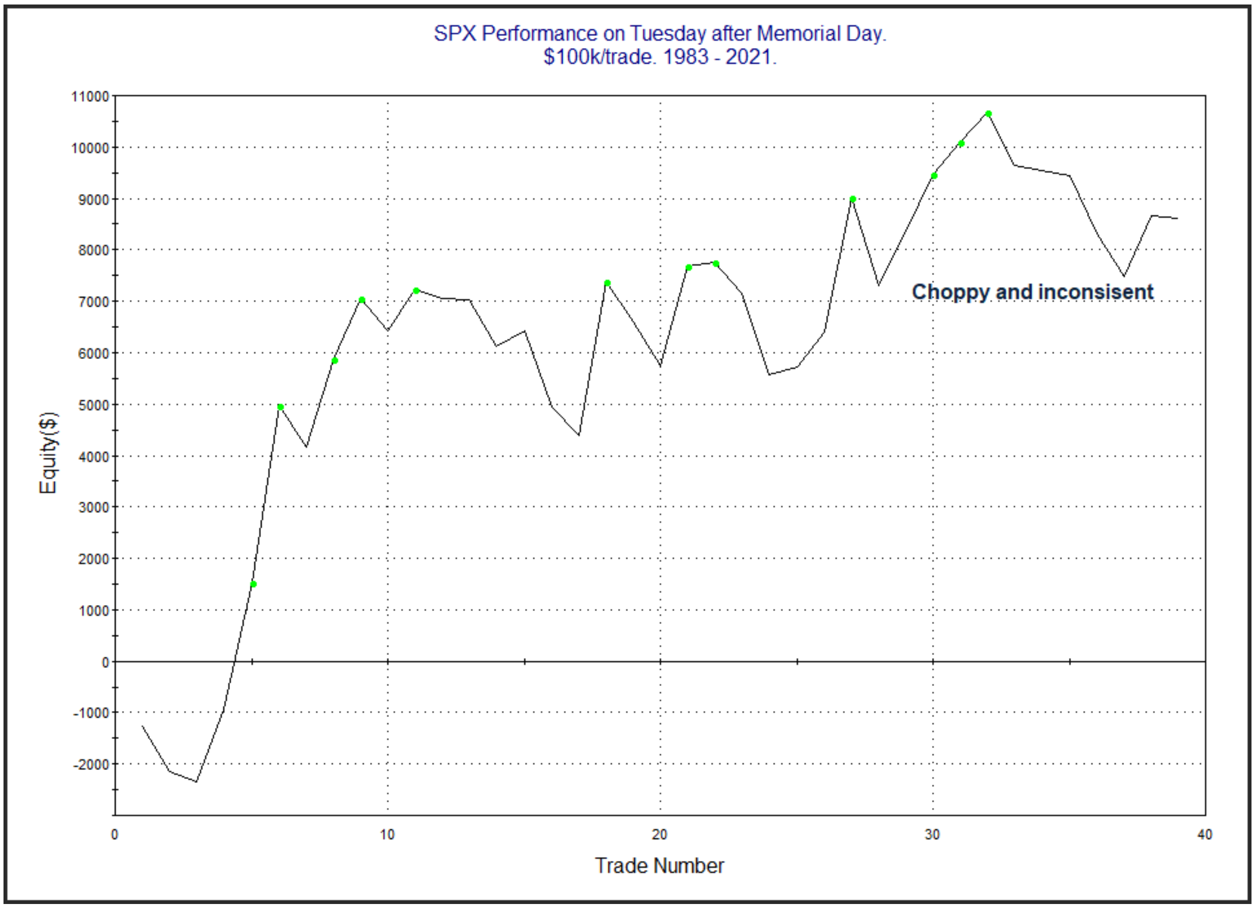


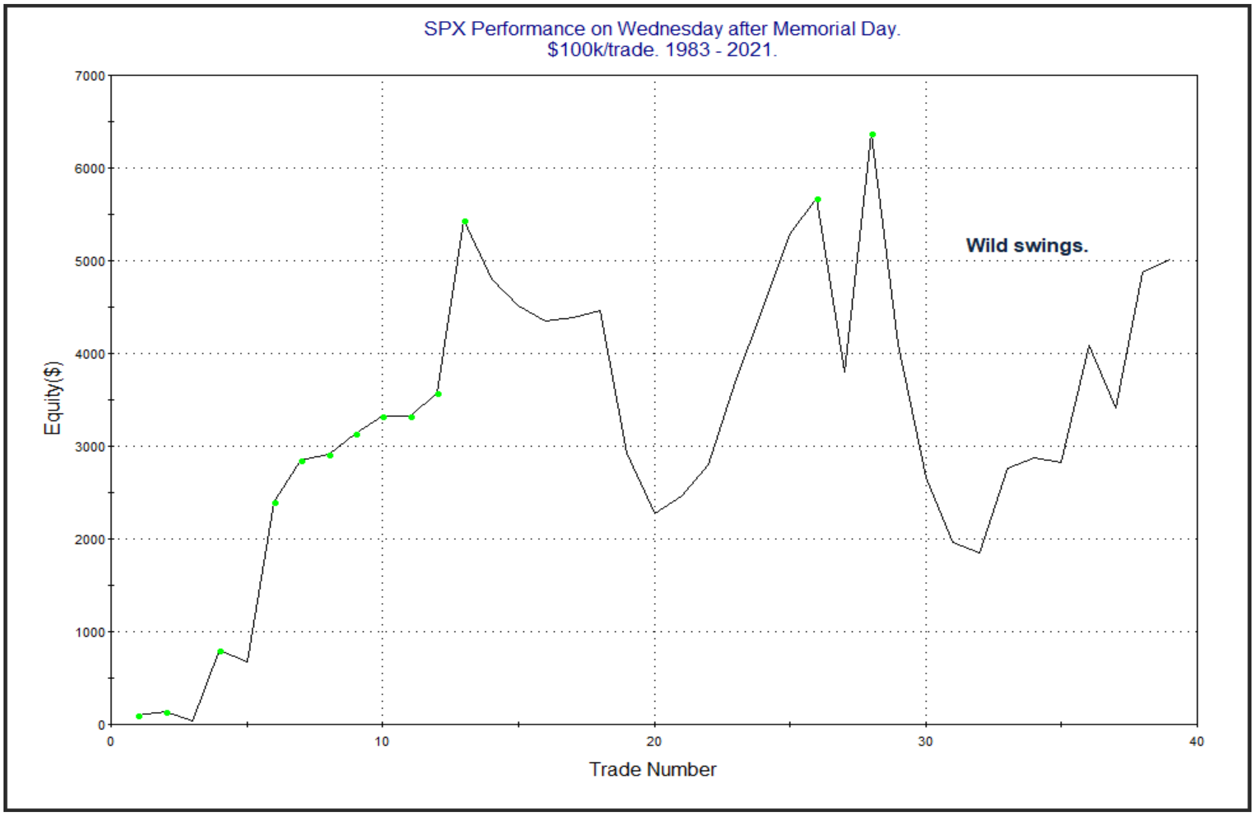
There was no substantial edge apparent throughout the 70s, but starting in 1983 through 2009 there was a bullish tendency. The last 11 years this week has mostly struggled. Last year I took a day by day look. I decided to do that again to see where the market has struggled recently. Returns are broken down by the day of the week.

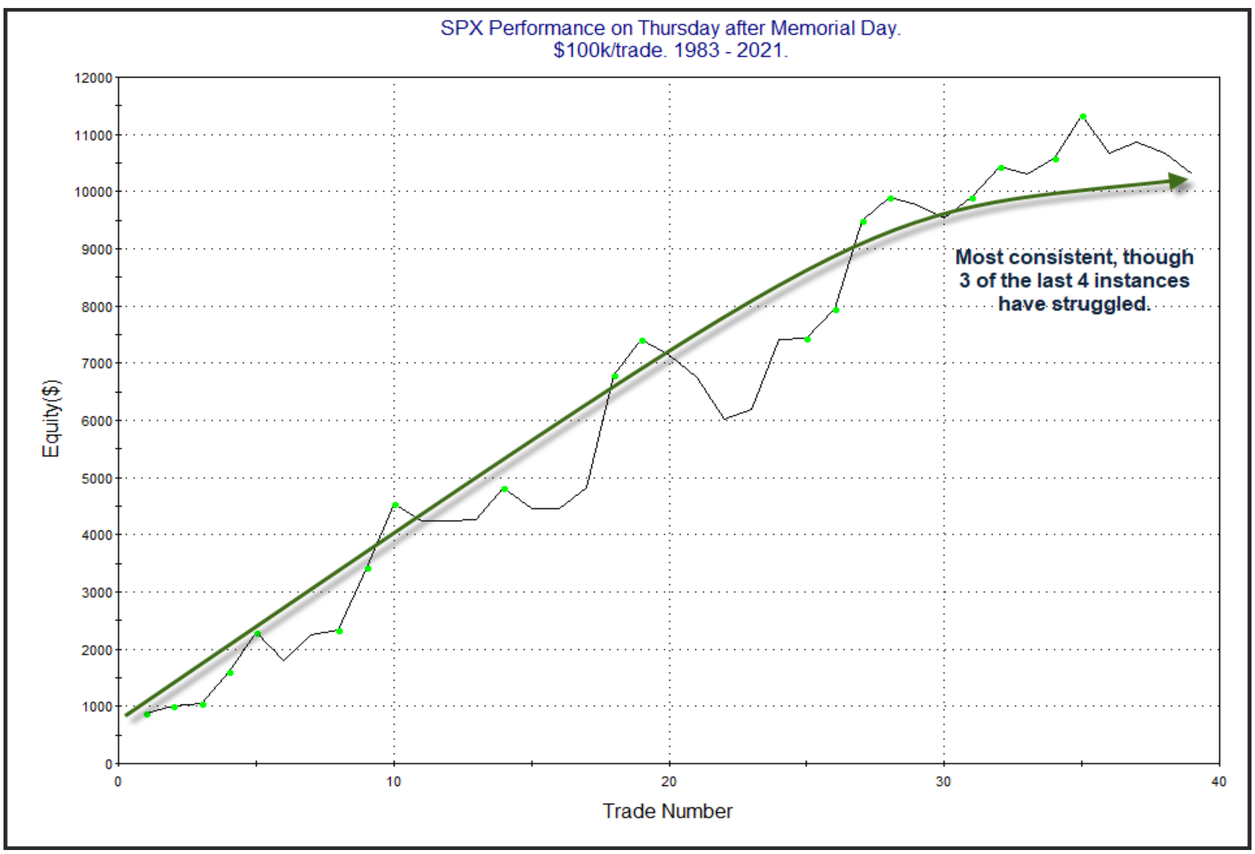
SPX Performance on X Day of Memorial Week
$100k/trade. 1983 - 2021.

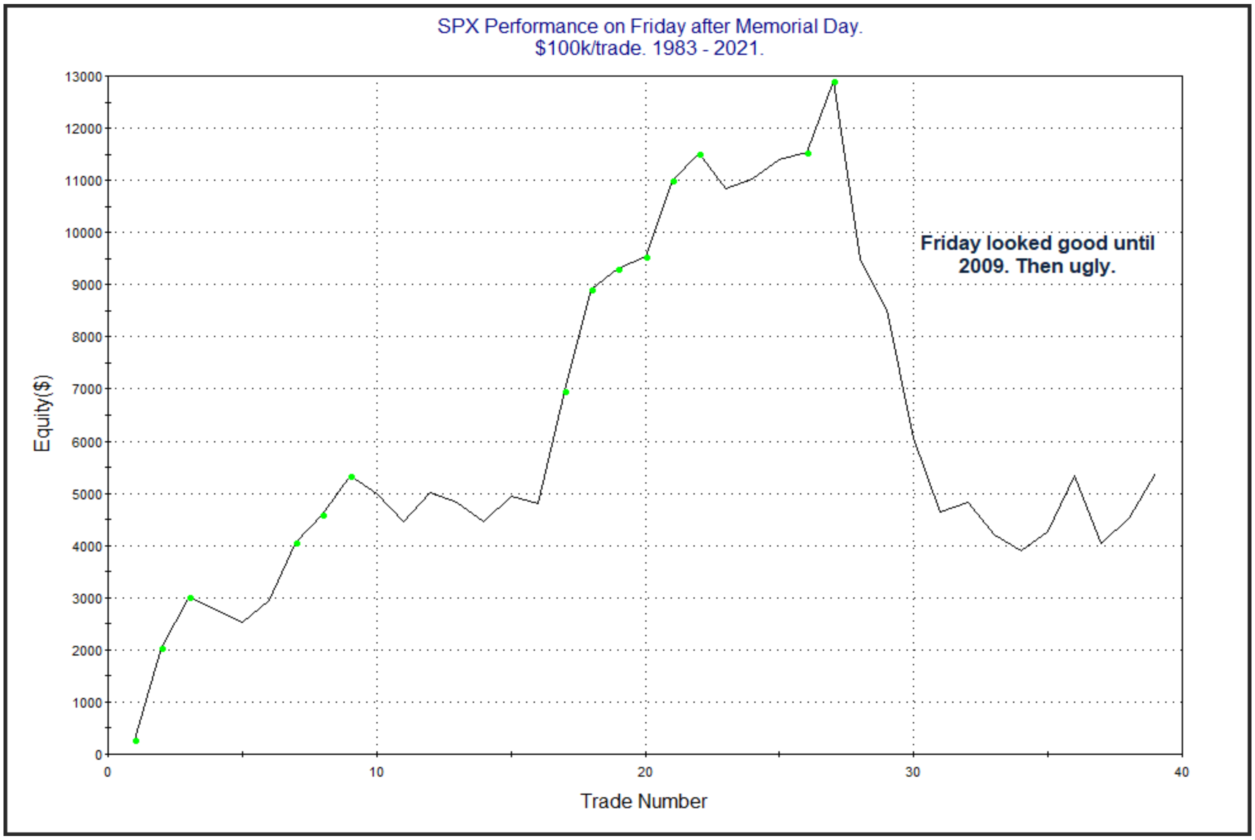
X	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
Tues	8,622.64	39	18	21	46.15	3,443.56	-1,701.70	1,352.13	-748.37	1.81	1.55	221.09
Wed	5,017.25	39	25	14	64.10	2,573.31	-2,268.10	626.21	-759.86	0.82	1.47	128.65
Thurs	10,313.99	39	26	12	66.67	1,970.50	-735.68	560.81	-355.59	1.58	3.42	264.46
Fri	5,378.22	39	24	15	61.54	2,140.16	-3,415.50	773.31	-878.75	0.88	1.41	137.90

The results table suggests Thursday is the most consistently bullish day. Friday has the weakest net numbers. Here are the curves for each day:



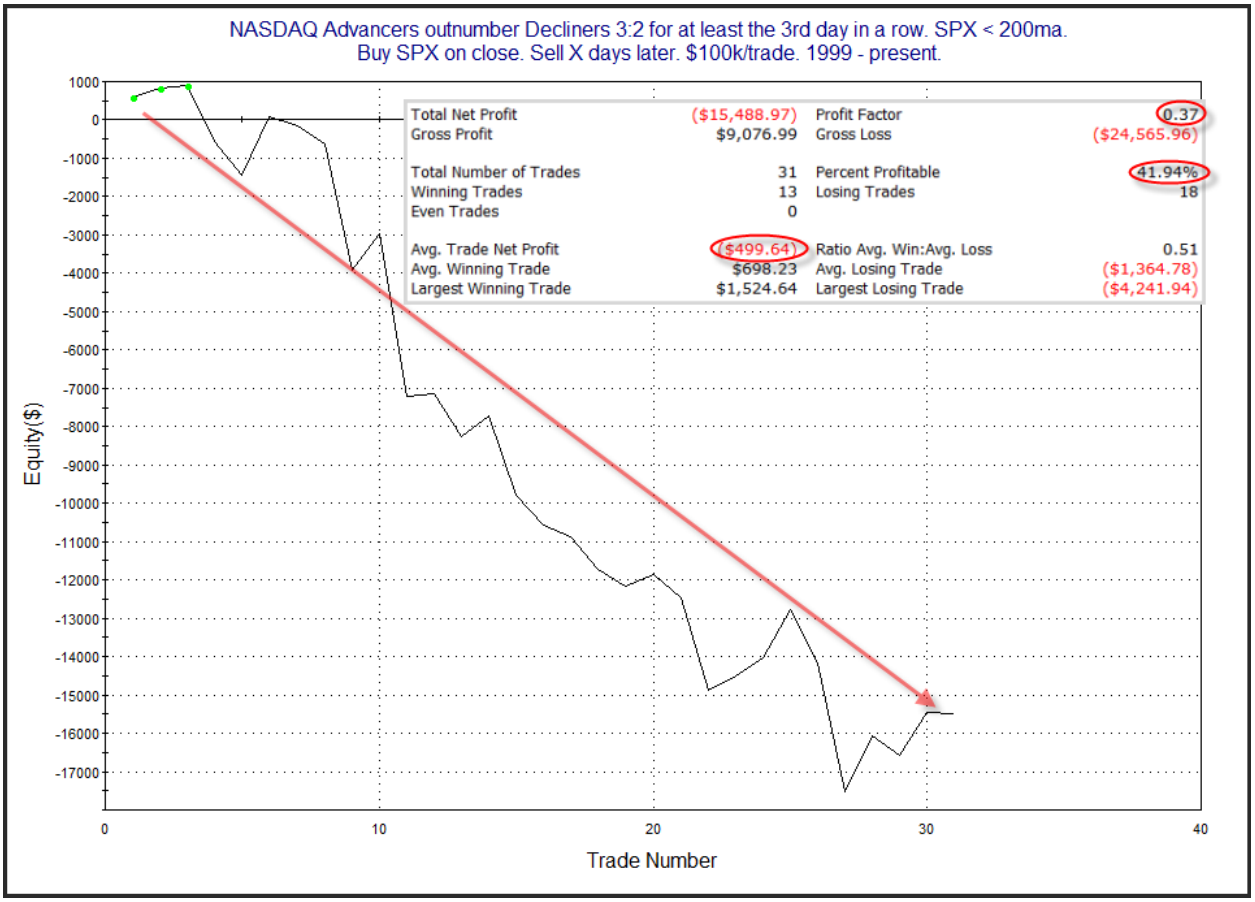

SPX Performance on Wednesday after Memorial Day.
$100k/trade. 1983 - 2021.
Equity($)
Trade Number
Wild swings.


SPX Performance on Thursday after Memorial Day.
$100k/trade. 1983 - 2021.
Equity($)
Trade Number
Most consistent, though
3 of the last 4 instances
have struggled.



The charts seem to confirm what the results table was suggesting. Thursday appears to be the only day that I'm inclined to credit a seasonal edge to at this point.

We also saw a 3rd day in a row of strong NASDAQ breadth. This triggered a study I have showed a number of times that looked at times Nasdaq advancers outnumbered decliners by more than 3:2 for 3+ days. It suggested such persistent lopsided breadth was about enough, and it was often followed by a down day. The curve and stats below are updated from the 4/28/20 letter.



Not perfect, but the numbers and curve are overall compelling evidence for a short-term dip.

I have updated the Aggregator chart below.

With today's evidence considered, the green Aggregator line dropped below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line held below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation turned short at the close.

Based on the current list of active studies, expectations are set to remain negative on Tuesday. This could change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will 4007.47 on Friday. That is 3.6% below Friday's close. Therefore, SPX would need to close down at least 3.6% on Tuesday in order to flip from overbought to oversold vs recent expectations. More likely, it will take a few days to work off the overbought condition.

So the Aggregator is bearish. Friday's action triggered some evidence suggesting this rally is overdone to the upside and likely about ready for a pullback in the next few days. As you'll see in the intermediate-term section below, it also triggered a breadth thrust indicator that could be a bullish intermediate-term sign. I'll also note that initial moves off a long-term bottom can be riskier to short because short-covering can take the rally higher than you'd otherwise expect. While the last 3 days did not come directly from a short-term low, it is not far from it. So I'll wade gently into a short position here. But between the proximity to the long-term low and the market's high volatility, I don't see myself getting aggressively short anytime soon.

***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".*

After 7 weeks in a row lower, the market bounced back strongly this past week. The SPX gained 6.6%, the NASDAQ rallied 6.8%, and the Russell 2000 gained 6.5% on the week. Bonds rose mildly for the 3rd week in a row. The US Aggregate Bond ETF (AGG) gained 0.9%, while TLT, the 20-year Treasury Bond ETF rose 0.5%. Stocks and bonds both still appear to be in long-term downtrends. The strong breadth readings over the last few days triggered one of my oldest and most favorite breadth studies.

The study below was last seen in the 4/30/20 letter. It looks at other times that breadth came in strong for 3 days in a row. Stats are updated. (I'll note results are slightly different, because I used my Norgate database instead of Tradestation, because the Norgate data there goes back farther.)

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell X days later. $100k/trade. 1957 - present.

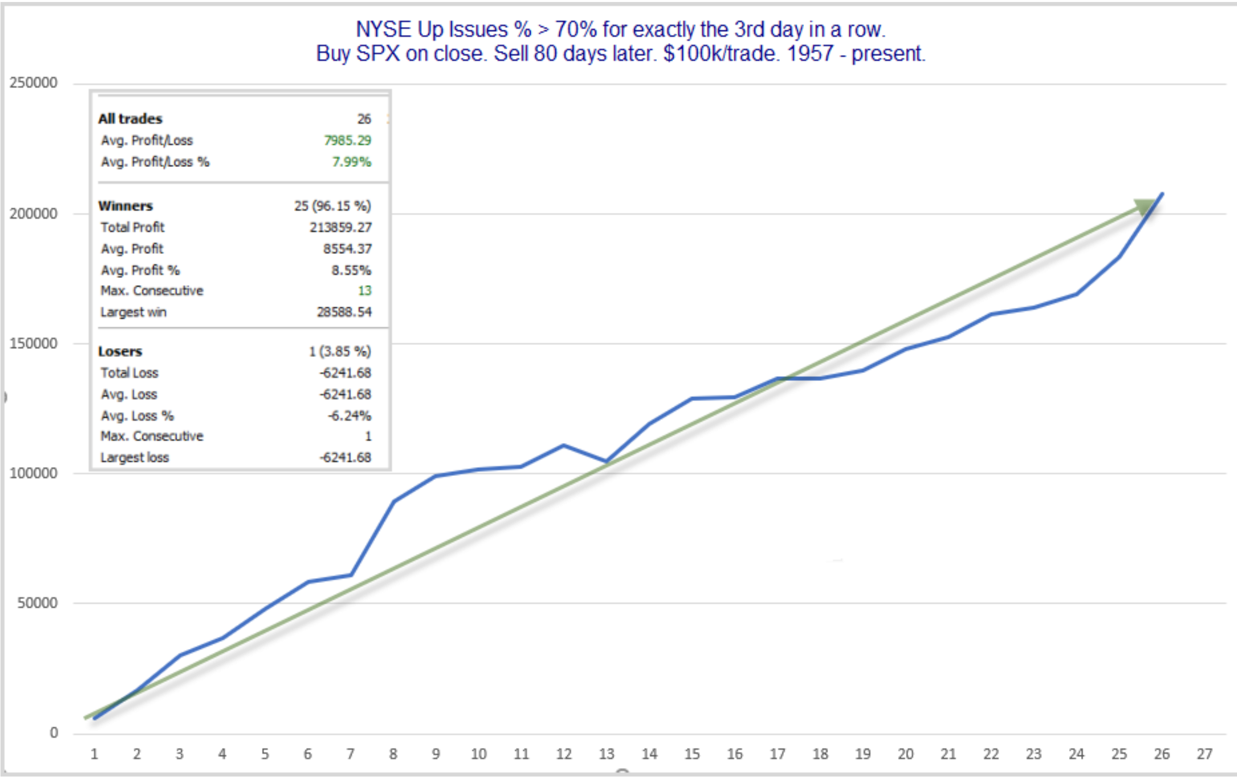
DaysIn	# Trades	# of winners	# of losers	% of Winners	W. Avg. Profit	L. Avg. Loss	Profit Factor	Avg Profit/Loss
100	24	21	3	87.50	10,834.32	-4,128.10	18.37	8,964.02
95	24	21	3	87.50	9,955.33	-4,339.29	16.06	8,168.50
90	25	23	2	92.00	9,367.01	-3,068.57	35.10	8,372.16
85	25	23	2	92.00	9,067.05	-1,731.44	60.22	8,203.17
80	26	25	1	96.15	8,554.37	-6,241.68	34.26	7,985.29
75	27	25	2	92.59	8,343.85	-6,591.21	15.82	7,237.54
70	27	25	2	92.59	7,371.48	-4,748.95	19.40	6,473.67
65	27	23	4	85.19	7,755.08	-4,300.48	10.37	5,969.07
60	28	24	4	85.71	7,961.90	-6,171.37	7.74	5,942.86
55	29	24	5	82.76	7,730.55	-4,592.51	8.08	5,605.88
50	29	24	5	82.76	8,128.74	-6,481.28	6.02	5,609.77
45	31	26	5	83.87	7,260.39	-7,633.56	4.95	4,858.14
40	32	26	6	81.25	6,538.27	-6,216.90	4.56	4,146.68
35	34	29	5	85.29	5,153.59	-5,087.76	5.88	3,647.51
30	34	27	7	79.41	5,574.09	-3,491.93	6.16	3,707.55
25	34	27	7	79.41	4,920.70	-2,211.99	8.58	3,452.21
20	35	28	7	80.00	4,558.90	-2,877.56	6.34	3,071.60
15	35	28	7	80.00	3,803.55	-3,303.58	4.61	2,382.13
10	37	27	10	72.97	3,058.11	-3,122.49	2.64	1,387.68
5	39	27	12	69.23	1,981.93	-2,662.33	1.67	552.93

There are a lot of green numbers and the edge generally appears to be to the upside. Results between 70 and 90 days appear especially strong and consistent. Below is the full list.

NYSE Up Issues % > 70% for exactly the 3rd day in a row.
Buy SPX on close. Sell 80 days later. $100k/trade. 1957 - present.

Symbol	Date	Price	Ex. date	Ex. Price	% Profit
$SPX	1/3/1958	40.87	4/28/1958	43.22	5.75%
$SPX	11/5/1962	58.35	3/4/1963	64.72	10.92%
$SPX	1/9/1967	82.81	5/3/1967	93.91	13.40%
$SPX	5/29/1970	76.55	9/22/1970	81.86	6.94%
$SPX	10/11/1974	71.14	2/5/1975	78.95	10.98%
$SPX	1/5/1976	92.58	4/28/1976	102.13	10.32%
$SPX	1/5/1979	99.13	5/1/1979	101.68	2.57%
$SPX	8/18/1982	108.54	12/10/1982	139.57	28.59%
$SPX	3/3/1983	153.48	6/27/1983	168.46	9.76%
$SPX	8/3/1984	162.35	11/27/1984	166.29	2.43%
$SPX	12/26/1991	404.84	4/21/1992	410.26	1.34%
$SPX	3/21/2007	1,435.04	7/16/2007	1,549.52	7.98%
$SPX	1/2/2009	931.8	4/29/2009	873.64	-6.24%
$SPX	7/15/2009	932.68	11/5/2009	1,066.63	14.36%
$SPX	7/9/2010	1,077.96	11/1/2010	1,184.38	9.87%
$SPX	3/21/2011	1,298.38	7/14/2011	1,308.87	0.81%
$SPX	9/15/2011	1,209.11	1/10/2012	1,292.08	6.86%
$SPX	3/9/2012	1,370.87	7/3/2012	1,374.02	0.23%
$SPX	7/3/2012	1,374.02	10/25/2012	1,412.97	2.83%
$SPX	6/27/2013	1,613.2	10/21/2013	1,744.66	8.15%
$SPX	4/1/2014	1,885.52	7/25/2014	1,978.34	4.92%
$SPX	2/17/2016	1,926.82	6/10/2016	2,096.07	8.78%
$SPX	6/30/2016	2,098.86	10/24/2016	2,151.33	2.50%
$SPX	12/7/2016	2,241.35	4/4/2017	2,360.16	5.30%
$SPX	1/8/2019	2,574.41	5/3/2019	2,945.64	14.42%
$SPX	3/26/2020	2,630.07	7/21/2020	3,257.3	23.85%

Next is the curve and the stats.



You don't get curves that look much better than that. I've included this study on the intermediate-term active list.

While the final Seasonality Calendar for June won't be complete until May closes, below is the preliminary Calendar, which will be pretty close.

Quantifiable Edges Seasonality Calendar $SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
6/1/2022	56.29	1.296	0.001
6/2/2022	57.91	1.323	0.111
6/3/2022	58.38	1.556	0.196
6/6/2022	54.66	1.023	-0.082
6/7/2022	50.34	1.321	0.151
6/8/2022	51.78	0.961	-0.010
6/9/2022	55.73	0.948	-0.017
6/10/2022	57.80	1.556	0.178
6/13/2022	53.44	0.825	-0.154
6/14/2022	51.52	1.448	0.181
6/15/2022	61.17	3.190	0.363
6/16/2022	54.85	1.046	0.014
6/17/2022	53.90	1.217	0.092
6/20/2022	55.16	0.812	-0.153
6/21/2022	52.69	1.632	0.203
6/22/2022	51.29	1.039	0.011
6/23/2022	55.49	1.169	0.042
6/24/2022	55.16	1.157	0.077
6/27/2022	57.24	1.190	-0.064
6/28/2022	58.46	1.516	0.150
6/29/2022	57.93	1.570	0.165
6/30/2022	65.95	2.010	0.299
Baseline	***54.68***	***1.163***	***0.051***

The 2nd week of June may have some weakness, and overall the numbers are not great, except for the 15th and the 30th, but this certainly looks more bullish than the May Seasonality Calendar did.

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

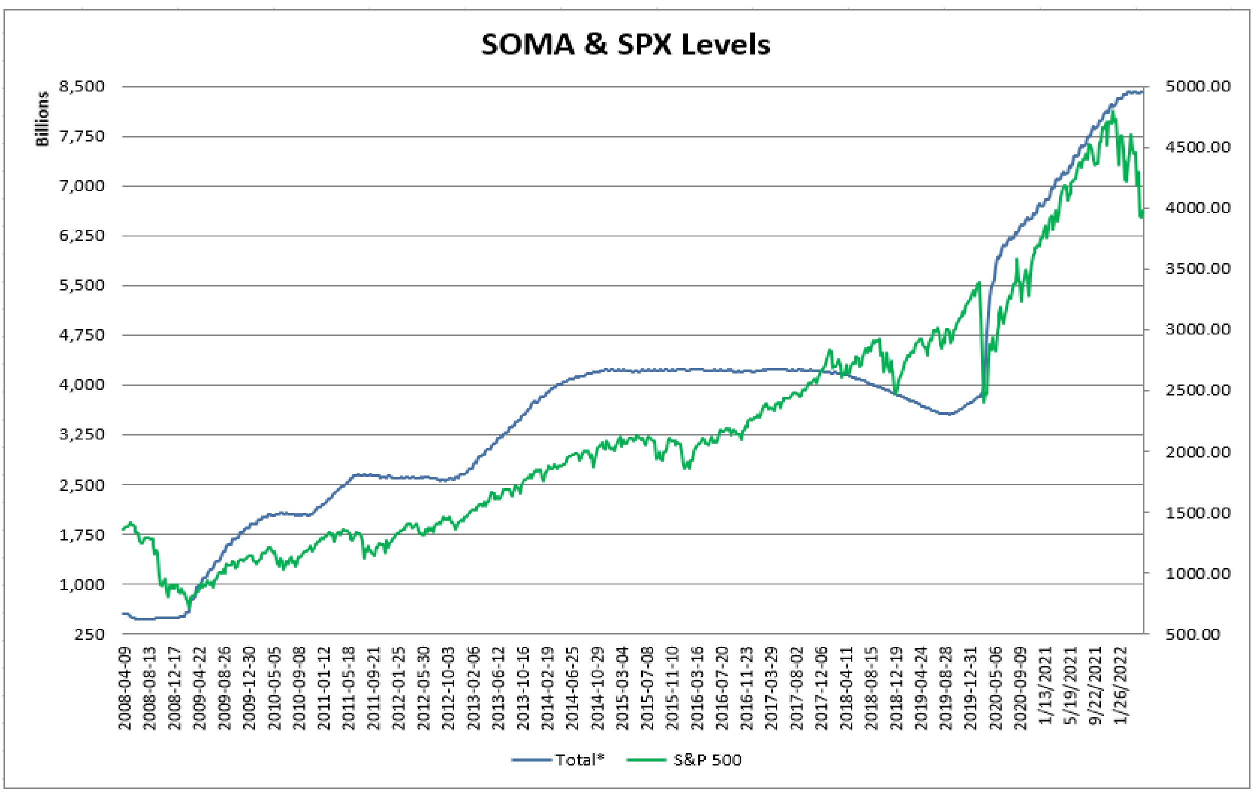
Previous **May 25, 2022**

Posted May 26, 2022 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)	4,944,893,440.9
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***	2,698,576,406.4
Agency Commercial Mortgage-Backed Securities***	8,869,818.6
Total SOMA Holdings	8,392,162,077.4
Change From Prior Week	-26,376,622.0

This week the SOMA saw a decline of $26 billion. That is the biggest weekly drop of 2022. The official run-off is now set to commence on June 1, with June 15 looking like the 1st large actual day that we will see bonds expire and roll off the books. 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.

Evidence has become more mixed in the last couple of weeks. We already had a few studies suggesting the market was likely to get an intermediate-term rally. The breadth thrust this week is more compelling evidence that the bulls may get control for a while. But the bears also still have a solid case. The long-term trend is clearly down. One week up does not change that. The Fed is hawkish, the NASDAQ is lagging, long-term seasonality is unfavorable even though June doesn't look too bad. There is also still a ton of uncertainty with regards to geopolitics and the global economy. So I am now a bit torn. I do not think the market is out of the woods and that we are likely to rip higher like after March 2020 and after the 2018 December selloff. A huge factor in both those rallies is that the Fed stepped in and provided tons of liquidity. We don't have that now. But we may have enough for an intermediate-term bottom to be in place that lasts several weeks or even a few months. Even if that is the case, I expect we will continue to see scares. I just don't see a smooth ride up with all the market has going against it, especially Fed policy. So volatility should generally remain higher than we have seen in past years. With all that in mind, I have moved my market outlook to neutral. This means that I am willing to take trades in either direction, but I will not be aggressive on either the long or short side until I have more conviction with the intermediate-term directional outlook.

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*.

SPY – Sell Short ¼ index position @ $416.00 LIMIT ON OPEN. If no filled on open, cancel order and look to enter @ $415.26 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take a small index position short, but only if I can get a favorable fill at the open or near the close of the day. I don't want to try and short into an intraday rally if I am not filled at the open.

Current Open Trade Ideas

None