

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 5, 2022

Volume 15 Issue 125

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	1

Tonight's Research Points

- QE SPX Seasonality Calendar looks quite positive this upcoming week.
- The NASDAQ has returned to a lagging position, which is not a good sign for the intermediate-term.
- The 1st 6 months of the year were awful. We look at other years where this has happened.
- The SOMA declined a substantial amount this past week. That will continue to happen as we are now in a period of Quantitative Tightening.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is lacking and the market is mid-range. I am neutral as well.

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						
None						
Active - Long Term						
June 13, 2022	Inverse Zweig Breadth Collapse	1-3 months	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)						
July 1, 2022	1st of July historically bullish	1 day	Bullish			
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%
June 27, 2022	NASDAQ Leading	int term	Bullish			
June 21, 2022	CBI >= 10. SPX < 200ma	1-17 days	Bullish	6.50%	-3.85%	-7.80%
June 21, 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			

The Evidence

Friday saw solid gains on light volume ahead of the holiday weekend. SPX closed up 1.1%, the NASDAQ gained 0.9%, and the Russell 2000 rallied 1.2%. Breadth was positive with the NYSE Up Issues % coming in at 74% and the Up Volume % at 76%. NYSE total volume rose was light.

There were a few studies that triggered in the Quantifinder that noted the light volume. But light volume studies are designed to look for unusual quietness in the market – perhaps a sign of complacency. When heading into a 3-day weekend the market almost always has a light-volume day, with many traders taking off ahead of the holiday. So I ignore these studies when they trigger just ahead of a holiday. And that is what I will do today.

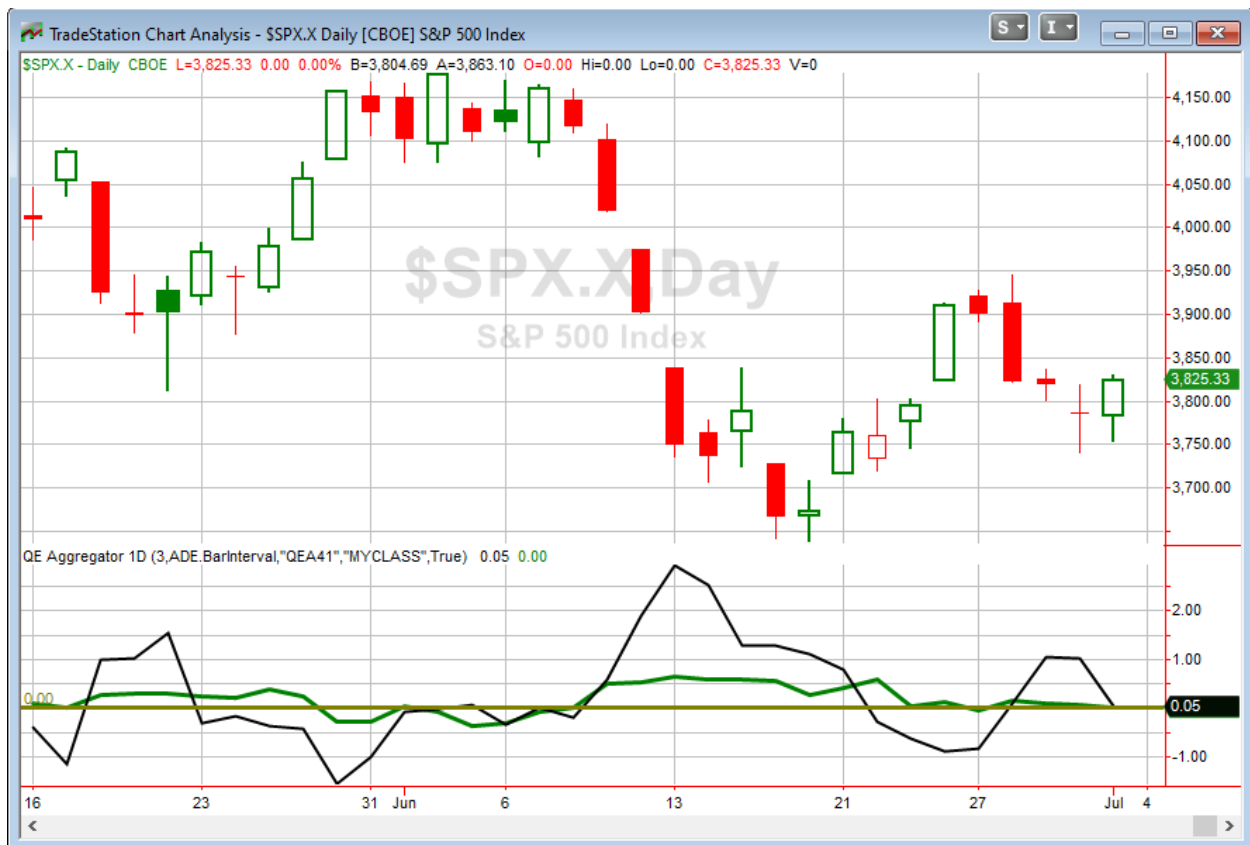
With SPX closing near the middle of its recent (10-day) range, we are not seeing a short-term extended condition right now. So it is not unusual for there to be a lack of price-action based studies triggering.

From a seasonality standpoint, while there are no reliable studies triggering with regards to July 4th action, a look at the QE Seasonality Calendar is interesting. Below you can see the \$SPX Calendar for July.

Quantifiable Edges Seasonality Calendar			
§SPX S&P 500 Index			
Date	Win%	Profit Factor	Avg % Chg
7/1/2022	58.69	1.317	-0.003
7/5/2022	58.30	1.508	0.142
7/6/2022	62.07	1.657	0.180
7/7/2022	57.87	1.291	0.038
7/8/2022	60.79	1.757	0.219
7/11/2022	53.67	0.945	-0.162
7/12/2022	51.97	1.565	0.191
7/13/2022	52.35	1.166	0.014
7/14/2022	56.46	1.093	-0.031
7/15/2022	54.34	1.302	0.092
7/18/2022	55.92	0.968	-0.127
7/19/2022	54.08	1.809	0.248
7/20/2022	53.35	1.183	0.042
7/21/2022	53.85	1.034	-0.019
7/22/2022	56.38	1.288	0.111
7/25/2022	49.49	0.868	-0.151
7/26/2022	50.14	1.316	0.144
7/27/2022	58.09	3.504	0.378
7/28/2022	53.83	1.192	0.026
7/29/2022	54.38	1.202	0.092
Baseline	54.52	1.150	0.048

Aside from an outsized Profit Factor reading on the 27th, this upcoming week shows the strongest numbers of the month. So while price action is not showing strong hints, and I am not adding any studies to the short-term active list this would seem to be a week where the bulls should have a decent chance to gain some ground.

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



With several studies expiring and nothing new triggering, the green Aggregator line closed right at zero. Flat readings mean expectations are neutral over the next few days. Meanwhile the black Differential Line held barely above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are flat and SPX is oversold. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines fail to close on the same side of zero. Therefore, the Aggregator formation turned flat at the close.

With the short-term list now empty, any new evidence that emerges over the next few days will have a strong impact on short-term expectations. Meanwhile, the Differential Pivot will be 3827.28 on Tuesday. That is 0.5% above Friday's close. Therefore, SPX will need to close up 0.5% on Tuesday to flip from oversold to overbought vs recent expectations.

So the Aggregator is neutral. Evidence is lacking, the market is mid-range and neither strongly oversold nor overbought. And the market is volatile, so not only are we without a great indication of the direction of the next move, there is a decent chance that unpredictable move could be a sharp one. This is not the kind of setup I look to bet on. I have some long SPY exposure from a few days ago. I will be looking to exit that on Tuesday and wait for the next compelling opportunity to arrive.

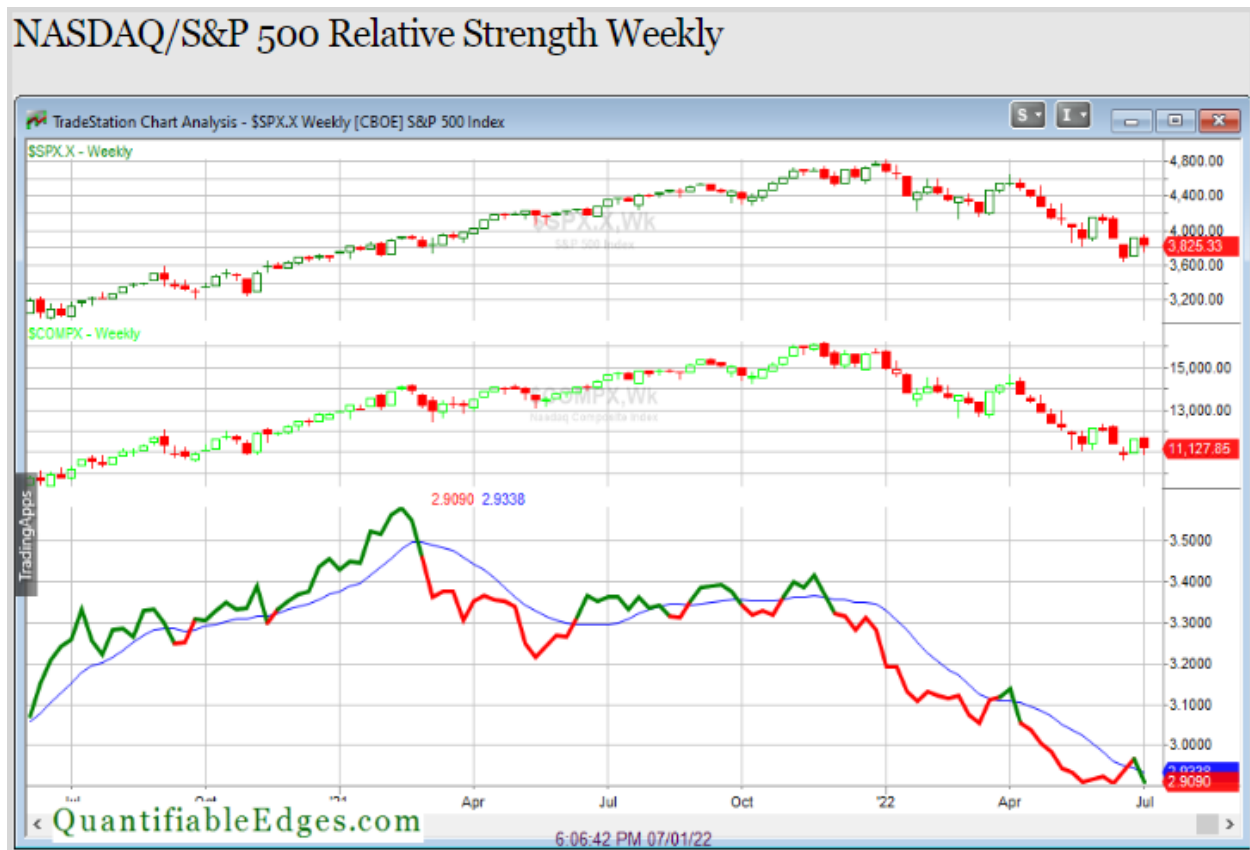
Intermediate-term Outlook (2 weeks – 2 months) – updated 7/5– neutral

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 selling. The SPX declined 2.2%, the NASDAQ tumbled 4.1%, and the Russell 2000 dropped 2.15 on the week. Bonds rallied. The US Aggregate Bond ETF (AGG) rose 1.5%, while TLT, the 20-year Treasury Bond ETF climbed 3.1%. Both stocks and bonds still appear to be in long-term downtrends.

The underperformance of the NASDAQ caused it to fall back into a lagging position vs the SPX, after having just taken the lead last week. This can be seen in the chart below.

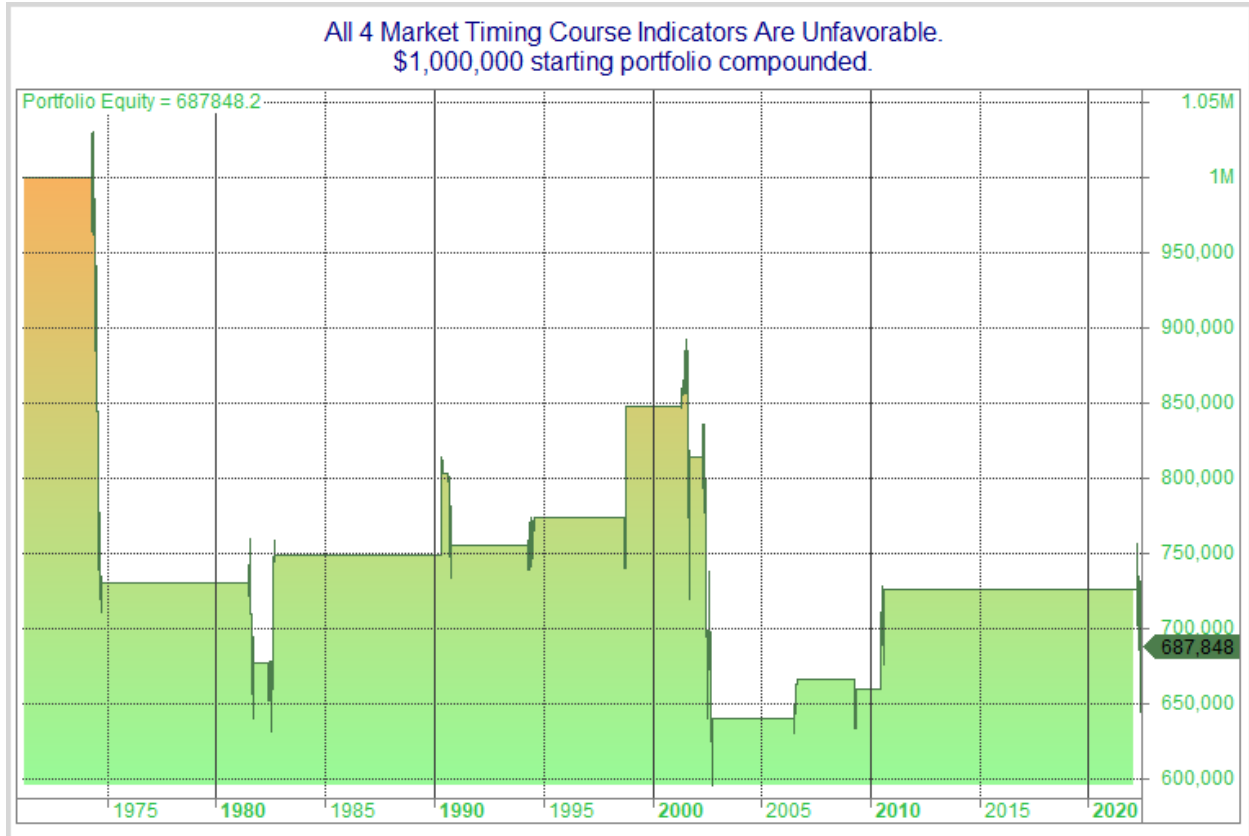


The movement of the green line (which is about to turn red) below the blue line is our indication that the NASDAQ is in a lagging position. Since 12/31/1971, the market has performed substantially better when the NASDAQ has been leading. Over that time, the SPX has gained 2910.74 points when the NASDAQ 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 10,747.98 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/> (Note: the Market Timing Course is free with all annual gold subscriptions. So if you have a gold annual and any trouble accessing it, please let me know.)

Speaking of the Market Timing Course, below is the performance of SPX when the indicators have all been unfavorable as they are now.

All 4 Market Timing Course Indicators Are Unfavorable. All instances shown since 1971.								
Symbol	Trade	Date	Price	Ex. date	Ex. Price	% chg	MAE	MFE
\$\$SPX	Long	4/30/1974	90.31	9/27/1974	64.94	-28.09%	-28.97%	3.82%
\$\$SPX	Long	10/11/1974	71.14	10/18/1974	72.28	1.60%	-3.29%	4.62%
\$\$SPX	Long	7/2/1981	128.64	10/16/1981	119.19	-7.35%	-14.34%	5.08%
\$\$SPX	Long	6/11/1982	111.24	8/6/1982	103.71	-6.77%	-6.77%	1.03%
\$\$SPX	Long	8/13/1982	103.85	9/24/1982	123.32	18.75%	-1.40%	21.74%
\$\$SPX	Long	4/30/1990	330.8	5/25/1990	354.58	7.19%	-0.92%	8.98%
\$\$SPX	Long	9/7/1990	323.4	10/31/1990	304	-6.00%	-8.93%	0.97%
\$\$SPX	Long	4/29/1994	450.91	8/12/1994	461.94	2.45%	-2.46%	2.73%
\$\$SPX	Long	10/2/1998	1002.6	10/30/1998	1098.67	9.58%	-7.91%	9.58%
\$\$SPX	Long	4/30/2001	1249.49	5/4/2001	1266.61	1.37%	-0.77%	1.88%
\$\$SPX	Long	6/15/2001	1214.36	6/29/2001	1224.38	0.83%	-0.93%	2.13%
\$\$SPX	Long	7/6/2001	1190.59	7/13/2001	1215.68	2.11%	-1.86%	2.41%
\$\$SPX	Long	7/20/2001	1210.85	8/3/2001	1214.35	0.29%	-3.74%	1.27%
\$\$SPX	Long	8/10/2001	1190.16	10/12/2001	1091.65	-8.28%	-20.62%	0.73%
\$\$SPX	Long	4/30/2002	1076.92	5/17/2002	1106.59	2.76%	-2.60%	2.76%
\$\$SPX	Long	5/24/2002	1083.82	7/19/2002	847.75	-21.78%	-21.78%	1.22%
\$\$SPX	Long	7/26/2002	852.84	10/11/2002	835.32	-2.05%	-9.87%	13.15%
\$\$SPX	Long	7/19/2006	1259.81	9/1/2006	1311.01	4.06%	-1.83%	4.06%
\$\$SPX	Long	5/8/2009	929.23	5/29/2009	919.14	-1.09%	-5.41%	0.10%
\$\$SPX	Long	7/2/2010	1022.58	7/23/2010	1102.66	7.83%	-0.65%	7.83%
\$\$SPX	Long	7/30/2010	1101.6	9/17/2010	1125.59	2.18%	-5.62%	2.51%
\$\$SPX	Long	4/29/2022	4131.93	6/24/2022	3911.74	-5.33%	-11.98%	4.25%

Not horrible, but there are a few very sizable drops in there. And the performance this year has obviously not been good, with the 5.33% drop that occurred in May-June. Below is a look at a profit curve showing a hypothetical portfolio that only invested when this setup was active.



Not good. The downs were big and the ups were not.

The market had a pretty awful 1st half of the year. The SPX lost over 20% through June, which is something it had not done since 1970 during the 1st 6th months of a year. Out of curiosity, I decided to see how other strongly negative 1st halves performed during the 2nd half of the year.

\$SPX closes down > 15% year-to-date through June.
Forward performance shown. 1928 - present. (S&P 90 used prior to 1957.)

Ticker	Date/Time	YTD %Chg Close	1-Mth %Chg	2-Mth %Chg	3-Mth %Chg	4-Mth %Chg	5-Mth %Chg	6-Mth %Chg
\$SPX	6/30/1932	-45.44	4.43	36.12	89.39	82.39	57.11	47.86
\$SPX	6/30/1939	-17.35	10.86	10.87	2.95	17.77	18.14	12.34
\$SPX	6/28/1940	-19.9	9.98	3.11	5.21	6.81	11.02	5.91
\$SPX	6/29/1962	-23.48	54.75	6.36	7.98	2.78	3.23	13.72
\$SPX	6/30/1970	-21.01	72.72	7.33	12.1	15.92	14.48	19.91


Those are some impressive 2nd half results. I will note that 1970 is the only one in the bunch that managed to close the year positive, and it only saw a gain of 0.1% at the end of the year. (Remember, a 20% drawdown needs a 25% rebound just to get back to even.) But before we get too excited about these results, let's also look at instances that did not quite meet the 15% criteria, but were down at least 10% in the 1st half of the year.

\$SPX closes down between 10% and 15% year-to-date through June.
Forward performance shown. 1928 - present. (S&P 90 used prior to 1957.)

Ticker	Date/Time	YTD %Chg	Close	1-Mth %Chg	2-Mth %Chg	3-Mth %Chg	4-Mth %Chg	5-Mth %Chg	6-Mth %Chg
\$SPX	6/30/1937	-10.36	15.4	8.9	4.16	-10.65	-19.81	-27.86	-31.49
\$SPX	6/29/1973	-11.68	104.26	3.8	-0.01	4	3.87	-7.96	-6.44
\$SPX	6/28/1974	-11.84	86	-7.78	-16.1	-26.12	-14.07	-18.64	-20.28
\$SPX	6/30/1982	-10.56	109.61	-2.3	9.03	9.86	22	26.38	28.31
\$SPX	6/28/2002	-13.78	989.82	-7.9	-7.45	-17.63	-10.51	-5.41	-11.11
\$SPX	6/30/2008	-12.83	1280	-0.99	0.22	-8.88	-24.32	-29.98	-29.43

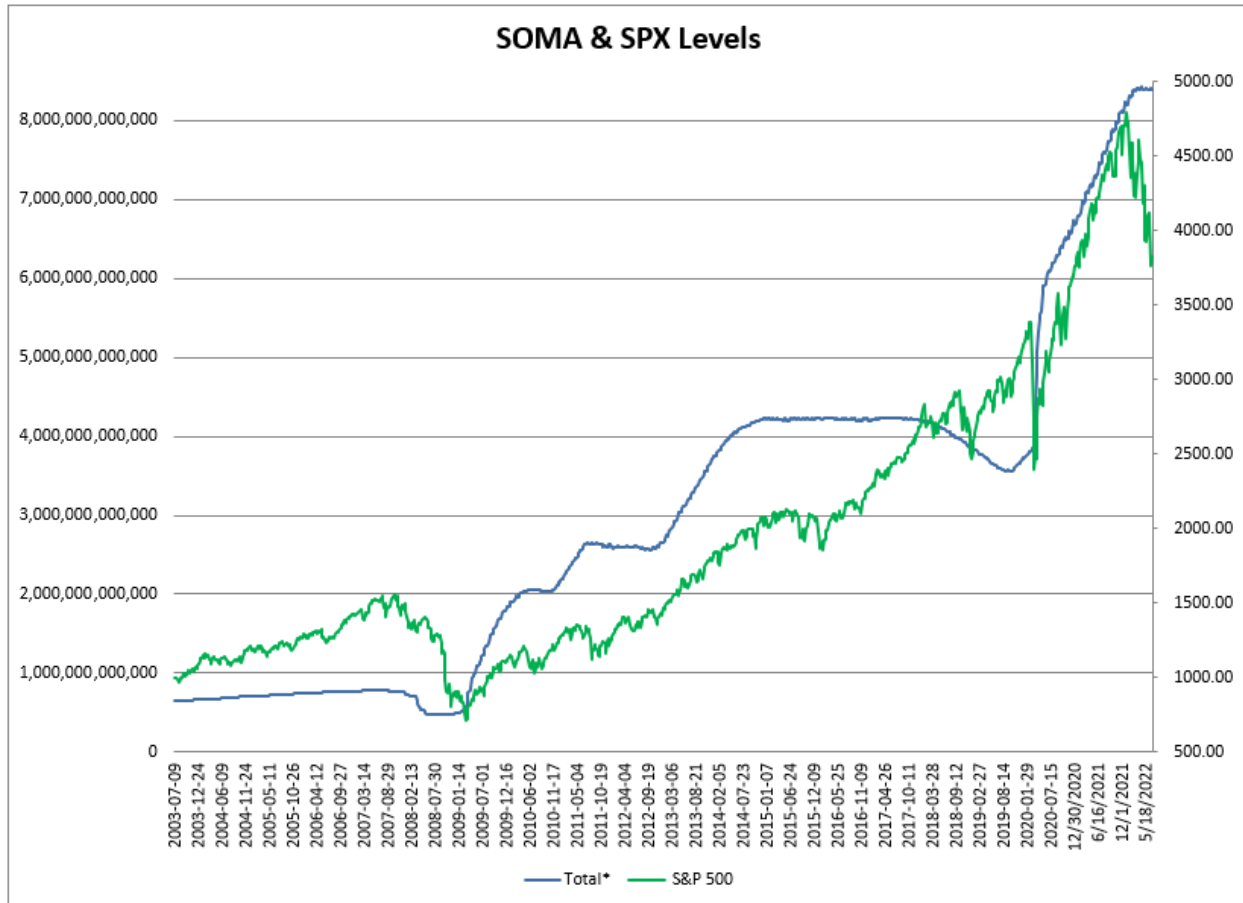
Results here are much different, with 5 of the 6 instances posting losses in the 2nd half of the year. Of course, this year fits in with the 1st group, so perhaps we get a nice rebound. But instances are low and its been 52 years since the last instance. So I am not incorporating this into my bias at all. Still, I thought the results were interesting enough to share.

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 29, 2022** 
Posted June 30, 2022 at 4:30 P.M.

SECURITY TYPE		TOTAL (\$Thousands)
US Treasury Bills (T-Bills)		326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)		4,933,487,455.6
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***		2,700,563,694.1
Agency Commercial Mortgage-Backed Securities***		8,764,315.2
Total SOMA Holdings		8,384,742,591.8
Change From Prior Week		-19,512,327.9

This week the SOMA saw a decline of \$19.5 billion. That is fairly typical of what we will be seeing over the next several months. Below is an updated SOMA/SPX chart. This week I expanded it to look all the way back to 2003.



The largest expansion in the history of the SOMA is over. The blue line has begun to head lower. We should see that happen in a more noticeable way in the coming weeks. 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.

A few weeks ago the bulls had started building a small case for an intermediate-term bounce. But the studies we were looking at have been fading. The CBI study and the Friday reversal study both saw strong enough rallies that they reached their targets. The NASDAQ only managed to take a leading position for a single week. And while the SPX Seasonality Calendar looks favorable this upcoming week, numbers beyond that are more mild. Breadth has not strengthened in a meaningful way, and for those hoping for a Zweig Breadth Thrust signal, the time for that has now passed. The long-term trend is still down. The Fed is hawkish, and long-term seasonality is

unfavorable. So not great from an intermediate-term standpoint. While I could flip to bearish next weekend, I will maintain a neutral trading bias for the time being. I am willing to take trades in either direction, but I will not be aggressive on either the long or short side.

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
MO(1/3)	6/21/2022	\$45.31	\$42.25	-6.75%	Catapult
SPY(1/4)	6/29/2022	\$380.34	\$381.24	0.24%	sell on open

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