

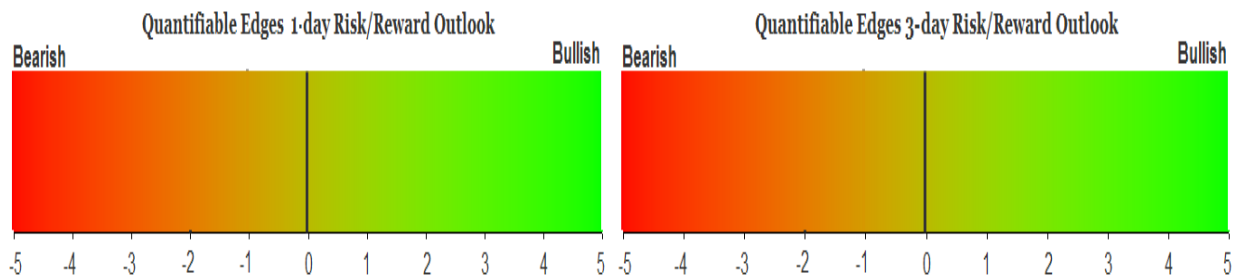
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

July 18, 2022

Volume 15 Issue 124

Market Overview



Signals Overview

Aggregator	CBI Reading
Flat	0

Tonight's Research Points

- Friday's big reversal did not generate anything in the way of compelling short-term evidence.
- The 2022 bear market has so far failed to show the "choppy" behavior that we have become accustomed to in bear markets since the turn of the century.
- Quantitative Tightening saw a "pause" this past week. That won't last, as the Fed will continue QT for the foreseeable future.

Short-term Outlook

The Bottom Line

The Aggregator is neutral. Evidence is mildly bullish and the market is overbought. Reward/risk does not appear great.

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						
July 15, 2022	Close > 1% above the open but down	1-2 days	Bullish			
July 15, 2022	5 gaps down in a row < 200ma	1-2 days	Bullish			
Active - Long Term						
July 11, 2022	NASDAQ Leading	int term	Bullish			
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			

The Evidence

Friday was a big rally day. SPX closed up 1.9%, the NASDAQ gained 1.8%, and the Russell 2000 jumped 2.2%. Breadth was strongly positive with the NYSE Up Issues % coming in at 82% and the Up Volume % at 89%. NYSE total volume came in high as it typically does on opex Friday.

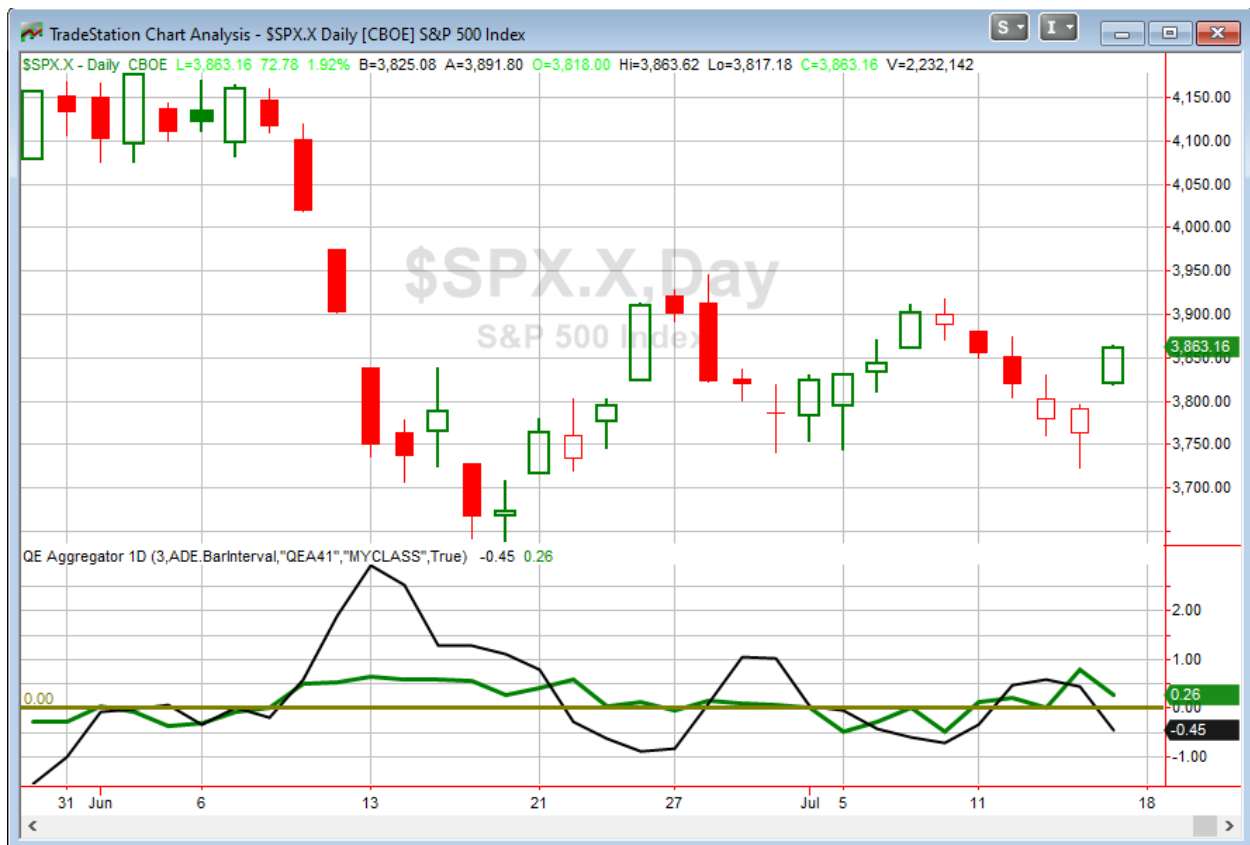
While the move up Friday was substantial, it was also not a big surprise, with the market having closed down 5 days in a row, and evidence we saw Thursday night suggesting a sizable bounce. But the bounce still did not turn the week positive. And it did not generate anything compelling in the way of new evidence suggesting a short-term bullish or bearish edge. I did look at other instances where Opex Friday saw a strong rally (over 1%), but still was down over the 5-day timeframe. There were only 4 other instances when SPX was below its 200ma. Those four all saw the market rally over the next few days. But again, 4 instances. So I am not going to make anything of them. Additionally, if I eliminate the 200ma filter, then the results were not nearly as impressive. Anyway, Friday was a good day for the market. But just the one good day did not generate anything compelling suggesting an edge over the next few days. I will not be adding any new studies to the short-term active list tonight.

Below is a look at the Quantifiable Edges QE Seasonality 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

The next couple of weeks have mostly positive numbers, but they are also mostly below the “baseline” of the last 10 years. This means that while they are positive, they are not stronger than a typical day. Based on this, the Calendar is not suggesting a strong seasonal tailwind or headwind over the next couple of weeks.

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



Without any new studies making the cut tonight, the green Aggregator line remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line dropped 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 turned flat at the close.

Both current active short-term studies are set to expire at the close on Monday. With the intermediate-term outlook neutral, this means that expectations going forward will be highly influenced by any new evidence that emerges. Meanwhile, the Differential Pivot will be 3812.99. That is 1.3% below Friday's close. Therefore, SPX will need to close down at least 1.3% on Monday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is neutral. I am as well. The big move up on Friday worked off the oversold condition, but it did not provide any compelling clues for the next few days. I was hoping to gain a long entry on Friday, but the sizable unfilled gap up did not allow me to get filled. I don't see a good reason to jump into a short-term directional index position right now. I will wait and see how the market acts and what new evidence emerges over the next few days.

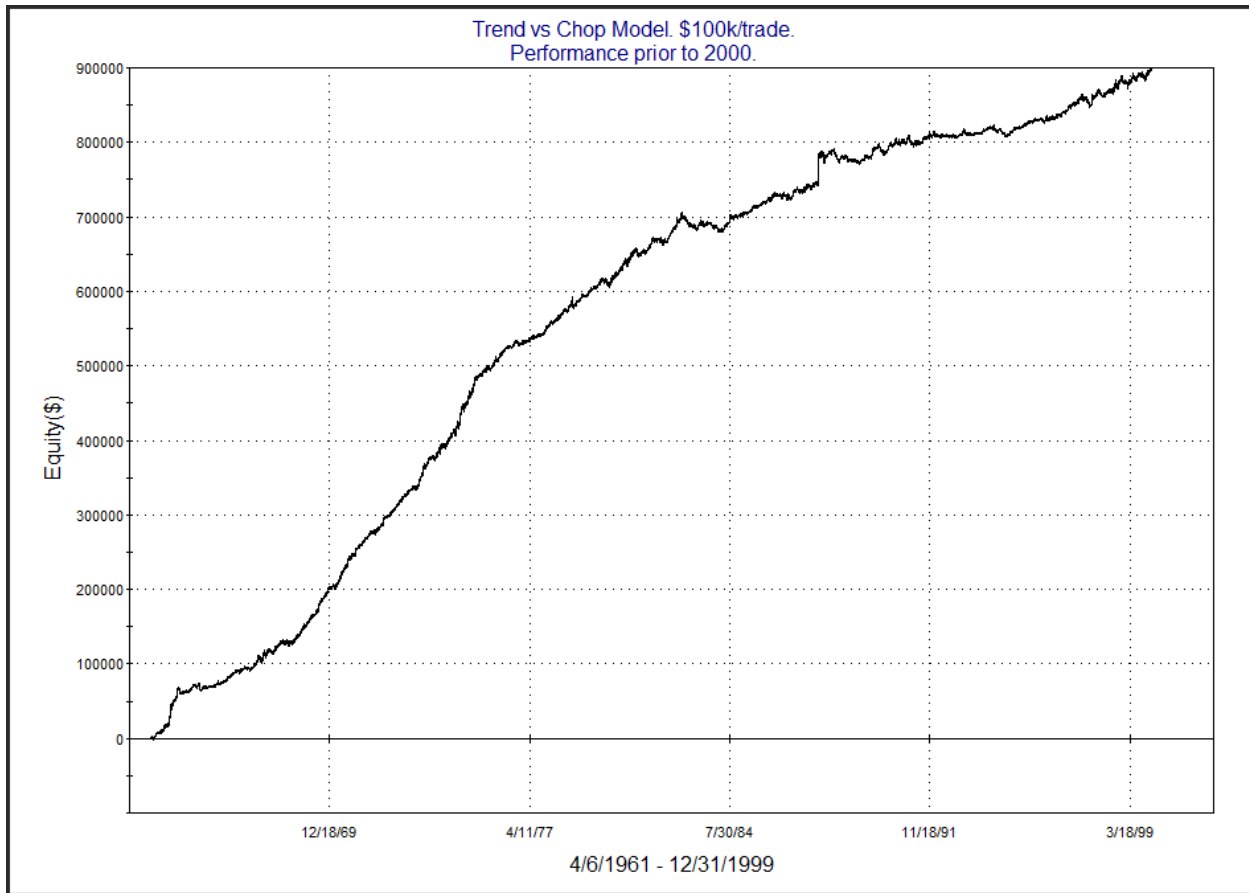
Intermediate-term Outlook (2 weeks – 2 months) – updated 7/18– neutral

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

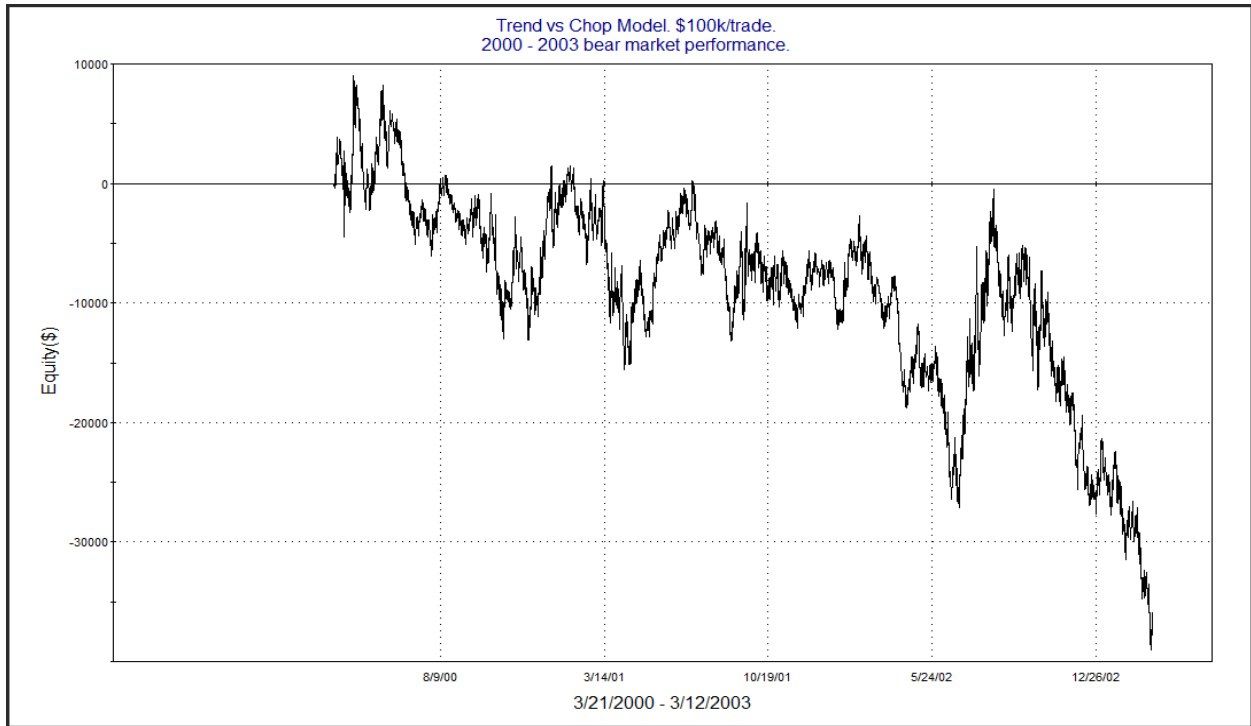
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#), 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”.*

Despite Friday’s big rally, the market indices all finished the week lower. The SPX lost 0.9%, the NASDAQ fell 1.6%, and the Russell 2000 dropped 1.4% on the week. Bonds rallied. The US Aggregate Bond ETF (AGG) rose 1.0%, while TLT, the 20-year Treasury Bond ETF jumped 3.2%. Both stocks and bonds still appear to be in long-term downtrends.

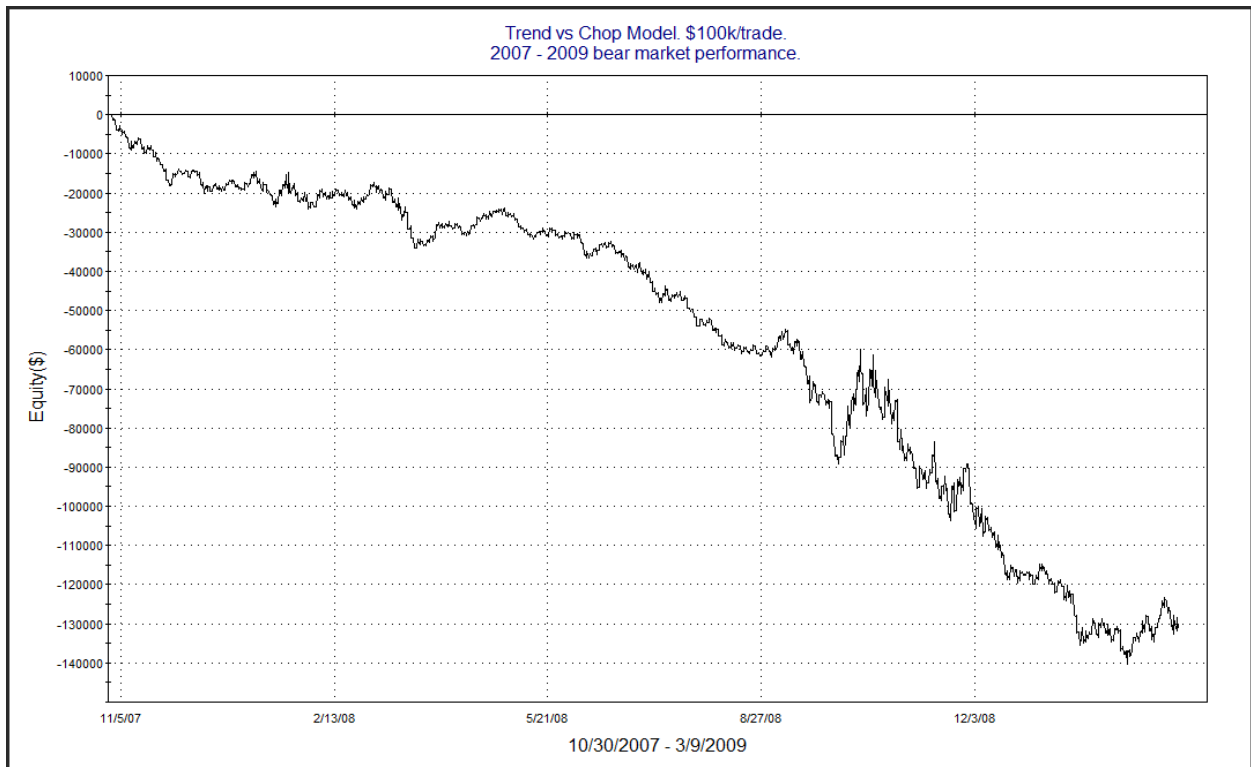
Action during the 2022 bear market has not been like any bear market we have seen since the turn of the century. This year has seen more persistent moves on a day to day basis than others. To understand what I mean by this, let’s go back to a concept I first introduced [in the blog back in 2008](#). There I looked to measure whether moves tended to revert on a day to day basis (chop), or follow through on a day to day basis (trend). To do this I created a “model” that would simply buy SPX at the close of any day that it closed higher than the day before. Any day that the market closed lower, the model would reverse the position and go short. Essentially, the model looked to jump on the “trend” – which was defined as the current 1-day direction. In a market with a tendency to follow-through and see moves persist for several days at a time, you would see the profit curve rise. In a market that tends to see a reversion of the previous days move, you see a declining profit curve. This is what the “Trend vs Chop Model” looked like from 1961 – 1999.



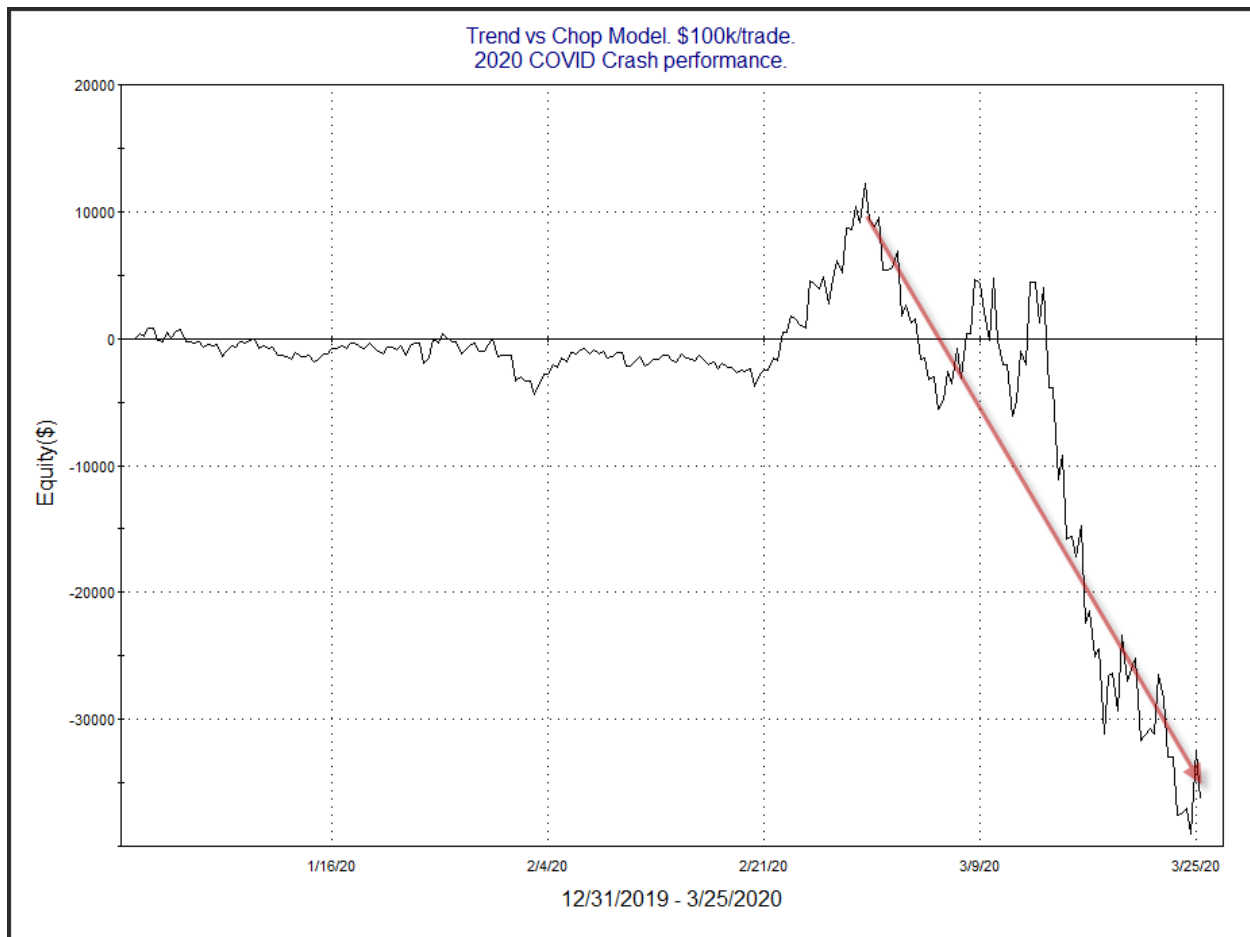
As you can see, over this 40ish year period, the market tended to “trend” on a daily basis, rather than “chop”. But the 2000 bear market was the 1st period where this market behavior changed. This can be seen below.



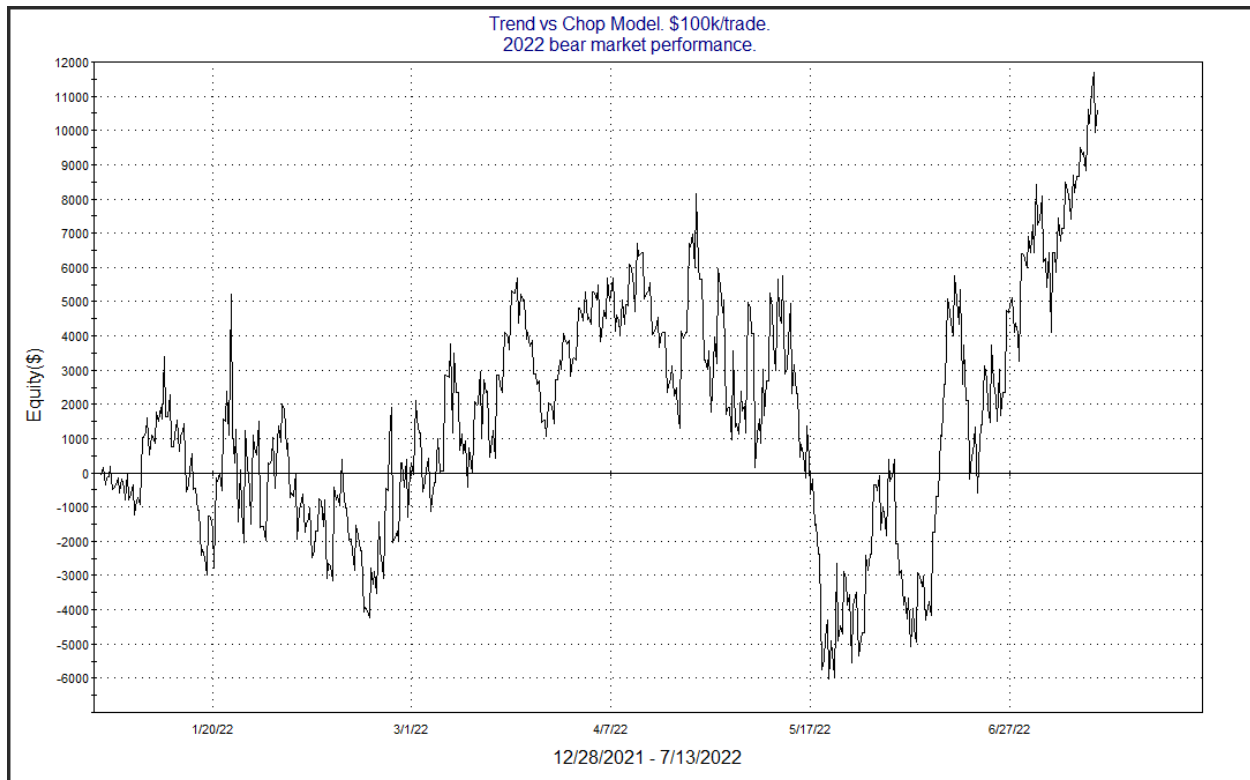
Now rather than a rising curve, you see the line heading lower, signaling “chop” was the dominant market tendency. Bear markets that have occurred since then have generally shown this same tendency to one degree or another. Below are the 2007 – 2009 bear market results.



Choppiness was even more persistent in this bear. Let's also look at the 2020 COVID Crash.



From the end of February to the low near the end of March, big day-to-day reversals caused the line to plunge. But now let's look at 2022.



Here we see there has been no such tendency. Results here have even slightly favored day-to-day “trend” rather than “chop”. Results of this “model” don’t matter in and of themselves. This is not a tradeable model. But they do explain why many strategies that tend to benefit from choppy environments may have struggled this year. Models that use very short-term overbought/oversold indicators and look for quick reversals would likely have done very well in the 1st 3 bear markets I showed. But this year might be a different story. And I have found that to be true with some of my own models, which have failed to deliver the kind of bear market gains I’d seen in the past.

This analysis does not tell us anything from a directional standpoint. It is simply noting a market tendency regarding action so far in 2022. This could change at any time, and we could see a strongly choppy (or trendy) market emerge. But so far, it has been more difficult than usual trying to take advantage of quick swing moves, and perhaps that is something traders should keep in mind.

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

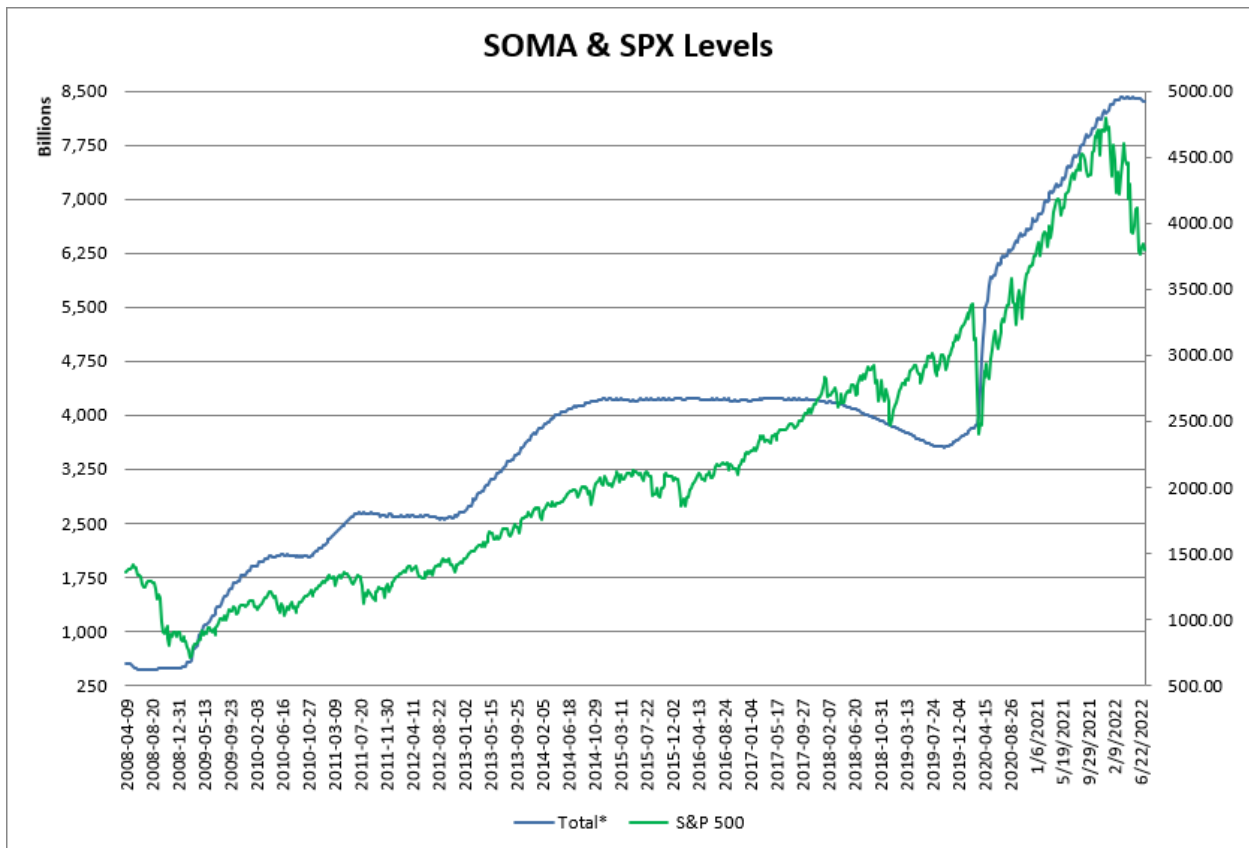
Domestic Security Holdings as of

◀ Previous **July 13, 2022**
 Posted July 14, 2022 at 4:30 P.M

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)	4,911,388,017.2
US Treasury Floating Rate Notes (FRNs)	30,569,681.8
US Treasury Inflation-Protected Securities (TIPS)*	384,342,153.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,700,572,594.1
Agency Commercial Mortgage-Backed Securities***	8,764,315.2
Total SOMA Holdings	8,364,027,761.5
Change From Prior Week	1,000.0

This week the SOMA saw an extremely small rise of \$1 million. Below is an updated SOMA/SPX chart looking back to 2008.



The largest expansion in the history of the SOMA is over. The blue line has begun to head lower. We will 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.

This past week did not do much to change the intermediate-term outlook. The NASDAQ is hanging onto its lead over the SPX, so that is a potential positive. And while the long-term trend still appears to be down, new long-term lows have not been made for a full month now. Breadth has still not strengthened in a meaningful way that could signal the market is flush with liquidity. And the seeming lack of liquidity is not a surprise since the Fed is in the midst of QT (as well as raising interest rates.) Long-term seasonality also remains unfavorable. I still like the bear case slightly better, but 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

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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