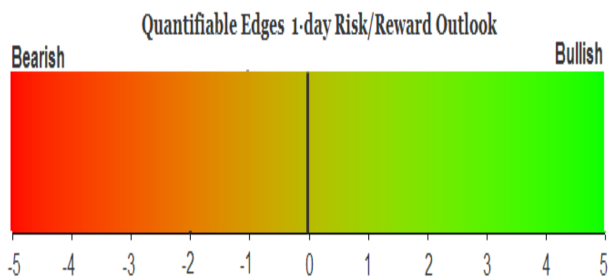
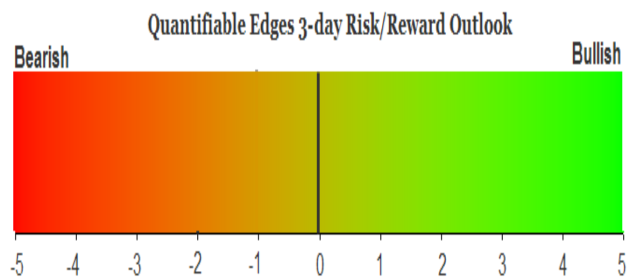
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 27, 2022 Volume 15 Issue 120

Market Overview





Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- Strong up days with big volume often see follow through.
- The SPY pattern and unfilled gap higher suggest a downside edge for Monday.
- The NASDAQ has taken leadership from the SPX, a positive indication.
- The huge reversal on the weekly chart is rare but potentially encouraging.
- The SOMA was flat-ish this pas week. Expect a decline over the next couple of weeks.

Short-term Outlook
The Bottom Line
The Aggregator is neutral. Evidence is mixed. I don't see a clear and compelling short-term edge.

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 27, 2022	SPY gap up. Close > open < 200.	1 day	Bearish			
June 27, 2022	SPX up > 3% high volume 20 days	1-5 days	Bullish	4.60%	-1.70%	-3.50%
June 24, 2022	NDX up > 1%. SOX dn	1-6 days	Bearish	-2.90%	1.70%	3.80%
Active - Long Term						
June 27, 2022	NASDAQ Leading	int term	Bullish			
June 21, 2022	Up from 50-low on a Friday	1-25 days	Bullish	5.80%	-3.80%	-8.10%
June 21, 2022	CBI >= 10. SPX < 200ma	1-17 days	Bullish	6.50%	-3.85%	-7.80%
June 13, 2022	Inverse Zweig Breadth Collapse	1-3 months	Bearish			
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
June 24, 2022	***SPX up VIX dn midweek < 200***	***1-4 days***	***Bearish***	***-3.10%***	***1.50%***	***3.10%***

The Evidence

Friday was a huge up day. SPX rose 3.1%, the NASDAQ rallied 3.3%, and the Russell 2000 climbed 3.2%. Breadth was strongly positive with the NYSE Up Issues % coming in at 83% and the Up Volume % at 77%. NYSE total volume came in very high.

Friday was the Russell rebalance, and that created a huge volume spike. Often when we see strong up days during a long-term downtrend, then we also see a reversion lower in the following days. But Friday we had multiple studies emerge suggesting the very strong volume was a potential positive, and that the edge may actually be to the upside. Friday's volume was the highest in a long time. The study below shows times where SPX closed up > 3%, but the rally was ***not*** accompanied by a 20-day high in NYSE volume.

SPX closes up > 3%. NYSE volume is NOT the highest in 20 days.
Buy on close. Sell X days later. $100k/trade. 1970 - 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	-37,921.52	59	31	28	52.54	13,158.45	-22,531.20	3,851.78	-5,618.81	0.69	0.76	-642.74
9	-49,553.84	62	31	31	50.00	14,258.16	-12,531.42	3,456.46	-5,054.98	0.68	0.68	-799.26
8	-65,526.41	62	30	32	48.39	9,572.58	-19,506.88	2,970.21	-4,832.27	0.61	0.58	-1,056.88
7	-67,953.25	64	27	37	42.19	8,892.72	-21,797.40	3,660.35	-4,507.64	0.81	0.59	-1,061.77
6	-53,285.29	66	35	31	53.03	10,315.50	-16,460.42	3,152.15	-5,277.76	0.60	0.67	-807.35
5	-51,139.52	71	39	32	54.93	11,988.81	-17,314.65	3,213.93	-5,515.08	0.58	0.71	-720.27
4	-58,327.31	76	42	34	55.26	9,526.41	-16,867.40	2,656.76	-4,997.39	0.53	0.66	-767.46
3	-36,646.09	77	40	37	51.95	7,448.76	-11,884.77	2,262.17	-3,436.02	0.66	0.71	-475.92
2	-64,652.50	86	43	43	50.00	7,309.60	-13,654.06	1,900.17	-3,403.72	0.56	0.56	-751.77
1	-55,350.50	87	40	47	45.98	3,833.82	-11,696.04	1,084.01	-2,100.23	0.52	0.44	-636.21

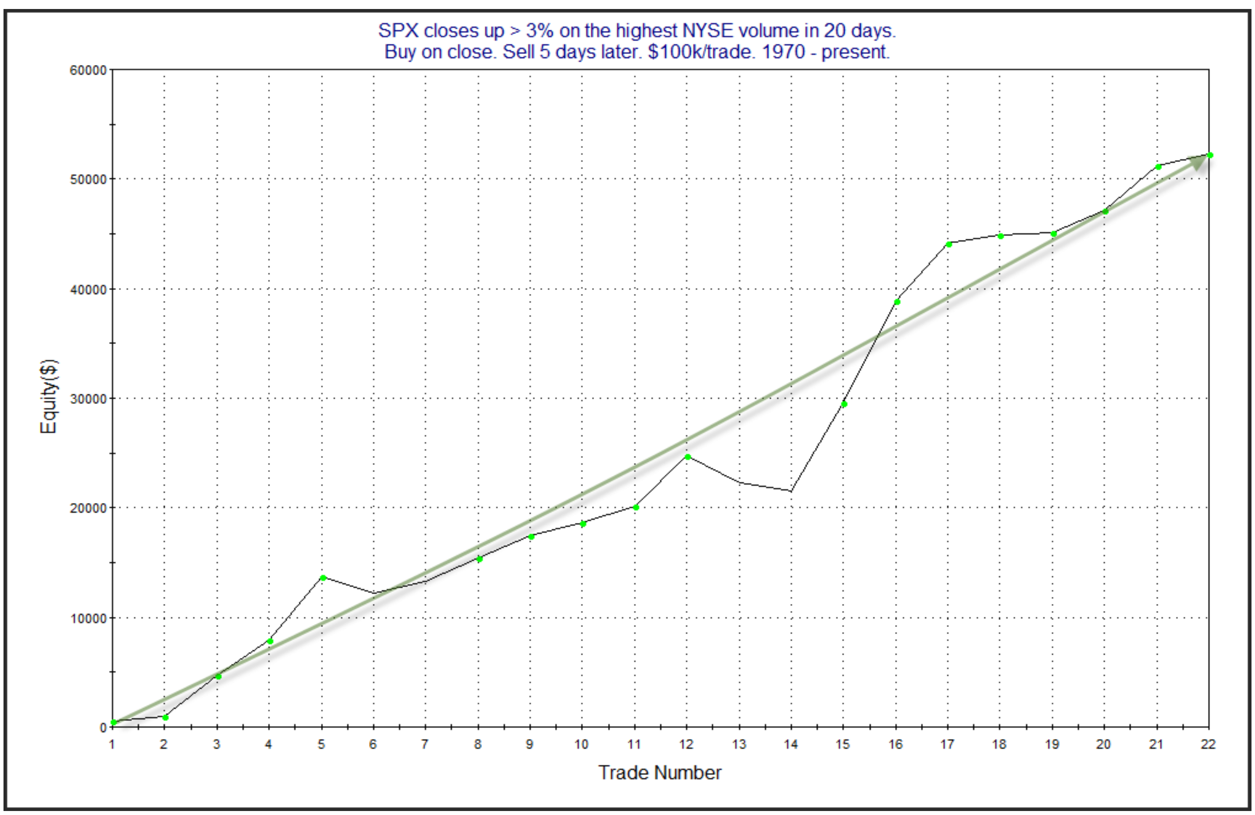
As you can see, big up days don't often see great follow through. But when the volume *is* strong, like Friday, then it is a much different story. The study below is from the 12/1/11 letter ad has been updated.

SPX closes up > 3% on the highest NYSE volume in 20 days.
Buy on close. Sell X days later. $100k/trade. 1970 - 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	68,025.37	22	18	4	81.82	13,599.08	-7,562.86	4,458.56	-3,057.19	1.46	6.56	3,092.06
9	73,260.95	22	17	5	77.27	11,435.28	-3,726.90	4,723.96	-1,409.29	3.35	11.40	3,330.04
8	61,138.28	22	17	5	77.27	10,693.76	-3,292.30	4,095.25	-1,696.19	2.41	8.21	2,779.01
7	60,044.42	22	19	3	86.36	11,879.20	-8,207.38	3,795.01	-4,020.25	0.94	5.98	2,729.29
6	55,567.57	22	16	6	72.73	9,978.28	-1,660.50	3,935.69	-1,233.92	3.19	8.51	2,525.80
5	52,296.95	22	19	3	86.36	9,334.72	-2,534.50	3,006.71	-1,610.19	1.87	11.83	2,377.13
4	43,288.68	22	16	6	72.73	11,930.04	-3,869.74	3,645.96	-2,507.79	1.45	3.88	1,967.67
3	41,261.50	22	14	8	63.64	10,868.60	-3,820.62	3,856.31	-1,590.85	2.42	4.24	1,875.52
2	23,283.36	22	13	9	59.09	7,112.64	-3,630.44	2,488.96	-1,008.12	2.47	3.57	1,058.33
1	30,180.71	22	14	8	63.64	9,089.88	-1,516.06	2,536.97	-667.10	3.80	6.66	1,371.85

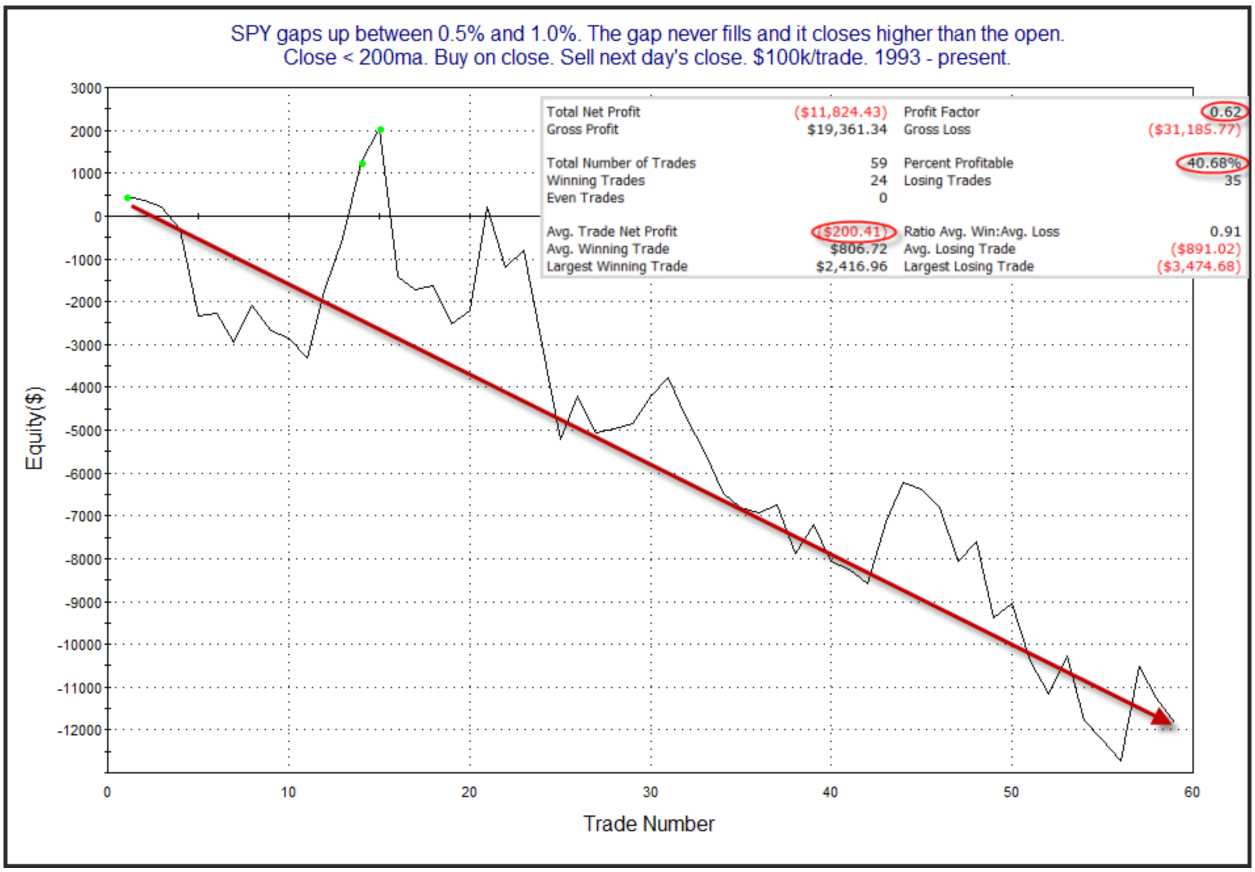
21 of 22 instances closed above the entry price at some point in the next week. The lone failure triggered on 1/3/2001.

Numbers are impressive, and the curves were also. Below is a look at the 5-day profit curve.



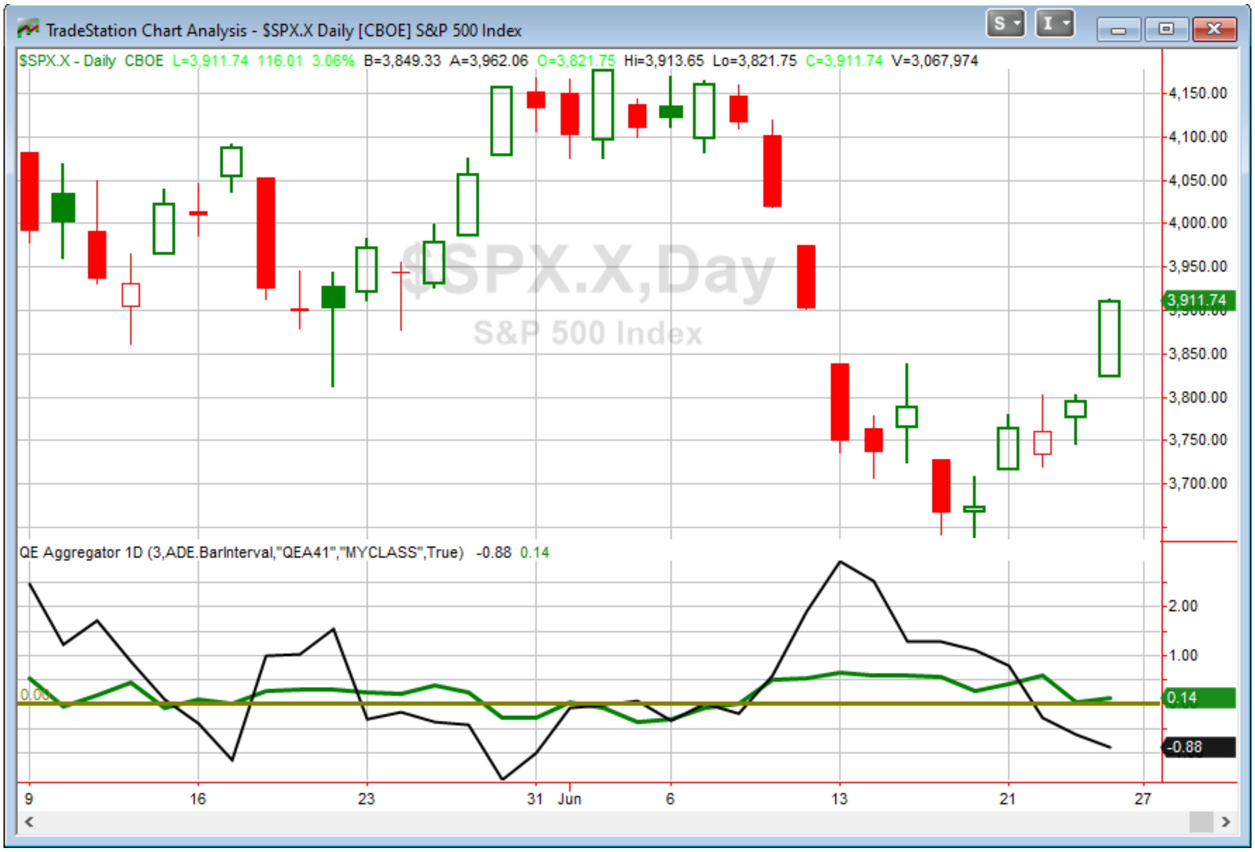
That is a strong steady move from lower left to upper right. Interestingly, this study has not triggered since 2011. With the Russell rebalance having an impact on volume, someone could certainly make an argument that the study should not be counted. But results are strong, it fit the criteria, and rather than make excuses, I decided to allow it. If you disagree, then your bias may be more negative than mine.

This next study simply considered the price action on Monday, including the unfilled up-gap and the long-term downtrend. It was last seen in the 3/31/20 letter, and is updated below.



Stats are moderately negative, but the curve makes the study more compelling. I have also included this study on the active list tonight.

I have updated [the Aggregator chart] below.



With tonight's evidence considered, the green Aggregator line remained above zero. Positive readings mean expectations are for upside 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 positive but SPX is overbought. 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 stayed flat at the close.

Based on the current active list, expectations are set to flip to negative on Monday (but then back to positive on Tuesday). This could change if compelling new evidence emerges. Meanwhile, the Differential Pivot will be 3804.44. That is 2.7% below Friday's close. Therefore, SPX will need to close down over 2.7% on Monday to flip from overbought to oversold vs recent expectations. More likely, it will take at least few days to work off the overbought condition.

So the Aggregator is neutral. Evidence is mixed and the edge is unclear. After the last 2 days the market is certainly overbought. This seems like a good time to stand aside and wait for a better setup when considering index positions. It is notable that the CBI dropped all the way down to 1 on Friday. It went from 11 to 1 in just 4 days. So I'll be exiting several Catapults on Monday morning and mostly flattening out there as well.

Intermediate-term Outlook (2 weeks – 2 months) – updated 6/27 – neutral

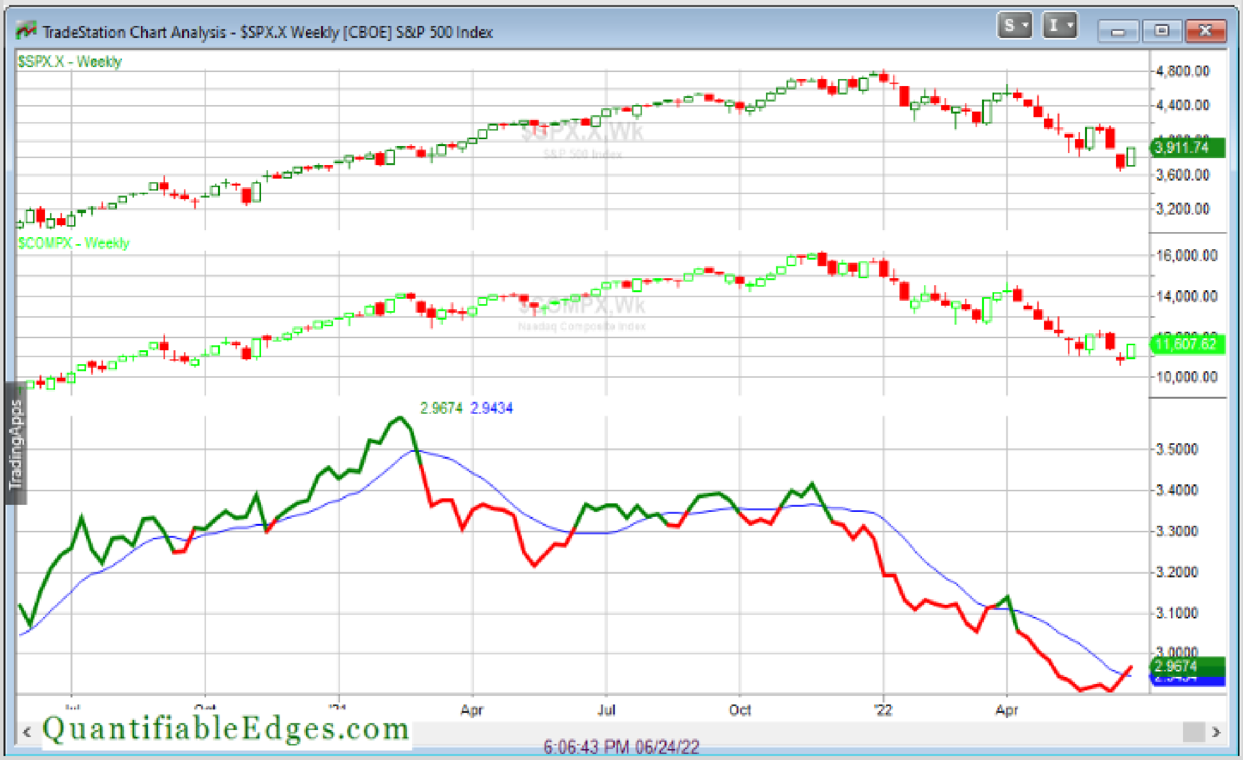
Combo #1	Combo #2	Combo #3
Flat	Flat	Flat

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".*

This past week saw a huge turnaround from last week. The SPX rallied 6.45%, the NASDAQ jumped 7.5%, and the Russell 2000 gained 6.0% on the week. Bonds saw moderate gains. The US Aggregate Bond ETF (AGG) rose 0.7%, while TLT, the 20-year Treasury Bond ETF climbed 0.4%. While the rebound was strong, both stocks and bonds are only a week removed from their long-term lows.

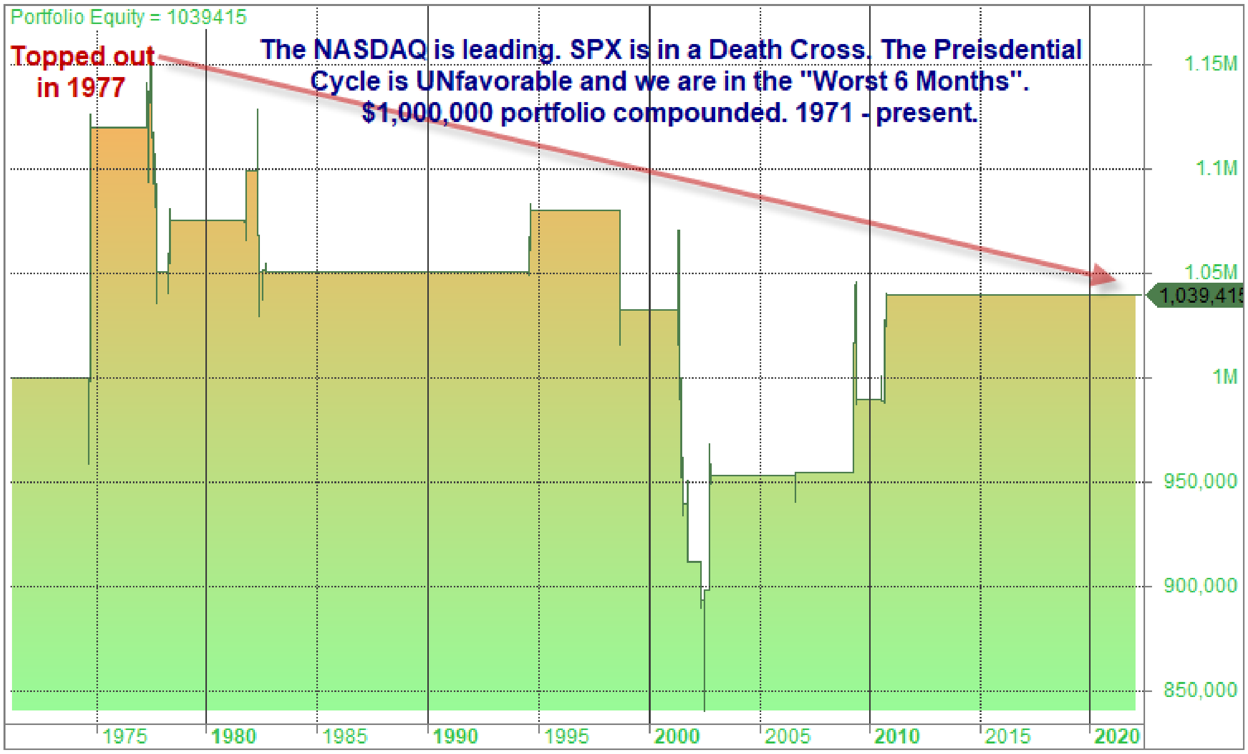
The relative outperformance of the NASDAQ vs SPX this week helped it to retake a leading position based on our NASDAQ/SPX Relative Strength Indicator. Below is a chart of the indicator from the website.

NASDAQ/S&P 500 Relative Strength Weekly



The movement of the red line (which is about to turn green) above the blue line is our indication that the NASDAQ is in a leading position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. Over that time, the SPX has gained 2997.15 points when the NASDAQ has been leading versus 812.49 points when the NASDAQ has lagged. The difference for the NASDAQ has been even more dramatic, with the point gains being 11,227.74 vs. just 271.50. More on this indicator can be found in the Market Timing Course, or on its page (which can be found by clicking on the chart on the charts page). http://quantifiableedges.com/nasdaq-weekly-strength-model/

I decided tonight to take a look at how the market has done when all 4 Market Timing Course indicators have been aligned as they are now. That means: 1) a leading NASDAQ, 2) SPX "Death Cross" in effect, 3) unfavorable Presidential Cycle, and 4) "Worst" 6 months in effect. Below is a chart showing SPX performance during this alignment.



We see here that this formation has been rare, and it has not done well over the last 40+ years. Still, the NASDAQ taking leadership is a potential positive. But we are not going to see any of the other Market Timing Course indicators flip for a while.

The last two weeks have been quite a wild ride. The week ending June 17th was the worst 1-week decline for SPX (-5.79%) since March of 2020. This past week completely made up for that loss (despite it only being a 4-day week) with a gain of 6.45%. Below is a list of the 4 other times since 1930 that SPX followed the largest 1-week loss in a year with a complete reversal the following week.

SPX posts worst 1-week % change in at least 1 year. It then completely makes up for the loss the next week. Forward % returns shown. 1930 - present.

Ticker	Date/Time	Close	Next Wk % Chg	13-Week %Chg	26-Week %Chg	39-Week %Chg	52-Week %Chg
$SPX	11/29/1963	73.23	1.05	6.24	9.75	11.96	16.29
$SPX	10/14/1966	76.6	2.08	10.35	18.05	21.07	25.33
$SPX	11/5/1982	142.16	-1.85	2.8	16.84	13.77	14.27
$SPX	4/18/1997	766.34	-0.13	19.44	23.2	25.47	46.5
$SPX	6/24/2022	3911.74	Yellow highlighted weeks reversed the worst week in TWO years.				

1966 was the only other instance that the losing week was the worst in over 2 years. It was also the only instance that was coming off a new 52-week low. Results were overwhelmingly positive 1, 2, 3 and 4 quarters out for all 4 instances listed. I don't put a lot of faith in something that has only happened 4 times before, but perhaps the big weekly reversal could be viewed as a positive sign.

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

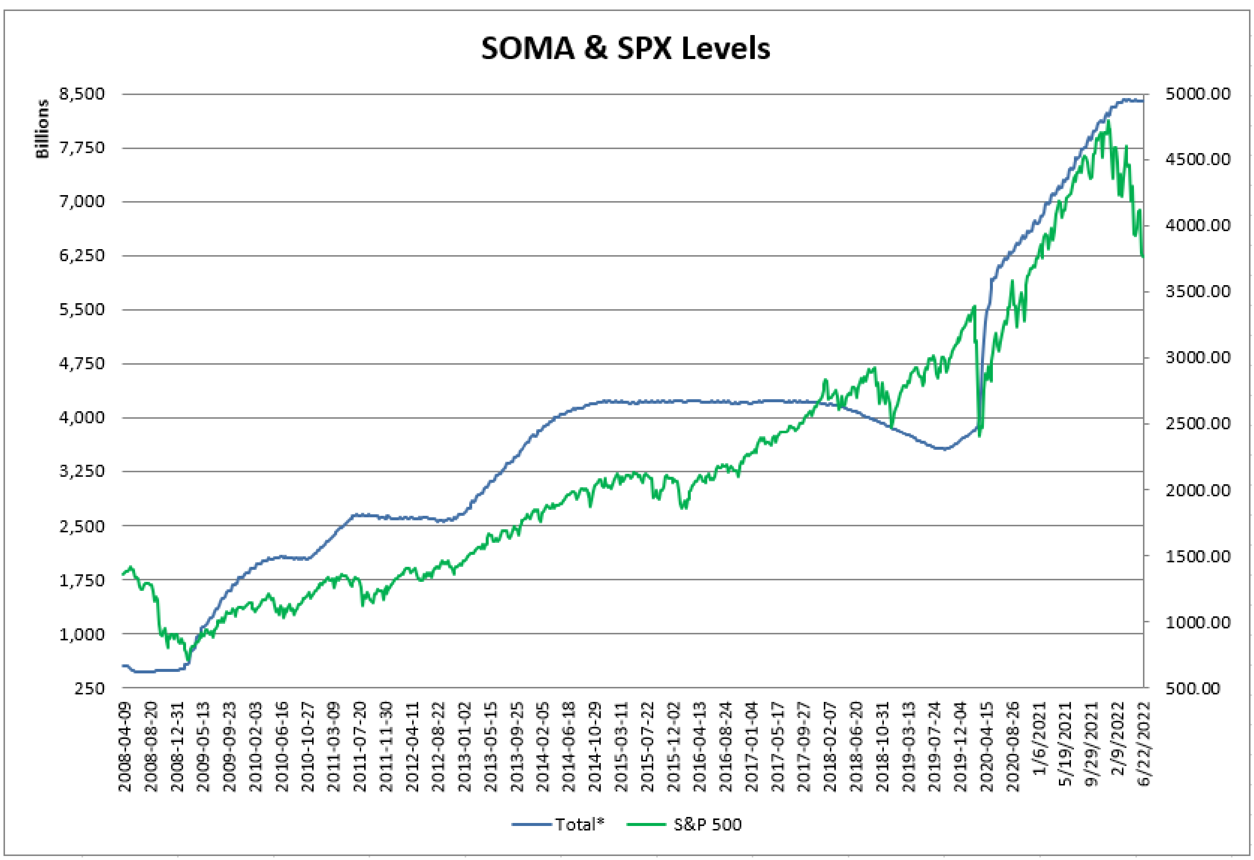
◂ Previous June 22, 2022

Posted June 23, 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)	4,933,512,455.6
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***	2,719,970,130.1
Agency Commercial Mortgage-Backed Securities***	8,845,207.2
Total SOMA Holdings	8,404,254,919.7
Change From Prior Week	1,248,813.9

This week the SOMA saw a rise of nearly $1.25 billion. That is a fairly modest change in an $8 trillion account. Below is an updated SOMA/SPX chart from 2008 – present.



The largest expansion in the history of the SOMA is over. The blue line has flattened. And while it did not decline any this past week, it will noticeably begin to head lower very soon. A sizable liquidity drain is upon us. 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. More rates hikes and more QT are on the way. So far, the market has *not* done well without the Fed on its side.

The NASDAQ leadership, and to a lesser degree, the huge weekly reversal, are a couple of positive indications from this past week. Last weekend we saw the CBI spike and the Friday reversal which were both intermediate-term positives. So the bull case looks a lot better than it did a few weeks ago. Of course there are still many challenges for the market. The Inverse-Zweig breadth collapse I discussed a couple of weeks ago is a potential negative. The long-term trend is still down. The Fed is hawkish, and long-term seasonality is unfavorable. So plenty of conflict. Perhaps we get more clarity over the next few weeks, but there is sill quite a mix of evidence and we are only days past a long-term low. Therefore, I will maintain a neutral trading 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 intermediate-term direction.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

MO – 1/3 @ $45.31 (bought @ limit)

Broad Market Large Cap CBI – 1 (MO)

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

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
TGT(1/3)	6/14/2022	$144.81	$150.42	3.87%	*sell on open*
BRK.B(1/3)	6/14/2022	$281.56	$278.28	-1.16%	*sell on open*
TGT(1/3)	6/15/2022	$142.52	$150.42	5.54%	*sell on open*
BRK.B(1/3)	6/15/2022	$277.64	$278.28	0.23%	*sell on open*
DUK(1/3)	***6/21/2022***	***$97.82***	***$103.67***	***5.98%***	**sold on open**
MMM(1/3)	6/21/2022	$129.84	$134.33	3.46%	*sell on open*
MO(1/3)	6/21/2022	$45.31	$43.40	-4.22%	Catapult