

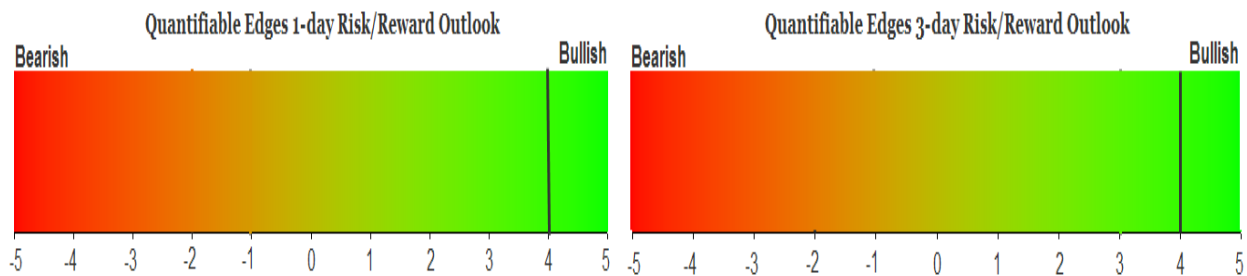
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 13, 2022

Volume 15 Issue 111

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Very large selloffs on Fridays are often overreactions that will see a bounce in the following days. We see this with several studies.
- 2.5% drops in SPX following a 5-day low have typically been followed by a strong and quick bounce.
- Opex week often shows good results when SPX dips heading into it.
- 2 days of weak breadth and a close below the 200ma but above a 20-day low seem to suggest a good chance of a bounce Friday.
- The breadth collapse over the last few days could be a negative.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. The market is strongly oversold and evidence is mounting that suggests a bounce. I like the long side.

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 13, 2022	SPX dn 2.5% on a Friday	1-6 days	Bullish	4.10%	-2.65%	-5.60%
June 13, 2022	5-day low yest. Dn 2.5% and < 200ma	1-2 days	Bullish			
June 13, 2022	SPX dn 3 days. Friday before Opex	1-2 days	Bullish			
June 13, 2022	Up iss % < 30 for 2 days. Close<200>20	1 day	Bullish			
June 10, 2022	1st 5 low in 5 days. 2% drop. Close<200	1-4 days	Bullish	3.50%	-2.00%	-4.10%
Active - Long Term						
June 13, 2022	Inverse Zweig Breadth Collapse	1-3 months	Bearish			
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 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 got smacked on Friday. The SPX closed down 2.9%, the NASDAQ lost 3.5%, and the Russell 2000 declined 2.7%. Breadth was strongly negative with the NYSE Up Issues % coming in at 16% and the Up Volume % at 13%. NYSE total volume declined some from the level of the last couple of days.

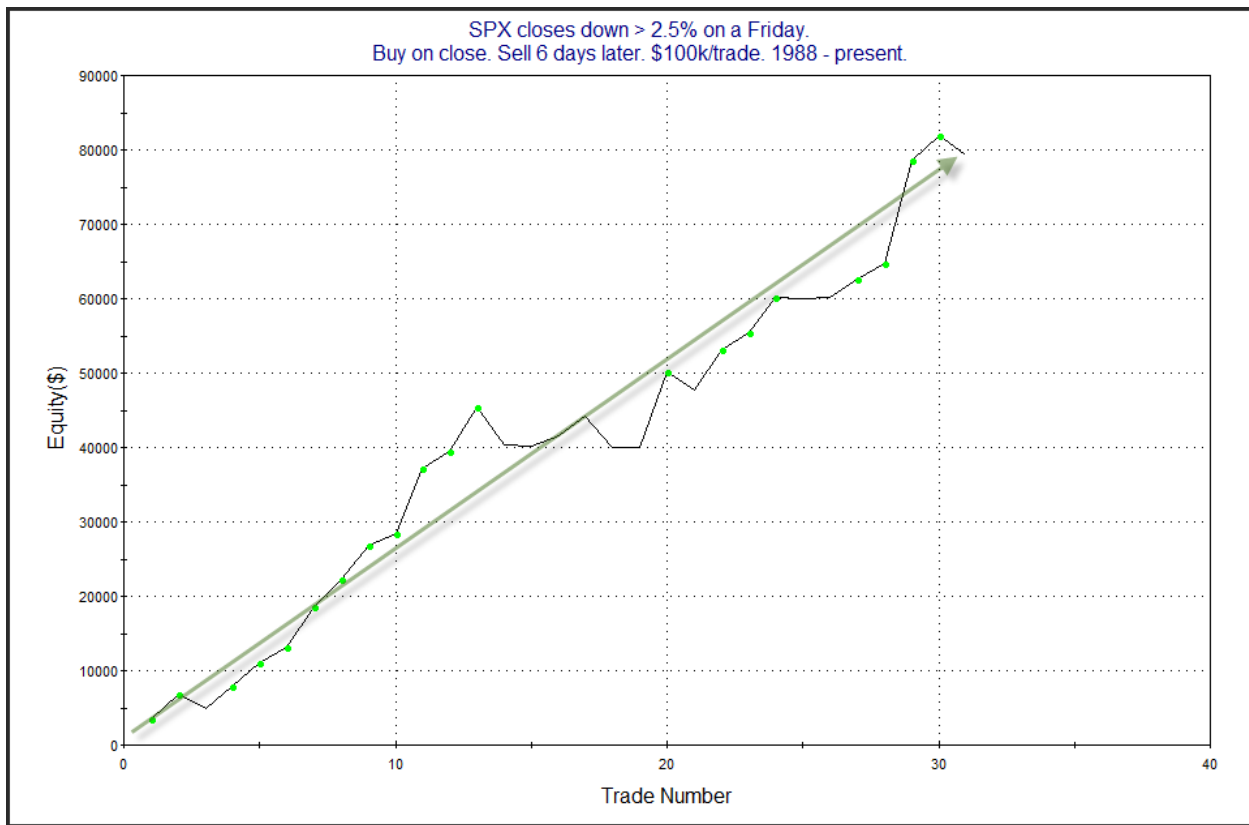
One interesting Quantifinder study looked at large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by some traders that are active today (though it is getting less and less each year). In 1987, there was a strong selloff on Friday and then all hell broke loose on Monday. But since then, strong Friday selloffs have commonly been followed by bounces in the following days. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, the tendency to bounce has been strong. In recent years the bounce has not always occurred on Monday. Sometimes we saw more selling on Monday before the rebound started on Tuesday. The study below looks at drops of 2.5% or more on a Friday. Last seen in the 4/25/22 letter, I have updated all the results.

SPX closes down > 2.5% on a Friday.
Buy on close. Sell X days later. \$100k/trade. 1988 - present.

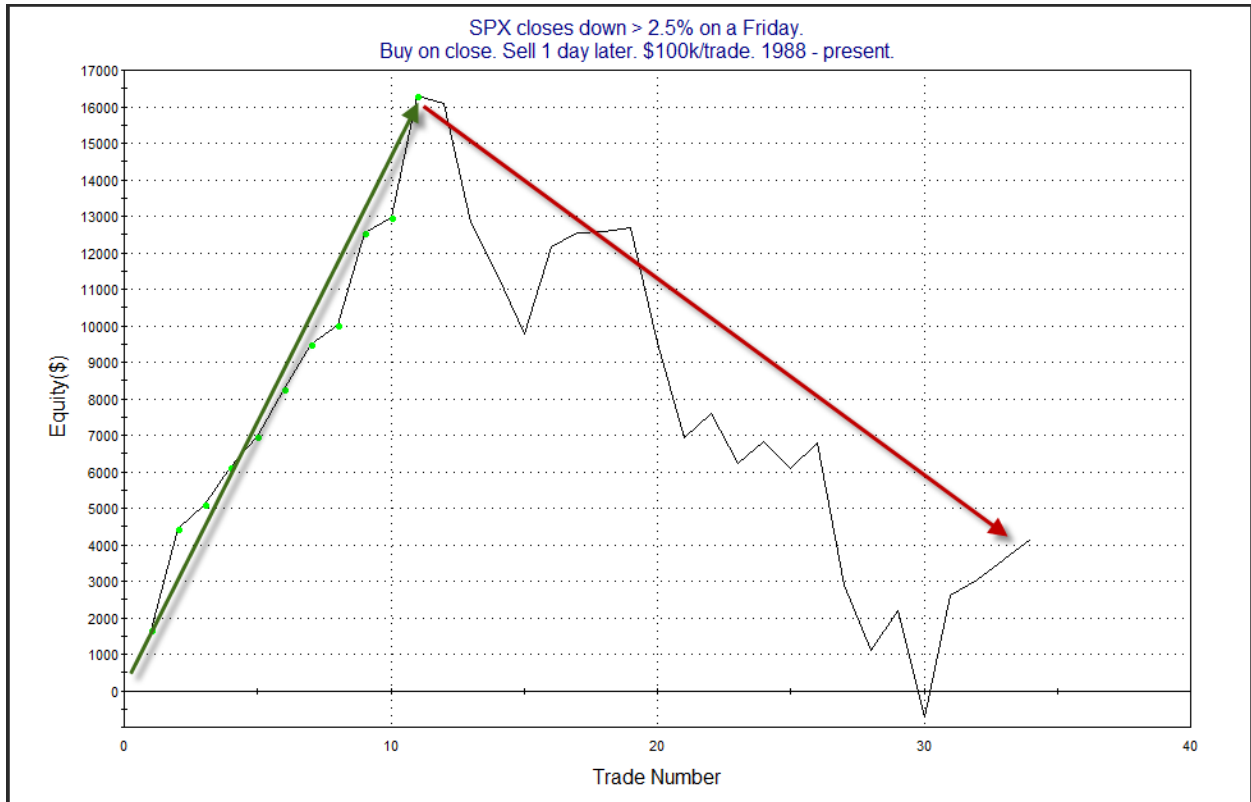
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	60,037.79	31	23	8	74.19	9,241.60	-6,507.12	3,603.86	-2,856.37	1.26	3.63	1,936.70
9	70,031.95	31	22	9	70.97	9,545.14	-2,872.93	3,880.68	-1,704.77	2.28	5.56	2,259.10
8	74,461.24	31	22	9	70.97	8,664.00	-6,073.20	4,140.24	-1,847.11	2.24	5.48	2,401.98
7	84,207.57	31	22	9	70.97	14,703.72	-3,458.40	4,508.75	-1,665.00	2.71	6.62	2,716.37
6	79,328.19	31	23	8	74.19	13,834.39	-5,050.80	4,171.41	-2,076.78	2.01	5.77	2,558.97
5	56,231.28	33	23	10	69.70	10,485.72	-8,351.64	3,454.74	-2,322.76	1.49	3.42	1,703.98
4	51,531.23	34	24	10	70.59	13,981.45	-13,776.90	3,194.17	-2,512.88	1.27	3.05	1,515.62
3	43,520.15	34	26	8	76.47	7,337.52	-7,604.94	2,372.34	-2,270.07	1.05	3.40	1,280.00
2	38,013.50	34	24	10	70.59	7,266.36	-5,855.85	2,283.52	-1,679.09	1.36	3.26	1,118.04
1	4,156.43	34	23	11	67.65	3,322.23	-3,884.00	1,178.23	-2,085.72	0.56	1.18	122.25

33 of 34 instances (97%) closed above the entry price at some point in the next week.

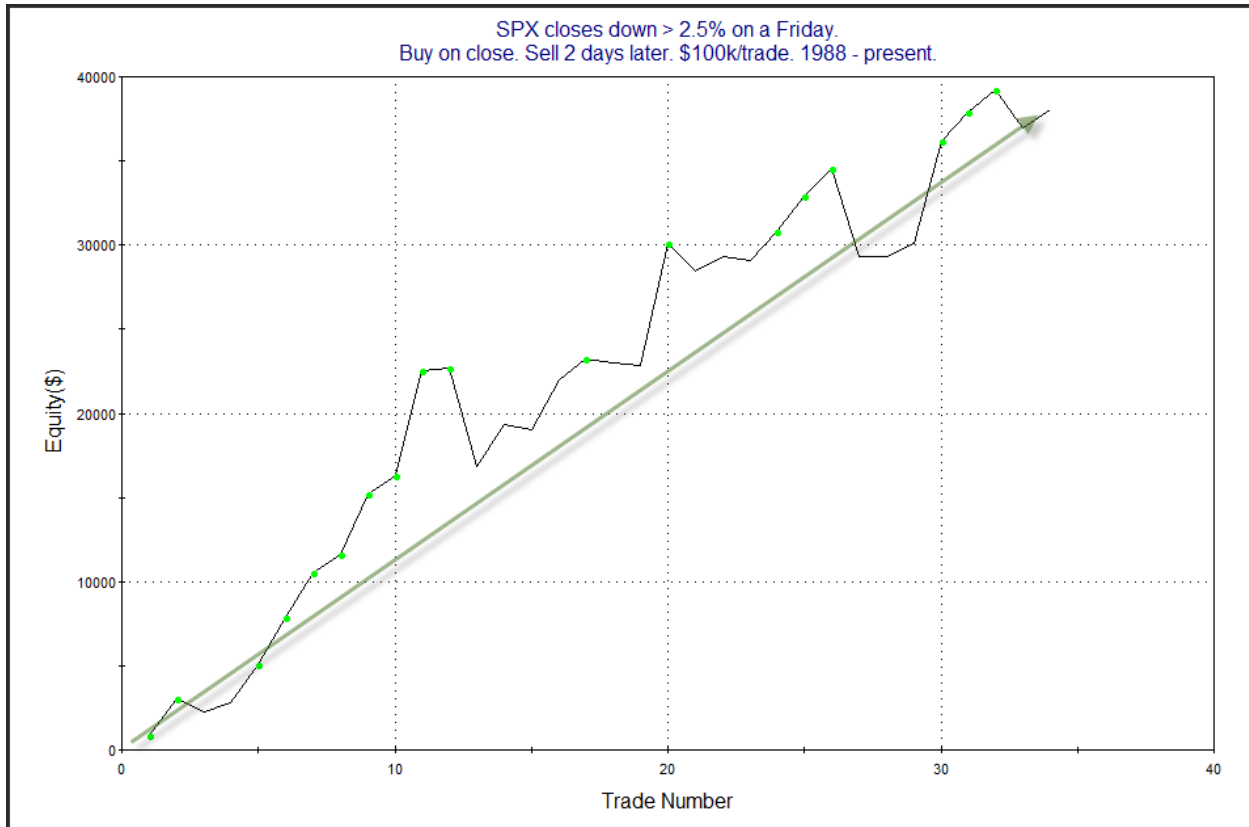
Over the next several days there has been a strong tendency for the market to bounce. Let's first look at the 6-day curve, the stats of which are highlighted in the table above.



That is a strong and steady upslope, helping to confirm the upside edge. Let's also look at the 1-day and 2-day curves, as they tell the story on Monday and then "Turnaround Tuesday".



For a while, Monday looked great. In recent years, not so much. But here is the 2-day curve:



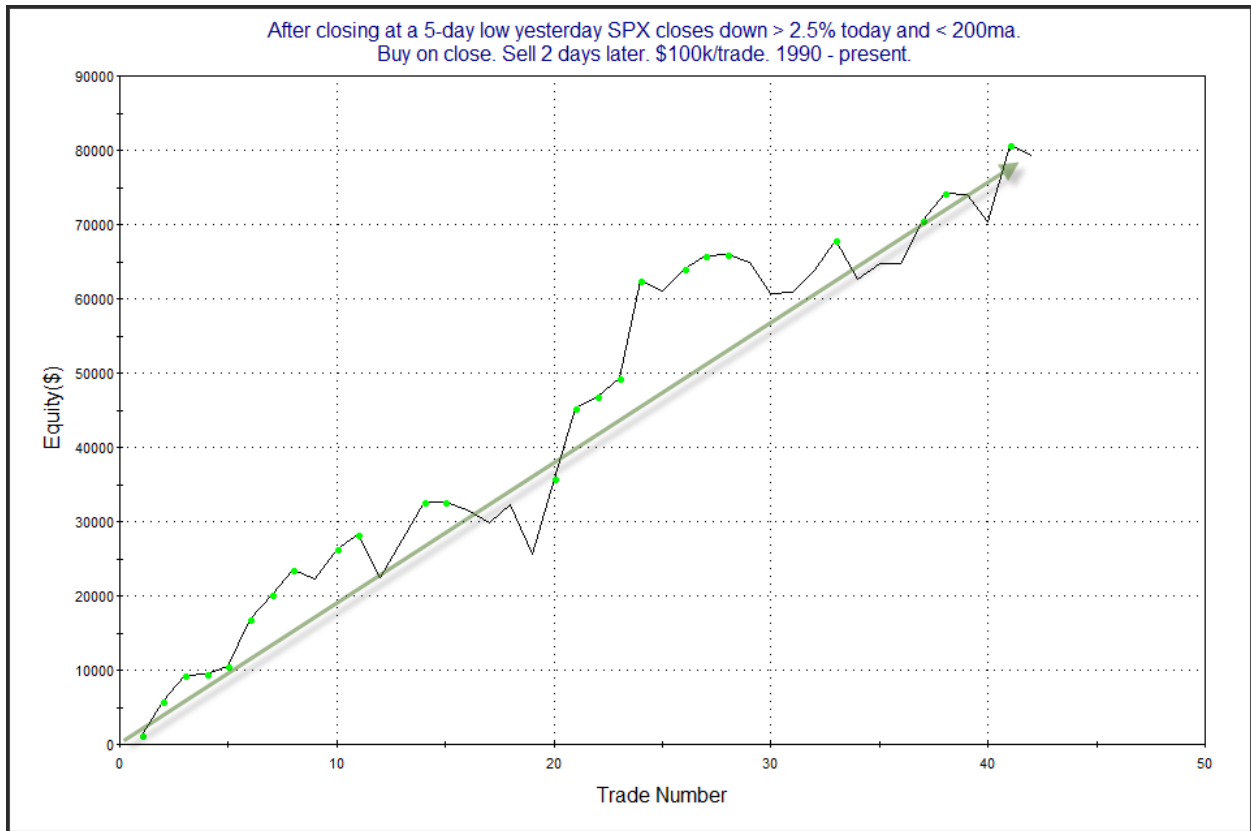
This looks great all the way through. So those times the bounce did not arrive on Monday, it almost always did by Tuesday afternoon.

The fact that the big decline originated from an already-low level suggests a substantial edge as well. The study below was last seen in the 9/29/15 letter, and aligns with the current setup. It looks at strong drops from short-term lows in long-term downtrends.

After closing at a 5-day low yesterday SPX closes down > 2.5% today and < 200ma.
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	104,090.91	36	28	8	77.78	18,981.60	-12,975.48	4,918.72	-4,204.16	1.17	4.09	2,891.41
4	68,600.99	39	26	13	66.67	17,851.68	-14,820.98	4,491.27	-3,705.54	1.21	2.42	1,759.00
3	75,081.27	41	25	16	60.98	17,277.48	-13,815.18	4,728.54	-2,695.76	1.75	2.74	1,831.25
2	79,345.84	42	30	12	71.43	13,116.84	-6,763.30	3,765.49	-2,801.58	1.34	3.36	1,889.19
1	74,317.58	45	31	14	68.89	10,716.03	-5,702.04	3,171.98	-1,715.28	1.85	4.09	1,651.50

Numbers here appear strongly bullish. I also produced a profit curve for the 2-day holding period.



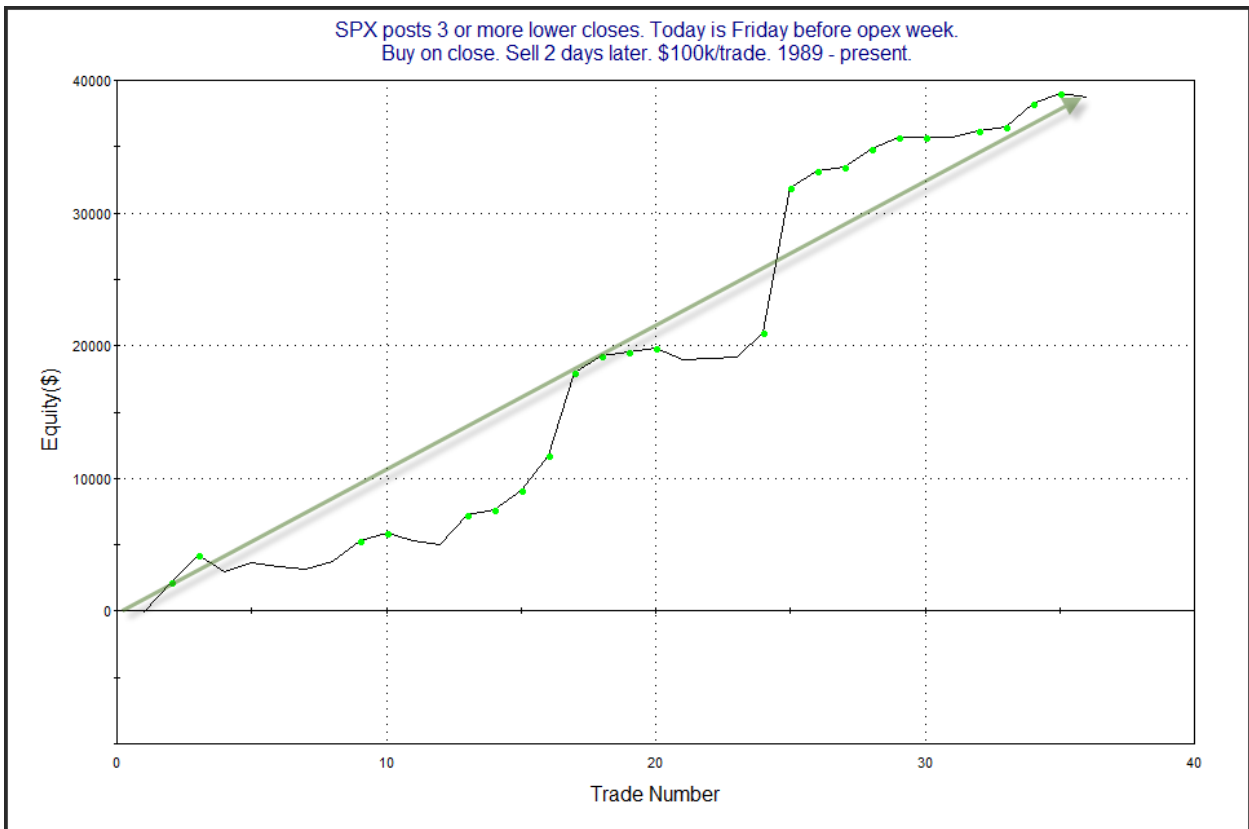
The last instance did not pan out, but the curve still looks appealing. I have included this study on the Active List as well.

The fact that next week is opex week also seems to favor the bulls. In the 8/13/18 subscriber letter I looked at other times SPX closed down at least 3 days in a row and it was the Friday before opex week. I have updated those results below.

SPX posts 3 or more lower closes. Today is Friday before opex week.
Buy on close. Sell X days later. \$100k/trade. 1989 - present.

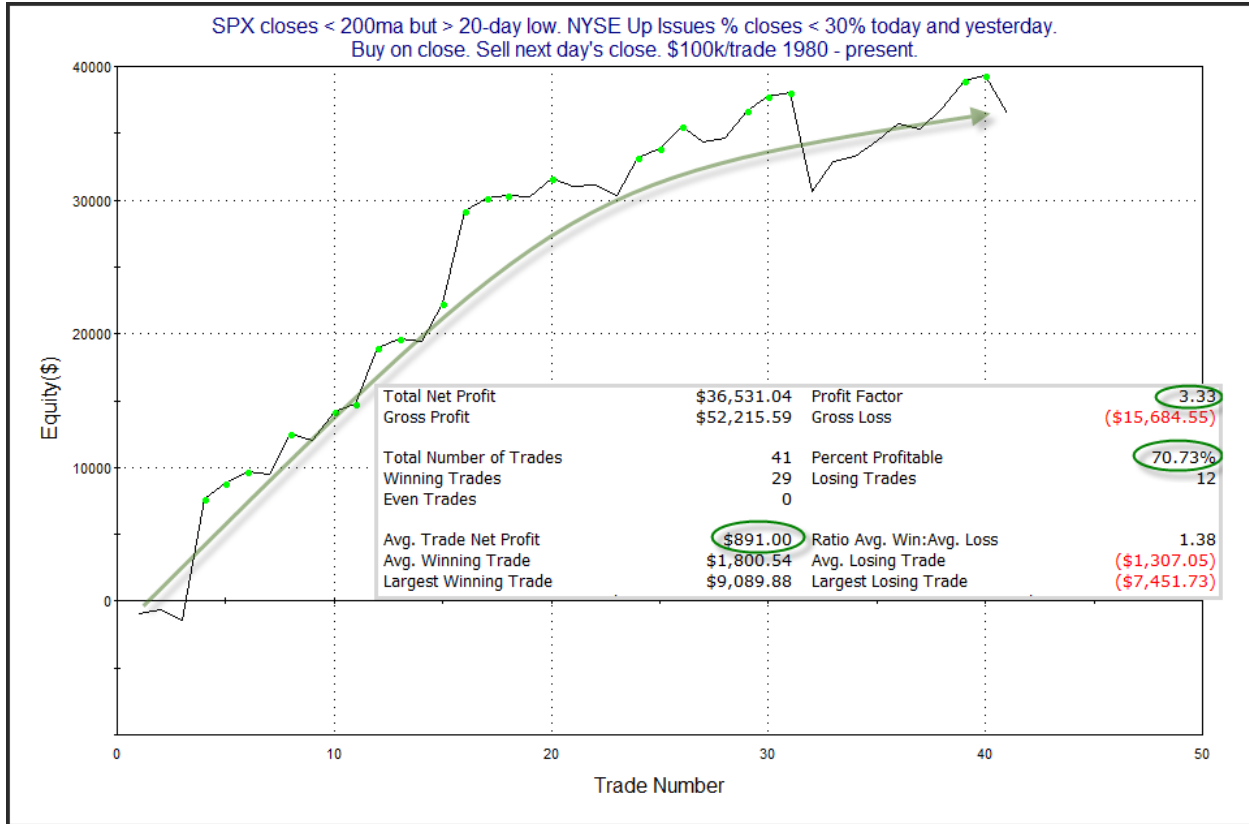
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	38,236.36	36	25	11	69.44	5,393.97	-2,348.40	1,957.48	-972.77	2.01	4.57	1,062.12
4	39,931.94	36	26	10	72.22	5,731.96	-2,266.11	1,777.76	-628.98	2.83	7.35	1,109.22
3	35,399.58	36	26	10	72.22	5,215.85	-1,651.00	1,615.96	-661.53	2.44	6.35	983.32
2	38,699.15	36	27	9	75.00	10,965.69	-1,306.06	1,581.16	-443.57	3.56	10.69	1,074.98
1	29,045.42	36	27	9	75.00	11,558.43	-1,075.29	1,257.55	-545.37	2.31	6.92	806.82

Numbers here are strong. Below is a look at the 2-day profit curve.



The 25th instance was a sizable outlier but the curve has sloped higher on a pretty consistent basis anyway. I have included this study on the active list again today.

Also notable is that we had a study trigger that looked at the weak NYSE breadth along with the SPX price action over the last couple of days. Last seen in Thursday's night's letter, it triggered again.



Impressive numbers and an impressive profit curve. I have added this study to the active list again tonight.

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



With tonight's evidence considered, the green Aggregator line closed well above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line is also high above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is strongly 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 active list, expectations are set to remain positive on Monday. This is unlikely to change. Meanwhile, the Differential Pivot will be 4093.16. That is a massive 4.9% above Friday's close. Therefore, SPX will need to close up 4.9% on Monday in order to flip from oversold to overbought vs recent expectations. I don't see that happening. More likely, it will take a multi-day rally or consolidation work off the oversold condition.

So the Aggregator is bullish. There is quite a bit of evidence suggesting a bounce. The big drop on a Friday, the fact that the drop occurred following a short-term low, the fact that opex is this upcoming week, and the poor breadth the last couple of days all point to a short-term rally. And there is a ton of room to the upside before SPX will flip from oversold to overbought. I believe reward/risk favors the bulls. I took some long index exposure near the close on Friday. I will add to that position in anticipation of a "Turnaround Tuesday" if SPX closes down again on Monday.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/13 – 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”.*

Strong selling the last 3 days left weekly stats quite poor. The SPX fell 5.05%, the NASDAQ declined 5.6%, and the Russell 2000 lost 4.4% on the week. The major indices are also back near new long-term lows. Bonds struggled too. The US Aggregate Bond ETF (AGG) lost 1.5%, while TLT, the 20-year Treasury Bond ETF tumbled 1.95%. Stocks and bonds both still appear to be in long-term downtrends.

When a new uptrend is initiated, we often look for breadth thrust signals to confirm the uptrend. We got one a few weeks ago when we saw 3 consecutive days of NYSE Up Issues % closing above 70%. One breadth thrust signal that did NOT trigger was the Zweig Breadth Thrust, named after Martin Zweig, who created it. The Zweig Thrust takes a 10-day exponential moving average of the NYSE Up Issues %. It looks for a move from < 40% to over 61.5% within a 10-day period to signal there has been a breadth thrust. I wrote about Zweig Breadth Thrusts in some [detail in the blog a few years back](#).

Over the last 3 days we have essentially what could be considered the inverse setup trigger. The NYSE Up Issues % 10ema has fallen from above 61.5% to under 40% in 10 trading days. Rather than a breadth thrust, we have seen a “breadth collapse”. I looked back at other times where such an “Inverse Zweig Breadth Collapse” has occurred. I found the setup to be rare. The full list of instances can be found below.

Inverse Zweig Breadth Collapse (10ema of NYSE Up Issue % declines from > 61.5% to < 40% within 10 days.) Forward results shown: 1928 - present. (S&P 90 returns used prior to S&P 500 inception in 1957.)												
Ticker	Date/Time	Close	10-day High of 10-day 10-day EMA		5-Day % Chg	10-Day %Chg	21-Day % Chg	63-Day % Chg	126-Day % Chg	252-Day % Chg		
			EMA Up Issue %	Up Issue %								
SSPX	11/18/1931	10.21	62.29	39.21	-6.66	-9.7	-18.12	-14.59	-46.33	-29.48		
SSPX	9/13/1932	7.8	63.41	38.58	-2.31	4.23	-14.49	-8.72	-20.38	29.1		
SSPX	4/30/1934	10.46	61.89	39.30	-6.21	-9.66	-6.41	-17.11	-16.25	-9.94		
SSPX	9/4/1934	9.06	63.76	37.70	-3.75	-5.96	-2.54	5.3	-8.17	29.8		
SSPX	1/25/1938	11.22	64.53	38.72	-2.94	-2.14	2.58	-11.23	12.48	5.7		
SSPX	3/7/1938	10.88	63.69	37.44	-0.92	-4.6	-12.87	-10.48	12.68	20.4		
SSPX	3/17/1939	12.21	61.85	39.52	-1.15	-10.07	-12.69	-7.62	7.04	-0.57		
SSPX	1/12/1940	12.13	64.06	39.42	0.16	0.16	1.65	1.57	-17.72	-12.04		
SSPX	1/21/1941	10.37	62.06	39.20	0.58	-3.86	-6.27	-10.13	0.77	-14.75		
SSPX	7/27/1943	11.92	62.22	38.72	-1.68	-1.76	-1.76	0	-1.34	7.13		
SSPX	6/10/2022	3900.86	64.69	39.59	na	na	na	na	na	na		
					Average	-2.488	-4.336	-7.092	-7.301	-7.722	2.535	
					Median	-1.995	-4.23	-6.34	-9.425	-4.755	2.565	
					% Winners	20%	20%	20%	20%	40%	50%	

There have only been 10 instances dating back to 1928, and the current instance is the 1st one since 1943, when the S&P 90 was the primary S&P index. The modern S&P 500 inception occurred in 1957. So it is fairly amazing to see such a breadth collapse that has not happened in near 80 years. In looking at all the instances between 1931 and 1943, results were *not* encouraging for the bulls. On average the market was down 2.5% five days later, down 4.3% ten days later, down 7.1% one month later, down 7.3% three months later, and down 7.7% six months later. I will not put a whole lot of faith in a signal that has not trigger in nearly 80 years. But the fact that we have seen such an extreme breadth collapse the last few days does seem notable. And it sure doesn't appear to be market positive. At the very least, it casts some doubt on the breadth thrust signal we saw a few weeks ago.

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

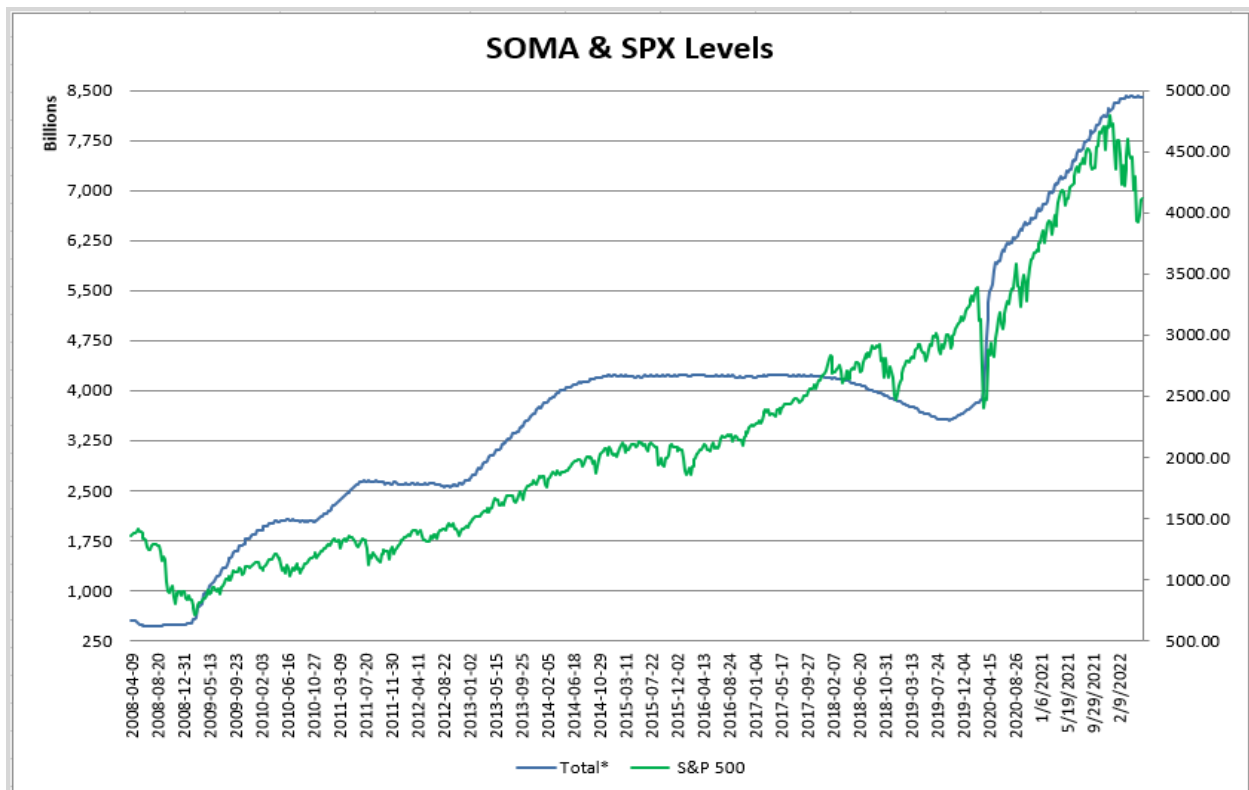
Domestic Security Holdings as of

◀ Previous **June 8, 2022** 📅
Posted June 9, 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***	2,698,576,406.3
Agency Commercial Mortgage-Backed Securities***	8,869,818.6
Total SOMA Holdings	8,392,162,077.3
Change From Prior Week	-0.2

This week the SOMA saw a decline of \$200. 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. On Wednesday the Fed will complete their 2-day meeting and will announce any policy changes. I expect they will raise short-term rates another 50 basis points. Commentary and forward guidance will be watched closely. So far, the market has *not* done well without the Fed on its side.

The bullish case seems to have weakened a bit more. The breadth thrust study is now in doubt after the breadth collapse study we are now seeing. The only other bullish study on the intermediate-term list will be expiring after this upcoming week. The long-term trend is clearly down. SPX has closed lower 9 of the last 10 weeks, and Friday is the lowest weekly close since early 2021. The Fed is hawkish, the NASDAQ is lagging, and long-term seasonality is unfavorable. Overall, I am feeling a bit more bearish than I was a week ago. But with the short-term outlook bullish and the market so oversold, I'll give it another week before potentially moving from a neutral to a bearish bias. So 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 – Buy ¼ index position @ \$389.75 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to add another lot of index exposure on Monday if SPY closes lower.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
SPY(1/4)	6/10/2022	\$389.80	\$389.80	0.00%	bought on close

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