

# QUANTIFIABLE EDGES SUBSCRIBER LETTER

ASSESSING MARKET ACTION WITH INDICATORS AND HISTORY

June 20, 2023

Volume 16 Issue 116

## Market Overview



## Signals Overview

<b>Aggregator</b>	<b>CBI Reading</b>
<b>Flat</b>	<b>0</b>

## Tonight's Research Points

- 5 days higher to a 50-day high rarely sees the move up end abruptly.
- When SPX has posted a 20-day high and a poor close in the past it has led to short-term gains.
- There were 2 other studies this past week suggesting bullish intermediate-term implications.
- The Fed paused hiking rates, but QT is continuing, and the SOMA is set to continue its decline.

## *Short-term Outlook*

### *The Bottom Line*

The Aggregator is neutral. Evidence is mostly bullish, but SPX remains solidly overbought.

**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>						
June 20, 2023	5up to 50-high. Down 1. > 200ma	1-4 days	Bullish	1.10%	-0.80%	-1.60%
June 20, 2023	20-high.Close btm 10%.	1-2 days	Bullish			
June 15, 2023	100-high on Fed Day	1-7 days	Bullish	1.50%	-1.00%	-1.65%
June 15, 2023	Up Vol < 40% SPX up and > 200ma	1-7 days	Bullish	1.70%	-1.20%	-2.50%
June 15, 2023	Up Vol & Up Iss < 40%	1-4 days	Bearish	-2.10%	1.00%	1.85%
<b>Active - Long Term</b>						
June 20, 2023	5up to 50-high. Down 1. > 200ma	1-10 days	Bullish	1.85%	-1.10%	-2.30%
June 20, 2023	20-high.Close btm 10%.	1-10 days	Bullish	2.00%	-1.50%	-2.90%
June 16, 2023	RSI(2) cross over 99.	1-15 days	Bullish	2.30%	-1.50%	-2.95%
June 15, 2023	Up Vol < 40% SPX up and > 200ma	1-10 days	Bullish	2.15%	-1.50%	-3.30%
June 5, 2023	SPX 50-day %b crosses 100	1-50 days	Bullish	4.90%	-4.50%	-9.00%
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	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			
<b>Dropped Tonight (expired, tgt hit, or avg ddn + 1 std dev exceeded)</b>						
January 13, 2023	Deemer Breakaway Momentum	1-6 months	Bullish			

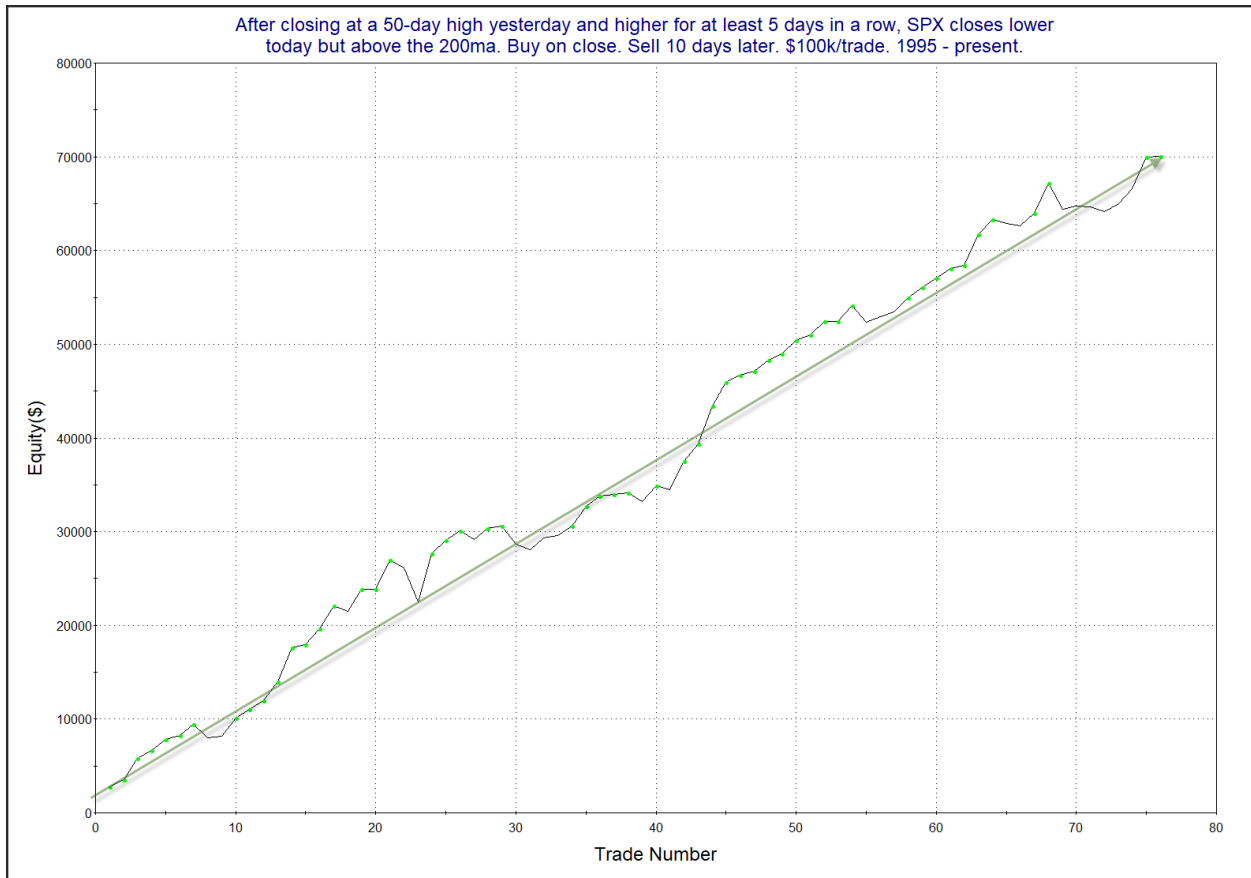
**The Evidence**

As often happens on opex Friday, we saw some selling between the open and the close. The SPX closed finished the day down 0.4%, the NASDAQ fell 0.7%, and the Russell 2000 also dropped 0.7%. Breadth was negative with the NYSE Up Issues % coming in at 39% and the Up Volume % at 45%. NYSE total volume spiked higher as you would expect on a quarterly option expiration day.

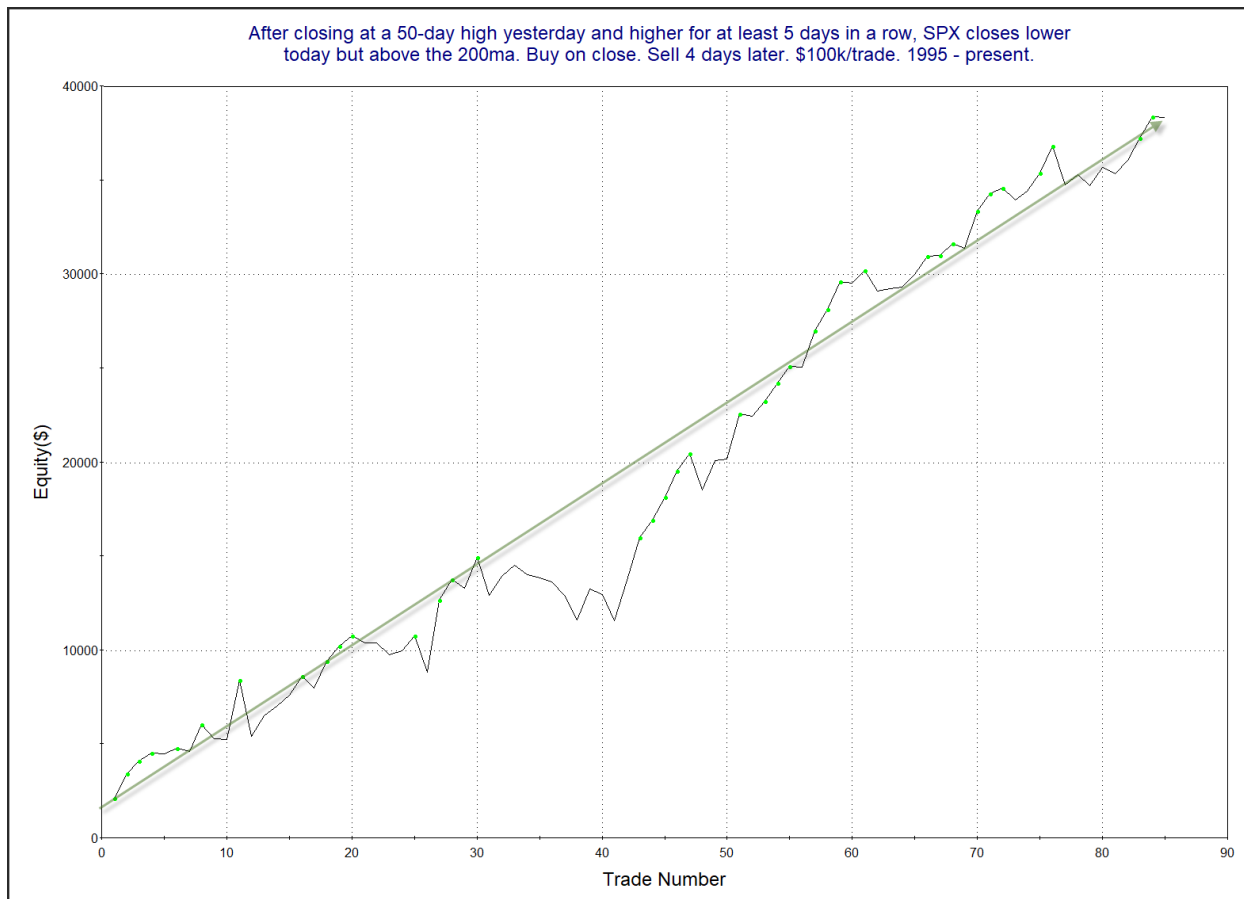
One compelling study that triggered Friday suggested the recent persistent upmove is unlikely to abruptly end. (This is a theme we have seen many times over the years.) It considers what happens after the market moves up at least 5 days in a row to a 50-day high, and then pulls back. It was last seen in the 7/7/21 Letter. I have updated the stats in the table below.

After closing at a 50-day high yesterday and higher for at least 5 days in a row, SPX closes lower today but above the 200ma. Buy on close. Sell X days later. \$100k/trade. 1995 - 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	70,081.08	76	61	15	80.26	5,131.35	-3,672.90	1,427.05	-1,131.26	1.26	5.13	922.12
9	65,872.18	79	62	17	78.48	5,023.20	-4,151.40	1,423.53	-1,316.87	1.08	3.94	833.83
8	55,966.03	80	56	24	70.00	4,878.08	-4,874.10	1,515.58	-1,204.43	1.26	2.94	699.58
7	44,309.93	83	58	25	69.88	3,874.76	-4,511.36	1,307.90	-1,261.93	1.04	2.40	533.85
6	45,686.60	85	62	23	72.94	4,307.20	-3,637.71	1,189.00	-1,218.75	0.98	2.63	537.49
5	36,095.03	85	58	27	68.24	4,252.50	-4,717.16	1,063.06	-946.76	1.12	2.41	424.65
4	38,342.52	85	55	30	64.71	3,843.00	-3,003.39	1,093.91	-727.42	1.50	2.76	451.09
3	22,330.86	85	53	32	62.35	2,472.85	-1,992.34	843.29	-698.85	1.21	2.00	262.72
2	22,134.13	85	56	29	65.88	2,437.50	-2,614.95	762.94	-710.02	1.07	2.07	260.40
1	12,890.50	85	54	30	63.53	1,751.19	-1,744.10	514.95	-497.23	1.04	1.86	151.65

We see here a decent edge that becomes stronger and more consistent as you look out over the next several days. The 9-10 day time frame shows exceptional stats. The 4-day timeframe suggests a short-term boost is also likely. Let's take a look below at both the 10-day and 4-day exit profit curves. First, the 10 day.



The strong upslope appears to confirm the bullish edge. Next let's look at the 4-day curve.



Results are a little choppier. But even with more whipsaws this curve has worked its way from lower left to upper right and is back near new highs. The study appears worthy of consideration. I have included it on both the short-term and intermediate-term active lists.

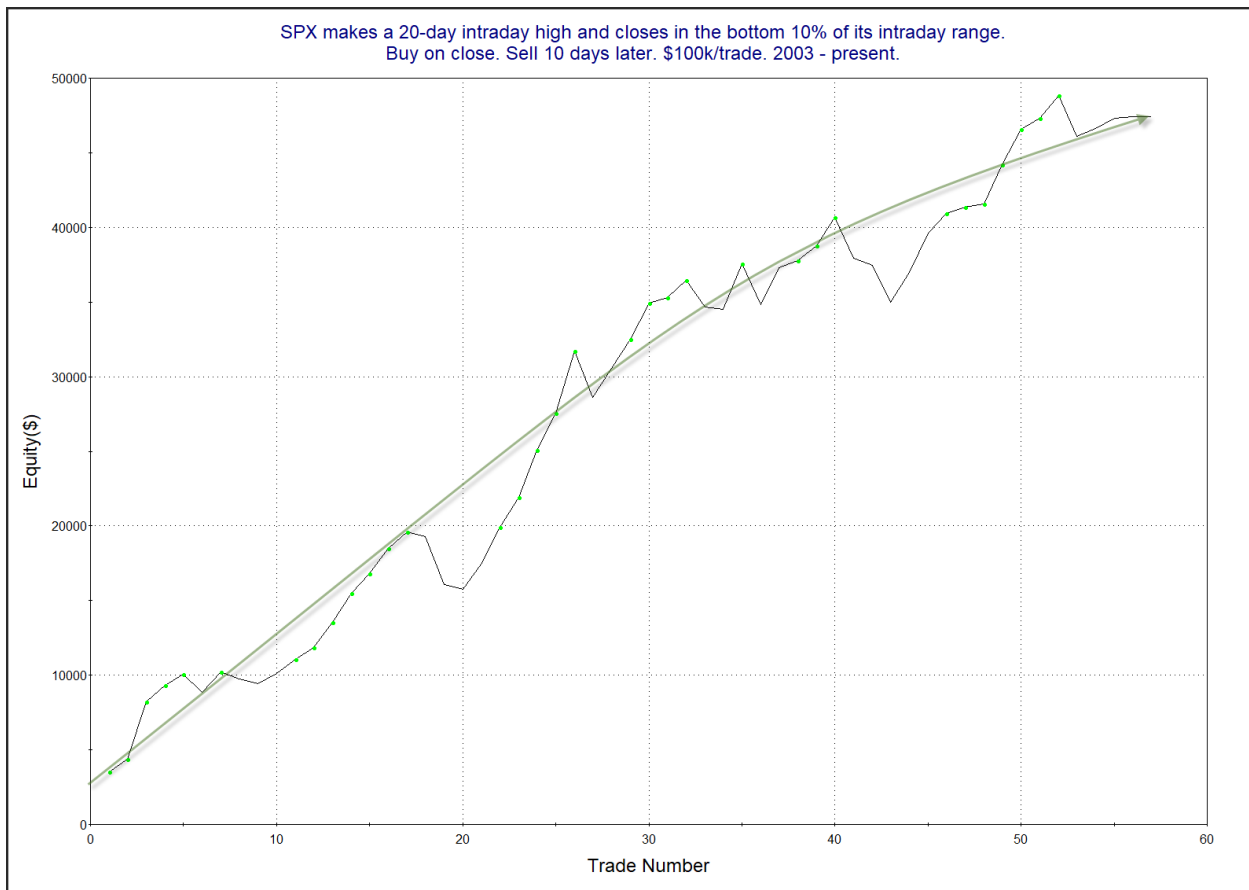
Early in the day the SPX managed to make a new 20-day intraday high. The new high followed by a poor and downward close triggered the study below, which was last seen in the 12/19/19 subscriber letter. Results are all updated.

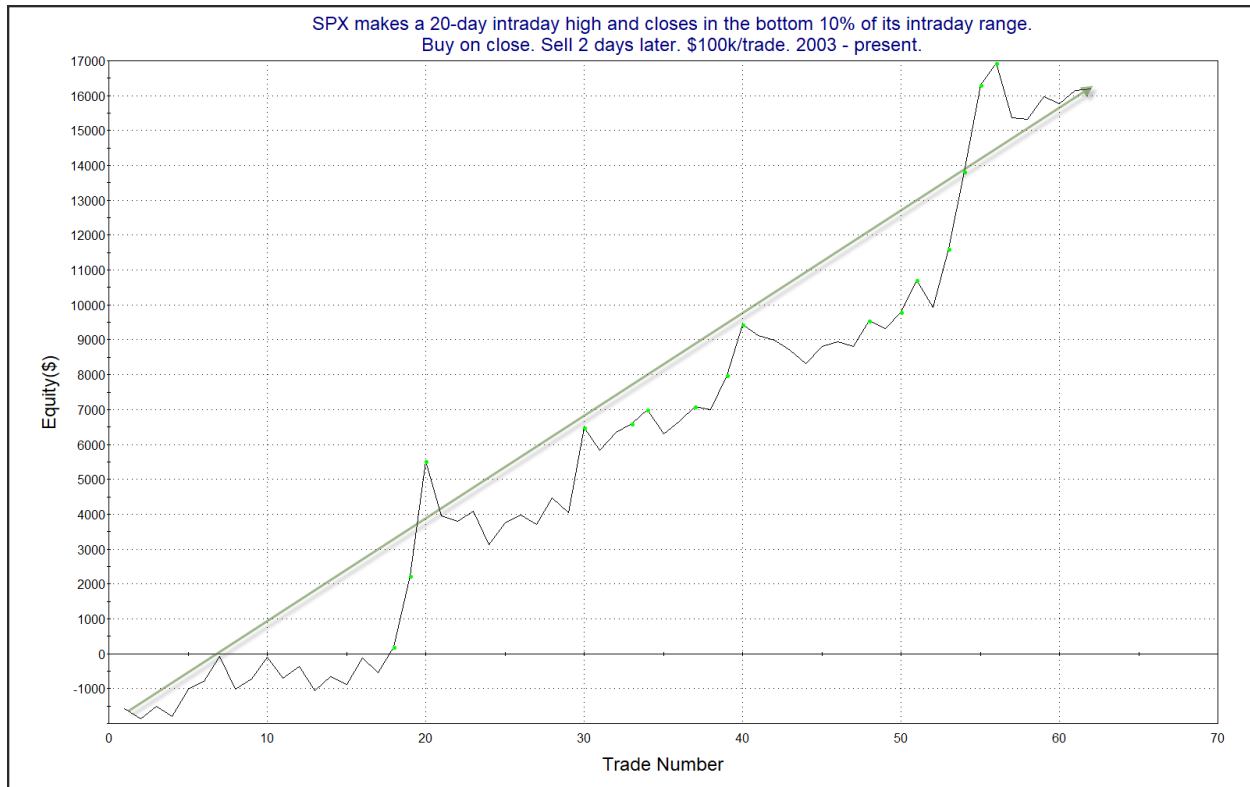
SPX makes a 20-day intraday high and closes in the bottom 10% of its intraday range.  
Buy on close. Sell X days later. \$100k/trade. 2003 - present.

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	47,408.29	57	43	14	75.44	4,119.18	-3,210.80	1,614.37	-1,572.11	1.03	3.15	831.72
9	45,581.17	57	42	15	73.68	3,613.36	-3,775.10	1,618.98	-1,494.40	1.08	3.03	799.67
8	44,295.34	58	44	14	75.86	4,483.84	-3,803.24	1,596.99	-1,855.16	0.86	2.71	763.71
7	35,877.71	59	43	16	72.88	3,761.94	-4,159.32	1,466.52	-1,698.91	0.86	2.32	608.10
6	33,710.39	60	43	17	71.67	3,703.30	-3,567.90	1,317.10	-1,348.53	0.98	2.47	561.84
5	21,611.83	60	39	21	65.00	4,377.84	-3,566.84	1,082.23	-980.72	1.10	2.05	360.20
4	14,831.83	62	39	23	62.90	5,024.25	-2,435.84	1,000.61	-1,051.83	0.95	1.61	239.22
3	11,934.53	62	37	25	59.68	3,368.93	-3,384.50	895.41	-847.83	1.06	1.56	192.49
2	16,187.60	62	36	26	58.06	3,288.48	-1,575.22	837.54	-537.07	1.56	2.16	261.09
1	11,676.86	63	42	21	66.67	2,588.08	-2,471.25	557.93	-559.81	1.00	1.99	185.35

97% of instances closed above the entry price at some point in the next week.  
The only failures were in 12/2004 and 1/2021.

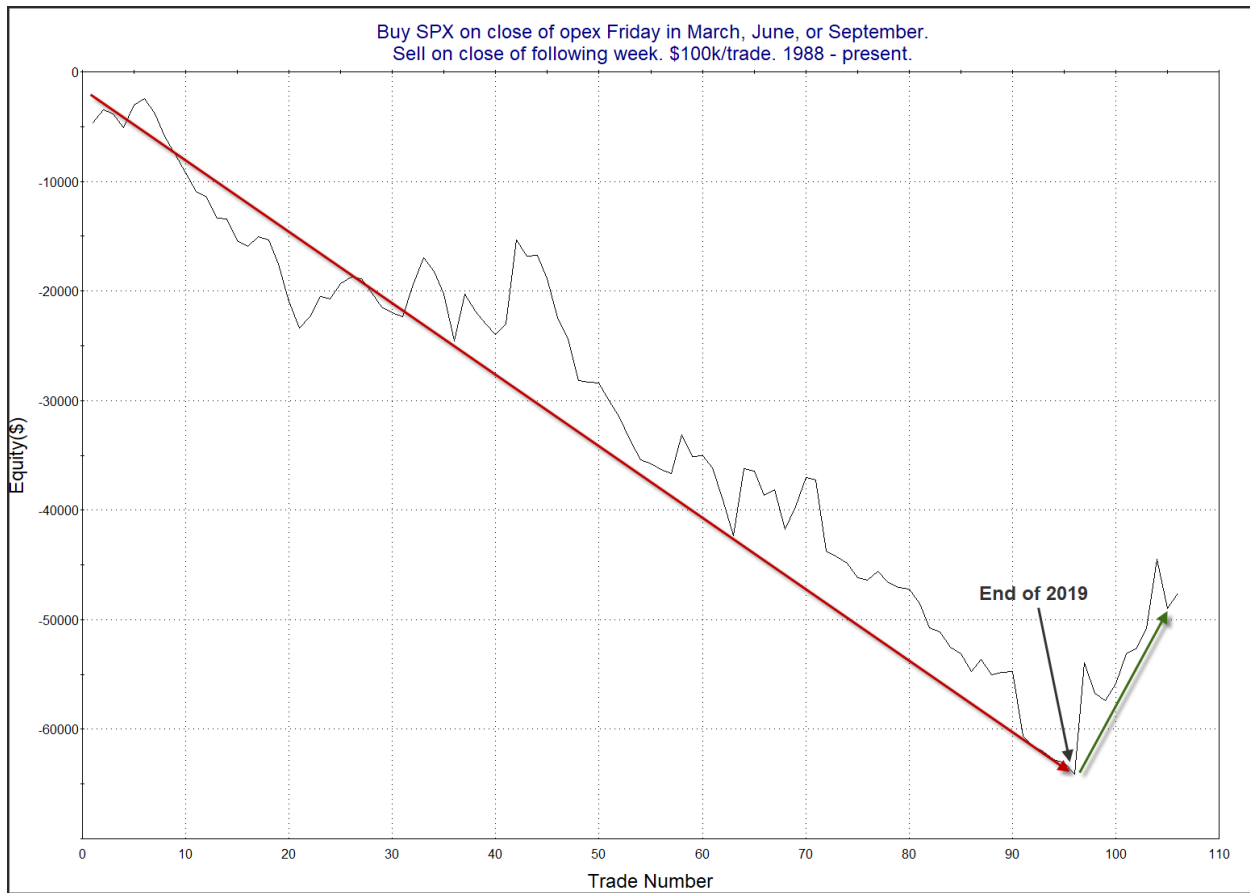
Results here seem to suggest an upside edge. Below are looks at both the 10-day and 2-day curves.





The persistent upslopes appear to confirm the upside edge suggested by the statistics. I have included this study on the short and intermediate-term active lists.

Last weekend I showed that Opex week has not been as bullish since COVID. (Of course as soon as I notice that we have a strong opex week performance.) The study below, from the 3/21/22 letter looks at performance the week *after* opex for the months of March, June, and September. These are the quarterly quad-witching months, excluding December. (December is excluded because it has often been bullish all month.)



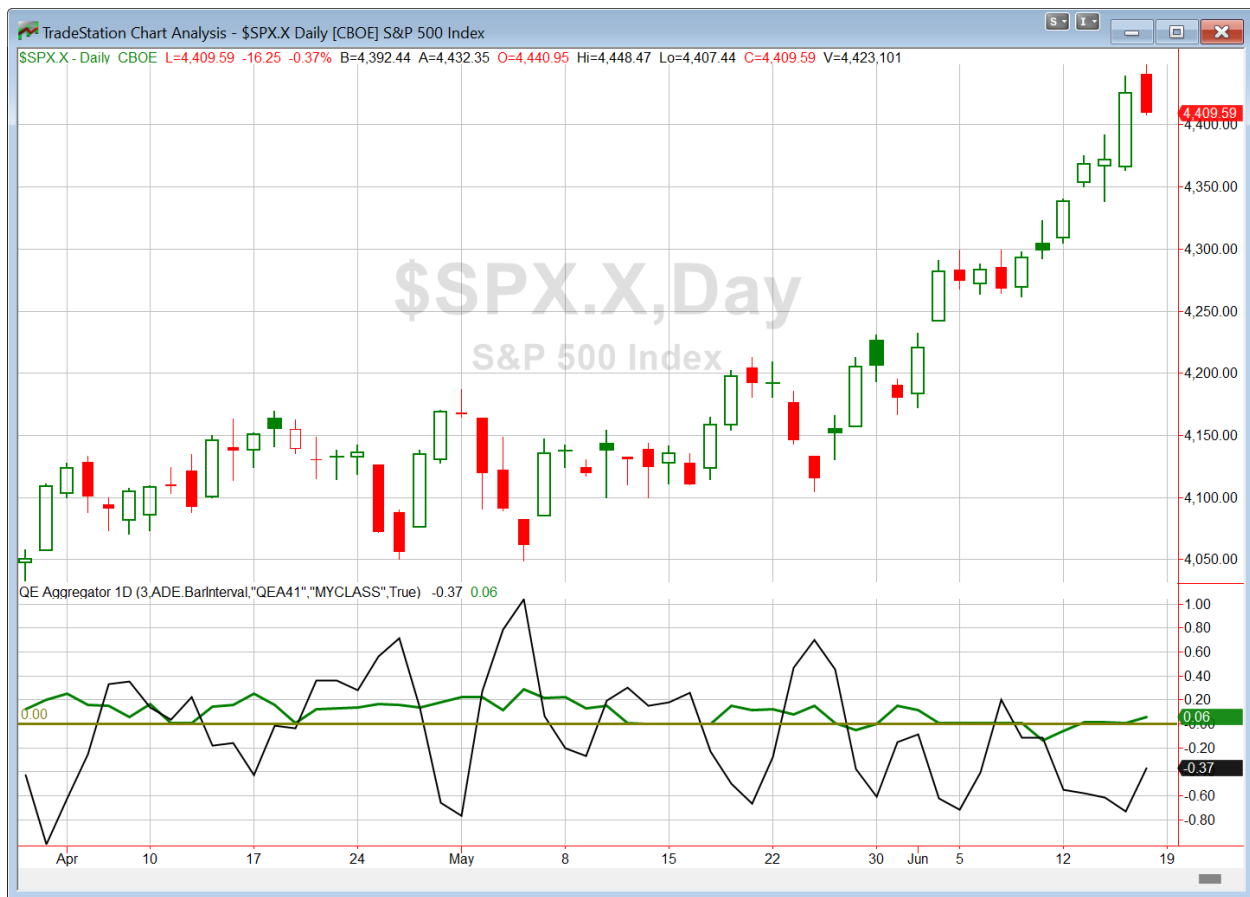
We see here that right around the time opex week stopped showing a bullish tendency, the week after stopped showing a bearish one. Of course this past week we saw a strong return, so perhaps the upcoming week will revert back to its bearish tendency. But for my purposes, I'm wary of calling the upcoming week bullish or bearish based on the above study.

Interesting about late June is that we have Russell rebalancing at the end of the month. In the past, this period has also seen the Russell 2000 outperform the S&P 500 by a sizable margin. This is something I looked at last year in the 6/21/22 letter. The table below shows how the Russell 2000 has done versus the SPX from the close the Tuesday after June Opex until the close on the last trading day of June.

<b>% Change from close on Tuesday after June Opex through last day of June. 2001 - 2021.</b>			
<b>Year</b>	<b>RUT</b>	<b>SPX</b>	<b>Difference</b>
2001	4.89%	0.97%	3.92%
2002	2.25%	1.40%	0.85%
2003	1.70%	-0.91%	2.61%
2004	3.43%	0.56%	2.87%
2005	-0.22%	-1.84%	1.62%
2006	6.75%	2.45%	4.30%
2007	-1.76%	-1.98%	0.22%
2008	-2.56%	-2.61%	0.05%
2009	3.76%	2.71%	1.06%
2010	-5.64%	-5.90%	0.26%
2011	2.62%	1.94%	0.68%
2012	1.53%	0.31%	1.23%
2013	1.69%	1.15%	0.54%
2014	1.68%	0.53%	1.16%
2015	-3.23%	-2.88%	-0.35%
2016	-0.17%	0.48%	-0.65%
2017	0.88%	-0.56%	1.44%
2018	-2.97%	-1.59%	-1.38%
2019	2.99%	0.84%	2.15%
2020	0.14%	-0.99%	1.13%
2021	0.64%	1.20%	-0.56%
2022	0.82%	0.55%	0.27%

For much of the last 22 years the Russell 2000 has outperformed the SPX during this late June period, though the last few years there have been a few stumbles. The average outperformance over the 20 year period has been 1.1%. This would seem worth keeping in mind as we close out June.

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



With this weekend's evidence considered, the green Aggregator Line remained above zero. Positive readings mean expectations are for upside over the next few days. Meanwhile the black Differential Line held 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 stayed flat at the close.

Based on the current active studies, expectations are set to remain positive on Tuesday. This could change if new bearish evidence emerges. Meanwhile, the Differential Pivot will be 4371.06 on Tuesday. That is 0.9% below Friday's close. So SPX will need to close down at least 0.9% on Tuesday in order to flip from overbought to oversold vs recent expectations.

So the Aggregator is again neutral. We are seeing evidence that Friday's pullback will likely be short-lived. But with the market already so overbought, reward/risk is not great. I will continue to exercise patience and wait for a better reward/risk opportunity to emerge.

**Intermediate-term Outlook (2 weeks – 2 months) – updated 6/20 – bullish**

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

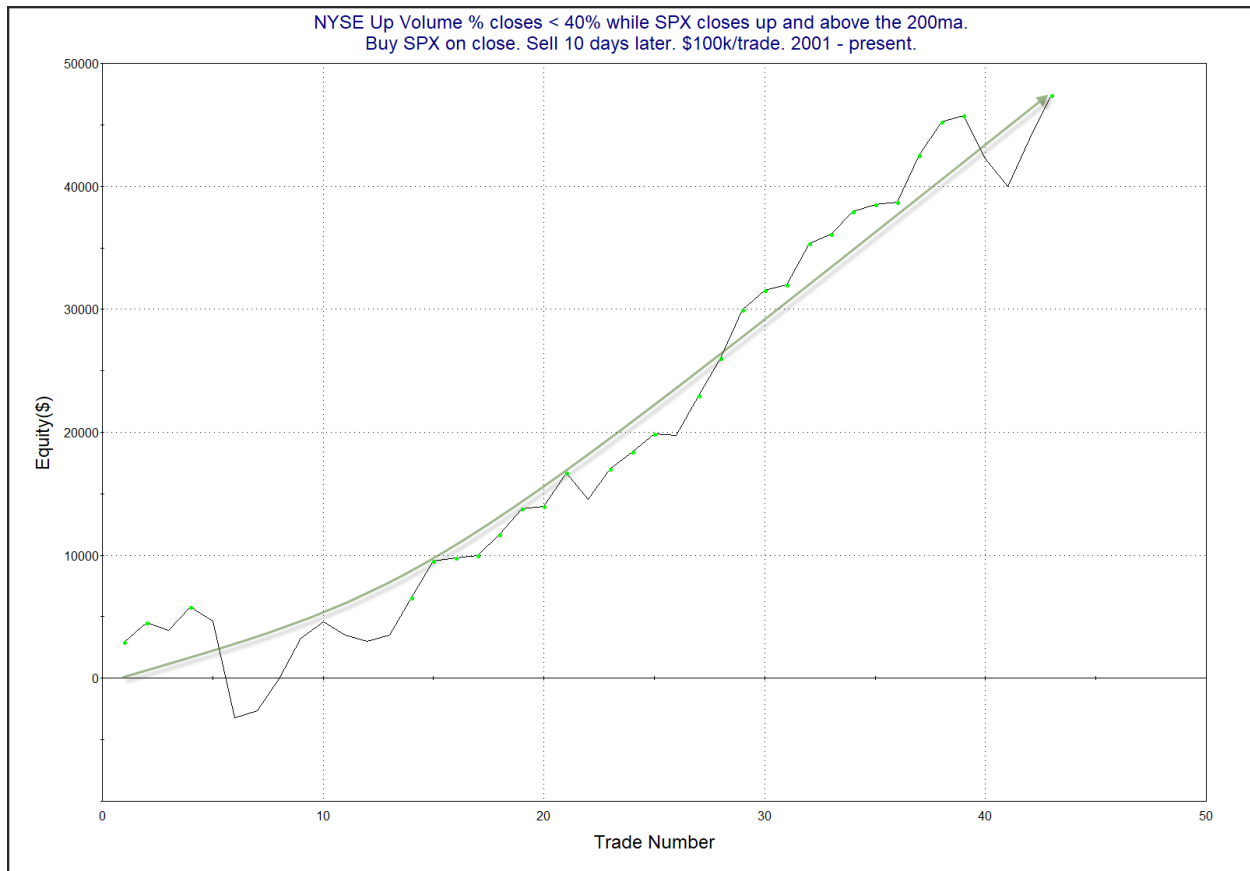
Above is the status of the different Combination Signals from the Quantifiable Edges Market Timing Course. Signals are long-term in nature. All 3 can be either flat or long. None of them look to short. More information on these signals can be found in the [Quantifiable Edges Market Timing Course](#),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

This past week saw a strong rally for most stock indices. The SPX closed the week up 2.6%, the NASDAQ gained 3.25%, and the Russell 2000 rose 0.5%. Bonds also rose. The US Aggregate Bond ETF (AGG) posted a gain of 0.2%. TLT, the 20-year Treasury Bond ETF, climbed 0.7%. Long-term uptrends for the SPX and NASDAQ remain in place. The NASDAQ is around its highest levels since April of 2022 and SPX now surpassed it August 2022 highs and is near April 2022 levels as well. There were a couple of studies, in addition to the ones discussed in the short-term section above, that suggested intermediate-term implications. I have copied them below. The 1<sup>st</sup> is from the 6/15 letter.

*But the next study viewed weak breadth as an “oversold” type condition suggesting a short-term upside edge. It simply focused on Up Volume % coming in under 40% while SPX closed higher during a long-term uptrend. It is also updated from the 5/26/23 letter.*

NYSE Up Volume % closes < 40% while SPX closes up and above the 200ma. Buy SPX on close. Sell X days later. \$100k/trade. 2001 - 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	47,407.74	43	34	9	79.07	3,969.23	-7,891.63	1,962.95	-2,148.06	0.91	3.45	1,102.51
9	43,915.57	44	34	10	77.27	3,793.00	-7,594.37	1,832.29	-1,838.22	1.00	3.39	998.08
8	44,200.05	45	36	9	80.00	4,666.56	-6,657.20	1,620.20	-1,569.69	1.03	4.13	982.22
7	39,665.67	47	38	9	80.85	5,211.84	-3,755.76	1,449.09	-1,711.10	0.85	3.58	843.95
6	37,399.04	47	35	12	74.47	6,018.56	-3,495.92	1,506.40	-1,277.08	1.18	3.44	795.72
5	28,046.56	50	38	12	76.00	4,787.84	-4,623.84	1,237.91	-1,582.84	0.78	2.48	560.93
4	14,182.73	51	33	18	64.71	2,689.05	-4,483.92	1,087.50	-1,205.81	0.90	1.65	278.09
3	15,036.90	53	35	18	66.04	2,513.92	-3,122.40	898.54	-911.78	0.99	1.92	283.72
2	15,294.97	57	39	18	68.42	2,661.75	-2,848.17	746.90	-768.57	0.97	2.11	268.33
1	7,434.24	62	38	24	61.29	1,790.64	-1,489.20	525.24	-521.88	1.01	1.59	119.91

*Results have been surprisingly strong over the last 22 years... And here is the 10-day curve.*



*The curves have shown strong upside persistence. I find these results intriguing and have added this study to the short-term and the intermediate-term Active Lists. So we have a bit of a mix tonight.*

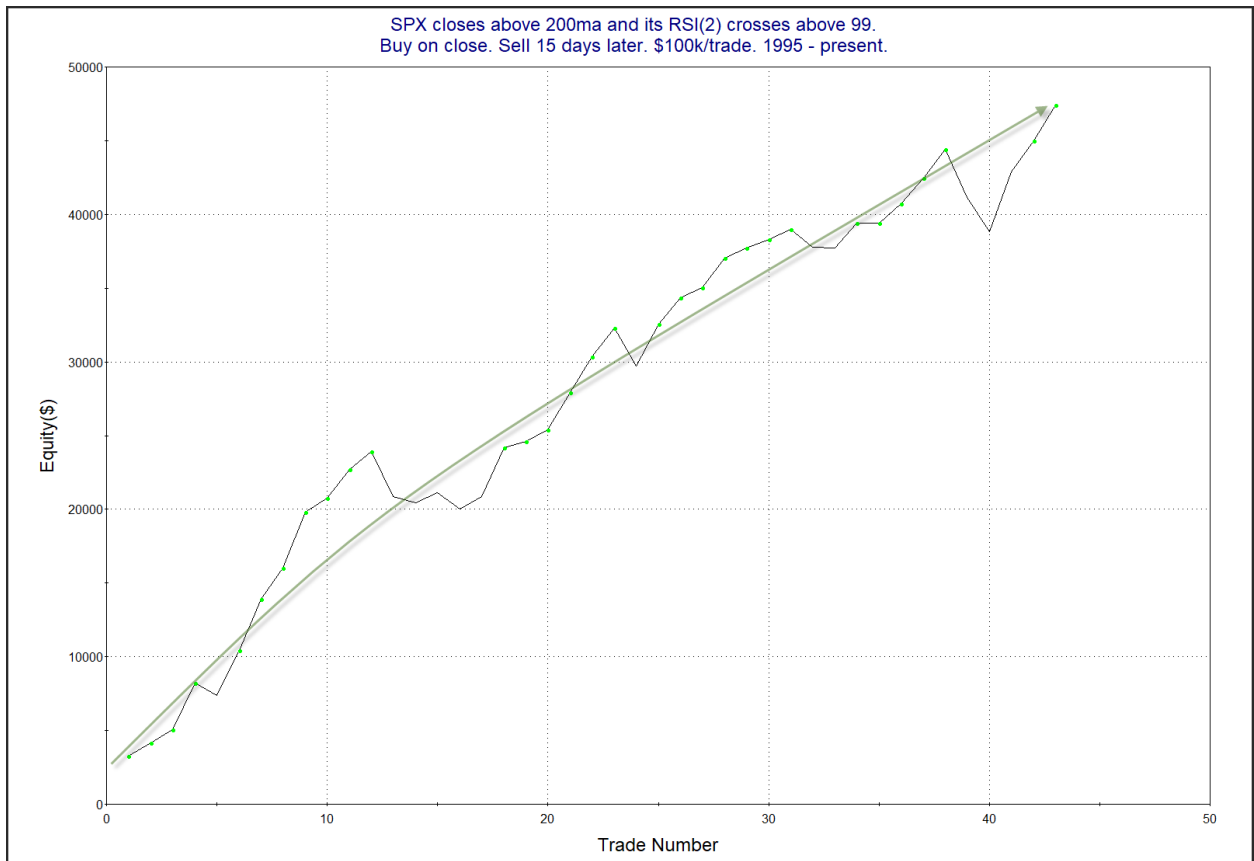
And the next one is from Thursday night's letter...

*The recent rally has left the market short-term overbought by basically every measure. Short-term overbought often triggers some studies that suggest a downside edge, but when the overbought condition gets very strongly overbought, then those downside edges often disappear. And at some point, rather than strength leading to weakness the strength will beget more strength. The strong move higher over the last several days has turned the market so overbought that we are seeing this scenario begin to unfold. It is exemplified in the study below from the 8/27/20 Letter, which uses RSI(2).*

SPX closes above 200ma and its RSI(2) crosses above 99.  
Buy on close. Sell X days later. \$100k/trade. 1995 - 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
15	47,429.12	43	34	9	79.07	4,055.36	-3,265.02	1,832.61	-1,653.30	1.11	4.19	1,103.00
14	43,050.91	43	34	9	79.07	4,461.36	-4,024.68	1,717.06	-1,703.22	1.01	3.81	1,001.18
13	44,443.55	45	36	9	80.00	3,989.82	-3,320.01	1,614.90	-1,521.42	1.06	4.25	987.63
12	38,518.56	46	35	11	76.09	4,058.61	-3,175.53	1,514.54	-1,317.29	1.15	3.66	837.36
11	37,550.44	47	35	12	74.47	4,106.40	-3,857.28	1,567.10	-1,441.51	1.09	3.17	798.95
10	31,365.88	48	36	12	75.00	3,770.55	-3,907.12	1,359.38	-1,464.31	0.93	2.79	653.46
9	28,548.80	48	36	12	75.00	3,453.27	-3,440.07	1,210.14	-1,251.34	0.97	2.90	594.77
8	23,811.81	48	33	15	68.75	3,547.80	-4,112.92	1,268.12	-1,202.42	1.05	2.32	496.08
7	18,433.19	49	32	17	65.31	3,564.39	-4,153.62	1,103.26	-992.42	1.11	2.09	376.19
6	9,231.22	49	30	19	61.22	2,634.36	-5,296.92	1,024.66	-1,132.03	0.91	1.43	188.39
5	13,131.95	49	33	16	67.35	2,859.08	-3,596.40	904.64	-1,045.08	0.87	1.79	268.00
4	8,189.42	49	32	17	65.31	2,697.92	-3,039.18	835.29	-1,090.59	0.77	1.44	167.13
3	3,783.49	50	30	20	60.00	3,504.64	-2,880.45	760.38	-951.39	0.80	1.20	75.67
2	5,375.56	50	30	20	60.00	2,273.92	-2,348.76	667.77	-732.87	0.91	1.37	107.51
1	1,777.71	50	26	24	52.00	2,096.10	-3,515.37	495.92	-463.18	1.07	1.16	35.55

The numbers here very moderate for the first week or so (though they have improved in recent years). But once you get out 2-3 weeks, it appears the strength has consistently re-asserted itself and the market is often higher. Below is a profit curve showing a 15-day holding period.

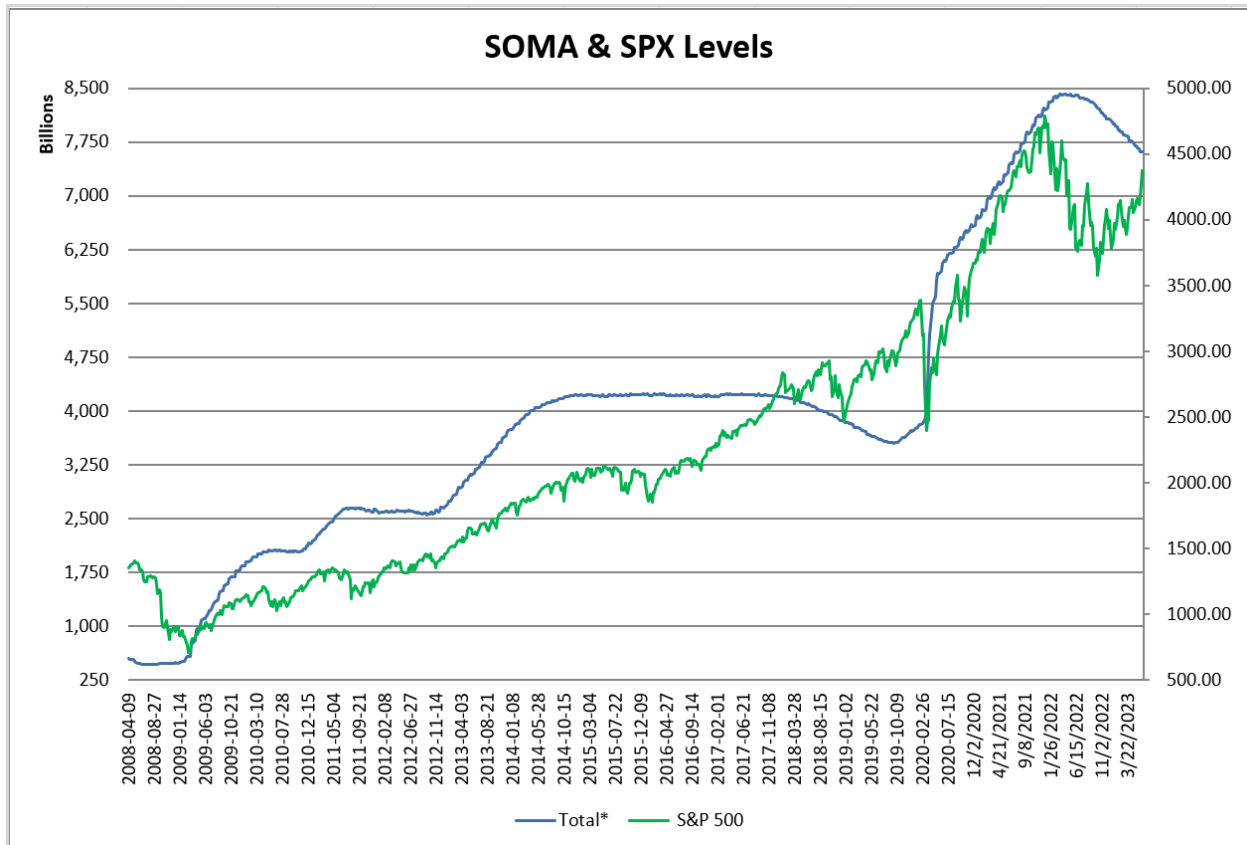


*The upside edge has been apparent for a while, and it still appears to be intact. Obviously, this study does not help us with the short-term, but I have added it to the intermediate-term list.*

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	
<a href="#">◀ Previous</a>	<b>June 14, 2023</b> 📅 <small>Posted June 15, 2023 at 4:30 PM</small>
<div style="display: flex; justify-content: space-between; font-size: small;"> <span><b>SUMMARY</b></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)	275,936,013.7
US Treasury Notes and Bonds (Notes/Bonds)	4,388,626,165.1
US Treasury Floating Rate Notes (FRNs)	20,426,754.0
US Treasury Inflation-Protected Securities (TIPS)*	368,253,286.5
Federal Agency Securities**	2,347,000.0
Agency Mortgage-Backed Securities***	2,549,780,864.4
Agency Commercial Mortgage-Backed Securities***	8,391,409.0
<b>Total SOMA Holdings</b>	<b>7,613,761,492.7</b>
Change From Prior Week	<b>-2,194,003.2</b>

This past week saw a decline of \$2 billion. That is a mild decline, but in line with what would be expected at this time of the month during the current QT period. This week I expect to see a much larger decline in the SOMA. Below is an updated SOMA/SPX chart looking back to 2008.



The Fed is in the midst of what is now 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.

The Fed did pause the interest rate hikes on Wednesday. But that does not mean there will not be any more hikes. In fact, the dot plot provided by the Fed suggested rates could be 0.5 point higher by the end of the year. Right now the market is anticipating a ¼ point hike at the July meeting, with odds about 72%. That will change as new data emerges and as we get closer to the date. There was no hint of a slowdown in QT. Bottom line is that the Fed remains a bearish market force.

Overall, it again appears that we have more evidence favoring the bull case for the intermediate-term. NDX and SPX are again at or near multi-month highs, and that is generally a good thing. 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 relative leadership indicator, and that has historically been bullish. Two bullish breadth thrusts from January are still in effect. We have a momentum study from a few weeks ago, and there were actually 4 new bullish intermediate-term studies that

emerged in the last few days. So there is a lot favoring the bull case. Still, plenty of issues remain. 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, recession fears, a shrinking money supply, and high stock valuations are all potential rally killers. None of it has mattered to this point, but it will someday. With so much evidence pointing higher, I am leaning bullish. But I will be quick to switch to neutral if trouble arrives. For now, I will be a bit more aggressive with long trades than short trades.

## **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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