

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 22, 2022

Volume 15 Issue 159

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Breadth measures are weakening quickly, and in a way that has been very rare.
- Strong down days like Friday are often followed by a short-term bounce.
- The SOMA declined further and should continue to do so in the coming weeks and months.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. Odds seem to favor the long side, but I don't have strong conviction about an upside edge yet. I'd prefer to see more evidence and a more oversold SPX.

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						
August 22, 2022	SPX dn 1%. Bad breadth. 4 low < 200	1-3 days	Bullish	2.40%	-2.10%	-4.40%
Active - Long Term						
August 16, 2022	SPX goes from < 15% above 50 to > 90%	1-6 months	Bullish			
August 15, 2022	SPX 50-day %b crosses over 100	1-50 days	Bullish	4.90%	-4.35%	-8.80%
August 11, 2022	50-day high breakout on 90% Up Vol	1-40 days	Bullish	8.00%	-1.80%	-4.40%
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			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
August 19, 2022	NR5 inside day < 200ma	1-2 days	Bearish			

The Evidence

Opex Friday saw selling across the board. The SPX declined 1.3%, the NASDAQ dropped 2.0%, and the Russell 2000 tumbled 2.2%. Breadth was the worst we have seen since mid-June with the NYSE Up Issues % coming in at 15.1% and the Up Volume % at 14.9%. NYSE total volume jumped higher as it typically does on options expiration Fridays.

Friday was the 2nd time this week that the NYSE Up Issues % came in at the lowest level since the 6/16/2022 SPX bottom. Friday also saw the worst Up Volume % since 6/16. So breadth measures are beginning to quickly weaken. In the table below I show other times the Up Issues % comes in at the lowest level in 40 days for the 2nd time in the last 3 days.

NYSE Up Issue % comes in at lowest level in 40 days. It also did this either yesterday or the day before. \$SPX does NOT close at a 10-day low. Forward returns shown. 1931 - present. (Note: 8/19/22 is the 1st time this has ever happened with SPX below its 200ma.)

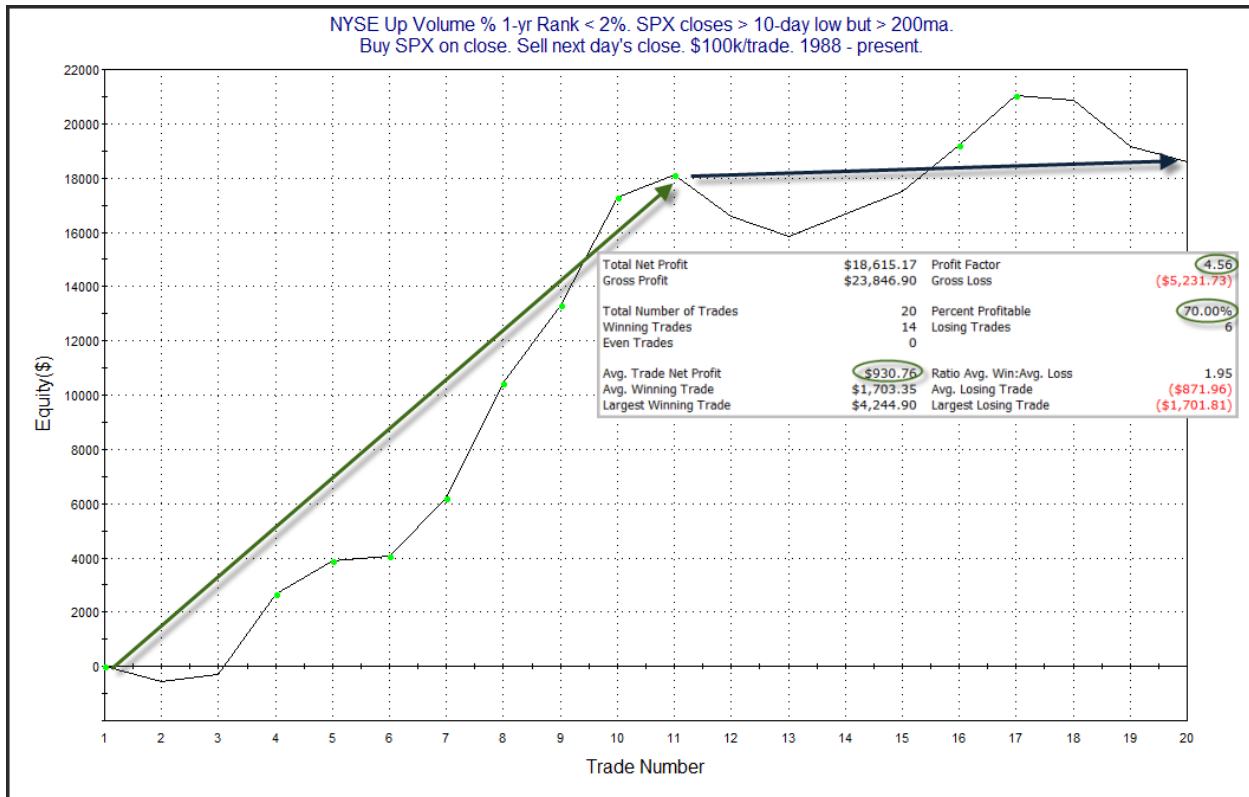
Ticker	Date/Time	Close	NYSE Up Issue %	Next Day % Chg	2-Day %Chg	3-Day %Chg	4-Day %Chg	5-Day %Chg	6-Day %Chg	7-Day %Chg	8-Day %Chg	9-Day %Chg	10-Day %Chg
\$SPX	10/23/1945	16.58	24.98	-1.51	-1.03	-0.54	-1.33	-1.21	0.42	1.75	1.69	2.17	3.38
\$SPX	1/7/1953	26.37	37.15	-0.15	-1.1	-1.93	-1.33	-1.1	-0.91	-1.33	-1.37	-0.87	-1.06
\$SPX	10/15/1958	50.58	23.14	0.71	1.74	1.36	1.36	0.97	0.77	0.45	-0.32	0	0.97
\$SPX	9/25/1963	72.89	27.43	-0.85	-1.04	-1.63	-0.92	-0.81	-0.08	-0.05	-0.26	-0.4	-1.4
\$SPX	12/14/1972	118.24	32.34	0.02	-1.13	-1.61	-1.94	-2.65	-2.04	-1.64	-1.11	-0.16	0.73
\$SPX	2/25/1975	79.53	13.49	1.06	1.56	2.59	4.4	5.07	5.49	5.23	6	6.82	6.07
\$SPX	9/15/1978	104.12	23.49	-0.87	-1.53	-2.3	-2.13	-2.19	-2.17	-1.44	-2.36	-2.07	-1.52
\$SPX	2/15/1980	115.41	25.26	-0.7	0.92	-0.11	-0.32	-1.8	-1.24	-2.63	-2.65	-1.52	-2.52
\$SPX	7/21/1987	308.55	31.18	-0.03	-0.24	0.23	0.68	1.23	2.3	3.08	3.28	2.92	2.49
\$SPX	9/22/1995	581.73	33.69	0.01	-0.06	-0.12	0.71	0.46	0	0.1	-0.04	0.15	0.13
\$SPX	1/18/2018	2798.03	27.69	0.44	1.25	1.47	1.41	1.47	2.67	1.98	0.87	0.92	0.86
Avg				-0.17	-0.06	-0.24	0.05	-0.05	0.47	0.50	0.34	0.72	0.74
% Wins				45%	36%	36%	45%	45%	45%	55%	36%	45%	64%

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Instances are rare and the results are very mixed. Additionally, this is the 1st time this has ever happened when SPX has been below its 200ma. So the message of such negative breadth coming during a downtrend but not at a short-term oversold level is unclear. It could be the start of something worse, or we could quickly be seeing an oversold breadth level here that would lead to a bounce. Let's look at some other evidence as well.

In the 12/6/18 letter I showed a study that noted breadth to be among the 2% worst days of the last year. It also used the 200ma as a filter and excluded 10-day low closes. I have updated that study below.



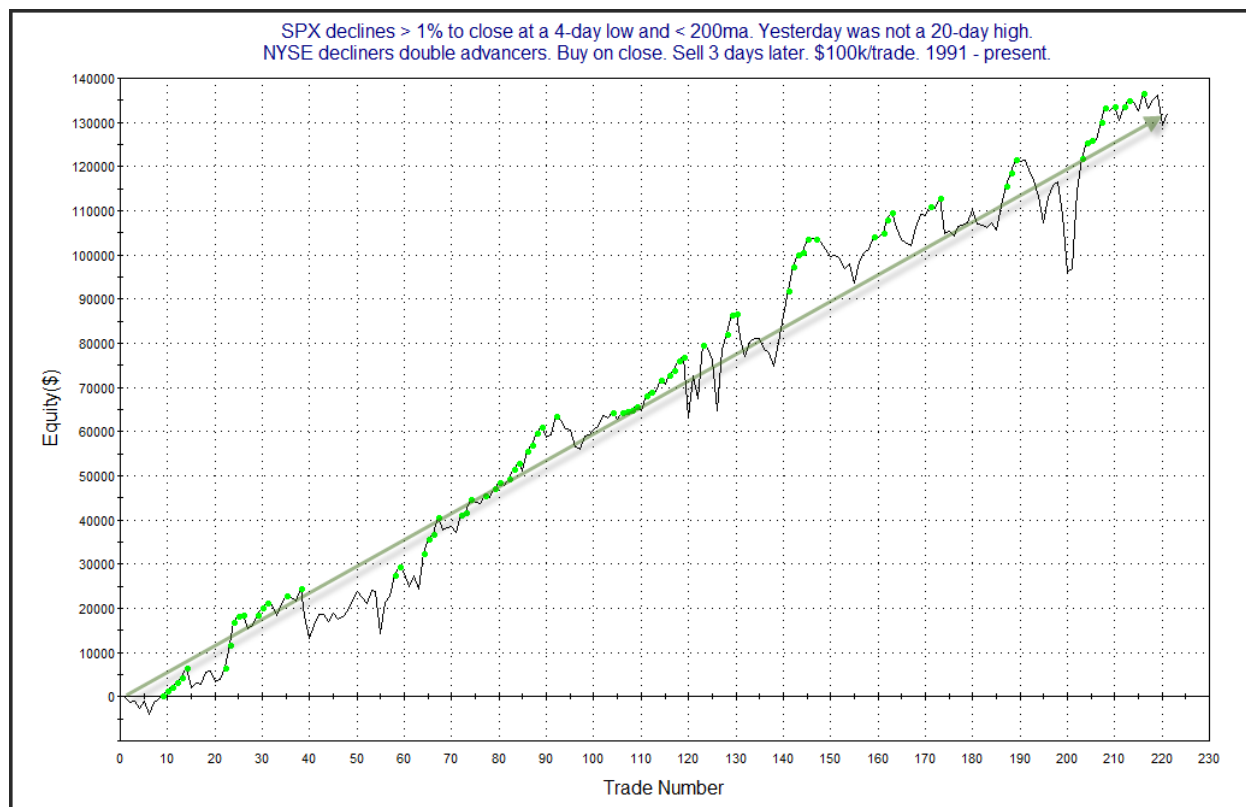
The overall numbers still appear bullish, but almost all of the upside was realized in the 1st 11 instances. The last 9 have nearly gone sideways. So I am not terribly enthused about this study and will not be including it on the active list.

If we take a bit broader look, we see the study below. It is one I have shown many times over the years, but today I added a 200ma filter to it.

SPX declines > 1% to close at a 4-day low and < 200ma. Yesterday was not a 20-day high.
NYSE decliners double advancers. Buy on close. Sell X days later. \$100k/trade. 1991 - present.

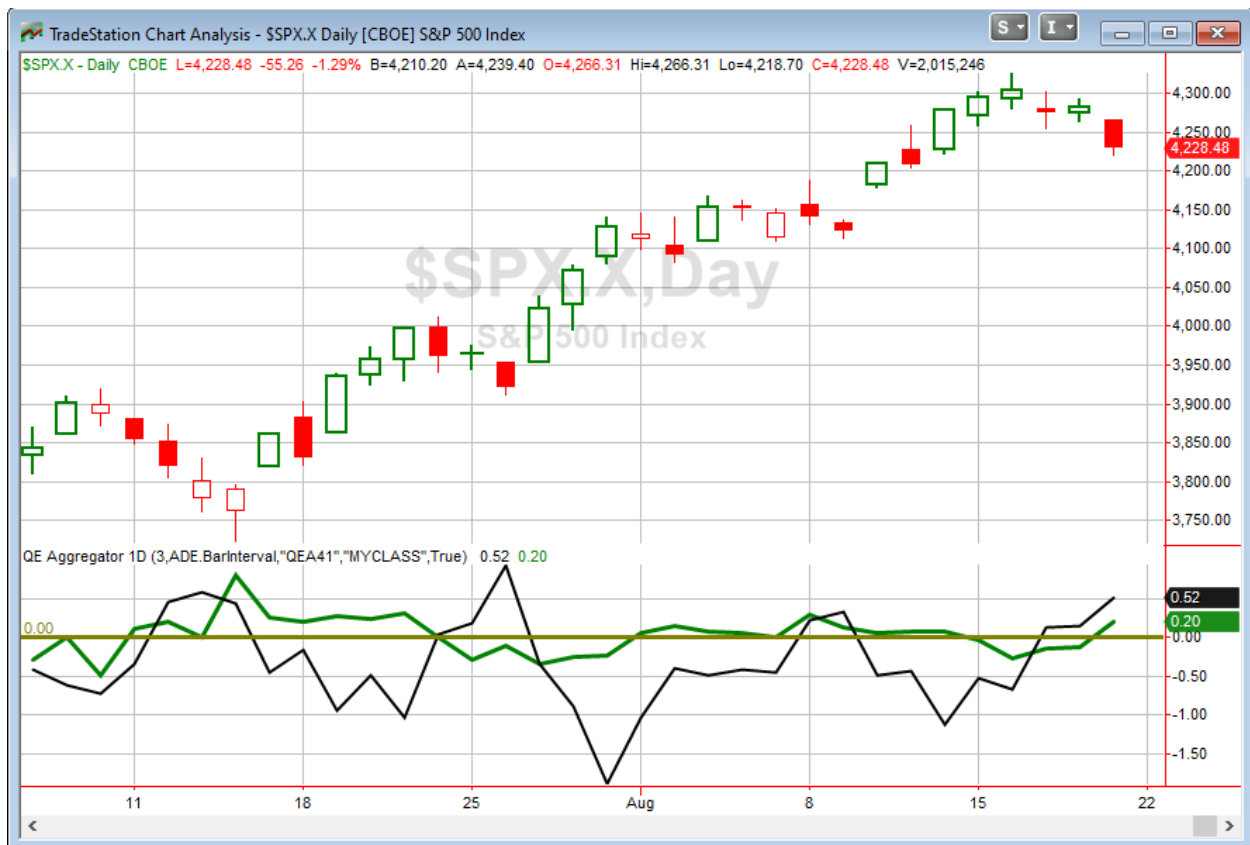
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
5	168,106.13	183	118	65	64.48	17,127.00	-8,624.55	2,862.71	-2,610.67	1.10	1.99	918.61
4	121,300.91	198	123	75	62.12	13,379.08	-16,227.09	2,697.08	-2,805.87	0.96	1.58	612.63
3	132,005.59	221	135	86	61.09	17,277.48	-13,815.18	2,577.07	-2,510.45	1.03	1.61	597.31
2	99,592.94	248	141	107	56.85	10,479.04	-8,657.72	2,041.89	-1,759.93	1.16	1.53	401.58
1	84,379.23	289	164	125	56.75	10,716.03	-9,386.64	1,606.81	-1,433.10	1.12	1.47	291.97

Such drops have often been followed by a bounce. Much of the gains were seen in the 1st 3 days, and I also felt that had the most appealing profit curve. You can find it below.



The curve here is impressive and suggests a possible upside edge. I did add this study to the active list. Overall, I am not strongly confident about the meaning of the breadth downturn. It could be the start of a more substantial decline. So I will be keenly aware of breadth readings over the next several days to see if there is continued downside follow through.

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



With today's evidence considered, the green Aggregator moved above zero. Positive readings mean expectations are for upside over the next over the next few days. Meanwhile the black Differential Line held above zero. The positive Differential Line reading means that SPX is oversold versus recent expectations. So expectations are positive and SPX is oversold. This is considered a bullish configuration. Bullish configurations are visible on the chart whenever both lines close above zero. Therefore, the Aggregator formation turned long at the close.

Based on current evidence, expectations are set to remain positive on Monday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4254.20. That is 0.6% above Friday's close. Therefore, SPX will need to close up at least 0.6% on Monday in order to flip from oversold to overbought vs recent expectations.

So the Aggregator is bullish. I'm leaning that way, but not enthusiastically. Evidence is fairly weak. I do think we will see more bullish evidence emerge if there is additional selling on Monday. Multiple down days heading into a potential "Turnaround Tuesday" typically generate bullish studies – especially during long-term downtrends. So I may look to take on a little long exposure on Monday for a short-term trade, but I will only do so near the end of the day if the market is headed for a lower close.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/22 – slightly bullish

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 all suffered losses this past week. The SPX fell 1.2%, the NASDAQ declined 2.6%, and the Russell 2000 dropped 2.9% on the week. Bonds also struggled. The US Aggregate Bond ETF (AGG) lost 1.1%, while TLT, the 20-year Treasury Bond ETF fell 2.2%. The intermediate-term trend remains positive. Long-term trends are questionable. There was one study with intermediate-term implications that I discussed in Monday night’s letter. I have copied it below.

After sending out the letter yesterday, I got an idea from another person on Twitter and then posted the following:



Here is the graphic...

The % of SPX constituents moves from <= 15% to >= 90% within 50 days.
 Forward SPX returns shown. 1957 - present. (21 days = approximately 1 month)

Ticker	Date/Time	Close	5-Day %Chg	10-Day %Chg	21-Day %Chg	42-Day %Chg	63-Day %Chg	126-Day %Chg	252-Day %Chg
\$\$PX	11/23/1962	61.54	1.17	2.47	1.77	6.84	6.37	13.78	13.11
\$\$PX	9/4/1970	82.83	-0.92	-1.11	4.85	1.88	8	19.98	21.56
\$\$PX	12/29/1971	102.21	0.83	1.35	1.26	3.89	4.85	5.05	14.4
\$\$PX	1/27/1975	75.37	3.25	3.97	6.63	11.25	14.41	17.67	32.25
\$\$PX	5/23/1980	110.62	0.13	2.79	4.09	10.1	13.92	25.75	20.02
\$\$PX	8/26/1982	118.55	1.47	2.04	4.28	13.44	12.93	26.19	36.02
\$\$PX	11/22/1985	201.52	-0.53	1.35	2.79	2.44	11.05	21.45	22
\$\$PX	1/7/1988	261.07	-5.82	-6.87	-3.87	3.2	1.95	4.1	7.25
\$\$PX	1/18/1989	286.53	0.91	3.69	2.89	1.18	7.2	17.17	17.75
\$\$PX	6/9/1997	862.91	3.59	1.82	5.17	10.23	7.91	14.01	29.61
\$\$PX	11/5/1998	1133.68	-1.37	1.67	4.77	12	9.71	18.23	20.87
\$\$PX	5/5/2003	926.55	2	-0.62	6.44	6.38	6.07	13.4	20.83
\$\$PX	4/17/2009	869.6	-0.39	0.91	4.61	4.73	8.14	26.1	37.71
\$\$PX	10/24/2011	1254.19	-0.07	0.55	-5.27	-0.02	5.73	10.88	12.67
\$\$PX	3/16/2016	2027.22	0.47	1.6	2.64	1.95	2.18	4.86	17.47
\$\$PX	2/15/2019	2775.6	0.74	0.62	2.05	4.5	3.02	4.07	21.43
\$\$PX	5/26/2020	2991.77	2.98	7.2	1.96	7.48	14.69	18.91	39.99
		Average	0.50	1.38	2.77	5.97	8.13	15.39	22.64
		Median	0.74	1.60	2.89	4.73	7.91	17.17	20.87
		% Wins	65%	82%	88%	94%	100%	100%	100%

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This setup did not provide anything in the way of short-term implications, but this appears to be yet another breadth study that we can add to the growing list suggesting an upside edge over the intermediate-term. Of the 17 instances that triggered since 1957, all of them saw the SPX higher 3, 6, and 12 months later.

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

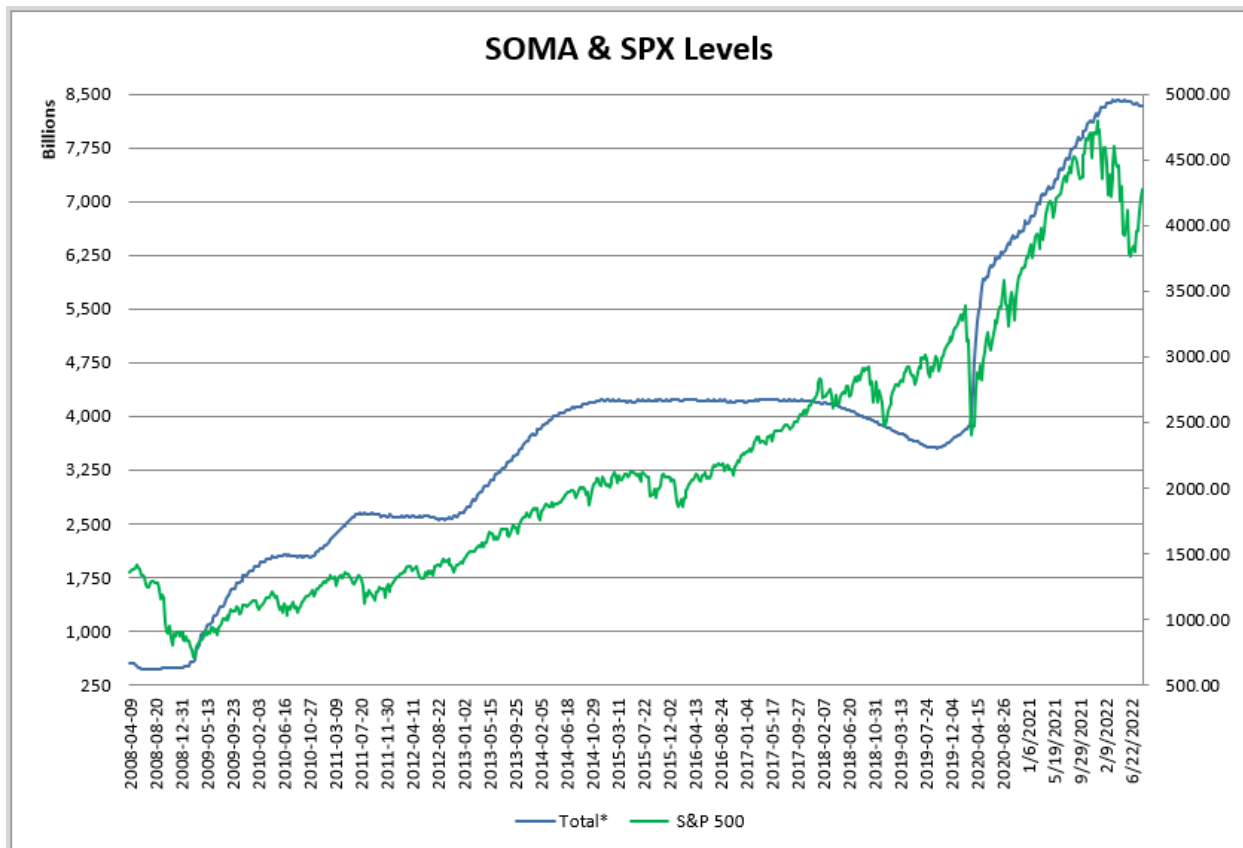
Domestic Security Holdings as of

◀ Previous **August 17, 2022** 📅
Posted August 18, 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)	4,871,342,234.9
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***	2,718,754,180.6
Agency Commercial Mortgage-Backed Securities***	8,719,137.6
Total SOMA Holdings	8,331,850,351.4
Change From Prior Week	-12,943,984.7

This week the SOMA declined by about \$13 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. The pace of the decline is expected to increase starting in September. To this point, QT has been very mild. Overall, 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.

The bulls have been in charge since mid-June. Until the last 3 days, breadth has been strong. We now have several breadth-thrust studies on the intermediate-term active list. Such strong breadth has historically suggested strong liquidity and more gains to come. We are also seeing strong upside momentum as evidenced by the 50-day %b study from last week. The leading NASDAQ is also encouraging. But breadth and momentum are going to need to overcome seasonality and Fed policy to continue to keep the rally going. Rallies during this time of year – especially in the 2nd year of a presidential cycle, are highly unusual. The Fed remains aggressive in their inflation fight. Rates should continue to rise and QT will soon be ramping up further. Overall, the bulls appear to be in charge for the time being. But it does not appear time yet to get aggressively bullish. I still expect the market is susceptible to high volatility events over the next few months, and I expect them to be more common over the next several years than they were over the last 13 years. So while I am slightly bullish, I'll still be somewhat cautious with long entries. I also intend to be extremely cautious with short entries unless I see the bears take back control.

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 @ \$421.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to start building a long index position if we see a bit more selling on Monday.

Current Open Trade Ideas

None

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