

QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

August 29, 2022

Volume 15 Issue 164

Market Overview



Signals Overview

Aggregator	CBI Reading
Long	0

Tonight's Research Points

- Sharp drops that close poorly have often seen a reversal the next day – even when they do not follow a short-term low.
- Oversized declines on Fridays often lead to a bounce in the coming days.
- The strong pullback in the last couple of weeks does not appear to invalidate the breadth thrust signals we have seen in previous weeks.
- The Fed remains a market negative, and the hawkish stance was reinforced on Friday by Chairman Powell.

Short-term Outlook

The Bottom Line

The Aggregator is bullish. It appears Friday's selling could be short-term overdone and a bounce is likely ensue in the next few days. My confidence level is moderate.

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 29, 2022	SPX down 3% but NOT after 5-day low	1 day	Bullish			
August 29, 2022	Friday down 1.5x the 20-day ATR.	1-4 days	Bullish	2.50%	-1.50%	-2.70%
Active - Long Term						
August 23, 2022	10ema breadth collapse	1 month	Bearish			
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			

The Evidence

Jerome Powell delivered a hawkish speech and the market reacted with a huge selloff on Friday. The SPX tumbled 3.4%, the NASDAQ dropped 3.9%, and the Russell 2000 slid 3.3%. Breadth was extremely negative with the NYSE Up Issues % coming in at 14% and the Up Volume % at 8%. NYSE total volume rose some from the previous few days.

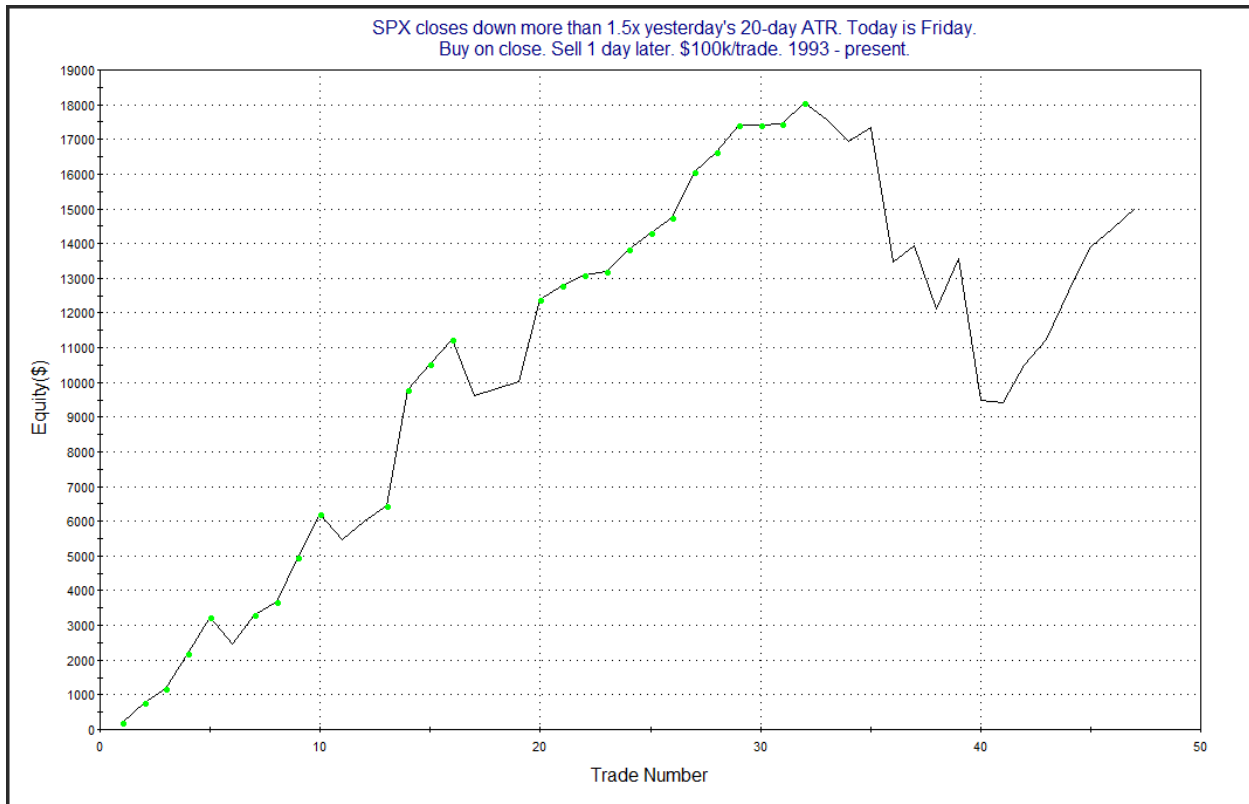
One interesting Quantifinder study looked at large drops on Fridays. Both the Crash of '29 and the Crash of '87 happened on Monday. The Crash of '87 is still remembered by some traders that are active today (though it is getting less and less each year). In 1987, there was a strong selloff on Friday and then all hell broke loose on Monday. But since then, strong Friday selloffs have commonly been followed by bounces in the following days. Perhaps this is due to the fact that fear of a crash causes what might otherwise be an ordinary selloff to become exaggerated and overdone on Fridays. Or perhaps it is just that people don't want to hold over the weekend. Whatever the reason, the tendency to bounce has been strong. In recent years the bounce has not always occurred on Monday. Sometimes we saw more selling on Monday before the rebound started on Tuesday. The study below was last discussed in the 4/25/22 subscriber letter. It defines a strong selloff as more than 1.5x the recent (20-day) average true range. Results are updated.

SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday.
Buy on close. Sell X days later. \$100k/trade. 1993 - present.

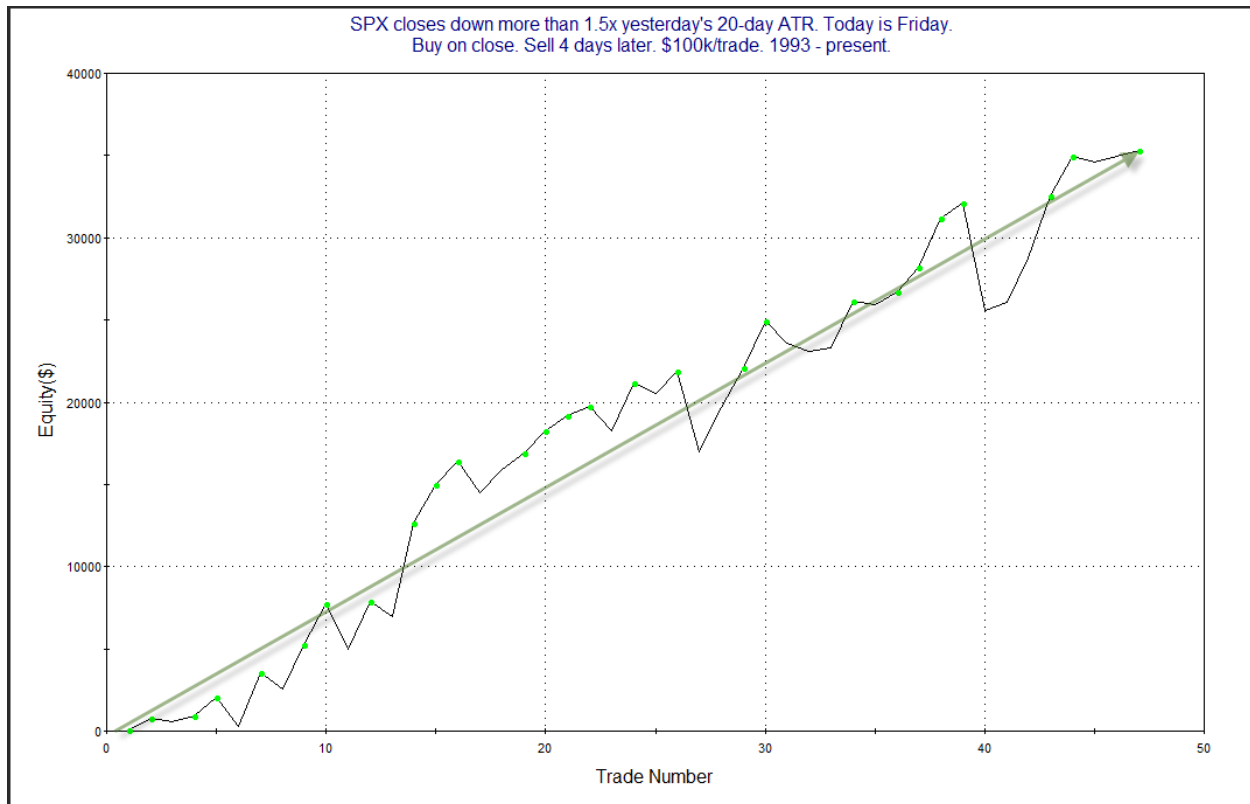
X Days	All: Net Profit	All: Total Trades	All: Winning Trades	All: Losing Trades	All: % Profitable	All: Max Winning Trade	All: Max Losing Trade	All: Avg Winning Trade	All: Avg Losing Trade	All: Win/Loss Ratio	All: ProfitFactor	All: Avg Trade
10	57,417.40	45	30	15	66.67	9,241.60	-6,049.40	3,146.22	-2,464.62	1.28	2.55	1,275.94
9	58,643.17	45	30	15	66.67	7,602.40	-5,483.80	2,959.57	-2,009.59	1.47	2.95	1,303.18
8	65,195.62	45	32	13	71.11	7,949.70	-3,550.72	2,796.11	-1,867.68	1.50	3.69	1,448.79
7	53,210.78	45	30	15	66.67	7,662.81	-4,599.52	2,746.19	-1,945.00	1.41	2.82	1,182.46
6	57,270.75	45	33	12	73.33	8,870.96	-4,202.80	2,435.87	-1,926.08	1.26	3.48	1,272.68
5	39,326.49	47	31	16	65.96	5,393.97	-6,368.04	2,244.02	-1,889.88	1.19	2.30	836.73
4	35,289.80	47	33	14	70.21	5,731.96	-6,520.68	1,817.29	-1,762.91	1.03	2.43	750.85
3	30,595.95	47	29	18	61.70	5,215.85	-3,492.36	1,875.94	-1,322.57	1.42	2.29	650.98
2	16,220.60	47	29	18	61.70	6,245.15	-5,163.50	1,385.89	-1,331.68	1.04	1.68	345.12
1	15,018.76	47	38	9	80.85	3,322.23	-4,074.84	764.68	-1,559.88	0.49	2.07	319.55

44 of 47 instances (94%) closed above the entry price at some point in the next week.

The numbers here are all impressive and suggest a bullish bias. I decided to look at the 1-day and 4-day returns. First, below is the profit curve for a 1-day holding period.



The last 6 instances have bounced nicely on Monday. Prior to that there were some bumps in recent years. But now the 4-day curve.



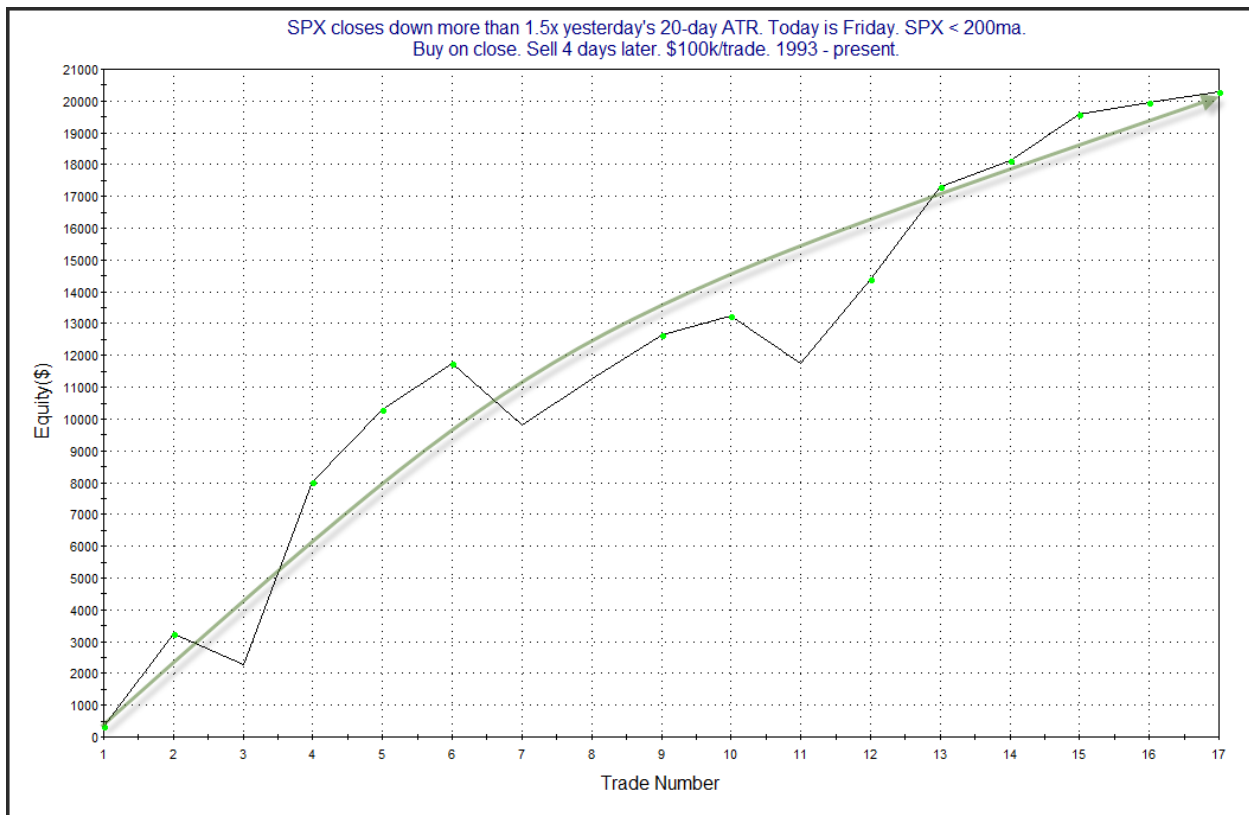
Very persistent rise here from lower left to upper right. I have no complaints about this curve.

Also in the 4/25/22 letter I ran this study with a long-term trend filter. I updated that below.

SPX closes down more than 1.5x yesterday's 20-day ATR. Today is Friday. SPX < 200ma.
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	21,231.87	16	11	5	68.75	9,241.60	-6,049.40	3,633.24	-3,746.74	0.97	2.13	1,326.99
9	20,381.48	16	9	7	56.25	7,602.40	-5,483.80	3,914.66	-2,121.49	1.85	2.37	1,273.84
8	22,663.17	16	11	5	68.75	7,949.70	-2,690.10	2,908.19	-1,865.38	1.56	3.43	1,416.45
7	20,294.18	16	10	6	62.50	7,662.81	-2,852.00	3,018.40	-1,648.30	1.83	3.05	1,268.39
6	28,080.60	16	13	3	81.25	8,870.96	-2,677.20	2,377.31	-941.46	2.53	10.94	1,755.04
5	20,848.35	17	11	6	64.71	5,393.97	-3,216.55	2,367.26	-865.25	2.74	5.02	1,226.37
4	20,303.28	17	14	3	82.35	5,731.96	-1,947.64	1,763.90	-1,463.76	1.21	5.62	1,194.31
3	19,739.66	17	11	6	64.71	5,215.85	-2,019.86	2,423.23	-1,152.64	2.10	3.85	1,161.16
2	9,034.34	17	11	6	64.71	6,245.15	-5,163.50	1,740.96	-1,686.04	1.03	1.89	531.43
1	6,492.47	17	15	2	88.24	3,322.23	-3,884.00	799.41	-2,749.36	0.29	2.18	381.91

In long-term downtrends there have not been a huge number of instances, but the results have been even stronger. Here is the 4-day curve.

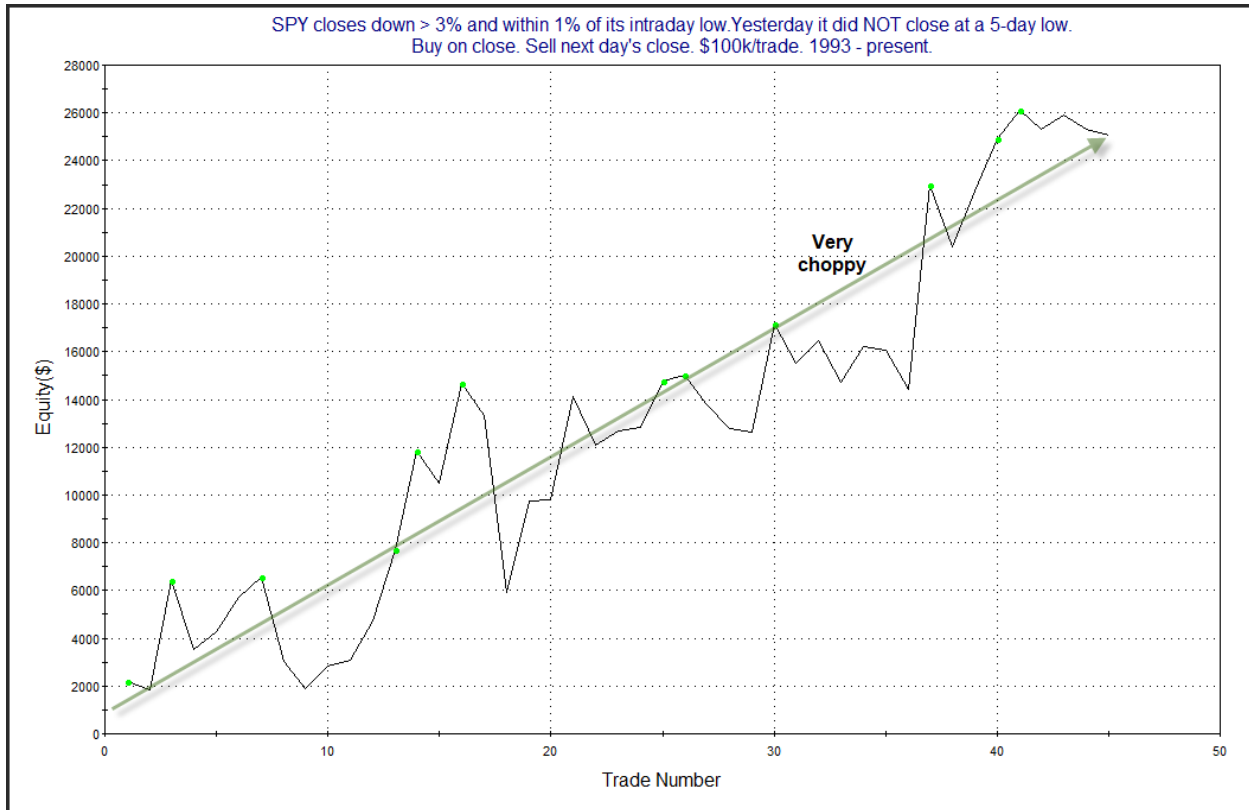


Another strong and persistent upslope.

There were several other studies tonight that looked at strong moves lower without the Friday requirement. A couple of aspects of large selloffs that have influenced the odds of a strong bounce the next day (or several days) are 1) whether the drop occurred from a point that was already low (such as a 5-day low close the day before, and 2) whether the market closed near the low end of its range. (Within 1% of its intraday low was used in a few studies.) In the 4/2/20 letter I looked at the combination that we saw on Friday, which was a close within 1% of the intraday low, but without a 5-day low occurring the day before. I have updated that study below.

SPY closes down > 3% and within 1% of its intraday low. Yesterday it did NOT close at a 5-day low. 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
5	20,658.51	40	22	18	55.00	11,319.28	-17,935.50	4,152.82	-3,927.98	1.06	1.29	516.46
4	35,985.58	41	23	18	56.10	14,158.80	-12,890.18	4,224.54	-3,398.82	1.24	1.59	877.70
3	42,757.64	44	28	16	63.64	9,756.90	-10,567.08	3,422.94	-3,317.79	1.03	1.81	971.76
2	9,264.18	45	25	20	55.56	6,436.07	-9,315.90	2,779.56	-3,011.24	0.92	1.15	205.87
1	25,081.28	45	26	19	57.78	8,547.63	-7,417.30	2,186.20	-1,671.58	1.31	1.79	557.36

We see here what appears to be a moderate 1-day upside edge. A profit curve using a 1-day holding period is below.



The chart here is quite choppy. Still, it does appear to have demonstrated an upslope over longer periods. Overall this study appears worthy of 1 day of consideration.

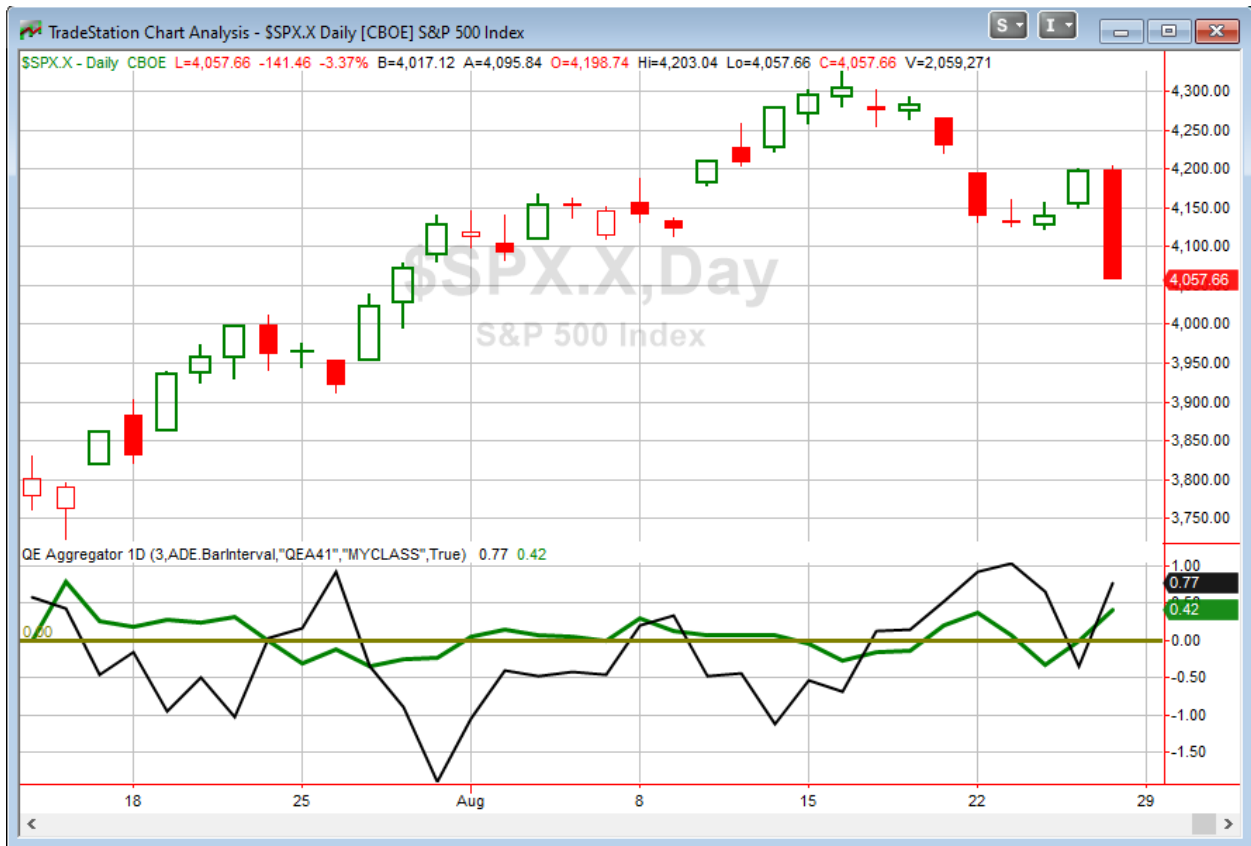
In that 4/25/20 letter I also looked at the low close when it did follow a 5-day low. You can see those updated results below.

SPY closes down > 3% and within 1% of its intraday low. Yesterday it closed at a 5-day low.
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
5	90,451.88	33	26	7	78.79	19,398.00	-12,514.32	4,374.22	-3,325.40	1.32	4.89	2,740.97
4	60,670.78	35	22	13	62.86	17,914.00	-8,109.60	4,279.08	-2,574.53	1.66	2.81	1,733.45
3	33,831.77	36	20	16	55.56	14,708.85	-11,518.47	4,010.42	-2,898.54	1.38	1.73	939.77
2	60,148.80	37	28	9	75.68	12,693.50	-9,320.67	3,129.30	-3,052.39	1.03	3.19	1,625.64
1	53,279.73	38	26	12	68.42	11,683.71	-4,080.40	2,846.90	-1,728.31	1.65	3.57	1,402.10

Quite a contrast. These numbers are much stronger. Not only is the 1-day about 3x better on average, but the edge has persisted out to 5 days as well. But that is not the current setup, so confidence is not as high.

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



With this weekend's evidence considered, the green Aggregator moved further above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line rose 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 the current active studies, expectations are set to remain positive on Monday. Of course this could easily change if compelling new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4142.17. That is 2.1% above Friday's close. That is a sizable ask for a 1-day bounce. While possible, it will more likely take a multi-day rally or consolidation to work of the oversold condition.

So the Aggregator is bullish. The market is certainly oversold to a degree that would favor the bulls from a reward/risk standpoint. But evidence is only moderate. Had the selloff not occurred after a strong 2-day rally I'd be more inclined to get aggressively long. As is, I will be cautious with an entry on Monday. I'll only be looking for a small amount of exposure, and only if I can buy into additional weakness near the open or the close of the day.

Intermediate-term Outlook (2 weeks – 2 months) – updated 8/29 – 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 all declined for the 2nd week in a row. The SPX fell 4.0%, the NASDAQ declined 4.4%, and the Russell 2000 dropped 2.9% on the week. Bonds were mixed. The US Aggregate Bond ETF (AGG) lost 0.4%, while TLT, the 20-year Treasury Bond ETF gained 0.5%. With the SPX now at a 20-day low, the intermediate-term trend is no longer pointing higher.

A couple of weeks ago I shared a breadth thrust study that looked at times the % of SPX stock above their 50ma quickly rose from $\leq 15\%$ to $\geq 90\%$ within 50 days. The results I shared can be found below.

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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I noted the following in the letter after examining the results...*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.*

I have received some questions and seen some discussion on Twitter about whether the recent tumble the market has taken meant the end of the breadth thrust signal. So I looked at it a couple of ways. I noted that Friday's selloff caused the SPX to close at a 20-day low. I then looked at other times the market quickly reversed and posted a 20-day closing low after seeing a breadth thrust like those above.

After seeing the % of SPX constituents rise from <= 15% to >=90% within 50 days, SPX dips and closes at a 20-day low within the next 20 days. Forward returns shown. 1957 - present. (21 days = approx 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	1/20/1988	242.63	2.78	3.95	7.82	10.76	5.56	11.28	18.09
\$\$PX	2/24/1989	287.13	1.41	2	1.55	6.9	11.16	22.43	12.89
\$\$PX	11/17/2011	1216.13	-4.72	2.31	-0.89	8.16	12.01	8.21	14.12
		Average	-0.18	2.75	2.83	8.61	9.58	13.97	15.03
		Median	1.41	2.31	1.55	8.16	11.16	11.28	14.12
		% Wins	67%	100%	67%	100%	100%	100%	100%

There were only 3 instances that saw such a quick dive to a 20-day low after posting a similar breadth thrust. I never like to read anything into just 3 instances. So I expanded the time period to note any instance that closed at a 20-day low within 50 days. Those results are below.

After seeing the % of SPX constituents rise from <= 15% to >=90% within 50 days, SPX dips and closes at a 20-day low within the next 50 days. Forward returns shown. 1957 - present. (21 days = approx 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	
\$SPX	2/25/1963	65.46	-1.13	0.08	1.44	6.57	6.97	9.62	18.96	
\$SPX	10/27/1970	83.12	1.32	2.01	2.37	9.59	14.16	26.05	13.98	
\$SPX	3/29/1972	106.49	2.85	3.21	1.11	3.62	0.5	2.98	3.47	
\$SPX	4/4/1975	80.88	4.08	6.7	11.37	14.49	16.67	3.64	26.41	
\$SPX	1/9/1986	206.11	1.48	-0.9	4.1	12.41	14.72	17.9	24.83	
\$SPX	1/20/1988	242.63	2.78	3.95	7.82	10.76	5.56	11.28	18.09	
\$SPX	2/24/1989	287.13	1.41	2	1.55	6.9	11.16	22.43	12.89	
\$SPX	8/15/1997	900.81	2.52	-0.15	4.98	7.21	1.76	13.54	20.3	
\$SPX	6/22/2009	893.04	3.83	-1.34	6.83	12.8	19.22	23.45	22.65	
\$SPX	11/17/2011	1216.13	-4.72	2.31	-0.89	8.16	12.01	8.21	14.12	
\$SPX	5/13/2016	2046.61	0.28	2.56	1.4	5.72	6.72	5.91	17.38	
\$SPX	5/8/2019	2879.42	-0.99	-0.8	-0.21	3.48	0.16	6.78	0.06	
\$SPX	8/26/2022	4057.66	n/a	n/a	n/a	n/a	n/a	n/a	n/a	
		Average	1.14	1.64	3.49	8.48	9.13	12.65	16.10	
		Median	1.45	2.01	1.96	7.69	9.07	10.45	17.74	
		% Wins	75%	67%	83%	100%	100%	100%	100%	

Still just 12 instances, but also still no indication that the pullback would suggest the original study has been invalidated by the recent drop. While there are bearish studies and indicators out there, I see no good reason to throw out the original breadth study. Other instances where there have been pullbacks to 20-day lows after similar breadth thrusts have all been followed by gains 2, 3, 6, and 12 months later.

On the other hand, there was a breadth collapse study that triggered this week. From Monday night's letter...

With 3 of the last 4 days showing extremely weak breadth, the 10ema of the Up Issue % has taken a dive. In the 6/15/20 letter I looked at other times this measure dropped at least 21.5% from a high over 61.5% within 10 days. I found intermediate-term implications to be potentially concerning. Below are updated results.

The 10-day Exponential Moving Average (EMA) of the NYSE Up Issues % closes at least 21.5% below the 10-day high of the EMA. The 10-day high of the EMA was at least 61.5%. Forward SPX returns shown. 1930 - present.

Ticker	Date/Time	Close	5-Day %Chg	10-Day %Chg	21-Day %Chg	63-Day %Chg	126-Day %Chg
\$SPX	11/16/1931	10.43	-7	-10.07	-23.97	-18.7	-47.75
\$SPX	9/12/1932	8.15	-9.94	-1.35	-15.58	-14.23	-25.28
\$SPX	6/15/1933	9.74	4.93	10.27	23.31	14.27	3.39
\$SPX	4/30/1934	10.46	-6.21	-9.66	-6.41	-17.11	-16.25
\$SPX	8/31/1934	9.15	-4.92	-7.65	-3.17	4.48	-6.67
\$SPX	1/18/1938	11.55	-2.86	-5.71	-5.89	-12.47	9.7
\$SPX	3/17/1939	12.21	-1.15	-10.07	-12.69	-7.62	7.04
\$SPX	1/12/1940	12.13	0.16	0.16	1.65	1.57	-17.72
\$SPX	9/12/1940	10.3	2.82	4.56	2.72	3.79	-2.62
\$SPX	1/21/1941	10.37	0.58	-3.86	-6.27	-10.13	0.77
\$SPX	4/9/1943	11.14	1.71	3.05	7.09	12.12	5.21
\$SPX	7/27/1943	11.92	-1.68	-1.76	-1.76	0	-1.34
\$SPX	3/29/1944	11.95	0.25	0	-0.67	8.37	6.53
\$SPX	7/18/1944	12.98	-1.39	-1.54	-0.62	0.15	4.55
\$SPX	3/9/1945	13.82	1.95	-0.58	0.29	8.03	14.91
\$SPX	10/24/1974	70.22	5.24	7.11	-1.88	3.93	23.36
\$SPX	1/14/2009	842.62	-1.79	0.3	-1.87	2.69	11.64
\$SPX	7/18/2011	1305.44	2.45	-1.42	-8.63	-6.19	-0.9
\$SPX	6/11/2020	3002.1	3.77	2.72	5.1	11.23	22.34
\$SPX	6/10/2022	3900.86	-5.79	-0.02	-2.54	6.08	6.08
		Avg	-0.94	-1.28	-2.59	-0.49	-0.15
		% Wins	50%	35%	30%	60%	60%

A few things to note in these results. First, the next 2-4 weeks have generally struggled. Second, only 5 of the 20 instances have occurred after 1945. Overall, the awful breadth we have seen the last 4 days appears to be a bit of warning. I don't find it to be an overwhelming short signal, nor do I think it completely invalidates the recent breadth thrust signals we saw. But even just rarity of such a strong flip is alarming. Like we saw with some of the short-term studies, recent action is remarkable. That can increase risk.

Overall, breadth data appears questionable since we have active studies showing contrasting edges. Perhaps we will get more clarity in the weeks to come.

The preliminary QE Seasonality Calendar for September is up on the website. I have posted the SPX Calendar below.

Quantifiable Edges Seasonality Calendar			
\$SPX S&P 500 Index			
<u>Date</u>	<u>Win%</u>	<u>Profit Factor</u>	<u>Avg % Chg</u>
9/1/2022	53.54	1.011	-0.057
9/2/2022	63.64	1.794	0.253
9/6/2022	56.70	1.213	0.084
9/7/2022	61.15	1.403	0.132
9/8/2022	58.22	1.109	0.041
9/9/2022	57.25	1.391	0.136
9/12/2022	50.28	0.814	-0.184
9/13/2022	48.48	1.403	0.157
9/14/2022	51.11	1.110	0.036
9/15/2022	52.29	1.058	0.008
9/16/2022	50.73	1.160	0.068
9/19/2022	50.20	0.728	-0.197
9/20/2022	48.21	1.582	0.172
9/21/2022	57.50	3.878	0.371
9/22/2022	51.15	1.108	0.017
9/23/2022	49.77	0.982	0.017
9/26/2022	51.77	0.835	-0.161
9/27/2022	52.00	1.258	0.122
9/28/2022	53.50	1.166	0.060
9/29/2022	57.26	1.233	0.060
9/30/2022	55.88	1.108	0.059
Baseline	54.52	1.148	0.048

September is generally weak compared to other months. This is especially true during the “weakest week”, which is the week after opex. This year that will be the 19th-23rd. I’ll also note that the next Fed meeting is that same week. I took a look at times the Fed had a meeting during the “Weakest Week”. I found that results did not differ greatly. That performance has generally been poor whether there was a Fed meeting or not. Of course we have quite a while before we get there, but just something I examined a little and thought I would share.

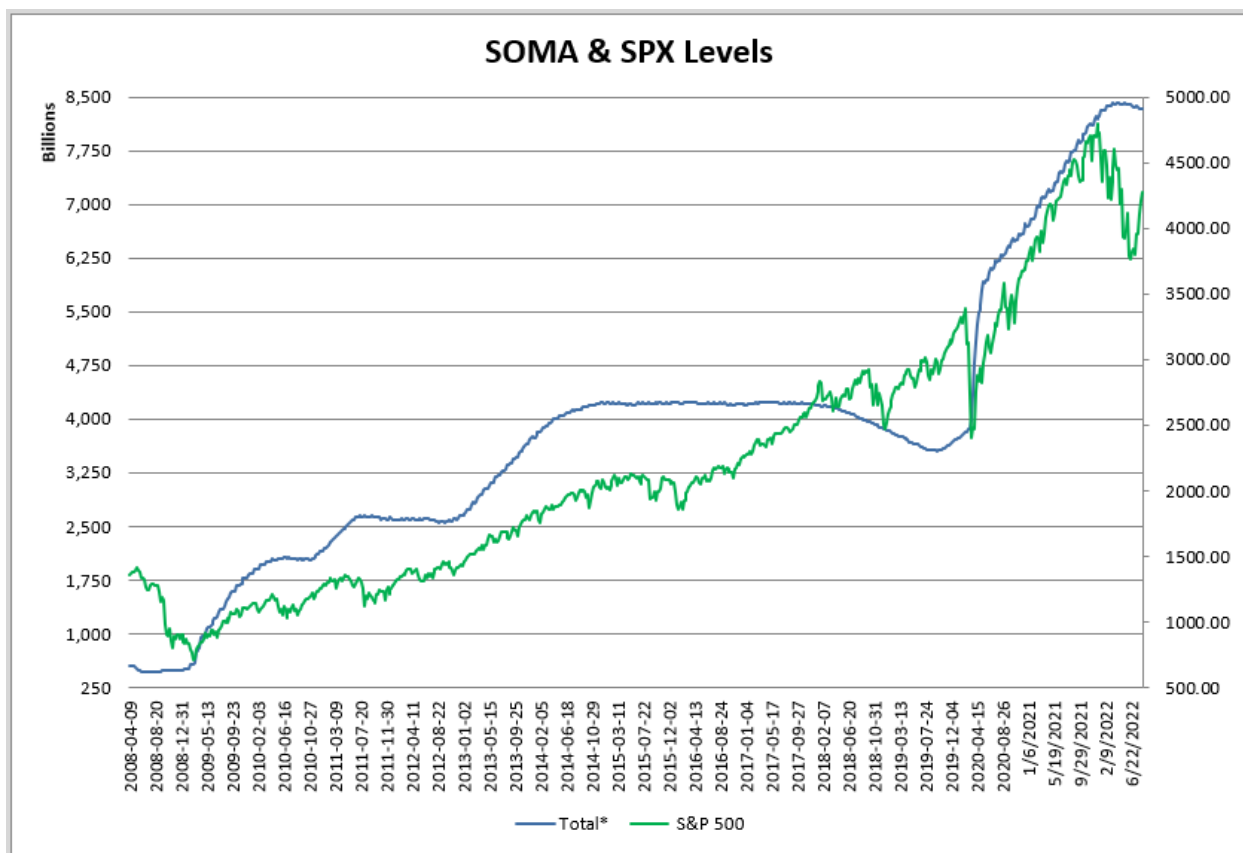
The Fed posted the latest update to the SOMA holdings after the close on Thursday. It can be found below.

Domestic Security Holdings as of
 ◀ Previous **August 24, 2022** 📅
 Posted August 25, 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)	4,871,342,234.9
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***	2,717,186,844.5
Agency Commercial Mortgage-Backed Securities***	8,719,137.6
Total SOMA Holdings	8,330,283,015.3
Change From Prior Week	-1,567,336.1

This week the SOMA declined by about \$1.6 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. And based on the comments from Jay Powell on Friday, we are not likely to see a pivot to dovish anytime soon.

With the selling over the last 2 weeks, indications appear to be getting more mixed. The bulls still have several breadth-thrust studies on the intermediate-term active list. Such strong breadth has historically suggested strong liquidity and more gains to come. And as we saw above, a pullback to a 20-day low following such thrusts has not hurt performance in the past. The NASDAQ is still leading, but just by the skin of its teeth. I had to recheck that calculation a few times and confirm with different software to be sure that NASDAQ had not quite fallen into a lagging position. As long as it can hold on, that can be considered a positive, but I don't have great faith in it at the moment. The bears can still point to Fed policy and seasonality as reasons for more downside. 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, and that was strongly reiterated on Friday. Rates should continue to rise and QT will soon be ramping up further. Overall, with the “breadth collapse” study and the NASDAQ nearly falling into a lagging position, I am a little less optimistic than I was last week. I've changed to a neutral stance. I really have no desire to get aggressive in either direction with the crosswinds and the volatility the market is experiencing. I'll be fairly cautious when considering both long and short positions.

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 @ \$404.00 LIMIT ON OPEN. If not filled on open, cancel order and look to buy @ \$405.00 LIMIT ON CLOSE. Based on the short-term outlook above, I will look to take on a small amount of long index exposure if I can get a favorable entry at either the open or the close on Monday. I am not inclined to be a buyer into an intraday selloff.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MMM(1/3)	8/23/2022	\$141.00	\$129.14	-8.41%	<i>sell on open</i>
NEE(1/3)	8/24/2022	\$87.96	\$89.99	2.31%	<i>sold on open</i>

Note: before selling off intraday, MMM reached its intraday price target on Friday. So it will be sold on Monday's open.

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