

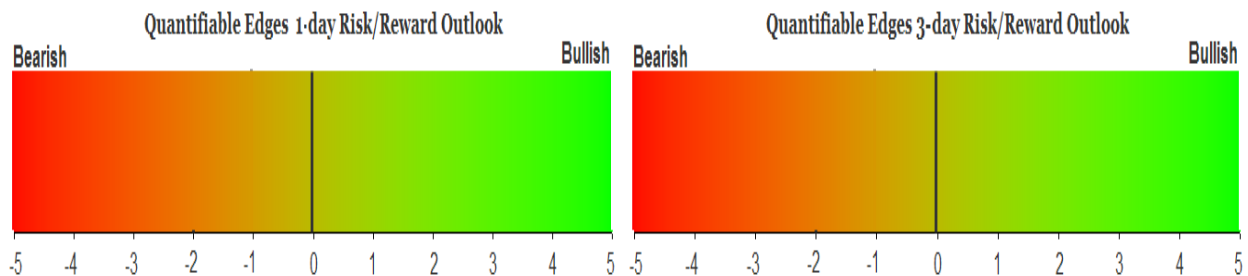
# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 8, 2022

Volume 15 Issue 149

## Market Overview



## Signals Overview

Aggregator	CBI Reading
Flat	0

## Tonight's Research Points

- On Employment Days , large unfilled gaps down like we saw Friday have more often been followed by weakness the next day.
- When SPY posts a large gap down and then partially fills the gap on a positive open-close rally but still finishes down on the day, then that has often led to a bounce higher over the next few days.
- Seasonality over the next few weeks (and months) is poor.
- The SOMA continues to shrink. QT will ramp up more next month.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. I am not seeing a strong 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
<b>Active - Short Term</b>						
None						
<b>Active - Long Term</b>						
August 1, 2022	NYSE Up Issues % > 70% 3 straight days	1-80 days	Bullish	9.85%	-4.72%	-11.90%
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 started with a big gap down after the employment report, but by the end of the day, the major indices were mixed. SPX finished down 0.2%, the NASDAQ lost 0.5%, and the Russell 2000 rose 0.8%. Breadth was also mixed with the NYSE Up Issues % coming in at 48% and the Up Volume % at 62%. NYSE total volume declined some from Thursday’s level.

Employment Days will often occur in conjunction with a strong price move because the employment report is frequently viewed as an important piece of economic data. Still, it has been quite rare to see the employment report lead to a large gap down that never fills during the day. This happened on Friday. The study below was last featured in the 10/5/20 subscriber letter. I have updated that study below.

SPY gaps down > 1% on an Employment Day and fails to fill the gap during the day. Buy on close. Sell next day's close. \$100k/trade. 1994 - present.			
TradeStation Performance Summary			Expand ▾
All Trades			
Total Net Profit	(\$6,438.14)	Profit Factor	0.54
Gross Profit	\$7,546.41	Gross Loss	(\$13,984.55)
Total Number of Trades	16	Percent Profitable	31.25%
Winning Trades	5	Losing Trades	11
Even Trades	0		
Avg. Trade Net Profit	(\$402.38)	Ratio Avg. Win:Avg. Loss	1.19
Avg. Winning Trade	\$1,509.28	Avg. Losing Trade	(\$1,271.32)
Largest Winning Trade	\$2,511.96	Largest Losing Trade	(\$7,805.28)

The number of instances is a bit low but stats appear somewhat negative. Below is a list of all instances.

SPY gaps down > 1% on an Employment Day and fails to fill the gap during the day. Buy on close. Sell next day's close. \$100k/trade. 1994 - present.				
Date/Time	Signal	Price	% Profit	Run-up Drawdown
3/8/1996	Buy	\$63.50	1.15%	\$1,322.16
3/11/1996	Sell	\$64.23		(\$676.82)
7/5/1996	Buy	\$65.58	-0.41%	\$624.84
7/8/1996	Sell	\$65.31		(\$685.80)
12/6/1996	Buy	\$74.31	1.44%	\$1,492.95
12/9/1996	Sell	\$75.38		\$0.00
11/7/1997	Buy	\$92.94	-0.60%	\$967.50
11/10/1997	Sell	\$92.38		(\$1,010.50)
9/7/2007	Buy	\$146.07	-0.19%	\$444.60
9/10/2007	Sell	\$145.79		(\$1,190.16)
1/4/2008	Buy	\$141.31	-0.08%	\$650.44
1/7/2008	Sell	\$141.19		(\$855.47)
7/2/2009	Buy	\$89.81	-0.01%	\$133.56
7/6/2009	Sell	\$89.80		(\$1,279.95)
6/4/2010	Buy	\$106.82	-1.25%	\$739.44
6/7/2010	Sell	\$105.49		(\$1,319.76)
6/3/2011	Buy	\$130.42	-1.05%	\$0.00
6/6/2011	Sell	\$129.05		(\$1,187.30)
7/8/2011	Buy	\$134.40	-1.81%	\$0.00
7/11/2011	Sell	\$131.97		(\$2,038.56)
9/2/2011	Buy	\$117.85	-0.73%	\$0.00
9/6/2011	Sell	\$116.99		(\$2,942.56)
6/1/2012	Buy	\$128.16	-0.05%	\$452.40
6/4/2012	Sell	\$128.10		(\$795.60)
4/5/2013	Buy	\$155.16	0.68%	\$682.64
4/8/2013	Sell	\$156.21		(\$264.04)
9/4/2015	Buy	\$192.59	2.51%	\$2,605.38
9/8/2015	Sell	\$197.43		\$0.00
3/6/2020	Buy	\$297.46	-7.81%	\$0.00
3/9/2020	Sell	\$274.23		(\$8,067.36)
10/2/2020	Buy	\$333.84	1.77%	\$1,829.88
10/5/2020	Sell	\$339.76		\$0.00

With the low number of instances and the fact that 3 of the last 4 closed higher the next day, I have some doubt about the downside edge.

This next study was also from the 10/5/20 letter.

SPY gaps down > 1%. It never fills and closes > 0.5% above the open.  
Close > 10ma. Buy on close. Sell X days later. \$100k/trade. 1993 - 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	18,558.00	8	7	1	87.50	5,117.92	-8,625.78	3,883.40	-8,625.78	0.45	3.15	2,319.75
9	19,184.98	8	7	1	87.50	5,499.74	-5,949.96	3,590.71	-5,949.96	0.60	4.22	2,398.12
8	23,571.63	9	8	1	88.89	6,684.18	-3,540.06	3,388.96	-3,540.06	0.96	7.66	2,619.07
7	18,375.40	9	7	2	77.78	5,658.39	-4,287.96	3,397.19	-2,702.48	1.26	4.40	2,041.71
6	21,011.13	9	7	2	77.78	5,558.41	-2,301.87	3,344.79	-1,201.20	2.78	9.75	2,334.57
5	15,707.93	9	7	2	77.78	5,272.34	-3,382.17	2,878.75	-2,221.66	1.30	4.54	1,745.33
4	7,542.45	9	7	2	77.78	2,972.06	-5,625.87	2,034.76	-3,350.44	0.61	2.13	838.05
3	4,781.44	9	7	2	77.78	3,176.64	-6,190.95	1,942.20	-4,406.98	0.44	1.54	531.27
2	2,387.84	9	5	4	55.56	2,345.96	-3,058.08	1,518.37	-1,301.00	1.17	1.46	265.32
1	2,714.19	9	5	4	55.56	2,247.84	-1,819.95	1,282.64	-924.75	1.39	1.73	301.58

Big gaps down that do not fill, but close well above the open and above the 10ma have been rare. But they have often led to gains in the coming days. Below are all the instances with an 8-day holding period.

SPY gaps down > 1%. It never fills and closes > 0.5% above the open.  
Close > 10ma. Buy on close. Sell 8 days later. \$100k/trade. 1993 - present.

Date/Time	Signal	Price	% Profit	Run-up Drawdown
11/7/1997	Buy	\$92.94	1.85%	\$2,547.75
11/19/1997	Sell	\$94.66		(\$3,063.75)
11/12/2001	Buy	\$112.03	3.26%	\$3,407.44
11/23/2001	Sell	\$115.68		\$0.00
8/12/2002	Buy	\$90.62	6.69%	\$7,202.59
8/22/2002	Sell	\$96.68		(\$2,867.80)
10/22/2002	Buy	\$89.52	0.84%	\$1,977.09
11/1/2002	Sell	\$90.27		(\$2,814.84)
2/12/2010	Buy	\$108.04	2.43%	\$3,274.50
2/25/2010	Sell	\$110.67		\$0.00
2/25/2010	Buy	\$110.67	3.42%	\$3,900.96
3/9/2010	Sell	\$114.46		(\$505.68)
6/23/2011	Buy	\$128.30	4.42%	\$4,549.36
7/6/2011	Sell	\$133.97		(\$1,308.72)
9/19/2011	Buy	\$120.31	-3.54%	\$1,396.08
9/29/2011	Sell	\$116.05		(\$7,487.31)
10/2/2020	Buy	\$333.84	4.22%	\$6,033.82
10/14/2020	Sell	\$347.93		\$0.00

Possible upside edge here, but I am not entirely convinced. For one, instances are very few. And there has only been one other instance since 2011. So I will continue to keep an eye on this study, but I have not included it on the active list tonight. I will note another fact that made these studies less appealing is that while SPY never closed its opening gap on Friday, it only missed by \$0.02.

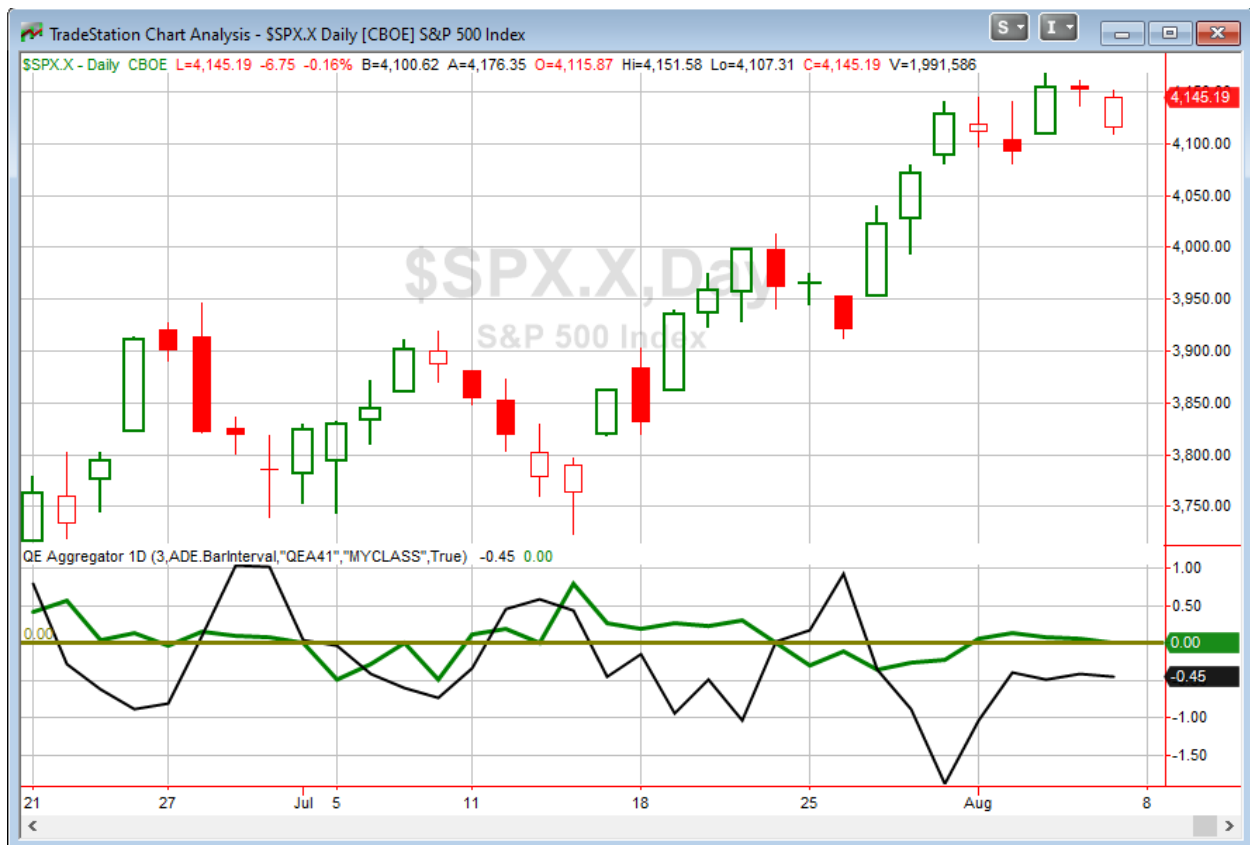
I don't believe that \$0.02 is so meaningful that I would want to set expectations based on studies that are already somewhat questionable.

Below is a look at the QE Seasonality Calendars for both the SPX and the Dow:

Quantifiable Edges Seasonality Calendar \$SPX S&P 500 Index				Quantifiable Edges Seasonality Calendar \$DJI Dow Jones Industrial Average			
Date	Win%	Profit Factor	Avg % Chg	Date	Win%	Profit Factor	Avg % Chg
8/1/2022	53.37	1.194	-0.007	8/1/2022	50.22	1.136	-0.006
8/2/2022	50.11	1.424	0.172	8/2/2022	50.49	1.328	0.132
8/3/2022	54.05	1.311	0.074	8/3/2022	50.63	1.263	0.047
8/4/2022	55.29	1.137	0.026	8/4/2022	51.72	1.032	-0.023
8/5/2022	57.12	1.505	0.174	8/5/2022	51.52	1.357	0.111
8/8/2022	51.95	0.732	-0.200	8/8/2022	54.20	0.869	-0.084
8/9/2022	50.35	1.348	0.155	8/9/2022	51.04	1.363	0.140
8/10/2022	51.52	0.964	-0.017	8/10/2022	49.00	0.900	-0.055
8/11/2022	55.76	0.920	-0.041	8/11/2022	52.51	0.871	-0.081
8/12/2022	57.47	1.452	0.160	8/12/2022	55.01	1.411	0.119
8/15/2022	54.21	0.717	-0.204	8/15/2022	56.74	0.736	-0.137
8/16/2022	52.46	1.583	0.178	8/16/2022	54.15	1.387	0.116
8/17/2022	52.52	0.946	-0.029	8/17/2022	49.06	0.826	-0.083
8/18/2022	53.15	0.830	-0.068	8/18/2022	49.23	0.744	-0.122
8/19/2022	52.42	1.017	0.029	8/19/2022	49.58	0.852	-0.047
8/22/2022	52.67	1.007	-0.113	8/22/2022	54.53	1.008	-0.041
8/23/2022	53.09	1.437	0.179	8/23/2022	53.27	1.391	0.152
8/24/2022	52.93	1.274	0.072	8/24/2022	50.26	1.175	0.033
8/25/2022	58.01	1.373	0.090	8/25/2022	53.88	1.198	0.022
8/26/2022	57.39	1.352	0.135	8/26/2022	52.04	1.126	0.047
8/29/2022	51.71	0.905	-0.142	8/29/2022	55.58	0.941	-0.061
8/30/2022	52.13	1.335	0.149	8/30/2022	54.32	1.324	0.131
8/31/2022	51.38	1.273	0.090	8/31/2022	53.88	1.368	0.113
<b>Baseline</b>	<b>54.64</b>	<b>1.158</b>	<b>0.051</b>	<b>Baseline</b>	<b>54.37</b>	<b>1.139</b>	<b>0.044</b>

Over the next two weeks there are many sub-par readings, and even some outright negative readings. Aside from even the larger cycles we look at like the Presidential Cycle and the Best/Worst 6 Months, we appear to be a weak seasonal period based on the Seasonality Calendar algorithms as well.

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



With no studies making the cut today the green Aggregator line closed at zero. Zero readings mean expectations are flat over the next few days. Meanwhile the black Differential Line is still below zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are flat and SPX is overbought. This is considered a neutral configuration. Neutral configurations are visible on the chart whenever both lines close fail to close on the same side of zero. Therefore, the Aggregator formation stayed flat at the close.

The short-term Active List is now bare. And the intermediate-term outlook remains neutral. So expectations over the next few days will be greatly dependent on new evidence that emerges. Meanwhile, the Differential Pivot will be *inverted* at 4166.63 on Monday. That is 0.5% *above* 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 rise over 0.5% in order to remain overbought vs recent expectations. Anything less than that and it will flip to oversold as of Monday's close.

So evidence is light and the Aggregator is neutral. I don't see a compelling reason to get involved in a new index trade at this point. I will continue to wait for a more favorable reward/risk opportunity.

**Intermediate-term Outlook (2 weeks – 2 months) – *updated 8/8 – improving but still neutral***

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

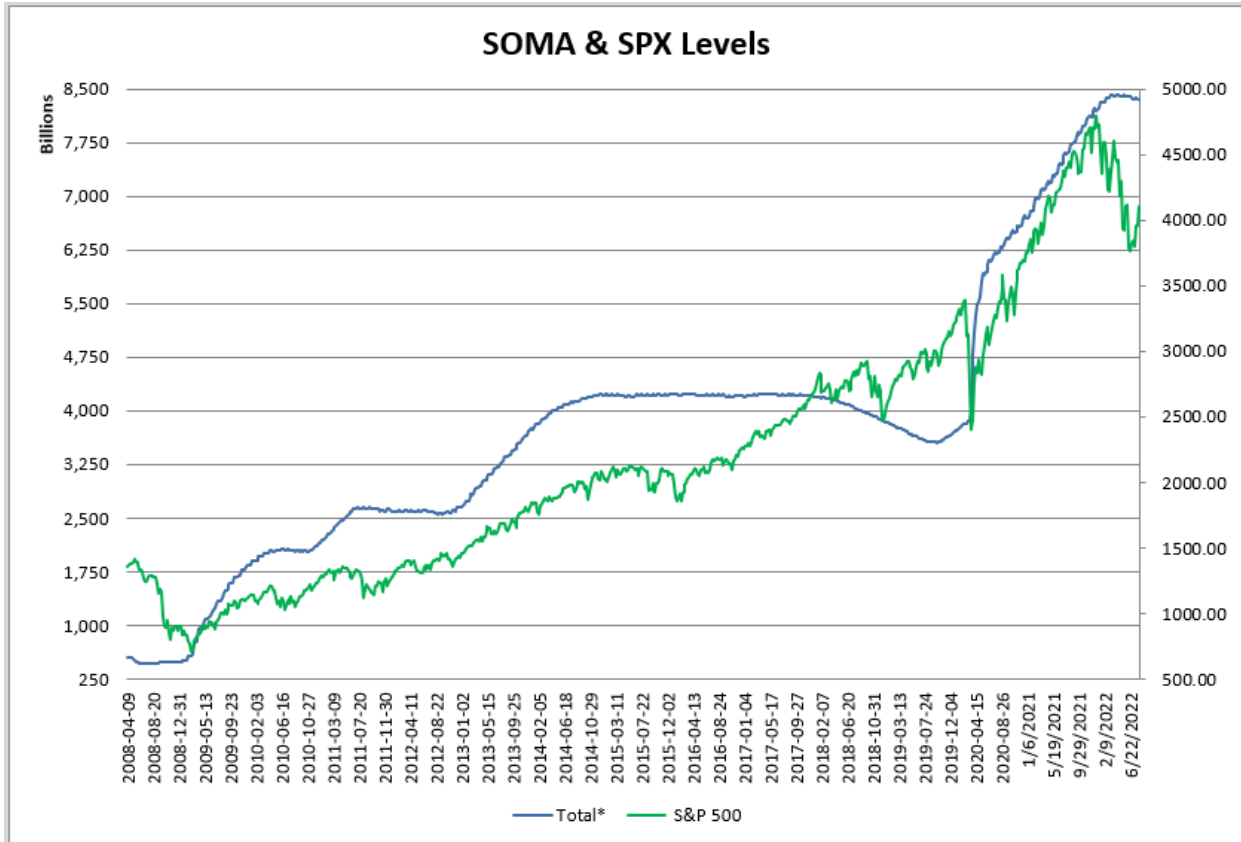
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

The stock indices put in gains this week. The SPX climbed 0.4%, the NASDAQ rose 2.15%, and the Russell 2000 rallied 1.9% on the week. Bonds struggled. The US Aggregate Bond ETF (AGG) declined 1.1%, while TLT, the 20-year Treasury Bond ETF lost 0.6%. Both stocks and bonds still appear to be in long-term downtrends, but a series of higher highs and higher lows since mid-June shows an intermediate-term uptrend. There were no studies that triggered in the last few days suggesting intermediate-term implications.

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

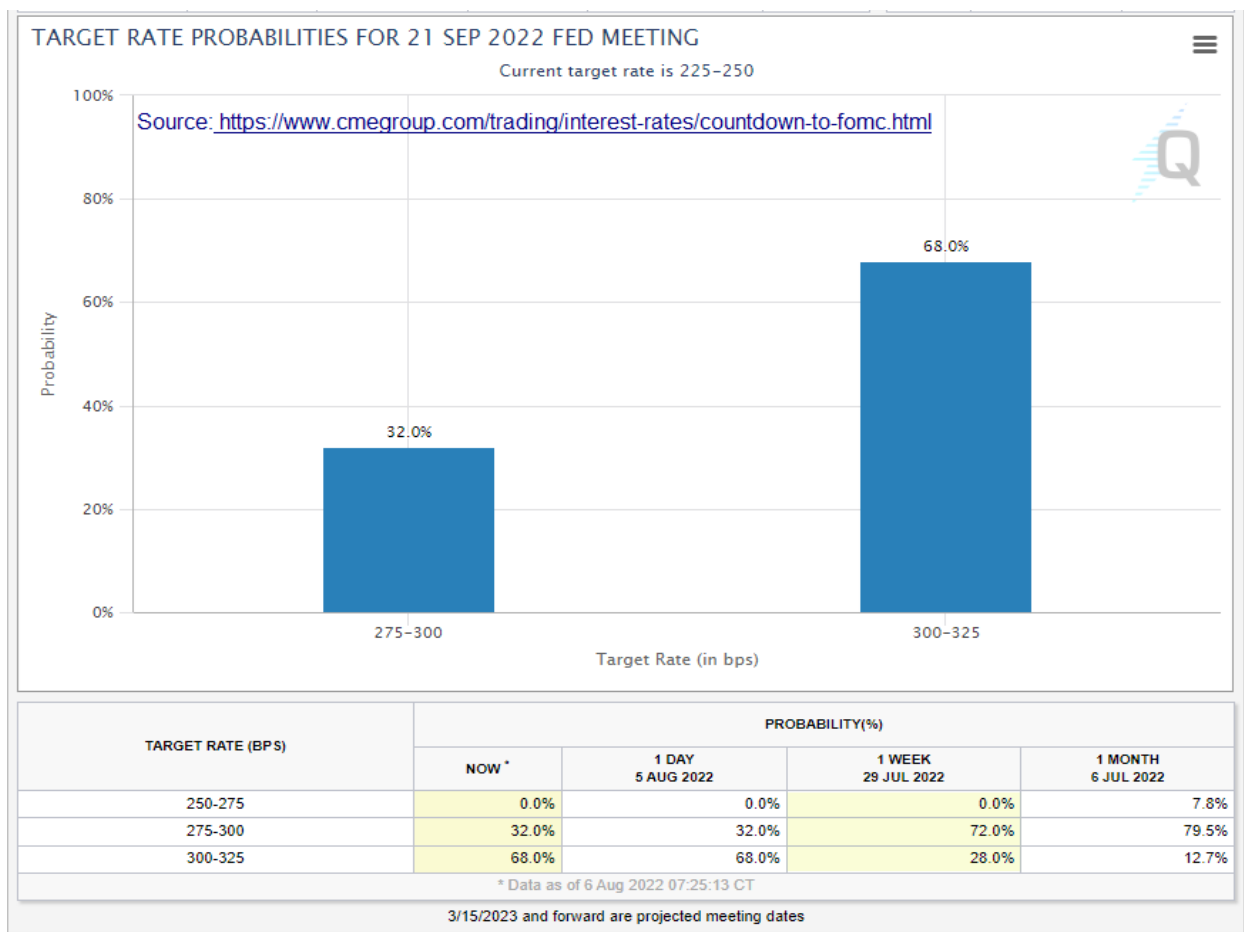
Domestic Security Holdings as of	
◀ Previous	<b>August 3, 2022</b> 📄 <i>Posted August 4, 2022 at 4:30 PM</i>
<div style="display: flex; justify-content: space-between; font-size: small;"> <span>SUMMARY</span> <span>T-BILLS</span> <span>T-NOTES AND T-BONDS</span> <span>FRNS</span> <span>TIPS</span> <span>AGENCY DEBTS</span> <span>MBS</span> <span>CMBS</span> </div>	
SECURITY TYPE	TOTAL (\$Thousands)
US Treasury Bills (T-Bills)	326,044,000.0
US Treasury Notes and Bonds (Notes/Bonds)	4,894,191,329.4
US Treasury Floating Rate Notes (FRNs)	29,924,645.1
US Treasury Inflation-Protected Securities (TIPS)*	374,719,153.2
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,708,827,999.9
Agency Commercial Mortgage-Backed Securities***	8,724,209.9
Total SOMA Holdings	8,344,778,337.5
Change From Prior Week	-16,169,675.6

This week the SOMA saw a decline of \$16.2 billion. 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 continue to see that happen over the next several weeks and months. A sizable liquidity drain is upon us. The Fed is no 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.

With regards to interest rates, a week ago the odds for September meeting rate hike amounts were 70% chance of a 50 basis point increase and a 30% chance of a 75 basis point increase. With the strong jobs numbers on Friday, those odds have now flipped. This can be seen in the chart below from the CME website:



The bulls have a case, and they have been in charge over the last 6-7 weeks. Breadth has been fairly strong, and was strong enough for a period that we saw one breadth thrust signal trigger last week. The leading NASDAQ is also encouraging. But we certainly do not have an “all clear” at this point. Seasonality appears weak over the short-term, and longer-term seasonal cycles also have a few more months of weakness. The Fed remains aggressive in their inflation fight. Rates should continue to rise. Quantitative Tightening, which has barely begun, will be ramping up further in September. Traders and investors have become used to the market being backstopped by the Fed. Anytime there has been a crisis over the last 15+ years they have been willing to pump money, and this has proved favorable for the market. But this is the first time in around 40 years that inflation has been a problem. And it is the #1 stated problem the Fed is charged with tackling. So while the market can rally, it must do so without QE, and without a zero-interest-rate-policy. And that makes everything more challenging. Whether this bear market is over or not, I expect high volatility events to be more common over the next several years than they were over the last 13 years. I can guess at potential event triggers, but often they are often a surprise. Anyway, I will remain neutral and conservative with entries for both longs and shorts.

## **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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