

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 6, 2022

Volume 15 Issue 106

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- The tight range inside day high in the short-term range in a long-term downtrend as occurred on Friday has often been followed by weakness in the following days.
- The Seasonality Calendar is underwhelming for the next 6 days.
- The SOMA barely changed this past week.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is mildly bearish and the market is mildly oversold. I don't see this as a great setup.

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						
June 6, 2022	SPX top 10% rng, inside day < 200	1-3 days	Bearish	-2.20%	1.00%	1.90%
June 3, 2022	SPY 20-day high < 200ma	1-2 days	Bearish			
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			

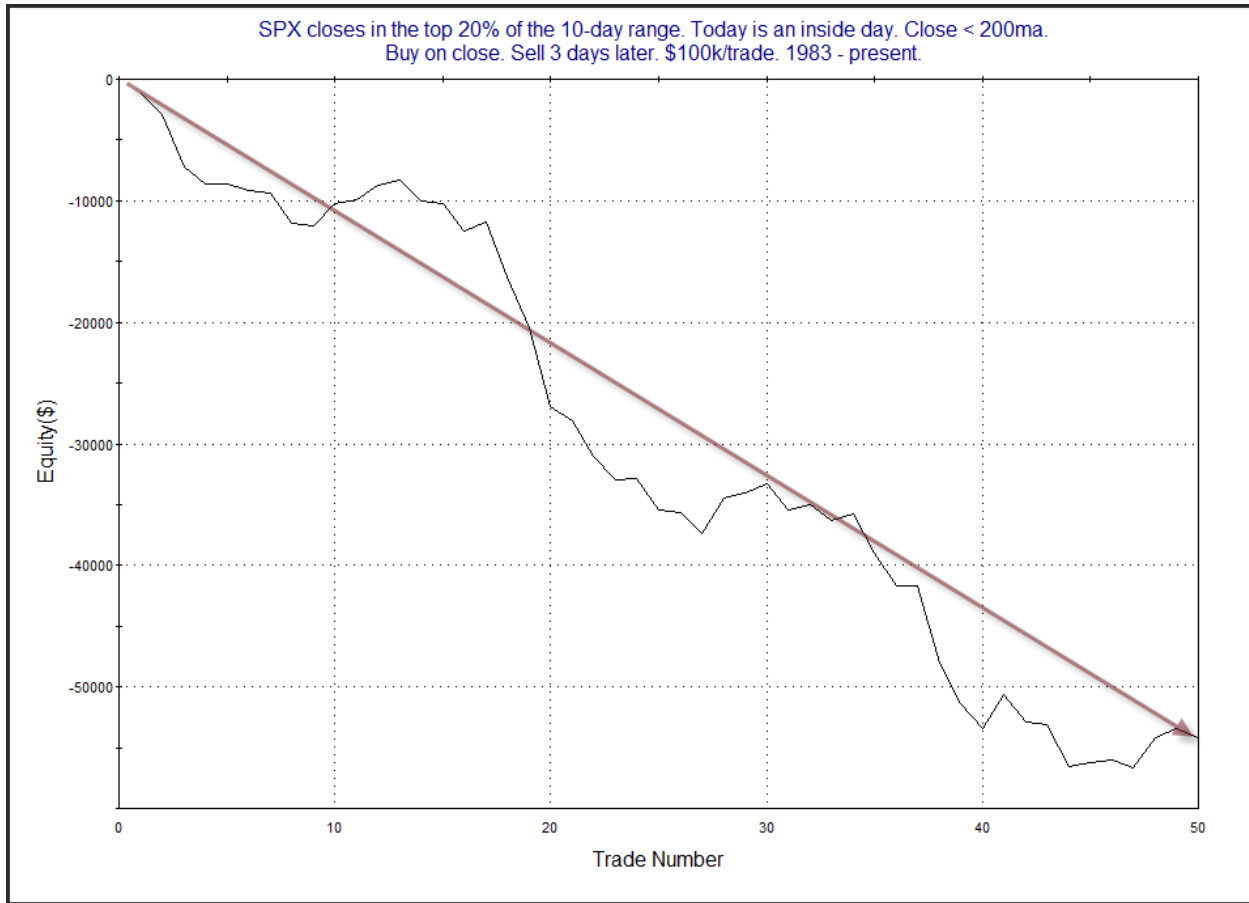
The Evidence

The market was weak early on but then reversed and put in strong results for the day. The SPX rose 1.8%, the NASDAQ rallied 2.7%, and the Russell 2000 gained 2.3%. Breadth was negative with the NYSE Up Issues % coming in at 40% and the Up Volume % at 34%. NYSE total volume declined quite a bit from Tuesday's level.

There were a number of studies that emerged on Friday. Several were related to inside days, tight ranges, and/or overbought conditions. The study below incorporated all 3 and showed some compelling odds. It was last seen in the 11/6/18 Subscriber Letter and I have updated the results below.

SPX closes in the top 20% of the 10-day range. Today is an inside day. Close < 200ma. Buy on close. Sell X days later. \$100k/trade. 1983 - 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	-20,686.89	48	24	24	50.00	5,159.00	-7,519.22	1,437.65	-2,299.60	0.63	0.63	-430.98
4	-35,563.40	49	25	24	51.02	2,746.70	-5,562.78	1,052.39	-2,578.05	0.41	0.43	-725.78
3	-54,198.15	50	17	33	34.00	2,909.50	-6,445.61	947.50	-2,130.48	0.44	0.23	-1,083.96
2	-44,417.01	50	15	35	30.00	2,720.88	-5,979.14	1,006.06	-1,700.23	0.59	0.25	-888.34
1	-9,703.27	50	24	26	48.00	4,063.35	-3,178.80	783.89	-1,096.79	0.71	0.66	-194.07
94% of instances closed below the entry price at some point in the next week.												

The numbers here suggest a solid downside edge over the next few days. Below is a profit curve for a 3-day holding period.



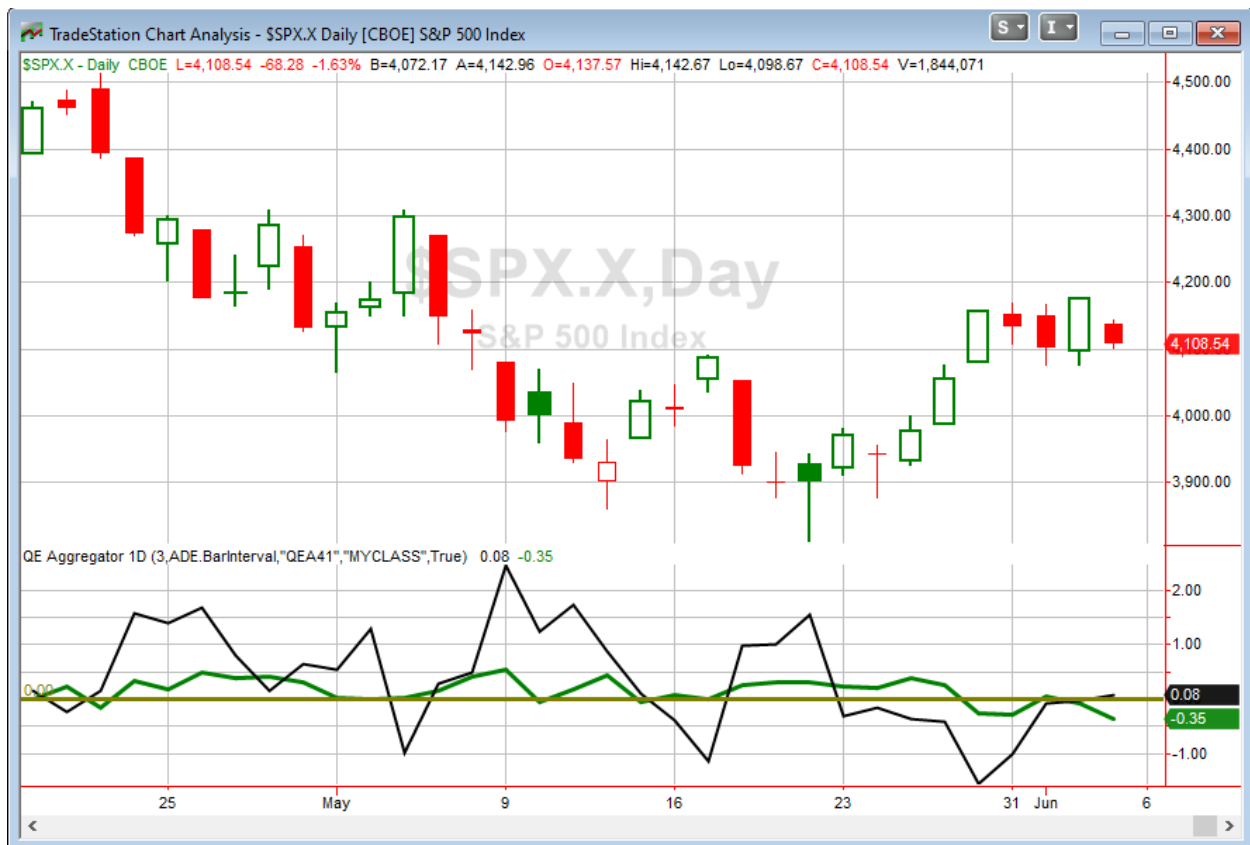
The strong, steady downslope supports the idea of a bearish edge.

The [Seasonality Calendars for June are up on the site](#). Let's take a look at SPX.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
6/1/2022	56.01	1.278	-0.003
6/2/2022	57.00	1.285	0.099
6/3/2022	58.10	1.539	0.192
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
6/21/2022	52.69	1.632	0.203
6/22/2022	51.29	1.039	0.011
6/23/2022	55.39	1.167	0.042
6/24/2022	55.16	1.157	0.077
6/27/2022	57.24	1.190	-0.064
6/28/2022	58.35	1.512	0.149
6/29/2022	57.93	1.570	0.165
6/30/2022	65.85	2.009	0.300
Baseline	54.64	1.161	0.051

Even the green highlighted rows are generally not showing very strong numbers, aside from the 15th and the 30th. And this upcoming week is a period of slight weakness that continues through the 13th. So there does not seem to be seasonal forces helping the bulls right now.

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



With tonight's evidence considered, the green Aggregator line remained below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line inched above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are negative but SPX is oversold. 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 list of active studies, expectations are set to remain negative on Monday. This could easily change if compelling new bullish evidence emerges. Meanwhile, the Differential Pivot will be *inverted* at 4079.42 on Monday. That is 0.7% *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 at least 0.7% on Monday in order to remain oversold vs recent expectations. Anything other than that and it will be considered overbought as of Monday's close.

So the Aggregator is back to neutral. Choppy action the last few days has seen it moving back and forth between bearish and neutral. Evidence is currently mild and oversold could easily turn overbought based on the current setup. I don't see an edge worth taking a chance on in this volatile market. I'll continue to wait for a more favorable reward/risk opportunity before putting on new index positions.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/6 – neutral

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”.*

Lots of choppy action this past week saw the major indices finish lower. The SPX fell 1.2%, the NASDAQ declined 1.0%, and the Russell 2000 lost 0.3% on the week. Bonds had a tough week. The US Aggregate Bond ETF (AGG) lost 1.1%, while TLT, the 20-year Treasury Bond ETF tumbled 2.4%. Stocks and bonds both still appear to be in long-term downtrends. There were not any new studies that triggered in the last few days with intermediate-term implications.

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 **June 1, 2022** 📅
 Posted June 2, 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)	4,942,788,725.4
US Treasury Floating Rate Notes (FRNs)	30,569,681.8
US Treasury Inflation-Protected Securities (TIPS)*	382,966,445.1
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,698,576,406.5
Agency Commercial Mortgage-Backed Securities***	8,869,818.6
Total SOMA Holdings	8,392,162,077.5
Change From Prior Week	0.1

*Does not reflect inflation compensation of 88,409,863.6

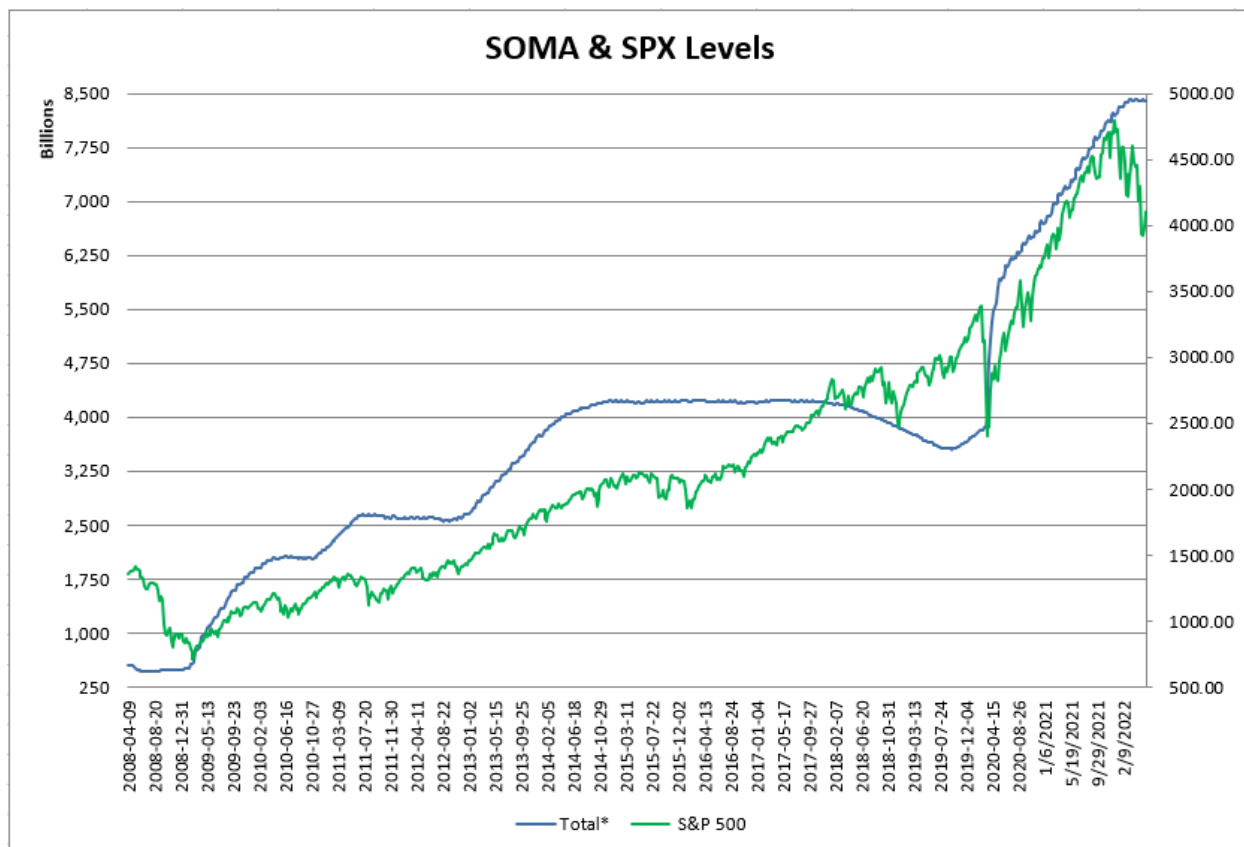
**Fannie Mae, Freddie Mac and Federal Home Loan Bank

***Guaranteed by Fannie Mae, Freddie Mac, and Ginnie Mae. Current face value of the securities, which is the remaining principal balance of the securities.

¹ Changes in par may reflect primary and secondary market transactions and/or custodial account activity.

² Spread to the current reference rate, as determined at each security's initial auction.

This week the SOMA saw rise of \$100. Basically as flat as you can get in an \$8.4 trillion account. Quantitative Tightening is now upon us, 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.

Not much changed from last week. Evidence remains somewhat mixed. The breadth thrust study I discussed last weekend, along with a couple of studies from earlier in May, are offering 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. SPX has closed lower 8 of the last 9 weeks. The Fed is hawkish, the NASDAQ is lagging, and long-term seasonality is unfavorable. So I remain 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. So I expect volatility will generally remain higher than we have seen in past years. I am keeping my market outlook 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.

None tonight.

Current Open Trade Ideas

None

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