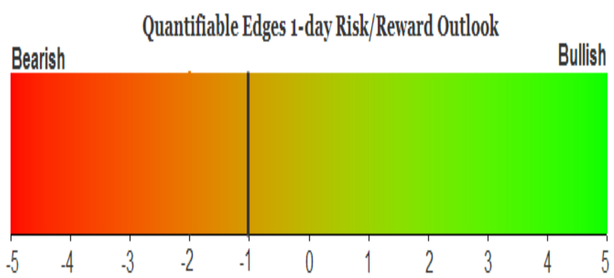
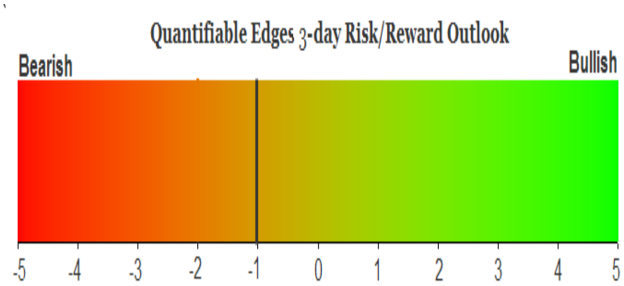
QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

May 30, 2023 Volume 16 Issue 102

Market Overview





Signals Overview

Aggregator	CBI Reading
Short	7

Tonight's Research Points

- Memorial Day week used to be quite bullish. In recent years, only Thursday has seen the bullish tendency persist.
- While SPX and NDX are making new highs, participation has been historically low.
- The SOMA declined again this week, and QT remains strong. The Fed is still hawkish.

Short-term Outlook

The Bottom Line

The Aggregator is bearish, but that will likely only last one day. It does not appear to be a compelling enough edge to trade.

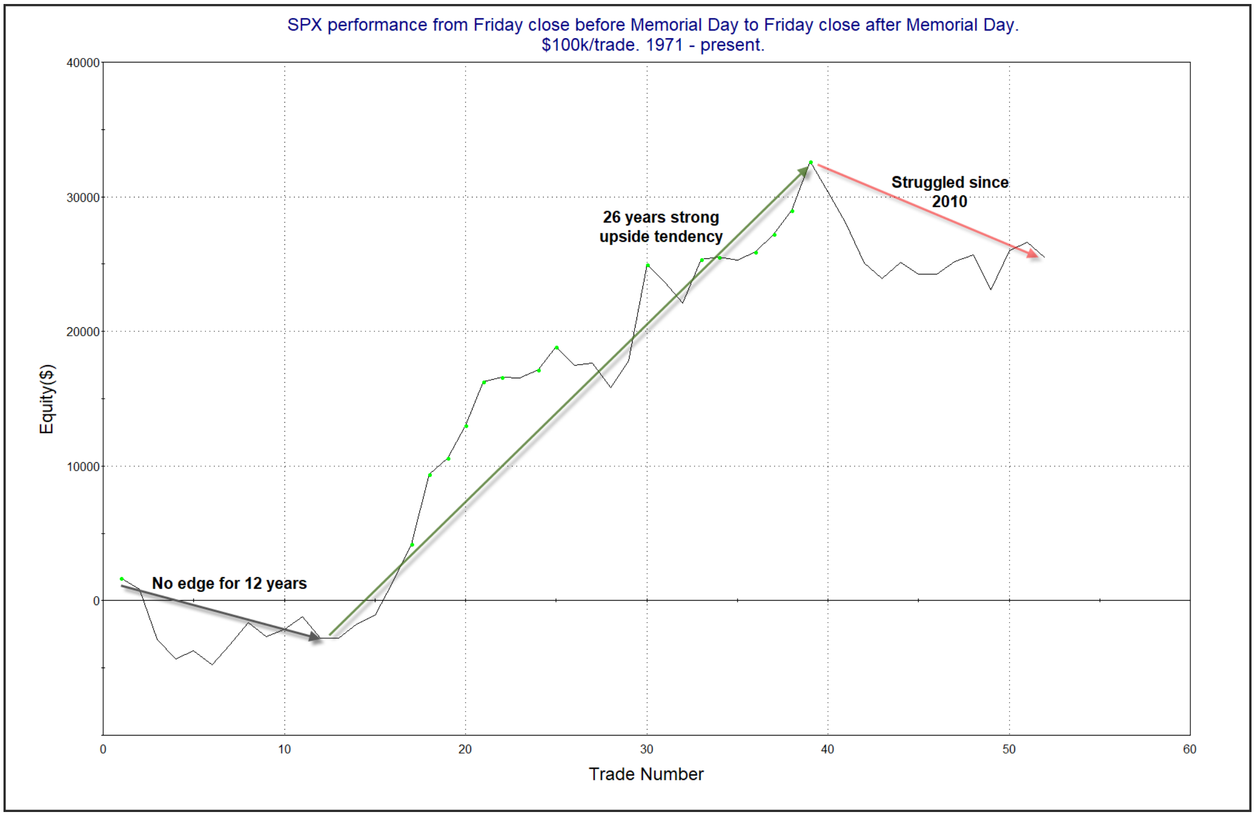
Summary of Recent Active Studies (see Letters from listed dates for details)

Study Date	Description	Time span	Bias	Avg Run-up	Avg DrawDn	Avg DrawDn - 1 Std Dev
Active - Short Term						
May 26, 2023	Up Iss & Up Vol < 40%. SPX up.	1-4 days	Bearish	-2.10%	1.00%	1.80%
May 26, 2023	SPX up & > 200. Up Vol < 40%	1-7 days	Bullish	1.70%	-1.20%	-2.50%
Active - Long Term						
May 22, 2023	SPX 50-day high < 1/2 SPX stocks > 50ma	1-12 months	Neutral			
May 1, 2023	NASDAQ Leading	int term	Bullish			
February 2, 2023	SPX Golden Cross	int term	Bullish			
January 13, 2023	Deemer Breakaway Momentum	1-6 months	Bullish			
January 13, 2023	Whaley ADT5 > 73.66	1-12 months	Bullish			
December 1, 2022	SPX goes from < 15% above 50 to > 90%	1-6 months	Bullish			
March 14, 2022	Fed Hawkish / QE done	int term	Bearish			
Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)						
May 25, 2023	Yest 5-low. Unfill gap dn. Cl < Opn > 200	1-2 days	Bullish			

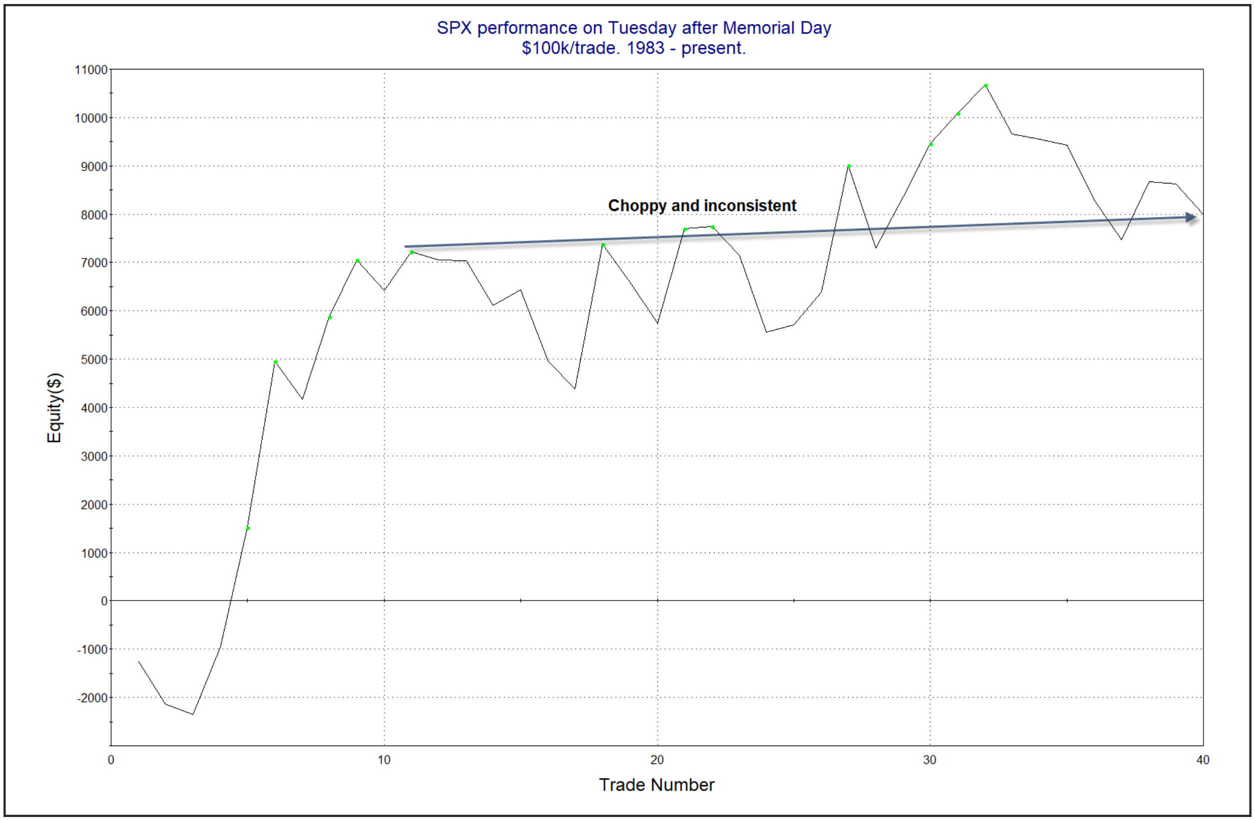
The Evidence

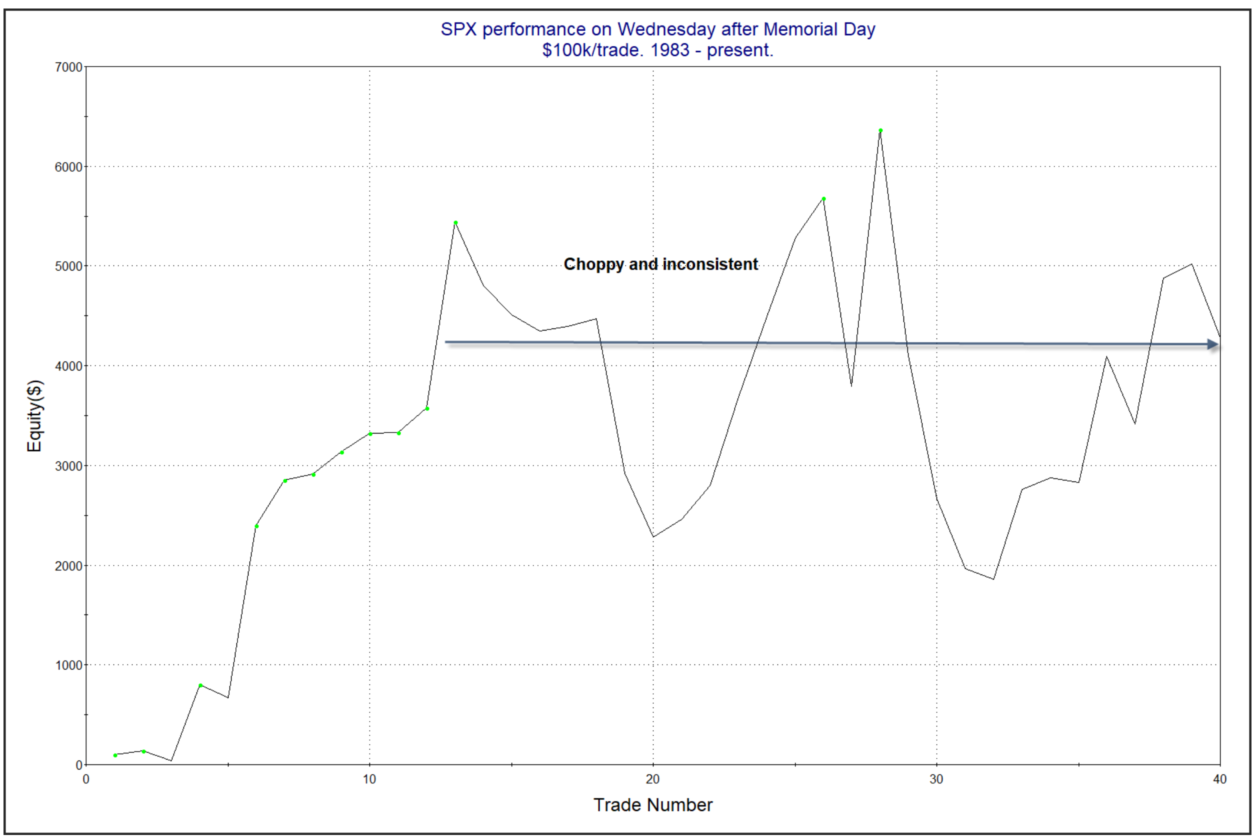
Friday was a party day for index bulls. The SPX gained 1.3%, the NASDAQ rallied 2.2%, and the Russell 2000 rose 1.05%. Breadth was positive with the NYSE Up Issues % coming in at 69% and the Up Volume % at 72%. NYSE total volume rose some from Thursday’s level.

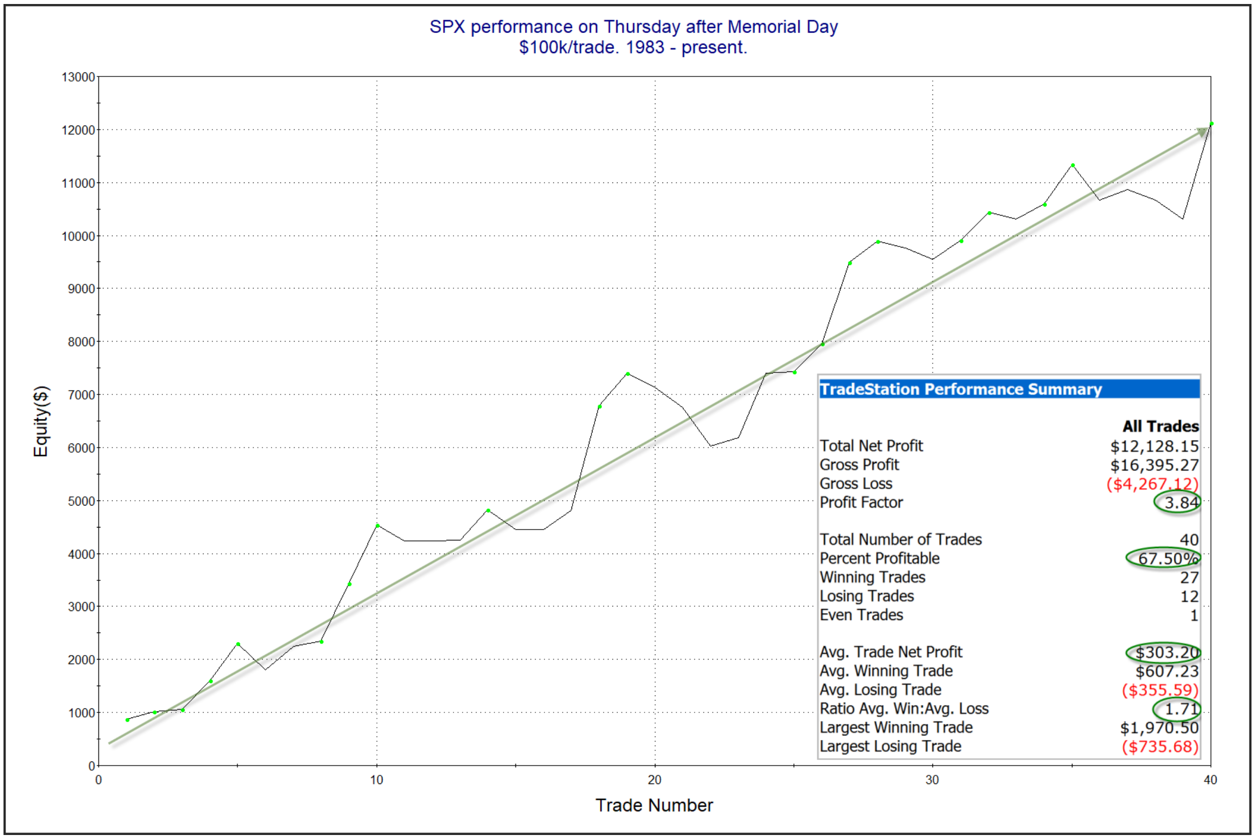
Of course Monday is Memorial Day. The week of Memorial Day has shown some interesting tendencies over the years. But it has been less consistent recently. The chart below is from the 5/31/22 subscriber letter and has been updated. It examines SPX performance from the Friday before Memorial Day to the Friday after it.

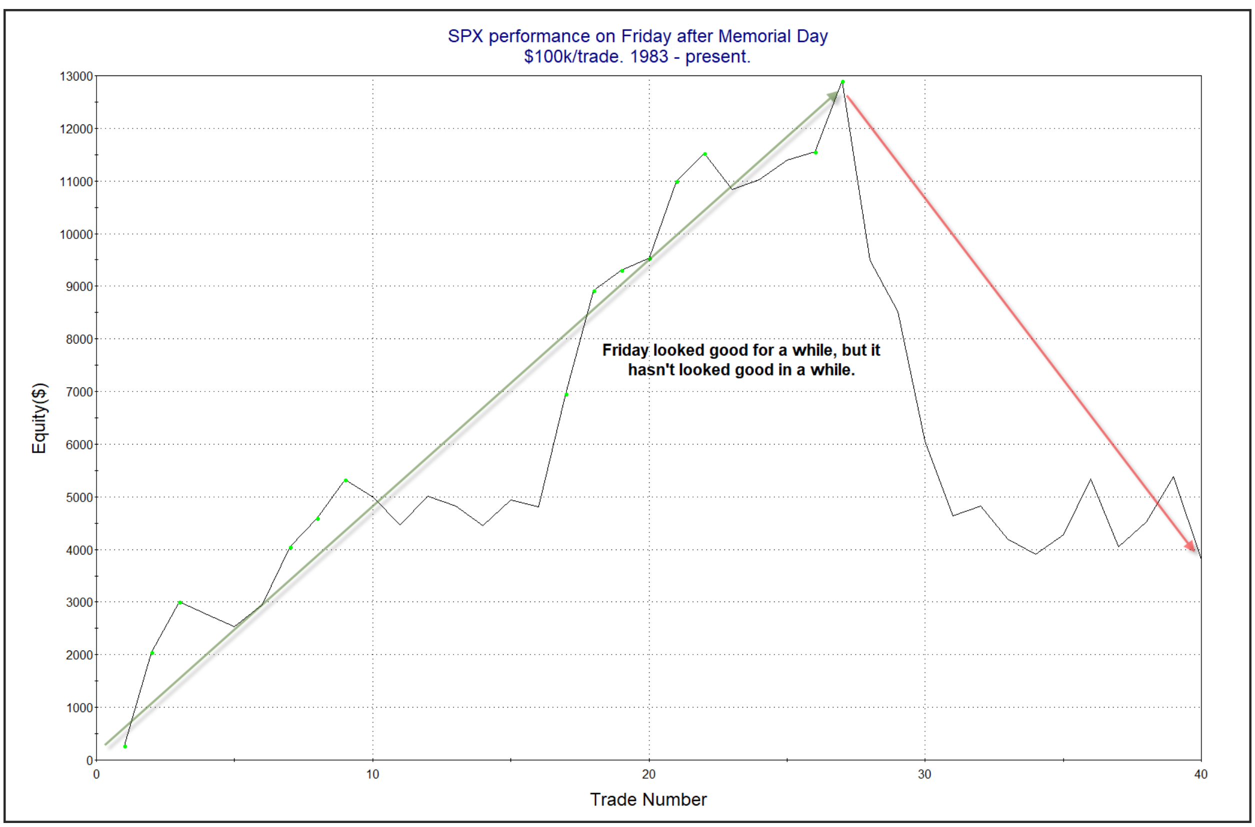


There was no substantial edge apparent throughout the 70s, but starting in 1983 through 2009 there was a bullish tendency. The last 13 years this week has mostly struggled. Last year I took a day by day look. I decided to do that again to see where the market has struggled recently. Here are the charts for each day of the week, going back to 1983.


SPX performance on Tuesday after Memorial Day
$100k/trade. 1983 - present.
Choppy and inconsistent
Equity($)
Trade Number
11000
10000
9000
8000
7000
6000
5000
4000
3000
2000
1000
0
-1000
-2000
0
10
20
30
40


SPX performance on Wednesday after Memorial Day
$100k/trade. 1983 - present.
Choppy and inconsistent
Equity($)
Trade Number
7000
6000
5000
4000
3000
2000
1000
0
0
10
20
30
40


SPX performance on Thursday after Memorial Day
$100k/trade. 1983 - present.
Equity($)
Trade Number
TradeStation Performance Summary
All Trades
Total Net Profit $12,128.15
Gross Profit $16,395.27
Gross Loss ($4,267.12)
Profit Factor 3.84
Total Number of Trades 40
Percent Profitable 67.50%
Winning Trades 27
Losing Trades 12
Even Trades 1
Avg. Trade Net Profit $303.20
Avg. Winning Trade $607.23
Avg. Losing Trade ($355.59)
Ratio Avg. Win:Avg. Loss 1.71
Largest Winning Trade $1,970.50
Largest Losing Trade ($735.68)


SPX performance on Friday after Memorial Day
$100k/trade. 1983 - present.
Equity($)
Trade Number
Friday looked good for a while, but it
hasn't looked good in a while.

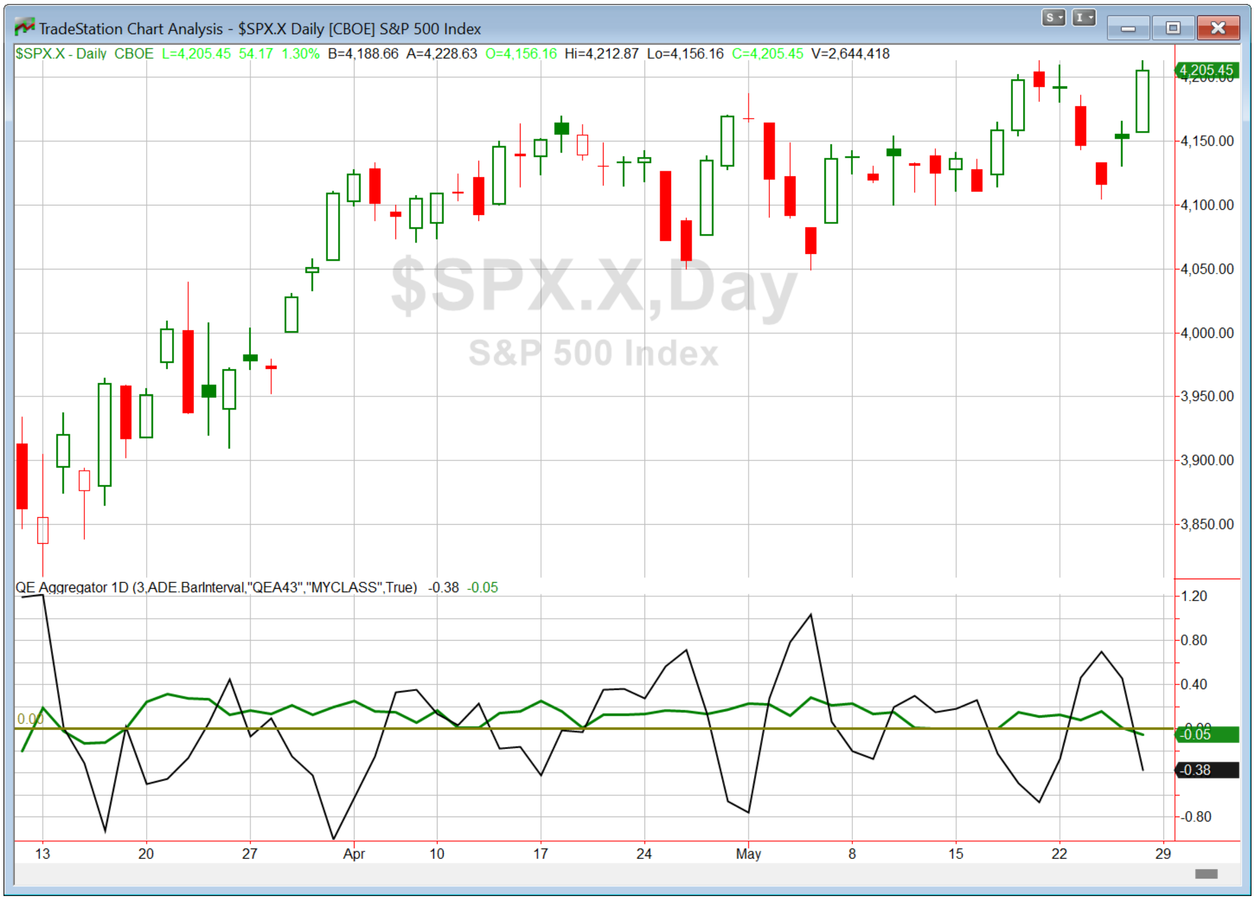
Thursday is the only day that has appeared to show a persistent seasonal edge. This will be something to keep in mind later this week. I'll also note that Thursday will be the 1st day of June, so it could have favorable "turn of the month" seasonality helping it this year as well.

While I looked at several studies based on short-term price action, there was nothing I uncovered that suggested a compelling edge. I did note that while SPX and NDX shot to new multi-month highs on Friday, many of the oversold stocks I am holding remain quite oversold. See the Catapult stocks MDLZ, PEP, and T for instance. In fact this is only the 5th time ever that the CBI is 7+ while SPX is at a 50-day high. The other 4 times showed mixed results in the following days and weeks.

I looked at the % of SPX stocks that closed above their 20ma, which is the shortest-term average that Norgate Data uses for such breadth measures. I found that only 36.8% of SPX stocks closed above their 20ma on Friday. Only one other time did SPX make a new 50-day high with < 40% of stocks closing above their 20ma. That was on 6/10/1957 when just 38.5% did it. Here is an SPX chart from 1957, in case you are curious.

This is conclusive of nothing when looking at just one instance. But similar to last weekend's breadth study, the lack of participation is concerning to me. Another example of the market being split is the simple fact that the NDX is now up over 30% on the year while the Dow is slightly negative. There have only been 2 other years where NDX was up over 30% with the Dow lower at some point. They were 1998 and 2020. Neither year saw the condition happen this early.

I have updated the Aggregator chart below.



Without anything new on the Active List tonight, the green Aggregator Line dipped below zero. Negative readings mean expectations are for downside over the next few days. Meanwhile the black Differential Line also fell under zero. The negative Differential Line reading means that SPX is overbought versus recent expectations. So expectations are negative and SPX is overbought. This is considered a bearish configuration. Bearish configurations are visible on the chart whenever both lines close below zero. Therefore, the Aggregator formation flipped short at the close.

Based on the current list of active studies, expectations are set to flip back to positive on Monday. Of course this could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4128.91 Monday. That is 1.8% below Friday's close. Therefore, SPX would need to close down over 1.8% on Monday in order to change from overbought to oversold versus recent expectations.

So the Aggregator is bearish. But evidence is mixed and expectations will likely turn positive on Monday. Therefore, there would be very little time to take advantage any short-side edge. And with the intermediate-term outlook still leaning bullish, this would be a counter-trend trade. Overall, I don't see it as an appealing setup. I took my long exit on Friday at the close, and I am happy to stand aside and wait for the next favorable setup to emerge before putting capital back to work.

Intermediate-term Outlook (2 weeks – 2 months) – updated 5/30 – slightly bullish

Combo #1	Combo #2	Combo #3
Long	Long	Long

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 "long".*

The major indices posted mixed results this past week, but new intermediate-term highs were reached by the SPX and NASDAQ. The SPX rose 0.3%, and the NASDAQ gained 2.5%, but the Russell 2000 lost 0.04%. Bonds fell again. The US Aggregate Bond ETF (AGG) posted a loss of 0.5%. TLT, the 20-year Treasury Bond ETF, closed the week down 0.01%. Long-term uptrends for the SPX and NASDAQ remain in place. There were no studies that emerged in the last few days with 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

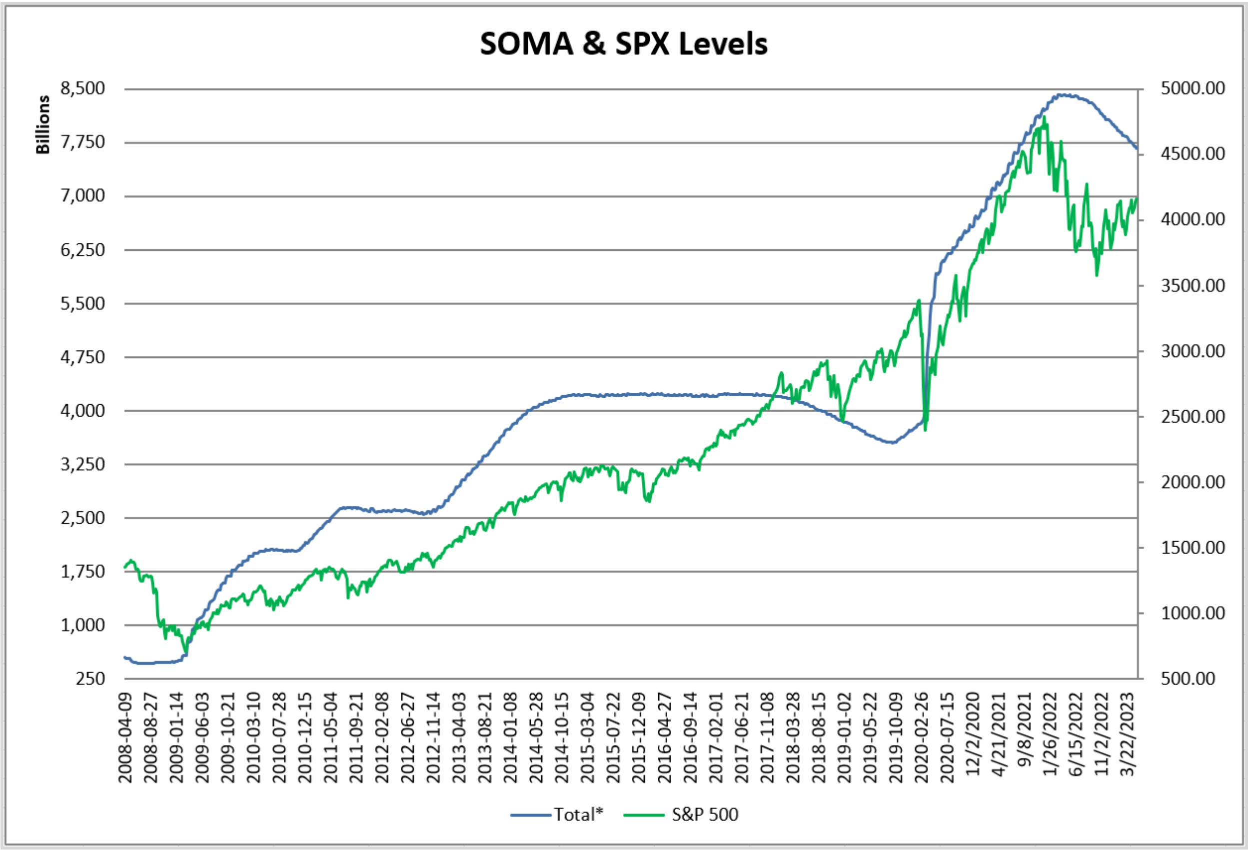
Previous May 24, 2023

Posted May 25, 2023 at 4:30 PM

SUMMARY | T-BILLS | T-NOTES AND T-BONDS | FRNS | TIPS | AGENCY DEBTS | MBS | CMBS

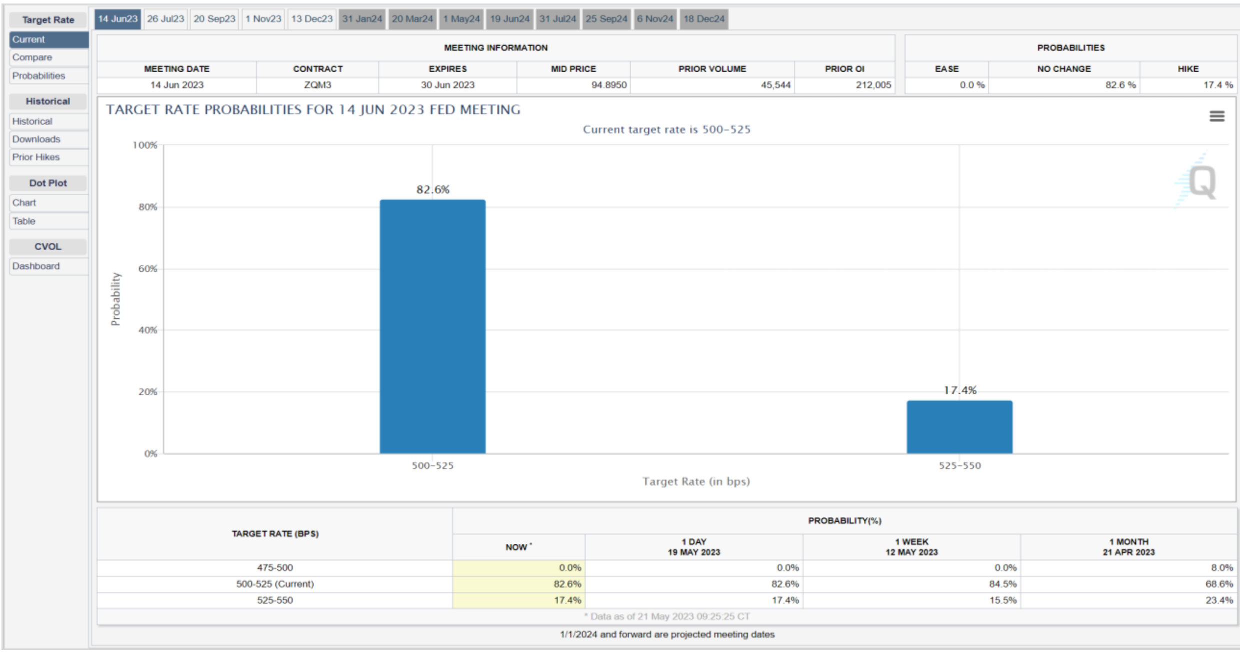
SECURITY TYPE	TOTAL ($Thousands)
US Treasury Bills (T-Bills)	281,041,361.0
US Treasury Notes and Bonds (Notes/Bonds)	4,422,555,952.5
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	365,436,327.6
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,562,018,128.5
Agency Commercial Mortgage-Backed Securities***	8,406,394.1
Total SOMA Holdings	7,662,231,917.7
Change From Prior Week	-4,003,263.5

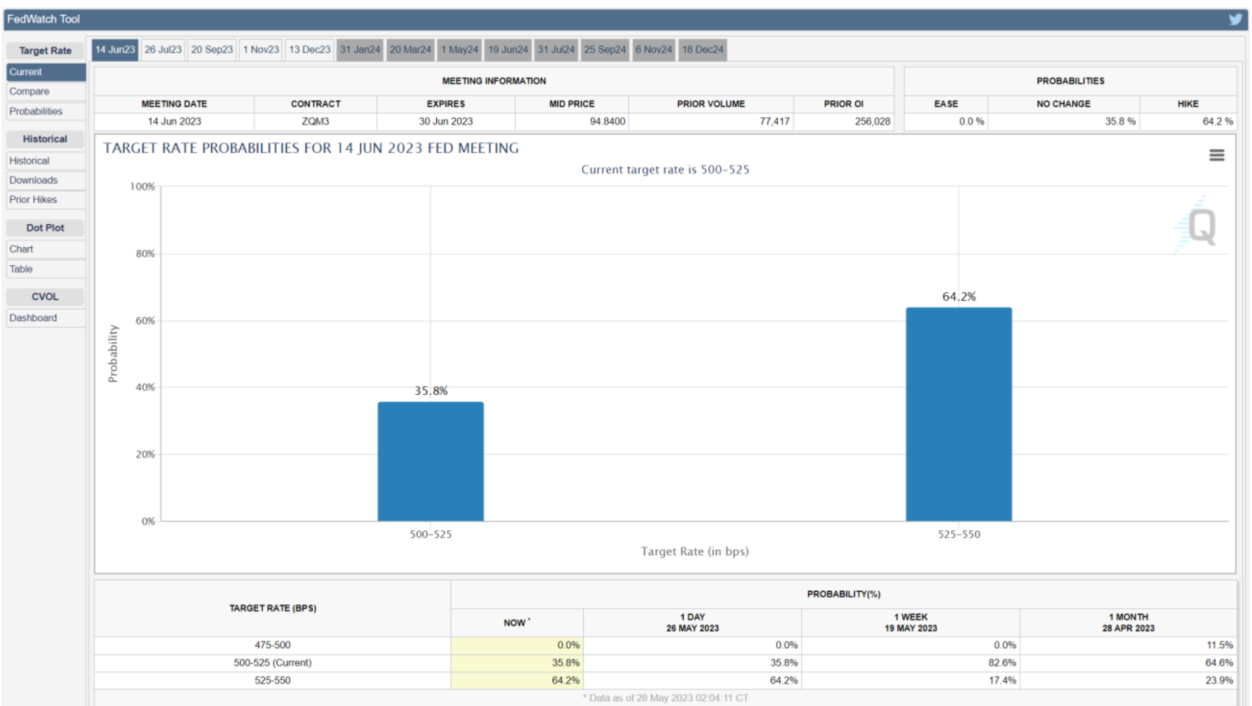
This past week saw a decline of $4 billion. That is in line with what would be expected at this time of the month during the current QT period. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is now in the midst of what could be the largest ever reduction in the size of the SOMA. The pace of the decline is high and the Fed has given no indication that it is planning to dial back the Quantitative Tightening anytime soon.

After looking unlikely the last couple of weeks, the odds of a Fed rate hike have increased this past week. The CME Fedwatch tool odds dropped from 82% chance of "no change" in the Fed rate at the June meetings all the way down to 36%. The market is now pricing in a 64% chance of another ¼ point hike in a couple of weeks. This can be seen in the two charts below.





The Fed says they will remain "data dependent", so you can expect the market to overreact to data. Odds here will continue to change leading up to the announcement, with economic numbers and Fed comments potentially causing sizable market swings.

Not much changed from an intermediate-term perspective this past week. NDX and SPX are again at new intermediate-term highs, and that is generally a good thing. But like last week, the lack of participation among SPX constituents is somewhat concerning. The overall long-term trend signals remain mostly positive. Golden crosses are in effect for the NASDAQ and SPX, and both are firmly above their 200ma. The NASDAQ also continues to lead the SPX with our NASDAQ/SPX lead/lag indicator, and that has historically been bullish. Two bullish breadth thrusts from January are still in effect. Still, plenty of issues remain. While interest rate hikes may or may not be over, Fed policy is still hawkish thanks to QT. We are also in the May-October period that is susceptible to selling when we have already seen weakness sometime in Jan – April. Additionally, a recession could be coming and the banking system does not appear as stable as Powell would have us believe. Also, valuations remain high vs historical norms. Lots of negatives to worry about. None of it has mattered much recently, but it could soon. Over the years I have learned not to be stubborn when the market is hitting new highs, so I will keep my market bias at "slightly bullish". But I will be quick to dial it back to neutral if trouble arrives. This means I will be a bit more aggressive with long trades than short trades for the time being.

Catapult and Capitulative Breadth Statistics

Catapult & CBI Presentation Link

Open Catapult Triggers

MDLZ – 1/3 @ $75.87 (bought @ limit)
MDLZ – 1/3 @ $75.65 (bought @ limit)
MDLZ – 1/3 @ $75.47 (bought @ limit)
PEP – 1/3 @ $184.89 (bought @ limit)
T – 1/3 @ $15.15 (buy @ limit) – not filled – cancel for now
PEP – 1/3 @ $183.80 (bought @ limit)

New

PEP – 1/3 @ $183.58 (buy @ limit)

Broad Market Large Cap CBI – 7(MDLZ-3, PEP-3, T)

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*.

PEP – Buy 1/3 Catapult position @ $183.58 LIMIT. From the Catapult section above, this is the 3rd and final of PEP.

Current Open Trade Ideas

Symbol	Entry Date	Entry Price	Current Price	% Gain/Loss	Notes
MDLZ(1/3)	5/23/2023	$75.87	$75.13	-0.98%	Catapult
MDLZ(1/3)	5/24/2023	$75.63	$75.13	-0.66%	Catapult
SPY(1/4)	***5/24/2023***	***$411.09***	***$420.02***	***2.17%***	***sold at close***
MDLZ(1/3)	5/25/2023	$74.95	$75.13	0.24%	Catapult
PEP(1/3)	5/25/2023	$182.70	$183.58	0.48%	Catapult
PEP(1/3)	5/26/2023	$183.71	$183.58	-0.07%	Catapult